

MicroInsurance Centre Briefing Note # 4

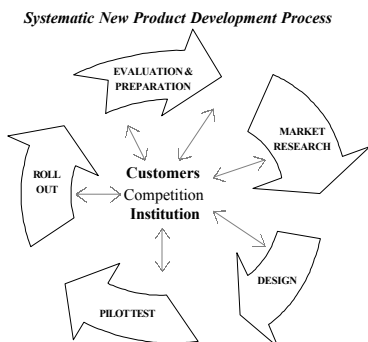
An Example of Systematic New Product Development for Life Microinsurance

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A critical prerequisite to any successful new product is a systematic new product development process. This note reviews the process followed by CARE in Ghana in the development of the Anidaso life insurance and pension plan and provides a model for others who are developing similar products.

CARE (Gulf of Guinea) identified a demand from rural bank clients for risk management services that went beyond savings and credit products. They explored the potential for microinsurance within this market and obtained a grant from DfID's Enterprise Development Innovation Fund to support their work. CARE conscientiously followed a systematic new product development process to ensure, as much as possible, the success of whatever microinsurance product they developed.

The systematic new product development process is illustrated in the diagram below. It begins with evaluation and preparation, and continues through market research, product design, and pilot testing to rollout. Throughout the entire process, competition, customer needs and institutional matters are considered.



Evaluation and Preparation

CARE management recognised that their capacity to develop an insurance product was limited and they would need to bring in particular expertise. They first identified an array of basic requirements for the process as a whole:

- Understanding of insurance principles and processes
- Experience of microfinance and microfinance clients
- Training skills
- Clear vision of the new product development process
- Marketing savvy, and

- Ability to work with and guide partners that have different backgrounds and motivations.

To satisfy all the requirements, the small enterprise coordinator developed a three tiered approach. He hired: (1) a *full time programme manager* to directly implement the process and secured Ghana Re to train her on insurance principles and processes; (2) two *international specialists* in demand side and supply side product development; and (3) several *short term specialists* to address specific activities.

Additionally, CARE assembled an *advisory committee* of senior representatives from relevant oversight bodies such as: the National Insurance Commission, the Association of Rural Banks and their Apex body (a "reserve bank for rural banks"), the Ghana Microfinance Institutions Network and key representatives. This proved successful: this committee assisted CARE through several difficult spots and provided a level of ownership within the programme.

Market Research

Specialists conducted *extensive demand side market research* using *MicroSave* tools¹ to identify the risks faced by low-income families, how these were managed, how effective these strategies were, and the market's perception of insurance. The hierarchy of risk was: school fees, health care, and funerals. School fees (except in specific cases) are not insurable. Health care was deemed too difficult as a first product. Thus, CARE decided to focus initially on life insurance products.

Another team of specialists researched *the personal insurance market* in Ghana to identify what was already being offered to satisfy these needs. They focused on the formal sector but found virtually no products actively offered to the low-income market. Management quickly realised that simply researching the formal sector was not sufficient. *Informal sector risk management* tools were studied, in particular, how these were offered, and what people appreciated about them – information that proved useful in the design of product delivery. All supply side data was consolidated into a competition matrix based on the "8 Ps" of a product.

To disseminate the research and inform the commercial markets (insurers, rural banks, and MFIs) about the project, CARE held a *one-day stakeholders' workshop*, open to all.

Twelve RB/MFIs, nine out of eighteen insurers and two brokers of thirty-two attended.

Design

Once the research was completed, CARE called a meeting of insurers to involve them in designing the product concept. It included four component options:

Options:	Cover:
“Base Plan”	Life insurance for principal policy holder
“Family Plan”	Life insurance for policy holder, spouse and two children
“Retirement Plan”	Life insurance for policy holder and long term savings product
“Super Plan”	Combining all three components

Then CARE began looking for RB/MFI partners for implementation. Fourteen applied and seven were selected. Key determinants in RB/MFI selection included:

- Size of their client base
- Number and location of branches
- Financial performance (received special weighting)
- Board quality
- Infrastructural requirements (staff, phone, computer)
- Limited other donor support (to maximise focus).

In its quest to find the right insurance partner, CARE invited insurers to tender for the role. Eight competed for the opportunity. A sub-group of the Advisory Committee applied a grading matrix to quantitatively assess the offers. The key criteria were: institutional capacity, specific coverage for the four “products,” limitations, commissions, and other relevant information. Gemini Life Insurance Company (GLICO) was selected.

Choosing the insurer after the RB/MFI selection proved problematic. In retrospect it is clear that the insurer should have been chosen first and then charged with the task of choosing appropriate RB/MFIs. It is important to remember that the insurer is at risk when partner organisations and employees do not perform adequately, and in several cases, the RB/MFIs staff did not have the capacity for the work.

The product was then further detailed and tested quantitatively to collect client responses to the specific product design. The results helped the team to make final adjustments to the product before it was pilot tested. At this point, an actuary was contracted to review the product components and the risk issues that it presented, and a premium was “finalised.”

Pilot Test

Before the pilot test, the team had to obtain product approval from the National Insurance Commission. GLICO had instructed their actuaries to use up-to-date mortality tables. However, after submission the Commission’s actuary required them to revise the calculations using the older (1956-1962) standard tables. This cost two months of unproductive waiting.

Advertising materials – brochures, posters – were developed before the pilot and then tested in Focus Group Discussions.

Substantial changes were made to the materials as a result of these discussions. Premiums and coverage levels were also confirmed.

CARE provided a six-month fixed subsidy to each RB/MFI to cover the cost of one Personal Insurance Advisor (two PIAs at one MFI) while they built a client list with premium commissions sufficient to cover at least the cost of the PIA. In fact, most RB/MFIs used the money as a general operating subsidy and offered little time for sales. Although targets were set, there was no link between productivity and payment. This has created a problem for the insurer who will soon take over the direct relationships with these RB/MFIs and will be expecting productivity.

Staff training was intensive. All relevant staff received basic product training and two sales people from each institution were extensively trained on basic insurance, insurance sales, and managing the software. Results show that to be effective training should be almost completely experience-based with role-plays and other hands-on techniques. Lack of sales productivity and difficulties using the software have led GLICO to consider placing a professional agent within each of the RB/MFIs for a month to directly mentor the PIAs and other staff.

Rollout

The pilot test has continued as systems and sales capacity issues are being addressed. GLICO will likely rollout to two or three RB/MFIs where an unsubsidised sales force will work for commissions. During the rollout period, CARE will phase out as planned and GLICO will deal directly with the RB/MFIs. The advisory committee will continue, hosted by the National Insurance Commission.

CARE worked hard to create a viable microinsurance product and has demonstrated the effectiveness of using a systematic approach to new product development. The product itself demonstrates the tremendous potential that exists for similar products in this market.

Lessons

- Do follow a systematic product development process
- Do select the insurer before choosing the MFI(s)
- Do make sure the relationship facilitator has a strong understanding of insurance
- Do outsource assistance where appropriate
- Do require that partners invest in the process before their selection is final
- Do have quantitative objectives to track during the test
- Do hold salespeople accountable with incentives and targets
- Don’t provide subsidies for sales people unless they are directly tied to productivity
- Don’t approach regulators about clearances until you and they are completely prepared
- Don’t add confusion with too many partners - 1-3 to start
- Don’t forget that insurers and RB/MFIs often work within different cultures and the relationships need cultivation.

¹See www.MicroSave.org for new product development resources.