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The Good Practice in Marketing Microinsurance Product: Evidence from Indonesia

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A B S T R A C T

The purpose of this study is to investigate the good practice of the microinsurance industry in Indonesia, using a case study of three microinsurance providers, namely Allianz, Prudential, and Asuransi Central Asia (ACA). In addition, this study also aims to analyze the challenges, of the microinsurance industry in Indonesia. Results from this study reveal that despite the large market potential for microinsurance in Indonesia, there are challenges that should be addressed, to boost the growth of the microinsurance industry in Indonesia. To respond to this challenge, attention should be focused on consumer protection, and consumer appeal aspects. From the three microinsurance providers discussed in this study, viable approaches to implement when competing in the microinsurance market in Indonesia, including market research to understand the behavior of low-income consumers, the extensive distribution of partners, consumer education practices, and corporate values that demonstrate the dedication of the company, to serve low-income consumers.

Keywords: Microinsurance, low income market, microfinance, Indonesia

I . Introduction

The term “microinsurance” has been gaining more popularity. It has also received increasing attention from policymakers and researchers, because of its potential to assist with the poverty reduction effort (Biener, Eling, & Schmit, 2014). Microinsurance can boost the achievement of goals declared by leaders of G20 countries, which embraces financial inclusion and social protection, since microinsurance incorporates both elements, in its implementation (Council of The European Union, 2012).

According to Churchill and McCord (2012), the definition of microinsurance has become operational, and it should create a distinction, between traditional insurance and microinsurance. Hence, there are four character-

izations to differentiate microinsurance from traditional insurance: (1) Target group (microinsurance is intended for low-income consumers), (2) Product definition (restrict the premium by placing a cap on the value insured, so the product is relevant for only low-income consumers), (3) Provider definition (the type of organization that could provide microinsurance, including formal insurers, burial or friendly societies, mutual cooperatives, and community-based organizations), and (4) Distribution channel (a product is considered as microinsurance, if it distributed by microfinance institutions (MFIs), low-cost retailers, or other organizations that typically serve the low-income market).

In Indonesia, the development of microinsurance industry is at an early stage. However, the Indonesia Financial Services Authority (Otoritas Jasa Keuangan/OJK) has started to demonstrate its commitment to improving access of low-income consumers, to insurance products. In 2013,

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OJK launched a Grand Design for Development of Microinsurance, in Indonesia. The Grand Design is intended to facilitate the evaluation, development, and implementation of microinsurance and Sharia Microinsurance¹ in Indonesia.

Regarding the definition of terms, OJK has its characteristics, to define microinsurance. In the Grand Design, OJK stated that there are four requirements of the microinsurance product in Indonesia: First, it must be *simple*, meaning that the product provides basic coverage from common risks faced by low-income consumers. It should also have simple features, a simple administration process, and be a simple policy.

Second, it must be *easy to obtain* (accessible to the target market, which are low-income people). Third, it must be *economist*, or affordable for the target market. The insurance company must significantly reduce operating systems related to premiums, so that it can lower premiums. Fourth is *fast*, meaning the insurance provider should be quick in processing the claim (10 days after a complete document is accepted), because low-income people do not have savings to manage the financial impact of a disaster. The authority also set the maximum premiums at IDR50,000 (US\$3.73), with a maximum payout of IDR50 million (US\$3,731.34).

The Grand Design also has a definition, for the poor who are eligible to apply for microinsurance products. According to OJK, low-income consumers are those who earn no more than IDR2.5 million (US\$192) per month. At the end of 2015, OJK reported that the number of microinsurance consumers in Indonesia was 22.8 million (Muchlasin, 2015). A population of more than 250 million, and low penetration rates of insurance products, make Indonesia a market with the most potential, in Southeast Asia.

Relevant to the potential, the trend in Indonesia reveals that the insurance companies that participate in marketing microinsurance products, are increasing annually. At the end of 2015, 65 of 140 companies were marketing microinsurance products (Muchlasin, 2015). However, the first insurance company that observed a potential in low-income market, was Allianz Indonesia, a private insurance

company. The company entered the Indonesian microinsurance industry in 2006. Throughout the years, the company has built its reputation as one of the most committed insurance companies that provides microinsurance products to low-income consumers.

Because of its rigorous effort in penetrating the low-income insurance market in Indonesia, Allianz enjoys significant growth, serving a total of 4,833,000 microinsurance consumers, in 2015 (Allianz SE, 2016). Despite the success that Allianz experience in Indonesia's microinsurance market, there are also challenges that hinder the development, of microinsurance companies in general. Hence, it is crucial to present the strategy that has been implemented by current insurance companies, competing in Indonesia's microinsurance market. Therefore, companies can assess which approach works best, in Indonesia's market.

The distribution of this paper is as follows. First, we present three large insurance companies that we consider use the best practice, in marketing microinsurance products, along with the type of microinsurance products they offer. These companies are Allianz Indonesia, Prudential, and ACA. Second, we discuss the challenges in Indonesia's microinsurance industry, that include the large, but untapped market, and the readiness of the industry to meet market demand. Finally, in the discussion portion, we evaluate the appeal of Indonesia's microinsurance market, the state of consumer protection, and we highlight best practices that work, in marketing microinsurance products in Indonesia, based on the experience of the three insurance companies that we discuss.

II. Microinsurance Products in the Indonesian Market

A. Allianz

Allianz entered Indonesia's microinsurance market in 2006. Until 2015, the company describes the business of providing insurance for low-income consumers, as microinsurance. However, they changed the name of that business unit into "Emerging Consumers" in 2015. The change is attributable to the re-purposing of its focus, from providing only an insurance product, to servicing

¹ Microinsurance that operated using sharia system, in which the insurance company manages the fund, and after some period, the company will share the profit (profit-sharing system), in accordance with the agreement used.

Table 1. Specification of TAMADERA Microinsurance Products

Product name	TAMADERA An abbreviation for “mencipTakan MAsa DEpan sejahteRA”, or “building a prosperous future”
Product background	From market research conducted among low-income families, that expressed a high demand for life, and health coverage. They also expressed a strong concern about high education costs
Product type (e.g life insurance, savings, assistance)	Endowment
Distribution partner type (e.g. MFIs, banks, retailers)	Microfinance Institutions (MFIs)
Launch date (and end date if any)	November 2010-April 2012 The company discontinued the product in June 2012, with one of the reasons being that interest rates were down to four to five percent, which jeopardized the viability of the product (Prasetyo, 2014)
Product description	A product that combines life insurance coverage, critical illness coverage, and a savings benefit
Group or individual product	Group (only available for MFI customers and their spouses)
Covered risk and benefit/ sum insured	In case of any five of critical illnesses (cancer, stroke, heart attack, kidney failure, major burns) happen, the insurance pays IDR2.5 million (US\$186.57) If, after five years, there is no claim from clients, they will receive the full premium, which a is minimum IDR2.5 million. The usage of this maturity benefit is up to the client, however Allianz and its distribution partner suggest to use it for children’s education. Hence, the product is also positioned as micro-education insurance, since it allows families to invest in a better future. (German and Indonesia Chamber of Industry and Commerce, n.a) Early withdrawal possible from year two forward, at 15 percent surrender charge
Premium range	The minimum premium of TAMADERA starts as low as IDR10,000 (US\$0.75) per week for 250 weeks per year (50 weeks per year). Two weeks per year are premium holidays
Other comments	In terms of consumer education, a specially trained TAMADERA field coordinator of the MFI is in in charge of client education. However, there is no direct hotline provided for the consumers. In addition, to ensure the cost effectiveness, a web-based administration system is in place for automatic processing from enrollment, to invoicing claims

Source: (Allianz SE, 2013)

consumers, and meeting their needs. The range of services Allianz offers is expanded to assistance, or mobile saving.

Allianz believes that in meeting the needs of low-income consumers, it will benefit them in the future. Allianz’s reasoning is that low-income consumers will grow into the middle-class segment of Indonesian society in the future. At that time, Allianz could market its conventional products to them (Allianz, 2015). There are many micro-insurance products that Allianz offers to the low-income market in Indonesia. To its products, Allianz conducts a self-assessment of seven quality criteria, including strong risk management, other benefits, consumers involved, voluntary, consumer education, product simplicity, and low transaction costs (Allianz, 2015). However, this paper will discuss only four of the microinsurance products developed by Allianz namely TAMADERA, “GO-JEK Driver” Health Insurance Plan, Family Umbrella (Payung Keluarga), and

Umbrella for My Savings (Payung Tabunganku). The specifications of these products are provided in Table 1 through Table 4.

Looking at the description of Allianz products above, Allianz has several partner types to distribute micro-insurance products, such as Microfinance Institutions (MFIs), commercial banks, productive cooperatives, tele-communication companies, and postal operators (Allianz, 2015). Allianz believes that partnering with Microfinance Institutions, is the most effective marketing strategy, since MFIs have experience with the low-income segment. Currently, Allianz Indonesia is the largest microinsurance provider in Indonesia, with close to five million consumers.

This achievement is consistent with its commitment to serving low-income consumers, by continually seeking opportunities, and developing new products to meet the insurance needs of the low-income market. In addition,

Table 2. Specification of GO-JEK Driver Health Microinsurance Products

Product name	“GO-JEK Driver” Health Insurance Plan GO-JEK is an Indonesia hyper-local transport, logistics, and payments startup founded in 2010
Product background	GO-JEK is considered as a socially-minded company, hence once they are established, they ask Allianz to provide them with cost-effective health insurance for their drivers, and families
Product type (e.g life insurance, savings, assistance)	Comprehensive health insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Direct distribution to motorcycle taxi drivers of “GO-JEK” company
Launch date (and stop date if any)	10 June 2016
Product description	A health insurance product for “GO-JEK” motorcycle drivers and their spouse and children that covers inpatient and outpatient treatment. The benefit for inpatient treatment includes coverage for the cost of hospital rooms, consultation visit, surgeries, and other inpatient treatment. For outpatient treatment, it covers doctor’s consultation cost, medicine prescriptions, physiotherapy, and basic immunization.
Group or individual product	Group
Covered risk and benefit/ sum insured	Inpatient and outpatient treatment Coverage limits apply per treatment e.g. maximum of IDR25 million (US\$1,866) for surgery per hospitalization period e.g. IDR50,000 (US\$3.73) for each General Practitioner outpatient consultation Basic immunization for children < five years Death benefit of IDR3million (US\$223.9)
Premium range	The premium is IDR2,300 (\$0.17 USD) per person per day. The daily premiums are paid automatically from the GO-JEK drivers accounts, so the process is cashless, and hassle free. The digital process also improves claim settlement duration.
Additional information	Allianz offers a cashless facility in Allianz AdMedika hospital network throughout Indonesia. The company also dedicated a mobile website with informational videos, and product information. The client service is also ready to serve on a 24/7 basis.

Source: (Allianz SE, 2016), (Project M, 2016)

the company is using online technologies to provide services for its microinsurance consumers, and to maintain the low transaction costs of its products. Specifically, in Indonesia, the company has started sending policy renewal reminders, and information, via text messages.

Regarding this matter, it is also crucial to mention, that Allianz also offers a new product, SEKOCI. SEKOCI, which is the first microinsurance product with a SIM card. SEKOCI provides cash benefits for the beneficiary, should the insured die from illness. The benefit is five times the amount, if the death is cause by an accident. To make SEKOCI understandable, Allianz developed a marketing strategy that uses various communication media to educate clients. In terms of premium payments, the company works with Telecommunication Company that provides electronic money, so clients can pay premiums digitally.

The consumer only needs to top up their electronic

money, and the premium is automatically deducted from available funds. Using this digital platform, Allianz can also provide financial literacy materials, through interactive voice response (IVR). The use of IVR technology lowers the cost of consumer education, since the company does not have to meet clients in-person, or above the line advertising anymore (Dosiwoda, 2016).

B. Prudential

Prudential Life Insurance (Prudential Indonesia) launched its first microinsurance product, PRUaman, in 2013. However, the company did not launch another microinsurance product until 2016, when they launched PRUaman Sharia, a sharia life insurance product intended to serve low-income consumers. The specification of Prudential’s microinsurance product is presented in Table 5.

Table 3. Specification of Family Umbrella Microinsurance Products

Product name	Payung Keluarga (Family Umbrella)
Product background	The product is specifically designed to fulfill the needs of micro borrowers who make loans from Microfinance Institutions (MFI)
Product type (e.g life insurance, savings, assistance)	Term Life (attached to credit accounts), with riders
Distribution partner type (e.g. MFIs, banks, retailers)	Banks, MFIs
Launch date (and date if any)	September 1, 2006 for first product launched November 27, 2013 added an insurance for riders
Product description	Compulsory group credit life coverage (available in conventional or takaful/Sharia) with flexible benefits, and voluntary personal accident riders.
Group or individual product	Group
Covered risk and benefit/sum insured	Mandatory base product: Risk: death of debtor and spouse (optional) Benefit: outstanding loan balance, or original loan amount Additional funeral benefit of up to two times original loan (optional) Loans: IDR0 – max. IDR200 million Voluntary rider (available since Dec 13): The benefits are up to IDR25 million (US\$1,866) to cover accidental death, and total or partial permanent disability, due to a personal accident Payung Keluarga only covers the loan principal, and the foregone interest is not covered.
Premium range	Mandatory base product: IDR100-IDR1 million (US\$0.007-US\$74.63), depending on loan amount, tenor, and benefits. Voluntary rider: IDR8,000-IDR20,000 (US\$0.60-US\$1.50)
Additional information	The product features over 50 possible benefit combinations. However, the MFIs decide which benefits they want to include in the package, and the chosen package is compulsory for MFIs microloan borrowers. The company can decide whether they want to cover people aged 61-65, or exclude them. This age range must pay a higher premium rate, due to a significantly higher mortality risk. In terms of client education, brochures are provided by some MFIs, and the MFI staff is also equipped with flip charts, to explain the product in person. However, a direct hotline is not provided, except for the rider product.

Source: (Allianz SE, 2016), (Allianz Life Indonesia, 2013)

Table 4. Specification of Umbrella for My Savings Microinsurance Products

Product name	Payung Tabunganku (Umbrella for My Savings)
Product type (e.g life insurance, savings, assistance)	Term Life Insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Microfinance Institutions (MFIs)
Launch date (and stop date if any)	1 June 2014
Product description	This insurance product is bundled with savings and time deposits of MFIs. The premiums are usually paid by the MFI, and sums insured, are usually equal to the savings balance (this means: “the more you save, the more insurance you get”)
Group or individual product	Group
Covered risk and benefit/sum insured	Death due to any cause Benefit can be up to max. IDR200 million (US\$14,926) and structured in three different ways: 1. Same amount as savings balance or time deposit amount 2. Fixed amount irrespective of savings balance 3. Amount that has still not been saved in targeted savings plan
Premium range	0.048 percent of sum insured per month for age 17-60
Additional information	The product also offers spouse coverage and coverage for consumers age 61-65 with a special rate. The MFIs explain about the product to their (potential) borrowers, when marketing their savings product. There are no special education mechanisms for this insurance product. The product is basically integrated with the MFIs microsavings product, to help ensure low transaction costs.

Source: (Allianz SE, 2016)

Table 5. Specification of PRUaman Microinsurance Products

Product name	PRUaman
Product type (e.g life insurance, savings, assistance)	Life Insurance
Product background	PRUaman is developed, based on the results of extensive research conducted by Prudential. There is a need for financial coverage for the micro borrower and lender (MFIs). Research was conducted for two years, by collecting data from five provinces, and 13 cities in Indonesia.
Distribution partner type (e.g. MFIs, banks, retailers)	Microfinance Institutions (MFIs)
Launch date (and stop date if any)	17 April 2013
Product description	Basically, the product offers financial coverage in the form of collateral to the loan principal, granted by MFIs to consumers. If an unfortunate event happens to a client, their debt will be repaid by Prudential.
Group or individual product	Group
Covered risk and benefit/ sum insured	There are four insurance packages, that offer different benefits: <ul style="list-style-type: none"> • Package 1: If the insured person dies from any cause during the insurance period, Prudential Indonesia will pay the remaining balance of loans to MFI. • Package 2: If the insured person dies from any cause during the insurance period, Prudential Indonesia will provide benefits in the amount of the initial loan, to pay the remaining loan to the MFI, with the rest of the benefits given to heirs (if any). • Package 3: If the insured person dies from any cause during the insurance period, Prudential Indonesia will pay the remaining balance of the loan to policyholders, PLUS the benefits in the amount of original loan, will be paid to the beneficiary. • Package 4: There are two benefits; <ul style="list-style-type: none"> Benefit A: If the insured person dies due to illness or natural causes, Prudential Indonesia will settle the remaining loans to MFIs, PLUS provide compensation in the amount that is equal to original loan to heirs. Benefit B: If the insured person dies due to accident, Prudential Indonesia will settle all outstanding loans to MFIs, PLUS provide compensation in the amount three times the original loan, to heirs.
Premium range	The four insurance package premiums are offered in the minimum of IDR2,000(US\$0.15)/year to IDR10,000(US\$0.75)/year. This rate applies equally to MFI clients, regardless of age and loan tenor.

Source:(Prudential, 2013)

Table 6. Specification of Dangu Fever Microinsurance Products

Product name	Dengue Fever Microinsurance (Asuransi Demam Berdarah)
Product type (e.g life insurance, savings, assistance)	Health insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Basically this product provides coverage for consumers diagnosed with dengue fever. The insurance is sold in a voucher and needs to activated via text message. Each consumer is allowed to buy more than one insurance policy, and receive benefits up to IDR10 million
Group or individual product	Group
Covered risk and benefit/ sum insured	IDR1 million - IDR 10 million for a consumer who is diagnosed with dengue fever.
Premium range	There are three insurance package premium options, IDR 10,000/year; IDR25,000/year, and IDR50,000/year

Initially, there were two partners that assisted Prudential with distributing its microinsurance product - Mitra Usaha Mandiri cooperatives, located in Subang and Karawang, West Java province. The cooperatives were chosen to

become the first distribution partners, because they have reputation and experience in serving the low-income consumers. In 2010, the number of MFI partners that distribute PRUaman increased, to more than 10 MFIs

Table 7. Specification of House and Earthquake Fund Microinsurance Products

Product name	House and Earthquake Fund (Dana Rumah & Dana Gempa)
Product type (e.g life insurance, savings, assistance)	General insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Basically this product provides protection for damage caused by fire. The insurance is sold in a voucher, and needs to activated via text message.
Group or individual product	Group
Covered risk and benefit/ sum insured	Benefits up to IDR3,000,000 for a damaged building caused by fire (the sources of fire includes the insured house, neighbors' house, thunder, aeroplane accident, and explosion)
Premium range	The price of premium is IDR20,000, with discount of 30 percent for buying five vouchers

Table 8. Specification of Asuransiku (My Insurance) Microinsurance Products

Product name	Asuransiku (My Insurance)
Product type (e.g life insurance, savings, assistance)	Life Insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Asuransiku, is a personal accident insurance product that provides for a death or total permanent disability benefit, due to an accident. This product was designed exclusively for the financial literacy campaign
Group or individual product	Group
Covered risk and benefit/ sum insured	IDR30 million
Premium range	IDR50,000 per year

Table 9. Specification of Stop Usaha Microinsurance Products

Product name	Stop Usaha
Product type (e.g life insurance, savings, assistance)	General insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Stop Usaha is one of the microinsurance products that provides coverage for fires, riots, vehicle impact, earthquakes, tsunamis, or volcanic eruptions coverage, for business premises
Group or individual product	Group
Covered risk and benefit/ sum insured	Provide benefit of IDR2.5 million
Premium range	IDR40,000 per year

(Kharis, 2016).

In 2016, Prudential signed a cooperative agreement with a Sharia Bank in Indonesia, to distribute, market, and promote all bancassurance sharia from Prudential. The first product that Prudential distributed through Sharia Bank's branch was PRUaman sharia (Jaramaya, 2016). PRUaman sharia is a microinsurance product that is in

line with Islamic sharia law. Basically, the benefits and risk covered by PRUaman sharia are identical to PRUaman conventional coverage.

C. Asuransi Central Asia (ACA)

Asuransi Central Asia, or ACA, is a local private non-life insurer, that offers microinsurance products. ACA is known as a leader, and a respected private insurance company, with 60 years of experience in Indonesia's insurance market. The company has demonstrated its commitment to developing microinsurance in Indonesia, by combining microinsurance with local wisdom, in a unique microinsurance product, for Indonesia's low-income consumers. ACA offers a wide range of microinsurance products that cover dengue fever, earthquakes, fires, and micro and small business interruption.

Most products are offered, using a voucher that must be activated via text message. The distribution channel includes ACA branch offices, post offices, pawnshops, and retailers such as Indomaret, Hypermart, Boston Health & Beauty, and Foodmart. The partnerships with PT Pos Indonesia, and Indomaret, have made ACA's microinsurance products available in 8,600 branches of Indomaret, and 3,800 branches of Pos Indonesia. The design of the product is simple, because policy holders only need to input a Personal Identification Number (PIN), to be listed online, and the claim process can also be completed through a short message service (SMS) (Gunawan, 2013). The details of microinsurance products offered by ACA are presented in the following table.

D. Generic Insurance Products

There are several generic microinsurance products developed by cooperating institutions such as insurance companies, insurance associations, and the Indonesia Financial Services Authority (OJK), through its program Asuransi Mikro Indonesia (Indonesian Microinsurance):

- **Si Peci (abbreviation for "Penuh Cinta" or "Insurance filled with love")**; A life insurance that provides compensation in the amount of IDR5 million, when the consumer dies of illness, and IDR25 million if the consumer dies due to an accident. This insurance was developed based on input from several life insurance companies, and not directly from the results of market research. Several life insurance companies incorporated in Indonesia Life Insurance Association, distribute this product to clients.

- **Si Bijak (Wise)**; A sharia microinsurance product, that provides insurance for consumers against the risk of death due to illness, compensation for a funeral due to illness, death in an accident, loss of income due to fire, natural disasters, theft, robbery in the client's house, vehicles, or stall or business cart insured in the period of sharia insurance (takaful) membership. This product was launch by Indonesia Sharia Insurance Association in 2014. Low-income consumers can acquire this insurance product from sharia insurance company or other sharia insurance unit. The activation of
- **Warisanku (My Heritage)**; Provides a guarantee against the risk of accidental death, with a compensation of IDR10 million to the heirs + funeral expenses, IDR 500,000, and receive funeral expenses of IDR500,000 per person, if death is caused by illness.
- **Rumahku (My Home)**; Provides protection for residential and business venture buildings of micro enterprises against risk of damage caused by fire, lightning, collateral damage from an airplane crash, smoke, and death. Compensation of IDR5 million is awarded to the owner, if the building is destroyed due to fire, IDR500,000 for the tenants of the building, and grief compensation up to IDR5 million for the heirs.
- **Stop Usaha Erupsi (Eruption)**; Provides protection for an object (1) business (kiosk, stalls, cart, individual retailer, bicycle, motorcycle, and boat); (2) Venture capital/business goods (business equipment/products), risk of damage due to fire, lightning bolt, collateral damage from an airplane crash, smoke, riot, hit by a vehicle, and volcanic eruption.
- **Stop Usaha Gempa Tsunami (Tsunami)**; Provides a guarantee for an object (1) business (kiosk, stall, cart, individual retailer, bicycle, motorcycle, and boat); (2) Venture capital/business goods (business equipment/products), risk of damage due to fire, lightning bolt, collateral damage from an airplane crash, smoke, riot, hit by a vehicle, earthquakes, and tsunamis.

III. Challenges for the Microinsurance Industry in Indonesia

Microinsurance is a relatively new industry, in

Indonesia. Despite huge potential for growth in the future, there are challenges and barriers, that restrict the growth of the microinsurance industry in Indonesia. These challenges are sourced from the demand, and supply side, of the microinsurance industry.

A. Large Potential, But Untapped Market

Indonesia is home for 238 million people. Of this population, 53 percent lives under the poverty line, with less \$2 consumption per day (Allianz, GTZ & UNDP, 2006). Based data from the Central Statistic Bureau (BPS) in 2007, approximately 108 million people (or 66 percent) are estimated to be in the labor force. The employed population is approximately 97.6 million, with only 37 percent of the employed are in formal economy and approximately 63 percent of those employed, are in various forms of rural and urban employment.

A significant number of informal worker do not have a formal insurance mechanism, to cover them from risk, such as illness or an accident, since the formal insurance plans only provide coverage for the formal sector. In addition, social insurance primarily covers employees in large private sector companies, and public sector employees (Jonatan, 2010). Based on this data, it is revealed that there is significant potential for marketing microinsurance products in Indonesia.

However, microinsurance providers have been unable to address this significant potential market, because of several factors. First, the level of financial literacy in Indonesia is low. Based on the *National Survey on Financial Literation* conducted by the Financial Authority Services (OJK), only 18 percent of Indonesian consumers are aware of, and understand, the value of insurance products and services. Low financial literacy is not only a major obstacle in Indonesia, but also in countries such as India, Ghana, and Philipina.

Second, the low level of financial literacy affects consumers' perception, of the value of microinsurance products. There is limited empirical study on consumers' perception, of the value of microinsurance products in Indonesia. One of the few studies, is a survey conducted in 2006, by Allianz, GTZ AND UNDP on microinsurance in Indonesia. The survey reveals that consumers have unrealistic expectations regarding the benefits of microinsurance, which leads to disappointment, when the ex-

pectations are unmet.

Outside Indonesia, a study by Giesbert and Steiner (2014) in Southern Ghana, reveals that clients have unrealistic expectations of insurance benefits, expecting compensation for a significant variety of damages, that are not covered by the policy. Initially, expectations lead to a highly-perceived opinion about the value of microinsurance. However, as soon as consumers' perceptions are altered, the value is diminished. Third, the demand for microinsurance products, depends on the availability of alternative risk mitigation tools, such as regular savings, asset liquidation, *arisan*, family, and community assistant. These tools are more commonly used, and widely practiced, by low-income consumers in Indonesia.

From the explanation, it can be concluded that despite of significant potential for marketing microinsurance products, there are several fundamental factors, that prevent the growth of the microinsurance industry in Indonesia. These factors include a low level of financial literacy, consumers' misconception of the value of microinsurance, and the lack of availability, of alternative risk mitigation tools.

B. Industry Readiness

The players in microinsurance industry consist of insurance companies such as PT, ACA Central Asia (ACA); PT Asuransi Allianz Life Indonesia; PT Asuransi Kredit Indonesia; and PT Asuransi Jiwasraya. In addition, PT Pos Indonesia also offers microinsurance products (Rokhim, et.al, 2016). According data from OJK (2015), there are 65 of 140 insurance companies providing microinsurance products. This data indicates that major players in the microinsurance industry in Indonesia are commercial insurers.

According to Llanto, et.al (2006), commercial insurers have strengths and weaknesses, in offering microinsurance products. Primary strengths are substantial insurance expertise, financial strength, and access to global reinsurance markets. In addition, commercial insurers may reduce cost of producing insurance, through economies of scale. However, commercial insurers have limited understanding and access to low-income populations. There is also potential conflict between profit motive, and development objective.

To serve the low-income population, most micro-

insurance providers use the Partner-Agent Model. For example, PT Asuransi Allianz Life Indonesia, and PT Prudential Life Insurance, work with MFIs to offer micro-insurance products, while PT ACA Central Asia works with local retailers, such as Indomaret and Hypermart. In the Partner-Agent model, an established insurance company works with a distribution channel, that actively serves low-income clients. The Partner-Agent model is cost-efficient. However, the major challenge is to train partners' staff, to explain insurance in ways illiterate low-income consumers, can understand (Llanto, *et.al*, 2006).

Another challenge faced by the microinsurance industry, is product development. Most providers find it difficult to design suitable products, for various risks faced by low-income consumers. The low-income population is more vulnerable, and requires unique product designs, that can cover against specific risks. The design of microinsurance products should consider demography and geography factors, which is difficult to conduct. Related to this, because of the lack of historical data, about risk faced by the low-income consumers, the risk underwriting and premium setting process, is difficult to conduct.

It is noteworthy that as most commercial insurers in Indonesia apply the Partner-Agent model, there is a potential that viable actuarial principles are not properly practiced. A study on microinsurance in the Philippines, revealed that microinsurance programs are not being managed, according to viable actuarial principles, and therefore increases the risk, since it assumes that clients' insurance needs are homogenous, and unchanging (Llanto, *et.al*, 2006).

The discussion above indicates that despite growth in the microinsurance industry, the industry has serious challenges to be overcome. These challenges include inadequate expertise working with the low-income segment, product development, a lack of data for risk underwriting and premium setting, and the choice of effective distribution channels.

IV. Discussion

Having discussed major challenges in the micro-

insurance industry in Indonesia, from demand and supply sides, it is crucial to highlight two key issues, related to these challenges. For demand side, the low level of financial literacy, combined with a misconception about microinsurance value, have become major challenges that prevent consumers from buying microinsurance products. The implementation of clients' coverage can overcome these challenges. However, efficiency and viability of the microinsurance industry, becomes the primary consideration, for industry players. Analysis of consumer appeal, relative to microinsurance products, will provide insight, on how to attract new players to enter the industry. The analysis will be based on the case study, of three micro-insurance providers in Indonesia, discussed above.

A. Customer Protection

Consumer protection, refers to terms of fairness, or by reference, to the qualities that effective consumer protection exhibit (such as transparency, or prompt claims processing). Regarding microinsurance products, consumer coverage refers to effective use of microinsurance products, by low-income consumers, to cover against risks. Consumer coverage is essential in developing micro-insurance products, since it helps consumers from low-income households with low financial literacy, to understand microinsurance products, and build trust in the products.

Effective consumer coverage will directly impact consumers, since it ensures they will benefit from micro-insurance products. It also generates indirect consequences in the long term, by expanding coverage of microinsurance products, and adding value to stakeholders in the value chain (Zimmerman, Magnoni, and Camargo, 2013; Microinsurance Network, 2014). Among general principles of consumer coverage include (1) Fair and equal interaction between insurers and consumers, at all stages of their relationship, (2) Disclosure and transparency, (3) Financial education and (4) Complaint management.

As the primary issue from the demand side is consumers' low level of financial literacy, the consumer coverage effort must primarily focus on financial education, particularly education about microinsurance products. A financial education program will assist consumers with understanding the function of microinsurance products, the specific right and obligation of clients and insurers, to the claim process, and other pertinent knowledge. It is

important to note that financial education must not only cover financial literacy, but also focus primarily on micro-insurance specific products. It is also crucial to include the distribution channel in this program.

From the case study of the microinsurance providers in Indonesia, all provide financial literacy education for their consumers. For example, Allianz conducts a financial education product titled “Family Financial Education Program.” This program fosters financial literacy among adults, and empowers low-income consumers, to move towards a viable financial situation. This program includes Allianz employees (mostly from other teams, than the microinsurance team) that make voluntary visits to MFI staff and consumer groups, to train them interactively about basic financial models such as financial planning, savings, credit, and insurance. In addition to providing financial education for low-income consumers, Allianz also developed the “trainer for trainer” concept, that is used for MFI partners, so that they can become coaches for others.

Regarding ACA, most financial literacy programs are conducted through campus events, where the target audience is not specifically low-income consumers. For the low-income segment, a socialization program titled “Cerdas Berasuransi Bersama ACA” (Smart Insurance with ACA) has been conducted. The program involves social activities, charity programs, and distribution of free micro-insurance vouchers. In addition, ACA conducts training for pawn shop front liners, since pawn shop officers in rural areas, interact with consumers more frequently.

All microinsurance providers in this study also use brochures, as part of consumer education. Although there is no empirical evidence on the effectiveness of such programs, the financial education program by PT Allianz Indonesia, is considered an appropriate mechanism to appeal to consumers. In addition, the participants of the programs are not only consumers, but also from Allianz and MFI staffs.

B. Client Appeal

Client appeal is referred to as a condition in which the appeal of one party (the consumer) has been defined broadly, as the ability to generate interest, and appeal to another party (the supplier or seller). The condition is that when either buyer or the seller is appealing to

the relational partner, each can appeal to the other, which can lead to superior loyalty, and performance, in the relationship (La Roca, Caruana, & Snehota, 2012). The assumption of consumer appeal is that a buyer becomes so appealing to a supplier, that the supplier offers a desirable price (Lusch & Brown, 1996).

From the supplier’s perspective, the knowledge of the exchange partner’s capabilities and attitude, are crucial, to enable the firm to invest their resources in the most effective manner. Therefore, identifying key factors that influence the appeal of parties in client-supplier relationships, will provide mutual benefits, as these factors can serve as a basis for management attention and a viable allocation of resources. One of the key questions relevant to the microinsurance industry, is if microinsurance products can deliver value to the low-income population, while also being viable to the microinsurance provider.

Given that the low-income population has awareness about the microinsurance products cannot be directly translated that they have willingness to buy the product. A study by Llanto, et.al, (2006) in the Philippines, reveals that the affordability factor is a major obstacle, for low-income consumers desiring to buy insurance. This is true for Indonesia as well. A survey conducted by USAID and SEADI in 2013 revealed that 45 percent of respondents stated that a lack of money is the primary reason, they do not buy insurance products.

The affordability issue includes the premium payment, and the burden of making regular payments thereafter. In addition, most microinsurance consumers are informal worker that have irregular income, which makes it more difficult to meet regular payments. This reveals that the low-income population needs a microinsurance product, with a low premium. Low-income consumers will buy microinsurance products only if the premium paid, is equivalent to the actual claim, or future loss.

However, from the supply side (commercial insurers), the premium assessed to consumers includes transaction costs, administrative costs, and margin for the companies. In addition, since low-income consumers are more vulnerable, the claim ratio is higher, for microinsurance products. This is also relevant, to the microinsurance industry in Indonesia. Based on OJK findings (2015) microinsurance claims have increased 1155 percent from IDR40.79 billion in 2014, to 512.2 billion in 2015. The loss ratio for the microinsurance industry in 2015 was 58.45 percent, which is relatively high. These barriers have prevented other

Table 10. The Performance of Allianz’s PK Business 2006-2012

	2006	2007	2008	2009	2010	2011	2012
Premium (EUR)	3,000	17,000	70,000	150,000	215,000	370,000	865,000
Number of in force insured per 31 Dec	6,596	35,521	183,800	184,175	269,375	396,039	1,264,302
Number of MFI distribution partners	1	8	15	24	29	69	84
Claim ratios						75%	80%
13-month partner persistency		100%	100%	93%	74%	69%	90%

viable players, from entering the microinsurance industry.

Regarding this question, a report published by ILO’s Microinsurance Innovation Facility provides evidence that microinsurance is viable for insurance providers, and that it offers value to consumers. Based on the report, 33 of the world’s 50 largest insurance companies are offering microinsurance. This indicates that insurers are reasoning, that microinsurance can be viable, particularly relative to life, and personal accident insurance. Another example of the viability of the microinsurance business, is a case study by AIG Microinsurance in Uganda.

It has been reported that AIG Microinsurance covered approximately 1.6 million people, and microinsurance premiums accounted for nearly 17 percent of its Ugandan unit’s profits. A \$1,000 life insurance policy sells for \$1 a year in Uganda, making it affordable to low-income consumers. It is estimated that approximately 135 million low-income consumers worldwide, are covered by low-cost insurance. To make microinsurance viable, there are three requirements for microinsurance providers to achieve viability.

These requirements include acquiring and keeping large numbers of clients, managing claim costs effectively, and completely rethinking the traditional insurance process. From the three microinsurance providers discussed in this study, PT Allianz Utama Indonesia, has the largest microinsurance consumer base. Its famous product, *Payung Keluarga* or Family Umbrella, has attracted more than one million clients. The number of insured continuously increased from 6,956 in 2006, to 1,264,302 in 2012. Following the increase of insured, the premium also increased from €3000 in 2006, to €865,000 in 2012. The details of Payung Keluarga’s (PK) business performance is presented in the following table:

From the table above, it is revealed that there is a significant increase in the number of insured, and total

premiums from 2006-2012. Microinsurance policies account for 19 percent of total insurance policies, offered by Allianz. It can be inferred that although the premium for microinsurance product is low, however, its potential growth is promising. In addition, with the Indonesian economy steadily growing, many microinsurance consumers are expected to advance economically, in the coming years. Therefore, in terms of profitability, the microinsurance market in Indonesia is said to be appealing, since there is potential profit from sales volume, rather than profit from margin per sales.

V. Approaches to Marketing Microinsurance Products

After the discussion about several microinsurance products from three different companies, there are lessons learned, that we should note, as one of the best practices in developing microinsurance products in Indonesia. Initially, it is necessary to list possible obstacles for the industry, in marketing microinsurance products. An uneducated and dispersed geographic location of the market, are among prominent challenges, for insurance companies in Indonesia. It is also critical to consider factors that affect consumers’ level of interest in purchasing microinsurance products.

Based on the survey conducted by Asuransi Mikro Indonesia (Indonesian Microinsurance), the suitability of the product with consumer’s needs, benefits offered, and a clear understanding of the products, are among factors that could make microinsurance products appealing (Asuransi Mikro Indonesia, 2016). However, insurance companies should also consider geographical contours

of the consumer's location, especially since Indonesia's geographical profile is diverse. This could be relevant, with the types of products that consumers desire. For example, the consumer who lives in a region prone to earthquakes, will be more interested in earthquake insurance.

The insurance companies, that want to enter this market, should conduct initial market research for insight about the consumers' needs that have not been met. Since insurance is an intangible product, any product designed without market research, to understand preferences of a target market, is likely to be less appealing. Risk perception analysis, product attribute preferences, knowledge level, perceptions, attitude towards insurance, and consumer willingness to pay, are several key elements to guide a company, in designing appropriate products and marketing messages (see MicroSave Optimising Performance and Efficiency Series).

Allianz Indonesia conducted a small-scale "customer conversion" research project November 2013-December 2014, to validate the probability of marketing voluntary insurance products in addition to mandatory credit life insurance. Of the three voluntary products types that they offered (personal accident, fire with personal accident benefit, and hospital cash), personal accident was the most popular one among clients (Prasetyo, *Escaping the Credit Life Trap: Learning Diary on an Upselling Pilot Project in Indonesia*, 2015). Although other factors should be considered when designing a new microinsurance product for low-income consumers, the results of marketing research serve as key data in the decision-making process for insurance companies.

Furthermore, a market-oriented company is more likely to profit in the long-term, because they provide superior value to meet consumers' needs, know the strength and weakness of their competitors, present a new service to impact the market environment, and reveal coordinated reactions (Narver and Slater, 1990 in Kazemian et al., 2016). In addition, to expanding and improving the distributional channel, Allianz, ACA, and Prudential have collaborated with several types of institutions, such as banks, retailers, and Microfinance Institutions.

The trend also reveals that MFIs are the primary distribution partners, since MFIs have experience interacting with the low-income market. The practice lowers companies' operational costs (because it does not have to hire an insurance agent), and enables it to appeal to the low-in-

come market, in different geographic locations in Indonesia. The low-income market tends to trust MFIs, since they are familiar with MFIs. Hence, distribution partners are the key, to ensure that insurance products reach a large consumer base.

We believe that consumer education is one of the key factors that contributes to the growth of the microinsurance industry in Indonesia, since it could encourage greater demand for insurance products, and also enables consumers to buy insurance products. The only company that has implemented an education strategy for each of the products, is Allianz. For example, they provide an informational video on a mobile website, to educate GO-JEK's drivers about the health insurance plan, that Allianz provides for them.

Meanwhile, for the Family Umbrella product education, the MFI staffs are equipped with flip charts to present the product to their consumers. (Allianz SE, 2016). Therefore, insurance companies should not depend on the government, to educate potential consumers. They must be willing to make an effort in gaining low-income market knowledge, and the trust of the low-income market, in their products. It is worth noting that as the market leader in the microinsurance industry, Allianz has an aggressive strategy to develop this business unit.

They have developed microinsurance values, which are passion, quality, fairness, and transparency. These values guide them in providing the best service to low-income consumers. To further evaluate the performance of their microinsurance product, Allianz has assessment tools, for evaluating the quality of their microinsurance products. They rank their microinsurance products with scores from highest to the lowest. Therefore, Allianz can enhance features of their microinsurance products, according to results of the assessment.

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