

Bancassurance Direct Marketing Strategies in Developing Markets

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Key Questions

This paper attempts to address two questions:

The first question is: Can African Insurers successfully sell higher volumes of low cost individual protection products to Bank customers via direct marketing methods (phone, post, email, web etc) ?

The second question is: Could it be that direct marketing is a strategy particularly well suited for developing insurance markets?

In this paper the term "Direct Marketing" will refer to the non-intermediated distribution of insurance products via direct channels such as direct mail, telemarketing, mobile messaging, email, web etc.

Direct Marketing Strategies

There are three broad forms of direct marketing relevant to insurance distribution:

1. Direct Response ATL (above the line) Marketing

- Place press ad or TV ad (infomercial)
- Inbound responses via call centre or email

2. Network Marketing

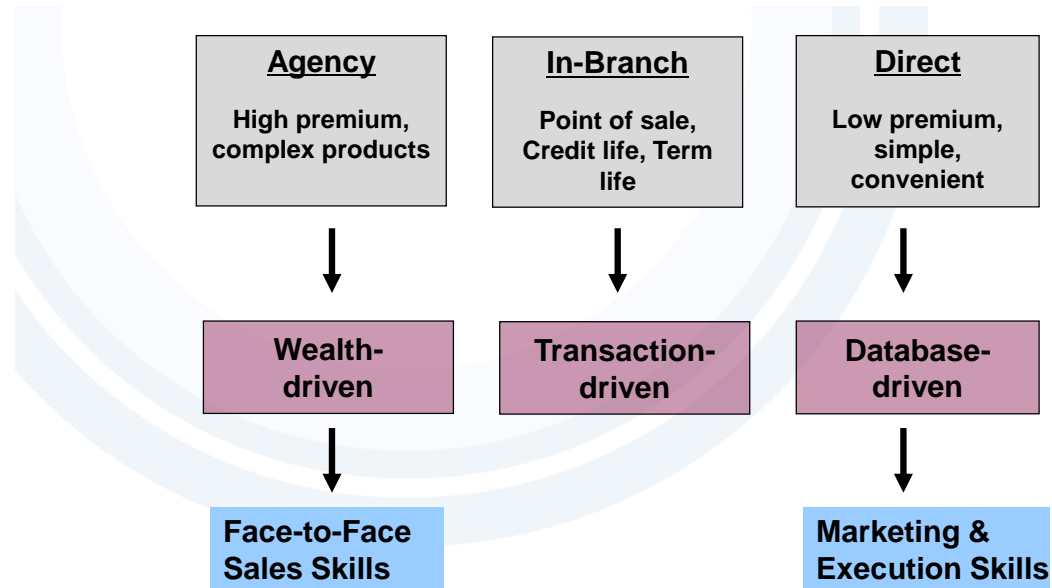
- IFA's – independent field advertisers (no-advice distributors)
- IFA's sell policies to buyers in their network who may also then become IFA's on the next tier (commission pyramid)
- Sale often closed by call centre and policy issued by admin centre so IT and sales support essential
- Mobile phone support is a growing feature

3. Database Marketing

- Profile and target customers on database
- Tailor right offer/ product to right customer
- Data selection mitigates the need for underwriting
- Measurable results and ROI

Bancassurance Distribution Framework

A simplified bancassurance distribution framework is set out below and starts by mapping in the two most typical distribution models: in-branch and agency. The broker model has not been separately mentioned because for purposes of this exercise it closely resembles the agency model.



In-branch tends to be based on transaction-targeting, for example a car finance transaction or a homeloan transaction triggers the sale of a credit life or term life protection product, often as a condition of the loan or bundled into the loan with insurance premiums sometimes added to the financed amount. This model is typically driven primarily by the banks need to mitigate credit risk, rather than the desire to add value to the customer relationship or to generate underwriting profit.

Agency can often overlap with the in-branch model, but I will focus on its distinct features. Referred to sometimes as the “hunter” model, agents are employed by the bank or bancassurer, incentivised with commission structures, given sales targets and provided with access to bank customers. For obvious reasons, this model tends to result in the targeting of the wealthier half of the customer base typically with complex combined life, health, investment products and resulting in a higher premium sale.

Direct can now be understood as taking its place alongside these two models. Direct tends to target customers based on what is known about them on the bank’s database, for example a term life offer is made only to homeloan customers below a certain age and monthly income, who do not have another similar protection product, and who seem to be under-served by the agency or brokerage force. Products are simple, single-need and lower premium.

Whilst face-to-face sales skills are critical to success in the agency model, in the direct model marketing skills and execution or project management skills can make the difference between selling several thousand new policies or losing large sums of money.

Comparing Face to Face with Direct Distribution

1. Face to Face

Allows:

- One to one interactions
- Rapport building, needs analysis and advice
- Gathering of personal information
- Tailored solutions
- Complex products
- High premium sales

But...

- Requires high education, skill levels and regulatory accreditation
- Little economic incentive to service lower/ middle income customers
- Little economic incentive to sell low premium products
- Relatively expensive and time consuming
- Standard of long term servicing is variable

2. Direct Distribution

Allows:

- Penetration of lower/ middle income customer segments
- Distribution of high volumes of lower premium products
- High volume of customer contacts in a short amount of time
- Significant premium generated at relatively low cost
- Highly measurable performance and returns
- Scientific method to test and refine marketing strategy
- Ownership of the customer relationship

But:

- Not ideal for more complex, expensive sales
- Not ideal for tailored advice or needs analysis
- Limited ability to maximise customer value (on its own)

The Case for Direct Marketing

Developing Markets

In countries where the insurance market is still developing, there are other important arguments in favour of direct – the argument goes something like this:

1. Economic growth and rising personal income levels
2. Leads to a growing need for personal financial protection
3. A parallel development tends to often be a growth in unsecured lending which also means banks need credit risk management
4. Intermediaries – especially regulated/ accredited ones - are usually not interested in selling policies with low/ affordable premiums

5. Banking penetration always precedes Insurance penetration
6. Banks with trusted brands and substantial customer bases have a significant opportunity to meet a broader range of the financial needs of their customers and to lead the way
7. Banks are also uniquely able to segment their customer (data)bases and pre-approve customers for insurance offers whilst minimising anti-selection risk
8. Banks then need to match the right distribution strategy to the right segment
9. The low premium – high volume bancassurance direct marketing strategy can be an ideal distribution strategy for many developing African markets

Personal insurance penetration levels in Africa are currently extremely low but expected to grow.

Economic growth and rising incomes in every positive outlook emerging market around the world has been a key driver of strong demand for simple affordable personal protection insurance.

As breadwinner incomes rise, so does the breadwinners need to provide for the financial protection of his or her dependants in the event of his or her disability or death.

Very few insurers are able to distribute large volumes of personal insurance products to individuals at affordable premiums in a profitable or sustainable way.

Africans are currently un-insured or under-insured because traditional distribution channels such as agents or brokers either do not have distribution power required to reach large numbers of people, have little financial incentive to sell low premium products, or in some cases do not enjoy the trust of the African consumer.

In addition to savings and transmission accounts, banks in emerging markets typically look to unsecured lending as an important source of growth and profit.

However, banks become increasingly concerned at their levels of exposure as the loan book grows.

One of the key credit risks faced by banks relates to the death or disability of the debtor. Driven primarily by the banks need for risk mitigation, credit protection products then become bundled into the loan transaction, frequently as a condition of the loan.

Because it is sold as a condition of the loan, with the bank as the beneficiary, the consumer seldom attaches much value to this form of insurance.

However credit protection insurance, whether sold in-branch or via direct marketing methods, and if correctly implemented, provides not only risk management benefits to the bank, but also an additional source of revenue and profit.

Banking penetration almost always leads Insurance penetration in developing markets.

Banks that already have large customer databases, financial affinity and strong brands, have an opportunity to leverage these significant competitive advantages in meeting the personal insurance needs of their customers.

Banking customers throughout the world have proven to be highly receptive to any form of financial services offering from their bank, and in fact are not only receptive to such bank-branded personalized insurance offers but increasingly come to expect that their banks should try to meet all of their financial needs, including financial protection.

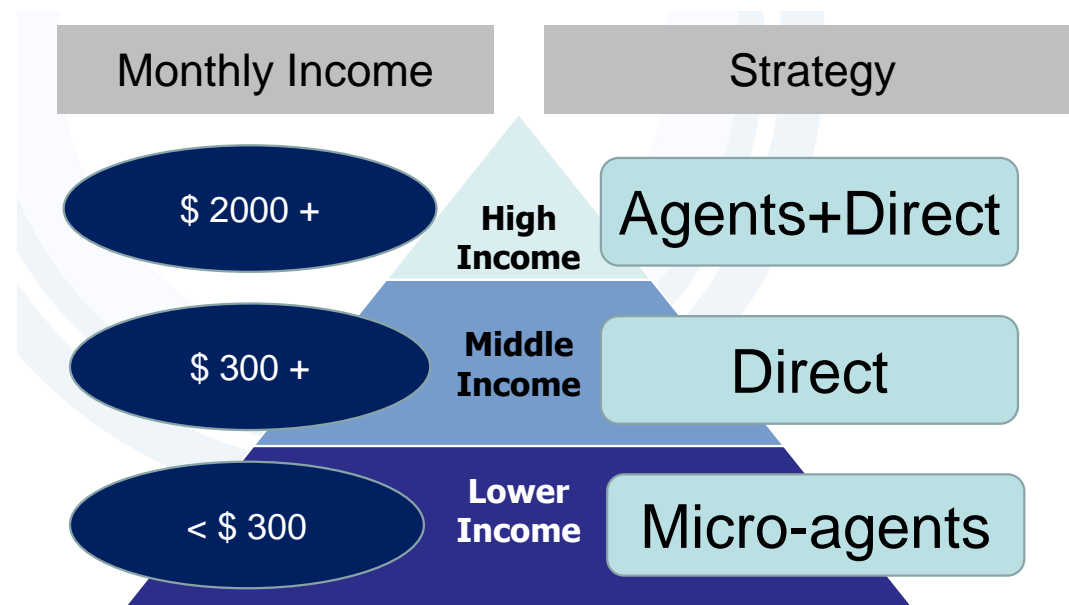
Banks with trusted brands and substantial customer bases have a significant opportunity to offer simple affordable insurance products to customers carefully selected out of the database, and sold via direct marketing methods such as direct mail, telemarketing, sms and mail.

Bancassurance Segmentation

Banks need to match the right distribution strategy to the right customer segment

There are many ways to segment a market. Income levels tend to be one of the most useful ways to segment the market, and banks are uniquely positioned to be able to know what their customers earn.

The diagram below presents three simplified segments and related strategy.



Lower income customers may be best suited for a micro-strategy using branches or micro-agents selling products with monthly premiums of \$1 to \$3 up to a maximum of \$5. Direct is typically best suited for middle market customers and monthly premiums of between \$4 and \$15. For wealthier customers and higher premiums the face-to-face channels and multi-channel service strategies tend to be most effective.

Why Direct?

- Because it can be the right channel when used with the right product to the right customer at the right time
- Because it is highly effective in reaching large numbers of middle to lower income individuals, and in distributing simple, low premium products in very high volumes.
- Because it allows the insurer to acquire larger quantities of customers directly, at a lower cost, and to grow and retain these customer relationships

There are other compelling reasons why direct makes good business sense ...

- Testing: Direct allows for a highly measurable and scientific approach of first testing a smaller sample of the customer base, so that costs and risk can be minimised, but still ensuring that

statistically significant conclusions can be relied upon so that marketing activities can be scaled up with a high degree of confidence.

- New Segments: Direct provides the opportunity to reach new consumer segments that may otherwise be overlooked.
- New Channels: Direct should ideally add to, not replace other channels
- New Products: Intermediaries are seldom interested in selling "direct" products, for example:
 - top-up products and riders more suited to closing the insurance "gap" or
 - simple, low cost products more suited to lower middle income customers
- Lower Costs: Direct creates the potential to reduce distribution costs
- Launching Strategy: Direct is typically the fundamental starting point for developing an effective Bancassurance strategy

Banks can enjoy important benefits from a direct marketing bancassurance strategy

- First, diversify revenue streams by adding commission (non-interest income).
- Second, generate significant additional levels of income for both bank (commission) and bancassurer (underwriting profit).
- Third, increase customer satisfaction by meeting the personal financial protection needs of customers.
- Fourth, increase share of customer wallet.
- Fifth, build brand value through new channels and broader financial offerings.
- Sixth, update and enhance customer data and information.
- Seventh, manage credit life risk by reducing bad debts
- Eighth, deepen customer loyalty and retention.

Key Success Factors

So that's the theory, now let's think about the threats, challenges and apply the key success factors to our own situation to determine the success of a direct marketing strategy ...

- First, is the bank's database large enough? To be successful in telemarketing, a substantial database is required. Not every segment within a list will always respond, therefore the ability to test different profiles within the list is critical. It is difficult to make cost effective sales without a substantial number of leads (usually a minimum of 50,000 is preferable, and 20,000 for a test campaign).
- Second, what is the quality of the data, how can customers be profiled and segmented? How the customer and data was acquired can have an impact on performance. Who are current

customers? Recently acquired? Affinity strength? Have customers been telemarketed in the past? What was the response?

- Third, does the bank or insurance partner have the necessary expertise? Developing the right direct marketing strategy and product is the first step – are external consulting skills needed?. Data skills to segment and target customers with a high propensity to buy and low propensity to claim is the next crucial step. Can the bank get to market quickly? Are the necessary project management and call centre management skills in place? Banks will want to avoid unnecessary damage to their customer relationships. Marketing risk (sales targets, costs) and financial risk (finance, cashflow timing) will also need to be carefully managed.
- Fourth, can the product be designed to be simple and easy to understand? It is always difficult to describe an intangible product or service. In telemarketing, where you have only about 30 seconds to capture someone's interest, it becomes even more difficult. Simple products always work best. The consumer is not actively shopping for this particular product and it is often an impulse buy.
- Fifth, can the offer leverage the banks brand as the primary endorsement for the offer? ie. "XYZ Bank is proud to offer this valuable XYZ Bank insurance plan to you our valued XYZ Bank customer". The Insurance Company should always carry secondary branding as "the company that underwrites the plan".
- Sixth, will the bank tolerate some complaints? Telemarketing is a more intrusive media than direct mail. As with direct mail, there are a small percentage of people, who will react negatively to being solicited. Complaints will need to be kept in perspective. The total number of complaints will typically be a fraction of a percentage of the total list.
- Seventh, does the product require a signature? Or is a voice-recording of the tele-sale sufficient? If it does the bank will need to build processes to follow-up on every call. This will entail additional mailings and phone calls which will drive up the cost of the marketing activities. Additionally, while "preliminary" results may look promising, until the application is received, a "sale" is only a verbal promise.
- Eighth, does the product require a lot of personal information? Asking personal questions over the telephone can trigger distrust in the respondent. Therefore it is also important that only a minimal amount of information is needed to activate coverage. A lengthy health questionnaire can make the individual uneasy about giving personal information to a stranger.
- Ninth, does the campaign have a ready payment method? Once the customer has agreed to buy on the phone, how do they pay for the product? The strongest offers are those that have a ready mechanism for payment. Charges are added to a credit card, onto a mortgage payment, current insurance payment or debited from an existing bank account. No new payment information is obtained because the relationship already exists. All the tele-agent needs to do is verify the information.
- Tenth, is there a reliable fulfillment and administration function in place? If sales cannot be efficiently fulfilled by quickly sending out the policy documentation to the customer, sales will be often lost before any premium is collected. And even when policies have been fulfilled, premiums will then have to be regularly and reliably collected, enquiries answered, records updated, claims handled, policyholder data managed and reports issued.

Attrition

Attrition has a very great impact on the EV of sales made.

Direct marketing has to be mindful of the need to manage attrition at every step of the process –

1. pre-sale, in designing the product and sales process
2. at sale, by ensuring the pricing is not too high, benefits are clear, teleagents do not hard-sell etc
3. and post-sale, by ensuring smooth and reliable premium collection, enquiry management, conservation scripts, sms reminders and so on.

Bancassurance Direct Marketing has delivered significant returns around the world

The four case studies in the table below show a sample of results achieved with direct marketing in various countries.

The first two are SA cases. The first one is a personal accident marketing programme with one of the big 4 SA banks, and the other is a whole of life and critical illness programme with another big 4 SA bank. Worth highlighting here is that response rates can vary widely with higher response rates of up to 25% on upsell and cross-sell campaigns but anything from 2% up can give very good EV and returns on investment. By the way RR is defined as the percentage of sales to total customers targeted.

The third case study is with a large Korean credit card company, and the fourth with a Singapore bank. Once again it can be seen that annualised premium generated is quite significant and acquisition costs are relatively low at approx 20% to 35% of API. Most importantly, EV to the insurer is healthy and significant.

Bancassurance direct marketing is already well established with many banks in many countries around the world, and a small sample of case studies of actual experience can be seen in the table below.

	Case Study 1	Case Study 2	Case Study 3	Case Study 4
Country	South Africa	South Africa	Korea	Singapore
Database	Bank	Bank	Credit Card	Bank
Insurer	P&C Insurer	Life Insurer	P&C Insurer	Composite Insurer
Product Type	Accident	Life & Health	Accident	ADB Rider
KPIs				
Response	3% - 10%	2% - 5%	-	-
Policies Issued	140,000	30,000	630,000	125,500
Annualised Premium	\$15 million	\$6 million	\$77million	\$22 million
Cost	\$4.5 million	\$1.5 million	\$15.4 million	\$4.4 million
EV	-	-	\$82 million	\$44 million

Global experience can be gathered and compared for countries at similar stages of development and can form a very useful starting point and source of best. Mistakes can be learnt from and avoided, whilst successes can be analysed and repeated wherever conditions allow.

Can Bancassurance via direct marketing be an effective strategy to significantly grow insurance penetration in the developing insurance markets of Africa?

Thank You.

Bruce Sahd

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