

MicroSave Briefing Note #142

Choice Pyramid: A Microinsurance Strategy Tool

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August 2013

Strategic Dilemma in Microinsurance

Any organisation faces three main dilemmas while strategising for microinsurance. These are:

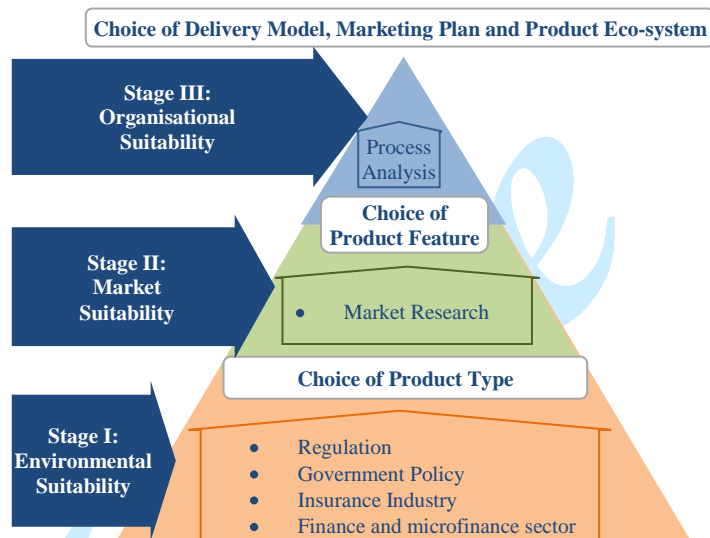
- What product type is best suitable for the market?
- What does the client want in the product? and
- How should the product be delivered?

These questions are not unique to the microinsurance sector. Feasibility of business models in any industry depends on how convincingly these questions are answered. However, in microinsurance, these questions are particularly strategic in nature since each one demands a decision that is often tied with substantial investment and/or commitment.

The microinsurance sector is characterised by diverse product choices and delivery options. There are multiple choices of products ranging from standalone life, health, agriculture and property insurance to endowment and composite insurance. There are a variety of options in delivery channels too, from partner-agent to full service models. The kind of institution underwriting microinsurance also varies, from government to NGOs, MFIs and cooperatives to conventional insurance companies and banks. However, most of these choices are mutually exclusive to each other. Once an organisation has decided on a product type or delivery model, the cost of revoking or modifying the strategy becomes very high. Most of these choices require substantial investment in managing supplementary infrastructure to make microinsurance work for the clients. For example, the success of a health insurance programme depends on efficient supervision and management of a health delivery infrastructure, while success of an index linked agriculture insurance depends highly on the availability and accuracy of meteorological data. Besides, many insurance products are long term in nature. Hence, the clients, once they have subscribed, must be served for a sustained period, even if the product or channel is not profitable.

The Choice Pyramid

The Choice Pyramid offers a framework to analyse and resolve these issues. The Choice Pyramid framework takes us through three-stages – Environmental, Market and Organisational Suitability for microinsurance implementation. Each of these three stages leads to a decision point for financial institutions to address one of the key questions discussed above.



The **Environmental Suitability** phase informs the most suitable product type to be launched by the institution. To determine this, we conduct a thorough analysis of the regulations, government policies, insurance industry characteristics, and trends in financial services.

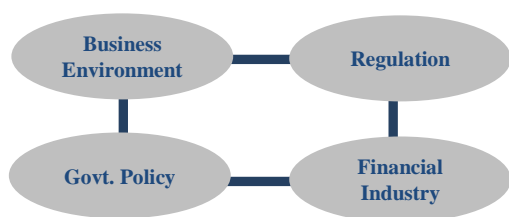
The **Market Suitability** phase checks the product in terms of client needs and preferences. We conduct a market research exercise to evaluate the product fit. This leads to market segmentation and development of client-centric products.

The **Organisational Suitability** phase is to analyse the existing processes of the institution (and its potential distributors) to see if the product can be implemented through the proposed delivery channel. With a clear focus on marketing and competitive advantages targeted by the institution, we can make modifications to these processes.

Environmental Suitability

The characteristics of any industry are influenced by the overall business environment in which it resides. Moreover, in most countries, microinsurance developed either as a part of insurance industry initiatives (e.g. Thailand and Kenya), the microfinance industry's innovation (e.g. Bangladesh and Vietnam) or governments' desire to modernise social security schemes (e.g., India). Naturally, the microinsurance sector takes on some of the characteristics of the parent industry in all these countries. To strategise therefore, it is essential to understand whether a product type is supported by the environment. Environmental suitability can be gauged through four sub-analyses of: 1. overall business environment; 2.

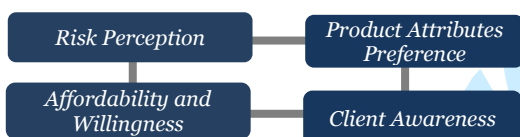
regulatory feasibility; 3. trends in government's policy; 4. financial industry characteristics and trends.



A product type, according to the framework, is suitable for a potential player only if: it is supported by an innovative business environment; is feasible under the existing regulations governing insurance, microfinance and/or microinsurance (if any); does not conflict with any government or social security policy; and if it fits well into the overall trajectory of the financial industry of the country.

Market Suitability

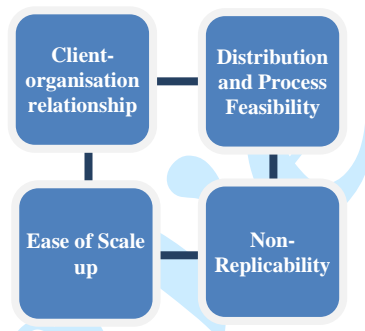
Once the type of product is decided, detailed product features must be derived through thorough market research with potential clients. There are four essential pillars of such a market suitability assessment.



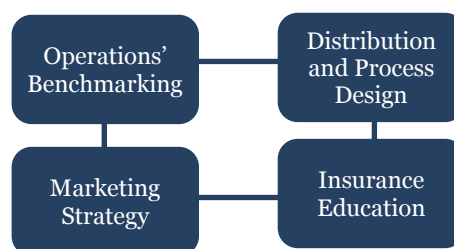
To design specific benefits for the product, we need to understand clients' priorities for specific risk events under broad risk types, (e.g. health or agriculture or life). The second most important aspect of demand is client preferences for product attributes. Product attributes need to be further segmented into the three components of a basic market positioning triangle: price, quality of service and product quality. This helps to design the positioning strategy for the product. The third aspect of demand is the target clients' level of awareness. Since insurance globally faces latent demand, clarity on the knowledge, perception and attitude of the clients is essential, not only for design of the product, but also for effective marketing as well. The final part of client analysis deals with the willingness to pay for, and affordability of, insurance amongst the target clientele. This can be deduced only through a careful analysis of the existing risk mitigation strategies of the target clientele and their current financial behaviour and transaction patterns. This willingness to pay and affordability analysis provides important information to the actuaries for pricing the product.

Organisational Suitability

Microinsurance products are distributed through different institutional arrangements. Hence, clarity on the organisational form and distribution is important to create a product eco-system. Organisational suitability is a function of four institutional characteristics, as follows.



Once the feasibility of the organisation's processes has been assessed, the next step is to modify the existing processes for effective distribution of the proposed microinsurance product. Since microinsurance is often a secondary activity of the distributor, it is essential to deliver microinsurance services with minimum friction for the organisation. To reduce change, therefore, it is always preferable to modify existing processes of the institution, rather than introducing entirely new ones. Important parts of a complete process implementation plan comprise the following aspects.



To yield competitive advantage on service quality, benchmarking of transactions (similar to insurance transactions) with direct and indirect competitors must be conducted. This informs the design of distribution strategy and operations processes, as well as the design of sales and service incentives and plans for pilot-testing and rollout. Insurance education campaigns are also integral to the delivery of microinsurance, and will only yield positive client behaviour if packaged as a marketing tool linked closely to the product being delivered.

Conclusion

The Choice Pyramid provides three major stages of developing microinsurance product. The stages in the Pyramid include the analyses and factors that financial institutions need to bear in mind before they introduce the product in the market. In the next series of similar notes, we will discuss in detail each of the three stages, detailing the objective assessment criteria as well as possible pitfalls in implementing them.