The MasterCard Foundation Symposium on FINANCIAL INCLUSION 2014 with the Boulder Institute of Microfinance

The MasterCard Foundation Symposium on Financial Inclusion: Clients at the Center

Day 3 ~ July 18, 2014

The Business Case for Client Value

Roger Morier ~ Emcee

The next session is about the business case for client value. Now we've been talking about client-centricity for a couple of days here. We have to respond to the needs of the customers, but there has to be some return and some interest for financial services providers.

So Bob is going to moderate this panel. It's going to take a look at the challenge of developing a strong business case for generating value for clients. Bob, over to you.

Robert Christen ~ Boulder Institute

Thank you very much. Can you imagine a bigger juxtaposition? The business case for client-centricity following getting your mind blown. I don't know. So we'll try and blow your minds a second time around the business case.

One of the things that just seems really important, and one of the questions that gets asked most frequently after the last Symposium was, "Wow, how do we do this? How much is it going to cost? What are we going to get out of it? What's the return for paying attention to clients?" And so we wanted in this session to talk about that from the perspective of a couple of groups that have been working on this issue for some years now. And so we have with us Michael McCord who's the President of MicroInsurance Centre, well known to many of you; and Lorenzo Chan, President and CEO of Pioneer Life in the Philippines. And as some of you who were here last year know, Mike has been working on a series of projects looking at client value over the years in microinsurance with many, many different kinds of institutions, trying to sort of balance if you will, value for clients and business proposition and trying to get that right. And Lorenzo and he have been working together over the years, series of conversations, some work together on that. Lorenzo will be bringing a perspective of an insurance company to this conversation. So they're going to talk about it in the insurance context.

On the other side, we have Jeff Abrams and Natalia Gomez who work for Bankable Frontier Associates. Bankable Frontier has been involved with a series of analysis and focus, GAFIS, a couple of big projects looking at how to get savings accounts into large commercial banking institutions that are aimed at people working for under two dollars a day. And so that's been a proposition now for some years that you've been working on. And Natalia is here, not strictly in her capacity as a member of BFA now, but because you in the not so distant past, you were working for Bancolombia. The big commercial bank in Colombia that had been working with BFA on this proposition. So you're going to take off your hat momentarily of BFA and kind of remember those days back in Colombia at the bank not so long ago.

So we're trying to get the client side and the technical side in both of these conversations. We're going to be looking at that balance between getting things right for the client in a way that really works for the companies involved. We want to try and get to that question of investment, payoff. How does giving clients value make sense as a business proposition?

We're going to do an opening presentation by each, and then some discussion, and very quickly ask for some of your thoughts from the audience because you've been, many of you, engaged in this very set of issues. So why don't we start with you, Jeff, and Natalia.

Jeff Abrams ~ Bankable Frontier Associates (BFA)

Thank you, Bob. So as Bob said, Natalia and I are here mainly because of our role in the GAFIS project which was a project funded by the Gates Foundation about four years ago, and sponsored by Rockefeller Philanthropy Advisors. And Bankable Frontier, our role was to manage the project. And essentially as Bob said, the project was focused on savings for the poor in particular, and exactly had the two elements that Bob described. It was focused very much of course on useful savings product offerings for customers or the end user clients. But it was very much also always from the beginning focused on sustainability and viability, commercial viability, for the financial institutions. And obviously that's why we're hopefully a good fit for this panel here.

And so GAFIS, briefly just to introduce it as it illustrates here, we worked with five banks in five different countries, the five here: ICICI Bank in India, and the others you can see. I won't go through it in the interest of time. But maybe I'll just ask Natalia to introduce

briefly Bancolombia to illustrate the types of institutions because these were relatively big banks in these markets and not microfinance institutions. So just to give a flavor of the type of institution that we dealt with.

Natalia Gomez ~ Bankable Frontier Associates (BFA)

So Bancolombia is a leading bank in Colombia. It has operations in most of Latin America. They have nowadays over 35,000 direct employees in the region and around 9 million clients only in Colombia which is a huge amount for a country of about 44 million inhabitants. Bancolombia has had some micro-credit operations for about 10 years now, but that has remained a modest operation during that time. It's not the central business of the group, but an important one for a universal commercial big bank.

Jeff Abrams

And I think that's typical of sort of where, like ICICI Bank and Standard Bank were big commercial banks in their respective markets. Equity Bank is obviously a large bank in terms of number of customers and becoming that in terms of balance sheet in that market. And Bansefi also was, had millions of customers on the savings side. And so an important element in choosing these institutions for GAFIS was, as I noted earlier, commercial sustainability was fundamental. So we really didn't want to find institutions that were just doing savings for the poor as corporate social responsibility or purely to comply with regulatory pressure. We really tried to screen them to find those that really had a long term interest in commercial viability. So the point was that these banks were selected because they were really interested in bringing savings to lower income segments for the long term, and obviously as for-profit institutions, four out of five of them, in commercially sustainable ways.

When we talk about savings products or savings offerings, when I use that term, I think of it as three different elements. There's the product itself, but then there's also the channel, and then the marketing, and the communications that go with that. And the overall as this savings proposition or the offering. I don't want to get too much into that because the rest of the Symposium is very much about the client side of things. But I want to touch on that enough to illustrate that within GAFIS what we found, even though we started very much focused on products, that these particular banks, trying to find commercial sustainability became obsessed with the channel element of the proposition. And as much as we tried to sort of keep them focused on product

innovation, and there was some of that, but frankly, in my opinion, there wasn't any real radical departure in terms of product innovation. There were some tweaks. There maybe were some things that could be called innovative within the institution or within the market, but in terms of global, there was nothing too radical.

Essentially it was the same set of savings products in the sense of the same sets of features that we're used to clients really demanding from a demand-driven or client-centric focus. And so the key became on the business case side was really how can you offer that same core set of product offering features in a more cost-effective way? So really for GAFIS, it was very much about driving costs down while still being able to deliver that core set of client value.

In GAFIS, we were very focused on coming up with very specific financial models for the propositions that the banks were offering. This series of slides illustrates that at the beginning of GAFIS, essentially the banks were very, their offering was branch driven, and all the costs that come with the branch and the traditional channels were leading to significant losses for the bank in terms of about $3 a month when we add it all up, and that's what this illustrates here. $2.79 per month was the loss. But the biggest two elements of that cost were account opening or origination, and also the cash handling, cash transactions. And so a big challenge as we wanted to continue to deliver core savings value to the customers, but to do it in a commercially viable way, was really how can we attack this problem of the significant costs and bring them down.

Maybe I can ask Natalia to speak to Bancolombia's experience and perspective on this particular channel. And just to clarify, these numbers are not Bancolombia's numbers. These are the real numbers in the sense that we looked at all the GAFIS banks and their real numbers and came up with sort of a stylized model of the monthly profitability or in this case loss. I won't dwell on that too much. But maybe you could speak to Bancolombia's approach and the challenge to what I was saying.

Natalia Gomez

Sure. I couldn't agree more with the way you framed this issue. For Bancolombia, definitely, the initial research stage of the project was very illustrative in terms of what was needed to be fixed and adjusted in order to be able to cater to the real needs of the lower segment of the population. What Bancolombia had before this project was a commodities/savings transaction savings account. And as so, a huge part of the

associated costs came from cash management and interaction and service and support to clients through the variety of channels that the institution has.

I told you before that Bancolombia has around 35,000 employees, and more than half of that is concentrated in the branches' network. So these are very, very costly channels to focus your interaction with very low balance savings account bearers.

Jeff Abrams

If I could interrupt you there just briefly. So essentially, most of the red in this illustration was that branch infrastructure, that branch staff.

Natalia Gomez

Absolutely. If you really think about it, half of it was the cost of just opening and servicing those clients, and the other half of the costs came from just cash-related management costs.

Jeff Abrams

So as I understand it, when the GAFIS project came along and it was trying to promote a new savings product offering through Bancolombia or in partnership with Bancolombia, in some sense, the starting point wasn't necessarily the client at the center, although that was there and we'll come back to that in a minute. It was if we are to serve this segment of clients or go after them aggressively, the starting point was we need to solve this negative red problem. Maybe you could speak to how you approached solving that problem.

Natalia Gomez

The starting point was serving this segment, this group of clients without a profit, without being profitable. And the way we attacked this problem and the solution we aimed for was finding ways to keep serving these clients, handle their cash transactions outside the branches. Maybe that is why we were so obsessed with the channels part of the solution because we really felt that it wasn't a product features problem, but more the way these clients interacted with their products.

Jeff Abrams

That's great. To summarize, if Bancolombia was going to go after a lower income segment seriously over the long term as a commercial bank, it needed to find essentially a completely new way of originating, servicing, cash handling, essentially a new platform for servicing that clientele.

Natalia Gomez

Right, and it was a felt need for the organization because, as I said before, we had a commodity savings product to offer which everybody else had and have. So, there wasn't much differentiation, and we were at that point fighting for the same clients with our competitors. So if we wanted to grow, we needed to engage in some important ways with this segment of the population so we could grow the pie of clients.

Jeff Abrams

So on the way you did that, and the way you actually implemented it was to really design a product that was cardless. You took the card element out of it and the costs that went with that. It was mobile phone based, and really trying to leverage the agent channel not only for origination, but maybe you could speak to also, just briefly, in terms of how you introduced the mobile based platform without the card, totally outside the branch to really solve this business case challenge.

Natalia Gomez

The way or our approach to solving this dilemma was, as you mentioned, finding ways to have clients originate and take on all the operation required to open the account, and not having branch staff open the account. That is number one. And then, or the first really critical moment in the relationship …

Jeff Abrams

I think just if I can, so to me this was somewhat revolutionary at least in my perspective that it was really not only taking origination out of the branch, but essentially not even having anybody help the customer. It was a self-service origination over the phone, which really helps costs on many fronts. But I just thought that was a significant innovation.

Natalia Gomez

That's exactly right. And then the second part would be to take all the cash-in/cash-out operations outside the branch which was a significant challenge for Bancolombia at that time given that the agent network was still small for the need, if this product was to become a really massive product.

Jeff Abrams

What this graphic illustrates again, not Bancolombia's numbers specifically, but illustrative of the dynamic that Natalia is describing is sort of the red on red. This was where we started at the outset of GAFIS, this negative $2.79, and then by implementing the types of innovations that Natalia is describing, these green represent improvements or decreases in the costs essentially, and this was for account opening, this was for cash handling, and really start moving towards significant. So we've gone from $2.79 to still a loss, but a significantly lower loss there.

And maybe in the interest of time because we don't have too much time left … We've talked mostly about the cost side of things and what's been done because that was really the driving force of the business case as we've illustrated. But also on the growing balances side, the customer side in terms of getting the customer excited about saving and achieving their goals, maybe briefly, we heard a bit yesterday about Juntos, how Juntos worked with Bancolombia and some of the successes they achieved, but maybe just briefly you could speak to that experience and how that helped grow balances and improve active ratios in the bank.

Natalia Gomez

There were two main reasons or tools that we used for this specific goal of growing balances in this account and the first of them was in my opinion the interesting innovation associated with this product, and it is the life insurance that is attached to it. When they get access to it, when clients reach a certain balance, we had a variety of ideas of how to do this. And this could have been a very complicated future of a product, but it was always important for us. It was always critical that it should be a very simple product, very easy to understand, and to use to file claims. So that was one of the things that we used to grow balances. And then the second one you mentioned already—the Juntos role was very important in just adding the right nudges at the right times for in many cases clients who otherwise would have become inactive, accounts

that would have become dormant in the very short run. And using these kind of tools, we were able to maintain active, and actually with some very significant increases in balances. We're talking about more than 50% increases in the balances of those accounts just because of the kind of intervention that Juntos brought to the table.

Jeff Abrams

Great, thanks. I think we'll leave it there and we can come back in the question session.

Robert Christen

Yeah, it was very interesting that from the bank's perspective, really the challenge was to get this cost problem solved, right? And that's the way that most of the Latin American banks have entered into the age of banking world. It's mostly been a cost strategy. Let's get the cost of these transactions down by getting people out of the infrastructure, improves the client experience for clients the bank's typically more interested in. So it's not surprising that the bank would first sort of start by thinking, let's save some costs, let's get people who aren't really our prime objective out of our banking hall so we can serve better the people who are our prime objective, and maybe create a whole separate infrastructure for a whole new class of clients, as you say, to increase the pie.

Natalia Gomez

Yes, or maybe just to be able to keep servicing those kinds of clients.

Robert Christen

In a better way. Absolutely. That's very interesting. And I'd like to come back afterwards and see whether at this point now, you know, awhile later, whether Bancolombia is any more interested in account features or not. But let's come back to that.

Mike and Lorenzo, you guys have been working together for quite a while on this whole balance between client value and what's going to work for you, Lorenzo.

Lorenzo Chan ~ Pioneer Life

Everyone thinks that insurance companies are out to make money, and we are. We do. But we're not bad people, we're just highly boring and dull creatures who prefer to stay within our comfort zones. We have defined the box and have been in the box for the last many decades and we're happy and comfortable in it. But the world is changing isn't it? And today everybody is talking about bigger markets, accessing a larger sector of the market, and we can't do that by being same old same old. And so one of the biggest avenues is really the mass market. You're talking about going down to the levels from the AB to the CD markets. These markets have never been served before or are underserved, but need insurance the most. And so about a few years ago, Pioneer, about 2007, we embarked on this journey to serve the mass market.

We only had one thing in mind which was to be able to encapsulate traditional insurance in bite size chunks. If you go out and have coffee in some Starbucks, you have a little pack of sugar or Splenda and that's called a sachet. In the Philippines, you get shampoo in sachets, and toothpaste in sachets. And so for us, what's wrong with offering insurance in a sachet? However we need to get that across, because people have to become users of insurance. And therefore we embark on a journey of microinsurance. I'm going to stop now.

Michael J. McCord ~ MicroInsurance Centre

It's okay, I can just sit and listen to Lorenzo all day, this dull guy. Yeah, and I'm thrilled to have Lorenzo here to talk about what it's like to run an insurance company that's making, taking the challenge and really stepping into this market and has really, really made a huge impact. I think Lorenzo and Pioneer Life in the Philippines are certainly among the most innovative, most client-focused centered insurance companies anywhere. And the example that Lorenzo shows I think is really important for all of us, and it really reminds us that where microinsurance moves forward is through commercial insurers, and Lorenzo helps us think about some of the ways in which insurers have to think about this, and what needs to be done to create what we've been calling the magical balance, the balance of business case and value, and we think that you can't have a successful microinsurance business without the magical balance. And we call it magical because it's not simple. It's actually very challenging to balance the ability to provide value with business case.

So I just want to take a moment or two and talk about what we see as value, and value is not simply putting quality in the name of your company. It's much different than that. You have to prove that. In credit and savings, it's much more easy because these are tangible products. Insurance is intangible, so some insurance companies pretend that they have quality by saying, "I'm a quality insurance company." It's clearly not that.

What we find is that in microinsurance, there's three levels that we've been looking at of value, and one is the expected value. I get a product, I expect that when my children get sick, I can take them to the hospital and I can care for them quickly, efficiently, and without losing a lot of time from my business or without my child getting sicker. So we expect that we will be able to get some value. This is why people enter into an insurance contract. Then we see service value. So it's the access. Now I have the access to the hospital. It's access to good services, it's access to good information. And what we focused on mostly was the financial side, and the financial benefit to low income people, and we recognized that people have a range of options, not necessary good options, some of them very stressful options, for managing their risk. They can take and withdraw their savings, and that leaves them without the kind of resiliency that people need. They can borrow money or get money for free from friends or family. They can sell their assets which hinders their ability to move forward.

What we're looking for is insurance products that provide better responses to these risks than these traditional mechanisms. So where does insurance fit? We say even some people have no response. I remember I lived in Kenya and Uganda for a long time, and I remember there were times when people would simply go to the village to die. They had no response. They had no money. They didn't have the money to even pay for a consultation at the hospital. They went to the village and died. And so how can insurance be a better option for people? And so we looked at this very extensively.

So we see value as the starting point. We have to have value. Demand is kind of the bridge to business case. We have to start with value, but once we have value, and once we consider value, we generate products looking here at kind of an evolution or a process or a structure for getting from value to a business case. So we start out with products that as we've discussed for the last couple of days focus on what do our clients really need, how do we convert that need to demand. Then we look at how do we create the processes. I think it's really important to recognize that with the product also comes the processes. We have to be thinking about how do we get the product out there, and we've talked a lot about those issues here as did Jeff and Natalia in

terms of mechanisms for doing that, and tools for making the process more efficient to get it out. We have to link to efficiency because if we're going to offer low income people microinsurance products, we have to have low premiums, and low premiums have to derive from low admin costs.

So we're focused on these issues. Then, once we've done this, the space that many, many organizations skip, they fall behind, is that they don't track the information that they get. They spend some time figuring out what they think is a good product, they try to develop some processes, and then they think that's going to move forward effectively. And so where you really have to come back is really looking at the KPIs and this is really the kind of lynchpin that links the value to the business case.

Robert Christen

What's a KPI?

Michael J. McCord

Key performance indicator, so understanding how well the numbers are working, how well your profitability is, your expense ratio, so your expenses against premiums. So looking at some of these detailed numbers—how your claims ratio is, how quickly you're able to pay claims. All these things factor both into the business case and into the value side. Certainly, the value work we found that one of the critical pieces was looking at how long does it take to pay claims? Low income people often need money right away.

And so if we follow this kind of a path, then it helps us to create a better opportunity for hopefully happy clients, hopefully renewing clients, people who see, not just know about our products, but actually have appreciation for the products and the potential even if maybe they didn't make a claim this year, maybe it comes next year or the year after.

And so Pioneer has considered these issues over the years, and has evolved itself into developing a number of products. Lorenzo, maybe you can talk to us about one of the products that you've got?

Lorenzo Chan

Sure. Thank you, Michael. I thought that maybe it would be helpful to just zero in because we deal in a multitude of microinsurance products. I thought it would be

interesting to zero in on just one specific one so we can see how it flows and the evolution of such a product.

Now, this is how we first defined one of our earlier micro products. It's called the CaMIA Paid Plan, and for those of you who were here yesterday afternoon, if you heard Dori speak, she represents the largest MFI in the Philippines and they were our partners in this particular product. So there was a meeting of the minds, a merging of the needs. We had wanted to access a larger sector of the market, what the founder of CARD often refers to as the bottom of the pyramid. And they had wanted to provide a number of their members in their open market insurance services which they couldn't themselves provide. So when we got together, the first thing we did, speaking of clients at the center, was we asked them what does that market need? We think we know what they need, but we've got to hear it from you. And off the bat they told us exactly. They said they're very prone to accidents because these are poor people who travel the roads every day. Burial is very important. If they cannot live with great dignity, they must die with some form of dignity. So burial insurance is very vital. And of course, we're the land of calamities, typhoon, earthquakes, flood, fire, you name it, we've had it, we're still having one, you know, with the big storm that just came in a few days before I flew out here. And so right now, we have people out in the field assessing the damage. So they defined these needs, and then we sat down and said, "So what do you reckon are workable balances between the coverage they need and the premium they can afford to pay?" And so what you have in front of you is about a personal accident and death benefit of about $2,200 US, funeral benefit of about $440, fire benefit, and flood, earthquake, typhoon. These things often fondly referred to as "acts of God" if you're a Christian, or "acts of nature" if you're not, $223, all for a measly sum of $5.50. Instead of 250 pesos, and on we went to the market. But wait. They also told us that you can't do it the way you always do it, which is in the event of a claim, you must then call us up, send an adjuster out there, and talk to a surveyor, because we can't have any of that cockamamie crap. We want it done in one, three, and five, these magical numbers that CARD people chant like a mantra. One, three, five. What does that mean? Day one, they call up CARD or ourselves and say, "I have a claim," and we get started on that. By day three, the claim's either paid or the claimant is told we need more information. By day five, it's paid or they're told why they cannot be paid and sent away. One, three, five. Extremely important.

And do we have the systems for it? Of course not. When I took this back to our back room, they found it ghastly. They said, "We can't do that! We can't do that. We need a

surveyor, we need an adjuster. Hello, $250, that's not enough, that's not even enough to pay for the transportation of the surveyor, none of that." Instead what we did was we trained the grassroots people of CARD to do the claims adjustment themselves. So it's automatic and they're on the ground immediate, and we knew the one, three, five. So that has helped tremendously.

Now, the challenge comes with is there going to be take up, because they wanted this to be voluntary, not mandatory, not required. So we've got to go out there and convince people that this is a viable product. And so the next slide.

Michael J. McCord

So what we found when we were looking at the business case, we looked at a number of different components that are all critical to making a business case—how is it distributed, what's the efficiency of distribution, what products are we looking at? We found that health insurance products, comprehensive health insurance products pretty much can't be done with a business case unless you have a significant subsidy. We looked at the different business models, we looked at how do we enroll people, is it voluntary, is it mandatory. Both of them taking significantly different work, and significantly different levels of expenditure and cost implication. We found the key issue was scale. And although all these issues, all these points, have significance in a business case, the real issue is scale. How do you get to significant scale?

And so Lorenzo, can you talk to us about scale in this product and how you were able to make money on $5.50 offering all this stuff?

Lorenzo Chan

No, we didn't make money off the $5.50. I mean, very few people make money off $5.50. We thought we did the first three years. And so what happened was Haiyan, Typhoon Haiyan happened. But before that, I'm jumping the gun. Let me share with you first how this specific product progressed.

So we're sharing with you the number of lives covered. This is first launched halfway of 2008. But what we want to do is show you the comprehensive annual figures. So from 2009 up to 2013, so on your left you have the growth and the number of lives insured. And on the right, the ever powerful gross premiums. So this is before commission,

before other costs are deducted. So there was real growth, there was good growth which we were quite happy with.

Now, the two things that led us to get into this, and we were not looking at profits from day one. Number one, to go into microinsurance, you want to make some profit over the long term, but you cannot look at large margins. It's impossible. If you do that, you're going to damn the product. You're going to damn the affordability of that somewhere.

Number two, we recognized that we cannot saddle the unit that we set up with a lot of startup costs. So a lot of that was farmed out to the rest of the group because Pioneer does love traditional business. So the IT, the marketing, etc. was all outsourced to these other existing units. So that helped in a way—I hate the word "subsidize"—it helped shoulder some of the immediate startup costs for it.

Now, so the next slide I want to show you was what the results were like over the last years. Again, I reproduced the gross premiums on your left as on the previous slide. But on the right are now the claims. With insurance, that's the all-important thing. I mean, a lot of us want to talk about lives and a lot of us want to talk about premiums and we're really happy, but the proof of the pudding really comes when you pay your claims. Without that, it is useless. Without that, the market will not come to you. Without that, they'll never come back for a repeat purchase. And so you can see the claims. Now, the first few years, you're looking at the claims over gross premiums, hovering over 40-50%. And one could be misled into thinking, hey, this looks like we're on to something until Typhoon Haiyan occurred last year, preceded by an earthquake. And you can see 125 million pesos, that's about $2.8 million, in losses paid last year, and 85 million of that is from Haiyan, the destruction caused by that typhoon.

And with that, that just sort of hit the ball out of the park, and then we said, hey, looks good, but it was a moment that made us sit back and think. Is this product going to be sustainable? What do we have to do to keep it sustainable in the long term? No use us paying claims and then closing shop the next day. And so obviously we took a look at every which way, and the guess is you've got to increase the price. $5.50 can only take you so much even with scale.

In the past, in traditional insurance, people look at big events, big typhoons and earthquakes as a once in a generation event. It occurs one in 25 years or one in 20

years, or one every 10 years. Tell you what, since 2008, we've had one almost every year. The reality is different. People talk about climate change. Folks, it's happening and we're living proof of it. We're paying for some of that. And so we've sat back with our partner CARD and we've said what do we do? How do we continue to make this sustainable? By paying claims?

So we effectively increased the price.

Michael J. McCord

So Lorenzo, the claims story isn't the whole story about profitability. Right? There's expenditure stories here. Admin expenses.

Lorenzo Chan

As I mentioned earlier, I think we helped defray a number of the costs of the microinsurance unit because we had other units that were doing the services for free. But off the bat, I could tell you, direct costs, we needed to set up an IT infrastructure, a system to monitor this, because when we first launched this, it was all paper based out in the field. And it's laborious, it takes time, there's great delay, people fill it up, people lose … you know, the micro agents lose the sheets, and then if they find it, then it gets data, you have data entry done, upload it, download it, too much delay. And ultimately we needed a system that was more vibrant and more real time. Today, we are testing a mobile app where micro agents in the field can enter this data immediately in almost real time. It's web-based, and then we have direct access to that. That allows us to track volume, it allows us to track who's come on board and enrolled, and it also allows us to track collection by the micro agents. So that's helped.

We've also launched tools for the micro agent. Now these are really, when you talk about agents, they're really mothers, working mothers who go out into the fields and go out by public transport to sell microinsurance among other things. Now, they earn very little on this, they earn on the $5.50, they earn about a quarter, 25 cents per policy. Now, is that a lot? Is that very little? For them, they're doing this as a badge of honor. A lot of the mothers feel that by introducing this product to other mothers, to other families, they're doing them a favor of getting them to secure cover in the event of calamity. So for them, that's a good thing, and that has worked.

Now with all that, we thought we needed to help them sell insurance. Remember, users must push. The users become pushers. Now what stories do you tell about insurance? So what we did was we went into our treasure trove of claims stories and interviewed claimants and beneficiaries without a script, and out of that, fashioned short films, short videos about three to five minutes long, which are now downloadable on to their little smartphones. And in the Philippines, just about everyone has a mobile phone. And so when they go out to the field, they can watch this little video where the claimants tell their story in their vernacular. And there's nothing like a testimonial that gets the point across. They share stories about what would have happened to them without that.

Now that project alone cost about $10,000 to get that going. The IT system cost about $40,000 and of course staffing. Today our micro team is filled with 35 people, none of whom are … now that's a large team across the country. And so together, I think HR cost wise, they cost us about $25,000 a month, all of them. But the magic thing is that none of them is over 35. The bulk of them are in their 20s. Why? We wanted to get young people with a passion to help other people, and they do. I think our research shows that a lot of the Millennials or Generation Y people do want to help other people. And so they think micro is one of the best avenues to do that. Two, they come without excess baggage. They're willing to try new stuff. They're willing to do the unthinkable where traditionalists will balk and say, "No, no, no, we can't do that." And three, they're fresh grads, they don't cost as much as people who have been around like me. So that helps.

Michael J. McCord

And so what we see here in part of this story is this linkage again of value and business case. Because there's value in the product, because people see that there's value, you're able to get people to sell the product. You're getting your users to become pushers because they see value, and in that process, you're also saving money which helps you to complete the magical balance circle at least at that level.

Lorenzo Chan

So what was the result of that soul-searching moment? We increased the price by 80%. So they said to our input, they said the input of the marketing people, they said the CARD people's input. So from 250 pesos, it now became 450; from $5.50, it's now $10 US. Now, of course, you can't go out to the market and expect your micro agents

to push this and say everything as is, no added value, we just have to make up for the losses we paid last year. So in other words, what we tried to do was increase where we could value in some of the coverages. So for accident and death, we were able to increase that from $2,220 to $2,890. For the funeral benefit, we kept that as is because that was a tricky issue. For fire, we felt we could increase that, so from $223, it went up to $667; and for the acts of nature, we kept that at $223 because that was where the bulk of the claims really was coming.

Michael J. McCord

So did you have a huge drop off in clients?

Lorenzo Chan

Well, we worried. Together with CARD we worried a lot. Some of them prayed, but a lot of us worried. How was this going to go? I mean, 250 to 450? And you're talking about the bottom of the pyramid. You know, is it going to work? We said, "Well, there's no other way to do it but to try it," so we launched it in March this year. And March, April, May—so we have figures for four months, and there is an increase in enrollment of about 50%, of which—I know! Even I had that jaw-drop look, eyebrows up look—and premiums have gone up by about 80% because 80% of the people who bought, bought the higher variant. What do I mean? We withdrew the 250 variant, launched the 450 variant, the $10 variant, but we also said, "Oh, what happens if people come and say, 'Oh, I can't buy it anymore, it can't afford that anymore.' We've got to be prepared for that." So we said, "Let us offer them a cheaper variant there, 100 pesos, just a 100 pesos. So that's very, very cheap and it gives them bare minimum, very little PA cover, very little funeral cover, and very little acts of nature cover.

But why did we do that? We wanted other people to have an option. For people who said, "I can't afford 450," there is that other option. And it allowed us not only to do it as a buffer, as a backup, but to test what we were doing. Lo and behold, 80% bought the higher variant, increasing the number of enrollees. And you know what? Those people who bought the higher variant are probably happy today because we just had a very bad storm three days ago, and we're assessing damage.

Michael J. McCord

So again, you've created additional value, you've been able to keep your clients because of that, because they trusted, because they expect that you're going to honor your commitments, and now you've balanced again.

Robert Christen

It strikes me as we've had this conversation over the years that the critical thing for insurance is not just to be in a sense honest and pay when you're supposed to pay, but actually it's that equilibrium between sort of how much you pay and the deal clients get, and paying enough claims so that enough people are benefited, so that word of mouth gets around. And that to me seems like a critical point I'm not sure that a lot of us got along the way. A lot of us seem to be, we're kind of happy when we didn't have to pay so many claims because we made more money. And in the short term, yeah, it's a good business, not paying so many claims because … sure, there's money immediately in the cash register. But it strikes me in your story that what really probably lies behind the fact that so many people bought at the higher level is a great track record, not that you paid claims because you had to, but also that there were enough people getting paid that others could see getting paid, that they were able to imagine then a benefit. It wasn't so distant or so remote. That strikes me as part of the story, of creating a market for an intangible.

Michael J. McCord

And so the scale is critical both on the financial side to make something out of those tiny margins, but also on the side of showing that this works. But the key is you can have scale, and you can provide lousy service, and that doesn't build an insurance culture. We see a lot of that, but here what we're seeing is more of a building of that culture because you prized.

Lorenzo Chan

And you've got to be out there in the field. Typhoon Haiyan, normally we send people down after a few days of an incident so that they're out in the field. For Haiyan, we had to wait for over a week before we could send people down. We sent a team of young people, about four or five of them down there, and there's nowhere to stay. So luckily we were partnered with our partner CARD, they still had the building that withstood the

typhoon, and so we let our people camp out there on the second floor. And we're, "How did it go, how did it go?" They said, "They're sleeping in tents inside the building." "Why?" "Because it was so bad, there was so much mosquitoes and flies all over the place that even if they were inside the building they needed to sleep inside a tent." You know, what happens? They go out, now the government said, hey, we're going to go down to city hall later and put up an insurance crisis center for people who just come, insured with anybody, and file their claims.

Well, did that happen? Yes, they set it up. Did anyone come? No! I mean, the first 10 days what were people doing? They were looking for missing relatives, they were trying to survive, waiting for aid to come. They're not going to go and look to file for an insurance claim, are they? So what we did was we sent our people to go with our partners of CARD out in the field where they were. We set up shop out there. If I can share just one slide, I exceeded my quota. Now two incidents occurred last year. In October, there was the Bohol earthquake and so that's the picture on the upper left-hand. I'm so sorry, I think Filipinos have this great affinity for picture taking. Every time there's a camera in front of them and it snaps, they break into a smile. This is a woman who lost her house, and then she had two members of her family suffer accidental claims. And when we took the snapshot she broke into a smile. So we couldn't look for any depressing shots. The picture on the lower right-hand is a shot of the Typhoon Haiyan later and the picture on the lower left is actually us setting up shop in the field next to a hut where people could come and file their claims or we could talk to them.

Now, what did we do? Well, certainly, we'd already simplified the process. We said, "Just death certificates." And we went into Micro, could we ask for that in this instance? No way. Who was going to issue a death certificate? Who was going to issue a medical certificate? No one! I mean, it was chaos. So we had to work around that, and so I said, "Okay, CARD, let us work on something ingenious. Let us attempt to redefine the rules without violating the principle." So without violating the principle meant: let's pay the claims, insurable interest, acting out of good faith, but let's redefine the rule. So we said, okay, are they on the list of missing persons established by the government? If they were, could we get a local CARD guy or a local grassroots guy to confirm that? If that was the case, yeah, we start processing the claim and pay out.

Robert Christen

So we can see why you're doing really well with clients. That kind of passion is exactly what it takes, isn't it? That kind of absolute commitment to being there for clients. That's it, right? That's what client-centricity is about. It's not just designing a tweak. It's about this. It's about what we're hearing. It's about that dedication from the absolute top saying this is how we're going to be present for clients. And that in my mind is the most fundamental takeaway I hope of this whole event. It starts and ends right here. This is it. If it comes from here, and it comes from this sort of passion, then you're on the right track. You'll solve the day-to-day problems. You'll get the team in the field.

On the savings end, in the GAFIS project and the InFocus project, the other projects you were doing, clearly, the banks need to sort out, absolutely have to sort out this channel problem because you can't even dream of offering low balance accounts if you can't solve the math, if you can't get the math right. Were the banks in those projects ever able to get past the math and work on the design end, look at client service on its own as opposed to simply being a cost-reduction strategy? Were you guys able to get there, or was the challenge on building the channels just so great that that's what's absorbing? Because it is a massive challenge to build a whole new contact infrastructure. Tell us a little bit about that.

Jeff Abrams

Sure, I think that clearly the math, I think, sometimes we use the terms or the banks use the terms, the math is important to convince the "Uglies" within the bank.

Robert Christen

You mean like the finance types, right? (Laughter)

Jeff Abrams

Not in the literal sense, but the accountants and things like that. And really for the big banks, the costs, to sort of get the momentum going, cost was the story. But the people we dealt with within the project mostly, clearly not the "Uglies," but no in terms of the … we're really excited about these sorts of issues around what does the customer need, and I think Natalia alluded to one earlier. I think she mentioned life insurance, but I think she meant to say sort of medical insurance was really the benefit of the savings

part. There's a recognition, as I'm sure has been alluded to and is known here, that medical challenges really kill savings in so many instances. So there was recognition that, okay, how can we acknowledge that and recognize that and try to build a medical insurance benefit into the savings product so that if there is a medical emergency that somehow the savings can be preserved by kicking in this medical benefit. So there was some of that. I don't know if there was the passion that we just saw there on an everyday basis, but …

Natalia Gomez

It was there. (Laughter)

Robert Christen

That would be antithetical to bankers. Is that what we want to say? I hope not!

Natalia Gomez

No, let me speak for us. I can still do something, not as good as what we've witnessed. But definitely, I am really sorry to interrupt Jeff. But there were some, this was the occasion to see some first times, at least in Bancolombia, of the way we developed products before the GAFIS project was quite different from the way we think about it now just because we were part of this project. I want to give you just a very simple but clear example. We wouldn't even dare to think of doing more than ten focus groups as part of the initial research for launching a new product. For the product that we launched as the result of the GAFIS project, we did over 90 focus groups, nationwide, with the fishermen, with the mines workers, right in the villages, right by the seashore. We really had the opportunity to do new things and to go beyond business as usual, and really put clients in the center from the very beginning. And I might not be clear enough before, but that was what really allowed us to identify that we needed to work so hard in the delivery channels because that was where the real trick was for the clients as well as far as business case.

Robert Christen

Were you able within the bank to create a real sense of identity around the project? Was the bank in any way impacted by this project?

Natalia Gomez

It definitely was. Again, when you have 90 focus groups instead of say five that you used to have before, we made sure that we engaged people from even the "ugly ones." Even the financial people were engaged in those exercises and they had really a feeling of what we were trying to do and why we were trying to change everything so deeply and so dramatically, and why we needed to do something so different from what we had done before. So we really have had the opportunity to have an impact in the way the bank thought of itself.

Robert Christen

Yeah, this is a really key point. I think I'll wrap with this. And it's congruent with my own experience. Not only are there spectacular successes due to clear, precise passion and leadership from the top, but at times, and in particular institutions, not everyone who tries to do this work, it does happen that the group that starts a special project around financial services for the poor becomes so good at it, and so successful that the rest of the organization gets contaminated if you will, with that energy and passion, and the drive for efficiency, the drive for effectiveness, the commitment to the client. And I've actually seen a number of cases where large, even state-owned institutions have had their whole identity shifted as a result of the passion of a group of people working around this kind of commitment.

Natalia Gomez

Right. It can work particularly well in a pretty dull and boring environment like the environments we come from.

Robert Christen

Imagine! We've really knocked on these folks a bit too much. But okay. We've all spent our time there, right? We've paid our dues. So I guess we can do it. But it is striking that at times this sort of passion, particularly when institutions maybe were born with a double bottom line at some point, it helps an institution recover a sense of the relevance that they may have in society.

So this turned into a little bit more of a leadership and vision session than I had envisioned. But we got some numbers in, right? We got some numbers. So we were

hoping to talk a little bit about the business case for caring about clients, and I hope that we've satisfied that. Thank you very much, panel, for accompanying us. Thank you. (Applause)

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