



# Seguros para Programas de Lealtad

## Purpose

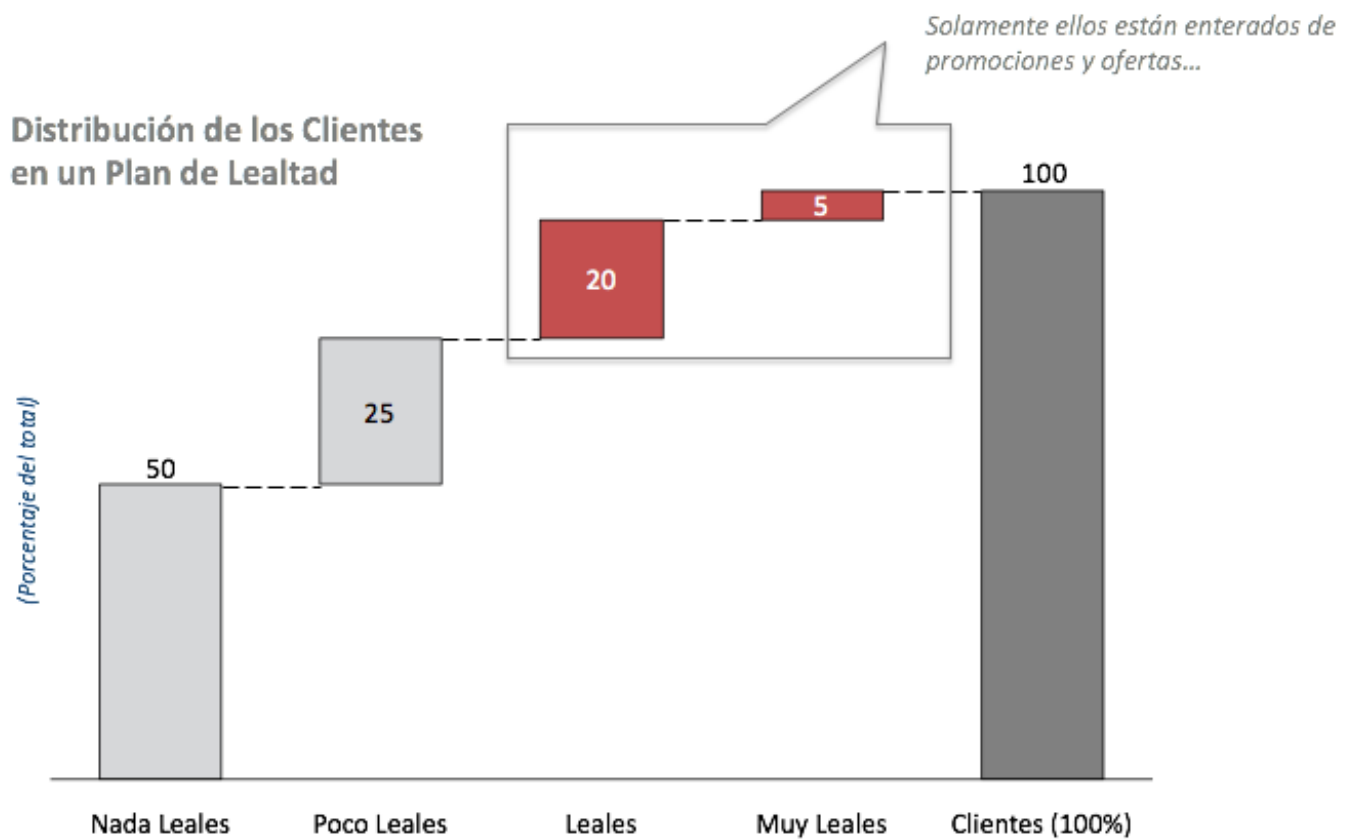
The purpose of this entry is to outline a potential product for loyalty programs in the retail industry. The product has the benefit of improving the company balance-sheet, reducing passives that are accumulated in the form of electronic cash.

## Market Issue

- Loyalty programas have become a necessary evil for any business in the retail industry, particularly with the newer generations, which is why eliminating them does not constitute a viable alternative, from the business stand-point.
- However, loyalty plans create important administrative costs that ultimately compete for scarce resources in the organization.
- Managing these passives (electronic cash transfers to costumers) can be time-consuming and and complex.
- El risk to the business is large: the passives are subject to be collected by an external party (such as the fiscal authority) or the same customers, placing in risk the cash-flow of the company.

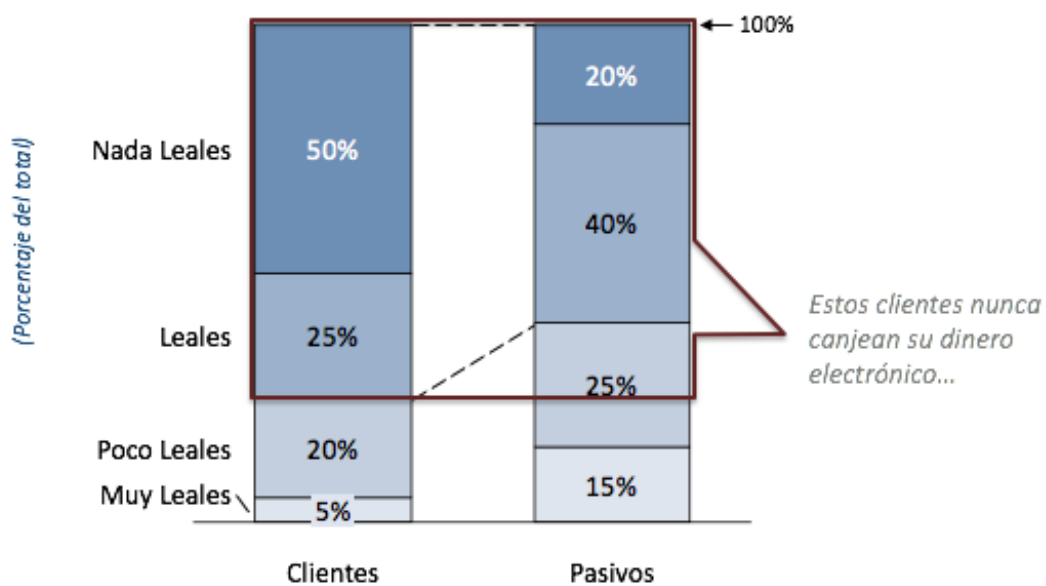
### *~ I Make up of Market*

Generally speaking, in loyalty products, few customers use the program extensively. Furthermore, if the barriers to entry are low, their existence in the program is duplicated (one customer can hold more than one card). This means that a large amount of customers are not deriving direct benefits from the company but are creating a burden.



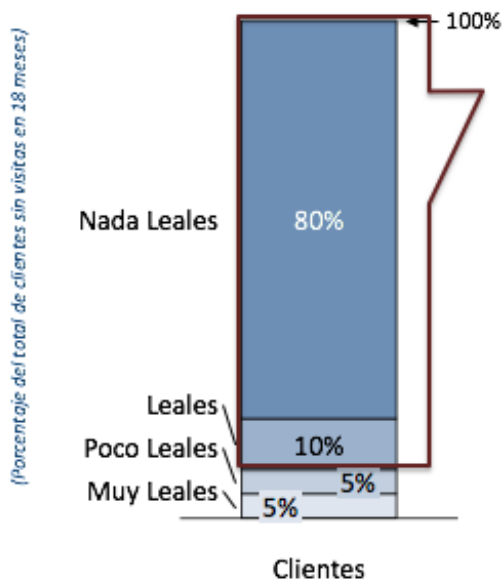
It is clearly desirable to reduce the benefits in the less profitable segment or increase the administrative costs in the highest one (in order to reduce the risk of passives).

### Distribución de los Pasivos en un Plan de Lealtad



Apart from generating few benefits, the experience derived from these programs indicate that many clients don't return constantly to the business. The rule-of-thumb to consider a customer as gone is about 18 months without any transaction, which in many businesses represents as many as 90% of it's client-base:

## Distribución de los clientes sin visitas asiduas, en un plan de lealtad



*Aproximadamente 90% de los clientes que no vuelven a visitar el negocio o vuelven en espacios muy largos (más de 18 meses), también tienen muy poco dinero electrónico.*

*Representan muchos pasivos para la empresa y pocos prospectos de negocio...*

## Product Proposal

The proposed product is a collective short-term accident insurance with *no participation* from the insured. The collective component assures the contracting party (which can be the issuing company<sup>(1)</sup>) the opportunity to cash in dividends.

The use of the product (the loyalty card) is translated into a direct payment towards the premium, starting the short-term coverage period of 60 to 120 days (depending on the cost of insuring). In some cases, this is renewable with each purchase, but not in a cumulative fashion.

The range and limited coverage allows for a very low premium, which is automatically charged as virtual benefits from the passives of the card holder.

The implications of a dividend mechanism must be considered from a legal standpoint: even if the insurance is not participative individually, the dividend could be paid in favor of the collective contracting party (the issuer of the program).

The product should be offered to the **best** customers, which generate disproportionately more passives but are also more tuned to value added benefits such as these.

## Success case

~ / Farmacias Benavides

In Mexico, Farmacias Benavides already offers a **whole accidental life insurance** in its top *tier* of cards (platinum). The insurance is highly displayed in its website:



**Disfruta de estos beneficios con tu tarjeta Beneficio Inteligente Platino**

 Seguro de vida

Seguro de vida por muerte accidental operado y a cargo de ACE Seguros, S.A.

- Hasta por \$70,000 pesos de seguro de vida por muerte accidental.
- Vigencia de 1 año para el seguro.
- Aplica en caso de muerte accidental, incluso en caso de asaltos.
- Activación automática del seguro al comprar la tarjeta y registrarse en sucursal.
- Podrás designar a tu beneficiario contactando a ACE Seguros.
- Para la reclamación del seguro, el beneficiario debe presentar la tarjeta y demostrar la relación.
- Dudas e información, comunícate a ACE Seguros en el teléfono 01 800 237 6266 o en la página [www.acegroup.com/mx-es](http://www.acegroup.com/mx-es) consulta también el aviso de privacidad de la aseguradora en dicha página.

The companies' strategy clearly consists in first segmenting its customer base, offering different levels of service: which guarantees a better distribution of the benefits and passives towards customers who generate more income.

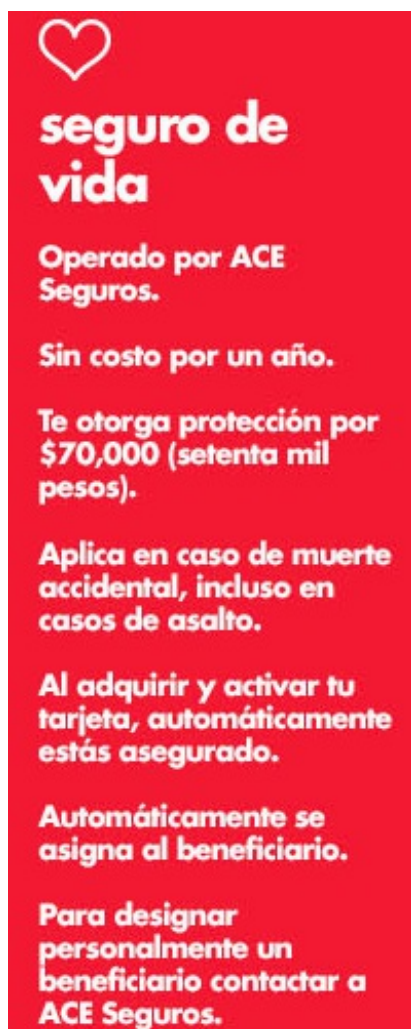
Next, a third party provides the insurance, thus saving the company any future legal inconveniences.


The total insured sum is \$70 thousand pesos (about \$4 thousand usd). These are some of the terms of the product (in spanish):

*La Aseguradora pagará la Suma Asegurada correspondiente a esta cobertura, si el Asegurado fallece a consecuencia de un Accidente cubierto dentro de los noventa (90) días siguientes a la fecha del mismo*

The entire contract can be found here (2).

Here is another poster:



  
**seguro de vida**

**Operado por ACE Seguros.**

**Sin costo por un año.**

**Te otorga protección por \$70,000 (setenta mil pesos).**

**Aplica en caso de muerte accidental, incluso en casos de asalto.**

**Al adquirir y activar tu tarjeta, automáticamente estás asegurado.**

**Automáticamente se asigna al beneficiario.**

**Para designar personalmente un beneficiario contactar a ACE Seguros.**

## Additional channels for revenue

Besides the obvious benefit of improving passive management, by an insurance scheme and the potential increase in loyalty from customers, the information that loyalty plans generate can represent an additional source of revenue for the company.

Typically, all compensation for loyalty programs are based on transactions of purchases.

With technological advances, transactions are now easily mined for insights into the behaviour of the customer. A grocery store in the United Kingdom (3) innovated by selling this information to an insurance company. This company used the information to contact potential customers with very low prices (for example, low risk customers who buy healthy foods).

Even if there is considerable debate about the ethics behind these transactions, the truth is that the end result is a win-win situation: the grocery store obtains more revenue thru a new channel, offsetting the cost of its program, the insurance company finds a new customer and the low risk individual gets a cheaper insurance.

In Mexico, the Federal Law for the Protection of Personal Data in Possession of Individuals ([LFPDPPP in Spanish](#)) prohibits some of these negotiations without the explicit consent of the individuals. However, given the correct desassociation between individual and collective data, it might be possible to sell packages of data that are still useful to insurance companies, such as consumption habits by geography or types of customers.

## Notes

- El uso de este tipo de productos es común, aunque se rige en **algunas ocasiones** bajo criterios diferentes. ↩
- También está disponible un micrositio aquí: <http://www.acegroup.com/mx-es/microsites/datos-del-seguro.aspx> ↩
- Every little helps: Loyalty cards and insurance ↩