Microinsurance Operations - Lessons Learnt and implications
The Hurdles in Micro Business

- Information Gap
- Illiterate Populace
- Infrastructure
- Accessibility & Reach
- Foolproof Identity
Twin issues of building scale and reducing costs (efficiency)

Presents a challenge for across the value chain for insurance: especially in distribution and claims handling

“Essentials” in microinsurance and requires significant ability to control and adapt... facilitative regulations can support these processes

Using technology for premium collections and for customer identification

Ultimately the success depends on how people use resources and processes based interventions .... amplifies both good and bad business practices
Two Core Questions

Client value
Whether and under what circumstances does microinsurance provide value to low-income households?
How to improve client value of products and services through implementation and innovation?

Business case
Whether and under what circumstances can microinsurance programmes be viable and sustainable for all stakeholders
How to enhance viability through processes and tools: demand enhancement, products, channels!
<table>
<thead>
<tr>
<th>Client needs: trust and active communication</th>
<th>Technology response</th>
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</table>
| Relevant processes that reflect clients capabilities and limitations | - Use of airtime for payments. Additionally mobile money, automatic renewals and debits, deduction of small amounts daily (Tigo, MTN, yuMobile)  
- Self enrolment |
| Human connection: repeated contact, responsiveness, reminders and physical presence | SMS messages, call centres, automatic call-backs (yuMobile, Tigo) |
| Tangible benefits throughout the policy duration | - Reduction in turnaround times, faster policy confirmation, filing, approval and claim settlement (Kilimo Salama, Tata-AIG)  
- Updates on triggers & claims status (Weather Index insurance) |
Use technology without losing client ‘touch’

From high- to low-touch client relationships

TIGO Family Care, Ghana
- More than 1 m lives
- 93% never had insurance before
- 94% understands the policy

YuCover, Kenya
- 0.7 m prequalified
- 46% failed in registration process due to low understanding, while 35% because of technical problems
- 87% didn’t fully understand the product
# Mobile phones across the value chain

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<thead>
<tr>
<th></th>
<th>Product design</th>
<th>Sales</th>
<th>Enrolment</th>
<th>Premium collection</th>
<th>Policy admin</th>
<th>Claims processing</th>
<th>Value added services</th>
<th>Data analysis</th>
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<tbody>
<tr>
<td>Client’s transactional data</td>
<td>✔️</td>
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<td>Retail sales and distribution</td>
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<td>Airtime dealers, mobile money</td>
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<td>Communication channels</td>
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<td>Voice, SMS, USSD</td>
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<td>Pre-and post-paid airtime, mobile money</td>
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Distribution through alternate channels
Business Correspondents
Distribution through alternate channels
Retailers

Cater to multiple customer needs - Customer spends time in the outlets
Certificate

Instant issue upon sale

Policy no. printed...can be used for claims
Some insights- BCs and retailers

- Customers trust retail merchant shops more than individual agents

- Selling insurance - challenge without any other activity

- Simpler products build confidence and understanding with both agents and customers in the early stages
  - PA- 45,000 policies; Hospital cash- 2000 policies

- Technology-assisted training can allow significant time and cost savings
Using Smart cards - identification and claims settlements

Converting a large manual plastic card driven health insurance scheme to biometric smart cards

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<tr>
<th></th>
<th>Plastic Cards</th>
<th>Smart Card</th>
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<tbody>
<tr>
<td>Processing of enrollment forms</td>
<td>21 days</td>
<td>15 min</td>
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<tr>
<td>Handing over cards to clients</td>
<td>21-30 days</td>
<td>15 to 30 min</td>
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<tr>
<td>Availability of enrollment data</td>
<td>30 to 60 days</td>
<td>1 day</td>
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<tr>
<td>Authorization of treatment</td>
<td>4 to 24 hours</td>
<td>Instant, on-line</td>
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<tr>
<td>Reimbursement of claims to clients</td>
<td>over 30 days</td>
<td>Fully cashless</td>
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<tr>
<td>Payment To Hospital</td>
<td>No time limit</td>
<td>15 days</td>
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<tr>
<td>Client balance enquiries</td>
<td>15 days</td>
<td>5 min</td>
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<tr>
<td>Availability of claims data</td>
<td>30 to 60 days</td>
<td>15 minutes</td>
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Claims – through relevant channels

Role for distribution channels

- Improves trust
- Enhanced value for customers
- Common point of contact
  Bolivia - MFI paying claims in advance
  Jordan - claims approval was actually delegated to the MFI!
Local community’s involvement

- Local understanding and trust
- Develops relevant processes
- Appropriate risk identification
- Avoids adverse selection
- Prevent “wrong” claims
Competition rationalizes pricing, motivates innovation and client focus

CARD, CLIMBS, PPLIC, TSPI, MicroEnsure
Claims & Expense Ratios 2008-2012

- Expense Ratio
- Loss Ratio
- Combined Ratio
Scale – critical for sustainability

Where is scale being achieved?

Of the 95 microinsurance initiatives that have achieved scale:
- 18% in Latin America
- 25% in Africa
- 53% in Asia
What products have achieved scale?

- 72% schemes offer some voluntary products
- 50% of all products are Life (life, funeral or credit life)
- 50% do not have subsidies
On client value: Lower out-of-pocket spending

15 studies linked microinsurance to a reduction of expenditures.

Reduction in expenditures was also found in Cambodia, Ghana, India, Rwanda, Senegal, and Vietnam.

44% average decrease found in treatment costs for a community health scheme in Cambodia (Levine and Polimeni, 2012).

In China, however, no impact on expenditure was found (Lei and Lin, 2012).

Percentage difference between out-of-pocket costs incurred by insured and uninsured people, as a percentage of costs incurred by the uninsured (not including premium cost):

- Kenya (hospitalization, Afya Yetu): 88%
- Colombia (funeral): 79%
- India (hospitalization, Grameen): 62%
- Tanzania (outpatient health-curative): 60%
- Guatemala (outpatient health-preventive): 37%
- Nigeria (outpatient health-chronic): 35%
- Kenya (hospitalization, Majani): 33%

Source: MILK Briefs #8, 11, 12, 22, 24, 28, 29.
On client value: Lower reliance on burdensome coping strategies

7 studies linked the adoption of microinsurance to the reduction of costly risk-coping strategies such as:

- Livestock insurance in Kenya: 29% less asset selling
- Health insurance in India: 33% less borrowing
- Health insurance in Pakistan: 7% less child labour

On client value: Better financial choices in the absence of a shock

8 studies found an improvement in agricultural production due to microinsurance.

Higher investments and outputs were found in China, Ethiopia, India, and Ghana.

In China, insurance was responsible for a 27% higher investment in cross-bred pigs among policyholders (Chen et al., 2013).

In Ghana, insured farmers increased expenditure on fertilizer by 24% and the area of land cultivated by 17% (Karlan et al., 2012).
On client value: Increase in access and utilization of health services

- 20 studies found an increase in the use of health services.
- An average increase of 15% for a community-based health scheme in Nigeria (Gustafsson-Wright, 2013).
- In China, self-medication was reduced by 2/3.
- In India, an OP community scheme was found to reduce days of hospitalization and health expenses (Mahale et al., 2013).
- In Rwanda, children covered by the Mutuelles de Santé were 22% more likely to receive treatment when sick than non-insured (Binagwaho et al., 2012).
- In Kenya, however, no significant improvement in utilization of health facilities was found (Dercon et al., 2012).
Technology assisted business case: IFFCO-Tokio

- RFID chips reduce claims ratio to 35% from 150 to 300%, resulting in a combined ratio of 118%
- Lower transaction costs for farmers
- Faster claims processing (8-30 days)
- Acceptance by farmers and banks
There are certain solutions that are worth testing

- Bundle with financial services
- Use technology without losing client touch
- Include value-added services

...... Encouraging initial results of “disruptive” interventions...... Can regulations facilitate faster adoption....
“Vulnerability and poverty go hand in hand, but microinsurance holds out the promise of breaking a part of the cycle that ties them together.”

Jonathan Morduch, Economist, New York University

Thank you!

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Competition drives differentiation

Competition often has a positive effect

- Market development
- Value for end client.....

leads to improving benefits and services

Compete not just on price but on quality of services
Different patterns

**Upper and Middle Income**

**Income Function**
- Receive Salary

**Financial Management Function**
- Allocate net income to manage debt, savings, investment

- Cash flows: regular, orderly
- Financial decisions: large, infrequent, analytical
- Requires: specialized knowledge and analytic skills
- More like strategic planning

**Low Income**

- Earning and investing are a continuous, inseparable cycle

- Cash flows: frequent, chaotic
- Financial decisions: small, daily
- Requires: discipline
- More like managing your diet

Source: BFA, 2013