

Introduction to Business Planning for Microinsurance

Objectives

- Introduce the MI Business Planning Module
- Create awareness of the value of preparing and having a business plan
- Outline the key components involved in business plan development
- Understand how a business plan can uncover issues that may impact the project
- Interactively develop and discuss a simple MI business plan

Agenda

- Introduction and Key Concepts
- External Influences, Organisational Culture and Internal Factors
- Team Exercise
- Product design, Pricing, Distribution and Financial Projections
- Team Exercise
- Wrap up and Evaluation

Introduction and Key Concepts

What is a Business Plan?

- *A written declaration of business objectives with a plan of how these will be attained.*
 - A business plan acts as a written roadmap of how the goals will be achieved
 - Includes a starting point and end objective, and how to get there
 - May include a *strategic plan, a marketing plan, a management plan, an organisational development plan, and a financial plan.*
 - Can be short term or long term, normally covers 3-7 years.

Why do a Business Plan?

- **A MI business plan is typically prepared when:**
 - an existing insurer or program plans to develop a new or revised product;
 - a new micro insurance organisation or program is being proposed;
 - an existing organisation or program wants to formalize its future strategies.
- **If kept current, a business plan can:**
 - Measure performance
 - Monitor the impact of changes
 - Identify refinements needed

Key Components of a Business Plan

- External Influences
- Organisational Culture
- Internal Organisational Influences
- Product Development and Pricing
- Financial Projections
- Other Risks to Consider

External Influences

Macro Environment

- Physical geography
- Population and demographics
- Socio-economic indicators
- Health indicators
- Economic policy and performance
- Political environment
- Environmental issues

Regulatory Environment

- Insurance and Micro Insurance Regulations
 - Types of products
 - Licensing
 - Intermediaries
 - Risk management and Capital requirements
- Co-operative regulations (if applicable)
- Service Providers
 - Eg, government regulations for health clinics
- Taxation

Market Analysis - Supply

- Examine the programs, outreach, trends, growth rates, competitiveness and gaps of the relevant providers:
 - Formal commercial insurance industry
 - Micro insurance providers and programs
 - Private and public health systems
 - Public social protection schemes

Market Analysis - Demand

- Conduct demand research to identify:
 - Whether or not to enter the market
 - What types of products will work, and specific attributes
 - Market segments to target
- Evaluate willingness and capacity to pay of target market
- Estimate potential marketing performance and size of potential market

Organisational Culture

MI Business Rationale

- Develop or re-examine the Vision, Mission and Goals (VMG) of the organisation or MI program
- Develop the rationale for pursuing the business plan:
 - Strategic reasons for the program, one of which should be that it supports the VMG of the organisations involved.
 - Should follow naturally from the analysis and conclusions of the previous sections
- Ensure objectives and goals are aligned with any partners involved in the project
- SWOT analysis is helpful for supporting the rationale

Internal Factors

Bearing the Insurance Risk

- Decide whether to keep the insurance risk in-house or whether to involve an insurer (or cede to a reinsurer)
- Life products:
 - May be easier to find an insurance partner
 - Often challenges in negotiating product features, service standards, and price
- Health insurance:
 - May be more difficult to find a risk-bearing partner
 - Many health insurance programs elect to self-insure

Organisational Development

- Define required levels of staffing:
 - It may not be possible or necessary to have fully dedicated staff in the beginning however, there should be a clear path towards full staffing.
- For new organisations, the business plan should describe the training plans for staff and management.

Front Line Operations

- **Front Line activities may include:**
 - **Marketing**
 - **Enrolment**
 - **Premium collection**
 - **Assistance with claims submissions**
 - **Renewals**
 - **Consumer education**

Backroom Operations

- Microinsurance programs must acquire or develop capacity for backroom operations that includes:
 - Accounting
 - Investment management and investment policy
 - Data accumulation and management (MIS)
 - Development of software applications
 - Actuarial reserve calculations
 - Reinsurance calculations and reports

Team Exercise 1

Team Exercise 1

Discuss the following questions:

1. What is the market potential for this product?
2. What is the regulatory environment for microinsurance?
3. What are the pros and cons of this distribution channel? What external factors might impact distribution? What would be a good marketing strategy for this product?
4. Where will you get financing?
5. How will the project be implemented, i.e., what organisational structures and resources will be required?

Product Development, Pricing and Distribution

Product Development

1. Identify relevant risks, impact and current risk management practices from market research.
2. Select the insurable risks as prospects for product development.
3. Identify which of the insurable risks the majority of the target market would prefer to insure first, given limited capacity to pay.
4. Ensure the fundamental insurance principles and conditions for risk pooling are present.
5. Estimate the costs of benefits and product features in combination with the capacity and willingness to pay.
6. Develop a feasible combination of premium rates and product features.

Pricing

- Premiums should be calculated by trained actuaries with specific microinsurance experience, with input from the distribution channel
- Simple approaches may sometimes be adequate, but there are advantages in utilising more sophisticated modelling techniques

Pricing Approaches

1. Pro-rate the premium from similar commercial or microinsurance products in the market
2. Calculate gross premiums per policy as the sum of:
 - Cost of claims
 - Distribution, administration and other expenses
 - Cost of reinsurance, if applicable
 - Margin to cover uncertainty and generate a small surplus
 - Investment earnings
3. Create projected financial statements and iteratively adjust the model for product features, benefits and premiums until desired targets are met

Distribution

- The business plan should describe in detail how the product will be efficiently promoted and delivered to the target market.
 - **Having a good product is not enough!**
- Distribution costs are typically the largest expense in a MI operation so they need to be understood for appropriate pricing.

Distribution

- Target market
 - Size, demographics, geographic distribution
- Social marketing strategy
 - Consumer education and communications strategy
 - Includes training field management and staff on insurance awareness and concepts, as well as product specifics
- Commission structure
 - Balance between low total cost and providing sufficient incentives to distribution channel
 - May be limited by regulation

Distribution

- **Technology**
 - Can add significant costs or reduce costs
 - Consider use of handheld devices, mobile phones, smart cards, etc.
- **Targets for market performance**
 - Growth rates, coverage ratios, renewal/retention rates

Financial Projections

Financial Projections

- Should be realistic so there are no surprises.
- Can be on a monthly, quarterly, or annual basis, up to the end of the business plan term.
- Financial projections are sensitive to changes in any of the underlying assumptions
 - Changing product features, premium rates, growth rates, expenses, or interest rates will have a ripple effect on the projected financial statements.
- Financial projections can also assist in the pricing process.

Some Considerations for Financial Projections

- How long after the launch date should a profit be realised?
- What rates of return should be aimed for over the long term?
- To what degree should products cross-subsidize other products?
- Aside from legal capital requirements, how much capital should a microinsurer raise from investors or members?
- How much margin for error should be built into the pricing?
- What type and how much reinsurance should be assumed?
- If subsidies are available, should these be incorporated into the pricing and financial projections?
- What should happen to the surplus in member-owned programs?

Performance Indicators

- To monitor the ongoing performance of a microinsurance program as well as to describe it in the business plan, ten key performance indicators are recommended.
 - *Performance Indicators for Microinsurance, 2nd edition, Garand & Wipf, 2010*
- Trends in the indicators should be analyzed and monitored closely as these are more informative than snapshots of indicator values.

Risks and Mitigation

Risks and Mitigation

- Include a section near the end of the business plan which summarizes the main risks to the project:
 - Provide a rough estimate of the probability of each risk and outline brief mitigation strategies for each risk.
- For example:
 - What if regulatory support for the project should decrease?
 - What if regulations were to change?
 - What if external financial assistance were to stop or decrease?

Team Exercise 2

Team Exercise 2

- Discuss the following questions, and come up with some answers or key points:
 1. Identify 5 key pieces of data you will need to make appropriate assumptions for your financial model
 2. What factors will influence the timeframe for the product to break even? What might be a realistic break even point?
 3. What risks could exist “out there” that might throw the whole project off track?
 4. What are the most critical tasks or analysis required to complete the business plan for this project?

Summary and Evaluation