



Social Innovation in **Microfinance**

New product development methodology: **Micro Insurance 3x1**

CODESPA Foundation
2010



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Prologue

“Social Innovation in Microfinance. New Product Development Methodology: Micro Insurance 3x1 and Business Start-Up Loan,” has been revised due to the initial success of the publication, produced by CODESPA and with the support of the Spanish Agency for International Development Cooperation (AECID).

The prologue, therefore, presents an opportunity to demonstrate the evolution of the products over the year that has passed since the first edition, as well as to present the continuity in the innovation strategy for products and services that improve the quality of life of the poor that are the focus of these three organizations.

As indicated later in the publication, the development of the micro insurance product was fruit of collaboration on a project in access to banking services between ADOPEM and CODESPA, with financial support from AECID. The execution of this collaboration took place over three years, finalizing in February of 2010.

The collaboration seeks to multiply the impact of the money transfer flows sent from emigrants in Spain to their families back home. Among other activities, this collaboration created and implemented microfinance products that encouraged opportunities for saving or investing, and at the same time offered the families in the Dominican Republic access to training and technical assistance to invest part of their remittances in a productive way, such as for business start-up or reinforcement.

Among the products designed in this collaboration were: a micro insurance product for life, accidents and final expenses, a business start-up loan and a loan for housing. The publication presented here details the first two.

With the design and implementation of the ADOPEM products during the execution period of the collaboration, it is important to emphasize the sustainability of the development intervention, which left the newly developed products permanently installed in the ADOPEM portfolio.

Reviewing it a year later, the ADOPEM-CODESPA micro insurance project has experienced greater success than was expected. At the time of publication (February of 2010), the micro insurance product had just been launched and **227 people** had accessed the product, for a total value of **1,365 euros** (72,570 Dominican pesos). A little over a year later, in May of 2011, the number of people that have bought a micro insurance product surpassed **9,000** for a total value of **44,777 euros** (2,381,025 Dominican pesos), representing an increase of **3,964.75%**.

Graph 1. Policies sold according to individual or joint coverage

Plan	Amount	Value in \$DR
Individual with disability	4,534	1,304,255.00
Joint with disability	246	134,430.00
Individual without disability	4,232	922,365.00
Joint without disability	54	19,975.00
	9,066	2,381,025.00

Within this increase in the number of people that buy life insurance, it is important to note that 79% are women. Sixty-five percent of the clients that have bought micro insurance are between the ages of 25 and 50, 24% are older than 51, and 9% are between 17 and 25.

In line with this experience, and due to the success of this collaboration, CODESPA and ADOPEM signed a new collaboration agreement on July 1st, 2010 which will focus on **rural microfinance**. Giving continuity to the previous one, this new collaboration has also been financed by AECID.

The objective of the collaboration agreement is to coordinate, advise and support the research, analysis, design and implementation of a **rural economic development program** with a value-chain focus in southern Dominican Republic. Within this project will be integrated not only producers and their organizations, but also local institutions – both public and private actors – thus configuring a complete vision of rural territorial development.

This collaboration agreement is oriented toward providing small producers in rural areas in the southern part of the Dominican Republic with access to financial and non-financial services that facilitate investment and improve income and employment generation (or self-employment) for the rural poor. With this, the aim is to reduce poverty through the competitive and sustainable coordination of the territorial economy with dynamic markets, incorporating product, process and management innovations.

Innovation continues to have an important role in this collaboration, and development of new financial products is being considered, which would in this case be oriented to rural needs, and more concretely in the **agricultural and livestock sector**.

Simultaneously, the collaboration will allow for development and implementation of credit methodologies and new organizational structures within ADOPEM that respond to the needs of small rural producers in the southern region of the island and allow them to boost productive activities.

Finally, ADOPEM will undergo institutional strengthening in terms of the improvement of social performance management of the bank.

In short, the collaboration agreement will incorporate the following components:

1. Carrying out of a study with a value-chain focus in order to influence the most vulnerable links of the agriculture and livestock chain in the southern region of the country to achieve greater impact.
2. Design and implementation of two financial products: agricultural credit and agricultural insurance.
3. Strengthening of social performance management of ADOPEM Bank.

In conclusion, CODESPA considers that the success of the previous publication resides in the success of the design and implementation process for the products developed by CODESPA and ADOPEM and thanks to the support of AECID. Our work, as actors of international development, is to diffuse this experience, replicate it and promote its results in other contexts and with other actors in different parts of the world in order to contribute to poverty reduction.



Micro insurance 3x1

(Life, accident and final expenses protection)

The Micro Insurance 3x1 product primarily consists of a combination of 3 insurance products in the same insurance package: 1) life insurance; 2) final expenses insurance; 3) disability insurance. Any person who wants to be insured can access it, regardless of whether or not he or she is an ADOPEM client.

The success of the product is mostly due to its highly competitive price and its ample coverage, the obtained benefits from policy coverage being at least 225 times the annual investment. As will be explained in detail later, Micro Insurance 3x1 is a simple, efficient and very accessible product.

1. CONTEXT

Micro insurance is designed with the end goal of providing protection to persons who are excluded from traditional insurance and reducing the negative impact of risks to which they are exposed. The history of insurance in the Dominican Republic dates back to the decade 1910-1920 when insurance was first introduced in the country and Canadian companies, pioneers in the field of life insurance, established themselves there. With the enactment of the Private Insurance law No. 68, the national awareness of insurance began to spread. Since the enactment of this first law, new laws and regulations concerning insurance services have also been enacted.

The country still lacks extensive experience in the field of micro insurance. One of the keys to success for these products is distribution channels that can access the target group, which means that the majority of insurers in the country are not interested in providing micro insurance. Alliances exist between insurance companies at the local level, but they can still be considered very limited because of the low outreach they have achieved in terms of the number of insured people.

The most prevalent micro insurance products in the Dominican Republic include insurance linked to microcredit payment, which is normally obligatory for large credit sums and provided by the same microfinance institutions that offer the credit services, and car insurance that is also required by law.

Due to the lack of insurance products that could adequately address the characteristics and needs of low-income populations, ADOPEM and Fundación CODESPA committed themselves to designing a micro insurance product that was appropriate for the low-income ADOPEM clients.



2. DEVELOPMENT PROCESS

The development process of the ADOPEM-CODESPA micro insurance product elaborated 4 fundamental stages: identification and analysis, design, pilot test and launch.

2.1 Identification and Analysis

All product development is based on the identification of an existing opportunity in the market. In this case, ADOPEM identified the opportunity to create a micro insurance product based on information obtained from secondary sources, such as official data concerning the destination of resources obtained from remittances, which revealed that 42% of recipients use part of their remittance money to defray health costs.

- **Development Team**

ADOPEM Bank created a team that was in charge of product development, composed of: an external consultant specialized in the financial sector, risks and values in the Dominican Republic, the Manager of Insurance, the President, the Executive Vice President of ADOPEM Bank and the Vice President of Business. The external consultant and the Manager of Insurance assumed leadership of the product. Other areas of ADOPEM Bank like Technology and Marketing were also incorporated in specific phases of product development.

CODESPA's interest in focusing on remittance recipients in rural areas also served to identify one of the important locations for design and testing of the product, the branches in the South of the Dominican Republic.

Because insurance is such a specialized business, the financial sector is obligated to work together with insurance companies. In this case, ADOPEM Bank became a simple sales agent of insurance products issued by the insurer. Given the particular characteristics of the insurance product that require specialized knowledge, they also solicited the technical support of two agent insurance companies for the design and promotion of the product, with the objective of relaying to the insurers the necessary details of pricing.

Under this agreement, the agent insurance companies were responsible for supplying the necessary software for policy issuance (which would also be capable of issuing policies from different insurers) and offering training to ADOPEM personnel on the use of the software. The insurer would be in charge of the actual policy issuance.

- **Identification Tools**

The identification of an opportunity for product development should be completed through very specific market research that identifies the needs of the client and the components the product should contain in order to satisfy these needs.

Taking cost-effectiveness into consideration, ADOPEM Bank opted for the use of surveys instead of other research techniques, such as focus groups or personal interviews. The objectives of the survey were: to validate client interest in micro insurance and to determine the types of risk that were priorities for the clients, the amount that they would be willing to pay for the product and the potential that the product had as a tool for cultivating the loyalty of existing clients and attracting new ones.

Thanks to the initial identification and the effectiveness of the tool, the study succeeded in obtaining the necessary information. For ADOPEM, one of the lessons from this stage of the project was that the use of client surveys is an attractive alternative to obtain market information. It works well because it requires daily contact between the organization and its clientele, which encourages client attendance for the completion of the survey and makes it possible to use regular client service channels to obtain information.

In this case, the survey was based on a model previously elaborated by one of the agent insurance companies. It was expanded to include the following characteristics:

- 5 ADOPEM personnel passed out the survey in six branches of the bank in the metropolitan area
- 506 people were surveyed (each surveyor completed 100 questionnaires over the course of 3 days)
- 21 questions and an estimated duration of 7 minutes per survey
- Clients were not selected based on socioeconomic level
- The only requirement was “to be a client of ADOPEM”
- Scheduled at the end of the month (higher number of visits to the branch)
- Launched in the capital.

The survey sought to answer 4 questions:

- *Are the ADOPEM Bank clients aware that they need micro insurance and to what degree are they currently using it?*
95% of clients claimed to understand the importance of insurance.
- *What type of micro insurance products should be designed to offer to the clients?*
Of the 7 options for micro insurance products that were presented, ADOPEM Bank clients had a clear preference for life insurance products; life insurance and final expense insurance were demanded by 60% and 47% respectively.
- *Would micro insurance be a way for ADOPEM Bank to gain the loyalty of clients?*
When asked about their interest in contracting insurance through ADOPEM, 92% of clients surveyed responded affirmatively. A greater percentage of clients (96%) confirmed that, faced with similar conditions for loans and savings product offerings between ADOPEM and other banks, the fact that ADOPEM offers insurance and other banks do not would be a determining factor in the client’s preference for ADOPEM.
- *What percentage of their income would clients be willing to spend on insurance?*
Taking into account that 85% of clients surveyed receive gross incomes at or below 507 euros¹ (DR\$25,000) per month and 65% say they are willing to spend a minimum of 2 euros (DR\$100), the calculation shows that on average they would be willing to invest 1%.

With the information collected from the surveys, it was possible to get an estimate from the insurance companies of the insurance products as a function of the premiums and desired coverage.

• Interpretation of survey results

ADOPEM Bank had initially defined some general required characteristics for the insurance product, around which they could determine the winning product option. First, the cost of the insurance had to be low and the customer service had to be excellent, and for that reason they had to select the service lender carefully. The policies would also have a fixed period of 6 to 12 months and, if they were attached to credit operations, the reference for this would be the period of the loan in question. Finally, the required documentation for the contracting of the insurance product and for its claims procedures needed to be as limited as possible.

According to the results of the previously mentioned survey, the following insurance needs were ultimately chosen: life insurance, accidents and final expenses. The goal was to develop a combined insurance policy that would cover the three circumstances.

With the assessment of the two agent insurance companies that collaborated in the process, they proceeded to request pricing from the insurers for the mentioned products, within the premium levels that the clients were willing to pay and in accordance with the requirement of efficiency in the procedures.

They also observed that micro insurance offers a business opportunity as an instrument to gain the confidence of their clients.

¹ Exchange rate on February 15, 2010: 1€/49.3276DR\$. Used throughout the document.

• **Market Analysis**

Simultaneously, they developed an analysis of the existing competition in the market and determined that there wasn't really an available insurance product that was especially designed for the low-income population and that responded to its principal needs. They identified some insurance products offered by cooperatives for a segment of the agricultural population, which were managed in a very informal way, with monthly payments of 0.40 euros (DR\$20) and a coverage of 203 euros (DR\$10.000). They also learned that some wage-earners with stable employment had access to life insurance plans with monthly premiums of 4 euros (DR\$200), and some funeral businesses offered a savings system designed to cover final expenses, for which the client paid 10 euros (DR\$500) per month. However, this practice of the funeral agencies was more common in the provinces and less in the capital.

• **Negotiation Process**

This stage of the project was one that required more time than anticipated, not only because of the technical aspects that had to be defined with respect to coverage levels, premiums and requirements, but also because of a strategic decision that ADOPEM Bank had to make concerning required alliances with agent insurance companies.

In the end, ADOPEM opted to work with its usual agent in order to eliminate confidentiality risks with its database. However, ADOPEM Bank negotiated that the chosen agent should provide the necessary software for the policy issuance and offer training to ADOPEM personnel in the use of the software, with the objective of speeding up the product launch. In accordance with ADOPEM Bank's requests, the agent started to develop the necessary software for policy issuance, with the feature that the software would have the ability to accept policy issuance by different insurers, as well. Meanwhile, they designed the training plan for ADOPEM employees in the use of the software.

Another important decision that was taken in this stage between ADOPEM Bank and CODESPA was to not restrict the product only to remittance recipients, since the survey demonstrated that ADOPEM clients had a massive interest in the product. This expanded the objective market, which would contribute to quick outreach in portfolio volume, making the project more attractive for the insurer, the agent and ADOPEM Bank.

After obtaining price estimates from seven insurers, the product development team identified the insurer that offered the best conditions for life insurance and final expenses. This insurer was already offering other obligatory insurance products to about 15,000 ADOPEM clients.

It's important to describe the negotiation process that took place between ADOPEM Bank and the agent when adapting the product and the process to the characteristics of the client base. For example, in the design of the product, the agent proposed three different formulas for each type of policy (life, accident and final expenses), and ADOPEM Bank insisted on bundling them into one in order to simplify the procedure. In terms of the maximum age for admission and the maximum age for renewal, they were able to increase each by 5 years: from 60 and 70 to 65 and 75, respectively. This allowed them to include in the insurance coverage a highly vulnerable population group, since elderly people can have higher needs for insurance with these characteristics.

It is important to stress that microfinance institutions usually have significant negotiation power based on the high volume of clients they possess (especially in the case of ADOPEM Bank), and that these institutions turn out to be attractive potential clients for the providers, as with the case of insurance companies.

2.2 Design

One of the strengths in the design of the 3x1 product was the decision to combine three kinds of coverage that were identified as priorities by the survey in a single policy: **final expenses**, offering a total of 406 euros to all clients in the case of death; **life**, covering the risks of natural death through accidental death by disease; and **disability** in the case of a loss of limb or extremity.

They designed a micro insurance product with very attractive characteristics for the client, managing to create a complete, efficient, easy and accessible product. The act of succeeding in creating a product with these characteristics demonstrates the wide knowledge that ADOPEM Bank has about the needs of low-income clients. ADOPEM Bank was aware that a product that didn't comply with these factors would not be accepted and would not have success. The wide social base of ADOPEM Bank, extended to national level, facilitated the negotiation process with the agent companies and insurers, which resulted in the creation of a successful product with the following characteristics:

- **Price**

The applicable premiums are annual and vary according to the choice of disability insurance, the coverage sum requested and if it is an individual or joint policy. The minimum annual premium is 4 euros (DR\$200) and the maximum reaches 12 euros (DR\$705). They considered it to be very affordable for all kinds of people, without possible exclusion for financial reasons. Taking into account that average monthly income in the Dominican Republic is about 98 euros (DR\$4,842²), the annual premium would be about 0.3% of total average annual income.

For greater detail, the coverage amounts and premiums paid by clients are shown in the following table:

Table 1. Premiums according to coverage type

Coverage type	Minimum coverage		Medium coverage		Maximum coverage	
	In pesos	Equiv. in euros	In pesos	Equiv. in euros	In pesos	Equiv. in euros
Final Expenses	\$20,000	€ 405.45	\$20,000	€ 405.45	\$20,000	€ 405.45
Life	\$25,000	€ 506.82	\$30,000	€ 608.18	\$50,000	€ 1,013.63
Disability	\$25,000	€ 506.82	\$30,000	€ 608.19	\$50,000	€ 1,013.64
Insurance type						
Premium final expenses + life (Individual)	\$200	€ 4.05	\$215	€ 4.36	\$300	€ 6.08
Premium final expenses + life (Joint policy)	\$330	€ 6.69	\$365	€ 7.40	\$510	€ 10.34
Premium final expenses + life + disability (Individual)	\$255	€ 5.17	\$280	€ 5.68	\$390	€ 7.91
Premium final expenses + life + disability (Joint policy)	\$455	€ 9.22	\$505	€ 10.24	\$705	€ 14.29

Exchange rate € 1,00 49,3276 RD\$

February 15, 2010

Source: in-house calculation

² Dominican Republic Human Development Report 2008, UNDP Office of Human Development in the Dominican Republic, 2008, p. 233.

The ability to make a single annual payment prevents the client from having to make monthly payments, which is an important and attractive quality for the client. As observed in the coverage table, from 4 euros (DR\$200) annually a coverage of 406 euros (DR\$20,000) is available for funeral expenses and 507 euros (DR\$25,000) is available for death. The most expensive option, which provides coverage to two people and includes a total and permanent disability policy, has a cost of 12 euros (DR\$705) annually and provides a combined total coverage of 2,432 euros (DR\$120,000).

One of the factors that makes it possible for the insurer to offer a competitive premium is the designed operating system for the policy issuance, wherein all the responsibility of the insurance sale and the document printing has been transferred to ADOPEM Bank. As indicated by the representative of the insurer who was interviewed for this publication, for policy issuance with traditional insurance the company has an average operative cost of 15%, while the product offered through ADOPEM Bank only represents an operative cost of 5%.

• **Simplicity**

One of ADOPEM's concerns was that the contracting process for the insurance product remained simple. For ADOPEM's low-income target population, this requirement was fundamental, both because of their lack of resources to cover travel expenses and because of a low literacy level. The simplification of the process resulted in a reduction in administration costs and an improvement in customer service (for example, reduction of required trips to the bank). More than with other products, they opted for the simplification of a basic product with various coverages:

- A single form, a single payment, with only one person's name in the database
- A simple form, without small print. Annual payment instead of monthly
- A product for any kind of client

Finally, the policy issuance and claims processes were made extremely efficient, since they only required a photocopy of the identification card and a sworn declaration that the applicant does not have a pre-existing illness such as cancer, AIDS, etc. According to the information provided by the insurance company, this simplified procedure was possible as far as the reinsurance companies were concerned with a maximum coverage inferior to the equivalent of 2,500 euros. This allowed the portfolio to be sufficiently diversified and the risk to be managed.

• **Efficiency**

So that the policy complied with the objective of being a source of support in the case of the death of the insured, the payment to the beneficiary needed be made as quickly as possible. As a result of the negotiations for the new product, the process was made more efficient so that the payment could be made in a period of 7 to 15 days, both with final expense insurance (in the case of death) and with life insurance.

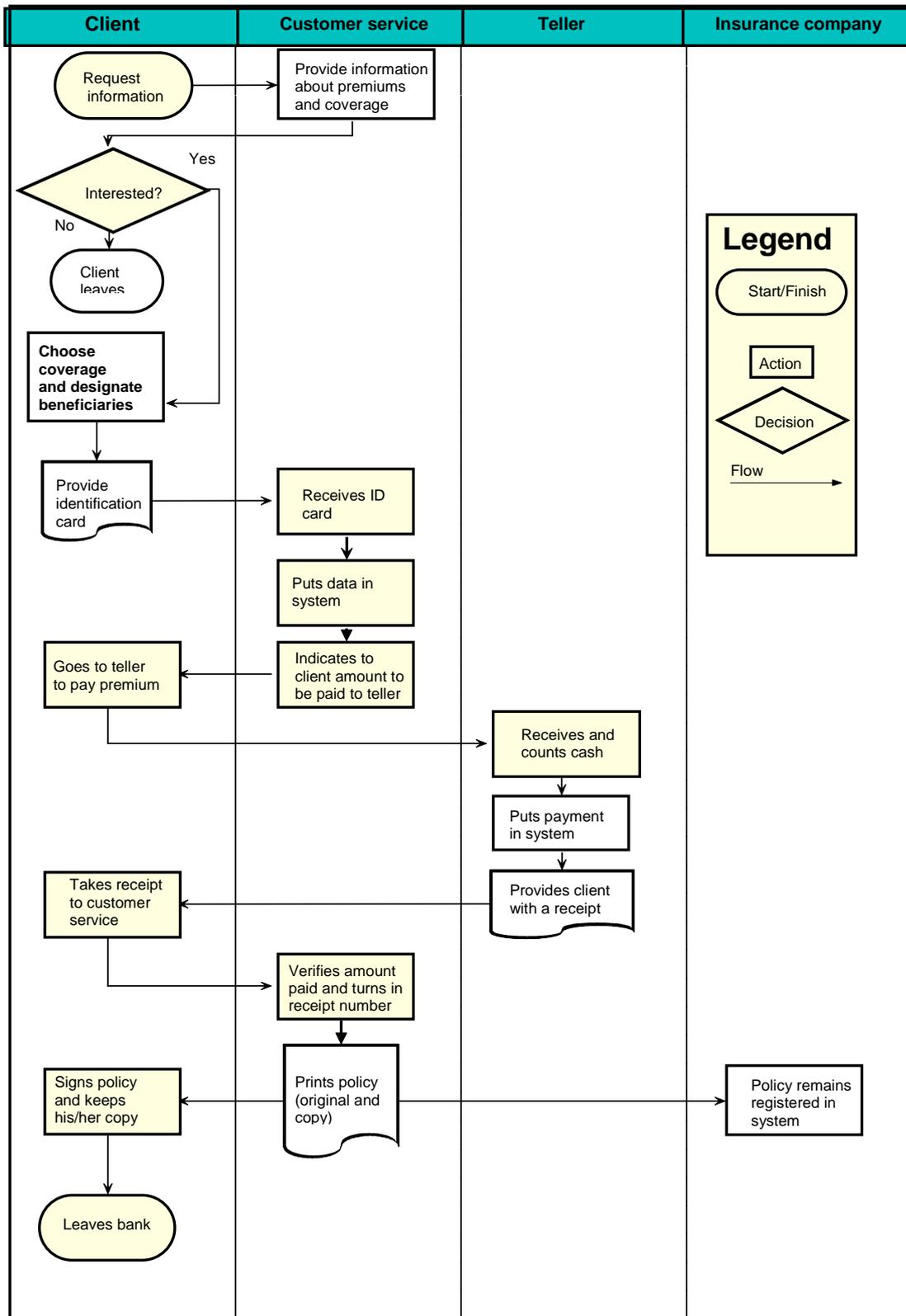
The agent insurance company had a very efficient claims procedure to begin with for the final expenses product, but not so much for its life insurance product (since, among other things, it first had to begin the research process to determine if the disease in question was present before the start of the insurance contract). Through the negotiation process, ADOPEM ensured that both policies had the same claims procedure and, as such, the same speed of response to the insured.



Additionally, the procedural efficiency was extended to the policy issuance process. As observed in graph 3, thanks to the minimum number of requirements and the software provided by the agent insurance company that operated via internet, the policy issuance procedure required no more than 10 minutes.

Graph 1. Policy issuing process for Microinsurance

Flow of micro insurance policy issue



Additionally, when the client left the office with his/her policy document, he/she was insured that same moment, in contrast to many other insurance products that require the client to wait until the next month for the policy to be valid, since insurance companies tend to activate policies at the start of the month.

This solution was possible because the responsibility for software development for the policy issuance was transferred over to the agent insurance company, which allowed the Bank to save the cost and time of developing it. In agreement with the agent this represented a cost of at least 10,000 euros (DR\$500,000).

The only required characteristics for the software were simplicity and efficiency, which were necessary for the objective market. From the perspective of the insurance company, this facilitated the process and reduced operative costs.

The software was not limited to the requirements of a single insurance company and allowed the incorporation of additional insurers into the existing platform. Likewise, this allowed for quick modifications to incorporate valuable information and generate statistical reports that were previously not available, like for example:

- Type of plan chosen, number of policies, sum of premiums and distribution by percentage
- Policies by agency, number of policies, sum of premiums and distribution by percentage
- Age scale of insured, number of policies, sum of premiums and distribution by percentage
- Policies sold by sales agent
- Gender of insured
- Motive, difference between remittance clients and other kinds of clients

Another virtue of the software was the possibility of adding other kinds of information that could be interesting, like for example, how the client found out about the insurance product.

This step forward has provided flexibility so that in the future, ADOPEM Bank can evaluate the possibility of policy issuance through mobile banking tools. If the credit officials continue being the main point of contact between ADOPEM Bank and the client (above contact with the branches), the promotion and sales strategy of the micro insurance product should consider this reality and allow policy issuance through mobile methods or as a component of their daily visits with clients.

• Profitability of the product

The determination process for the insurance premiums is based on actuarial calculations that measure the probability that the risk covered by the policy will come to pass, as a function of the age of the insured and the portfolio as a whole.

Because of the reduced values of the premiums, one can infer that a certain volume of operations becomes necessary so that the product generates an attractive level of revenue for the company. Profitability is only achievable in the medium and long term with the commercialization of the product on a large scale, but this was possible thanks to the significant number of clients that ADOPEM Bank has within its portfolio of current borrowers and savings clients. It is important to remember that ADOPEM Bank has more clients than any other financial services institution in the Dominican Republic. They are also undoubtedly attractive for potential clients.

From the perspective of the insurer, the equilibrium point would be a monthly revenue of 2,000 euros (DR\$100,000). The average premium that ADOPEM Bank had been charging to date increased to 6 euros (DR\$320) as the following table demonstrates:

Table 2. Average premium charged by type of coverage in the DR

	Real average	Arithmetic average	Coverage 30,000
Individual with disability	308.96	308.33	\$280
Joint policy with disability	567.50	555.00	\$505
Individual without disability	210.37	238.33	\$215
Joint policy without disability	395.83	401.67	\$365

Source: Sales Report, February 9, 2010

Using the average premium, and taking into account the revenue distribution between ADOPEM Bank, the insurer and the insurance company, the number of monthly policies required to reach the 2,000 euro (DR\$100,000) invoice was calculated to be 437; approximately 5,000 clients per year were needed in order to make the product attractive in itself:

Table 3. Revenue distribution per policy sold in the DR

	% Revenue distribution	Average revenue per policy	Monthly revenue goal
Taxes	13.8%	44.10	19,277.11
Insurance company	71.6%	228.74	100,000.00
Agent insurance company	7.3%	23.43	10,240.96
ADOPEM Bank	7.3%	23.43	10,240.96
Total	100.0%	319.69	139,759.04
		Number of monthly policies	437.17

Source: In-house calculations

The long-term success of the product depends on the compatibility of interests between the 3 partners (bank, agent and insurer).

ADOPEM Bank did a similar calculation from its perspective in order to determine if said goals were achievable and if the revenue that it collected would compensate its operative costs. From the pilot test and the product launch it obtained information that allowed it to adjust its projections and estimations. ADOPEM Bank was very optimistic with this project because it understood that, as opposed to loan products which faced a default risk, in this case the risk would be transferred entirely to the insurance company.

2.3 Pilot Test

Among the preliminary activities of this stage were the presentation of the products to the Business Manager and Supervisors from ADOPEM Bank, the revision of the payment and policy issuance process with the Insurance Department of ADOPEM Bank, and the presentation of the products for the formal ratification of the Board of Directors for the launch.

They proceeded to install the software developed by the agent in the branches, so that they could provide the necessary training to ensure that the customer service employees and the ADOPEM Bank tellers were thoroughly familiar with the insurance policy issuance process and could facilitate the quick and efficient execution of the process.

The same policy issuance platform allowed the customer service personnel to consult the product manual and other useful documents. They also created a FAQ brochure to help with responding to frequent client concerns.

The credit officials and the branch personnel received training on the specifics of the micro insurance products so that they could market and process the products correctly.

Through coordination with the marketing department of ADOPEM Bank, they created support and reference materials (flyers and brochures) as announcements to be handed out in ADOPEM Bank offices (see Annex 2, Micro insurance brochure).

Finally, the pilot test was designed to be carried out initially during 3 months in 7 branches. A general objective and a specific objective were established for the pilot test. The general goal was to sell about 500 policies. The specific objective was to sell micro insurance to 30% of the clients with remittances paid during the first month of the pilot test.

Through branch visits in the southern part of the country, the leading product development team supervised the first insurance sales, verifying the marketing process, sales process and product processing. In this way they were able to observe adequate customer service and ensure that the ADOPEM Bank officials were familiar with and capable of selling the product. The first product sales were completed through a raffle.

With the support of the Remittance Department of ADOPEM Bank, community meetings were organized with recipients of remittances from Spain. These meetings took place in the southern region (Neyba, Los Guayabales, Barahona, Azua, San Cristóbal and Santo Domingo) during two months. The community meetings gave them the opportunity to receive comments from clients with respect to the product characteristics.

As a result of the branch visits and the client meetings it was possible to make adjustments to the products by analyzing them with the agent and the insurance company. One of the most frequent observations made by the clients in these meetings related to the age limit for admittance and for renewal with the insurance product, which ADOPEM was able to expand through negotiations with the insurance company, as commented earlier. Another modification made to the policy issuance process was to rule out the option of printing the policy directly at the teller station as originally planned, due to the lack of available printers and because of the possible congestion that could affect customer service.



2.4 Launch

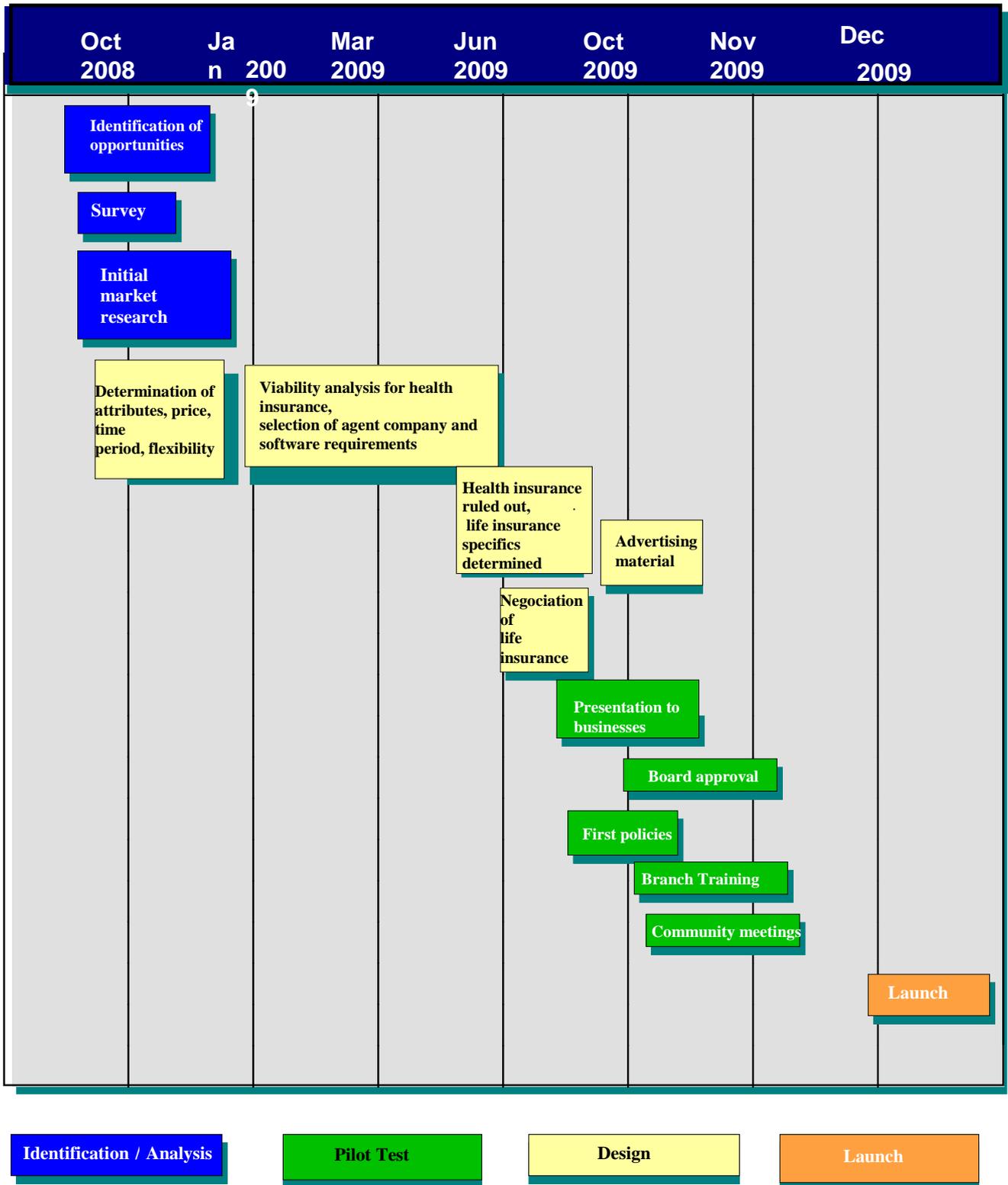
The final approval of the product by the Board of Directors came in October of 2009. Between October and November 2009, a total of 116 policies were sold (38 in October and 78 in November).

By January of 2010, the product was being implemented in 15 branches, all of them being metropolitan and in the southern region (except for San Juan and Ocoa). During the first trimester of 2010, 17 new branches were added, which required an additional training effort for the personnel of said offices.

The following graph shows the duration of these stages of the product development process.

Graph 2. Development process for ADOPEM-CODESPA micro insurance product

Micro insurance product development process



3. PRELIMINARY RESULTS

According to the available data in February of 2010, ADOPEM Bank sold 227 policies with a value of 1,470 euros (DR\$72,570). Eighty-five percent of the clients opted for individual coverage plans and 73% chose coverage that included disability insurance. For more detail about the types of policies bought, see table 4, below.

Table 4. Policies sold according to individual or joint coverage

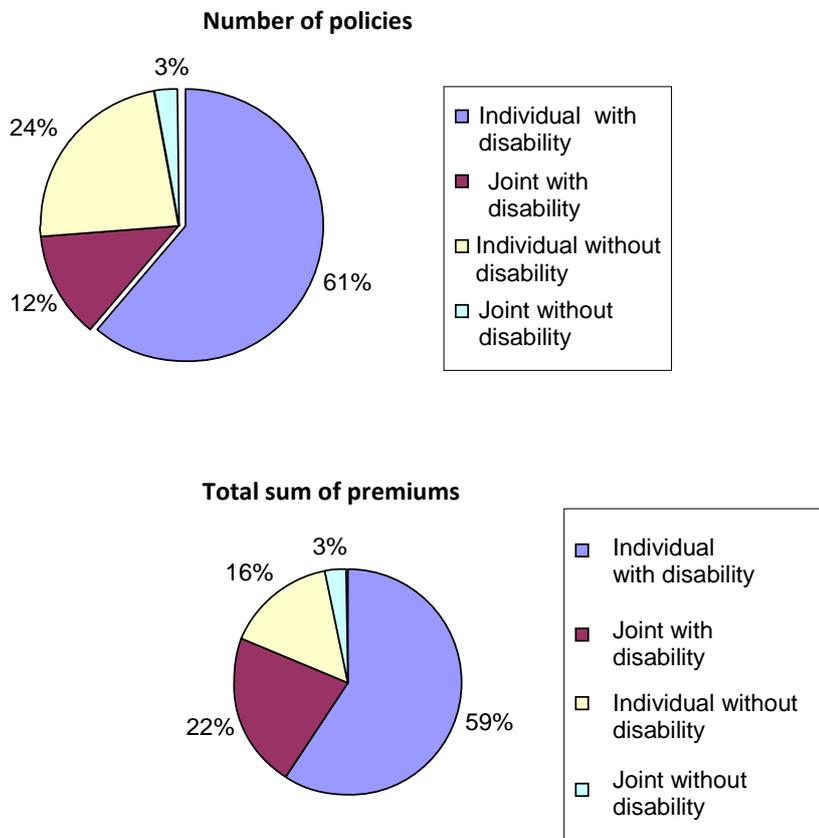
Plan	Amount	Value in RD\$
Individual with disability	139	42,945
Joint with disability	28	15,890
Individual without disability	54	11,360
Joint without disability	6	2,375
	227	72,570

Source: Sales Report, February 9, 2010

From the point of view of the total sum of the premiums, the joint policies with disability coverage were positioned as the second highest source of revenue because they were the most expensive plans within the available packages (see Graph 4, Distribution by percentage of the number and amount of policies).

These preliminary results validated the decision to incorporate disability coverage into the options offered to the clients and seemed to indicate a preference for individual policies. Likewise, they also indicated that the clients were willing to pay a little more than the 4 euro (DR\$200) minimum when they perceived an additional benefit.

Graph 3. Distribution by percentage of the number and amount of policies



Source: In-house production

It is important to mention that 74% of the insured were women and that 58% of the sold policies were concentrated in two branches of Santo Domingo with very different socioeconomic characteristics: Núñez de Cáceres (medium socioeconomic level) and Los Alcarrizos (low socioeconomic level).

4. LESSONS LEARNED

- **Adequate product characteristics for the target population**

Through a coordinated effort between ADOPEM Bank, the agent company and the insurers, they were able to design a product with adequate characteristics in terms of prices, coverage, efficiency and simplicity.

In reference to price, they designated an amount that could be affordable for the low-income target population. Among factors that facilitated the fixing of this affordable price are: the fact that the insurer knew the portfolio risk of ADOPEM clients beforehand due to its position as the insurer of ADOPEM microloans greater than 1,014 euros (DR\$50,000), the low operative cost that this policy generated and the potential that the insurer perceived in cultivating in a relationship with ADOPEM Bank due to its large portfolio of clients.

The simplicity of the requirements for policy issuance has been another key characteristic of the product. According to information provided by the insurance company, this simplified procedure is possible because the reinsurance companies considered the portfolio sufficiently diversified and the risk sufficiently dispersed with a maximum coverage below the equivalent to 2,500 euros.

The efficiency of the procedure allows the policy to be issued immediately and the client to be insured the same day. The solution was possible because the agent company became responsible for the software development for policy issuance and the Bank was responsible for the insurance sales and for printing the document. From the perspective of the insurance company, the process was also facilitated and the operative costs were reduced from 15% to 5%.



- **High involvement of key actors with specialized knowledge**

The incorporation of agent insurance companies in the design process of the product and the active role that was assigned to one of them in the preparation of the product were excellent decisions on the part of ADOPEM Bank.

Micro insurance is a profitable product and a product that does not include the credit risk component for ADOPEM Bank, but it implies a reputational risk for the microfinance entity that distributes it. For that reason, it is necessary to choose an insurance company that can offer confidence to the client and the bank. ADOPEM's business in insurance is only that of intermediation, since the sale of the product and the profits are purely for the insurer. However, the fact that ADOPEM is the institution that offers the final product to the clients means that it requires the guarantee that the coverage service that will be offered by the insurance company is impeccable. For products like micro insurance, if there are any problems in the payment of coverage or with the effectiveness of service, the client will probably not be able to distinguish between the insurance company and ADOPEM Bank, which means that ADOPEM's image would be affected.

Microfinance entities have access to wide segments of the low income population that, even though they are attractive to other service companies because of their scope, also represent an unknown factor for these companies that lack knowledge about the needs of the clients, their spending capability and their payment behaviour.

From the perspective of the insurers, a change in focus is required when adapting micro insurance from traditional insurance directed toward higher income populations where the coverage is higher and, consequently, the premiums are also higher. In the case of insurance directed toward low-income segments of the population, each policy sold will generate lower revenue, which means a greater number of clients is needed to equal the revenue obtained from higher cost products.

However, as the insurer recognized, even though it required more effort to achieve this volume of clients, having thousands of clients with reduced coverage represented a lower portfolio risk than having only hundreds of clients with policies of higher value.

It is for this reason that the hundreds of thousands of clients that institutions like ADOPEM Bank possess are a fundamental element in negotiation with private companies that know the potential of these markets for products with massive use. For their part, microfinance institutions use this strength to offer products that contribute to the improvement of the quality of life of these low-income populations.

During the process of obtaining price quotes from the insurance companies, ADOPEM Bank made sure to take advantage of this negotiation tool to get the best proposals, both from new companies that hoped to begin a business relationship with ADOPEM Bank and from those companies with which it was already working. The latter, in their desire to maintain the confidence of ADOPEM as a client, saw the business opportunity that ADOPEM represented for them now and as a potential for the future. This allowed them to lower their immediate expectations for profitability of specific products, in order to be able to offer the most favorable conditions to clients and thus to have success with the product.

Indirectly, they became strategic allies for ADOPEM because they knew that a successful product that reaches the adequate scale would be good business for them and for ADOPEM Bank. They also considered it a way to contribute to the improvement of the image of the institutions because of their innovative character, their position on a national level and their attention to excluded market niches.

- **Product sales with well-trained customer service personnel**

The active participation of teller personnel and customer service personnel in the promotion and sales of the product, as defined in the product manual, is an important element that microfinance institutions often do not employ successfully, due to their status as purely credit-based operations instead of financial service institutions.

Generally, the branches or offices are the primary distribution channels for products for a financial entity; in the case of microfinance, where the client frequently pays loan instalments monthly, the most reliable point of contact between ADOPEM Bank and its clients is the cashier or the employee at the window.

The majority of clients arrive at the branch without information and without being familiar with insurance products, which creates a certain amount of distrust in terms of their usefulness. For this reason, it is important that the cashiers and customer service personnel in the offices have a clearly defined responsibility to promote and sell the products that the institution offers. Similarly, it is required for the employees to have an adequate profile to be able to carry out this commercial function, to be trained in the characteristics of the product and to have the informational tools to easily determine which clients are qualified for the specific product (for example, in commercial banks when the teller automatically receives a message on the terminal screen when the client completing a transaction is prequalified for a credit card).

Equally important is the support that the personnel have available to them in terms of promotional material with a clear message for the client.

Through a system of quantitative goals and predefined incentives when the products reach a certain level of maturity, the ADOPEM personnel knew exactly what was expected of them and the compensation that they would receive in the case of achieving the objectives.

Finally, an unexpected result of the design process for the new micro insurance product was that ADOPEM improved the management of the insurance products with a more efficient procedure, and afterward it wanted to apply a similar procedure to its other obligatory insurance products. This is another advantage of innovation; upon using new focuses to solve challenges presented by a new product, occasionally it also opens the possibility for modifications in the processes used for other services.



Ten Best Practices

In this section, the best practices incorporated by ADOPEM and CODESPA into the development process of the micro insurance product will be identified, so that they may be applied to similar projects.

1. Innovation as a path to achieving the social mission and a permanence in the market

Innovation in microfinance institutions is necessary in order to deepen the social mission by providing a better response to the clients' needs and better tools that help them get out of poverty.

Additionally, an innovative spirit that drives to incorporate novel trends into products and services that will be competitive in the market and better satisfy the client demand is essential to achieving sustainability. For that reason, it is advisable to be familiar with and have access to other successful experiences in the sector on the global level, to be able to consider the possibility of replicating them and the organizational strategy with respect to incorporating lessons learned from experiences.

Many of the innovation projects that ADOPEM Bank develops have their roots in initiatives promoted by Top Management. In addition to having a strong innovative spirit, the management of ADOPEM Bank follows closely the global trends of the microfinance sector and has access to international experiences that can serve as models for similar products or services in their home country.

Added to that is the permanent effort made by ADOPEM to get to know and better understand the needs of its clients through close interaction that keeps the staff with them and through community activities that ADOPEM organizes frequently.

2. The decision to create or adapt a product

One of the decisions faced by an institution that wants to develop a product is whether to adapt an existing product or to create a new one from zero. It is necessary to evaluate each case in order to identify the option that will result in a product that best responds to demand and that improves the quality of life of the objective group.

According to ADOPEM, when financial entities offer products to middle class clients, the possibility of adapting existing products in other countries or within the national market is a viable option. When dealing with the design of products that are oriented toward the poorer sections of the population, generally the option to adapt is less feasible. This is due to the fact that within this market niche, fewer similar experiences exist on which to base adaptation. If, additionally, the reference taken into account is a product designed for the middle class, a significant change in approach is required to adjust the product to the profile of poor clients. In the majority of cases, it is necessary to design a totally new product that can adapt to the specific characteristics of this segment of the market.



3. Taking advantage of the synergy of knowledge possessed by each actor and the previous established experiences

As much as possible, it is convenient to develop alliances and to take advantage of the different know-how and expertise of the different actors. Institutions—national or foreign—have been able to carry out similar projects or strategies, about which it is useful to conduct research and previous market studies in order to benefit from their lessons learned, both positive and negative.

Projects like those developed through collaboration with CODESPA are an example of the way in which ADOPEM combines various factors: its own experience in the microfinance business, the knowledge of the consultant on commercial banking aspects, the international experience of other entities like Interactuar and the specialized insurance knowledge of the Dominican experts like the insurance companies and the agents.

4. Necessary knowledge for an effective adaptation of the product to the local context

The selection of consultants for the microfinance product design is a complex process; however, one of the fundamental characteristics learned through the process is that the consultants should have extensive knowledge of the local context, together with knowledge about the client profile. This helps to avoid adopting a product that is not well-adjusted to the demand and allows for the maximum acceptance and success of the product. In the concrete case of ADOPEM, the contracting of an external consultant ensured the adaptation of the product to the Dominican context and contributed to coordination and coherence along the development process.

When the projects span themes that ADOPEM is familiar with, the actor that is responsible for the adaptation of the product to the local context is naturally an employee of ADOPEM Bank. However, when dealing with innovative topics or topics about which ADOPEM is not highly specialized, ADOPEM Bank opts to incorporate a specialist local partner.

For the micro insurance project for recipients of remittances from Spain, a trusted consultant with knowledge of the local financial system and experience with remittances was contracted.

5. Development of a good design process and necessary testing for achievement of a successful product

ADOPEM designed a product that was well-adapted to the needs of its poor clients, achieving flexibility, simplicity, affordability and accessibility.

The negotiation process had an important role in the design. ADOPEM Bank is the leading organization in microfinance at the national level in terms of numbers of clients, and the extensive base of clients was a factor that was very attractive to the insurance companies, which perceived business opportunities in the long term. This strength was a powerful negotiation tool, thanks to which ADOPEM was able to design a successful product with characteristics adapted to its clients.

Through the identification of the client needs and budgets, along with the clear definition of ADOPEM Bank's expectations of simplicity and flexibility of the process, they were able to take advantage of the agent's services to develop the software that was the base of the process and to negotiate the most favorable terms with the insurance companies.

For the final definition of the product, it was important to conduct a pilot test, which allowed them to validate the acceptance of the new product, detect weaknesses and be able to rectify them before the launch. It is necessary to fix the duration of the pilot and establish goals for the analysis and necessary adjustments. The goals can be in terms of time or number of transactions. For example, if the duration of the pilot had been set at 3 months with a goal of 500

clients, an analysis could be done at the end of the first month or upon reaching the first 100 clients. The indicators to be used and the reports to be generated as a way to measure results should be designed beforehand.

The evaluation of the results of the pilot should serve as a base for deciding whether or not to proceed to the launch of the product. In the event that the observed demand during the pilot is much lower than expected, the product should be refined or a new business opportunity should be identified. If there seems to be significant resistance on the part of the staff to a new product, the reasons for rejection of the product should be identified in order to ensure the support of the staff before the launch of the product.

The pilot served to prove the proper functioning of the developed software, to suggest the incorporation of new variables to the statistics generated by the software and to explore the option of issuing policies directly from the teller window as initially considered.

6. Incorporating the participation of the external consultant, who supports product design throughout the product development process

It is convenient if the external consultant that participates in the product design can also participate in the various stages of the project, including staff training and the formation of a continuance plan for the product. In this way, it is possible to give a greater coherence to the development process of the products and to incorporate the generated knowledge in each stage throughout the process.

7. Organizing and internally coordinating parallel processes for development of new products

In the design of various products at the same time, it is necessary to produce timeframes and activities for each development project in order to prevent them from superimposing and in order to be able to control the appropriate advance of each activity. It is also important to control the project execution according to the budgets, to collect the expense reports and to maintain organized registers of the same.

As in the case of this product development experience, in general terms, it is desirable that for the different projects the organization manages the participation of different areas of an institution, avoiding that the same operative unit or department is in charge of its normal responsibilities and the additional effort demanded by new R+D projects.

In this case the department of Insurance Management, the vice president of Business and ADOPEM NGO intervened collectively.

It is also important to designate a leader for each product development project and to maintain fluid communication with the involved staff. In the ADOPEM case, the project leader was the manager of Insurance. This leader had the valuable support of the external consultant for the product design stages, staff training and promotion and sales of the product.

For the pilot test, it was convenient to define a reduced number of offices to which the product development team could transfer with ease, designate those responsible in each branch and adequately schedule activities.

8. Collecting and dealing with client feedback

It is important to encourage in the staff a positive and proactive attitude for receiving client opinion, which turns out to be very valuable to the improvement of service and to the early detection of necessary adjustments and changes. Additionally, it is important to identify the collection points for client feedback in each organization and to design the best tools for this collection. Once the products are standardized, the option of applying client satisfaction surveys can be considered.

ADOPEM Bank took advantage of its daily contact with the clients that came to the branches to pay their instalments or to apply for loans by conducting a survey aimed at 506 people during 3 days and using 5 surveyors. A survey design that allowed for precise collection of client opinion, collection of answers to key questions and lack of bias was essential.

According to ADOPEM Bank's experience, during the new product launch phase, generally clients gave differing extreme opinions simultaneously: some were very satisfied and others were discontent. During this stage, ADOPEM collected some testimonies from clients and, conscious of the positive or negative bias they may have had, evaluated the objective fact that motivated the client's opinion about the product or service. This information helped with decision making.

The suggestion and complaint boxes have limitations in their ability to collect the opinions of clients, particularly when dealing with claims, given that the client will not always take the time to write it down or may believe that her relationship with ADOPEM Bank might be affected.

It is for this reason that, due to the opinions being of informal character, ADOPEM Bank promotes the expression of client concerns directly to customer service staff and the transmission of those concerns to the branch manager during internal meetings in the offices. Afterward, the branch manager is in charge of relaying these concerns to the corresponding departments in the principal office (Marketing, Credit, Savings or Operations).

It is important for microfinance entities to perceive the advantage allowed them by the ability to test their ideas at a relatively low cost, compared with the use of survey companies or market research companies. The credit officials and branch staff that have daily contact with the clients are the principal source of information for microfinance institutions.

9. The importance of guaranteeing the involvement, training and motivation of the staff that maintains direct contact with the target public

When a product is developed, it requires a communication strategy that involves the entire staff from the beginning of the product development project. Good communication is fundamental to involving the staff and to incorporating their experiences and knowledge into the process.

During the frequent branch visits and the different meetings that are maintained with the staff, the management of ADOPEM informed the staff about projects that ADOPEM was working on. That way, in the next management visit, the staff itself requested information about the advancement of the projects, which sustained motivation on their part for innovation and served as a reminder to the management to complete the offered projects on time.

Another of the key elements is staff training in the use of new products. A new product should not be handed over to those who are not familiar with it and do not have the tools for its procedure and sales. The operative procedures need to be documented through User Manuals and Sales Protocols so that the staff knows how to describe and offer the product to the client. As was done for the micro insurance product, a FAQ guide can be an important source of help for the staff that attends the clients, because it offers specific answers to the questions that the clients ask.

In this project, the idea of providing the branch staff with concrete and practical ideas about the way to present the advantages of the product was equally effective. For example, the suggestion of comparing the cost of the annual premium of 4 euros (DR\$200) with the price of two bottles of beer made the ideas that the insurance did not represent an excessive cost and that the clients could prioritize their expenses to protect their families more tangible.

10. Incorporating incentivizing systems for the staff

The staff incentive system for the sale of products and services contributes to the achievement of sales goals. However, in the case of a new product it is difficult to create a system of incentives before the product reaches its equilibrium point and the acceptance of the target group and the profitability of the product for the institution are known.

In the pilot test phase, it is not advisable to use incentives since only a reduced number of branches participate, and this would create an unequal situation for the other offices.

ADOPEM's focus for new products consists in applying weekly incentives to the credit officials and customer service staff, based on quantitative goals.

