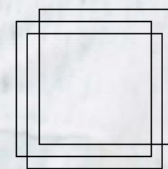




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PAPER No. 54

Making a profitable inclusive insurance business: a case study of Britam, Kenya

Saurabh Sharma and Aparna Dalal
International Labour Organization



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First published 2019

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ILO Cataloguing in Publication Data

Saurabh Sharma and Aparna Dalal

Making a profitable inclusive insurance business: a case study of Britam, Kenya
International Labour Office Geneva: ILO, 2019
25p. (Paper; no. 54)

International Labour Office

insurance / distribution / health / viability / clients

ILO Cataloguing in Publication Data

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ACRONYMS AND ABBREVIATIONS

FSDA	Financial Sector Deepening Africa
KTDA	Kenya Tea Development Agency
KYM	Kinga Ya Mkulima
MFI	microfinance institutions
MNO	mobile network operation
RGA	Reinsurance Group of America
IRA	Insurance Regulatory Authority
IFC	International Finance Corporation
NHIF	National Hospital Insurance Fund
ATL	Above the line
BTL	Below the line
KYC	Know your customer

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EXECUTIVE SUMMARY

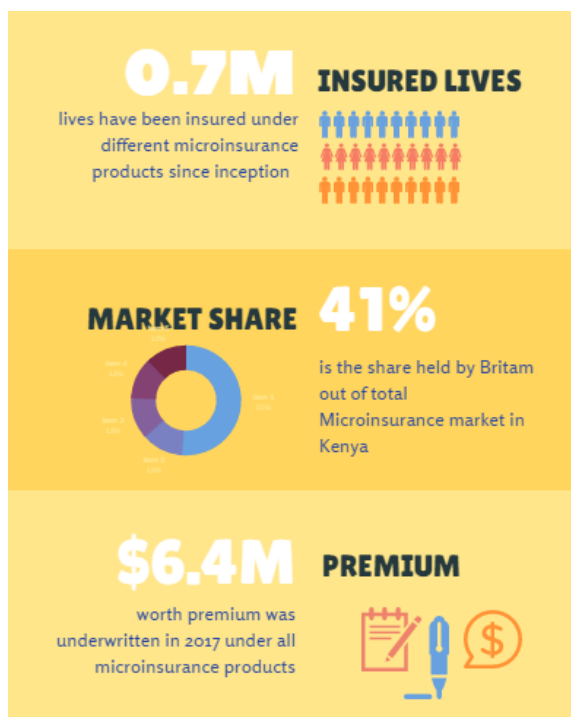
In 2007, Britam, a diversified financial group based in Kenya, launched its first microinsurance product targeting the low-income population in Kenya. Over the past 11 years, Britam has established a profitable, independent business unit - Britam Microinsurance - that is the market leader in microinsurance in Kenya, covering more than 700,000 lives in 2017. Most of its business consists of affordable health microinsurance, generally considered to be a difficult proposition for insurers targeting low-income customers.

Britam's journey has generated many lessons that can guide other insurers who intend to build a profitable business serving populations traditionally excluded from the insurance market. Key takeaways include:

1. Setting up an independent microinsurance unit with dedicated resources brought focus, improved financial management, allowed for rapid decision-making and for Britam to build a competitive advantage in microinsurance.
2. A long-term approach on the part of senior management was important to ensure that the business was supported in its initial years when it was not profitable. As microinsurance caters to a previously underserved customer segment, it takes time to understand customer behavior and to acquire the data needed to inform product design.
3. Establishing partnerships with large, insurance-focused aggregators was instrumental in achieving scale. In addition to their large client base, these partners contributed useful customer insights that helped in developing a positive client value proposition.
4. Identifying customer needs through market research has been key to Britam Microinsurance's success. Health was found to be the biggest risk faced by customers. Britam addressed this need through multiple products which experienced good uptake. In addition, ongoing research allowed Britam Microinsurance to make constant improvements to its products and operations.
5. This journey has not been without failures, some of which even threatened the existence of the business. However, it learnt from these failures and was able to apply the lessons in subsequent initiatives.

In spite of the success achieved so far, the journey ahead is likely to present new challenges. Large initial investment costs, especially with regard to the technology needed to service large volumes of customers can be prohibitive. Additionally, while large partnerships have provided scale, they can also slow down future initiatives due to the long gestation period involved in forming these partnerships. They can also concentrate business risk due to over-reliance on a small number of partners.

Britam has launched "*Microinsurance 2.0 phase*" in partnership with the ILO's Impact Insurance Facility and Financial Sector Deepening Africa (FSDA). During this phase, it is transforming the unit into an agile, client-centric and predominantly digital insurance provider for underserved segments. New initiatives are



focused on better understanding target customers, forming partnerships with digital aggregators and automating business operations.

Introduction

Britam¹ is the largest microinsurance provider in Kenya, as reported by the Association of Kenya Insurers (AKI, 2018). Its portfolio made up 41 per cent of the total microinsurance market in 2017, serving more than 700,000 lives through a diverse range of products. Britam Microinsurance, the company's separate microinsurance unit was established in 2009 and became an independent business unit in 2013.

Britam has demonstrated that it is possible to achieve profitability and scale while serving the low-income market. Britam's experience working towards achieving scale and profitability are similar in many ways to those of other organisations, but its long-term success has been achieved as a result of the patience and commitment of senior management during challenging times.

This case study details the evolution of microinsurance at Britam and extracts lessons for other players looking to serve low-income populations. The study outlines six phases of Britam's journey (see Figure 1):

- Stage 1 – A new, independent unit
- Stage 2 – Product improvements
- Stage 3 – New partnerships and growth
- Stage 4 – Failure of the first mobile insurance product
- Stage 5 – Profitability
- Stage 6 – Microinsurance 2.0

¹ Britam is a diversified financial services group, listed on the Nairobi Securities Exchange, with interests across the Eastern Africa region. The group offers a wide range of financial products and services in Insurance, Asset Management, Banking and Property. Britam has offices in Kenya, Uganda, Rwanda, and South Sudan, and a presence in Mozambique, Malawi and Tanzania. Britam's Kenya operation was established in 1965 and has close to 50 years of service in the market

Figure 1. Britam's journey towards profitability

1. A new, independent unit

In 2009, Britam created a standalone unit to run Microinsurance business. This unit became a full fledged business unit in 2013.



2. Product improvements

Britam had partnered with Majani brokers (insurance brokerage of Kenya Tea Development Agency) in 2007 to start Microinsurance. In 2010, through customer research Britam improved the product increasing uptake by 3 times.



3. New partnerships & growth

In 2011, Britam partnered with three large Microfinance Institutions to offer health microinsurance to their clients.



4. Failure of first mobile insurance product

In 2014, Britam launched a mobile based health microinsurance product in partnership with Kenya's largest telecom operator. The product did not achieve desired results and had to be rolled back.



5. Profitability

In 2016, the microinsurance business achieved profitability and has been increasing its overall profits since then.



6. Microinsurance 2.0

Britam aims to become an agile, client-centric and predominantly digital provider of microinsurance to population excluded from traditional insurance.



Stage 1: The beginning: a new, independent unit

The story begins in 2007. Britam partnered with Majani Insurance Brokers, the insurance brokerage arm of Kenya Tea Development Agency (KTDA) to launch an insurance cover for small-scale tea farmers. KTDA is responsible for the small-scale tea sector in Kenya, managing the processing, packaging and marketing of tea through 67 factories across the country. Small-scale tea farmers are shareholders in these factories. The objective of the partnership between Majani brokers and Britam was to design an affordable insurance product that provided protection to 600,000 farmers. Britam's life business launched a product called Kinga Ya Mkulima (KYM) that covered funeral and marginal medical expenses. Within one year of the launch of KYM, 36,000 policies were underwritten covering 53,000 lives. The partnership offered scale and realized Britam's vision to reach underserved groups.

By 2009, Britam was finding it challenging to manage this product within its existing structure. KYM was different from Britam's traditional life insurance products due to its small premiums (customers could enrol for as low as US\$ 0.85 per month), large number of policies, and hybrid design that combined life and health insurance benefits. Existing life insurance underwriting and claims practices, including manual processing, were too complicated to manage these volumes. These processes were also affecting customer service in issuing policies and processing claims. Underwriting guidelines were therefore modified for the product. For example, the number of "Know Your Customers" requirements was reduced. The hybrid nature of the product (including funeral and small inpatient benefits) also required a distinct product management approach and new claims processes had to be introduced to manage both life and medical claims.

Decision-making could be slow if the product was managed within the traditional business, due to focus on other larger product portfolios. Britam came to the realization that it needed a recognized authority to make quick decisions regarding the product.

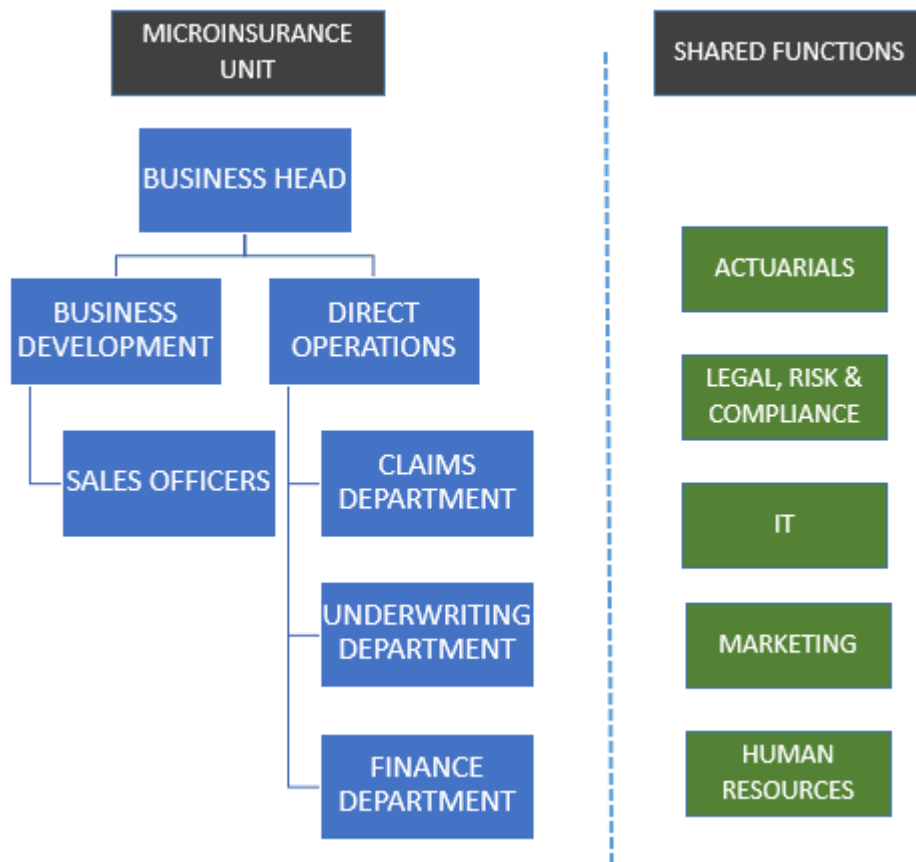
Due to these reasons, in 2009, a separate section was created within Britam's life business to manage the partnership with KTDA and pursue similar opportunities. As the microinsurance business grew, in 2013, the section was made an independent unit – Britam Microinsurance. A separate budget was allocated to the business head, financial performance management, including profit and loss statements, were carried out separately from other businesses, and Board-level financial and business reporting was put in place for the unit.

In order to make the unit a success, Britam implemented the following measures:

- **Allocate dedicated resources:** The first step was to allocate dedicated staff resources (even if fewer in number), especially in business development and direct operations. This helped generate better results than could have been achieved by allocating microinsurance responsibilities to staff whose main focus was on traditional business.
- **Business plan development:** The new unit needed a sound business plan. This meant that a clear strategic roadmap covering revenue, products and partnerships, had to be put in place.
- **Create new processes:** As the client segment it served had distinct needs, the new unit also needed to adopt new ways of doing things. New processes allowed the unit to improve its operational efficiency and customer service.

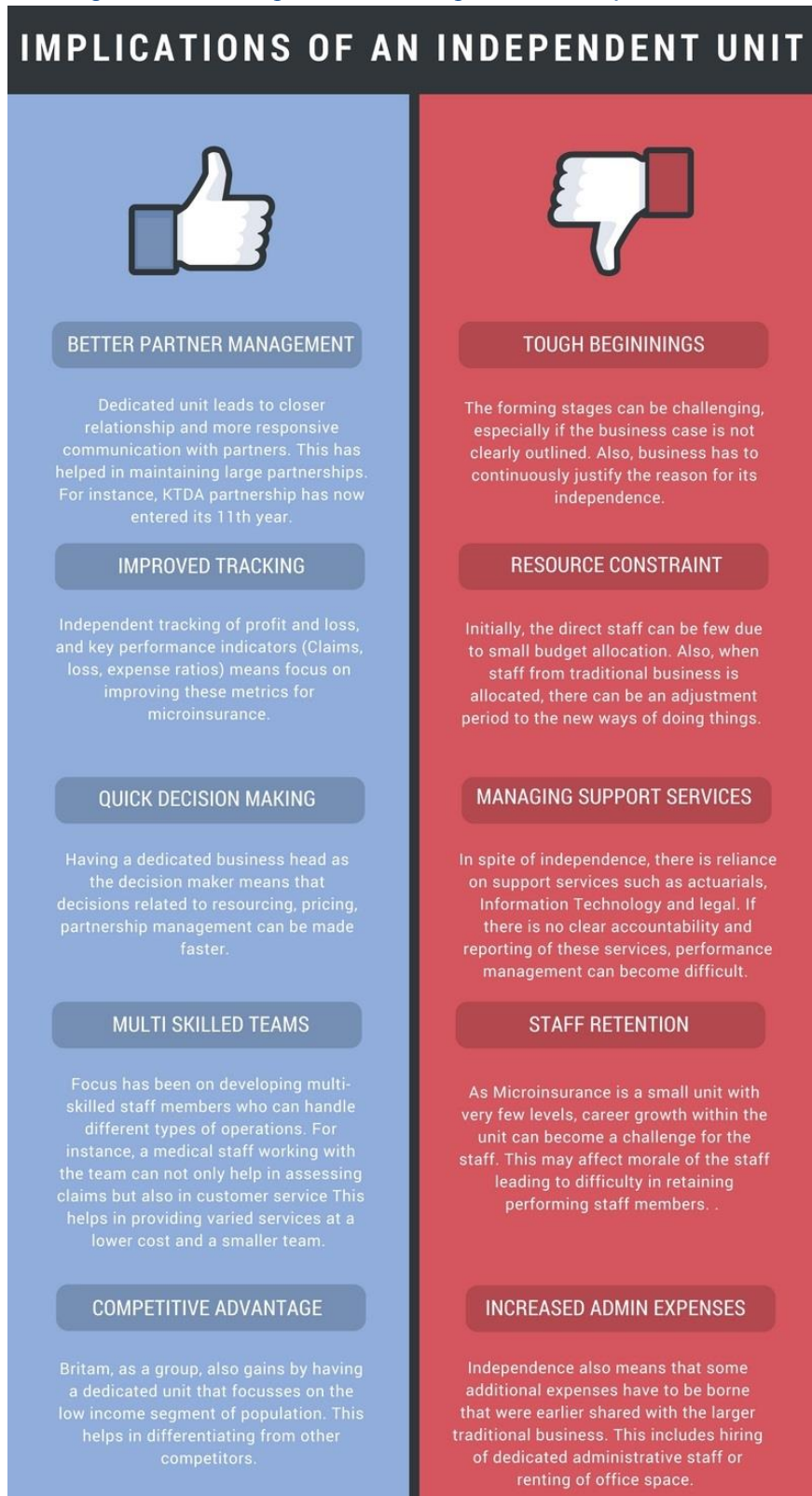
Functions were divided between the independent unit and shared services from Britam's traditional business. As presented in Figure 2, direct functions included business development and operations, such as claims, underwriting and finance. Other functions and their costs were shared with Britam's General Insurance Company.

Figure 2. Division of functions



Establishing a separate business unit led to a focus on microinsurance as a separate line of business, brought resources and accountability, and allowed for better partner management, quick decision making, improved tracking of performance and costs, creation of a multi-skilled team and a competitive advantage over other insurers. However, as detailed in Figure 3, establishing an independent unit for this market segment can be challenging, especially in the beginning when the business case may not be clearly understood and sufficient resources not allocated. Dependence on support services from other functions, such as IT, legal and pricing, requires clear accountability and guidelines on how the services are to be provided.

Figure 3. Advantages and challenges of an independent unit



Stage 2: Product improvements

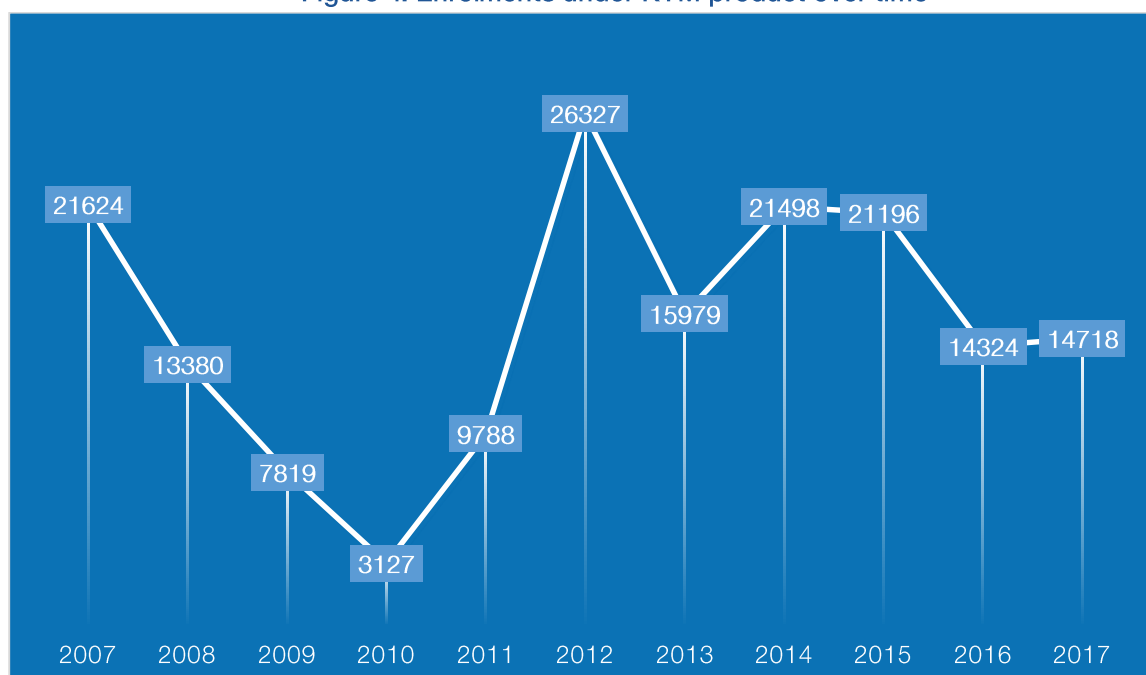
Around 21,000 tea farmers enrolled in the KYM product in 2007. It was an encouraging start. But the numbers started to dwindle soon after and in 2010, only 3,100 farmers enrolled. This downward trend in enrollments (as seen in Figure 4) was great cause for concern. To understand this phenomenon, Britam partnered with the ILO's Impact Insurance Facility to conduct customer research.

The research was carried out through interviews and group discussions with tea farmers. This provided interesting insights into customers' needs:

- **Benefit package:** The original product had a hybrid coverage with 80 per cent of benefits paid for funeral expenses in case of death and 20 per cent paid in case of hospitalization for medical expenses. However, customers found the hospitalization coverage more beneficial. Funeral expenses related to death were often met by the community, but the family had to bear hospitalization expenses alone.
- **Exclusion of children:** Initially, the product only covered farmers and their spouses. Farmers also wanted insurance coverage for their children.
- **Premium options:** The product had only two premium options, but it was found that farmers wanted more options so that they could choose the level of coverage based on their needs and ability to pay.

These insights prompted a revision of the product. The basic benefit package was altered to cover hospitalization expenses and additional coverage was provided in case hospitalization involved a surgical procedure. Funeral coverage was included but the majority of the benefits were linked to hospitalization. Farmers were given the option to cover their children, both biological and adopted. Finally, Britam introduced nine different premium and benefit package options that farmers could choose from.

Figure 4. Enrolments under KYM product over time



The revised product resulted in a spike in enrollments. In one year, annual enrollments increased three-fold, reaching 10,000 in 2011. By 2017, the product had achieved a penetration rate of 28 per cent among the total tea farmer population affiliated with KTDA. This makes it one of the most successful voluntary micro-health insurance programs in Africa.

For a microinsurance provider, it is very important to understand customer needs as target customers have limited disposable income to purchase insurance. Britam has realized that these customers will only purchase insurance if it directly addresses their needs and ongoing customer research is critical in order to achieve this.

Stage 3: New partnerships and growth

After it had stabilized KYM, the next challenge for the new unit was to grow beyond its one partnership. Microinsurance products have to work with low margins. To achieve profitability, large volumes are required. Britam Microinsurance has tried to achieve scale by building partnerships with aggregators that consolidate large groups and can provide insurers access to them. Examples of such aggregators include farmer associations, cooperatives and financial institutions (banks and micro finance institutions). Mobile network operators are one of the most prominent examples of new types of digital aggregators.

The microfinance sector was a natural choice for Britam due to its scale, outreach among low-income communities, and existing financial relationships with clients. Britam started forming partnerships with microfinance institutions (MFIs) with large customer bases. In 2011, Britam partnered with three such MFIs to launch its second microinsurance product *Afya Tele*, a group health insurance cover for MFI members. Britam has since continued to form partnerships with large aggregators and has been able to achieve scale through this approach.

CO-CREATION OF THE CUSTOMER VALUE PROPOSITION

Britam had learnt through its experience with KYM that product design should be informed by customer needs. Aggregators that are closely connected with their members can provide insights into members' profiles, needs and behavior. Insurers can work with such aggregators to utilize these insights and co-create products that provide value for clients. Britam partnered with prominent MFI Faulu to co-develop its second microinsurance product – a health insurance cover. For the MFI, the objective was to provide added value to its members. Britam and the MFI worked together to identify needs expressed by the MFI's members and incorporated these into product and process design as outlined in Table 1.

Since its creation, the product has been further improved and offered to other partners. This product now covers more than 40,000 lives across more than 200 organizations and makes up approximately half of Britam's total microinsurance portfolio. The product is sold through traditional channels, such as Britam's agent force and independent agents and brokers.

Co-development of a value proposition is not restricted to product design but also includes other areas of insurance provision, such as customer service and process design. For example, providing loans to customers who might struggle to pay the premium upfront was one solution identified by Britam's MFI partner. Partners can help identify areas where client value can be generated beyond insurance product design.

Table 1. Using partner insights to co-create value

Product feature	Partner insight	Solution
Benefits	Health was the most prominent risk faced by members as it not only led to medical expenses but also resulted in loss of income in some cases. This also affected loan repayment for the MFI.	Britam offered a medical insurance product that provided inpatient and outpatient coverage.
	Most MFI members were women and concerned about maternity care.	Britam introduced a specific maternity benefit within the inpatient coverage.
Premium payment	One-time upfront premium payment might be difficult due to cash flow challenges.	MFI introduced a loan to cover the insurance premium. This loan could be repaid with small instalments.
Customer service	The biggest challenge client face is to pay the hospital at the time of admission. Therefore, a reimbursement-based product might not be appropriate.	Britam started a network of hospitals in areas where the MFI branches were located. Members could benefit from cashless medical services at this network.
	There can be challenges in understanding the product benefits.	Britam introduced a helpline that addressed customer queries.

CO-OWNERSHIP OF THE INSURANCE VALUE CHAIN FUNCTIONS WITH PARTNERS

Britam has learnt that a key factor for the success of partnerships with large aggregators is to establish an insurance focus within partners whose core business is not insurance. This can be in the form of an independent unit or a dedicated insurance department or staff within the partner organization. This can help the partner participate in various stages of the insurance value chain. In Britam's partnership with KTDA, KDTA has an insurance brokerage arm, Majani Brokers, that deals with all insurance needs of KTDA and its tea factories. This brokerage arm has championed the KYM product within KTDA and supported Britam by managing enrollment, premium collection and claims processing. This has been key to achieving scale, as Majani Brokers ensures that tea farmers are enrolled in tea collection centers located in the villages. Britam strongly believes that Majani Brokers has been the key success factor for this product.

Table 2 depicts how diverse partners, ranging from mobile network operators to government organizations, have provided support across the value chain. Partners that have an insurance focus in the form of dedicated insurance broker (KTDA) or agency (Equitel and Biashara SACCO) contribute to more functions compared to partners without an insurance focus (government organizations and corporates).

Table 2. Role played by partners across the insurance value chain

Partner	Product design	Promotion	Enrolment	Premium collection	Education	Providing value-added services	Claims reporting	Claims assessment	Claims payment
KDTA / Majani Brokers	?	?	?	?	?	-	?	-	-
MNO partner (Equitel, Equity Insurance Agency and Inclusivity Solutions)	?	?	?	?	-	-	?	-	?
Cooperative organizations (Biashara SACCO insurance agency)	-	?	?	?	?	-	?	-	-
Government organization	-	-	?	?	?	-	?	-	-
Corporate organizations	-	-	?	?	?	-	?	-	-

(Merry et al., 2014)

REDUCING RELIANCE ON PARTNERSHIPS WITH LARGE AGGREGATORS

While partnerships with large aggregators provide scale, they can also slow down growth due to the long gestation period required to form these partnerships. They can also concentrate business risk due to over-reliance on a small number of partners.

It has taken Britam one to three years to launch a product with partners with large customer bases. There are multiple reasons, such as cases in which insurance is not a priority for the partner (in the case of MNOs) or long decision-making processes (in the case of cooperatives and government organizations). This can significantly slow down business growth. To counter this, Britam has approached the formation of each partnership as an individual project and applied project management tools. Additionally, Britam has adapted its products so that they can also be offered to smaller groups or organizations. After launching the group health insurance product in partnership with a large MFIs in 2011, the product was modified so that it could be taken up by any registered group of 10 or more members. This led to the onboarding of multiple small groups (currently over 200).

The second challenge is concentration of risk due to over-reliance on a small number of partners. This means that if a partner decides to opt out, it will have a significant impact on the business unit's sustainability. Over time, the unit has tried to mitigate this risk by diversifying the product portfolio, including multiple smaller groups and, more recently, developing digital distribution channels. As an example of product diversification, the unit developed a school fees insurance product in 2016 that was aimed at insuring students' school fees against the death of a parent. This product was designed to be distributed via schools. This would have diversified the type of partners Britam works with by including schools as a channel. However, this product has so far not achieved significant growth and the unit is looking for other similar opportunities to decrease its over-reliance on few large partners.

Finally, the conversion rate between discussions with potential partners and the formation of new partnerships is low. This could be due to competition or because it is not perceived to be a strong mutual value proposition. In Britam's experience, only one in every five to six leads results in a partnership.

Stage 4: Failure of the first mobile insurance product

The period since 2010 has been characterized by advancements in mobile microinsurance with the emergence of the mobile network operation (MNO) distribution model. Kenya has been a hot-bed of innovation on mobile money, driven by the success of Safaricom's M-PESA. Britam wanted to use this channel to reach customers directly and reduce its reliance on aggregators.

In 2014, Britam launched a comprehensive health microinsurance product, *Linda Jamii*, in partnership with Kenya's largest MNO, Safaricom, and Changamka, a technical services provider. It was expected to insure 1 million lives and become the largest private insurance product in Kenya. The product provided health insurance family cover that included annual inpatient benefits of up to US\$ 2,000 and annual outpatient benefits of up to US\$ 500, along with hospi-cash, dental, optical and maternity benefits for an annual premium of US\$ 120 per family.

However, the product failed to achieve those numbers, reaching only 23,468 customers in more than one year. It also resulted in major losses due to a high claim ratio of 129 per cent. Britam had two choices, either to continue the product with modifications and hope that the losses would decrease, or to roll back and cut its losses. In 2015 Britam chose to roll back the product due to the major losses and changes to the partnership dynamics.

The high losses put the sustainability and survival of Britam Microinsurance in doubt. It was only the commitment of the senior management and relative stability provided by the previous two products that helped Britam Microinsurance to survive this period. The challenges resulted from venturing into the new segment with limited information about pricing and customer behavior. The minimal waiting period for maternity led to 27 per cent of all claims being maternity related. It was difficult for MNO agents to sell the product as they were not used to making sales that require lengthy explanations. Britam learnt many lessons around product and process design and these are summarized in Table 3.

Table 3. Lessons from the Linda Jamii experience

Work stream	What worked	What did not work	Key learning
Product design	Product offered substantial client value as reflected in high use among insured population.	There was considerable anti-selection, especially due to the minimal waiting period on maternity cases, which led to 27 per cent of all claims being maternity related. This resulted in claim ratios of up to 129 per cent within the first year.	There needs to be balance between client value and sustainability. Retail individual health micro health insurance products can attract anti-selection. Group-based products are preferable due to a mixed risk pool. Insurers should also explore waiting periods or exclusions for voluntary products.
Sales and distribution	Group sales that targeted employers and other groups were more successful.	MNO's mobile money agents were not very successful in selling the product as they were used to selling high-volume, low-value products, such as airtime and mobile money, which require minimum customer interaction.	Sales channels should match the product. Health insurance is a high-touch product that needs higher levels of interaction between trained sales agents and customers. Therefore, simpler products that need minimum explanation are more suited to mobile-based channels.
Customer journey	Customers could subscribe to the product and pay the premium from their mobile phone using USSD and mobile money respectively.	Customers still had to visit an agent to physically submit their know-your-customer (KYC) documents. This meant that the customer journey at the time of enrolment was not entirely digital.	The customer journey should be carefully designed to ensure that all the customer's interactions with the product are easy and convenient.
Marketing	Above-the-line (ATL) marketing such as television and radio adverts were successful in the beginning to create awareness about the product.	Initial buzz through ATL marketing did not translate into sales. Below-the-line (BTL) activities, such as visits by independent agents, were more successful in generating sales.	There needs to be an optimum mix of ATL and BTL marketing activities based on the product roll out stage. ATL can be useful in the beginning to raise awareness and BTL in subsequent phases for actual sales.

In hindsight, while the product did not achieve its business objectives, the experience taught Britam key lessons that have informed its subsequent business journey. Lessons from this experiment led Britam to modify its approach towards mobile microinsurance. Its first change was to stop the sales of individual/retail health microinsurance products due to anti-selection and instead focus on group-based products. This approach had already been successful in creating a balanced group health microinsurance product in Afya Tele. It had proved successful in providing client value (as reflected in a renewal rate of

over 70 per cent) and achieving sustainability (as reflected in claim ratios of 55-65 per cent).

Secondly, Britam realized that MNO channels are more suited to distribute simpler products where product design, customer journey and claim processes are simple. Based on these learnings, Britam launched a second mobile-based insurance product in 2017 in partnership with Equitel, another MNO based in Kenya. This product provides a basic hospitalization cash cover through an end-to-end digital customer journey. Details of this product can be found in Box 1.

BOX 1. Designing a new mobile insurance product

In 2017, Britam partnered with Equitel (a mobile payment and banking platform launched by Kenya's Equity Bank Group), Equity Insurance Agency (Equity Bank Group's insurance arm) and Inclusivity Solutions (a technical services provider) to launch a simple hospitalization cover, Riziki Cover. Britam also entered into a risk sharing agreement with the Reinsurance Group of America (RGA).

The product pays a daily benefit in case of hospital admissions for three or more days. It is expected that the reinsurance support and fixed benefit will control Britam's risk exposure and prevent high losses. The customer is enrolled using a USSD platform and does not need to submit any physical documents. At the time of claims, customers can submit documents simply via WhatsApp or email. A mix of marketing methods are being used, including radio adverts and outbound calls by a contact center. In ten months, the product has managed to enroll 172,485 subscribers. As the product is in initial stages, there is need to wait to further understand the claims experience.

Stage 5: Profitability

Britam Microinsurance overcame the losses related to *Linda Jamii* and was able to achieve profitability in 2016. It took the unit seven years to achieve profitability. As Britam was among the first insurers in the Kenyan market to attempt to serve the low-income segment, it had to invest in market creation. This included expenses on business development and awareness generation activities in remote rural areas. Secondly, due to limited data on customers, Britam had to continuously revise its actuarial pricing based on its claims experience. Each time a new product was launched, it took time to stabilize and affect profitability.

Britam realized that new product portfolios take some time to become profitable. This was experienced in Britam's mainstream health insurance portfolio as well as in its microinsurance portfolio. Based on this experience, the business was given time to grow and become profitable. Britam had also learnt from the banking industry in Kenya, in which institutions that targeted the low-income population have been quite successful in the long-term. This strengthened Britam's belief that microinsurance could be a successful portfolio.

Based on these considerations, Britam Microinsurance continued to receive the support of senior management. This is seen in the interview with Britam's Group Managing Director (GMD) below, who was the pioneer of microinsurance at Britam (Box 2). Looking into the future, the management expects the unit to become an independent microinsurance provider in next few years. However, the failure to achieve profitability initially has taught the importance of patience in serving this customer segment.

BOX 2. Interview with Britam's Group Managing Director

Dr. Benson I. Wairegi is the Group Managing Director of Britam Group. In this interview he shares his thoughts on inclusive insurance in Kenya and at Britam.

Q: What are your thoughts on the potential of inclusive insurance?

BW: Fundamentally, insurance is about protecting vulnerable communities. It is about making people and businesses more resilient. This protection is even more important for lower-income groups as they cannot protect themselves as effectively as others with more resources. Globally, there is a huge population of low-income people, and if insurers can develop the right products for them, the potential is enormous.

What have been the main challenges in realizing this potential?

BW: First, ability to pay. Lower-income groups are struggling every day to put food on the table, so insurance is not high in their priorities. Awareness is the second major challenge, as people are simply not aware about relevant insurance products and providers. The third major challenge is trust. In Kenya and in other markets, there is a trust deficit in insurers. Customers often complain that insurers are happy to take premiums but are even happier to show them the fine print when it comes to claims. Finally, especially in Africa, cultural factors also affect uptake of insurance. People consider family as their insurance, believing their children or parents can protect them.

And from the side of the insurers, what have been the key challenges?

BW: Firstly, due to low ability to pay among many segments, insurers tend to focus on segments that can be profitable more quickly. Furthermore, in Kenya, insurers have focused on traditional insurance products. Therefore, there is need for innovation in product design and distribution. Traditional products and channels will not be effective to reach these segments.

From a regulatory perspective, the Kenyan insurance regulator, the Insurance Regulatory Authority (IRA), has been quite proactive, using its own funds to train insurance agents and create awareness through field-level activities. However, the regulator can contribute further by developing a clear framework for inclusive insurance. Lowering the capital requirements for this business, for example, would help insurers address the low-income segment.

What was the company's vision in starting Britam's microinsurance business?

BW: 'This goes back to the history of Britam, which started off providing an insurance product that was designed to be inclusive. The product was known as home service or industrial life insurance. This product was designed for blue collar factory workers to provide coverage for funeral expenses. The affordable premium was collected by Britam agents at the homes or offices of these workers. This legacy motivated Britam to embrace microinsurance earlier than its competitors in Kenya. Britam created a separate microinsurance unit with its own governance structure, management, systems and procedures to focus purely on this business.'

How do you view the progress made in last ten years? Has the business realized its initial vision?

BW: Initially, we started this business as an experiment. In recent years, we have been able to achieve some success, but I would still call it a developing business. We have burnt our fingers with some products, but that is the nature of an experimental business. In the process we have also learnt a lot.

And how do you view the future of the business?

BW: We intend to continue focusing on this segment. Fortunately, we have a new investor – the World Bank’s private-sector investment arm, the International Finance Corporation (IFC) – whose mandate is also to focus on low-income customers. We hope to work with them and other like-minded stakeholders to further scale up our microinsurance business.

We already consider the microinsurance business a success, as it is able to generate its own revenues and meet its expenses. It is no longer supported by other businesses and has broken even. This is a healthy sign that the business is stable and ready to grow. However, we want our microinsurance business to rival other traditional business lines such as life and general insurance in terms of profitability and volumes. We believe that it has the potential to even surpass other businesses, and that will be the day we will call it a great success.

Finally, what advice would you give to other insurers who want to move into inclusive insurance?

BW: Already there are other players operating in this space. There is need to take a long-term view, because insurance is not a short-term business. You need to be prepared to lose money initially but stay on course. Secondly, it is important to separate microinsurance from other business lines, as it has unique characteristics, and enable a more focused approach. Finally, provide ample resources to microinsurance activities, including governance structure, financial, and physical facilities.

Stage 6: Microinsurance 2.0

Britam’s journey to profitability was facilitated by its ability to incorporate customer feedback and improve operations and customer service, as well as the commitment of its senior management. The unit has now embarked on its Microinsurance 2.0 strategy, aiming to transform into an agile, client-centric, and predominantly digital microinsurance provider.

LISTENING TO CUSTOMERS

Customer feedback is not only restricted to product design, but can also be leveraged to improve customer service. This can help create a competitive advantage to attract new customers.

It was found that for majority of microinsurance customers, Britam’s products were their first experience with insurance. In spite of product training and awareness generation at the time of enrolment, customers had difficulty understanding some of the product features. To address this, Britam instituted a helpline for customers. Initially, due to limited resources, this helpline was managed by the claims processing staff. However, in 2017 this helpline was centralized and is now managed by dedicated staff trained in customer service. This helpline has been a key resource for Britam to improve customer service.

Other examples can be found in claim processes. A major change was the acceptance of mobile money as a method of claim payment. Kenya has one of the most developed mobile money markets in the world with 31.6 million mobile money accounts (CGAP, 2017). Low-income customers generally have easier access to mobile money than to a bank account. Another change was in claims submission. Initially claims were processed based on the submission of physical documents. This significantly delayed claims payments to the customer. Customers demanded that digital copies of claims documents be accepted. This change was brought about and has helped reduce claims payment times considerably.

Britam has realized the importance of customer feedback in improving customer service. A majority of microinsurance customers have never experienced insurance product before. Therefore, a good service experience can improve customers' trust in insurance, which has a high effect on uptake of microinsurance, as found by the ILO (Matul et al., 2013). Britam frequently surveys its customers and partners to get feedback on operations. In last two years, Britam has conducted mobile and online surveys and incorporated findings to improve its helpline and insurance education.

INSTITUTIONALIZING CUSTOMER RESEARCH

In 2017, the unit undertook two exercises to institutionalize customer research into its product design process:

- **Conducting a market segmentation study:** To improve understanding of the target market, a market segmentation study was conducted with support from the ILO's Impact Insurance Facility to identify customer segments, their needs, and ways to reach them. Customers' behavioral and attitudinal profiles were built by identifying not just demographics but also their attitudes, beliefs, values, perceptions, and motivations. To inform product design, customers' usage of financial services and institutions were studied. Britam has revised its product development approach based on the findings from this study, making segments the drivers of product design. Two key segments were identified, and product and distribution channel development was focused on these segments. It is hoped that this will lead to more client-centric products and processes.
- **Adopting a feedback-based product design process:** Britam has attempted to institutionalize customer research by introducing a feedback-based product design process developed by its actuarial department. Earlier, the product was designed and then revised afterwards based on customer feedback. But this is now reversed: the first product opportunity is defined based on customer needs identified during market research and product design flows from the needs. Product development used to be completed in two steps. Initially, Britam Microinsurance designed the product and inputs from support functions were then incorporated. This caused delay as inputs from support functions could send the product back to the drawing board. Therefore, in the new five-phase process (see Figure 5), all the support functions are involved from the first phase.

The first phase involves defining the opportunity by outlining the target market and reviewing the competitive landscape. The second phase involves developing a basic solution and validating it by aligning it with the needs of customers. Resourcing (in terms of IT, marketing and financial modeling) is carried out in the third phase, and the product is tested in the fourth phase to finalize the marketing, launch and performance measurement plans. The final phase is about managing the product launch and tracking its performance.

One of the key goals of this phased approach is to ensure that customer needs are considered at every step and that all the departments are aware of these needs. Apart from this, the approach also helps in ensuring all the product development requirements are met within certain time limits. It is hoped that this approach will continue to help Britam in responding appropriately to customer needs.

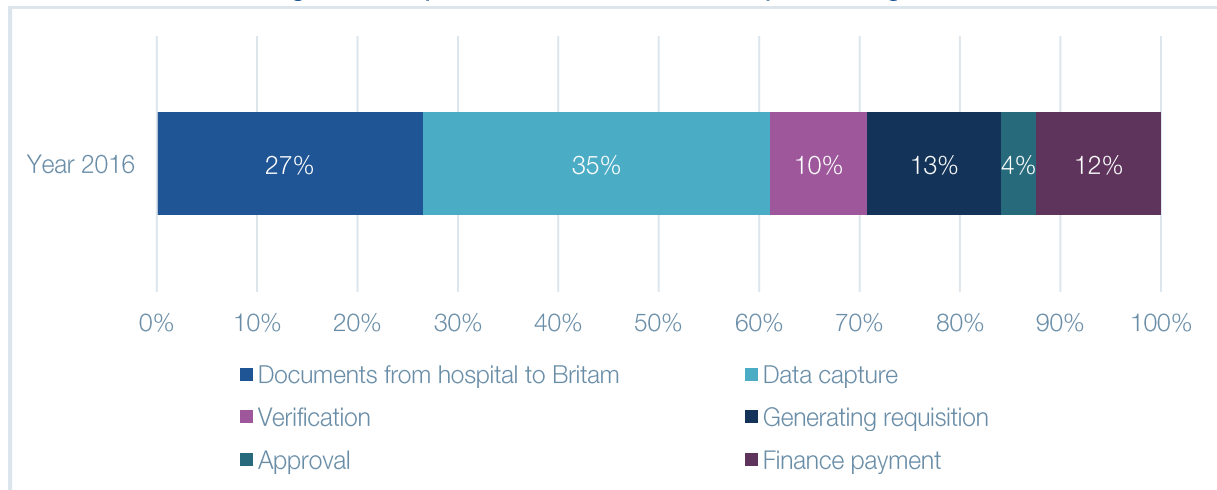
Figure 5. The new product design process



GOING DIGITAL

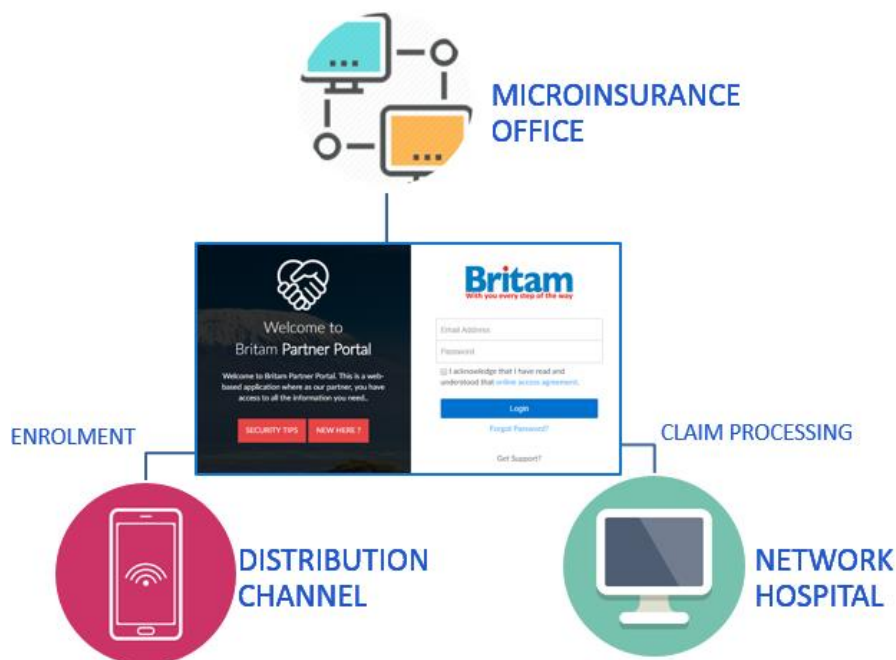
Efficient and responsive business operations are crucial for profitability and client satisfaction. Britam has used research to identify areas of improvement in microinsurance operations. The business had struggled with slow processing of its medical claims for several years. This caused payment delays and dissatisfaction among its partner hospitals, some of which threatened to leave the network. As a result, Britam Microinsurance decided to conduct a systematic diagnostic review of its claim process. Its objective was to identify bottlenecks to improve claims turnaround time. This review involved mapping the claims process, breaking down the constituent steps and measuring the time taken for each step. Two main bottlenecks were identified: the time taken for hospitals to send physical claims documents to Britam, and the time spent on data entry from physical documents into the IT system. As Figure 6 shows, 62 per cent of the total claims turn-around time was spent on these two steps.

Figure 6. Step-wise breakdown of claim processing time



Similar bottlenecks related to the submission of paper forms were also identified in the enrollment process. These bottlenecks resulted in long turnaround times, data management challenges and high administrative costs. Britam decided to use technology to address this challenge. It developed a partner portal (Figure 7), through which distribution channels and network hospitals can conduct enrolment and claims submission processes online. This portal is accessible on both mobile phones and computers. Britam has managed to reduce its hospital claims turn-around time by 70 per cent using this portal.

Figure 7. The digital partner portal



While the unit has broken even, it continues to face threats that may impact its sustainability over the next few years. A lack of product diversification and slow growth rate are two prominent threats.

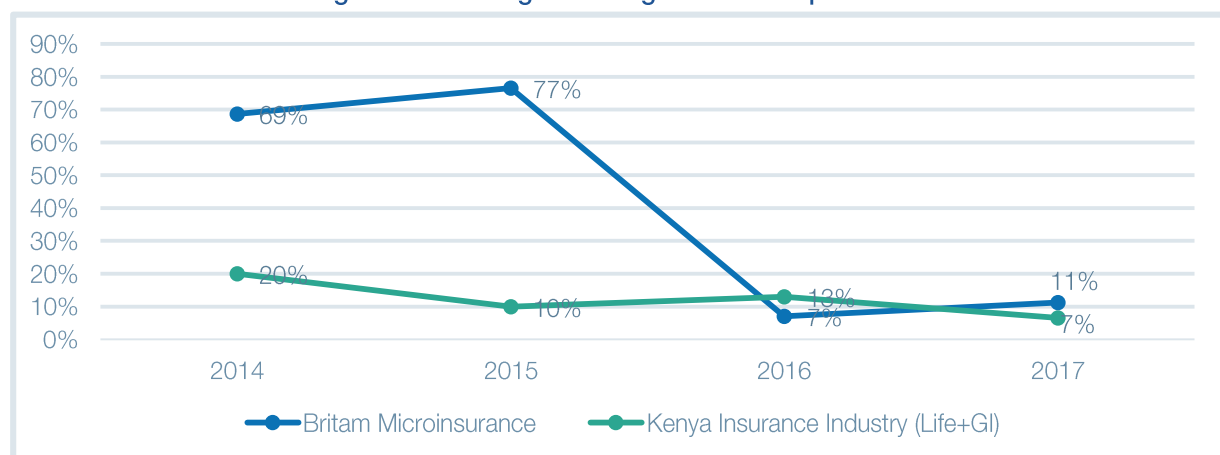
PRODUCT DIVERSIFICATION

Britam has followed a gradual product development approach. In the first four years, it only offered one microinsurance product and, in the first eight years, only three products were offered, all related to health risks. This was due to two reasons. Firstly, health insurance has been repeatedly shown to be the biggest need of microinsurance customers. Secondly, subsequent products were developed based on experiences and lessons learnt through the first product. This differed to other microinsurers, who

generally begun with simpler products. With its products, Britam was able to address the unmet need for protection against health risks. However, in recent years, the relevance of these products is threatened by the Government of Kenya's social health insurance scheme, the National Hospital Insurance Fund (NHIF). As a mandatory cover for the formal sector, NHIF has achieved considerable scale. In 2017, it was reported that NHIF covered 24 million lives, more than half of Kenya's population (Daily Nation, 2017). With the Government's consistent focus on expanding NHIF and little clarity on the role of the private insurance sector in this approach, Britam's health microinsurance products are facing stiff competition that may threaten the sustainability of the business in the immediate future.

Britam has experienced slow growth in recent years. In 2014 and 2015, with the launch of *Linda Jamii* (generating premium revenue of more than US\$ 2 million in first year), growth in gross written premium was 60 per cent and 77 per cent respectively (Figure 8). However, with the rollback of *Linda Jamii*, Britam Microinsurance's growth rate decreased to 11 per cent in 2017. This compares favorably to the overall Kenyan insurance industry growth rate of 7 per cent during the same time period. However, due to its lower starting point, Britam Microinsurance needs to achieve a much higher growth rate to increase its overall portfolio size, and lower than expected growth has been a concern. With increasing operating expenses, growth has to be increased in order to sustain or increase its current profitability levels.

Figure 8. Annual growth in gross written premium



Britam is responding by diversifying its product portfolio to cater to other risks faced by low-income customers. Half of its products cover health risks; however, five products have been launched in last three years, compared to three products in first eight years. Focus has been on diversifying the risks covered by launching life insurance in the form of last expense, credit life and school fees insurance products. In addition, as discussed in section 4.3, Britam is using market segmentation and a new product design process to inform this product diversification initiative.

Table 4. Britam's Microinsurance product offering

Sequence	Name of the product	Type of coverage	Timeline
1	Kinga Ya Mkulima (KYM)	Hospitalization, surgical hospitalization and funeral cover	Launched in 2007
2	Afya Tele	Hospitalization, outpatient and funeral cover	Launched in 2012
3	Linda Jamii	Hospitalization, outpatient, hospital cash and funeral cover	Launched in 2014, rolled back in 2015
4	Endeleza Elimu	School fees of children in case of parent's death	Launched in 2016
5	Credit life	Outstanding loan amount in case of borrower's death	Launched in 2016
6	Last expense	Funeral expenses in case of insured's death	Launched in 2017
7	Riziki cover	Hospitalization cash cover	Launched in 2017
8	Credit health cover	Proportion of outstanding loan amount in case of borrower's hospitalization	To be launched in 2018

Concluding remarks

Britam's experience has proven that serving low-income and underserved population groups can be a profitable venture for insurers. By setting up an independent unit from the beginning, Britam managed to establish partnerships with large aggregators that provided scale and to respond to customer needs to design appropriate products. This did not prevent failures, but Britam Microinsurance was able to learn from these failures and adapt its products and processes accordingly.

Britam's experience demonstrates the need for patience, foresight, adaptability and responsiveness in serving low-income groups. While Britam has proved its business case and achieved profitability, its journey continues, now with a push towards client-centricity, product diversification and digitization. It faces important threats, including competition from NHIF, lack of product diversification, and a need for efficient processes. The business' next goal is to become the first independent microinsurance company in Kenya, building on its own experience and the learnings from other global practitioners.

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