



## Case Study: Alternative Insurance Company, Haiti

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Alternative Insurance Company (AIC), besides traditional insurance portfolios such as homeowners, commercial, auto, life and health, aims its products at the uninsured, “bottom of the pyramid” customer in Haiti. Oliver Barrau established the company in 2001 out of a sense of frustration with the insurance industry. He was especially frustrated with the lack of customer service illustrated by the fact that no companies offered products average Haitians could afford. Insurance companies sell and resell to the top 2% of the Haitian market; competition is fierce. It was believed that the other 98% of the population was not a profitable market; they were not interested in insurance, and could not use it. AIC illustrates the possibility of making money even when serving a down-market segment; but the real story behind AIC is how an innovative entrepreneur is changing an entire industry, and the lives of Haiti’s poor.

### **Business Challenge: “How to Change an Industry...”**

AIC provides insurance products that are accessible to the majority of Haitians. Most Haitian insurers sell products to the top 2% of income earners in the nation, a market of less than 250,000 people. Meanwhile, the rest of the population has been ignored. Barrau noticed this trend from his position as a broker for established Haitian firms, and decided to start his own company to meet the needs of this underserved segment. Insurance spreads the cost of extreme events making them less devastating. Barrau felt that ignored markets could be profitably served; the question was how.

Insurance companies protect people from large financial losses by covering the expense of that loss. Companies select certain financial risks to insure (auto accidents, house fires, natural disasters), and then charge a “premium” for accepting those risks. When a loss is incurred the company pays out of the premiums it has collected. Insurers make money from charging more in premiums than they pay to cover losses, and from investing the money they hold in the interim. Typically, local brokers are used to sell the insurance policies. The brokers often represent several companies.

Large international insurers used to occupy the industry in Haiti. But, when risk spreads grew in the 1980s firms such as Royal Sun Alliance (based in London) began to withdraw, leaving behind a handful of local brokers.<sup>1</sup> Local brokers were left with no companies to represent or products to sell. They responded by establishing indigenous insurance companies with products that reflected those of their predecessors, and were based on US and European insurance demand. Today, these companies exist as a handful of self-regulated insurers targeting high-income Haitians, a shrinking demographic. Competition among this small group is fierce, comprising 19 officially licensed insurers and 8 active brokerage agencies. To sustain profits in a nation where the average annual income is just US \$550 premiums often exceed US \$2000. This left the bulk of the population uninsured against loss, priced out of the market.

Barrau began his insurance career as a broker for the Haitian companies. Both his father and grandfather represented several international insurers. As the international firms pulled out, Barrau’s father joined with others and started NASSA (National d’Assurance S.A.). As Barrau entered the industry he represented NASSA among other Haitian insurers. However, as competition grew, he noticed the large and untapped market of Haitians who could not afford existing insurance products. Frustrated with the industry’s unwillingness to meet this market, he started AIC. Until Barrau’s initiative it was widely believed that people at the “bottom of the pyramid” had no need for insurance, since they owned little or no property.

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<sup>1</sup> Risk spreads are increased costs of financing charged by banks and insurance companies for lending money. When spreads are high it is difficult for financial institutions to make money because customers are unwilling to pay for the additional cost of those spreads. In Haiti those spreads are high due the frequency of natural disasters and economic embargoes, among other factors.

Most believed that these potential customers knew so little about insurance they would not buy it. Furthermore, it was said that a cultural belief of “God will prevail,” meaning that human efforts were unnecessary, permeated the segment, undermining the need for financial products. Barrau wanted to test these preconceptions.

### **Alternatives**

Barrau wanted to bring insurance to new markets in Haiti. He sensed that the traditional market was shrinking and noticed the fierce industry competition. Competitiveness was leading to insufficient customer care that lacked transparency. Furthermore, products were not adapted to the Haitian market, and management was far too complacent given current trends. Prior to launching his company, he faced two options: one was to open new markets by inviting the multinational players to re-enter the industry; the other was to start something fresh by developing new products for the vast majority of Haitians who had yet to know anything about insurance.

*Option 1: Work with existing players.* Barrau’s first option was to work directly with incumbent firms. He tried to leverage his experience to invite international firms back into the market. These companies would provide better governance practices than their local counterparts and Barrau felt that perhaps they were of sufficient size to handle the risk of down-market products. Barrau has a fine pedigree within the insurance industry in Haiti. For generations his family has been a frontrunner. This was currency for Barrau that he could possibly use to re-engage the multinationals. In 1998 Barrau contacted Royal Sun Alliance to ask whether they would be interested in re-entering the Haitian market; they declined. He then called Island Heritage a regional company making inroads to the Caribbean. They also declined citing country risk.

*Option 2: Start something new.* Barrau’s familiarity with the industry also introduced a second option: start a new company that would do things differently. Choosing this option meant an uphill climb primarily because it would involve creating new products and educating a population that had no experience with insurance. However, the potential upside was big, a new market of millions of potential customers that no one was currently serving. This option would also give him the opportunity to build a transparent and well-managed firm something he felt was lacking in Haiti.

### **Action Taken**

Prompted by the decisions of the foreign players Barrau launched Alternative Insurance Company in 2001. He brought 95% of his client base with him and closed down his family’s brokerage firm. He has successfully culled out a new market where none existed before through developing a deep knowledge of his customer, building strong distribution networks, and offering innovative insurance products designed for the needs he discovers.

1. Develop knowledge of customers. Barrau wanted to test the preconceptions about the underserved Haitian market. Rather than hire out the research for his new venture, Barrau did it himself, and discovered that many were wrong, or could be overcome. In the process, AIC has gained intimate knowledge of its customer based on detailed market research and direct interaction. To this day, Barrau prefers having direct contact with clients rather than relying exclusively on brokers. AIC has performed significant research on the needs, habits, and mental models of lower-income customers, allowing the firm to develop and offer the right kinds of products.

2. Build distribution networks. The majority of AIC’s current products are sold directly through the firm’s sales staff. However, Barrau also partners with various organizations to develop and distribute products. For example, it works with Fonkoze, a microloan organization, to develop and sell micro-insurance products through their networks. Additionally, it has entered into an official relationship with Banque Nationale de Credit, the Haitian state-owned bank, to sell life insurance to its customers. According to AIC it now has the widest distribution network in Haiti.

3. Offer innovative products. AIC has been able to offer innovative products based on its customer knowledge and continual learning by the firm. In an industry where policies often cost over \$2000 per year, AIC has designed micro-insurance packages that cost as low as US \$25 annually. These products are proving affordable even for those who live on just US \$4 per day. In fact, after 18 months in the market, more than 55,000 people are covered by AIC micro-insurance. AIC has also developed a funeral product that is currently being tested. Another product allows customers to get a portion of the premium back after three years if there has been no claim. This offering has helped educate many who had no experience with insurance, and has increased renewal rates as well. All of the product innovations are in addition to its lower-priced options on traditional policies for life insurance and property losses for cars, homes and commercial structures. Part of the secret behind AIC's ability to innovate is the significant resources the firm invests in training its staff. Between 2006 and 2009, AIC spent US \$300,000 on training its workers, largely by sending them to one of best insurance schools available, in France. Employees are enthusiastic, inventive and feel they are creating something new and helpful for their nation.

### Results

AIC maintains an estimated 26% of current market share.<sup>2</sup> The firm is now the country's leader in the automobile business and one of the top two providers (by premium value) in its other portfolios. Taxes paid by AIC represent 50% of the tax paid by the entire industry reflecting the measure not only of the firm's size, but also its commitment to transparency. The Port au Prince earthquake of January 2010 significantly tested AIC as an insurance company. Fortunately, Barrau's familiarity of the industry and good business model allowed him to survive as his reinsurers (very large insurance companies that insure smaller ones), stepped in to help.<sup>3</sup> Through 2009 AIC's revenue growth was between 35%-40% for four years running. Its Net Income was US \$766,500 after accounting for premiums and investments for inflows, and losses plus expenses for outflows.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.<sup>4</sup> Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value created for these four different stakeholder groups by AIC.

### Alternative Insurance Company and the COW-F Model

Stakeholder Community	Current Value Offering
Customers	<ul style="list-style-type: none"> <li>• Products are developed for very large "down-market."</li> <li>• Intimate customer knowledge is based on intensive research and relationships.</li> <li>• Effective use of different channels to reach their target customers.</li> </ul>
Owners	<ul style="list-style-type: none"> <li>• AIC has an external board that also receives training in insurance matters.</li> <li>• Target market is very large – promising growth potential.</li> <li>• Firm is very transparent and accountable through reinsurers and possible rating</li> </ul>
Workers	<ul style="list-style-type: none"> <li>• Wages are above industry average.</li> <li>• 3%-5% of top-line sales are marked for employee training.</li> <li>• Frequent meetings facilitate decision-making.</li> </ul>
Future Generations	<ul style="list-style-type: none"> <li>• AIC applies international prudential norms and governance</li> <li>• AIC is a pioneer in meeting insurance needs of the poor.</li> <li>• Educates communities on financial risk matters.</li> </ul>

<sup>2</sup> OTF Group estimate based on industry total and AIC financials

<sup>3</sup> AIC's places its reinsurance with class A reinsurers including syndicates at Lloyd's of London.

<sup>4</sup> The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.