

the base of the pyramid, the challenge of microinsurance

Victoria Eugenia Bejarano de la Torre
Managing Director
MAPFRE Colombia

Background

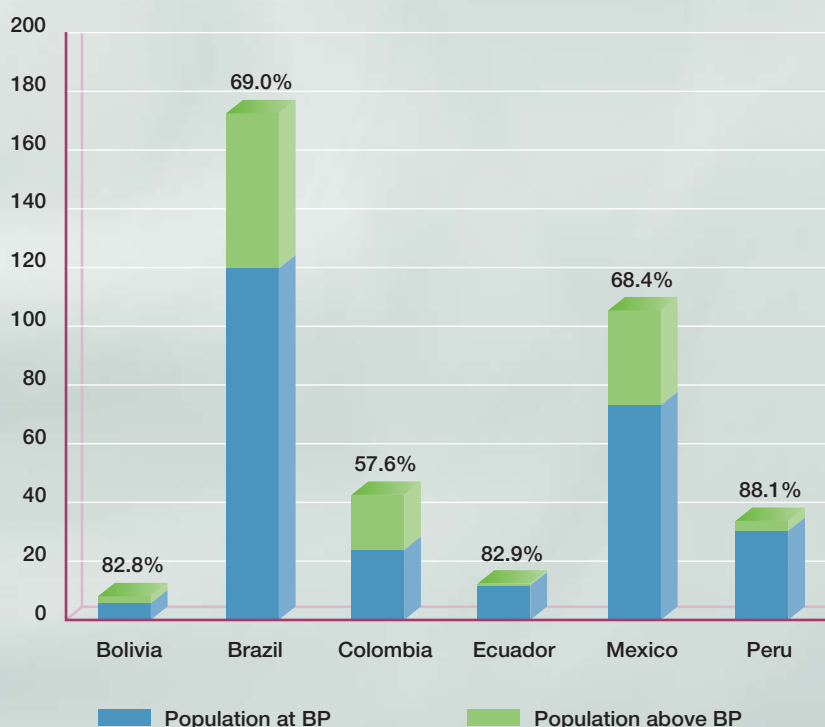
During his journeys to under-developed countries, Nobel Peace Prize winner Professor Mohamed Yunus has promoted an extensive view of business, by showing that those persons who make up the base of the social pyramid (those earning less than 3,200 USD a year) constitute a profitable target market. The poor, as human beings, have the same aspirations as the rich. It therefore falls to companies supplying goods and services to meet the challenge involved in creating this kind of market, in order to reach the mass of clients.

The challenge is to reach thousands of people, not through charity but rather with imagination.

He has also demonstrated that the challenge is not, in fact, to reach these millions of people by charity. Quite the opposite, it is necessary to be imaginative and create a business proportionate to those people in such a way as to make projects sustainable, at the same time as improving the quality of life of the population, which constitutes the great mass of the world's population.



Diagram 1. Population at Base of Pyramid (BP)
Latin America and Caribbean: 360 million



Source: World Resources Institute Report for Inter-American Development Bank. June 2006



If we add to this perspective that the great population of the world, which lives under the indices of poverty and indigence, is more vulnerable to natural and economic disasters, the insurance sector bears a greater responsibility to provide cover to these segments of the population (which makes up the majority) to go some way to alleviating this situation. This challenge must be addressed immediately.

From the financial perspective, there are countless examples of the ways of reaching this market by means of the use of microcredits. Truly notable examples are the microfinance companies which encourage and stimulate small businesses. Another is the Opportunity Bank, which has a strong presence in Latin America, Pakistan and India. These are all aimed at financing not small and medium sized enterprises (SMEs) but a base which is greater in number but smaller in income, the small businessman (a person who simply dreams of a decent life and who faces life from the perspective of daily income, simple survival).

Microinsurance

The activity of microinsurance has grown up in a hesitant manner alongside the development of the microfinance companies. There is no commonly agreed definition of “microinsurance”. There are those who confuse it with a traditional, low-cost insurance, or with an insurance acquired through mass marketing. Most people define it as an insurance whose cost does not exceed 2.5 USD per month.

According to our concept, the definition needs to include the social environment of the policyholder or beneficiary, who comes from the so-called Base of the Pyramid.

It cannot merely be low cost; it is vital that it should meet the needs of the poorest sectors of the population and close the circle created by the small businessman, by means of microcredit, provided by the microfinance company.

The prefix “micro” may be misleading, or sound disparaging. However, its widespread use enables us to identify the great mass of the world's population which inhabits this universe, which may be termed “macro”. In Latin America alone, in excess of 360 million people inhabit the Base of the Pyramid (Diagram 1). If we conduct an analysis of the insured world, which we reach with our traditional products, we would say without doubt that it is in the minority. In Latin America, for example, insurance is still perceived as a luxury which only the wealthiest can afford. Without fear of contradiction, however, at least in human lives, the current amount insured is simply a “microworld”. A number of countries have faced up to the challenge of producing a complete definition of what

microinsurance includes. Let us hope that this consensus paves the way for worldwide promotion, marketing and management policies to be put in place.

The Colombian situation

At the World Microinsurance Conference, organised by the Munich Re Foundation, held during November 2008 in Cartagena de Indias, MAPFRE COLOMBIA was able to comment on its experience of marketing this kind of product through public service channels (utilities), which we summarise below.

In Colombia, 57.6% of the population lives at the so-called Base of the Pyramid by level of income (below 3,200 USD a year); 42.1% are considered middle-income and 1.4% high-income. The Base of the Pyramid accounts for 23.3% of income; the middle band 65.9% and the highest band 10.8%. Evidently, in Colombia, as in the rest of Latin America, the majority of the population is situated at the Base of

Diagram 2. The Base of the Population Pyramid in Colombia

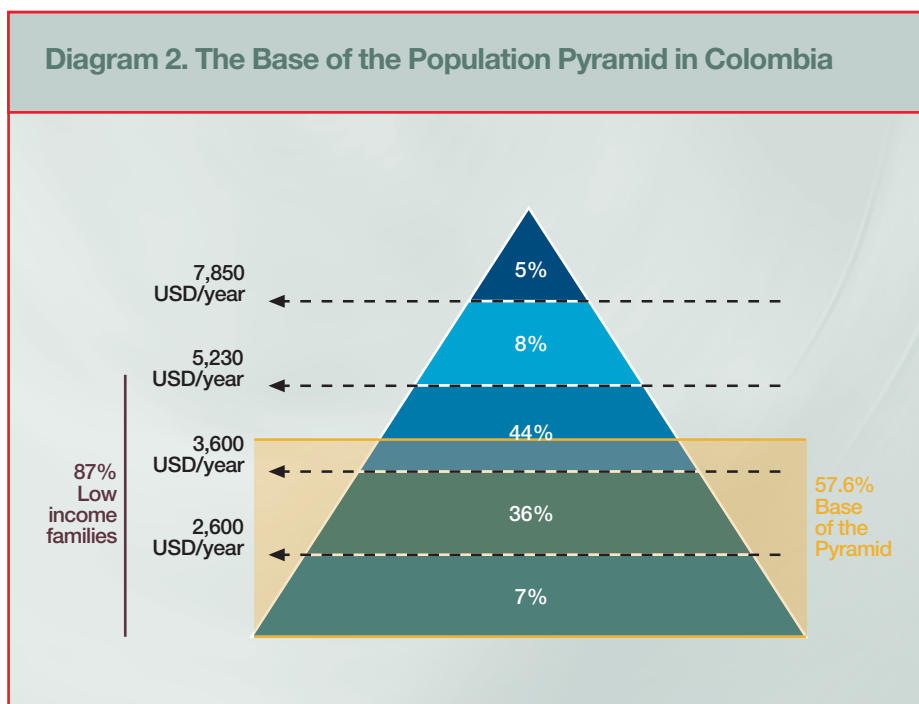
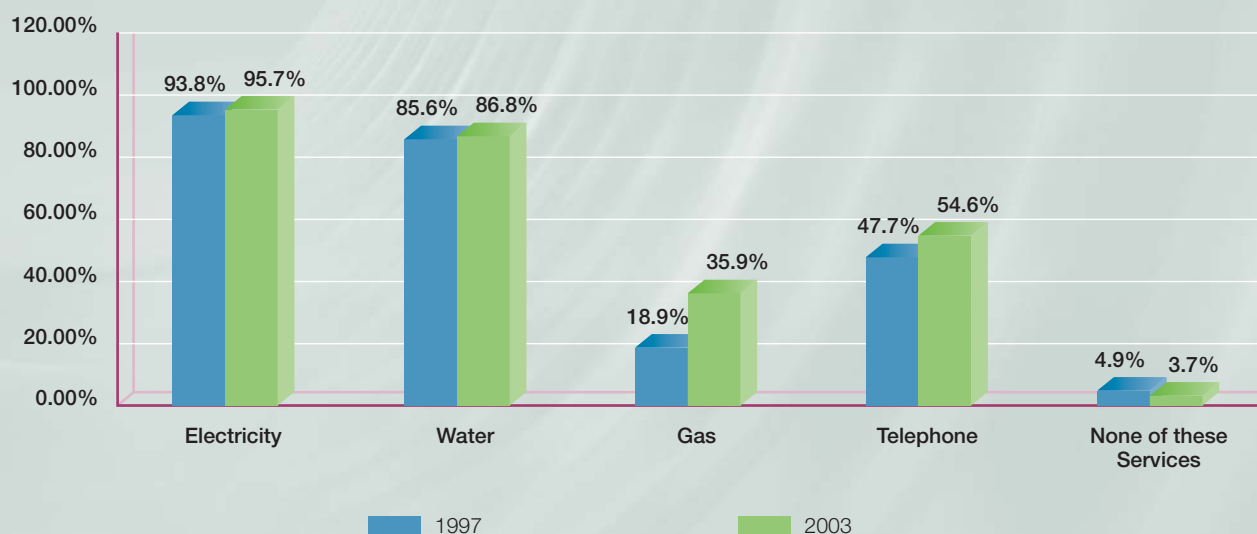


Diagram 3. Population with access to Public Utilities in Colombia


Source: National Quality of Life Survey 2003. National Statistics Administration Department – DANE.

the Pyramid, which is not only a large market in terms of inhabitants, but also has a considerable purchasing power. (See diagram 2).

In addition, most Latin American countries, and Colombia is no exception, have considerably extended the coverage of public utilities. To such an extent that in Colombia only 3.7% of the population are without connection to any kind of public utility. (See diagram 3).

Taking this premise as a basis, 9 years ago together with the largest national energy company (Codensa, Endesa Group) which supplies the Greater Bogotá area, an insurance sales project was begun, which has been very successful and has given rise to insurance cover for 1,049,539 persons, through this channel, which also operates on the Atlantic Coast, with the company TRIPLE A, in the coffee-growing region, with

Aguas de Manizales, and an expansion project is under way with other public utility companies in the country. It should be noted that in Bogotá alone there are 2,266,366 properties connected to the electricity supply, which we call the potential market. The number of policies has reached 340,131.

The largest number of policies, without doubt, relates to the product we call “Funeral Expenses Insurance”, which covers 707,961 people, followed by Life Assurance with 112,263 policies; Personal Accident, with 95,793 policies, and Extended Warranty with 56,701 policies; the others relate to a series of products such as Live your Business, Homeowners, and others. 90% of insured people, 952,795 persons, live at the so-called Base of the Pyramid. (See diagram 4).

How can this market be targeted with such success? The answer is not straightforward,

as it is the combination of products which are considered to be needed, together with an excellent method of collection: utility bills. It should also be pointed out that various sales techniques have been used: outbound and inbound phone calls through call centres, a network of door-to-door salesmen, an incentive system for energy company sales staff, and promotion of the products through utility bills. This has generated over USD 25 million in premiums during the period of this business, particularly concentrated in the last two years, in which various strategies have been used, and the quality schemes of the services provided have created an excellent level of satisfaction which has enabled increased promotion.

We have dealt with over 30,000 claims, which have been suffered by the lowest and most vulnerable social classes of our society, which had it not been for access to insurance would have added to the


Diagram 4. Insured persons by socio-economic groups

Products	Socio-economic groups*						Total
	1	2	3	4	5	6	
Protected account	2	706	320	296	2	-	1.326
Batería de vida (Personal Accidents for Homeowners)	1,530	1,984	1,859	1,560	745	372	8.050
Assistance domiciliaria	596	1,359	941	2,940	1,960	1,337	9.133
Funeral expenses	108,812	270,449	259,157	49,020	14,452	6,072	707.691
Personal accident	12,555	45,153	31,002	5,412	1,143	528	95.793
Live your business	18,678	10,881	3,306	159	24	12	33.060
Extended warranty	118	25,519	28,618	1,749	601	96	56.701
Homeowners	-	1,793	21,978	1,192	290	-	25.253
Life	-	60	105,420	6,699	84	-	112.263
Total	142,291	357,903	452,601	69,027	19,301	8,417	1.049.539

* In Colombia, towns are divided into socio-economic sectors, 1 being the poorest, rising to 6, which represents the most wealthy level. Levels 5 and 6 have to subsidise 1 and 2, in terms of cost of public services and property taxes. Public service rates take this subsidy into account.

human tragedy which is typical of these population niches.

This is, without doubt, a rewarding business for the distribution channel, the energy company, and which has reported adequate profit margins, necessary for this kind of marketing, as the investment, particularly at the beginning, is considerable, and the risk is high, as was the likelihood of failure, although the success achieved has surpassed the most optimistic forecasts.

Conclusion

This is only one scheme for promoting microinsurance. In Colombia, MAPFRE is working jointly with the Opportunities Bank, Women's Bank, Bancoldex (a second-floor

firm, involved in financing microfinance companies) and their networks to promote this kind of insurance.

In addition, through the growers' associations of various crops, parametric or index insurances are being promoted, which without doubt help to reduce or cancel out growers' losses in this country, and because of their intended market also belong to the world of microinsurance. Each of these channels may form the subject matter of different articles on account of the particular features of each.

We invite direct insurers to tackle this market with optimism and dynamism, in the conviction that they meet a social need and assist the most vulnerable people in our countries. ■

