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This case study is based on the results and lessons from Zurich Insurance Group's multi-regional public-private development partnership with SDC between 2007 and 2011. It forms part of a series of thematic case studies of SDC's Employment + Income Network.

'Zurich increases focus on Microinsurance'[1]

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Lack of insurance contributes to the perpetuation of poverty

The inability to manage the effects of economic loss events – both in their anticipation and their impact – restricts low-income households and communities to highly vulnerable positions, harming their prospects for economic mobility and improved welfare. This lack of risk management capability is not only a broad societal challenge with implications for political and economic stability, but it also fundamentally challenges the role of the insurance mechanism to allow individuals and businesses at the bottom of the economic pyramid to manage their own fates.

Public Private development Partnership (PPdP)

In 2007, the Swiss Agency for Cooperation and Development (SDC) and Zurich Insurance Group (Zurich) established a multi-year Public Private development Partnership to better accelerate the offer of commercially viable insurance products and improve existing approaches for microinsurance. To this arrangement, the SDC contributed expert advice (including coordination with the ILO Social Finance unit) and CHF330,000 for use over three years. Zurich committed a small executive central team to consolidate best practices from its field operations and from external sources, to provide the catalyst for additional action, and to measure and disseminate results.

Outcomes of the effort

During the four-year initiative, the PPdP established multiple innovations, directly expanding the reach of insurance and improving understanding of both how and why such activities are undertaken. Internally and externally, it was viewed positively for making microinsurance at Zurich a business instead of a charity.
Over time, the initiative struggled to gain the sustained traction the parties had anticipated, primarily due to the inconsistent objectives of the central team and local business units regarding the initiative. This gap between centrally-driven initiatives and local priorities is not unique to microinsurance, nor is it unique to Zurich, as many institutions face the same alignment challenges, particularly in areas touching on "innovation." However, these experiences did provide key lessons, from which Zurich has charted a new course for its microinsurance efforts.

A global microinsurance initiative

In January 2007, Zurich Insurance Group launched a global initiative to improve access to insurance for emerging consumers. The "Microinsurance Initiative" was designed to challenge Zurich's business units to develop innovative solutions to better serve the growing emerging consumer segment across all of the Group's regions. Anticipating growing trends such as sustainable investing and social entrepreneurship, the initiative aimed to generate profitable growth and to demonstrably deliver new value for first-time insurance buyers. Zurich also intended to learn from micro-

[1] Title of Zurich press release on 1 Feb 2007.

insurance innovations and apply those learnings to other parts of the business.

In support of the business operations, a small central unit of subject matter experts was created to:

- distil and disseminate learnings across Zurich business units,
- propose and deliver micro-insurance products and research projects,
- engage with external partners as a contribution to development of the industry,
- support Group, regional, and country strategy development, and
- track and report on progress.

Rather than directly offering products or managing market activities, the central unit was resourced more as a catalyst to develop pilots, provide new insights, and to influence Zurich business units whose resources would be required for implementation. During the PPdP, the initiative fluctuated between 2-5 active staff to develop and roll out microinsurance propositions in target markets in Asia Pacific, Middle East & Africa, and Latin America.

Throughout the main active years 2007-2010, the initiative was supported through the SDC's PPdP. The PPdP was extremely constructive, both encouraging and providing resources to many of the initiative's successes and helping to keep focus on the goals of the microinsurance initiative.

Achievements

During 2007-2010, the efforts of both the central team and interested local teams generated significant success in three areas: financial and outreach performance, innovation in products & services, and shaping the external environment.

Financial and outreach performance

Annual revenue growth during the PPdP consistently exceeded 40% and microinsurance business produced profit in line with or better than company expectations. Between 2008 and 2010, Zurich grew the number of policies sold to the customer segment in tracked initiatives from 1.1m to more than 2.3m. Corresponding revenue growth was over 300% and net profit was over 200%[2].

In reflection of Zurich's structure and the local regulatory nature of insurance, all financial performance metrics were generated at the local business unit level. The central team's role was to provoke action and provide education where local teams hadn't yet recognized the opportunity, measure performance, distill and replicate best practices, and to prevent gross errors such as out of control expense, commission, or claims ratios. Even still, some of the programs established during this time – either by the central team or local businesses – continue today.

Figure 1 Policy Sales Total & by Region '08-'10

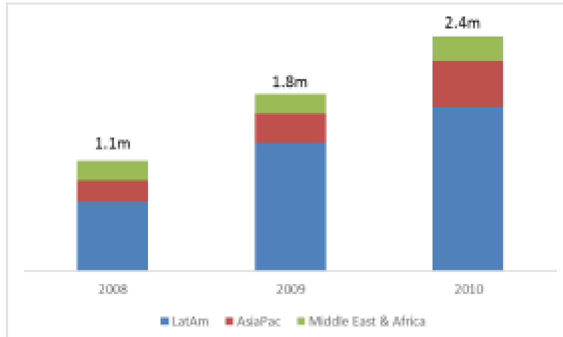
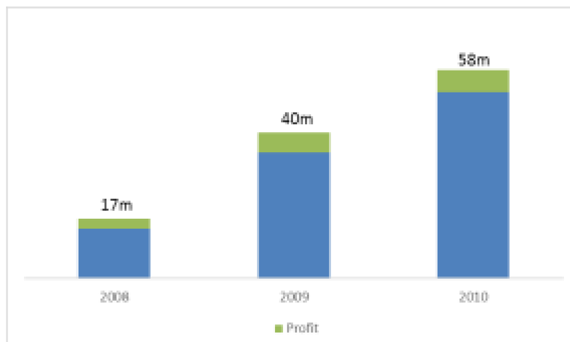


Figure 2 Total USD Premiums & Profit '08-'10



Products and services

In the product & services space, Zurich launched multiple successful initiatives:

- In Brazil, Zurich Life's Bancassurance team partnered with Banco Palmas to sell microinsurance through their network of 61 community banks in Brazil's northeast. By designing products collaboratively with members of the community, the Banco Palmas partnership has succeeded in creating a profitable business that can make a direct contribution to improving financial inclusion and reducing household vulnerability to risk.
- Zurich worked in cooperation with Holcim to deliver customized insurance to encourage uptake of sustainable and earthquake resistant homes for low-income families in Indonesia.

[2] Figures are unaudited and reflect programmatic tracking only.

Microinsurance initiative in South Africa

South Africa was identified from the start as a target market for Zurich Microinsurance. During 2007-2010, several new-to-Zurich products, services, and distribution were developed supported by multiple 3- 6 month secondments of central staff. These included:

- Multi-level marketing of funeral insurance
- Direct distribution of insurance for domestic workers through their employers
- Loyalty offering to bring delinquent consumer finance accounts up to date
- Mobile-enabled non-traditional agent distribution together with m-banking of legal plan insurance
- Life offering for informal savings societies (Stokwels)

The central team additionally helped maintain efforts on the Legal Plan product which had been under threat of being discontinued, supporting distribution of this product via a major retailer, and helped to maintain the nascent Life and Captive Insurance departments which, in line with market demand, were strategically important to the initiative's offering. By 2009, the microinsurance portfolio in South Africa produced nearly US$8m in annual revenue at a strong operating margin, providing cover to more than 250k individuals.

In order to prepare the new initiatives while minimizing disruption to other local priorities, the initiative relied heavily on external partnerships. The mobile-enabled non-traditional agent distribution, named Project Kudu, aimed to bring low cost yet fully compliant distribution to customers where they live. It used a bespoke mobile-phone application to help mobile-banking agents -- themselves largely unfamiliar with insurance -- to accurately present and bind insurance policies. The application provided a simple pictorial description of the product terms for the agent to step the customer through key terms before binding the policy. Policy confirmation was made via SMS.

Built into the design were multiple specific measures to rapidly learn what was working and what required improvement. These included: how many offers were started, how many completed the explanation of terms, how many completed selection of coverage, and finally how many were bound.

The partner contributions to bring this to market included: SwissContact to develop training and product presentation, a third-party administrator for policy management, iLab (an initiative of ETH and St Gallen University) for mobile application design, and a well-established mobile-banking institution to provide access to agents and customers.

- With Nestle, Zurich celebrated a global memorandum of understanding to develop multiple products and propositions for emerging consumers. Among those investigated or developed are cattle insurance, personal accident, and various index covers.
- With Women's World Banking, Zurich developed an award winning and sustainable proposition in Jordan, providing assistance to low-income micro-credit clients during hospitalization events.
- With a mobile-phone based bank in South Africa, Zurich developed a new mobile phone sales process to reshape how its Legal Plan offering would be provided to low-income customers.
- Supported by its Brazil Business Unit, the initiative developed an award winning proposition "Pick for a Dollar" to expand the use of pre-underwritten products, to provide action research, and to offer a choice of voluntary life and general insurance products in a single proposition.
- Through its Bolivia and Mexico operations, Zurich rolled out multiple products with specific "tangibility" features such as pharmacy discounts and "scratch-card" policy forms.
- Together with New China Life, three life microinsurance products were launched in the Chinese market.
- Together with Zurich South Africa, several products were piloted and launched including Funeral insurance and Credit Life sold through innovative distribution schemes.

Shaping the environment

- The third key area of success was shaping the environment for financial inclusion, helping to progress the dialogue around the role of insurance in related issues with new partners:
- With ETH and the University of St Gallen, Zurich developed a landmark report on emerging opportunities and threats in Technology & Insurance for Emerging Consumers.
- With Swiss Agency for Cooperation and Development, Credit Suisse, and other partners, Zurich helped to found the Swiss Capacity Building Facility.
- With the Microinsurance Network and International Association of Insurance Supervisors Joint Working Group, Zurich contributed to initiatives such as the G20 Financial Inclusion Experts Group, IAIS Application Paper on Microinsurance, and the establishment of the IAIS Financial Inclusion Subcommittee.

- With the United Nation's International Labor Organization and the Bill & Melinda Gates Foundation, Zurich contributed staff expertise to the Microinsurance Innovation Facility and the Zurich Foundation funded a $3M round of innovation grants focused on up-scaling and technology.
- A market framework paper was published jointly with Nan Kai University in Tianjin, Professor Jerry Skees and Global Ag Risk called "Assessing the Demand for Weather Index Insurance in Shandong."

Challenges

While successful in delivering microinsurance intangibles and individual innovations, global and local efforts were not as closely aligned as required in order to establish the envisaged business model. This is not viewed as a specific Zurich or microinsurance challenge, as there is much evidence and business case literature to document the results of insufficient alignment across multinational institutions. This challenge is amplified in projects where innovation – i.e. longer-term more potentially volatile efforts – is a core objective, and where such efforts are being pursued in parallel with efforts to streamline local businesses and to create focus on known markets and products. In Zurich's case, a number of specific recurring constraints became apparent during its microinsurance initiative:

1. Insufficient alignment between global and local microinsurance priorities and expectations;
2. Lack of effective mechanisms for longer-term or multi-market investment in innovation; and
3. Inconsistent availability of micro-specific skills and bandwidth in key areas such as underwriting or claims.

A reflection of the challenges associated with aligning interests around microinsurance was a continual effort to "define" microinsurance for the firm. On one level, there was the challenge of defining the customer segment.

Microinsurance initiative in Indonesia

In Indonesia, the microinsurance initiative developed and implemented several new-to-market and new-to-Zurich products and services, most notably via Zurich's corporate partners:

- Dwelling insurance together with Holcim, a global leader in construction materials
- Cattle insurance with Nestle, a global leader in nutrition, health, and wellness
- Motorbike accident and property insurance together with a specialized lending institution

During the financial year 2009, these programs reached nearly 100k emerging consumers, producing US$0.7m in annual premium at a combined ratio of 104% - indicating an operating income deficit. To develop and grow the programs, the central unit sponsored a secondee on-the-ground for over a year. While the business case for cattle insurance and initial results of dwelling insurance were promising, efforts in Indonesia highlight the vulnerability of early-stage projects to unanticipated shocks.

In 2008, cattle insurance for smallholder farmers in Indonesia appeared as a good business proposition. A material number of Nestle milk vendors were smallholders with only 1-2 milk producing animals. Limited milk supply in Indonesia had caused milk prices to climb. Nestle developed a plan to import 20k heads of cattle and to provide appropriate financing for smallholders. In connection with this, Zurich researched and developed a new-to-Zurich cattle insurance product. During the year required to develop the entire action, milk prices in Indonesia receded substantially, reducing viability of the proposal. It was discontinued without launch.

In 2009, Holcim and Zurich identified a proposal to encourage uptake of specially designed low-cost and earthquake resistant dwellings intended for lower income customers. This property product substantially modified existing offers that were available in market and provided insurance as a tick-box option for purchasers of such a dwelling. To encourage good understanding of the policy's basic terms and conditions, these were explained in simple cartoons. The pilot achieved its goals and was targeted for expansion. At the off-site where expansion was to be discussed and approved, a major tragedy occurred – the hotel was struck by a bombing which killed 9 people including Holcim Indonesia's CEO. While the program was continued (and was featured in both Holcim's and Zurich's sustainability reports), it was not returned to as a high priority topic.

Unlike most other Zurich businesses, microinsurance specifically sought to serve a traditionally neglected customer segment – in this case the 4-5 billion emerging customers near the base of the pyramid -- whose use of risk management tools were new but central to their ability to control their own fates.

This social- status driven definition of customer segment, then, prompted another definitional challenge: whether microinsurance was a form of philanthropy or a business. The central team' view was clear – there were separate roles for philanthropy and business. However, the ethical questions persisted, and challenged broader adoption of microinsurance initiatives. As artfully stated by one senior Zurich executive "the segment is too large to risk a loss-making business and too vulnerable to risk a profit-making business. You must operate in the middle."

Despite such challenges, the initiative did manage to define and agree upon a pragmatic screening mechanism based on a program-by-program analysis of distribution partners, distribution methods, and specific products offered. A similar method has since been adopted by other global insurers and well documented for external peer review. Through this method, robust reporting and measurement was implemented for quarterly performance tracking.

Lessons learned

Zurich's experience in engaging emerging consumers highlights five key lessons learned:

1) Motivation and objectives: Why insurance companies want to engage with emerging consumers

Microinsurance and the emerging consumer segment can be approached from different starting points: one can take a pure for-profit business perspective or one can pursue market expansion for corporate responsibility (CR) purposes. Zurich's experience in working in the field shows that it is important that the choice be unambiguous and that the understanding be enforced across all levels of the company.

The CR and pure for-profit business approaches have different advantages and drawbacks. The CR angle, which aims to combine business and societal value, may allow more leeway to experiment and to pursue innovation and impact, but is not the right place to drive scalable or long-term sustainable businesses. Further, spending on CR is generally viewed as an "expense" which can be subject to cost cutting initiatives. A pure for-profit business approach requires a risk adjusted return within an acceptable time frame, but has the advantages of potentially being scalable and of aligning with the organization's core incentives and goals. Businesses that are making appropriate operating profits tend to not be the target of cuts – but where vulnerable households are the intended customer, defining "appropriate" is critical. The key, then, is to be clear about one's motives, to draw funding and authority from the correct budget to achieve those motives, and to fully understand the advantages and disadvantages of your chosen path.

For each option it is also important that structures, resources and expectations are appropriate and realistic. If there is a disconnect between the motivation for addressing the segment and the way it is executed, then there is a risk that expectations will differ from the ability to deliver, and stakeholders may judge efforts to have been unsuccessful even if progress has been made – or conversely to view an effort as successful that ultimately had little impact.

2) Organizational structure: Finding the right model to serve emerging consumers

Multinational insurance companies can attempt to address the emerging consumer segment through a decentralized approach or with a central unit supporting the work. Zurich's experience shows that both approaches can work and each has its difficulties.

A central unit can offer specific advantages in developing innovative solutions by leveraging best practices, broad-based insights and extensive networks inside and outside the firm. It can also help access global partners, as Zurich's experiences in Indonesia, Jordan and China highlight. But it is critical to acknowledge and address the natural tensions that the global-local dynamic creates. Without resources or authority to drive implementation, the global layer does not affirmatively drive change but rather it relies on influence and, over longer periods, governance to create an environment conducive to change. During the period of the central initiative, significant events and changes to governance occurred including the 2008 financial crisis and less substantially, changes to the units reporting lines and sponsorship.

On the local level, when business units view a microinsurance opportunity as organically consistent with local strategy they commit resources, focus and priority to execute successfully. That said, such a local approach tends to not directly facilitate the cross pollination of ideas into other markets, thereby failing to create the benefits of knowledge sharing or scale most often associated with a global or regional approach.

3) Organization structure: A centralized approach requires significant alignment of priorities, resources and authorities

In the case of the microinsurance initiative, Zurich learned the importance of aligning – early and often – the priorities, resources and authorities when utilizing a model in which a central unit works across divisions and country units to establish a non-core activity. All entities must fully understand the Full Time Employee (FTE), investment, and skill demands that any such effort demands. In addition, it must be very clear to all parties involved what their respective roles are and who has ultimate decision-making authority. And most importantly, incentives must be fully aligned so that both global and local managers are pursuing the initiative for common purposes.

4) Measurement: the importance of measuring and understanding progress

Successful implementation of any approach to emerging consumers requires strong understanding of progress being made, which in turn needs to be planned and measured. If the target market is addressed through a business approach, then an understanding of the financial sustainability and attractiveness of the segment is important in justifying continued engagement. If a CR approach is chosen, then progress against impact and reach indicators will be important to demonstrate success and to guarantee continued engagement. Either way, it is important to be fully embedded in local plans, as what gets measured gets done.

5) Innovation: taking risks and the need for a long-term view

Zurich's experience shows that pursuing new market segments that may lack the scale or track record of traditional markets requires alternative approaches, experimentation, and a level of risk-taking. A successful approach to emerging consumers requires adjustments to key processes and some experimentation to find sustainable ways to distribute products in a low margin / high volume environment.

The time and resources required for projects to be developed and implemented often means that results can only be seen a few years after activities have been launched, especially if companies are not willing to make big investments. In the case of Zurich, for example, work started in 2007 and the most resources were committed in 2008 and 2009, but the most projects were launched in 2010. To be successful you have to be prepared to stick with it over a number of years.

Zurich's going-forward view

Zurich continues to pursue aims and objectives of the microinsurance initiative while implementing lessons from the PPdP. Zurich embeds activities in the right organizational areas to manage them:

- Local business is developed by Zurich business units within the General Insurance and Life divisions which have authority to implement microinsurance;
- Centrally, it is engaging with other insurance industry leaders to explore means of leveraging their collective scale to spur development of microinsurance markets;
- Zurich develops solutions with corporate and other global partners for portfolio-level microinsurance programs through its Global Corporate and Consumer Life and Pensions divisions;
- Zurich is implementing a responsible investment strategy to manage the Group's investments, seeking to generate positive impact alongside financial return. This includes a catalytic commitment to invest up to USD 2bn in green bonds; activities in the private equity space, such as a recent investment in LeapFrog, a private equity fund focused on microinsurance and other forms of financial inclusions, as well as other initiatives.;
- External engagement with government, industry peers, and other stakeholders as well as external dissemination and new research are led by Zurich's Government and Industry Affairs;
- Zurich is applying its expertise and working with community and academic partners to enhance flood resilience, which includes looking at the role of insurance when it comes to enhancing resilience.