

Factsheet microinsurance business model

Indonesia: Piloting a village-based model in distributing microinsurance at Tiku Selatan Village – Tanjung Mutiara Sub- District, Agam District, West Sumatra Province

Background

In order to develop Microinsurance in Indonesia, the government, through the Indonesian Financial Service Authority or Otoritas Jasa Keuangan (OJK), developed and launched its **Grand Design on The Development of Microinsurance** in 2013. The development of the Grand Design was supported by GIZ-Regulatory Framework Promotion of Pro-poor Insurance Markets In Asia (GIZ-RFPI Asia). As part of the Grand Design, OJK embarked on a National Strategy for Financial Literacy (FinLit) during the same year in partnership with the insurance industry. In 2015, the first road show on national education and socialization of microinsurance was conducted in 16 provinces. In a span of about 3 months, 9 insurance companies (4 general, 3 life, 2 takaful), together with OJK, met with the communities composed of farmers, housewives, fishermen, members of cooperatives. The roadshow included sharing sessions about microinsurance and dialogues with the public on their understanding on risk mitigation.

Lessons learned

The road show was effective in disseminating information and creating public awareness on microinsurance. From the point of view of the insurance industry, a follow-up phase which involves primarily the insurance companies with their marketing strategies, should be part of the roadshow in order to make it more successful. Additionally, conducting roadshows in areas identified jointly by OJK and the industry may have better chances for a win-win situation for both the communities and participating insurance providers. PT. Asuransi Central Asia (ACA) was one of the participating companies.

The lessons from the roadshow project inspired the insurance companies to support the OJK 2016/2017 Microinsurance Pilot Project. The companies consider this project as an entry point for a company to introduce itself

and ensure potential distribution channels that it is recognized and fully supported by the government. The companies jointly presented the following strategies to OJK:

- Focus on selected distribution channels who will become the agents of the insurance company, not its clients. Based on the target market and the product, four types of distribution channels were proposed, namely: schools, banks, MFIs and villages. A company may have more than one distribution channel.
- Sharing of knowledge and experiences will be done by the participating companies before and after the roadshow. Stories of successes and failures will be expected after the activity.
- OJK supports the travel expenses for two persons per company during the first roadshow only. Traveling expenses during succeeding roadshows shall be covered by the participating companies.

Each company has to prepare a six-month business plan which includes sales, claims handling, etc. The key performance indicator is the number of clients a company will get by end of April 2017.

Profile of ACA

ACA is a general insurance company with a mission to provide inclusive insurance products for the poor in Indonesia. It offers a wide range of property insurance products, including fire, theft and burglary, and home protection policies; motor car insurance policies; engineering and electronic insurance products; marine cargo and hull policies; and miscellaneous insurance products, including personal safe, medical, dengue fever, travel safe, personal accident, directors and officers liability, money, and growing trees policies, as well as custom and surety bonds. Currently, the company has 36 branches and 34 representative offices located throughout Indonesia, and 1 (one) sharia unit in Jakarta.



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ACA is assisted by the GIZ-RFPI Asia in developing innovative business models for inclusive insurance, conducting awareness campaigns and training of agents, if needed. ACA is also supported by the Mutual Exchange Forum on Inclusive Insurance (MEFIN) in the areas of capacity building and awareness campaign to advance the implementation of business models developed.

Village-based Business Model

ACA decided to develop and implement a Village Model for the Microinsurance Pilot Project. Its targets are the micro entrepreneurs who live in the earthquake and tsunami prone areas of Agam District in West Sumatra Province.

ACA selected a local NGO named Jemari Sakato as an aggregator. Jemari Sakato is a social foundation with a high interest in linking micro entrepreneurs in disaster-prone areas with government programs through the head of sub-district.

Jemari Sakato started focusing on 257 of the 800 entrepreneurs in Tiku Selatan village. As part of its plan, Jemari Sakato established KLINIK UMKM, a micro entrepreneur clinic in the village under the head of the sub-district. The clinic serves as venue in building the capacities and skills of the micro entrepreneurs.

Jemari Sakato agreed to become the distribution channel of ACA. But as a foundation, it cannot engage in business for profit. Thus, Jemari Sakato established a convenience store for KLINIK UMKM named SIAGA MART which serves as outlet for the products of the micro entrepreneurs. It is also an electronic transaction point where villagers can pay their electric and water bills, buy mobile phone airtime and even insurance. The process of formalizing agreement between ACA and SIAGA MART for the latter to become a distribution channel is ongoing. Meanwhile, Jemari Sakato is conducting financial education for the micro entrepreneurs following the first education and socialization of microinsurance conducted by OJK, ACA, and The World Bank Group in Tiku Selatan Sub-District, Agam District, West Sumatra Province on 3 November 2016. To further increase awareness on the benefits of microinsurance and knowledge on risk protection,



ACA conducted a one day **Train the Trainer Workshop** on 5 April 2017 in support to KLINIK UMKM's desire to educate its members. A parallel survey on Microinsurance was also administered by OJK and the World Bank Group among KLINIK UMKM members to determine their level of awareness and needs.

As an incentive, ACA proposed to KLINIK UMKM to help its members improve the quality of their products including their branding and packaging. ACA also proposed for a close communication with the Ministry of Cooperatives and SMEs at the sub-district level, and access to financial services.

The Product

ACA has secured a license from OJK to provide micro business insurance based on the concept of microinsurance. The product is called Stop Usaha Gempa Tsunami or Business Interruption due to EQ Tsunami.

Product details	Stop Usaha Gempa Tsunami or Business Interruption due to EQ Tsunami
Term	1 year
Annual premium	IDR 20.000 (USD1.5)
Benefit amount	IDR 2.000.000 (USD 150) in lump sum to support the insured in resuming business after disaster
Objects to be insured	<ul style="list-style-type: none"> ▪ Kiosks ▪ Stalls or small shops (warung) ▪ Movable stalls (on carts, bicycles) ▪ Street vendor's carrying cloth or yoke
Risks covered	<ul style="list-style-type: none"> ▪ Fire perils including explosion, falling aircraft and smoke ▪ Insured is not allowed to sell goods in the kiosk or stall for at least 24 hours when government officer needs to check fire ▪ Vehicle impact (hit by motor bike or car in the street) ▪ Riot ▪ Earthquake and tsunami
Level of damage	▪ Slight to heavy
Disbursement period	10 working days after presentation of ID of insured

Way forward

The piloting of this village-based Business Model is a work in progress. Although it is still in an early stage, plans are already in the making for the replication of this model in two other villages in Tanjung Mutiara Sub District by 2017.

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