

MicroSave Briefing Note #145

Client Suitability: Role of Market Research in Microinsurance

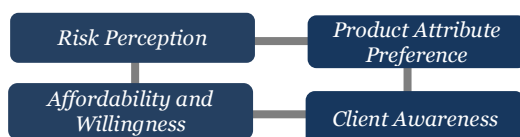
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In Briefing Note 142, we discussed how environmental suitability analysis can help a potential microinsurer analyse the feasibility of product types. In this Note we discuss the role market research plays in the design of product and delivery channel strategy.

Market Suitability Framework

Insurance is an intangible product. Any product designed without market research to understand the perceptions and preferences of the target market is likely to be less attractive, and to experience reduced traction with clients. There are four essential pillars of market suitability assessment, as shown below.



Risk Perception Analysis

In a client responsive microinsurance product, risk coverage, sum assured, product term and claim settlement processes often depend on clients' perception of the specific risk event and the associated costs. For product design, therefore, it is essential to analyse risk events in the life of potential clients. Such risk analysis generally comprises three broad steps.

First, to arrive at specific product features, a broad risk category (health or agriculture or life etc.) must be further segmented into specific risk events. For example, if the chosen product type is health, sub-segments might comprise of primary, secondary or tertiary health care; or drug related costs or in-patient treatment costs. In market research in Uganda, clients even sub-divided health related risks into disease types: regular illness, treatment for accidents and chronic ailments.

Secondly, from the long list for the risks under a broad category, suitable risk events are chosen to be covered under the product through an analysis of their frequency and severity. As a risk management tool, insurance is typically meant for events that are severe in impact, yet low on frequency. A frequency-severity mapping tool used in *MicroSave's* market research analyses the positioning of events on these two parameters. In areas of low insurance penetration and awareness, however, it is often necessary to also include

events of medium frequency for the coverage, in order to make the product attractive.

Example of a Frequency-Severity table from Uganda



Third, it is necessary to understand the cost associated with the chosen risk event, so that sum assured can be designed accordingly. Though the sum assured in microinsurance is often designed with affordability concerns, clients generally lose interest if the product does not indemnify them adequately for the loss incurred. Moreover, microinsurance's target clients often express unique perceptions of indemnity, that are significantly different from conventional methods of deciding on sum assured. In market research in India, for example, clients preferred indemnity of a life insurance equal to total typical annual expenses of a family, to enable the widow to start earning in the meantime.

Preferred Product Attributes

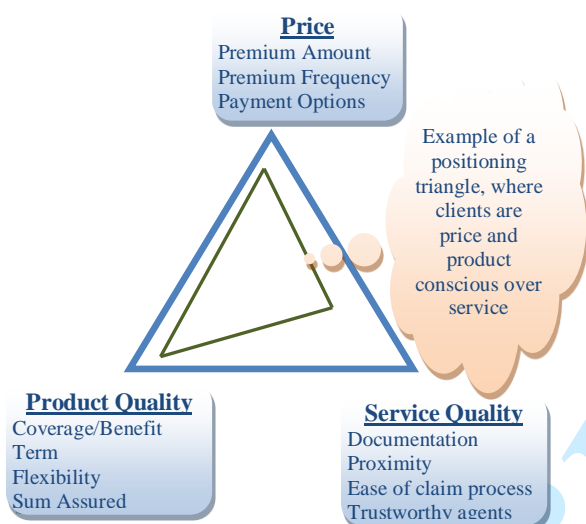
It is difficult for any provider to satisfy client preferences for all possible product attributes. To design a client centred, yet feasible, product it is important to understand the non-negotiable and most preferred priorities amongst all the attributes. Such analysis involves multiple stages.

A simple product attribute ranking is often followed by a multiple pair-wise ranking, so that client preferences on specific individual attributes can be captured in the product design. In market research focused on endowment life insurance in India, clients initially placed maturity amount (high maturity amount) over term of the product (short term) and sum assured (lowest on priority). However, a pair-wise analysis led to the design of a product focused on a high sum assured over a short term, with low priority on maturity amount.

In a competitive microinsurance market (e.g. Bangladesh or the Philippines), product attribute analysis can also yield critical information about competitive positioning of the proposed product. A thorough relative preference ranking exercise can reveal the attributes of direct and indirect competitors' products that are valued by target clients. This analysis not only generates important information to crystallise the product idea, but also helps to design marketing and communication campaigns for the product as well.

Clients' preferences on attributes can be segmented into three types:

- Willingness to pay for a high quality product (including flexibility, customisation and suitability to their specific needs);
- Demand for high service quality (including accessibility, trustworthiness of supplier and process efficiency); and
- Desire for price advantage (including choice of payment frequency and competitive pricing).



Experience shows that for any product category, the relative importance of the three benefits is not same. Put into a basic market positioning triangle (see diagram above), this analysis clarifies client preferences and helps to design the positioning strategy for the product.

Insurance Awareness

Assessment of client awareness of insurance informs the design of insurance communication and marketing campaigns. Insurance globally faces a situation of latent demand. Amongst the microinsurance target clientele, lack of awareness of insurance further reduces demand. Insurance awareness drives, therefore, are integral parts of many successful microinsurance programmes across the globe. Awareness drives will only be effective if the actual level of insurance awareness is analysed.

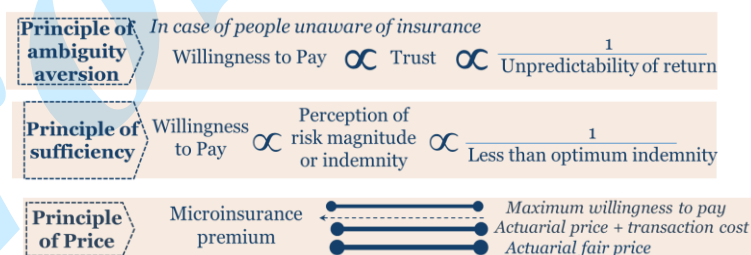
This awareness can be classified into 3 sub-segments.

1. *Knowledge*: How much clients know about insurance products and processes;
2. *Perception*: How clients perceive role of insurance in their lives; and
3. *Attitude*: Whether clients are willing to get insured.



Willingness and Affordability

Willingness to pay and affordability are essential informants for pricing products. Pricing and willingness to pay for insurance are governed by three main rules:



Apart from the indemnity perception discussed above, willingness to pay requires assessment of the trust of target clients in the proposed provider, their existing risk mitigating strategies (and their sufficiency), return expectation and overall attitude towards insurance.

Affordability is determined through the analysis of current financial behaviour and transaction patterns of the clientele, cost incurred in current risk mitigation strategies and available disposable income.

Conclusion

Since microinsurance products are highly technical in nature, any product idea generated by market research must be verified by actuarial and financial analysis. A successful microinsurance product is the one that is both client oriented and technically sound.