Federal Ministry
for Economic Cooperation
and Development

Allianz

A Microinsurance Toolbox: Solutions to Challenges

A Project of the Development Partnership with the Private Sector of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and Allianz SE

LIST OF ABBREVIATIONS

ABC	Activity-based Costing
BMZ	German Federal Ministry for Economic Cooperation and Development
CSR	Corporate Social Responsibility
DPP	Development Partnership with the Private Sector
ECo	Emerging Consumers
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
ILO	International Labour Organization
IT	Information Technology
MFAs	Microfinance Actors
MFIs	Microfinance Institutions
NGO	Non-governmental Organisation
SSC	Shared Service Center

TABLE OF CONTENTS

1. INTRODUCTION

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and Allianz SE (Allianz) joined forces to launch a development partnership as part of the develoPPP.de programme of the German Federal Ministry for Economic Cooperation and Development (BMZ). Referred to as the Microinsurance[1] Toolbox (Toolbox), this document has been created by the Development Partnership with the Private Sector (DPP) of the GIZ and Allianz.[2]

GIZ and Allianz started its first DPP cooperation on microinsurance in 2004. The purpose was to join hands to tackle challenges and explore new opportunities for microinsurance market development. This first collaboration was initially planned for three years. Two further DPPs followed and eventually lasted until 2017, owed to the achievments and positive experiences of the first DPP. Throughout this period, the DPP has been working to overcome challenges faced in microinsurance market development. The DPP has been endeavouring to prove microinsurance as an economically viable business model using Allianz as an example, while establishing a broader social impact for low-income groups.

The purpose of the Toolbox is to share the tools developed by the DPP to address the challenges in creation and upscaling of a microinsurance business. The DPP believes that these tools can assist insurance companies and other microinsurance players in their efforts to develop their own microinsurance businesses.

1 According to the International Association of Insurance Supervisors (IAIS), microinsurance is defined as “protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.”

2 Annexure A provides additional information on the DPP and its activities.

1.1 Why did the DPP create a toolbox for microinsurance?

During its long-term cooperation, the DPP learned that the microinsurance market is too big to be served by only a few insurance companies. There exists a need to engage other insurance companies in microinsurance market development for innovation, competition, and social impact. Hence, one of the goals of the DPP has been to encourage international insurance companies to consider a stronger engagement in microinsurance activities. This toolbox hopes to contribute towards that goal.

The tools presented herein have helped Allianz in (a) expanding its microinsurance operations to eleven countries, (b) creating transparency of its business practices, and (c) shifting its microinsurance business from 'Global Corporate Social Responsibility' to a core business line, 'Global Life and Health'.

1.2 What constitutes the Microinsurance Toolbox?

The Microinsurance Toolbox comprises of six business tools:

1. Microinsurance definition and assessment tool
2. Activity-based costing (ABC) tool
3. Emerging Consumers (ECo) dashboard
4. A game called 'How insurance works?'
5. Governance and reporting models
6. Peer review tool

1.3 Who can benefit from the Microinsurance Toolbox?

The Toolbox is primarily designed for practitioners from the insurance industry who are involved with microinsurance planning or operations of their companies. The Toolbox is also relevant for microfinance actors (MFAs) that are engaged with distribution and promotion of microinsurance products. Furthermore, international development institutions and donors that support microinsurance and work closely with the insurance industry and MFAs can benefit from the Toolbox.

1.4 What approach does the Microinsurance Toolbox use?

For the purpose of this Toolbox, five phases of creation and upscaling of a microinsurance business have been identified:

1. Conceptualisation
2. Operationalisation
3. Pilot
4. Professionalisation
5. Business Development and Upscaling

As shown below in the table 'A quick guide to the Microinsurance Toolbox', this document links each tool with the most relevant business phase, with the purpose to highlight when a specific tool might prove to be most beneficial.

It should be kept in mind that the tools can be used across various phases. The users are encouraged to consider the contents of this Toolbox as an inspiration for constructing their own tools which are suitable for their unique business operations and objectives.

It must also be noted that the above-listed business phases have only been presented to emphasise the practical relevance of the tools and map their utility in a business context. The purpose of the Toolbox is not to provide education on microinsurance business life cycle; the users may choose to divide a microinsurance business life cycle differently, depending on their objectives and corporate context. Moreover, the Toolbox does not intend to discuss all of the challenges that could possibly emerge while setting up or upscaling a microinsurance business. It only refers to the challenges encountered by the DPP.

Business phase	Challenge	Tool	Application	For additional information[3]
Conceptualisation	How to build an understanding of microinsurance and use that knowledge to convince higher management of the business case of microinsurance?	Microinsurance definition and assessment tool	· Prevents arbitrary labelling of products as 'microinsurance' · Assists in explaining how microinsurance aligns with conventional insurance business lines · Explains how microinsurance is different from social protection schemes	In Focus: Professionalisation (1 and 2)
Operationalisation	How to create a proof of the business case for microinsurance through data generation on performance?	Activity-based costing tool	· Estimates working time costs to assign them to appropriate products · Assures microinsurance's business case and reduce discussions about its costs · Clarifies the misperception that microinsurance is heavily subsidised by other businesses	In Focus: Development of Key Performance Indicators
		Emerging Consumers (ECo) dashboard	· Tracks, analyses, and monitors Key Performance Indicators · Shares data between local subsidiaries and head office · Helps local subsidiaries in understanding their individual contributions to the overall microinsurance business	In Focus: Professionalisation (1)
Pilot	How to enhance insurance literacy of the target clients in a simplistic and cost-effective way?	A game called 'How insurance works?	· Educates the target clients on the concept of insurance and its benefits · Addresses mistrust on insurance (companies)	In Focus: Financial Literacy (India) In Focus: Financial Literacy (Global Awareness Campaign) In Focus: Cooperation with Delivery Channels (Indonesia)
Professionalisation	How to establish professional governance and reporting structures?	Governance and reporting models	· Defines management roles · Ensures consistent and transparent reporting · Offers a structured mechanism for collaboration between corporate head office and local management	In Focus: Professionalisation (Governance and Reporting)
Business Development & Upscaling	How to identify potential opportunities and threats for setting realistic business development and upscaling goals?	Peer review tool	· Generates information on peer activities, strategies, business volumes, and industry trends · Helps in understanding a company's position within the industry	In Focus: Product Development (Indonesia) In Focus: Product Development (Kenya) In Focus: Impact Assessment

3 'In Focus' notes are technical notes created by the DPP to share information on the key activities of the DPP.

2. CONCEPTUALISATION

In the context of microinsurance, conceptualisation begins with an idea of venturing into the world of microinsurance or expanding existing operations.

When a microinsurance idea is conceptualised, one of the first challenges is to build one's own understanding of microinsurance. Understanding microinsurance is important as the concept is often misperceived merely as a 'Corporate Social Responsibility' (CSR) by senior management and its business case is either overlooked or underestimated. One needs to be equipped with in-depth knowledge of what microinsurance is and how it works to be able to convince others that microinsurance has a potential to turn into a full-fledge business.

CHECKLIST 1: QUESTIONS TO BE ASKED DURING CONCEPTUALISATION

1. What do I understand by microinsurance?
2. What do I want to achieve with microinsurance? E.g. social impact, innovation, business growth, or fulfilling regulatory requirements?
3. How does my understanding of microinsurance compare with defining parameters used by the industry and regulators?

2.1 Tool: Microinsurance definition and assessment tool

Research is intuitively the first step to address the questions raised in Checklist 1. Desk-research is a fast and low-cost way to build a general understanding of microinsurance. It helps in creating a comparison of defining parameters used across the industry.

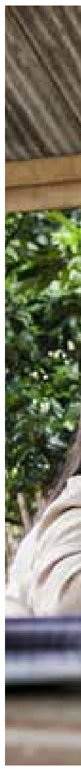
Once a clear understanding of microinsurance has been developed, the next step would be to devise one's own operational definition tool. Having a tangible definition tool, on the one hand, prevents arbitrary labelling of any insurance product as 'microinsurance' within a company. On the other hand, it is a concrete way to explain how microinsurance products align with other, more conventional insurance business lines and how microinsurance differentiates from social protection schemes. A definition tool also improves the accuracy, consistency, and transparency of financial reporting on microinsurance within an insurance company.

Approach

A simple approach towards designing a definition tool is being proposed in this section. The approach is based on an actual tool jointly developed by Allianz and GIZ in 2013 and referred to as the 'Microinsurance definition and assessment tool'.[4] The tool is currently being used by Allianz for its microinsurance operations.[5] A microinsurance definition tool should ideally include:

Knock-out definition criteria: A product must fulfil these criteria to qualify as microinsurance. For example, Allianz is using the following defining parameters as its knock-out criteria:

1. Applicability of generally accepted insurance principles (Annexure B for details)
2. Geographical location of target consumers i.e. if a product is being offered in developing countries or emerging markets
3. Income level of target consumers i.e. if a product is being offered to low-income consumers. Allianz defines low-income consumers as the lowest 60 percent of a country's population by income



4 The DPP's original microinsurance definition and assessment tool can be downloaded at www.allianz.com/v_1364458619000/media/responsibility/documents/Allianz_Microinsurance_Definition_and_Assessment_Tool_April2013.pdf

5 Allianz has slightly modified the original microinsurance definition and assessment tool to better suit its evolving business needs and to capture its additional non-insurance services for emerging consumers such as pure savings, assistance services, and micro-equity. The modified tool is available at www.allianz.com/media/responsibility/documents/AllianzSE_EmergingConsumersDefinition_Assessment_Tool_April_2016.pdf

Additional parameters that may be considered for knock-out criteria:

4. Product characteristics which may include (a) minimum and maximum ranges for premium payment (in monetary terms), (b) minimum and maximum ranges for sum insured (in monetary terms), (c) maximum policy term of insurance products, and (d) simple and easy processes for enrolment, payment, and claims. These parameters are often applied by insurance regulators. Allianz's does not incorporate product characteristics in its knock-out criteria because it is the low-income consumers which stand at the core of its microinsurance definition, not a product itself. For Allianz, any insurance product that is availed by low-income consumers in developing countries falls into the category of microinsurance or – as Allianz prefers to call it - emerging consumers business, regardless of its features.
5. Source of premiums is taken into consideration by some institutions. That is, if the amount of premium is paid by policyholders themselves, or it is partly or fully subsidised by a government or a non-governmental organisation (NGO). For example, the DPP's definition tool considers a product to be microinsurance only if not more than 50 percent of the premium amount is subsidised.

Qualitative assessment criteria
(which go beyond the hard knock-out criteria): Qualitative assessment parameters can help in designing concrete products which align well with the overall corporate values of a firm. However, fulfilment of assessment criteria does not necessarily guarantee business success.

Based on the assessment approach constructed by the DPP, the following metrics may be considered:

1. Contribution to the risk management of end consumers
2. Presence of value-added-services beyond insurance
3. Involvement of end consumers in product development
4. Voluntary or mandatory status of a produc
5. Measures taken to reduce transaction cost
6. Simplicity of product specifications
7. Customer education (financial literacy)

Once assessment metrics have been selected, a ranking scale can be used to assign quantitative values. For instance, Allianz uses a scale of 0 to 2 for ranking, where "0" refers to absence of a metric and "2" means strong presence. Afterwards, an average of all of the values can be calculated and a higher or lower score can be taken as an indication of the quality of a product in accordance with the corporate and/or microinsurance values of a company. The assessment templates developed by the DPP are provided in the "Microinsurance definition and assessment tool" (see footnote 5).

The knock-out and assessment criteria are further elaborated below with help of a case study (Illustration 1). The case study uses the example of a microinsurance product offered by Allianz in Colombia. In the example, parameters A to D form knock-out criteria, whereas 1 to 7 constitute qualitative assessment.

ILLUSTRATION 1: Enhanced personal accident insurance from Colombia: An example to explain the "Microinsurance definition and assessment tool"

Product name (generic or marketing name)	Personal Accident Plus Dental
Product type (e.g. credit life, endowment, motorcycle)	Enhanced Personal Accident
Company name	Allianz Colombia
Country	Colombia
Distribution partner type (e.g. MFIs, banks, coops, retailers)	Food and consumer good companies (as master policy holders)
Launch date (and stop date if any)	1 Feb 2011
1-sentence product description	Personal accident cover for small shop owners + dental assistance for shop owner and 3 dependants
Group or individual product	Group
Voluntary opt-in, opt-out or compulsory	Voluntary opt-in
Covered risks & benefits / sum insured	Accidental Death: COP 3mn (~ USD 1,700), payable as an education grant for the children of the insured Dental Assistance: Cashless payment (@market rates) for emergency treatment arising from 6 dental conditions, e.g. caries, infections or pulpitis
Premium range (min, max)	Premiums paid by group policy holder (the food & consumer good companies)
Avg. premium / year (annualize if necessary)	n.a.
Other comments	Dental assistance is only available at one large network of dental clinics For eligibility, shop owners need to fulfill certain criteria set by the companies

Lessons learned

- While defining microinsurance, employing the business terms which are already used within a company can prevent alienation of microinsurance. For example, some insurance companies such as Allianz prefer using the term 'emerging consumers insurance' instead of 'microinsurance'.
- The definition and assessment criteria should be used to align microinsurance products with the existing business units and strategies, in order to reduce perceived unfamiliarity and riskiness associated with microinsurance.
- A microinsurance definition tool should be flexible and easy to adapt. As a microinsurance journey moves forward, new challenges and ideas emerge which might require adjustments to a company's defining approach. At the same time, the tool should also be comprehensive enough so that it can serve as an operational definition.
- A microinsurance definition should be quick to use and not require extensive work or special market research. A typical example is the measurement of income levels of microinsurance customers. As direct income information is rarely available, Allianz accepts several proxies, such as the informed expert opinion of the local management team or the loan size of the insured for credit life microinsurance.
- A microinsurance definition should not be seen as a replacement of local regulatory definitions. It is rather a tool for internal standardisation, especially when reporting across several markets, like in the case of Allianz.

Shortcomings / challenges

- Coming up with a microinsurance definition that works for all markets or countries is a challenge for insurers that are active globally. Additionally, bringing local managers on board to use a standardised tool can prove to be a time-consuming exercise.
- Quantifying defining parameters can be challenging and subjective in some instances. For example, the question 'How emerging markets should be defined?' is often debatable. Allianz answers this question by considering the countries on the World Bank's list[6] of low and middle-income economies as 'emerging markets', excluding those which are a part of the European Union.
- Implementation of defining parameters can be costly. For example, income verification is difficult for insurance companies without creating proper systems, especially for the clients from informal sector. Work-arounds and proxy estimates can address this challenge.

Product:	Personal Accident Plus Dental	Ranking	Rationale / Comments
A	Insurance principles applied	✓	Fully applied
B	Developing country or emerging market	✓	Colombia is an emerging market according to S&P and a developing country according to World Bank
C	Great majority of insured people or assets from low-income segment	✓	Insured small shop owners are mostly from strata 2 (low-middle class) of the 6-step Colombian socioeconomic stratification.
D	No government subsidies of more than 50%	✓	No government subsidies
1	Significant contribution to risk management of end customers	+	Personal accident for a relatively safe occupation such as shop keeper does not address a significant risk. But the dental assistance is highly utilized
2	End-customer receives other tangible benefits (e.g. discounts, lottery etc.)	++	The associated network of dental clinics gives up to 50% discounts on dental procedures not covered the policy
3	End-customers involved in product development	-	No
4	Voluntary opt-in (++), Voluntary opt-out (+) Or compulsory (-)	++	The product is voluntary in the sense that shop owners can decide whether they want to fulfill the companies criteria for eligibility
5	Customer education and feedback mechanisms in place	++	A 24/7 dental hotline is available. All enrolled receive an insurance card with the key policy conditions
6	Simple product specifica-tions (e.g. pre-underwritten, few exclusions)	++	Automatic acceptance. No age limit. Documentation requirements for dental assistance are minimal (normal for accidental deaths)
7	Strong measures to ensure low transaction costs	++	Distribution is outsourced to the field staff of the companies. Dental claims are outsourced to 3rd party provider. Collection occurs as bulk payment
Overall ranking		1.6	

6 https://datahelpdesk.worldbank.org/knowledgebase/articles/906519

3. OPERATIONALISATION

Regardless of the size of a planned business, every concept needs resources to start operating. Unfortunately, microinsurance is often misconstrued to be a business that consumes more resources than the income it generates. This misconception impedes the efforts to win the support of higher management and makes the justification of resource allocation difficult. Therefore, a key challenge during the operationalisation phase is to produce a tangible proof of the business case for microinsurance.

One path to overcome this challenge involves generation of performance data and measurement of Key Performance Indicators (KPIs). A concrete proof of performance can establish the financial viability of microinsurance and justify resource allocation and investments.

CHECKLIST 2: QUESTIONS TO BE ASKED DURING OPERATIONALISATION

1. Which resources do I have and which ones do I still need?
2. How much do the resources cost?
3. What is the (expected) Cost-Benefit relationship of the project?

3.1 Tool: Activity-based costing tool

Activity-based costing (ABC) is a widely recognised tool that allows organisations to reliably estimate working time costs and assigns them to appropriate products, services, tasks, or projects with a logical approach. A typical ABC tool first identifies the activities that are demanded by a certain product, process or project. Then, it calculates the costs of these activities.

An ABC tool can support the business case for microinsurance as it clearly links costs with activities, showing that microinsurance products are often less expensive to administer than assumed. It can also help in clarifying the misperception that microinsurance is heavily subsidised by other businesses. An ABC tool can be applied before product launch on assumption basis for well-informed pricing. It can also be used later to verify the pervious assumptions.

Approach

The following steps can be taken into consideration while constructing an ABC tool:

1. Initiation: The first step involves defining the goals of a microinsurance ABC tool. While the primary goal of the tool is to estimate working time costs, it is also an analytical tool that can help in achieving secondary objectives such as unveiling costs drivers to reduce overall costs and improve profitability.
2. Identification and classification: As microinsurance expenses primarily include personnel costs, the second step includes identification of microinsurance activities performed by the staff members and total costs of those human resources. Based on the time allocated to microinsurance activities, human resource costs to carry out each activity are estimated and directly assigned to products. This step can help in identifying cost drivers.
3. Calculations: Based on the classification of costs, total product specific costs are calculated which can be used to measure cost ratios such as acquisition and administrative expenses per policy.
4. Interpretation: In the final step, quantitative results are interpreted and shared with the stakeholders.

As a part of the International Fund for Agricultural Development's project, "Facilitating Widespread Access to Microinsurance Services", the Microinsurance Centre[7] has designed a Microsoft Excel-based software on microinsurance ABC, along with an accompanying instruction manual. Available online[8], the software provides an actual tool as an example while the manual provides explanations and useful details needed to create a successful ABC analysis of microinsurance activities. Allianz uses a similar tool for its own microinsurance operations.

Lessons learned

- To create a sense of ownership, it is essential to involve the management of local operations (subsidiaries) in the process of running an ABC tool. It is necessary because local subsidiaries can apply the tool more effectively as they know the business better and have a deeper understanding of the activities and expenses.
- A microinsurance ABC tool should be kept as close as possible to the standard practices used within a company. Reinventing the wheel within a company often leads to waste of resources and can alienate microinsurance from the rest of the company.
- For practical purposes, an ABC tool should be kept simple and user-friendly. It is best suited for small operations where fewer people are involved. However, it can be easily adapted and applied to more complex environments.
- Applying an ABC tool does not need to be extensively time consuming. The tool used by Allianz takes about four to eight hours to fill and analyse, depending on the number of products and complexity of the operations. Some Allianz subsidiaries have made it a standard practice to apply Allianz's microinsurance ABC tool on an annual basis. Allianz used the results as input for the overall profit calculations.

Shortcomings / challenges

- Sometimes an ABC tools has to rely on arbitrary assignment of some indirect costs. For example, some expenses incurred for product promotion or brand awareness building are difficult to assign precisely to one product.
- Especially in its light-weight form as used by Allianz, ABC is a "rough tough" approach that delivers well-informed and approximate cost estimates but no ultimate assurance on accuracy.

3.2 Tool: Emerging Consumers (ECo) dashboard

An emerging consumers dashboard (ECo dashboard) provides a summary of microinsurance performance data gathered by various local teams and combines it into a single database. Acting as a data management tool, it is used to track KPIs, risk metrics, and other information. Using data visualisations, an ECo dashboard allows its users to analyse and interpret complex data at a glance and updates them on current performance trends.

An ECo dashboard is an easy and transparent approach to share microinsurance data between an insurance company's head office and its local subsidiaries. It also helps local microinsurance markets in understanding their individual contributions to a company's overall microinsurance portfolio, fostering a sense of accountability and highlighting successes.

Approach

Taking the following three principles into consideration, an ECo dashboard may aim to construct various data sharing and analytical dimensions as depicted in the Illustration 2 below:

1. Multilayer data sharing to enable users to investigate reported data in-depth when necessary and to allow comparisons with past data or between various performance indicators.
2. Customisable interface as the evolving nature of microinsurance business demands flexibility. It is essential to keep ECo dashboards customisable as analytical needs are most certainly going to change with business progress.
3. User-friendliness to make sure that an ECo dashboard is designed keeping end users in mind. An ECo dashboard should not be so complicated that it requires the help of an IT expert or extensive training. Otherwise, the users might not apply the tool.

7 www.microinsurancecentre.org
8 www.microinsurancecentre.org/resources/documents/operations/pricing/activity-based-costing-for-microinsurance.html

ILLUSTRATION 2: Key ECo dashboard dimensions as used by Allianz on a per-product basis

248 Parameters	9 Thematic Categories	3 Analysis clusters	2 Parameter types
e.g. • Product Code • Minimum Premium • Uses unique customer ID? • Claim Ratio …	e.g. • Product Specs • Customer Data points • Financial Performance …	• Financial Risk • Reputation Risk • Social Indicator	• Static • Dynamic

Lessons learned

- An ECo dashboard is a quick way to detect financial and reputation risks as it helps its users in knowing their businesses inside out.
- It adds concrete information and substance to a company's microinsurance communications and reporting, giving rise to better internal credibility and sustainability.
- Many parameters of an ECo dashboard can be filled and maintained at headquarters level, so that regular reporting efforts by local markets / subsidiaries remain limited. Most parameters (such as country or currency of a product) are anyway static as they do not change frequently.
- An ECo dashboard can have motivating effects on local subsidiaries as it enables them to see a direct relationship between their own businesses and the overall success of their company's global microinsurance segment.

Shortcomings / challenges

- Many commercially available dashboard software packages use one-size-fits-all approach and often fail to deliver flexibility and customisability that microinsurance requires.
- Even the best tools are of no use, if they are not being applied. Good data management, especially an ECo dashboard needs a working culture that emphasises the importance of quality data. Good data management needs persistence to succeed and become a habit.

4. PILOT

Piloting a microinsurance product is one of the most exciting times in a microinsurance journey. This is the time when insurance providers face the ground realities of serving low-income customers in emerging markets. One of the biggest challenges that arise at this stage is the customers' lack of insurance literacy. In most developing countries, low-income populations do not understand the concept of insurance and mistrust microinsurance (companies). Low levels of insurance literacy not only make it tough for insurance companies to market their products, but also create concerns of reputation risk as most of the potential clients do not know how to benefit from insurance offerings.

The lack of insurance literacy is widely stated as a key hindrance that discourages insurance companies from considering microinsurance as a line of business. The task of creating insurance literacy is often viewed as expensive and as the responsibility of the government. It is overlooked that financial literacy efforts have been known to improve take-up rates for insurance as well as other microfinance products such as micro-credit and microsavings.

CHECKLIST 3: QUESTIONS TO BE ASKED WHEN STARTING TO PLAN FOR A PILOT

1. Who are the exact target clients of my product?
2. How informed am I about the economic, social, and cultural context of my target clients?
3. Which key product features /aspects I would like my target clients to know about?

4.1 Tool: A game called 'How insurance works?'

The DPP of GIZ and Allianz has developed a unique solution to build insurance literacy: A game called 'How insurance works?' Played by Allianz in Indonesia and India, the insurance game has proven to be a useful tool to create insurance literacy in a simple and cost effective manner.

Approach

The game capitalises on the strategy to connect 'unfamiliar' (insurance) with something familiar and trustworthy for the target clients. Firstly, the game uses a well-known reference to explain insurance. For example, Allianz Indonesia used a known reference of 'funeral solidarity funds' that are widespread in Indonesian communities. Secondly, the facilitators who played the game are the staff members of the microfinance distribution partners of Allianz which are well-established and recognised among the target clients.

The following section explains two different approaches to play the game:

A) APPROACH APPLIED IN INDONESIA

Preparation

In order to play the game, a field staff member is required to act as a facilitator. The facilitator needs a set of cards representing money, where each card has two different numbers written on each side. The cards should be differentiated as:

1. Ten decks of 'Contribution Cards': Side 'A' illustrates the amount of contribution per member in a funeral solidarity fund, whereas side 'B' illustrates the amount of insurance premium.
2. One deck of 'Pay-out Cards': Side 'A' illustrates the amount of pay-out received in the solidarity fund mechanism, whereas, Side 'B' illustrates the sum assured for insurance policy.

Instructions: How to play the game[9]

1. The facilitator begins by asking if the participants know any funeral solidarity funds in their local community. Further, it is asked if they participate in a solidarity fund. Afterwards, one of the participants is requested to explain how a solidarity fund works.
2. The facilitator initiates a discussion on insurance and tells the participants that he/she is going to explain what insurance is. This could be done by asking simple questions such as: Do you know insurance? Do you have any insurance policies? Do you know how insurance works?
3. The facilitator gives 'Contribution Cards' to the participants, showing side 'A'. He/she says: "Let's assume that these cards are currency notes that you have to use to contribute to a solidarity fund. Could you explain how this "money" should be used by a member of a solidarity fund as one of you just explained to us?" The facilitator allows them to discuss among themselves and take what they think is the right action.
4. The facilitator asks: "What happens if one of the members dies?" The participants usually answer that the beneficiaries will receive the money. At this point, the facilitator opens the pay-out cards showing side 'A' and confirms that this is exactly what happens in funeral solidarity fund mechanisms.
5. In the next round, the facilitator repeats the step 3 and 4, using side 'B' to show how insurance works in a similar way.

[9] A video showing how the game was played in Indonesia is available at www.youtube.com/watch?v=6ItgUsiyZ-E

B) APPROACH APPLIED IN INDIA

Preparation

The game requires a field staff member as a facilitator and at least six participants (e.g. focus group discussion members). The facilitator needs the following to play the game:

- Sufficient 'Happy Cards' + 1x 'Accident Card' [see Illustration 3 and 4 below]
- Sufficient stock of beads, dried beans or anything that can be used as money/coin replacement
- Two bowls to keep:
  - Happy + Accident Cards, printed on thick paper (no see-through, if possible)
  - Beads
- One empty bowl to receive premium payments later (for insurance fund)

ILLUSTRATION 3: Example of 'Happy Card'

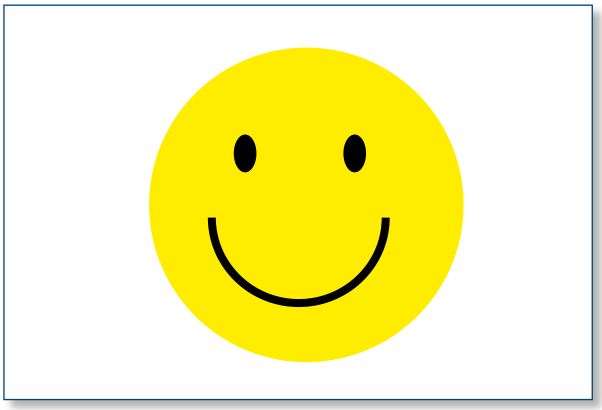


ILLUSTRATION 4: Example of 'Accident Card'

Instructions: How to play the game

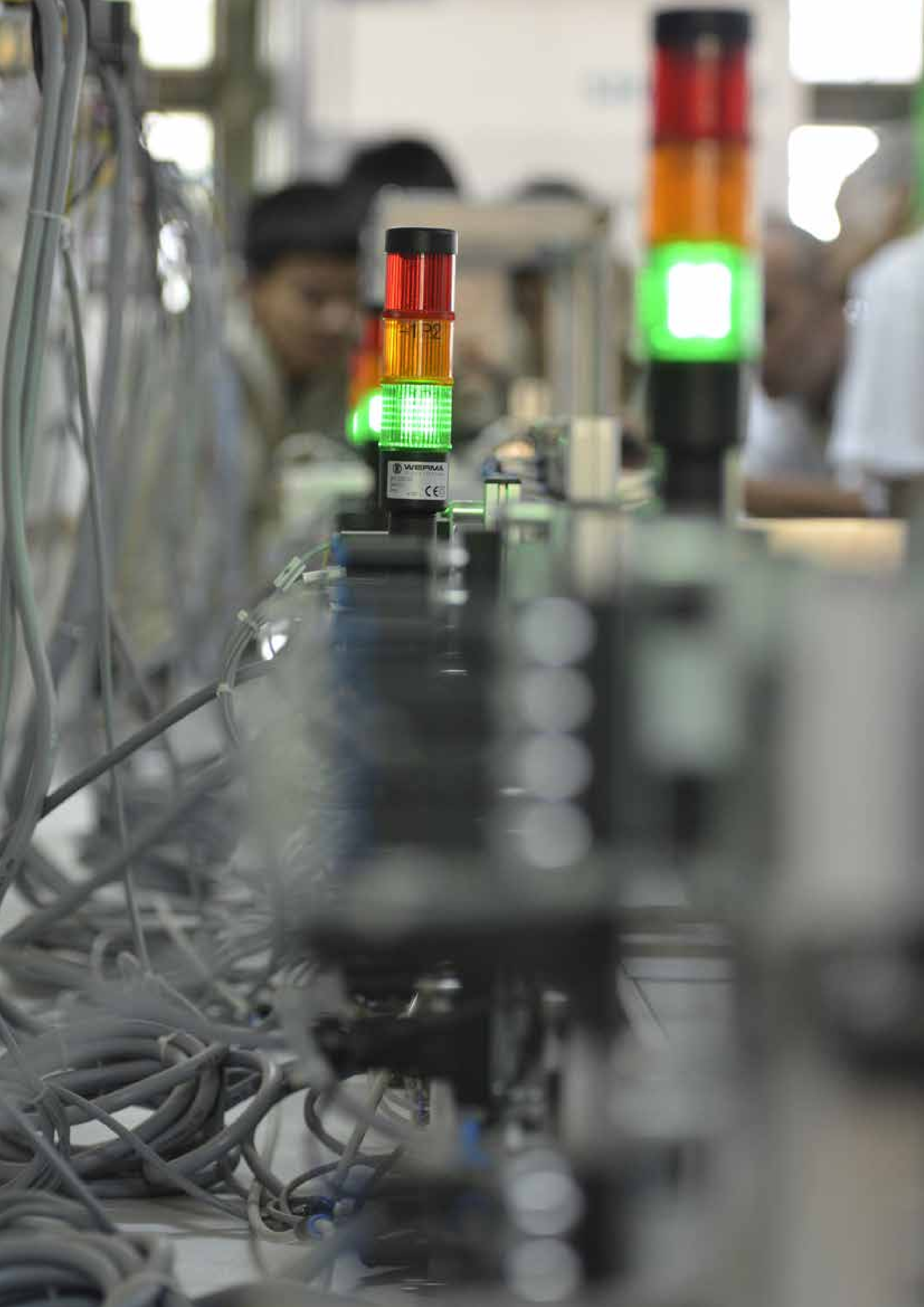
1. Each participant gets six beads each to be used as money.
2. Show 'Happy Card' (no misfortune) and 'Accident Card' (misfortune = claim).
3. Explain that each member draws one card in turns and there is only one 'Accident Card' for claim. All of the others cards are 'Happy Cards' (make sure that the facilitator has counted the cards beforehand).
4. Explain claim costs: [(No. of participants x 2) – 2] beads.
5. Take [no. of participants – 1] Happy Cards + one accident card, mix them and put them into the card bowl.
6. Play the first round without insurance: each person draws a random card from card bowl. The person who draws the claims card needs to pay the claims cost (but the money will not be sufficient).
7. Play the second round with insurance: each participants first pays two beads as premium into an insurance fund (i.e. into the empty bowl), then draw cards. Claims will be easily paid out of insurance fund, with everyone still left with four beads.
8. Explain that microfinance institution (MFI) and insurance company take the remaining two beads that are left in the premium bowl to cover their expenses and make some profit.
9. Discuss the outcome of the game to make sure that the message has been delivered.

Lessons learned

- For the target low-income, less-educated clients, it is easier to understand how insurance works when it is linked with a familiar mechanism in a familiar set-up. In Indonesia, for instance, the game helped in explaining why the money paid as premiums is not returned in the end. This helps to clarify a common misunderstanding that insurance is similar to savings products, with customers expecting that their premiums will be returned at the end of the contract if they have not made a claim. The approach is easy to replicate in different environments, as long as a familiar reference can be identified.
- Participants are more attentive and enjoy taking part in the literacy activities which rely on a "Learning by doing" approach.
- Efficiency of the game can be improved by:
  - Creating standard operating procedures for facilitators including standard questions for the game
  - Developing animations or infographics to reduce time, especially if it is not possible to play the entire game

Shortcomings / challenges

- Keeping the field staff members motivated to regularly play the game is challenging as it is not a part of their core job responsibilities.
- Field staff members might perceive the task of creating insurance literacy as time consuming. Although it only takes about 15-20 minutes to play the game, these few minutes are still hard to carve out of their busy daily job routine.


WERMA

5. PROFESSIONALISATION

Once microinsurance has been piloted within a company, a step towards professionalisation can assist in transforming the business from "under-the-radar" to a full-fledged "profit centre". Professionalisation typically involves employing formal systems and building a culture which emphasise a high level of performance, while adhering to the core corporate values of a company. It means adopting better management control systems, strategic planning, formal governance structures, timely decision making, and strong commitment towards business growth.

In professionalising a microinsurance business, one of the challenges concerns adopting appropriate governance and reporting structures that (a) define management roles and delineate responsibilities, (b) offer a structured mechanism for collaboration between an insurance company's corporate head office and local subsidiaries, and (c) ensure consistent financial reporting in a transparent manner.

CHECKLIST 4: QUESTIONS TO BE ASKED BEFORE / DURING PROFESSIONALISATION

1. Is my business ready to move to the next level which is professionalisation?
2. Which is the most suitable department within my company's headquarters where microinsurance should be housed?
3. To support effective decision making and oversight, how would I make information sharing robust between my head office and local microinsurance markets?
4. Can I answer Question 1-3 without incurring large investments?

5.1 Tools: 'Governance and reporting models'

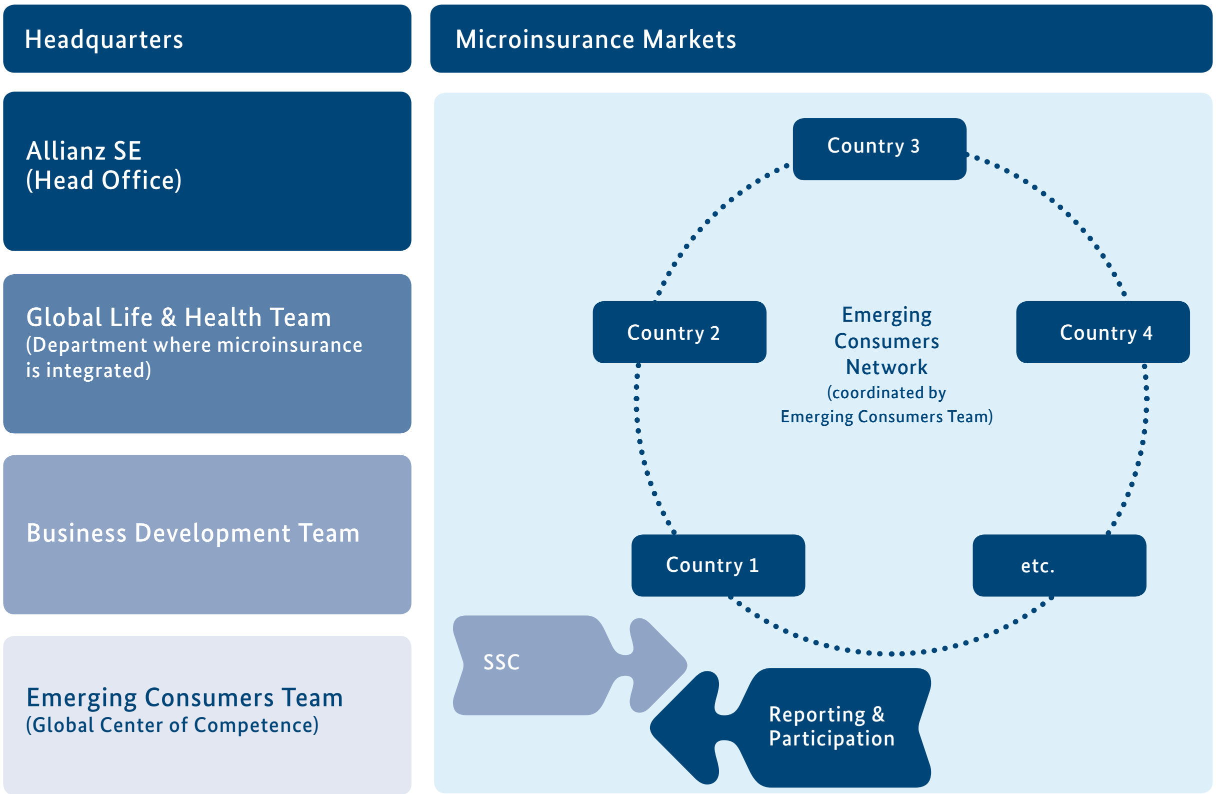
a) Governance model: Headquarters as 'Shared Service Center'

A 'Shared Service Center' (SSC) shifts major business functions away from individual business units to concentrate them at a centralised hub. With growing globalisation of businesses, the SSC model of governance is gaining attention because of its potential to improve service quality, cost efficiencies, and strategic responsiveness to market trends. While cost reduction is often seen as a compelling reason behind the decision to use the SSC model, a robust SSC can bring benefits in several other ways as well. An SSC helps in aligning local businesses (subsidiaries) with the practices and structures employed at the headquarters level. It also supports decision making at the local business level, allowing them to profit from corporate expertise housed at the headquarters.

Approach

Using the example of Allianz's governance model, the following illustration suggests how a SSC model for microinsurance may look like:

ILLUSTRATION 5: Allianz's governance model using its headquarters as SSC



b) Reporting model: Work-around strategy

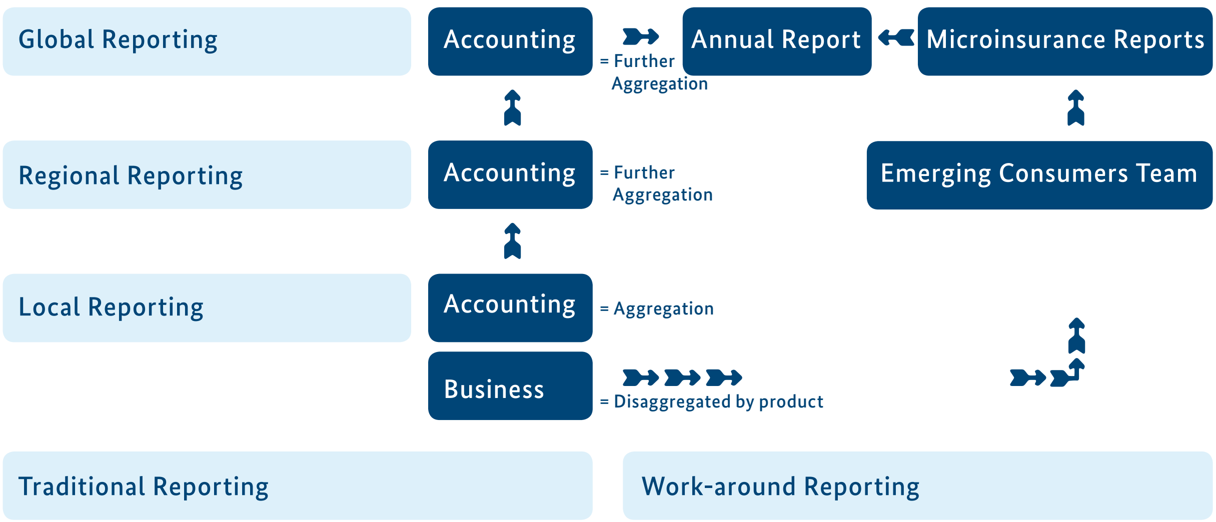
A typical insurance operation involves several lines of business, such as group life, accident, health, and agriculture. These lines of business traditionally report separately to their regional and global head offices, clubbing their conventional and microinsurance products together. The practice of reporting cumulative figures makes exclusive reporting on microinsurance quite challenging, requiring the use of certain work-around approaches.

As employed by Allianz, one work-around strategy requires local markets to report their product -specific business data directly to the SSC at the headquarters level of their company. The reported data is used by the SSC to analyse business progress and compile dedicated microinsurance reports.[10] Such reports eventually feed into the annual reports and corporate responsibility reports. The data can also be shared internally through ECo dashboards.

A work-around strategy might be perceived as duplication of a company's reporting efforts. However, its benefits can outweigh the extra efforts. In essence, a work-around strategy creates a system parallel to the traditional financial reporting hierarchy without replacing it, in order to make reporting on microinsurance robust, transparent, and quicker.

10 Allianz publishes its microinsurance data on a half-yearly basis. The latest report is available at www.allianz.com/en/products_solutions/sustainable_solutions/emerging-consumers

ILLUSTRATION 6: Allianz's work-around reporting model



Approach

Using the example of Allianz's reporting model, the following illustration depicts an approach towards microinsurance work-around reporting.

Lessons learned

- Buy-in from local subsidiaries is critical for the success of SSCs and work-around reporting. To secure buy-in, the SSCs need to create value for local subsidiaries such as facilitating helpful business contacts, supporting product development and professionalising data quality. Without value creation, it can be challenging to implement and sustain these models.
- Relationship management along with proactive communication at all levels is an important success factor for SSCs and work-around reporting. While corporate and technical aspects are a prerequisite, the focus should be more on the human dimension. In a nutshell, governance and reporting should be kept simple, focusing on relationships and buy-in rather than purely on the structure and technology.
- For microinsurance, a centralised (headquarter-based) approach towards SSCs has worked well for Allianz. It has enabled a smooth two-way flow of information between the centre and subsidiaries.
- In order to function effectively, SSCs and work-around reporting need to have a clear mandate and firm footing within the global corporate structure, as it is the case with Allianz.
- Work-around approach may not be deemed ideal as it creates additional reporting flows. However, in Allianz's case, it has proven to be adequate for a data-driven management of a global microinsurance portfolio, without having to touch the legacy systems of traditional reporting.

Shortcomings / challenges

- For work-around reporting, bottom-line data (e.g. claims data, reserves etc.) can be harder to get compared to top-line data (e.g. premium, number of insured) because next to the local business owners (who can typically provide top-line data) local accounting and actuarial involvement is also needed to generate bottom-line figures.

6. BUSINESS DEVELOPMENT AND UPSCALING

Professionalisation paves the way for further business development and upscaling, taking a microinsurance business to a point where a wider product spectrum is intended to be offered on a large scale.

Business development and upscaling can greatly benefit from studying the dynamics of the outside world: the insurance industry. Tracking the industry not only points towards potential opportunities, but also prepares a business for potential threats.

CHECKLIST 5: QUESTIONS TO BE ASKED BEFORE / DURING UPSCALING

1. What are general industry trends in terms of products offerings, business volumes etc.?
2. What opportunities exist in the market?
3. What is my current position within the industry?
4. Which threats or obstacles may stand in my way of achieving my goals?

6.1 Tool: Peer review

A peer review derived from publically available information[11] is a simple tool which can be useful in understanding the microinsurance dimension of the global insurance industry. A peer review refers to an assessment tool which provides business information regarding the players, dynamics, practices, and complexity of a specific market or industry. When performed to assess global or local microinsurance markets, it can generate valuable information about peer activities, their strategies, business volumes and industry trends.

A key advantage of peer review is that it lead to a better understanding of a company's position in comparison with other market participants. Besides, practitioners may also discover a market niche during their reviews which is not currently being served by other insurance companies. A peer review adds value to strategic planning by facilitating quicker responses to industry trends and changes.

Approach

A peer review, such as the one developed by the DPP and currently being used by Allianz, can be guided by five steps:

1. **Identification of the companies** to be covered in a review.
2. **Identification of input sources** which usually include public sources such as corporate sustainability reports, financial reports (quarterly, half-yearly, or annual), and insurance companies' corporate websites and newsletters. If a review is being conducted on a local/regional level, checking out local sources (e.g. publications of insurance regulators, local insurance associations/networks) might also generate valuable information.
   - Presently, Allianz is the only insurance company that is regularly publishing its microinsurance performance data in the form of dedicated emerging consumers reports.[12] However, an encouraging trend has been observed among other global insurance companies: Their recent financial and corpo rate sustainability reports are disseminating an increasing amount of tangible information.
3. **Quantitative data collection** with regard to KPIs for each company covered in a review. Such indicators may include:

[11] Although 'peer review' is being proposed as a tool for business development and upscaling, it does not imply that peer reviews cannot be or should not be used at earlier business stages. A similar review can also add value during conceptualisation and operationalisation.

[12] The latest publication is available at www.allianz.com/en/products_solutions/sustainable_solutions/emerging-consumers

- Countries where microinsurance operations exist
- Types of microinsurance products
- Risks covered
- Number of policies and people insured
- Gross written premium, and
- Information on distribution partners

4. **Qualitative information gathering** to cover news reports, self-reported public information on social media (for example, YouTube), and information shared by other microinsurance stakeholders (e.g. Microinsurance Centre, ILO's Impact Insurance Facility[13], and Microinsurance Network[14]). For local reviews, it is also important to investigate the reports of local microinsurance and microfinance associations / networks. Qualitative information contributes to a peer review by identifying industry trends and changes in the business, political and regulatory environments of microinsurance.
5. **Analysis and communication of key findings** to team members in a concise format.

Lessons learned

1. Peer reviews should be performed periodically (for example, every six months) to monitor competitors' microinsurance activities and to benchmark the company's own performance.
2. Once a review tool has been devised, performing a peer review is not a time consuming activity. Compared to the valuable information it provides, the opportunity cost of resources is not very high. The peer review tool that Allianz runs every six months takes two working days to complete.
3. A useful peer review does not need to be performed with a highly scientific approach. It should be kept simple and easy to use.

Shortcomings / challenges

1. Different operational definitions of microinsurance used across the industry might affect data comparability. In addition, some companies do not use the term 'microinsurance' in their reports. Other common terminologies include 'emerging consumers business', 'mass market', and 'popular insurance'. A peer review needs to ensure that all alternate terms have been screened.
2. Lack of dynamic reporting across the industry as several insurance company only report data on their microinsurance operations once a year.
3. Country or regional level reviews might be difficult to perform as many insurance companies tend to report aggregated data at a global level.

7. ISSUES TO CONSIDER

The following issues should be kept in mind while considering the tools presented in the Microinsurance Toolbox:

- The tools are multifunctional and are encouraged to be used across different business stages. As mentioned earlier, this document links them to a specific business phase only to highlight their practical relevance. For example, a peer review can be utilised during the conceptualisation phase as it helps in identifying service gaps. Thereby, it can assist in underlining the business value of a concept.
- Most of the tools can be designed and created internally. However, some tools (e.g. ECo dashboards) might require additional investments in IT structures.
- Most of the tools can be more efficiently constructed at the headquarters level of an insurance company. However, it is very important to involve local microinsurance markets in the process of tool designing to create ownership of the final outcomes.
- As much as possible, microinsurance tools should be aligned with the existing business solutions used within a company. This prevents alienation of microinsurance operations from the rest of the company and reduces perceived unfamiliarity and riskiness associated with microinsurance.

13 www.impactinsurance.org
14 www.microinsurancenetwork.org

ANNEXURE A: Evolution of the DPP of GIZ and Allianz

Phase 1 (2004-2009)	Phase 2 (2011-2014)	Phase 3 (2014-2017)
Objective: Prove microinsurance business case for insurers	Objective: Development of new and deepening of existing microinsurance markets	Objective: Lower Market engagement barriers for suppliers and consumers to push microinsurance market development
Focus India, Laos and Indonesia	Focus Supra-regional; including India, Indonesia, Kenya and Senegal	Focus Supra-regional; focusing on the MENA Region
Achievements • Joint market study India, Indonesia & Laos • Market entry in Indonesia • Allianz microinsurance business moved from Communications to CSR	Achievements • Allianz developed its own definition, key performance indicators for its microinsurance business • Developed profit analysis, product costing tool • Conducted impact surveys • Allianz microinsurance business moved from CSR to Global Life and Health	Working on • Increasing insurance penetration in the low market segment of the MENA Region • Making low income target group in intervention regions (with Allianz presence) aware of benefits of insurance • Enabling a higher efficiency for collecting supply and demand data in microinsurance • Encourage international insurance companies to consider a stronger engagement in MI activities

ANNEXURE B: The Seven Basic Insurance Principles

1. Loss must occur by chance, i.e. it must be an unexpected and random event
2. The loss must be definite in terms of timing and amount
3. Existence of significant insurable interest
4. The rate of loss must be predictable
5. The loss must not be catastrophic to the insurer
6. Large number of "similar" risks (law-of-large-numbers)
7. Premiums must be proportionate to the likelihood and cost of the risk involved

Imprint

Published by
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH
Development Partnerships with the Private Sector (develoPPP.de)

Registered offices
Bonn und Eschborn

Friedrich-Ebert-Allee 36 & 40
53113 Bonn
Tel. +49 (0) 228 24934 - 0
Fax +49 (0) 228 24934 - 215

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn
Tel. +49 (0) 6196 79 - 0
Fax +49 (0) 6196 79 - 1115

develoPPP@giz.de
www.develoPPP.de

Responsible
Strategic Alliance between GIZ and Allianz SE: Microinsurance Market Development

Design and layout
Eva Engler, Berlin

Printed by
Druckreif GmbH, Frankfurt
Printed on FSC-certified paper

Photo credits
Front page: GIZ/Roland Moezer
Page 4: GIZ/Andreas König
Page 9: GIZ
Page 12: GIZ/Michael Kottmeier
Page 16: GIZ/Manfred Wehrmann
Page 18: GIZ/Martin Egbert
Page 20: GIZ/Dirk Ostermeier
Page 24: GIZ/Markus Kirchgessner

As at
August 2017

On behalf of
German Federal Ministry for Economic Cooperation and Development (BMZ);
Division 114, Cooperation with the private sector; sustainable economic policy

Adresses of the BMZ office
BMZ Bonn
Dahlmannstraße 4
53113 Bonn
Tel. +49 (0) 228 99 535 - 0
Fax +49 (0) 228 99 535 - 3500

BMZ Berlin im Europahaus
Stresemannstraße 94
10963 Berlin
Tel. +49 (0) 30 18 535 - 0
Fax +49 (0) 30 18 535 - 2501

poststelle@bmz.bund.de
www.bmz.de