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Case Study

Secure Life – Reshaping the Life Insurance Distribution Landscape

It was late December 2015, and Zafar Iqbal found himself looking forward to the Senior Management Meeting that he was scheduled to preside over at the beginning of the next year. Given his role of Chief Strategy Officer at Secure Life Assurance Ltd. (Refer to Exhibit 1 for Company's Profile), it was his job to provide recommendations to the company's senior management that in turn facilitated the in-depth strategic discussions which were fundamental in maintaining Secure Life's leadership position in the evolving life insurance industry. However, nearly a year before in response to the widespread perception that the industry was facing an unprecedented set of challenges such as low life insurance penetration rate in Pakistan, Zafar had been asked to undertake a comprehensive review of how the industry was likely to evolve and whether Secure Life should consider making significant changes in its core distribution strategy and/or its business model as a result.

Appendix

About Secure Life

- One of the players in the life insurance industry of Pakistan providing a comprehensive range of financial planning solutions.
- Quality provider of long term savings and protection products to meet different life stage requirements of its customers.
- Business strategy focused on middle income and above socio-economic group for its retail products.
- Current distribution channels include:
  - Specialized Sales Force: Providing one to one consultation to individuals interested in buying life insurance products.
  - Bancassurance: Allows it to put forward insurance based products and services to the clients of banks ensuring an even greater reach

Exhibit 1 Secure Life's Company Profile

Following this, Zafar had pulled together a competent team of high calibre individuals to look at the changing dynamics and key environmental uncertainties facing the industry with the motive of answering the question, "What should Secure Life do in the future to secure a greater market share and ensure a greater reach to the market?" The team worked into three interrelated phases: the first one being related to understanding and researching on how the future of the industry might evolve, the second being related to exploring alternative distribution channels for reaching the market and the third being exploring the feasible distribution channel options available to Secure Life with respect to its core capabilities.

The team under the leadership of Asma Sohail, Senior Manager of Strategy & Planning Department at Secure Life, had successfully completed the first two phases and Zafar was confident that the team now had an idea of the changing industry dynamics as well as of the avenues in which the company can tackle issues such as low insurance penetration rate through viewing it as an opportunity rather than an obstacle. However, for the last phase, the team yet had to test and trial with other unconventional distribution channels which supported the company's core competencies as well. Hence, as a team they needed to come up with recommendations for Secure Life's senior management as to which alternative channels the company should explore along with developing new capabilities to position the company for the future. Zafar sighed turning back to his desk as his laptop's screen indicated him of a long night ahead.

Life Insurance Industry in Pakistan

Over the years, the life insurance industry in Pakistan has been facing several challenges with the top most being the industry's size in comparison to its peers in the region. The insurance penetration and density has remained modest as compared to other markets in the world and hence, the industry remains under developed relative to its potential. Pakistan has an insurance penetration ratio (both life & non-life) of 0.84 percent in the year 2016 which is higher than 0.77 percent in the year 2015 but nonetheless remains significantly lower than its regional peers such as India: 3.44 percent and China: 4.2 percent. The industry in itself hasn't entered the maturity phase which is often characterized by innovative products and advancements in product offerings however, this hasn't been the case of Pakistan's life insurance industry. Lack of public awareness is generally considered as another contributing factor which inhibits the industry's growth whereas all around the world individuals while making financial plans or taking out loans or incurring liabilities back them up with matching insurances however; this has not been the case in Pakistan as our population remains unaware about its benefits followed by the habit of the low income sector to always look for an instant result, and the misconception that bad things happen in human life due to God's will that have to be accepted.

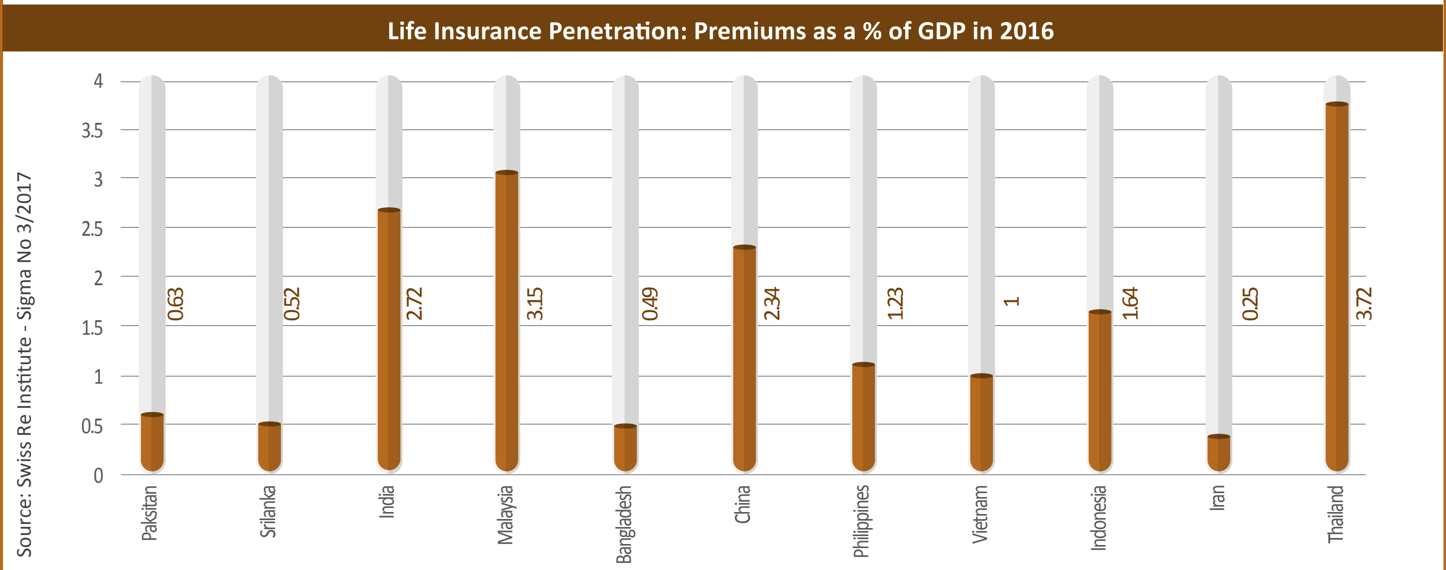

Exhibit 2 Life Insurance Penetration – Pakistan's Comparison with Regional Peers

The improving economic environment of the country and regulations have facilitated the growth of this sector. Life insurance sector has shown considerable growth due to factors such as Bancassurance (collaborating with banks to sell insurance products), aggressive marketing and greater consumer awareness. The most significant development in the industry has been SECP's granted rights to conventional companies to open Window Takaful operations which will allow companies to access target markets that haven't been tapped to date for religious reasons.

Another major development in the banking and insurance industry has been the implementation of National Financial Inclusion Strategy (NFIS) in May 2015, which focuses on achieving universal financial inclusion in Pakistan through enhancing financial access to 50 percent of the adult population by 2020. The stated vision for financial inclusion in Pakistan is along the following lines:

"Individuals and firms can access and use a range of quality payments, savings, credit and insurance services which meet their needs with dignity and fairness[2]".

The Challenge

About hundred million adults in Pakistan, mainly classified as the mass market segment, still do not have access to formal and regulated financial services and account to about 5 percent of the world's unbanked population. Zafar Iqbal's team had realized this massive opportunity of tapping 100 million potential customers for insurance products and services. The issue that they were now faced with was the selection of relevant and appropriate distribution channels of reaching out to this market. Their extensive research also provided them insights regarding the practices carried out worldwide to tap the micro/mass segment.

Some of the key learnings from the Pakistani market that were yielded as a result of their research included the characteristics of the unserved masses comprising of individuals belonging to SEC B and C. The incomes of the poor are not just low, but also irregular and unpredictable. Farmers face the ups and downs of seasons, income from microenterprises is volatile, and employment is highly uncertain. The lives of low-income people are more uncertain as compared to other segments of the society. Low-income households face higher risk of health problems, accidents and death, and they often live or work on land that is prone to natural disasters. Such low income households also use a variety of mostly informal tools to spread their incomes over time, deal with risk and put up large sums when needed. They borrow from friends, save in groups with neighbours or get advances from the grocery shop. These tools are flexible, but also often unreliable.

Insurance as a product has the capability to yield immediate benefits for these low-income households as it provides them core protection against the uncertainties of life such as death or disability of the breadwinner.

Figure 2

Channels through which insurance supports human development and economic groth.

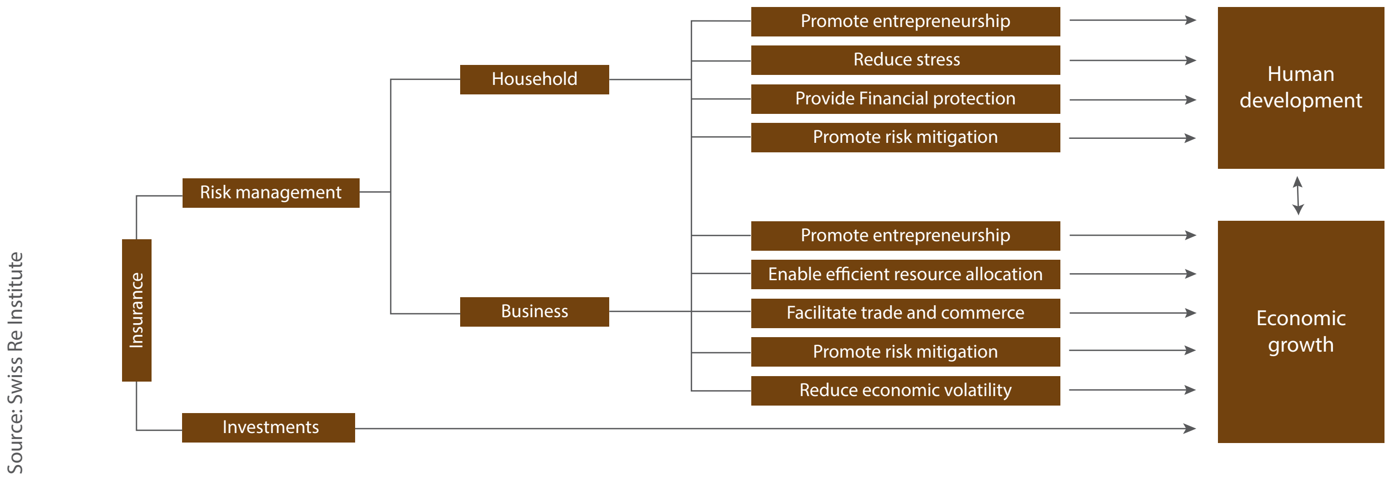

Exhibit 3 How Insurance Supports Human Development and Economic Growth

However, the team also realized the challenges related to product design for mass/micro market as it differs significantly from traditional insurance products with reduced premiums and coverage levels. It requires a significant refocus in every aspect of product development and delivery. Low-income household and small medium enterprises within Pakistan are vulnerable to the financial risks that they face depending on their lifestyle and earnings. They usually don't have access to financial services hence, are devoid of a formal saving mechanism and are prone to financial risk to a large extent which means that as a segment they can relate to the benefits of insurance well.

While brainstorming regarding this opportunity, Zafar Iqbal was posed with several questions regarding the viability of this approach. The foremost challenge that Zafar faced was in terms of the reservations from the stakeholders as it was for the first time that the company was entering a segment which required volumes to be profitable whereas the margins involved were bare minimum as majority of the cost constituted of administration and distribution charges in contrast to the traditional insurance products. In any such business model that caters to the segment at the 'bottom of the pyramid', the basis for returns on the investment is in terms of the acquired volume. Even though the per unit margin associated with a micro insurance policy may be small, but given the fact that the targeted population is large in number hence, the returns will be attractive if the numbers of sales are huge. This was contrary to the conventional life insurance practices where a single life insurance policy sold yielded a higher profit. Apart from this, the segment also required experimentation on a greater scale and there were no such past learnings of the industry which could have been banked upon to make this initiative successful hence, the company required specialized group of individuals and investment to ensure the effective implementation of this strategy. The stakeholders also had reservations from the perspective of reach to the targeted audience as Secure Life's current distribution channels such as Individual Sales Force and Bancassurance were mainly limited to urban cities which meant that the company needed to formulate a strategy through which it could ensure low distribution costs and effective reach to rural areas where the target market resided.

The Dilemma: Choosing the 'Right' Channel

While Zafar's team was fully cognizant of the key challenges in providing micro life and health insurance such as low premiums not being able to cover the costs insurers incur in underwriting, distribution, claims processing and other overheads, they had high hopes that as a team they could formulate an effective strategy which can overcome the challenges associated with insuring hundred million lives.

Mobile Network Operators (MNOs):

While viewing the potential of Mobile Network Operators in Pakistan, Zafar thought that as a distribution channel they could provide access to vast number of low income clients. GSMA's recent research titled 'The Mobile Economy' suggests that a large number of rapidly increasing mobile subscribers, 72 percent to be precise, are from ten countries, which includes Pakistan. It is anticipated that by 2020, an additional 17 million subscribers will be added to the current base of 137 million. Each new mobile subscription is a massive opportunity for expanding financial inclusion through an increase in the number of mobile wallets. Pakistan, hence leads its way in branchless banking as compared to South Asia. Viewing this as a viable growth and partnership opportunity, Zafar decided to further brainstorm the idea with his team. In one of the brainstorming sessions, Asma also supported the viability of MNOs as she believed that they can play the role of a passive distribution channel, which allows clients to register for insurance by using their mobile phones; or by actively providing clients with insurance coverage, for example as part of a loyalty scheme. From the perspective of scalability, MNOs in Pakistan have access to a vast pool of mobile phone subscribers, which can be automatically or voluntarily enrolled. Mobile technology also allows MNOs to enrol and collect premiums from clients in remote areas, which may be inaccessible to other distribution channels. Apart from this, as a brand MNOs are highly trusted in low income markets in Pakistan. Also, they can significantly reduce costs involved as the process will become agent-less.

	Promotion	Enrolment	Premium collection	Education	Providing value-added services	Claims reporting	Claims assessement	Claims payment
Financial institutions	☺	☺	☺	☺		☺		☺
Cooperatives etc.	☺	☺		☺	☺	☺	☺	
Retailers	☺	☺	☺			☺		☺
MNOs	☺	☺	☺		☺	☺		☺
Employers	☺	☺	☺	☺		☺	☺	☺
Direct sales	☺	☺	☺	☺	☺	☺		☺

Source: International Labour Organization - Microinsurance Distribution Channels (2014)

Exhibit 4 Support provided through Various Distribution Channels across the Value Chain

However, Haris, Assistant Manager for Strategy Planning & Development Department at Secure Life, explained to Zafar that opting for MNOs as a distribution channel was not feasible since Pakistani market lacked awareness regarding life and health insurance products specifically the lower tier market. An unengaged customer base according to him will not pay premiums or submit claims even if they are enrolled in the scheme automatically as a part of a loyalty scheme. He was of the view that selling insurance is a lot harder as compared to airtime or mobile money given its complex nature and negligible understanding regarding insurance of Pakistan's inhabitants. Even if the agents of MNOs were properly incentivized and trained to support product distribution, the proposition was still expensive since profit margins expected were small and MNOs commission structure were quite stringent. To support his stance, Haris also quoted a recent failure, Linda Jamii, which was a low-cost medical cover provided in partnership with telecommunications firm Safaricom, Changamka Micro Insurance and investment firm Britam. The three firms had projected to recruit over a million users in under a year. However official figures show that the product had attracted only 80,000 subscribers, a far-cry from its target. The insurance regulatory authorities believed that micro insurance works better with groups than with individuals because the cost of selling micro insurance to individuals is higher than that of selling to groups. While Haris's stance made sense, Zafar at the same time also thought of the success of Tigo Family Care in Ghana which used mobile technology platform to insure the lives of people in Ghana.

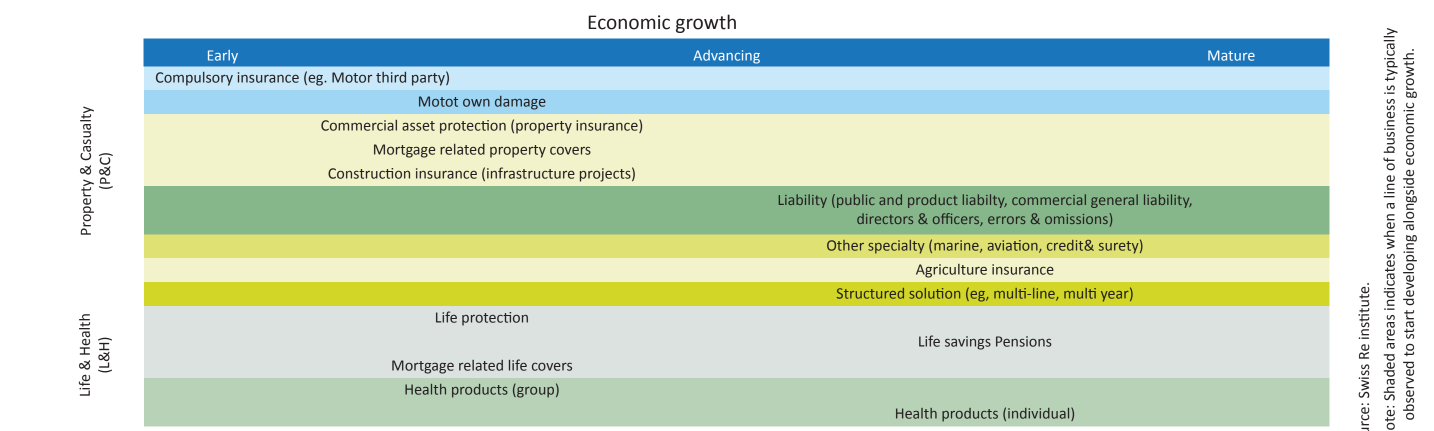

Exhibit 5 Traditional Insurance Growth Path

While pondering on the available channels that were familiar with the needs of the low-income households, had frequent contacts with them, and can provide them with advice as well as support during financial crisis, the only option that popped up in Zafar's mind had been Microfinance institutes. Most people working in microinsurance sector globally started by working in partnership with MFIs, which typically have a strong and trusted brand in the communities they serve, as they give out loans that require frequent repayments. The loan officers are already in the community making loans and receiving repayments, and it's easy to embed the premiums into the loan disbursement with claims distributed by the loan officers.

However, Zafar at the same time also knew that MFIs have certain limitations when it comes to the distribution of microinsurance products. Most MFIs focus on products that benefit the MFI more than the client, which explains the ubiquity of credit life. The client does benefit from not having to repay the loan after a shock event; however, the primary beneficiary is the MFI. However, over the years credit life as a product has diversified to provide coverage for a wider array of risks such as accident, funeral cover, hospitalisation etc. MFIs can also be unwilling to offer microinsurance as a separate product and outside of the loan period which in turn leaves the client with gaps in coverage because most of them don't borrow back to back. Even those who do, may encounter delays that may leave them uncovered against an unforeseen accident. Studies also suggested that the outreach of MFIs is constrained as only 150 million families opt for a microfinance loan worldwide whereas an estimated 4 billion individuals require insurance3 hence, Zafar thought that the available market was simply larger than the distribution MFIs can afford and opting for them as a channel meant not exploiting the opportunity to its full potential.

Retail Channels

There are various reasons as to why distribution of microinsurance products through retail channels would interest the stakeholders, Zafar believed. Pakistan's retail sector is worth USD 152 billion and is the third largest contributor to the economy as it accounts for 18 percent of the total GDP4. Given their extensive distribution network as compared to financial services provider, they have the ability to reach larger markets cost effectively as they already have an established infrastructure that is required (Refer to Exhibit 6 - Feasibility Analysis of Various Distribution Channels). Furthermore, their passive sales approach doesn't increase the staff costs. Low income people have regular transactions with retailers and so premium collection can be added to the existing transaction for convenience. Trust, is yet another important factor that is essential when selling insurance and it is needless to say that retail stores in Pakistan have established a visible and trusted presence among lower-income households. Kiryana stores in Pakistan tend to be the most preferred option low income segments visit on a frequent basis to cater to their daily needs. Most daily wage earners with limited budgets often when they don't have cash, buy basic necessities on credit which indicates that they have a well-established and trusted relationship with these store formats.

	Financial institutions	Cooperatives etc.	Retailers	MNOs	Employers	Direct sales
Client understanding - is the channel able to improve clients, understanding and give advice?	—	☺	☹	☹	☺	☺
product diversity - is the channel open to offering a wider range of products?	☺	☺	☹	☹	☺	☺
Scale - Does the channel have access to a large number of potential clients?	☺	—	☺	☺	—	☹
Brand and trust - Does the channel have a populaar berand? is it trusted within a community?]	—	☺	☺	☺	☺	—
Priority - Does microinsurance matter to the channel? is it willing to prioritise it?	☹	☺	☹	—	—	—
Cost -Dos the channel offer low-cost distribution for the insurer?	—	—	☺	☺	☺	☹
Partnership risk - Does the channel offer a long-term partnership?	☹	—	—	☹	☺	☺

Source: International Labour Organization - Microinsurance Distribution Channels (2014

Exhibit 6 Feasibility Analysis of Various Distribution Channels

However, while thinking whether the channel despite of its extensive reach was right for the targeted market, Asma thought of the nature of retail channels in general. As a pull channel, they expect customers to pick the product off the shelf rather than actively selling it. This approach limits their effectiveness and at the same time increases the risk of misselling in an environment where the understanding of insurance is low such as in the case of Pakistan. Even from the perspective of promoting insurance products in the retail environment through offering incentives and discounts may lead the customer to purchase it but he/she may not understand the product benefits completely.

The Challenging Decision

Zafar saw himself standing at a crossroads as he weighed the three options in front of him. He realized that earlier what seemed to him as an easy choice to make had now grown murky. The differing opinion of his team members had given him a crucial insight to the potential pitfalls these channels had embedded in their structure. With huge potential underlying the mass market segment in Pakistan for life insurance products, Zafar thought whether he will be able to identify the right platform to reach the masses, design products that cater to their needs and most importantly convince the senior management regarding his selection in the upcoming meeting.