

# **SERVIPERÚ**

## **Perú**

**CGAP Working Group on Microinsurance**  
**Good and Bad Practices**  
*Case Study No. 1*

**Máximo U. Rodríguez and Bernardo Miranda**  
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## **Good and Bad Practices in Microinsurance**

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1. A **series of case studies** to identify good and bad practices in microinsurance
2. A **synthesis document** of good and bad practices in microinsurance for practitioners based on an analysis of the case studies. The major lessons from the case studies will also be published in a series of **two-page briefing notes** for easy access by practitioners.
3. **Donor guidelines** for funding microinsurance.

## **The CGAP Working Group on Microinsurance**

The CGAP Microinsurance Working Group includes donors, insurers and other interested parties. The Working Group coordinates donor activities as they pertain to the development and proliferation of insurance services to low-income households in developing countries. The main activities of the working group include:

1. Developing donor guidelines for supporting microinsurance
2. Document case studies of insurance products and delivery models
3. Commission research on key issues such as the regulatory environment for microinsurance
4. Supporting innovations that will expand the availability of appropriate microinsurance products
5. Publishing a quarterly newsletter on microinsurance
6. Managing the content of the Microinsurance Focus website:  
[www.microfinancegateway.org/section/resourcecenters/microinsurance](http://www.microfinancegateway.org/section/resourcecenters/microinsurance)

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## Executive Summary

At the end of the 1980s and in the early 1990s, Peru suffered a severe economic crisis that led to the implementation of structural adjustments measures to achieve macroeconomic stability. These policies resulted in a revitalisation of the financial system, including the emergence of new types of financial institutions. In this context, low-income persons, who previously had not had access to credit, found funding alternatives in line with their circumstances, which enhanced their income and improved their living conditions.

However, the development achieved in microcredit did not result in the poor's corresponding access to insurance. The new insurance law issued in 1993 did not promote insurance products for the low-income market—in fact, quite the opposite. Higher capital requirements caused some insurance companies to merge, while others left the market altogether.

This case study relates the experiences of one insurer, SEGUROSCOOP, that was hurt not only by the regulatory changes, but also experienced a decline in its core market, Peruvian cooperatives, which had not weathered the storm of hyperinflation and macroeconomic instability very effectively. From October 1994 SEGUROSCOOP had to cease operating as an insurance company for the cooperative sector and became a company offering protection services, as Serviperú is today. The key changes that took place include:

- The organisation created a subsidiary insurance brokerage: *Serviperú Asesores y Corredores De Seguros* (insurance consultants and brokers).
- The insurance portfolio was transferred to an insurance company, with an agreement on profit sharing.
- The Board agreed that the new social mission of the Cooperative would be:
  - To offer Funeral Services.
  - To offer Health Care Services.
- Three service brands for three business units were created:
  - *Seguro de Previsión Familiar* (Family Insurance for Health), managed by the subsidiary company Serviperú Asesores y Corredores de Seguros.
  - *Funerales Los Olivos* (Funeral Services Los Olivos), managed by the Funeral Services Division.
  - Medical Centre *Servisalud*, managed by the Health Services Division.
- The company's main target market was the low-income population.

During the last decade, the development and consolidation of this transformation has seen many good practices, but also some limitations. Given the main purpose of this report – to identify good and bad practices in the development and management of microinsurance – here are the main conclusions drawn from this study:

- It is often said that *crises* should be seen as *opportunities for growth*. Serviperú is a good example. The company had to face two major crises: first, the severe reduction of its market, following the crisis of the cooperative sector as a result of the economic structural

adjustments between 1990-1992; and second, the new Insurance Law in 1993 imposed higher capital requirements that made it extremely difficult to continue operating as an insurance company. Serviperú overcame these obstacles through the following steps:

- First, Serviperú *analyzed its options to continue operating and avoid liquidation*. It saw in its insurance portfolio an important strength and chose not to abandon it. It decided to create a subsidiary insurance brokerage to work with its portfolio.
  - Serviperú *sought a strategic alliance* with an insurer to continue offering insurance services to its clients and to develop new services. In terms of criteria for the search of a partner, which includes profit, stability and service, it was essential to highlight the importance of *loyalty and trust* to develop and jointly manage the new business.
  - In ceasing to operate as an insurer, it was also fundamental to *think about the development of a new service and business line* (to create a funeral services company), which would be based on the previous experience as a funeral insurance provider. This strategy could be regarded as *creating value-added services*.
  - *The management and operating teams had to identify themselves with the new projects* – this meant a team working attitude, a strong commitment and even economic sacrifice in the first year.
- An important factor in the development of new projects was to *explore, know and share the experience* of other cooperative organizations in this type of project, such as cooperative funeral services providers in Québec and “Los Olivos” in Colombia. Also, Serviperú benefited from technical assistance provided by SOCODEVI (Cooperative Society for International Development) which included financial support, technological support and provision of medical equipment.
  - To offer and market the new services, Serviperú created a microinsurance product known as *Previsión Familiar* (Family Security). This product gave low-income households access to funeral and health services.
  - For Serviperú it was important to *fully develop and consolidate its first project* (funeral services) before developing others (the medical centre). As a result of the company’s success in offering an excellent funeral service, Serviperú gained a favourable image, which later helped the company in the development and marketing of the new health services.
  - Health services were incorporated as an additional cover to the existing microinsurance product *Previsión Familiar*, which led to the progressive improvement of this product. It was a more positive approach to develop new covers associated to the product than to create many other separate products. As a result of this practice, the brand *Previsión Familiar* (Family Security) has been progressively consolidated.
  - *Previsión Familiar* is different from other insurance plans because most benefits are given in-kind. This arrangement allows Serviperú insurer to maximize the efficiency and quality of its services, which encouraged the perception of the brand *Previsión Familiar* as a good product that would be recommended by existing clients to other potential clients.

- 
- The practice of *offering a service instead of a payment* was adopted to encourage the low-income market to buy microinsurance. The reasoning for this approach was that, in general, this population tends not to buy insurance, but it was believed that they would buy the opportunity to receive health and funeral services for themselves and their families at a low cost.
  - In the search for efficiency in running of the medical centre, an important factor has been the control and monitoring of costs, and linking doctors' salaries to the number of consultations they provide. To offer better conditions to the policyholders through Serviperú's brokerage subsidiary, it was important to raise awareness among policyholders of prevention and minimizing claims so that prices could be kept low in future.

Here are the main obstacles found in the creation and management of the *Previsión Familiar* microinsurance product:

- The sectors of the population to which this product was initially focused have unstable income, causing frequent policy lapses or cancellations and higher premium collection and renewal costs. Consequently, the company has progressively positioned this product among persons with more stable incomes. Serviperú believed it was necessary to have a large client base with stable incomes to generate higher product profitability before continuing to promote it among the low-income market.
- The development of the medical centre was a costly project and had been consolidated gradually, as more funding and donations are available. The company had managed to create a reasonably good centre, however it wishes to offer more comprehensive services and there are limitations in terms of opening hours and in-patient facilities.
- Since the benefits are based mainly on services available in its own premises, Serviperú's market has a geographic limitation. For example, to extend the services to the northern area of Lima, the company is developing a health centre in that region. However, until the premises are fully equipped and in good working order, they cannot promote and advertise the product. A very big investment would be required to introduce this product outside of Lima.
- Cooperatives have given very little support to this microinsurance product and have not promoted it among their members. Around 90 percent of people insured are not members of a cooperative. To have the support and avoid the resistance of cooperatives, Serviperú intends to put in place a microinsurance marketing campaign for cooperative managers.





# 1. Background

## 1.1 Macroeconomic Data

**Table 1. Peru's Macroeconomic Data**

|   | <b>Data</b>                               | <b>Year/Period</b> | <b>Source</b>             |
|---|---|--------------------|---------------------------|
| GDP (US\$ Billions)                                   | 54  | 2001               | UNDP                      |
| Population (millions)                                 | 26.767                                    | 2002               | World Health Organisation |
| Population density per km <sup>2</sup>                | 18.63                                     | 2000               | UNDP                      |
| Percentage urban / rural population                   | 73.1/26.9                                 | 2001               | UNDP                      |
| GDP/Capita (US\$)                                     | 2051                                      | 2001               | UNDP                      |
| GDP Growth Ratio (%)                                  | 2.3                                       | 2002               | WB                        |
| Inflation (%)   | 2.2 (consumer prices)                     | 2003               | CIA World Factbook        |
| Exchange Rate (Soles into US\$) <sup>1</sup>          | 3.48                                      | 2003               | CIA World Factbook        |
| Infant death rate (per 1000 live births)              | 30  | 2001               | UNDP                      |
| Death rate in the first five years (per thousand)     | 39  | 2001               | UNDP                      |
| Maternal death rate (per 100,000 live births)         | 190                                       | 1985-2001          | UNDP                      |
| Access to drinking water (% of population)            | 80  | 2000               | UNDP                      |
| Health Expenditure as % of GDP (public/private/total) | Public: 2.8<br>Private: 2.0<br>Total: 4.8 | 2000               | UNDP                      |
| Health Expenditure per capita (US\$)                  | 27  | 2001               | WB                        |
| Doctors per 100,000 people                            | 0.9 (physicians)                          | 1998               | WB                        |
| Hospital beds per thousand people (urban/rural)       | 1.5 (urban: n.a;<br>rural: n.a)           | 1998               | WB                        |
| Adult illiteracy rate (%)                             | 9.5                                       | 2002               | WB                        |

## 1.2 Role of the State in Insurance

This section provides an overview of the Peru's insurance industry and summarises the main legislative and regulatory circumstances.

### *Legislation*

**General Law for the Financial System and the Insurance System and Constitutional Law of the Bank and Insurance Superintendence (LGSFS) (Law N° 26702).** This 1996 law established the framework for the control and supervision of companies that operate in the financial and insurance industries, as well as companies that have activities related to the financial sector. Every person or entity that is engaged in activities related to the collection or

<sup>1</sup> This exchange rate will be used in all calculations of current figures in this paper.

receipt, on a regular basis, of money from third parties and the use of those funds mainly as credit must obtain authorization from the Superintendence in accordance to the norms established by the Act. Regarding credit unions, which are not authorized to operate with third parties, the law declares that their control is primarily the responsibility of their Supervisory Council and General Members Assembly. Finally, the LGSFS establishes the definition, objectives and address of the *Superintendencia de Banca y Seguros* or SBS (Bank and Insurance Superintendence), and declares the operating, financial and administrative autonomy of this body.

**General Law for Cooperatives (D.S. No. 074-90-TR).** The first General Law for Cooperatives (Act No 15260), from 1964, did not define cooperatives specifically, but only considered their legal status as that of private companies. Cooperatives had to register in the “Book of Cooperatives” of the Public Register.

In 1990, the new General Law for Cooperatives was approved by Supreme Decree No 074-90-TR. Chapter I of section II is dedicated to the cooperatives’ constitution and their registration in the Book of Cooperatives of the Legal Entities Register. Chapter II talks about the members of cooperatives, the criteria for admission, their rights and obligations and their responsibilities. Chapter III covers the administrative regime of cooperatives, which consists of the General Assembly, the Administrative Council and the Supervisory Council, their rights and obligations. Employees are prohibited from being members of the cooperatives they work for; however, they can benefit from the services offered in the same way as members do. Chapter IV defines the economic regime of the cooperative: initial capital, contributions from members, distribution of surplus and the creation of the cooperative reserve. There is no reference to recommended ratios for maintaining financial stability or to the business ethic for credit unions. Chapter V establishes the different types and causes of dissolution and liquidation of cooperatives.

Section III is dedicated to cooperative integration, in particular, cooperative headquarters, national federations and Peru’s National Confederation of Cooperatives. These organizations are defined and a list of the activities they can offer and the rules they must follow are established. Section IV of the Law defines the protection regime of cooperatives and Section V is dedicated to the National Institute of Cooperatives (*Instituto Nacional de Cooperativas or INCOOP*) and regional governments.

**Decree Law No. 25879 declares the dissolution and liquidation of the Instituto Nacional de Cooperativas INCOOP (National Cooperative Institute).** This 1992 Decree declares the dissolution and liquidation of the INCOOP dispossessing regional governments of their powers when dealing with cooperatives. It gives the SBS responsibility for control, supervision and inspection of credit unions. All other cooperative organizations are under the control, supervision and inspection of the National Supervisory Commission for Enterprises and Securities (*Comisión Nacional Supervisora de Empresas y Valores or CONASEV*).

**Regulation for Credit Unions not operating with resources from the general public (Resolution. SBS No. 540-99).** This regulation was approved by a ruling from the SBS in 1999 and, in some way, it completes the General Law for Cooperatives that has never adopted its own norms, especially, with regard to credit unions. This regulation dictates the operations that can be

carried out by credit unions; it establishes the limits to their operations and prescribes sensible norms that should be followed by cooperatives as players of the financial – but not banking – system.

It regulates the supervisory regime of Fenacrep (La Federación Nacional de Cooperativas de Ahorro y Crédito del Perú), the credit union apex body, by defining its functions as well as the requirements it must demand from credit unions in terms of obtaining documents, information and protection of their funds.

### *Regulation*

Any company interested in operating within the financial and insurance system must be a limited company, except those whose nature does not allow it. To begin operations, founders of the company must obtain from the Superintendence the necessary organizational and operational authorizations, following the procedures dictated by the SBS. In case of transformation, conversion, merger or division, the company must apply for a new authorization according to the new type of activity.

To operate, companies and subsidiaries must comply with the minimum capital requirements in cash, as summarised in Figure 1.

The regulated insurance companies in Perú are as follows:

a) Life and Non-life:

- Generali Perú Cía. de Seguros y Reaseguros
- La Positiva Compañía de Seguros
- Rimac Internacional Cía. de Seguros y Reaseguros
- Sul América Cía. de Seguros S.A.

b) Non-life:

- Pacífico Peruano Suiza Cía. de Seguros y Reaseguros
- Mapfre Perú Cía. de Seguros y Reaseguros
- Secrex Cía. De Seguros de Crédito y Garantías
- Royal & Sun Alliance – Seguros Fénix

c) Life:

- Altas Cumbres Cía. de Seguros
- El Pacífico Vida Cía. de Seguros y Reaseguros
- Interseguro Cía. de Seguros de Vida S.A.
- Mapfre Perú Vida Cía. de Seguros
- Cía. de Seguros de Vida Santander S.A.
- Invita Seguros de Vida
- Royal & Sun Alliance Vida

**Figure 1. Minimum Capital Required (US\$) for Peru's Financial and Insurance System\***

|  |            |
|--|------------|
| A. Companies of Multiple Operations  |            |
| 1 Banking companies.   | 18 624 503 |
| 2 Financial companies.   | 9 365 950  |
| 3 Municipal Savings and Credit Bank.   | 846 682    |
| 4 Municipal Popular Credit Bank.   | 4 995 173  |
| 5 Development Entities for SME.  | 846 682    |
| 6 Credit Unions authorized to deal with resources from general public.       | 846 682    |
| 7 Country Savings and Credit Bank  | 846 682    |
| B. Specialized companies   |            |
| 1 Mortgage Banks.  | 9 365 950  |
| 2 Companies of Financial Leasing   | 3 047 056  |
| 3 Factoring Companies.   | 1 693 364  |
| 4 Financial Guarantee Companies.   | 1 693 364  |
| 5 Trustee Services Companies.  | 1 693 364  |
| C. Investment banks  | 18 624 503 |
| D. Insurance Companies   |            |
| 1 Companies that operate in only one of two main sectors (life or non-life). | 3 386 727  |
| 2 Companies that operate in both sectors (life and non-life).                | 4 655 501  |
| 3 Insurance and reinsurance companies.                                       | 11 852 297 |
| 4 Reinsurance companies.   | 7 196 796  |
| E. Companies of complementary services                                       |            |
| 1 Bonded warehouse.  | 3 047 056  |
| 2 Companies for the transport, custody and administration of monetary funds. | 12 487 933 |
| 3 Credit and/or debit card providers.  | 846 682    |
| 4 Companies offering swap/switch of assets/debts for equity services         | 846 682    |
| 5 Companies for the transfer of funds.                                       | 846 682    |

\* Figures are in local currency, in accordance to circular No G-113-2003 and valid until 31 December 2003. They are updated annually with the wholesale price index – base from October 1996.

**The operations of insurance companies.** In general, insurance and/or reinsurance companies can offer contracts necessary to cover risks or to issue reinsurance policies, such as ceding and accepting operations, as well as engage in investment transactions. They can also provide loans to policyholders for the payment of their insurance premiums. If an extension of their operating authorization is granted, they can also be allowed to issue guarantees and act as trustees. Companies operating within the insurance system can create two types of subsidiaries: a financial company and/or a health care provider.

**Reinsurance.** Insurance companies can associate among themselves, creating legal entities whose only purpose is to do reinsurance business together, either as ceding or accepting companies, on all or several insurance lines. With the agreement of the insured and previous authorization of the Superintendence, insurance companies can:

1. Cede one or more lines of business to other companies of the same nature that are authorized to issue policies in the same insurance lines.
2. Set up systems for the cover of accidental damage at work and health care.

A reinsurance contract does not subordinate the relationship established by the insurance contract. As a result, the payment of a claim under an insurance contract does not depend upon the relationship between the insurance company and the reinsurer. The Superintendence can allow certain exceptions to this rule. Insurance companies can obtain reinsurance cover freely within the country or from abroad but always subject to the regulations dictated by the Superintendence. This body will establish the minimum percentage of catastrophe risks to be reinsured abroad.

**Prohibitions.** Insurance companies are not allowed to:

- a) Offer their assets as guarantees in investment operations.
- b) Carry out business transactions with shares that represent their social capital.
- c) Lend, in any way, sums of money to or act as trustees for their directors and employees (although employees can receive housing loans).
- d) Pay a claim settlement more than the sum insured.

**Policies terms and conditions.** Insurance companies are allowed to set their own policy conditions and rates, subject to the norms defined in this chapter. Policies must include the conditions for risk protection and comply with the following minimum requirements:

- a) Their content must comply with the legal dispositions that regulate the insurance contract.
- b) Their general terms and conditions and special clauses must be written in an easily understandable language.
- c) Basic cover and exclusions must be shown in highlighted text.
- d) The amount of premium must be explicit.
- e) In some cases, the official registration number of the broker will also be required, as well as the commission rate, which is agreed between the insurer and the broker.

**Claim settlement.** The payment made directly to the policyholders or beneficiaries must be settled within 30 days of the claim being accepted. The claim is considered as accepted when the insurer approves or does not reject the adjustment agreement within 10 days of being signed by the policyholder. If the insurance company does not agree with the adjustment, it can demand a new adjustment to accept or reject the claim as well as to determine a new amount or propose arbitration.

In cases where there is no adjustment agreement, the claim will be considered as accepted if the insurer has not questioned the amount of the settlement requested within 30 days of having completed the necessary paperwork to process the claim, as specified in the insurance policy. If the insurer requires more time to conduct further enquiries on the incident or to calculate the settlement amount, it can apply to the Superintendence for an extension, but must state and

justify its reasons for this request. This extended time cannot exceed 90 days from the date the necessary documentation, as defined in the insurance policy, has been completed.

In case of delay, the insurance company will pay the policyholder annual interest equivalent to 1½ times the average rate for asset transactions in Peru, in the same currency as the insurance contract, to be applied to the period of time the payment is delayed.

### *Supervision*

The Banking and Insurance Superintendence is responsible for monitoring the financial and insurance systems. The purpose of this constitutionally autonomous body is to protect the interests of the general public in the field of finance and insurance.

The Superintendence is responsible for defending the public's interests by: a) monitoring the financial and economic stability of the entities subject to its control; b) making sure the legal, regulatory and statutory norms are being complied with, and c) exercising thorough control of their activities and transactions. The Superintendence will make an official complaint about any banking and insurance activities conducted without the appropriate authorization, which can lead to the dissolution and liquidation of the offending organisation.

At least once a year, the Superintendence will carry out without warning, directly or through an authorized auditor, inspections of the companies. The Superintendence can examine, by any means it believes appropriate, accounting books, accounts, files, documents, correspondence and any other information necessary to exercise its functions. The insurance company, representative or broker must offer the inspection personnel any assistance required to carry out their assignment. The Superintendence is also authorized to:

- Demand that companies create reserves for assets and contingencies that may involve credit or market risks;
- Request that investments are adjusted to their market value;
- Request that buildings and other assets in the balance sheet are adjusted to their market value;
- Prohibit any company from paying dividends or distributing profits unless they comply with the above-mentioned requirements;

If a company does not provide the information necessary for the Superintendence to evaluate and qualify properly, this body has the power to demand the creation of an appropriate reserve in relation to that asset or contingency.

Having been excluded from any insurance activity by the present Law, Serviperú currently offers social protection services and insurance brokerage through its various divisions and its subsidiary. As an insurance broker, Serviperú is subject to the control and supervision of the Banking and Insurance Superintendence. With regard to the other activities, Act No. 25879 established that the company was under the control of the Supervisory Commission for Enterprises and Securities (CONASEV).

### 1.3 State Promotion of Insurance Activities

The State does not promote insurance activities beyond its legal responsibility.

### 1.4 The State's Role in Social Protection

#### *Social Security Schemes*

With regard to social security in Peru, there are two systems of social protection: one managed by the state and one of a private nature that provides pensions and health care.

Historically, social security in Peru was the responsibility of the State, through Social Insurance, later called the Social Security Institute of Peru (*Instituto Peruano de Seguridad Social* or IPSS). This body was in charge of health care services and pensions for workers that contributed to a common fund. Later, with Act 26790 of 1997, the health care system was modified and *EsSalud* was created. Originally based on IPSS, *EsSalud* now offers health care services and assistance for workmen's compensation, which includes health care and financial support.

The pension system is managed by the *Oficina de Normalización Provisional* or ONP (Bureau of Provisional Normalization), which administers the common fund. Because this fund is currently defunct, a private pension system has emerged managed by *Administradoras de Fondos de Pensiones* or AFP (Pension Funds Administrators), which are under the control of the Banking and Insurance Superintendence. Funds are administered as investment accounts that increase according to the investments carried out by the administrators using these funds.

Peruvian employers are also required to purchase a life insurance policy for those employees that have been employed at the company for more than four years. Finally, a compulsory motor insurance policy (SOAT) covers only health care attention for those injured in a car accident.

#### *State Assistance to Microinsurance*

In general terms, there is no direct state assistance to microinsurance. Policymakers have focused on the development of microcredit, which has been helped by financial macroeconomic reforms. There is total freedom to fix interest rates; the subsidized credit programmes that were of great importance in the 1980s have been deactivated and the public sector no longer acts as a direct financial intermediary.

It is also important to mention that the current regulations have facilitated the emergence of a number of non-banking financial institutions (NBFIs), such as:

- Non-governmental organizations (NGOs) that offer individual loans; some use the solidarity group or village banking methodologies;
- Development Entities for Small and Micro Enterprises (EDPYMES);
- Municipal Banks for Savings and Loans (*Cajas Municipales de Ahorro y Crédito* or CMACs);
- Rural Banks for Savings and Loans (*Cajas Rurales de Ahorro y Crédito* or CRACs).

There has also been a resurgence of consumer finance companies and credit unions. Consumer finance involves financial institutions regulated by the SBS that are specialized in placing consumer loans. Currently there are four institutions that carry out this activity: the Workers' Bank (*Banco del Trabajo*) and three other financial organizations: *Solución*, *CMR* (from the group *Saga Falabella*) and *Cordillera* (from the group Ripley).

#### *Role of the State in Informal Microinsurance*

The State's role in the control of non-registered microinsurance is limited. The regulatory authority has no specific policy aimed at assisting social groups in the informal economy to manage their risks.

## **1.5 Insurance Industry Basics**

**Table 2. Insurance Industry Basics**

| <b>Aspects</b>   | <b>Notes</b>  |
|--|---|
| Name of the regulatory entity (or entities) of the insurance industry.   | Superintendencia de Banca y Seguros   |
| Key responsibilities of the regulatory entity (i.e., development of policies, supervision, insurance companies' licenses). | See Section 1.2   |
| Minimum capital requirements for obtaining a license to operate as an insurance company                                    | See Figure 1  |
| Other key requirements for obtaining a license to operate as an insurance company.   | Authorization from the Superintendence  |
| Capital requirements for an operating insurance company.   | The minimum capital must be updated each quarter, in relation to inflation. See Figure 1. |
| Minimum capital requirements for reinsurance companies.  | Previously indicated  |
| Number of regulated private insurers.  | 15  |
| Annual premium volume of regulated private insurers.   | US\$ 679,6 millions (year 2002)   |
| Number of regulated public insurers.   | 0   |
| Annual premium value of regulated public insurers.   | --  |
| Number and type of other regulated insurance companies.  | --  |
| Annual premium volume of other regulated insurance companies.  | --  |
| Number of reinsurers (if existing).  | --  |
| Annual premium volume of reinsurers.   | --  |
| Other non-regulated organizations that offer insurance services (if available, indicate number and premium volume).        | --  |
| Requirements to become a certified agent.  | --  |



## 2. The Institution

### 2.1 History of the Intuition

SEGUROSCOOP was created as a cooperative insurer on 7<sup>th</sup> August 1966 in accordance with Act 15260. It resulted from an initiative by the Credit Union Federation of Peru to replace the insurance offered by CUNA MUTUAL on the portfolios of its cooperatives. Its primary market consisted of credit unions, coffee growers' cooperatives and transport cooperatives.

SEGUROSCOOP's main products were:

- Life insurance covering loans and savings.
- General insurance protecting the property and goods of cooperatives.

In the first half of the 1990s, two major events led to a transformation of the company:

- a) Between 1990 and 1992, the Peruvian economy underwent a profound structural adjustment. As a result, many cooperatives – SEGUROSCOOP's main market – suffered a serious crisis. The primary consequence was the launch of a new product to reach out to a broader market: *Seguro de Previsión Familiar* (Family Insurance for Health Protection).
- b) In 1993 a new insurance law was issued, allowing only limited companies to carry out insurance activities, no longer allowing cooperative insurers, and establishing a capital requirement of one million dollars. Primarily because of the lack of capital, the company decided to change its corporate status, becoming a cooperative of special services in October 1994. In October 1997 the company adopted its current status as a cooperative provider of services (*Central Cooperativa de Servicios*).

The decision to transform in October 1994 led to the following changes:

- The creation of a subsidiary company: *Serviperú Asesores y Corredores De Seguros* (insurance consultants and brokers), which would operate as an insurance broker, using the portfolio built by SEGUROSCOOP over the years.
- The insurance portfolio was transferred to an insurance company and an agreement on profit sharing was signed.
- The Board agreed that the new corporate objective of the cooperative would be:
  - To offer funeral services.
  - To offer health protection services.
- A cooperative provider of services – Serviperú – was created to manage the three new service brands:
  - *Seguro de Previsión Familiar*: a microinsurance product used to market the funeral and health care services.
  - *Funerales Los Olivos* (Funeral Services *Los Olivos*): this division would offer funeral services.
  - Medical Centre *Servisalud*: this division would offer health care services.

## 2.2 Basics Table

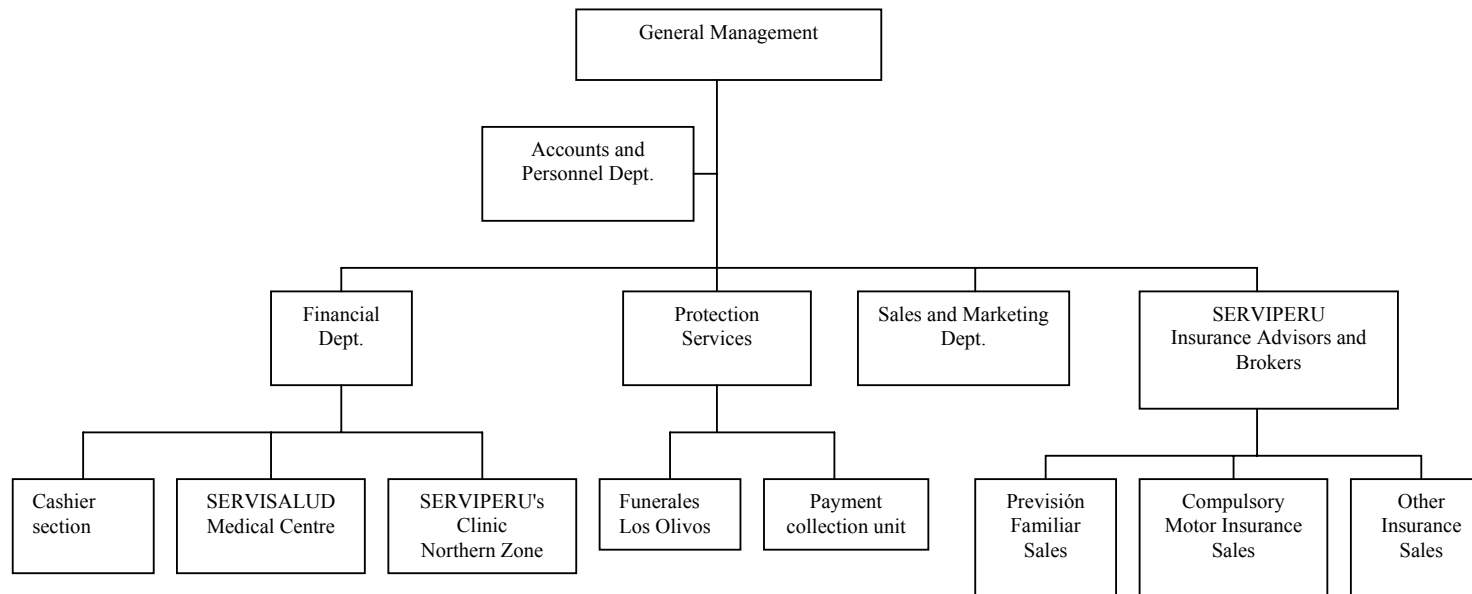
**Table 3. Insurance Organization's Basics**

| Aspects  | Notes  |
|--|--|
| Legal structure  | Secondary cooperative organization of heterogeneous type, whose membership is made up of 86 cooperative companies and 4,000 people.                            |
| Status of its registration   | Duly registered and authorized   |
| Status of its regulation   | Subject to the General Law for Cooperatives  |
| Beginning of corporate operations (year)                           | 7th August 1966  |
| Beginning of microinsurance operations (year)                      | September 1985   |
| Basic business   | To offer health care services, funeral services and insurance brokerage services.  |
| Target market – of basic business                                  | Independent workers, small microentrepreneurs  |
| Target market – of insurance business                              | Cooperatives and public transport companies.   |
| Geographic area of operation                                       | Lima (outside the capital, it only operates with cooperatives)   |
| Development, marketing or service policies with other institutions | None at the moment. There is a possibility, in the future, to establish marketing agreements for the <i>Previsión Familiar</i> product with some cooperatives. |
| Reinsurance providers, type of providers                           | None   |
| Type of reinsurance  | None   |

**Table 3A. Basics of the Organization - Trends**

|  | 2003    | 2002    | 2001    | 2000    |
|--|---------|---------|---------|---------|
| Total assets (US\$)  | 881,597 | 866,178 | 925,431 | 852,582 |
| Budget (US\$)  | 455,376 | 540,984 | 569,777 | 543,750 |
| Total capital  | 549,939 | 532,143 | 517,955 | 479,718 |
| Number of branches (agencies)                                | 1       | 1       |         |         |
| Total number of clients (in thousands)                       | 6.7     | 6.1     | 5.7     |         |
| Total number of policyholders in microinsurance              | 6,706   | 6,126   | 5,728   |         |
| Total number of lives insured in microinsurance              | 93,808  | 57,714  | 33,306  |         |
| Number of employees working in microinsurance                | 32      | 29      | 29      | 25      |
| Percentage% of staff turnover                                | 35.0    | 35.0    | 37.5    | 40.0    |
| Number of policies per number of staff in microinsurance (%) | 210     | 211     | 198     |         |
| Microinsurance marketing costs (%)                           | 1.1     | 1.8     | 1.0     | 1.0     |

**Figure 2. SERVIPERÚ ORGANIGRAM**



## 2.3 Management and Staff

### *Organizational Structure*

The organizational structure of Serviperú, depicted in Figure 2, consists of five departments:

1. **Department of Accounts, Personnel and Logistics:** This department carries out Serviperú's business operations and provides administration for human resources, logistics and information technology.
2. **Financial Department:** This unit is responsible for the administration and management of financial resources, for the administrative direction of the medical centre SERVISALUD, and of the northern region's medical clinic.
3. **Protection Services Department:** This group manages the insurance plan for family protection (*Previsión Familiar*), which includes administration, issuing certificates, and maintaining the portfolio and benefits. It coordinates, together with the Insurance Brokerage Subsidiary, the promotion and sales strategy of this product. Finally, it manages the funeral services *Los Olivos*.
4. **Marketing Department:** This is the unit responsible for the promotion and marketing of the services offered by the company, for corporate image, for public relations, and for training support services of cooperative organizations.
5. **Insurance Advisers and Brokers:** This subsidiary company has administrative and financial autonomy. It follows the same corporate approach as Serviperú because it is focused on the same marketing strategy. Its main activities include advice and placement of life insurance, non-life insurance, compulsory motor insurance (SOAT) and *Previsión Familiar*. The management of this subsidiary is in the hands of its own general manager.

### *Management Skills*

The management tools used by the administration include:

- Operational budget.
- Monthly financial statements.
- Accounting and administration support systems: bookkeeping, collection of payments, cash flow, working personnel, salesmen and payment collectors, management of brokerage with insurers, claims management, and cost control of service centres.
- Weekly meetings for the follow-up of planning and operations between management and their executives.

### *Expertise*

The level of insurance know-how is appropriate and in accordance with the characteristics of an insurance brokerage company. The company's general manager, Mr. William Bojórquez, and the

company's adviser, Mr. Arturo Ayanz, have wide knowledge and expertise in insurance. The brokerage company's salespersons have a fair amount of insurance experience as well.

Serviperú's staff is stable and they identify with the company's service culture and spirit of solidarity, making them behave with a great sense of responsibility.

For *Previsión Familiar*, Serviperú has a strong manager overseeing the training and supervision of the salespersons. A key person in the management of the medical centre is responsible for the control of its costs and the collection of fees. In addition, there is a medical director responsible for the control and management of the medical staff. The separation of the financial responsibilities from the medical responsibilities helps to ensure that financial decisions do not influence medical considerations.

With regard to the *Funeraria Los Olivos*, there are also two managers, one for finance and administration and one to oversee the services offered. The claims manager dedicates 60 percent of his time to preparing the settlement of claims and commissions that have to be sent to the insurance company that underwrites the scheme. These settlements exist because even though Serviperú markets, collects the fees and offers the services of the *Previsión Familiar*, this product is managed as a group policy of the insurance company *La Positiva* (i.e., Serviperú is not an insurance company but a cooperative that provides protection services).

## 2.4 Resources

The financial resources required to run the company are generated from the monthly fees for *Previsión Familiar*, the sale of their health care and funeral services, and the commission earned by their insurance brokerage business.

The brokerage operations are managed as a subsidiary in accordance with the Insurance Superintendence's requirements. As a result, its financial statements are separate from Serviperú's books, where all the financial activities relating to the operation of the insurance plan for family protection, the funeral services and the health care services are registered. The income from the brokerage has increased notably in the last two years, as is shown in the following table:

| Year  | Commissions Earned |              |
|-------|--------------------|--------------|
| 2001  | S/. 246,934        | US\$ 70,958  |
| 2002  | S/. 321,024        | US\$ 92,248  |
| 2003* | S/. 451,551        | US\$ 129,756 |

\*Projected based on 9 months of performance.

The cooperative provider of services generates income from:

- a) Monthly fees of *Previsión Familiar*;
- b) Additional fees paid when policyholders use the medical services. Even though associates of the scheme pay a monthly premium, when they make use of the services they are required to pay an additional fee. The fees are small in comparison with the

usual price of services offered in private clinics of a similar standard to Serviperú's medical centre.

- c) Sale of additional funeral services (sold to non-members of *Previsión Familiar*). In 2003, 57 percent of total income from funeral services came from members of the plan and 43 percent from the general public. The previous year (2002), the percentages were 51 percent and 49 percent respectively.
- d) Income from health care services sold to the general public. In the last two years, around 90 percent of the total income for health care services came from services provided to members of *Previsión Familiar* and 10 percent from services provided to the general public.

There is no income from financial investments, as the company does not generate technical reserves. The company does not have non-accrued premium reserves because monthly fees are considered as accrued in that month and, similarly, outstanding claims reserves are essentially created and "settled" immediately when the member requests the medical or funeral services.

In terms of funding, the company has obtained loans from international organizations, such as an Allnations loan that allowed Serviperú to complete the building of its premises; all loans have been repaid. To assist in funding its health and funeral services, the company received some donations in cash as well as of medical equipment and technical assistance.

## 2.5 External Relations

When it was decided in October 1994 to transform the company into a cooperative provider of protection services offering high quality health care and funeral services, the assistance received from various organizations was a very important factor in the development of the new products.

Initially, for the development of funeral services, members of Serviperú's management visited Colombia and through *Seguros La Equidad* contacts were made with the funeral services cooperative in Bogotá, COOPSERFUN. They learned about the management and the experience of *Funerales Los Olivos*, a high quality service offered by this cooperative.

Through SOCODEVI (Cooperative Society for International Development), whose head office is Quebec, the following contributions were made: a) financial and technical support of the Funeral Cooperatives Federation of Quebec helped Serviperú to implement its funeral services in 1997; b) financial support given by and the Canadian Agency for International Development (CIDA) was essential for Serviperú's health care services; and c) through the Collaboration Santé Internacional de Québec, Serviperú received some second-hand medical equipment for its medical centre.

In the last two years, the company has also benefited from the assistance of ACC/MIS (*Asociación de las Américas de Cooperativas y Mutuales de Seguro*), which has helped in the promotion and marketing of Group Life Insurance for cooperative organizations. For this product, Serviperú operates under an agreement with a local insurer.

## 2.6 Serviperú's Risk Management Products

The products offered by Serviperú for risk management are as follows:

- A life and health insurance plan, *Previsión Familiar*, which covers the member and his family (see Section 4.0).
- An insurance plan, compulsory for all motor vehicle owners, called *Seguro Obligatorio de Accidentes de Transito* (SOAT). It covers the vehicle owner against bodily injury and death suffered by the driver, passengers and pedestrians, in the event of accident. This plan, offered by an insurance company, is promoted and marketed through Serviperú's brokerage firm.
- Insurance to cover loans and savings given by cooperatives or other popularly based organizations in the event of death of the member. It also offers insurance for cooperatives against property damages. For these products, Serviperú promotes, markets and administers the portfolios through its brokerage bureau. The insurance itself is provided by an insurer operating in the market. As indicated in section 2.1, this arrangement is the result of the company's transformation from an insurer to a cooperative provider of services that took place in October 1994.

The company does not offer other risk management products such as loans, creation of funds or government programmes of social security.

## 2.7 Distribution of Profits

In terms of surplus distribution, the company's policy is based on its statutory articles. Following approval by the Ordinary General Assembly, the company's surplus can be distributed among its members in proportion to their contributions, or it can be capitalized in individual accounts belonging to members, or it can be used to increase the Cooperative Reserve, a fund that cannot be distributed.

## 2.8 Investment of Reserves

Given its nature, the company has very limited resources flowing from technical reserves, and therefore the placement of investments is not an activity of great importance. The limited resources available for investment are placed in the bank as short-term deposits.

## 2.9 Reinsurance

Because Serviperú is not an insurance company, but a cooperative provider of services, it is not directly reinsured. However, the insurance plan *Previsión Familiar* is managed as a group insurance policy placed with *La Positiva Seguros y Reaseguros*. For this policy, *La Positiva* has a catastrophe reinsurance treaty.

### 3.0 Target Market

**Table 4. Client Information Table**

| Aspects  | Notes   |
|--|---|
| Target Groups / Clients  | <ul style="list-style-type: none"> <li>• Cooperatives</li> <li>• Companies of general public transport</li> <li>• Microentrepreneurs</li> </ul>   |
| Current clients and if there has been a change in the target clientele please state the reasons. | Initially, cooperatives were the only clients; but following the cooperative crisis in the early 1990s the company expanded its client base to include persons working in the informal economy and public transportation providers.   |
| Exclusion of particular groups   | The company does not wish to exclude or not insure any group in particular.   |
| General economic situation of the clients  | <p><i>Cooperatives</i>: good, stable situation. Members are employees of public institutions or stable companies.</p> <p><i>Companies of general public transport</i>: rather poor situation. Market saturation: too much supply, therefore, income is low.</p> <p><i>Microentrepreneurs</i>: reasonable situation (not excellent but not terrible either).</p>       |
| Economic activities of clients   | <p>Cooperatives: Savings and Loans.</p> <p>Transport Companies: Transport of passengers.</p> <p>Microenterprises: traders, merchants, artisans, workshops, restaurants.</p>   |
| Percentage of clients working within the informal economy  | 50 percent  |
| Social characteristics of clients  | Almost all clients have primary education and 30% have secondary education.   |
| Geographic distribution and characteristics  | <p>All from Lima (capital).</p> <p>Central Zone (Zone 1 in socio-economic conditions) = 45%</p> <p>Northern Zone (Zone 2 in socio-economic conditions, area of biggest growth and development) = 20%</p> <p>Western Zone (called Puerto Callado – Zone 3) = 15%</p> <p>Southern and Eastern Zones (Zones 4, more underprivileged areas): South = 10%, East = 10%.</p> |
| Nature of membership   | The membership is made of 86 cooperatives and 4,000 individuals.  |
| Methods for capturing clients  | <ul style="list-style-type: none"> <li>• Recommendations from existing clients to friends and family</li> <li>• Recruitment meetings within affinity groups and trade unions</li> <li>• Campaigns for preventative health care</li> </ul>   |

#### 3.1 Socio-economic and Geographic Conditions

In general, Serviperú's clients come from low to middle income groups. Approximately half of them work in the informal economy: they are merchants, artisans, workshop workers, and traders. They have limited financial capacity and lack a savings culture. Usually, the income they generate each month only allows them to pay for their basic needs.



The other 50 percent of the clients include small business persons and employees of public or private institutions who enjoy more stable economic conditions.

Geographically, all of individual clients are based in the greater Lima area, 45 percent in the city and the other 55 percent in the periphery.

### **3.2 Vulnerabilities and Coping Strategies**

Serviperú's clients are mainly exposed to risks of illness and accident. People have a tendency to try to cure their own health problems instead of going to a doctor or clinic, which exacerbates their vulnerability to illness.

### **3.3 Relationship between Clients' Risks and the Company's Services**

Serviperú's services are appropriate to address the vulnerabilities of its target market.

### **3.4 Clients' Familiarity with Insurance**

Before purchasing the product, clients' familiarity with insurance is very low. Generally, they would not have had an insurance policy before buying one from Serviperú.

## 4.0 The Products

**Table 5. Product Details**

|  |   |
|--|---|
| Type of microinsurance                     | Life and health care  |
| Individual or group insurance              | It is managed and marketed individually. However, for legal reasons, all individual insurance certificates are part of a group policy underwritten by an insurance company (Serviperú does not have the legal status of an insurance company)   |
| Period of time (duration)                  | Monthly   |
| Requirements for eligibility               | To be under 65 years old and to be in good health.  |
| Requirements for renewal                   | Payment of the monthly fee  |
| Cancellation (expiry) rate                 | Year 2000 48%<br>Year 2001 46%<br>Year 2002 38%<br>Year 2003 33%  |
| Compulsory or voluntary                    | Voluntary   |
| Cover (benefits) of the product            | Medical consultations, diagnosis examinations, medical emergency services, medical care as a result of accident, hospitalization as a result of illness or accident, funeral services.  |
| Key exclusions                             | Health services related to: blood, plasma, prosthesis, chronic illnesses, pre-existing conditions, plastic surgery, mental illnesses, conditions resulting from the use of drugs, suicide, self-inflicted injuries, injuries caused as a result of dangerous sports, war, rebellion and natural catastrophes.<br>The hospitalization service ends when the member reaches 67 years of age.<br>During the first 90 days, services are restricted to cases involving accidents. |
| Price - premium                            | Monthly premium between US\$ 9 and US\$ 12.5, depending on the plan, for up to five persons.  |
| Price – additional premium and deductibles | Payment of US\$ 1.43 per consultation or diagnosis examination, with the exception of X-rays (policyholder must pay 50% of the cost).<br>Payment of US\$ 11.43 per emergency service.<br>Payment of 10% of expenses for medical care in the event of accident and hospital care as a result of illness or accident.   |
| Price – other payments                     | None  |

### 4.1 Partners

The decision in to transform the insurance company SEGUROSCOOP into a cooperative provider of services forced the company to transfer its portfolio to several authorized insurance companies and to negotiate special terms with them for the receipt of commission.

Initially, Serviperú established business relationships with several insurance companies: La Positiva, Altas Cumbres, El Pacifico, Mapfre and Rimac Internacional. However, changes in the

underwriting policy of some of these insurers (e.g., excluding cooperatives from certain geographical regions) led the company to concentrate the majority of its insurance business with *La Positiva*. This consolidation gave Serviperú greater negotiating power and the possibility of obtaining cover for all cooperatives that requested insurance via this insurance intermediary.

For the risks managed through the brokerage firm and for the *Previsión Familiar* insurance plans, the relationship with insurance companies and the method of operation has been different. For the brokerage business, Serviperú is in charge of the marketing, policy subscription, and claims processing. For these activities, Serviperú receives an average commission of 15 percent and an additional commission on the profit generated depending on the claims ratio. The insurance company, however, assumes the risk.

For *Previsión Familiar*, Serviperú has taken out a group policy with *La Positiva*. All individual plans sold are added to this group policy. For this product, Serviperú is responsible for the promotion, marketing, collection of fees and claim management. In addition, Serviperú prepares the plan's performance and financial reports on a monthly basis.

The insurer is responsible for providing the legal backing to the *Previsión Familiar* plan – as an insurance product – and for obtaining reinsurance. For its contribution, the insurer receives 15 percent of the premium. The profitability of this plan for Serviperú is variable and it corresponds to the difference between the remaining 85 percent of the premium and costs incurred (claim costs and the plan's general expenses). At present, Serviperú's management is negotiating a reduction in the insurers' participation and is considering the possibility of managing this product as a Prepaid Medical Plan. In this case, the plan would no longer be an insurance product and Serviperú would not need to use *La Positiva* as a legal instrument to sell the plan.

## 4.2 Distribution Channels

The distribution channels used by Serviperú depend on the type of product, as shown in Figure 3.

**Figure 3. Distribution Channels**

| DISTRIBUTION CHANNELS                            |                               |   |                     |
|--|-------------------------------|---|---------------------|
| AGENTS<br>For the <i>Previsión Familiar</i> Plan |                               | BROKERS   |                     |
| 18 Agents in the Central Office                  | 5 Agents<br>Los Olivos Office | Broker<br>Public Transport<br>Service Companies | Cooperatives Broker |

Compulsory motor insurance (SOAT) and the insurance for cooperatives are distributed through two brokers.

For the distribution of *Previsión Familiar*, the company uses sales agents, or sales executives as they are called in Serviperú. These agents have a fixed monthly salary depending on their category: New Executives, Junior Executives, Master Executives and Premium Executives. The basic monthly salary varies according to category; Premium Executives earn more than Master Executives, etc.

Each category has a different minimum number of plans to sell each month: the higher the category the greater the target. Sales executives earn a commission during the first three months of the plan, at the following rates:

- First month: 56 percent
- Second month: 28 percent
- Third month: 42 percent

The commission in the third month is higher than the one paid in the second month to create an incentive for sales executives to encourage the clients to budget accordingly. After the third month, there are no further commission payments. Serviperú has experimented with different commission schemes in the past – such as a smaller commission paid for a longer period of time – but the company has achieved better results from the current arrangement.

Sales agents have managed to penetrate the market better and to sell to a larger number of clients than the brokers; however the lapse rate has been quite high. Brokers have done better at maintaining a high percentage of existing customers. The lapse rate of insurance sold to cooperatives and public transport companies – which is distributed through the brokerage division – has been less than 10 percent. However, for *Previsión Familiar*'s plans, lapses have ranged between 33 and 48 percent in the last four years.

The lapse rate for *Previsión Familiar* is high because the target market consists of independent workers who do not have stable jobs. When they are out of work or when business is slow, they cannot afford the plan's monthly fee. Another contributing factor is that they usually give their work (i.e., a street market or the surrounding roads) because they live in slum areas and are reluctant to give their home address. As a result, when they change their place of work the fee collector cannot find them and the insurance plan is automatically cancelled.

To control the collection of fees and encourage members to keep their payments current, they are informed of the payment terms in the plan's service manual, which states: "PAY YOUR FEES ON TIME, as the plan's regulation establishes that in case of non payment by the due date the right to receive services will be suspended from midnight on the day after the plan's maturity date. The suspension will be lifted when payment has been made and will take effect from midnight on the day after the payment's date."

Also, the plan's certificate is cancelled after accumulating four unpaid monthly fees. When a plan is terminated for non payment and the member wishes to recommence the use of services, then he or she is subject to the terms and conditions of a new plan: services will be provided 90 days after the starting date, with the exception of services needed in the event of an accident.

Each time an associate or a family member visits the medical centre for a consultation or to receive treatment, the receptionist will verify – with the help of a computerized system – that the plan is valid and payments are up to date.

To subscribe to a *Previsión Familiar* plan, the client has to declare his age and sex as well as the age and sex of family members. He has to pay the initial fee, to declare his home address, fee

collection place and type of plan chosen, to confirm he understands the plan's regulations and to sign the certificate that summarizes the specific terms and conditions of his plan.

For several years, new clients were found primarily through the door-to-door sales. However, results were not satisfactory because the cancellation rate was very high and a time was required to achieve sales targets.

In the last year, two new sales strategies were adopted:

1. To target people recommended by existing clients either at the medical centre or at Funerales Los Olivos.
2. To promote the product in meetings held by guilds and trade unions (training events, meetings of traders and merchants, support meetings for SMEs) as well as at trade fairs and events where there are large gatherings of people.

These approaches are more cost effective because they either have a higher success ratio (i.e., with referrals) or can reach many people at one time (i.e., events). The primary sales pitch highlights the cost advantages of the product:

- For a medical consultation, a member of *Previsión Familiar* pays 5 Soles (approximately US\$ 1.43). The standard price for a medical consultation is 20 Soles (around US\$ 5.80).
- To obtain medical care from the State, through its social security plan (*EsSalud*), one pays 41 Soles (about US\$ 11.70) per person per month, but for *Previsión Familiar*, one pays 43 Soles (US\$ 12.30) for FIVE people.

The cost comparison between *Previsión Familiar* and *EsSalud* – the main health coverage purchased by self-employed people and those without an employer as intermediary – is valid because *EsSalud* only covers health care services and does not include pension benefits.

Another important difference is the quality of the service provided. People are well aware of *EsSalud*'s poor service. Some times people have to wake up at 3 o'clock in the morning to wait in line to secure a doctor's appointment at an out-patients unit, and then they cannot get another medical consultation for 15 days.

These distribution strategies have helped to improve Serviperú's results because the income of its new clients – even if the majority is self-employed – is more stable, generating a lower cancellation rate. The lapse rate has dropped from 48 percent in 2000 to 33 percent in 2003.

### 4.3 Benefits

The insurance plan *Previsión Familiar* has targeted mainly self-employed people of low to medium income who are not members of any health care system – private or public. This plan therefore allows its members to satisfy, almost entirely, their health care needs and those of their families.

When the plan was created in 1985, it provided only funeral services. As time has gone by, the plan has improved and new benefits were added: medical consultations, diagnosis examinations, medical emergency services, medical care in case of accident, and hospital care in the event of illness or accident.

The medical centre offers services for both men and women and for all age groups. It provides paediatric services for children and there is a gynaecologic and obstetric clinic for women. In addition, the centre runs the following special programmes/clinics:

- Child care programme
- Women care programme
- Care programme for the elderly
- Family planning
- Preventive medicine

#### **4.4 Premium Calculation**

The risk premium for the *Previsión Familiar* product is generally revised every year, taking into consideration the costs for the various services included in the product (medical consultations, diagnosis examinations, medical emergency services, hospital care, and funeral services). To establish the general monthly premium charged for all services included in the plan, other costs are also taken into account (marketing and distribution, collection of fees and administration), as well as a profit margin.

There are five different plans to choose from:

- Plan A: includes all benefits.
- Plan B: includes all benefits, but the hospitalization cover only applies the plan holder and not other family members.
- Plan C: provides medical consultations and funeral services, but no in-patient care.
- Plan D: includes all health care services but excludes funeral services.
- Plan E: provides all services but only for the plan holder.

The premium for Plan A, which includes all benefits, has been taken as the base figure for calculating the premiums of the other plans, by simply subtracting the estimated cost of the services excluded.

The main lessons regarding the premium calculation for *Previsión Familiar* are: a) the importance of revising costs on an annual basis, to establish adequate premiums that cover the costs and generate a certain profit margin; and b) to make sure that they are affordable to the product's buyers. The premiums are paid monthly because the customers that purchase this product do not have the financial capacity to pay premiums on a half-yearly or annual basis.

Based upon the average results over the last four years, expenses have represented 99 percent of the premium income, which are distributed as follows:

- Claims: 32 percent
- Administration: 20 percent
  - Personnel: 7 percent
  - Provisions (depreciation and repayments): 4 percent
  - Other general costs: 9 percent
- Commissions (marketing, distribution and premium collection costs): 20 percent
- Reinsurance<sup>2</sup> (payment to insurance company *La Positiva*): 15 percent

The fees charged are calculated fairly and according to the cost of the services provided under each the five plans. Therefore, the company has avoided the practice of subsidising one or more plans by charging a higher fee for the other plans, which would lead to a concentration of clients purchasing the subsidised plans and a withdrawal of customers from the more expensive products that provide the subsidies.

The profit margin built into in the premium of *Previsión Familiar* is practically zero. Over the last four years, the average profit margin represents only 1 percent of the premium. Overall, Serviperú's profits come from the activities of its insurance brokerage subsidiary.

#### 4.5 Premium Collection

Members have two options for the payment of premiums (monthly fee): a) payment at the offices and branches of Serviperú; or b) payment through door-to-door collectors. On average, 70 percent of the fees are dealt with by the nine collectors, and the balance comes in through the offices.

Collectors are also an important source of customer feedback for Serviperú, as they are quite familiar with clients' perceptions of the plan's benefits, and drawbacks. The collection function is quite distinct from sales, since they require different skills. The fee collector is an entry level post, and some have been promoted to sales agents.

Payment collectors receive a minimum fixed salary and a commission based on the amount of fees collected. Clients are offered a discount if they pay their fees in Serviperú's offices and branches. There are no other payment methods in place, such as credit card, direct debit, deductions from PAYE, etc., because the majority of *Previsión Familiar's* members are self-employed (they do not have an employer) and, given their financial status, they would not have access to that type of automatic payment tool.

The fee collection procedure begins invoices, which are distributed by the collectors in their designated geographic zones. Collectors visit clients mainly at their work places, up to three times if necessary, to collect the fees. At the end of the day (or more frequently if the volumes are high), collectors deposit the money in Serviperú's offices or bank accounts together with a

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<sup>2</sup> *Previsión Familiar* does not have a directly associated reinsurance treaty. This product is managed as a group policy placed with the insurance company La Positiva, which receives 15 percent of the premium from Serviperú as the partner that legalizes the product.

record of the payments collected. Once the fee collection period for the month is over, collectors must present a report of uncollected premiums, indicating the reasons for non-collection.

The main problems in premium collections are related to the members' employment instability and income volatility. As a result, members are often late in their payments by up to three months. This grace period appears to be an important feature in serving the low-income market.

To reduce lapses, the premium collectors try to increase members' awareness of the importance of paying their fees to maintain health care cover – in the event of illness or emergency – because the risks are common and the cost of medical care elsewhere is far too expensive. Members are reminded that their health should be a priority and therefore, *Previsión Familiar* should be at the top of their budgets. However, members are not pressurized in any way to pay their fees.

#### **4.6 Claims Management**

The claims process varies depending on the product. For services provided directly by Serviperú in one of its medical centres, the process consists of the following steps:

- The client goes to the medical centre. The receptionist verifies that the client's premium payments are up to date. If this is the case, an appointment is given. If the client has missed any payments, but the certificate has not expired for non-payment of more than three months, he or she is asked to pay the outstanding fees before being given a doctor's appointment. If the certificate has already expired, then the member does not have a right to health care service from Serviperú.
- If everything is in order, the member will pay the small additional fee for the use of medical services.
- Once the service has been provided, the costs involved are registered. The invoice is added to the rest of the documents needed to prepare the monthly accounts for premiums, claims and commission to be paid to the insurance company *La Positiva*. The final step is to make or collect the payment in the account balance.

When the plan holder has NOT used Serviperú's services directly but wishes to be repaid for any expenses incurred, then a different procedure is followed, as shown in Figure 4. The payment of a claim takes an average of 30 days because of the time required for processing the payment by the insurance company. All claims received in a particular month are sent to *La Positiva* on the third day of the following month. The insurance company then needs about two weeks to process the payment.



**Figure 4. Claims Processing Flowchart**

| <b>Client</b>  | <b>Claims department</b>   | <b>La Positiva</b>  |
|--|--|---|
| Informs Serviperú that he/she wishes to make a claim. →          | Serviperú informs the client about the required paperwork.<br>↙  |   |
| Completes the paperwork and sends it to the claims department. → | <ul style="list-style-type: none"> <li>• The medical auditor analyses the claim and decides the amount to be paid.</li> <li>• The client is informed of the outcome of the analysis and the time for payment.</li> <li>• Serviperú sends the paperwork and the analysis to the insurance company for them to process the payment. ↘</li> </ul> |   |
|  |  | Checks the claim and writes the cheque. Sends the cheque to Serviperú.<br>↙ |
|  | Confirms the payment to the client.<br>↙   |   |
| Collects the cheque.   |  |   |

The main reasons for rejecting a claim are related to policy exclusions and the client not understanding or being aware of such exclusions; for example, the hospitalization is not covered after the age of 67. In these cases, even if the claim does not proceed, the member is offered the services in Serviperú's medical centre at competitive rates or is given advice on how and where to obtain the medical care required at more favourable conditions. Serviperú has hardly had any rejections for client fraud.

Since the transformation that Serviperú experienced in the mid 1990s, claims management has changed very little. Claims management has continued to take place in the headquarters where there is a department in charge of receiving the claim from the customer, verifying paperwork, evaluating and adjusting the amount to be paid, agreeing the claim with the insurance company and remitting the payment to the beneficiary. Some changes have been introduced to improve the internal control of claims processing.

Another important element related to claims has been the advice given to members to avoid unnecessarily expensive claims, which would affect the loss ratio of the plan and cause future premium increases. The company insists that the client is careful in choosing the hospitals and medical centres at which treatment is received, because there are large differences in price in the health care service sector.

**Table 6. Claim Procedure Analysis**

| Aspects   | Notes   |
|---|---|
| Parties involved in the claim procedure   | Member (beneficiary); Serviperú's Claims Department; Insurance Company <i>La Positiva</i> .                                       |
| Paperwork required for claim processing.  | Member's ID, medical report and invoices/receipts   |
| Claim payment methods   | a. Services provided in Serviperú's own medical centres or by <i>Funerales Los Olivos</i> .<br>b. Repayment of expenses incurred. |
| Time between the event (causing the claim) and notification to Serviperú (average number of days)     | a. Immediate.<br>b. Five days in case of incomplete paperwork.  |
| Period of time the claim is in the hands of intermediaries (average of days)                          | b. 25 days  |
| Period of time between presentation of the claim and notification of payment (average number of days) | b. 30 days  |
| Claim rejection rate  | 5 percent   |

## 4.7 Risk Management

This section summarises Serviperú's experiences in managing different types of insurance risk.

### *Moral Hazard*

The company's exposure to moral hazard has been low thanks to the following measures:

- Most of the services are provided by Serviperú's own medical centres and *Funerales Los Olivos*, minimizing the moral hazard that may be caused by external providers.
- Risks that generate a moral hazard situation are excluded, such as pre-existing illnesses
- Clients must present an ID, medical certificates, original invoices/receipts and other documents to prove the validity of the claim.

### *Adverse Selection*

*Previsión Familiar* is a rather rigid product. The benefits are prescribed: a specific amount for hospitalization, funeral services, medical care in the event of accident, etc. There are only five different plans, all variations on the same basic package. Consequently, there is not room for the underwriting of non-standard benefits and heterogeneous insured amounts. The selection process fairly standard, simple, agile and economical; it doesn't require the application of specific underwriting criteria or particular medical examinations.

Adverse selection is also controlled by: a) a waiting period of 90 days before medical care is covered (except for accidents); and b) the promotion of family coverage, which reduces the likelihood that only the riskiest persons are identified for protection.

### *Fraud*

Serviperú has neither experienced nor discovered any fraudulent situations with the microinsurance *Previsión Familiar*.

### *Covariant Risk*

Because *Previsión Familiar* is marketed to affinity groups, guilds and groups of traders, the product's covariant risk exists. Covariant risk for Serviperú is significantly diminished through the group policy with a local insurance company.

### *Other Control Mechanisms*

Other mechanisms for the control and administration of risks are as follows:

- The payment of an additional fee to use the services, preventing the abuse of the plan's services. For example, the payment of US\$ 11.43 for medical emergency care to discourage members from requesting this service when it is not an emergency.
- The plan's coverage only allows members to have two medical consultations per month; if they require any more, they need to make an additional payment.
- By providing its own health care services, Serviperú is able to significantly control costs.

## **4.8 Marketing**

The marketing budget for 2003 was US\$ 2,400, which represents 1 percent of the total budget. The marketing activities developed by Serviperú to promote *Previsión Familiar* are as follows:

- **Medical campaigns.** These consist of installing, for one or two days, mobile medical units in cooperative companies or other places where affinity groups are established, with the purpose of offering free medicine consultations. Alongside these mobile facilities, a kiosk is installed to promote *Previsión Familiar* and process enrolment applications. Medical campaigns have been very effective, affiliating a large number of members. However, the logistics, time and costs are quite burdensome and, therefore, they can only be run on a monthly basis (around 12 campaigns per year).
- **Kiosks in public forums.** A second approach is to set up a kiosk at popular fairs to promote the *Previsión Familiar* insurance plan and process member applications. The effectiveness of these kiosks has not been significant, but they allow the company to collect information on potential clients. The success of this activity depends on the salesperson's interest in following up the contacts.
- **Affinity groups.** Serviperú also participates in meetings of affinity groups, such as cooperatives, guilds and traders, where there is space on the agenda to promote *Previsión Familiar*. The promotion through affinity groups' meetings has had limited success thus far, but is still considered worthwhile. The effectiveness depends on the cooperation of the meeting organizers, on being persistent and attentive, and on having salespersons that are ready to intervene at the right time with those that have shown an interest in the product.

The evaluation of the marketing programme is undertaken on a weekly basis by the sales manager. The general management holds monthly meetings with the company's sales and marketing executives to analyze different aspects of the marketing plans: status, progress,

objectives, targets, improvements and adjustments. When monthly financial figures are issued by the accounts department, management meets with the sales executives to evaluate the results.

From Serviperú's experience, two key factors contribute to the success of the marketing strategy: a) establishing monthly sales targets for each salesperson; and b) having a person responsible for supervising the salespersons.

#### 4.9 Client Satisfaction

*Previsión Familiar* has experienced significant improvement in retention rates over the last four years, from 52 percent in 2000 to 71 percent in 2003. While some of this progress can be attributed to improved customer satisfaction, it is also due to more persistent fee collection methods and, most importantly, a shift in the target market toward households with more stable income and employment.

Based on members' perception and employees interviewed, the main reasons for clients not renewing their membership, in descending order of importance, are as follows:

1. They are unable to pay their premium, because they lost their jobs or experienced a reduction in their income.
2. The client changed their work place, resulting in contact being lost and the consequent inability to continue collecting premiums. For cultural reasons, many low-income persons are reluctant to provide their home address.
3. The client is unhappy with some aspect of the product because it was not explained properly – or he/she did not understand it – and the plan has not fulfilled the client's expectations. Misunderstandings are often related to additional fees and particular exclusions.
4. The client is generally unhappy with the product.

Overall, client satisfaction with the microinsurance product – its cover, prices, and services– is very high. Here are some testimonials from Serviperú's clients:

*“My father died at 8:45 last Monday...and in these difficult circumstances, we came and talked to Mr. Maldujano. He told us that we only had to obtain the death certificate and the order to collect the body. We gave these documents to the employees of Funeraria Los Olivos, who were already waiting at the hospital and they said they would deal with everything...and they did: the service was wonderful, comprehensive and efficient. They organized the hearse, a car for the floral arrangements, a minibus for the family and another one for guests. If we had not had insurance, I don't know what we would have done; thank God that my mum always trusted Serviperú and in the most difficult times they have been so helpful. I really congratulate this company...its executives...its employees...they provide a real service...they treat you like a person, with solidarity and humanely, like a friend.”*

*“Last month, my son fell down the stairs at school, he broke his arm and I took him to Serviperú. The doctor looked at him, took some X-rays, which showed that his arm was broken...and they operated immediately. The operation went well and he is now*

*receiving physiotherapy for the rehabilitation of his hand. My son has improved a lot, the doctor has seen him several times and we have received very good care. Before, without this insurance I had to go from hospital to hospital, to see where I could be looked after...I used to waste so much time and they didn't give me good service. Then, through my family that sells in a retail market, I registered with this company...and I don't regret it because when I've had an accident or an illness the doctor has seen me and I've overcome the situation. Also, and above all, the people in the medical centre are very kind and they treat you very politely."*

*"We are a market with 270 members and almost 200 of them are clients of Serviperú...Why? A long time ago around four or five members started to register with this company, then they needed funeral services...and some colleagues attended the funeral, saw the service provided and asked how it was all paid for. They were told that it was paid through an insurance policy with Serviperú, where all the family was insured. Then, the medical services were created and it all expanded and expanded among all the traders in the market...and now we are almost all members of this company. Now the collector comes, says hello, we pay the monthly fees and it has become a habit. Each trader is responsible for insuring his family. It would be good to advertise this insurance more, so that others get to know it."*

Some of the members that showed a little dissatisfaction mentioned the following situations:

- Not having health care 24 hours or on Sundays
- Exclusion of some medical treatment to members over 67 years of age.
- Having to wait between 15 and 30 minutes to see the doctor.

#### **4.10 Training**

Staff is trained to provide excellent customer service so that this becomes a norm within the company. When an employee starts working in a particular position, he or she is also given appropriate operational training. In a small company like Serviperú, cross-training is an important human resource strategy. Employees learn how to perform other jobs so that they can support or replace another staff member in a special situation.

Serviperú expects executives responsible for the company's administration to have academic training. Depending on the budget, they are also sent to seminars, both local and those organized by AAC/MIS. Managers are provided with training on the organization of Serviperú, its regulations, financial statements, products – especially the microinsurance *Previsión Familiar* – and the functioning of the company's own service centres: *ServiSalud* and *Funeraria Los Olivos*.

The effectiveness of the training has been acceptable. In general, employees, executives and managers are reasonably well aware of all aspects related to their jobs.

## 5.0 Results

### 5.1 Operational and Financial Results

In the area of marketing, results are monitored by comparing the monthly sales targets for each agent with the actual figures (sales achieved). Regarding payment collection, the payment collection sheet given to each collector is compared with the actual payments collected. To analyze operational and financial results, Serviperú produces monthly operational statistics and financial statements.

The company maintains two separate financial statements:

1. One for the cooperative provider of services, which includes the results for health care and funeral services.
2. The other for the brokerage firm.

The profitability tables for both entities are shown in Figure 5 and consolidated performance information is summarised in Table 7.

**Figure 5. Profitability Tables**

| <b>PROFITABILITY OF THE COOPERATIVE PROVIDER OF SERVICES</b> |                       |              |             |             |
|--|-----------------------|--------------|-------------|-------------|
|  | <b>2003 (30 Sept)</b> | <b>2002</b>  | <b>2001</b> | <b>2000</b> |
| Profit after tax (local currency)                            | -14,662               | 3,736        | 10,307      | 3,680       |
| Profit after tax (US\$)                                      | -4,211                | 1,063        | 2,993       | 1,045       |
| Profitability ratio (profit/equity)                          | -0.8 percent          | 0.2 percent  | 0.6 percent | 0.2 percent |
| <b>PROFITABILITY OF THE BROKERAGE OFFICE</b>                 |                       |              |             |             |
|  | <b>2003 (30 Sept)</b> | <b>2002</b>  | <b>2001</b> | <b>2000</b> |
| Profit after tax (local currency)                            | 17,627                | 15,427       | 7,492       | 3,902       |
| Profit after tax (US\$)                                      | 5,062                 | 4,391        | 2,175       | 1,109       |
| Profitability (profit/equity)                                | 11.5 percent          | 10.3 percent | 5.1 percent | 2.8 percent |

**Table 7: Key Results**

|   | 2003 (at<br>30 <sup>th</sup> Sept) | 2002      | 2001      | 2000      |
|---|------------------------------------|-----------|-----------|-----------|
| Net income (net of donations and contributions) <b>(1)</b>        | 1,692,326                          | 2,234,268 | 2,224,508 | 2,208,089 |
| Total premium (value) (Microinsurance <i>Previsión Familiar</i> ) | 907,321                            | 1,219,762 | 1,173,334 | 1,170,079 |
| Premium growth (%)  | 0.4                                | 3.9       | 0.3       | 3.3       |
| Claims / total premium (%)  | 31.5                               | 30.8      | 34.2      | 31        |
| Administration costs / premium (%)                                | 19.5                               | 20.7      | 19.3      | 19.6      |
| Commissions / premium (%)   | 33.8                               | 35.9      | 29.4      | 28.4      |
| Reinsurance / premium (%) <b>(2)</b>                              | 15                                 | 15        | 15        | 15        |
| Accumulated reserves / Premium (%)                                | -                                  | -         | -         | -         |
| Accumulated net results / Premium (%)                             | 0.2                                | -2.4      | 2.1       | 6         |
| Claims costs per total number of policyholders                    | 13.81                              | 20.51     | 21.75     | 18.27     |
| Growth in the total number of policyholders (%)                   | 0                                  | -2.7      | -3.5      | -7.5      |
| Premium investment return   | -                                  | -         | -         | -         |
| Renewal rate (%)  | 71.1                               | 61.6      | 54.37     | 51.98     |

| <b>(1) NET INCOME</b> (in local currency) |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| <i>Previsión Familiar</i> services        | 907,321          | 1,219,762        | 1,173,334        | 1,170,079        |
| Insurance brokerage services              | 317,503          | 321,024          | 246,934          | 236,738          |
| Funeral services <b>(3)</b>               | 229,136          | 415,658          | 546,123          | 543,421          |
| Health care services                      | 181,816          | 200,058          | 186,795          | 148,810          |
| Financial income                          | 13,263           | 11,700           | 1,725            | 1,024            |
| Leasing                                   | 43,287           | 66,066           | 69,597           | 108,017          |
| <b>Totals</b>                             | <b>1,692,326</b> | <b>2,234,268</b> | <b>2,224,508</b> | <b>2,208,089</b> |

**(2)** *Previsión Familiar* is managed as an insurance policy placed with *La Positiva Seguros y Reaseguros*. The 15 percent corresponds to the insurer's participation in the business of *Previsión Familiar*.

**(3)** The significant fall in the income of funeral services in 2003 is because of the withdrawal of the *EsSalud* Employees Fund, a very important client that generated 35 percent (around US\$41,412) of the total income. Given the high level of services provided, *EsSalud* decided to launch its own funeral services' business.

## 5.2 Reserves

The only reserves in Serviperú's financial statements are the legal reserves that the company must have in accordance with the cooperative regulation and that form part of the company's equity.

## 5.3 Impact on Social Protection Policies

On several occasions Serviperú has held meetings with congressmen and other policymakers, especially with the Insurance Superintendent. An important event was the new Insurance Law, issued before the mid 1990s. In this instance, SEGUROSCOOP, Serviperú's predecessor, coordinated a worldwide campaign involving successful cooperative insurance companies from Japan, UK, USA, Canada, La Equidad in Colombia and Seguros Múltiples and COSVI in Puerto Rico. They sent letters, written in various languages that were forwarded to the Congress and the

Insurance Superintendence. The Superintendent was very surprised when he read the letters and said to Serviperú's general manager, Mr. Bojorquez, that he wished companies like those could operate in Perú. The letters showed that other companies have had the same problems that SEGUROSCOOP was going through, facing liquidation because of new laws, but they were not successful in preventing the regulatory changes.

The Serviperú example has also motivated the Superintendence and some congressmen to develop proposals for social security programmes for low-income people. However, at this point they are still proposals that have not been made effective.



## 6.0 Development of Microinsurance Products

During the design of *Previsión Familiar*, Serviperú did not undertake any formal market research. However, over the years the demand had been analyzed through the compilation of clients' opinions by brokers, agents, collectors, and employees in the service centres. Because of this information-gathering process, the staff of Serviperú has a good idea of customers' likes and dislikes. When an opinion on a particular aspect – either positive or negative – becomes a general perception by members, then the company takes some action.

It might seem unusual, but there is no direct competition for this product. On the one hand, there is no other product on the market that offers the same group of services as *Previsión Familiar*, with premiums paid on a monthly basis and offering medical care and funeral services directly by the same company. On the other hand, this product has a target market that is of no interest to insurance companies.

Self-evaluation has been an important aspect in the development of the microinsurance *Previsión Familiar*. The revision of cover, launching of new plans (currently there are five plans offered but initially there was just one cover for funeral services), price adjustments, the addition of new medical services, changes in promotion strategies and other improvements were all the result of many self-evaluations of the product since its inception.

The design of *Previsión Familiar* started as a funeral services plan based on the funeral insurance that Serviperú had been offering for many years. The company visited other funeral services companies in Colombia and Québec to learn of their experiences and these companies also came to Perú to offer technical assistance. Then *La Funeraria Los Olivos* was established (premises and purchase of the necessary equipment) and the funeral services were launched.

Later, the demand for new products (medical consultations, diagnosis examinations, emergency services, medical care after accidents and hospital care) was identified. Then, Serviperú developed several projects for the implementation of new services:

- Creating a medical centre
- Acquiring medical equipment
- Fixing of new plans' premium rates
- Negotiating with the insurance company to manage the product as a group policy
- Distributing promotional literature (brochures)
- Training insurance agents
- Designing a marketing plan

## 7.0 Conclusions

This concluding chapter summarises the key issues and main lessons for microinsurance, and provides insights into the company's future plans.

### 7.1 Lessons for Microinsurance

Changes in Perú's financial service industry in the early 1990s allowed for the tremendous expansion of microfinance throughout the country. This development has not been followed by a similar extension of insurance to the low-income market. For insurance to reach low-income households, consideration is required at several levels including the regulatory environment, the institution, the product, and at the client level. In each of these areas, the experience of Serviperú holds lessons for others interested in extending insurance to the poor.

#### *Policy Issues*

The two policy issues that emerge from this case are: a) the legalisation of cooperative insurance companies, as was the case a few years ago; and b) exemptions or adjustments to capital requirements.

One of the outcomes of the financial sector reforms in the 1990s was the requirement that insurers be limited companies. A cooperative insurer that operates with its members to offer services at reasonable prices may be a more effective vehicle for extending insurance to the poor than joint stock companies. Intended to maximise benefits for its members rather than maximise profits, a cooperative insurance company naturally has a more socially-oriented approach. Reinstating the cooperative insurance option might be an important step toward expanding the availability of microinsurance.

It certainly would not be advantageous for the Peruvian insurance industry if there were many small, weak insurers; the Superintendence could not possibly oversee them all appropriately. However, the current capital requirements may not be appropriate for insurers that have small policies. If the government wants to encourage the extension of insurance to the low-income market, then it should consider making exemptions for capable organisations that are serving the poor, where the average or maximum sums assured are below a certain threshold. Such decisions should be based on a sound insurance analysis rather than on political considerations.

#### *Institutional Issues*

Serviperú is a good example of a company that has creatively weathered a number of storms, including economic crises and changes in the regulatory environment. The lessons from its experiences include:

- **Build on strengths.** To avoid liquidation, Serviperú carefully analyzed all its options. In its insurance portfolio, it saw an important strength that it had developed over the years, and

chose not to abandon it. To build on this strength, Serviperú created a subsidiary insurance brokerage company to work with its portfolio.

- **Pursue strategic alliances.** Serviperú sought strategic alliances with insurers to continue offering insurance to its clients and to develop new services. Its criteria for such a partner included a profitable and stable company with a history of customer service. In building this relationship, it was essential to establish loyalty and trust, and to jointly develop and manage the new business.
- **Create customer value.** Serviperú's first new business line, the funeral services company, was based on its previous experience as a funeral insurance provider. As far as microinsurance is concerned, this transition may have been a blessing in disguise since the low-income market may be more receptive to service provision than insurance. Serviperú used this opportunity to adapt itself to the preferences of its target market, and hence create customer value.
- **Manage change.** The change process does not happen accidentally. The management and operating teams had to identify themselves with the new projects, which required a team approach, a strong commitment, and even economic sacrifice in the first year.
- **Do your homework.** In the developing new projects, Serviperú tapped the expertise of other cooperative organizations providing similar services, such as funeral service providers in Québec and Colombia. Also, the technical assistance in the development of this project provided by SOCODEVI was valuable.
- **Take it step by step.** Serviperú fully developed its funeral services project before launching the medical centre. Because of the company's success in offering an excellent funeral service, Serviperú gained a favourable image, which later helped the company in developing and marketing the health care services.
- **Strengthen the brand.** The new health care services were incorporated as additional coverage to the existing microinsurance product, which led to its progressive improvement. The adoption of new covers associated with an existing product (with 5 different plan options) was more effective than creating several separate products. As a result, Serviperú progressively consolidated the brand *Previsión Familiar*.

Serviperú's institutional arrangement represents interesting advantages and disadvantages. By providing services through its own medical centres and funeral company, Serviperú has developed an effective structure for offering microinsurance. Through this in-kind benefit, Serviperú is not only able to make the protection more attractive to clients, but it is also able to control costs, which means that it can make the services more affordable.

To that end, Serviperú strives for efficiency in the running of its medical centre. An important factor in controlling costs has been the creation of a link between the doctors' salaries and the number of consultations they provide. Furthermore, as a cooperative, it overtly appeals to its members to avoid excessive or unnecessary use of services so that the company can keep prices

low. While such an approach will undoubtedly have some free rider problems, those problems are probably less severe at Serviperú than they would be in a larger organisation with a strong profit-driven motive.

The major disadvantage of this institutional arrangement, however, is the geographic limitation. Because it relies on providing services, rather than just insurance, it needs to have the infrastructure to deliver those services. For example, to extend the health protection to the northern area of Lima, the company is developing a health centre in that region. Until the premises are fully equipped and in good working order, however, Serviperú cannot promote and advertise the product. The introduction of *Previsión Familiar* outside Lima would constitute a very big investment.

A secondary limitation is the fact that Serviperú's services have to be offered in partnership with *La Positiva*. The cooperative provider of services would prefer not to pay the insurance company 15 percent of its premiums if it did not have to. It is possible that the services to the poor could be more affordable if Serviperú was allowed to operate as an insurance company.

#### *Product Issues*

Serviperú's microinsurance product, *Previsión Familiar*, provides funeral and health services to low-income households. The key features of this product that make it accessible to the poor include:

- Marketing strategies intended to reach low-income persons
- Coverage for risks that are a priority for the target market, with five coverage options, all variations on a basic package
- In-kind benefits in the form of service delivery (i.e., health care and funeral services) that overcome some of the market's inherent aversion to insurance
- Monthly premium payments to enhance affordability
- Door-to-door fee collection to enhance accessibility
- A service approach that treats the poor with respect

The practice of offering a service instead of a payment or reimbursement of expenses encourages the low-income market to buy the microinsurance plan. The logic behind this approach is that, in general, the poor tend not to buy insurance, but they would buy the opportunity to receive affordable health services for themselves and their families.

*Previsión Familiar* is different from other insurance plans because most of the benefits are provided as by the same company. This arrangement allows Serviperú to have greater control over the quality of its services, and ensure that they accommodate the specific characteristics of the target market. For example, low-income people who are used to being treated poorly in medical clinics are extremely appreciative of the respect and consideration provided by the staff at the *Servisalud*.

The role of fee collectors is quite critical in this delivery model. By visiting the clients every month, usually in their work place, the collectors help prioritise the fee payment in the household's budget. Without this regular contact, the lapse rate would undoubtedly be much

higher. So although fee collection is an expensive process, it may pay for itself through greater customer retention. The collection process also strengthens the bond between Serviperú and its customers, and provides valuable market research and communication functions. In addition, Serviperú believes that this ongoing contact helps the organisation better integrate members into the cooperative and its democratic management.

A final product design issue is the company's practice of pricing each of its *Previsión Familiar* options according to their actual costs. Serviperú does not believe in subsidising one or more plans by charging a higher fee for other plans, which would lead to a concentration of clients purchasing the subsidised plans and a withdrawal of customers from the more expensive products that provide the subsidies.

### *Customer Issues*

The target market for this product was focused on persons in the informal economy who tend to have unstable incomes, causing high lapse rates and renewal costs. Serviperú is sceptical about how deep the extension of insurance can reach into the low-income market; it certainly does not believe that an organisation can serve the poor exclusively. To remain profitable, the cooperative is progressively positioning its microinsurance product among sectors of the population with more reliable incomes. Serviperú believes that it is necessary to have a large base of clients with more stable income to generate higher profitability before it can continue to promote its services among poorer segments of the market. Consequently, marketing strategies should be focused on quality sales rather than seeking quantity.

In serving the low-income market, it is necessary to strike a careful balance between the demands and preferences of the clients and what can be reasonably and affordably provided. The development of the medical centre was a costly project and has been consolidated gradually according to the funds available and the donations received. While Serviperú has managed to create a good centre, it would like to offer a more comprehensive service. For the time being, however, there were limitations in terms of opening hours and hospitalization services.

Another feature of Serviperú's approach is the heavy emphasis on preventative medicine. Because of cost concerns, many poor people rely on traditional natural remedies. Therefore, *Previsión Familiar* heavily emphasises preventive medicine consultations to avoid early illnesses that could, in future, lead to hospitalization, resulting in higher claim ratios. A small investment today can avoid a large expense in the future.

## **7.2 Future Plans**

Serviperú would like to expand its coverage by adding additional benefits to *Previsión Familiar*. For example, it would like to cover medicines when health care is given in the medical centre. Also, depending on the actuarial analysis, it may adjust the premium to include hospitalization cover for any surgery carried out in the company's own clinic, with a maximum in-patient stay of three days.

The company will also continue to implement its new marketing strategy to penetrate niche markets of middle income groups. Relying mainly on recommendations by well-established

members to their families and friends, this approach should further reduce the cancellation rate of microinsurance plans. In addition, loyal clients will be encouraged to upgrade their existing plans, which should enhance profitability.

To better serve middle-income clients, Serviperú is looking to adjust the cover of its microinsurance product. For example, in the funeral service plan, Serviperú may offer burial plots in private cemeteries as an option.

Moving forward, Serviperú will need to decide whether to maintain the relationship with *La Positiva* or switch to a pre-paid health care plan. It could implement the latter approach without an insurance license, and therefore would no longer need to pay 15 percent of the premiums to an insurer. Such a change, however, might reduce members' ability to access health care from other service providers and would make Serviperú more vulnerable to covariant risks.

Continued expansion is certainly a challenge for Serviperú. Although the organisation does not have any significant competition, it has not yet found a way to tap into the large market for its services. Thus far, cooperatives have given little support to this microinsurance product and have not promoted it among their members. Around 90 percent of people insured are not members of a cooperative organization. To take advantage of its relationship with the cooperatives, Serviperú intends to put in place a promotion campaign for cooperatives' managers, and within three years hopes to become the insurer of the cooperative movement.