MILK Brief #19:
Microinsurance-only Multinational Intermediaries: The early years[1]

Studying the business case of AKAM, MicroEnsure, and PlanetGuarantee

This is the first of two briefs from the MicroInsurance Centre's MILK project specifically looking at the business case for intermediaries in microinsurance. In this brief, we review the period from inception to the end of 2010 for three microinsurance-only multinational intermediaries. At that point the "oldest" of these had been operating for only four years. Although there are many helpful lessons discussed here, readers are cautioned to remember the historic nature of this paper and to recognize that much has changed for these institutions since the end of 2010.

In late 2013, a second MILK Brief will be published reviewing the results of these programs from 2011 through 2013. Data and analysis from other intermediaries in microinsurance will also be included in this future brief. We look forward to telling the rest of the story.

Is there a business case for a microinsurance intermediary? As part of its exploration of the business case for microinsurance, the MILK project studied three stand-alone multinational microinsurance-only intermediaries for the period from inception through the end of 2010 with the aim of determining if there is a business case for such firms as has been well established in commercial insurance markets.

The microinsurance programs of the Aga Khan Agency for Microfinance (AKAM), MicroEnsure and PlanetGuarantee were all established between 2006 and 2007. Each had an initial plan of leveraging the strengths of its parent organization's position in providing financial services to improve access to a broad range of insurance products among the low-income populations. Initial strategies had the aim of building profitable global microinsurance intermediaries based solely on commissions earned from broking credit and other life products through MFI distribution, but these did not support a business case. Evolving beyond their initial plans, these intermediaries have tried several other approaches to improve their potential for sustainability.

Two intermediaries turned to health microinsurance, where demand was expected to drive greater revenue and scale. Unfortunately, forays into the health market proved economically disappointing. Other efforts to grow revenue have included index insurance, which also proved to be of limited benefit to the profitability of intermediation, though MicroEnsure and PlanetGuarantee have used index consulting fees to bolster earnings. In 2010, microinsurance linked to mobile technology was at a nascent stage but is now covering many people although profitability remains limited at this early stage. While strategy and business models continue to evolve, none of the three firms studied were profitable at the end of 2010 and all had struggled to gain scale and cover the fixed costs of their European-based headquarters. While AKAM's microinsurance program has been merged into a unit of its insurer partner, MicroEnsure and Planet Guarantee are still evolving as businesses. A follow-up paper is planned for late 2013 to review their progress toward sustainability, and to help understand if and how the challenges noted in the early years have been addressed.

Going forward significant challenges must be overcome. Simple broking - match-making between delivery channels and willing insurers - is not viable for a stand-alone multinational microinsurance intermediary. In many cases both distributors and underwriters lack the focus and resources to successfully deliver insurance to the poor without external support. Intermediaries who stepped in to fill these gaps managed

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[1] This MILK Brief was prepared by Richard Koven and Michael J. McCord (January 2013).

to generate profits in one or two individual countries accounting for only domestic expenses, but had not been able to earn sufficient commission or fees to cover their home office costs.

Background

"An intermediary's knowledge of the low-income market and attendant resources can play an important role by bridging the knowledge and capacity gap between microinsurance clients and insurers"[2]

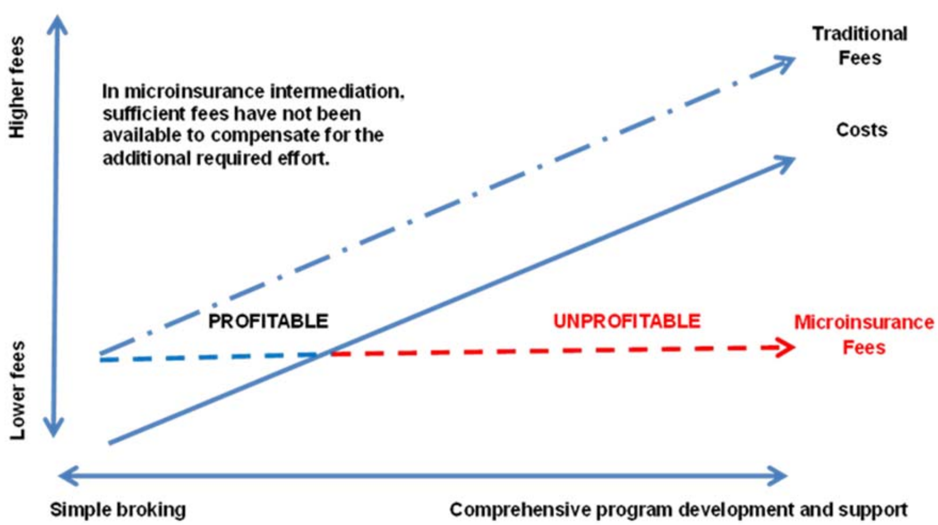
The MILK project set out to learn more about intermediaries as part of its effort to better understand the business case for microinsurance. The AKAM Initiative, MicroEnsure and Planet Guarantee were selected because they were the only multinational intermediaries whose sole focus was microinsurance. While relatively new and few in number, these high profile initiatives have made a notable impact on the field. There are other firms, such as Aon and Guy Carpenter, with broad-based books of business who have entered the microinsurance market. These and some domestic microinsurance intermediaries will be the subject of our planned update to this paper to be published in 2013.

Role of intermediaries in microinsurance

Microinsurance in developing countries is a relatively new field, not much more than fifteen years old. Microinsurance intermediaries are an even newer phenomenon. As such, their roles are still evolving.

The majority of microinsurance written to date has arisen through the partner-agent model, through community-based or cooperative models, and is to a lesser extent sold directly by insurers to individuals. The three firms we studied have intermediated each of these primary models. All began with an initial approach of simple broking of credit life for MFI distribution partners. To different degrees, all moved beyond credit life to more complex products and more varied roles along the insurance value chain, filling in gaps in their partners' capabilities, including market research, product development, marketing and distribution, administrative services, reinsurance sourcing and provision, and more. These added roles come with added costs, which in traditional insurance intermediation are recouped through additional fees. In microinsurance, the increased costs typically do not result in increased fees because of the incapacity of clients to pay additional premiums. The result is unprofitable business as seen in Figure 1.

Figure 1: Profitability considerations with varying levels of required intermediary effort



[2] Bernhardt, A., Steinmann, R., & McCord, M.J. (2012) Microinsurance intermediaries. In Churchill, C., & Matul, M., eds, *Protecting the Poor: A Microinsurance Compendium: Volume II.* Geneva: International Labour Organization

Intermediaries, traditional and microinsurance, provide a range of services depending on the needs and abilities of the end client and the context in which they work. Some clients are easy to identify and are knowledgeable about product options and processes. They may simply need a link to an insurer who can provide the product they want. On the other extreme, much more common in microinsurance, the intermediary may need to develop a market, develop a product and provide assistance to all parties in the value chain to simply get the product to market. Some of the activities required of an intermediary at the two extremes might include:

- **Simple** intermediation: creating the basic link between client and insurer. This may require providing a menu of potential products and identifying an insurer to underwrite the product.

- **Comprehensive** intermediation, typically necessary with microinsurance: conducting research to identify demand, helping insurers to develop specific products in response to that demand, educating the market to generate microinsurance premium payers, educating the staff of insurers and distribution channels, identifying reinsurers to facilitate the transaction, handling claims, providing administrative support, and even identifying, developing and managing relationships with health care providers. In many cases, without support in these areas, microinsurance simply is not possible because neither the underwriter nor the distribution channel may be able to effectively accomplish these necessary tasks.

Figure 1 shows that as the intensity of activity increases, traditional intermediaries will simply increase the fees they charge so that they can maintain their margins. However, microinsurance intermediaries are often limited in their ability to adjust their fees and / or commissions even when the level of effort required expands to cover the more comprehensive requirements of the various parties in the value chain. At the same time, unless the intermediary is able to dramatically reduce its cost of operations, while at the same time providing continued comprehensive service, microinsurance intermediation will not be possible on a commercial basis.

The presence of philanthropic support has been necessary for microinsurance intermediation in closing the cost versus fees gap, especially in the early years, though for each, the need for continued significant support after 2010 was quite clear. This has proven critical as selling can be particularly challenging in a formative market where demand is not well-established. Nonetheless, microinsurance intermediaries have in their short life span faced many of the same challenges as their commercial counterparts. Disintermediation, complex value propositions, variable roles in the value chain, the need to reach scale, and the imperative to sell large volumes are all critical factors shaping the fortunes of microinsurance intermediaries. Table 1 provides some details of the three programs reviewed.

The Partners

MicroEnsure (ME) is a stand-alone UK-based insurance intermediary whose sole business is microinsurance. Owned by Opportunity International, at the end of 2010 MicroEnsure had operations in five countries: India, the Philippines, Tanzania, Kenya and Ghana. The Bill & Melinda Gates Foundation provided MicroEnsure with a five year grant of USD24.3 million in November 2007, seeking to fund what would ultimately be a commercially sustainable microinsurance enterprise with the potential for catalytic growth. MicroEnsure promotes multiple product lines with multiple carriers and is involved throughout the value chain in distribution, administrative and even risk bearing roles.

The insurance initiative of the Aga Khan Development Network (AKDN) was established in 2006 with a USD5.5 million grant from the Bill & Melinda Gates Foundation. The project was implemented by the Aga Khan Agency for Microfinance (AKAM). Early in the project, AKDN and Acumen, a social investment firm, contributed equity investments in the initiative. The program became operational in 2008 with the establishment of the First Microinsurance Agency Pakistan. Another agency was established in Tanzania in 2009.

PlanetGuarantee (PG) is a microinsurance intermediary and part of the PlanetFinance Group, an NGO that serves the poor in nearly 80 countries. PG, which was launched in 2007 and is headquartered near Paris with its parent, was created to develop and promote microinsurance programs through PlanetFinance's MFI network. It is active in 15 countries and focuses on broking credit life but more recently has expanded its activities to include health reinsurance broking in India as well as other donor funded initiatives in health and crop insurance. PG is owned by a group of investors, led by PlanetFinance, who view PG as a social purpose company and are not focused on a financial return on their investment.

Table 1: AKAM, MicroEnsure & Planet Guarantee Overview (2010)

	AKAM	MicroEnsure	PlanetGuarantee
Headquarters	Geneva	Cheltenham, U.K.	Paris
Sponsor	AKDN though its MFI agency AKAM)	Opportunity International (MFI)	Planet Finance (MFI)
Years of operation	2006 - 2011	2007-Ongoing	2007-Ongoing
Agent / Broker	Agent	Broker	Broker & Reinsurance Broker
Countries of Operation	(2) Pakistan, Tanzania	(5) Philippines, India, Ghana, Tanzania, Kenya (Closed: Uganda and Indonesia)	(15) Madagascar, France, Mali, Senegal, Colombia, India, Benin, Sri Lanka, Burkina Faso, Côte d'Ivoire, Gabon, Egypt, Palestine, Guatemala, Mexico
Philanthropic Support	Bill & Melinda Gates Foundation	Bill & Melinda Gates Foundation, Nike, PharmAccess, others	Netherlands Development Finance Company (FMO)
Products	Credit Life, Savings Completion, Health	Credit Life, Life, Disability, Health, Weather Index	Credit Life, Health Re-insurance, Weather Index
Roles	Market research, product development, distribution support, administration, reinsurance, claims handling, management of health care provider network	Market research, product development, distribution support, administration, reinsurance, claims handling, health care provider sourcing, TPA relationships	Market research, product development, distribution support, administration, reinsurance
Distribution	MFIs, rural development organizations, education and health services	MFIs, NGOs, Church groups, Mobile Telecoms	MFIs
# Employees	30 employees (2 in Geneva)	100 employees (15 in the UK)	27 employees (19 in Paris)
Equity Investors	Acumen and AKDN	None	Cardif, Hanover Re, Mederik Malakoff, Finarea, PlanetFinance

Similar backgrounds drove some similar outcomes

Our examination of the operations and results of AKAM, MicroEnsure and PlanetGuarantee reveals a number of common themes. All three had or have similar though not identical business models and comparable foundational resources:

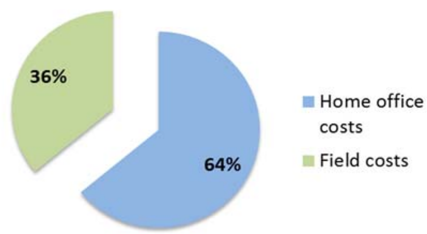
- All are "hub and spoke" models with headquarters based in Europe.
- All had strong parental support and leveraged access to parental partner distribution networks, especially through MFIs.
- All were well capitalized or funded, and had partners, reinsurers, investors, and/or donors with substantial resources.
- All brought in experienced management from developed countries and markets.

- All started with credit life products distributed through MFIs and then moved to more complex products (though some had planned to work towards a broader offer of more complex products from the start).
- All were active in the microinsurance community contributing to and benefitting from a robust learning network.

Not surprisingly, certain similar outcomes eventuate from these strategies and models. Each firm had some successes through 2010:

- Each overcame regulatory hurdles to become operational on a multinational basis.
- Each had some success distributing credit life through MFIs.
- Each brought new and innovative products to market.
- Each successfully engaged insurers and brought them into microinsurance provision.
- Each experienced some disintermediation pressure but was largely able to retain its customers.

Figure 2: ME, AKAM, PG cost structure (consolidated for 2010)



Likewise, each struggled during their initial years, and by the end of 2010:

- None of the firms was profitable and one is defunct having merged its operations with its related insurer.
- None had achieved projected scale; each dramatically over-estimated demand for its services and products.
- All were far from having reached enough scale to support the cost of their Europe-based home offices (see Figure 2).

- All had significant gaps in revenue per life versus cost per life such that their cost structures may preclude profitability at any reasonably achievable scale.
- All had learned that they could not rely entirely on MFI distribution.
- All found it difficult to move beyond credit life; none tried to abandon it, but they could not survive on credit life alone.
- None had been able to make health insurance viable; commissions and fees did not cover expenses and loss ratios to their underwriters were unsustainably high.

But unique circumstances reveal some nuanced lessons

While many similarities exist, each firm has unique circumstances from which to draw lessons:

AKAM's programmatic efforts focused on a very strong (and among the study partners, perhaps the most comprehensive) affinity network in their relationship with AKDN, yet these relationships turned out to be an important part of its problem. Additionally, among the three firms its product focus was the narrowest, essentially limited to credit life, savings completion, and health insurance. Such a disciplined product specialization and market segment focus has been a reliable path to success in commercial markets. However, distribution and demand problems endemic to health microinsurance undermined this strategy. Although management aggressively explored other products and channels, including livestock and property covers, no other material revenue sources were sustained, and AKAM was undone (in 2011) by its failure to achieve scale.

"It became very clear that scale was the most urgently required key to sustainability." AKAM

In contrast with AKAM's narrow geographical focus, MicroEnsure sought to play on a global scale across many products and through a great number and variety of distribution channels. Although to back up this ambition it had the best funding of the three intermediaries we studied, it also had the highest cost structure. MicroEnsure has shown the willingness and agility to re-conceptualize its strategy, evolving through at least three different strategic approaches in their early years. Still, despite some improvements in its sustainability measures, by the end of 2010 the company still did not have nearly the scale to cover its significant fixed expenses, and cannot be commercially viable until it does.

"Our role as a broker, strictly speaking, is a small part of what we do." MicroEnsure

Finally, PlanetGuarantee stayed more focused on credit life than the other firms and spread its operations over the most countries (15). Most significantly, PG maintained a more moderate cost structure than ME and managed to increase its overall fee / commission yield per life to a much higher degree than ME (and certainly much, much higher than AKAM). PG applied a three pronged strategy that called for (1) donor funding for research and development, (2) simple broking of credit life, and (3) reinsurance brokerage. Additionally, the growing donor-funded project-specific consulting business was in contrast to AKAM and ME's investment in administrative and other resources in health schemes. The relatively better progress that PG had made toward sustainability through the end of 2010 can be largely attributed to these factors.

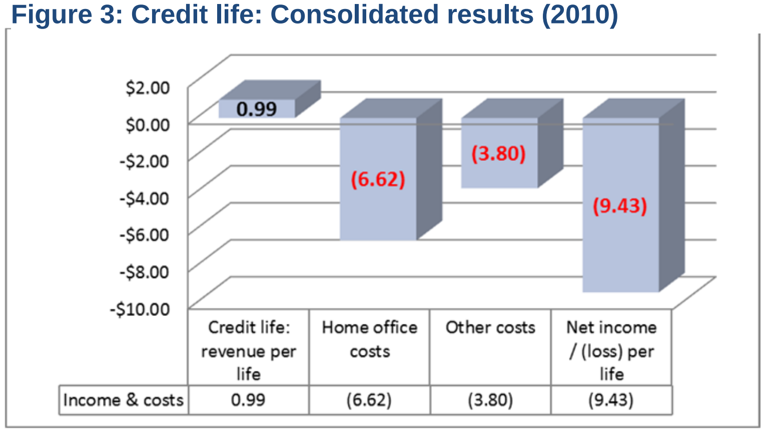
"You have to start somewhere…but credit life alone doesn't fulfill our social mission nor is it going to make us sustainable as a business." PlanetGuarantee

What contributes to the business case for microinsurance intermediation?

The early experiences of these three intermediaries suggest that **certain strategies contribute to a business case** (or lack thereof):

- Links to established MFI networks lead to quick market entry and funding support but not necessarily to a sustainable multinational intermediary.
- Simple broking is unlikely to be a successful business model for a stand-alone multinational microinsurance intermediary; it will be necessary to have additional revenue streams.
- Credit life business can contribute to, but in and of itself will not support a successful multinational intermediary. Figure 3 demonstrates that on a consolidated basis credit life revenues alone cover only about 10% of costs of the three intermediaries studied.

Figure 3: Credit life: Consolidated results (2010)



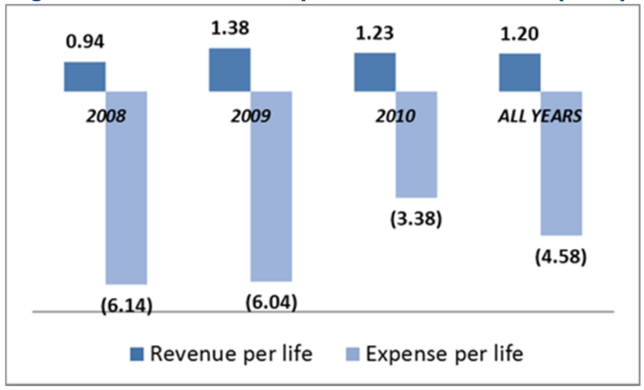
- Health microinsurance appears to be a space in which intermediaries can add important value, but the three intermediaries we studied were unable to make it economically viable despite substantial and varied effort.
- Revenue per life or per policy is a material driver of success. Scale cannot overcome inadequate unit pricing.
- European home office fixed costs are unsupportable except possibly at extremely large scale.

At this early stage there is **much left to be determined** about the business case for microinsurance intermediaries:

- What products and distribution channels will drive the scale intermediaries need to cover fixed costs?
- How can microinsurance intermediaries assure that all the players in the value chain make money while supporting their own commercial interests?

- At which stage of program or product life cycle should an intermediary focus its efforts?
- What is the intermediary's role in understanding demand, conducting market research and developing products?
- When does a fee based rather than commission based model make more sense?
- How can a European based intermediary ever be cost efficient enough to provide services that local MFIs and/or insurers are unable or unwilling to provide?

Figure 4: Revenue & expenses 2008 – 2010 (USD)

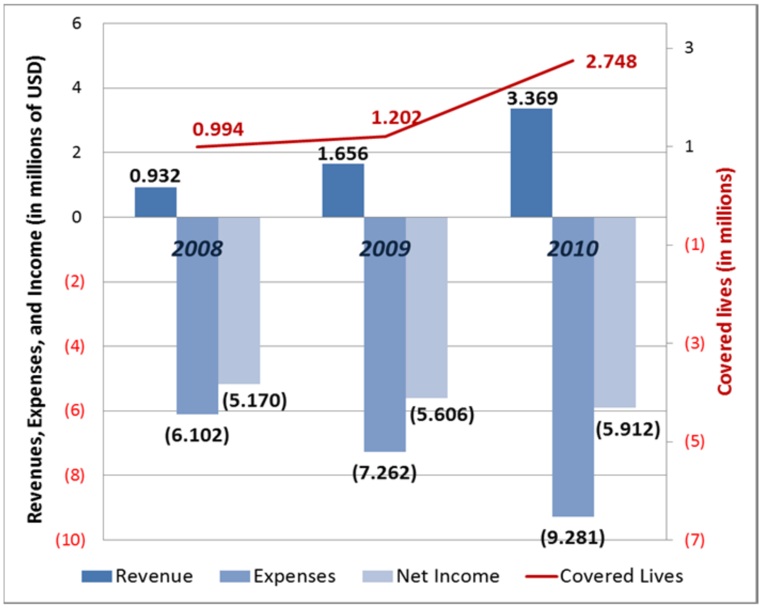


- Is it possible that the sort of technical assistance that intermediaries are providing early in the product cycle can only be provided with philanthropic support?

Is there a business case for microinsurance-only multinational intermediaries?

Based on data from the first 3-4 years of activity of the three firms studied, from inception to 2010, the results, as seen in Figure 4 above, suggest the answer is no. The theoretical value proposition for a microinsurance intermediary is to bring together insurers that are unfamiliar with the low-income market and delivery channels that are unfamiliar with insurance. However, these intermediaries are small links in the insurance value chain, but play a role that is much greater than that of a traditional intermediary. The fees they can earn for each policy are small. As such, the business case for a stand-alone multinational microinsurance intermediary is highly dependent upon scale and efficiency. Simple intermediation earns such small fees per transaction that it is virtually impossible to imagine supporting the fixed costs of these global enterprises. The more comprehensive scope of services required in microinsurance results in significantly higher costs, yet yields no additional revenue. As seen in Figure 5, through the end of 2010, in spite of increases in revenues, none of these firms had figured out how to gain the scale or cost efficiencies needed to cover those costs. Donors, investors and practitioners will need confidence in the value proposition and a long-term perspective to see this through.

Figure 5: Consolidated highlights 2008 - 2010 (in millions)



Later in 2013, the MILK project will publish an update to the story of these three microinsurance-only multinational intermediaries, as they try to find a way to sustain their global operations between 2011 and 2013.

Key factor summary

The MILK project's business case studies all look at eight key factors that are explored in terms of their importance to a microinsurance business case. Each business case paper summarizes the lessons learned from the study in terms of those key factors. The lessons from this study of the early years of microinsurance intermediaries are provided in Table 2, and factors considered particularly important to this study are shown in **bold**.

Table 2: Business Case Factors

Business Case Factors	Observations
Program age	Some progress toward sustainability in first few years of these companies noted over time but not determinative of success; without resolution of other challenges (e.g., scale, business model) progress over time is insufficient to support a business case.
Scale	Microinsurance intermediation is hugely leveraged to scale; fees and commissions are a fraction of already limited premiums per member. No discernible trends were evident by end of 2010 where the gap between income and expense was closed with increase in volume.
Business model	Very difficult to cover the cost of a European based hub and spoke model with microinsurance intermediaries operating in multiple developing countries; standalone operations without broader market activity to support fixed costs are further challenged based on data through the end of 2010.
Product	Credit life alone not sufficient for a business case; intermediaries had been unable to make health microinsurance profitable through 2010.
Distribution	Moved beyond traditional MFI distribution, mass distribution (mobile telecom's) more promising.
Subsidy	None of the intermediaries we studied could continue past 2010 without significant philanthropic support or external capital.
Competition	Limited competition between intermediaries was noted.
Mandatory versus voluntary	As expected, mandatory programs more easily grew to scale; hard to make health microinsurance mandatory (though it was done by one). Sponsor commitments proved not consistent.