

## **Zurich Venezuela: Providing insurance to Venezuela's low-income population**

What once started with a coffee chat between a priest and the President of Zurich Venezuela on a Sunday morning after church service has become a successful project. The priest was a member of the Board of Directors of BanGente, Venezuela's pioneer and leading Microfinance Institution (MFI), which had initiated its operations in 1999 and dedicated its credit and savings portfolio to popular entrepreneurs, the so-called microentrepreneurs. At that time, BanGente was looking for a reliable insurance partner. Zurich Venezuela was active in the distribution of insurance through banking channels and was interested in new alliances to access an unexplored market.

### **Entering the microinsurance business**

In 1994, Venezuela liberalized its insurance sector by enacting the Law for Insurance and Reinsurance Companies which allowed foreign companies to enter the Venezuelan market with the aim of creating a more competitive insurance sector. In addition, this law allowed insurance companies to use the financial system including banks for the distribution of their products. Simultaneously, Venezuela's financial market was opened to foreign investors. The foreign banks entering the market brought expertise in bancassurance and influenced the development of the financial sector.

In 1996, the Zurich Group, an insurance-based financial services provider headquartered in Switzerland, entered the Venezuelan market through acquisition of the majority of the shares of Seguros Sud América. In 2001, the company was renamed Zurich Seguros, a step that initiated a process of transformation and growth for the business unit.

As early as 2000, Zurich Venezuela began to engage very actively in the bancassurance business. In 2001, the insurer decided to further specialize in this area and created the Line of Business (LOB) Mass Consumer with the aim to expanding penetration to Venezuela's working class, including low-income households.

On a Sunday morning in 2002 during a coffee chat after church service, the President of Zurich Venezuela and the priest, member of the board of directors of BanGente, Venezuela's pioneer MFI, started exchanging ideas about bancassurance. They decided to explore the possibility of a business relationship to provide insurance to low-income clients of BanGente. This contact came at the right moment for BanGente as they were looking for an insurer to collateralize their microcredit portfolio which was becoming more important every day.

After several meetings, BanGente and Zurich Venezuela decided to start a cooperation in which the insurer got the exclusive right to provide insurance through the MFI. At first, Zurich Venezuela did not consider this business to be "microinsurance", it was only seen as another banking distribution channel which offered its products adapted to the needs of the MFI's low-income client base.

Less than one year after the first contact, Zurich Venezuela and BanGente launched the first product: Credit Life. Still in the same year, the MFI responded to the demand for Motor

insurance and a product was adapted to meet the insurance needs of the public transport operators who were customers of BanGente.

It was in 2005, in the International Year of Microcredit, at the Global Microfinance Forum held at the United Nations, when the current CEO of Zurich Venezuela realized: “The business that we are actually doing with BanGente is microinsurance.” This was indeed a pathbreaking moment for the LOB Mass Consumer and its provision of insurance products to Venezuela’s low-income population. From that day on, Zurich Venezuela’s microinsurance business was repositioned and is today an integral part of the company’s long-term strategy.

In 2007, the job position of “Business Manager of microinsurance” was created. The first manager on a full-time basis is now responsible for the future development of this promising and challenging business of Zurich Venezuela.

## **Microinsurance clients**

Most of Zurich Venezuela’s microinsurance clients are microentrepreneurs who receive small loans from MFIs. They live mainly in shantytowns, the so-called “barrios” of major cities throughout the country. Loan sizes vary from about US\$ 465 up to US\$ 6,500, although most loans are between US\$ 1,860 and US\$ 2,325. Almost as many men as women are the recipients of these small loans.

The insured microentrepreneurs are mainly active in the food sector (e.g. small supermarkets, kiosks and restaurants), followed by retail traders (e.g. textiles, pharmaceuticals and steel sheets). Some are working in services (e.g. transportation and cybercafés) and few in small factories (e.g. confection of clothing/shoes and repair shops). Most entrepreneurs are working in the informal economy and are not registered with the social protection services.

In general, the low-income households manage risks with their own means. In case of the death of a family member, the money for the funeral is collected or borrowed from family members or from neighbours. To safeguard against fire, an owner of an internet café explained that he tried to ensure a good and safe installation of the electricity. And against robbery another microentrepreneur mentioned: “Everybody knows me here in the neighbourhood, so the probability that this happens is small.”

Different studies and focus group interviews revealed that the low-income households that had no or little experience with insurance were very eager to learn more about insurance. In general, they considered insurance to be a product that is too expensive and therefore inaccessible to them. According to the interviewed persons, this perception was mainly due to a lack of information. The first experience many microentrepreneurs have with an insurance product is when they get a loan from one of the MFIs.

## **Product development, response to a demand**

Zurich Venezuela’s insurance products emerged from the needs of the MFIs and their clients, though no formal demand research was conducted. For the insurer, it was pivotal to access the low-income market through the MFIs to learn more about this segment. On the one hand, the experience, the knowledge and the understanding that the MFIs contributed about the

low-income market and in particular the microentrepreneurs was very important for the microinsurance product development. In addition, factors such as the facilitation of the premium collection process and the existence of an important client portfolio were critical for the product design. On the other hand, Zurich Venezuela as a leading insurer contributed its experience in the bancassurance business and was able to adapt the products to the needs of the MFIs' clients.

To start with Credit Life was a logical step due to different reasons: the implementation of the product is relatively simple, MFIs as well as clients understand the product quickly and it has a low claims ratio.

For Motor insurance BanGente approached Zurich Venezuela. The MFI's clients who were financed for the purchase, the refurbishment or the repair of their public transport vehicle expressed interest for an insurance scheme that would cover the vehicle against total and partial loss during the term of the loan. This insurance solution was new for both and it was an experiment because the public transport system largely consists of microentrepreneurs. Additionally, it was a product which could generate a very high claims ratio.

Therefore, to link the Motor insurance to the credit helped the insurer to reduce certain risks as the client's profile is already evaluated by the MFIs for the loan disbursement. Another important aspect of this product is that it is complemented by a Credit Life insurance which covers the initial loan amount during the whole term of the credit. Zurich Venezuela started selling Motor microinsurance in 2003, at a stage, when no other insurer took a chance and to date the experience has been very positive.

Property insurance was the next product to be designed and adapted to the needs of the microentrepreneurs. The main purpose was to protect merchandise and equipment financed by the MFI. With both products, Motor and Property microinsurance, the peculiarity is that they are only offered in combination with Credit Life which helps protect the microentrepreneur and his family in case of death or total and permanent disability.

In addition, a Group Life insurance on a stand-alone basis was introduced and offered through Servifun, a funeral service company, which represented the first non-financial distribution channel in Zurich Venezuela's microinsurance business.

All the products are priced on a group basis with individual durations for each policyholder and with the MFIs (or in case of the non-financial partner, Servifun) being the first beneficiary. In case of a loss, the outstanding loan amount is paid to the MFI and the microinsurance client or the second beneficiary receives the remnant paid out. Clients of MFIs (BanGente, Mibanco) or Servifun between the ages of 18 and 65 are eligible for the respective covers.

For the product design, several face-to-face workshops at the MFIs as well as regular meetings with the people from Zurich Venezuela took place. The product design considered the clients' profile data and the needs of the distribution channels. Information on the clients such as average loan amount, term of the loans, payment method and frequency as well as the default rate were important factors considered for the design of each product. In general, the products had to be simple and pre-underwritten, including easy for acquisition through a signature only. The premium is calculated on a per annum basis and premium collection as well as claims processing had to be simple and in case of loss only a few documents had to be required.

To avoid additional costs, no specific pilot testing took place. Nevertheless, Zurich Venezuela recognises that regular observation, constant learning and adjustments are fundamental elements to provide appropriate products and services. Since the launch, regular assessments and several adjustments of some products and in particular of services and processes have taken place.

The tables below provide examples of the sum insured and the premiums of Zurich Venezuela's microinsurance products.

### Premium and Coverage Credit Life + Motor Microinsurance

Coverage	Sum insured	Annual Premium	Monthly premium	
			BsF.	US\$
<b>Credit Life (Saldo deudor)</b> Death by any cause or Total and Permanent Disability of the borrower <i>Eg. Refurbishment of a bus for public transport (urban area) financed by MFIs for BsF. 20,000. Value of the bus: BsF. 100,000 (US\$ 46,511)</i>	Initial loan amount  <i>BsF. 20,000 (US\$ 9,302)</i>	0.75%	12.50	5.81
<b>+ Motor (Auto Plan Plus)</b> A. Casco insurance: total and partial loss due to theft of the vehicle, partial accidents, mutiny and malicious damage. B. Personal Accident: Death or Total and Permanent Disability (each, 2 persons) Medical and drug expenses (each, 2 persons) C. Auto third party civil liability: Basic third party civil liability Excess of limit Criminal and legal defence	Value of the vehicle <i>BsF. 100,000 (US\$ 46,511)</i>  US\$ 6,977  US\$ 698  US\$ 15,383 US\$ 6,977 US\$ 698	8.50%	708.30  1.60 2.20 72.80 8.50 0.65	329.46  0.74 1.02 33.86 3.95 0.30
<b>Total premium per month</b>			<b>806.55</b>	<b>375.14</b>

### Premium and Coverage Credit Life + Property Microinsurance

Coverage	Sum insured	Annual Premium	Monthly premium	
			BsF.	US\$
<b>Credit Life (Saldo deudor)</b> Death by any cause or Total and Permanent Disability of the borrower <i>Eg. Purchase of merchandise financed by MFIs for BsF. 4,000 (loan amount)</i>	Initial loan amount  <i>BsF. 4,000 (US\$ 1,860)</i>	0.75%	2.50	1.16
<b>+ Property (Patrimoniales)</b> Fire and earthquake, Water damage Flooding, Theft, aggression, raid, Mutiny, malicious damage <i>Eg. Value of merchandise</i>	Value of assets  <i>BsF. 4,000 (US\$ 1,860)</i>	3.00%	10.00	4.65
<b>Total premium per month</b>			<b>17.50</b>	<b>8.14</b>

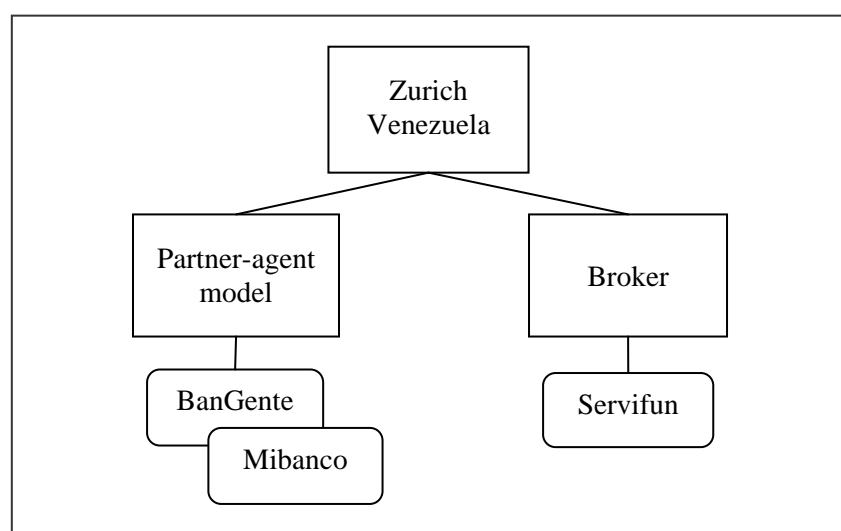
### Premium and Coverage Group Life Microinsurance

Coverage	Sum insured	Annual Premium	Monthly premium	
			BsF.	US\$
<b>Group Life (Vida colectiva)</b> Death by any cause	5 times the costs of the funeral plan <i>Eg. BsF. 2,715 (US\$ 1,263)</i>	0.40% of sum insured	<i>0.91</i>	<i>0.42</i>

### Distribution channels

In 2003, Zurich Venezuela started to sell microinsurance products through the MFI BanGente. This relationship has been very successful and both partners have gained experience over time. In 2006, Zurich Venezuela was approached by one of its brokers with whom it decided to start selling a microinsurance Life product through a non-financial partner called Servifun, a funeral service company. Since 2007, Zurich Venezuela is also selling credit-related microinsurance products through Mibanco, another MFI that initiated its operations in December 2006.

#### Zurich Venezuela's Distribution Channels



For the second half of 2008, it is foreseen to start operations with another important MFI and within the next two to three years, Zurich Venezuela plans to initiate operations with an experienced non-financial partner in the low-income market such as telecommunication providers, supermarkets or cosmetic distribution representatives.

### Operational requirements

To even better serve the needs of microentrepreneurs and to face future growth successfully, different operational issues that need to be addressed have been identified. On the one hand, an improved IT solution will help to streamline the premium collection process and a review and adjustments of the claims payment process will enable Zurich Venezuela to handle the growing volume more efficiently. On the other hand, insurance education has to be enhanced in order to create an “insurance culture” among the low-income population and to ensure that microinsurance is sold effectively.

### *Premium collection process*

A general issue is that the list containing the collected premiums is not being transferred every month from the MFIs to Zurich Venezuela. This is particularly an issue if the client reports the claim directly to the insurer. If Zurich Venezuela does not have the information regarding the premium payment, the policy appears as pending and the client cannot be serviced appropriately.

Up to now, there has not been any special IT platform or interface to process microinsurance business. Currently, the reconciliation of data is done manually in many cases which implies an increased administration work load for Zurich Venezuela and a high margin of error. With the growing volume of the business, the need for an interface solution between the insurer and the MFIs has become vitally important. The IT department of Zurich Venezuela has already evaluated different possibilities and is currently analysing the details within the organisation in order to get the interface solution installed within the second half of 2008.

### *Claims management*

The claims of each microinsurance product are processed within the respective LOB (Life, Property and Motor) of Zurich Venezuela. In theory, the claims process is initiated by the beneficiary, the family or the insured by reporting the incident to the 24-hour toll-free number 0-800-ZURICH1. In practice, microentrepreneurs approach the MFIs to get assistance for the initiation of the claims process.

In general, the process for microinsurance claims is almost the same as for the traditional insurance business. Nevertheless, the Business Manager of microinsurance and the claims managers have identified some key lessons in order to ensure that the processing of claims is efficient, timely and even better adapted to the needs of the microinsurance clients:

- The processes need to be simple and well defined
- The number of required documents for the claims settlement needs to be small
- Coordination between different departments to ensure that the personnel involved in the microinsurance business is aware of the peculiarities of the product and the clients
- It is necessary that MFIs make sure that data and information is transferred to Zurich Venezuela as fast as possible
- Regular reviews of the claims procedure

In particular, the claims manager for Credit Life has been able to adapt the process continuously and to improve the microinsurance product service over time. Nevertheless, there are still some delays in processing the claims. An issue that has been identified is that no second beneficiary has been designated on the Credit Life policy. If this information is missing (in BanGente's case, a common practice), the remnant of the loan cannot be paid out as long as the legal heirs do not present the legal statement.

The implied problem is that the remnant of the policy is often very small in relation to the costs to get a legal statement. Due to this reason, Zurich Venezuela does not receive all the documents required for the claims processing and cannot pay out the beneficiaries. Nevertheless, the insurer can pay the outstanding loan sum to the MFIs without this document.

In order to overcome this problem, the Business Manager of microinsurance and the claims manager recommended modifying the insurance application form of BanGente and requiring a designated beneficiary. Zurich Venezuela has already had some discussion with BanGente, but the MFI has expressed reservation towards this adjustment due to the following reasons: Family situations of the clients may be difficult and husbands might have an additional partner, they don't want to get involved into family issues. Nevertheless, this solution has been implemented with Mibanco.

### *Marketing/Education*

The MFIs and not Zurich Venezuela are in direct contact with the end-client for the selling of the microinsurance products. MFI's salespersons and supervisors get training on insurance and the products from the Business Manager of microinsurance once a year. The supervisors are then responsible for ensuring that new staff is trained and receives education on insurance. As Zurich Venezuela has actually no direct influence on this part of the training process, the insurer considers evaluating the effectiveness and undertaking necessary adjustments to the training process. This is an important step towards creating insurance awareness in the low-income population.

## **Operational and financial results**

In 2003, Zurich Venezuela started selling microinsurance products. Since the beginning, the overall performance of the microinsurance business of Zurich Venezuela has experienced significant growth. It is profitable, operating with a combined ratio of 68 % and a loss ratio of 29% in 2007. The development of the number of insured has been very positive, starting in 2003 with 782 and reaching a level of 47,902 insured in 2007. It is important to mention that most of the insured have Motor or Property insurance, each combined with Credit Life and in spite of this, this accounts only for one insured in the statistics.

### **Zurich Venezuela Microinsurance Trends**

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Total number of microinsurance policyholders	47,902	29,615	12,623	3,142	782
Total number of microinsurance insured lives	*46,846	29,615	12,623	3,142	782
Microinsurance premiums collected (US\$)	1,622,256	655,908	368,845	171,659	59,246
Claims / total premiums microinsurance (%)	29	38	32	105	44

\*Only in 2007: Motor microinsurance offered through Mibanco not yet credit related.

BanGente is the driving force of the microinsurance business of Zurich Venezuela. The success of this alliance is reflected in its performance. Between 2006 and 2007, the total premiums collected from Credit Life, Property and Motor insurance showed an increase of 126 % and reached a level of US\$ 1,418,251. With the exception of 2004, the microinsurance products sold through BanGente were profitable and reached very positive results, generating net incomes of US\$ 97,203 in 2005, US\$ 128,330 (2006) and US\$ 488,148 (2007). Over time, the combined ratio has experienced an excellent development, reaching in 2007 its lowest level of 69 % (loss ratio 29 %, commission ratio 27 %, and expense ratio 12 %).

The performance and viability of Mibanco in its first year selling Motor insurance has been very positive. With GWP of US\$ 159,290 and a combined ratio of 47 %, the net income achieved in 2007 is US\$ 89,093. In contrast, the partnership with Servifun is currently being evaluated due to high claims ratios and related negative net incomes during both years of selling Life insurance.

## Conclusions

Zurich Venezuela is a pioneer insurer extending coverage to the low-income market through the partnership with MFIs. The insurer's experience in microinsurance started in 2003 and though still at an early stage, the case study relates a success story. From 782 insured in 2003, the microinsurance business of Zurich Venezuela has now nearly 50,000 insured producing a gross written premium of more than US\$ 1.6 million.

Even though Zurich Venezuela is a microinsurance pioneer, it is keen on constant process and service improvements and in getting more and better information about the country's low-income households to even better adapt insurance products and related services to the needs of this target market.

With the new strategic direction, the specialization and the ongoing formalisation of the microinsurance business within its LOB Mass Consumer, the insurance company is looking forward to further growth with the current, but also with new distribution channels. To ensure the company's growth capacity for the low-income market, the second half of 2008 will be dedicated to the consolidation of the business and the adaptation of the technical requirements for future growth, i.e. to the identification of key issues concerning the current processes and the evaluation of an adequate IT solution. Technology has become an essential issue to ensure efficient transaction and claims processing.

Furthermore, the insurer has planned a market research project for next year to gather information on possible alternative distribution channels and how these can gain access to an even broader part of the low-income population, while at the same time providing insight on how to diversify the business.

Since there is no "insurance culture" among Venezuela's low-income population and to reach a greater section of the population, customer education and awareness is an essential requirement for the further development of microinsurance. On the one hand, the training process with the distribution channels will be analysed in order to ensure that the new salespersons, who are in direct contact with the end-user, are well instructed by their supervisors about microinsurance. On the other hand, further training of Zurich Venezuela employees on the peculiarity of the low-income clients will encourage process adjustments to further increase efficiency and product service.

Zurich Venezuela today is the most important provider of insurance to Venezuela's low-income population. The company has gained substantial experience over time and has developed a sustainable microinsurance business. The experience and lessons learned will help to face future challenges in order to translate them into opportunities.