

Value and viability of microinsurance: In search for the magical balance

Craig Churchill
International Actuary Association
Zurich, April 2015



AGENDA

A. Does microinsurance provide client value?



B. Is microinsurance viable?



C. Magical Balance



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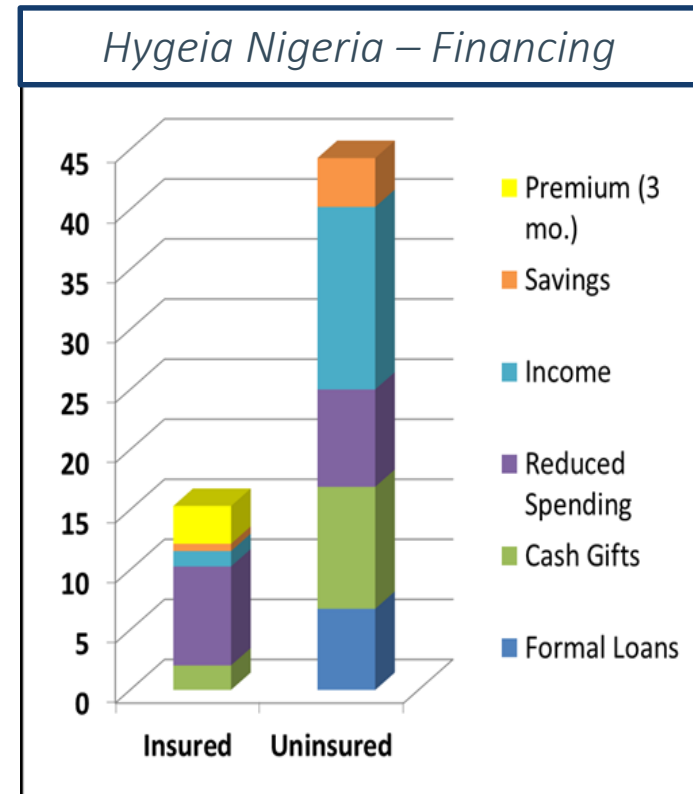
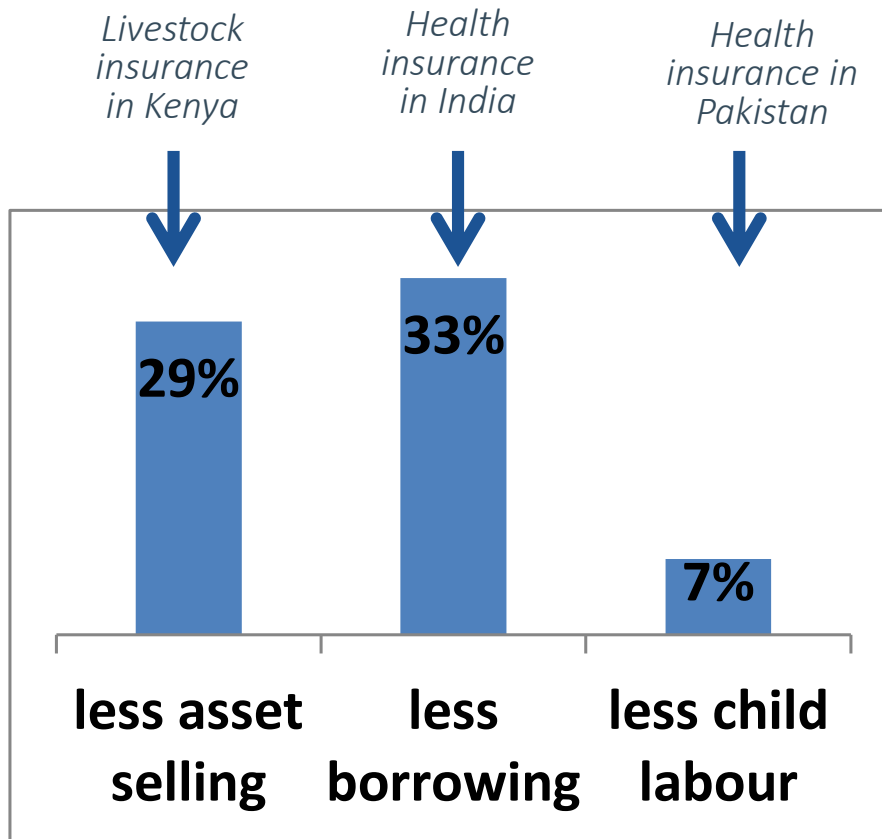
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C. Magical Balance



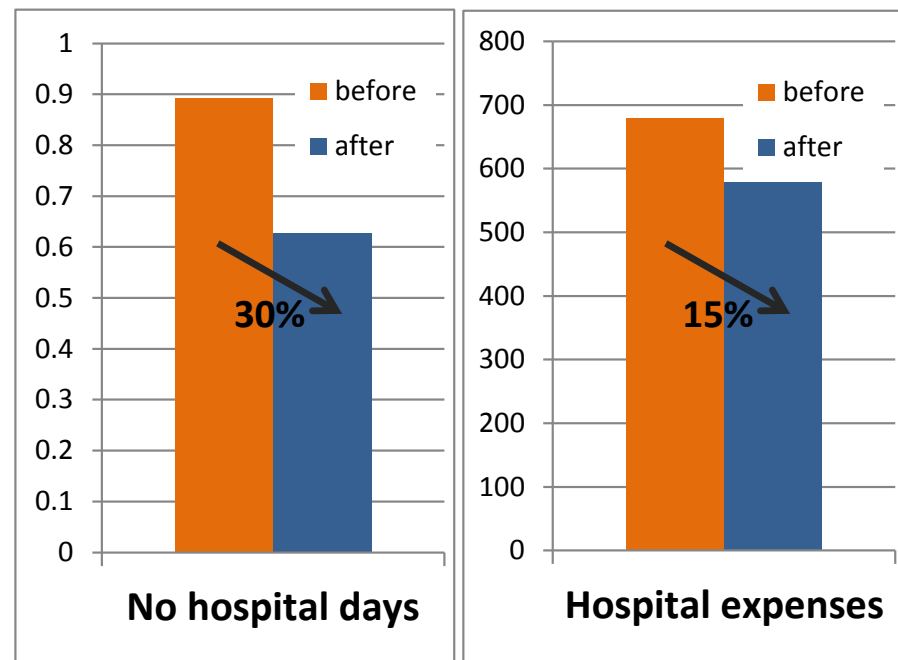
Microinsurance can reduce usage of burdensome coping mechanisms



Microinsurance improves access and utilization of health services

- *China*: reduction of use of **self-medication** by two-thirds
- *Rwanda*: 24% use more **modern healthcare**
- *India*: CARE Foundation shows that **early treatment** through community OP scheme reduces number of days in hospital (30%) and hospitalization expenses (15%)

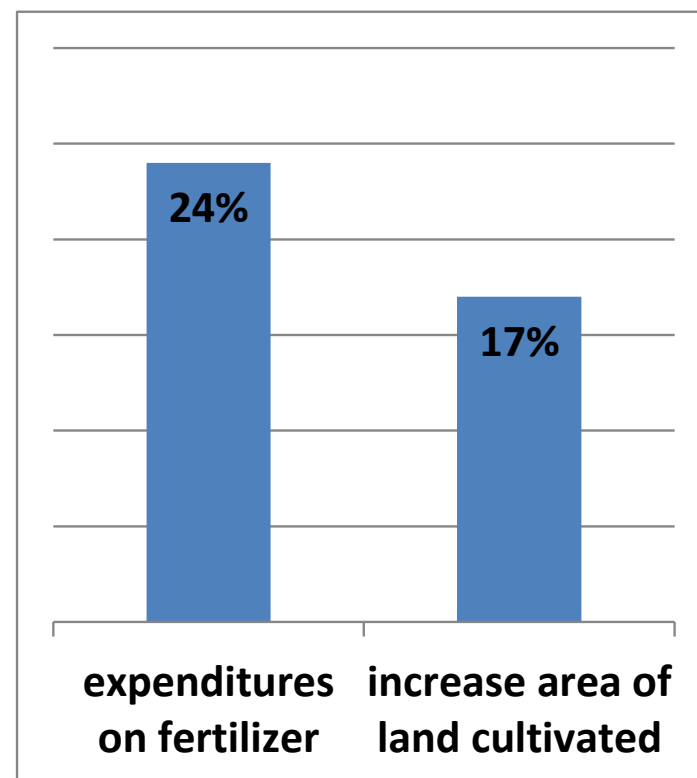
CARE Foundation – Early treatment impacts



Microinsurance can stimulate investment

➤ Ghana: increases in expenditures on fertilizer and land cultivated among insured farmers →

➤ China: 27% higher investment in cross-bred pigs among holders of swine insurance



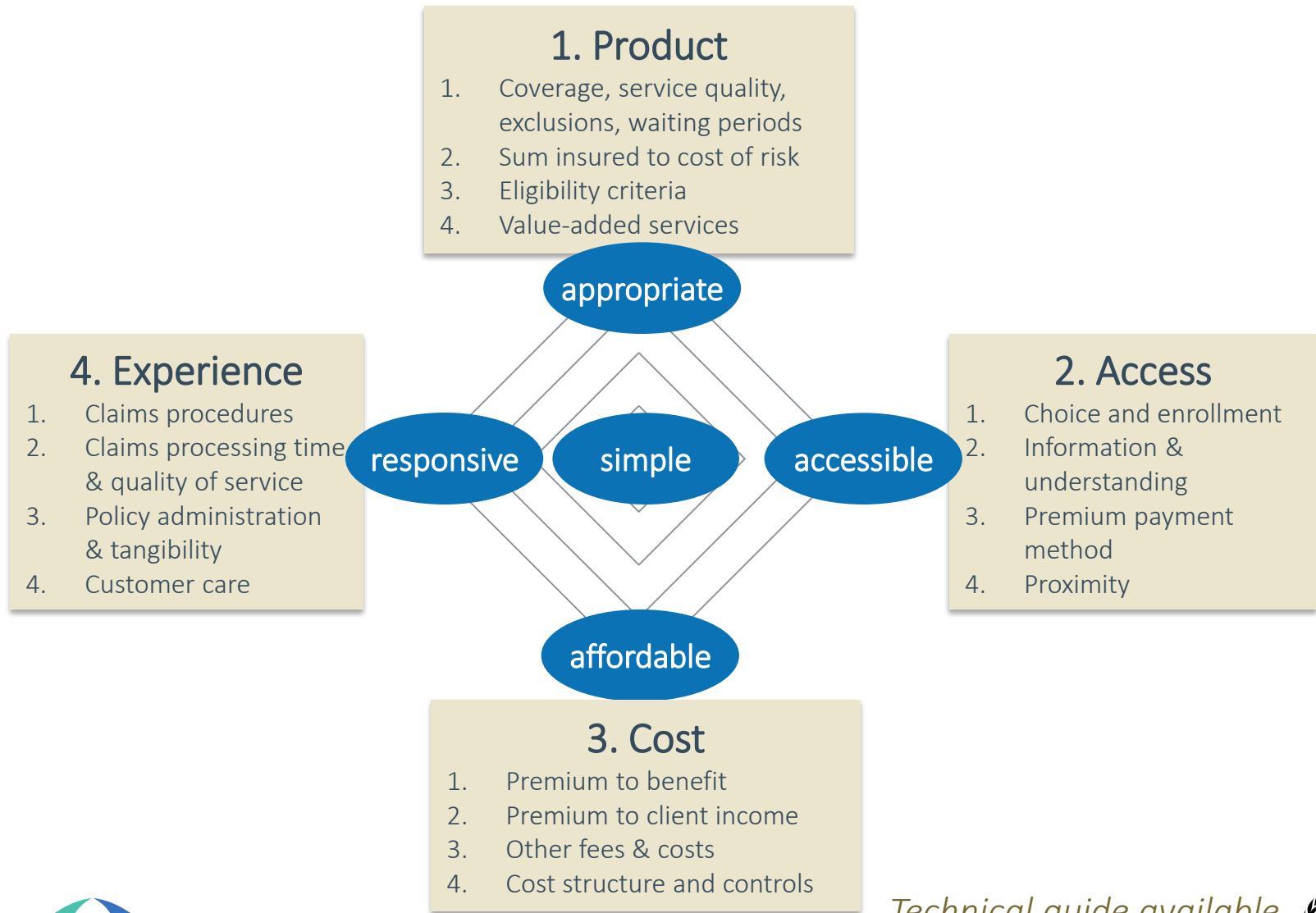
Overview of recent impact results

*Outcomes &
Impacts*

Evidence available

Financial protection		
Lower out-of-pocket expenses	15 😊😊😊	5 😞
Less burdensome risk-management strategies	12 😊😊😊	
Higher investment and production	10 😊😊	
Better health		
Access to health services	7 😊😊	
Utilization of health services	14 😊😊😊	3 😞
Improved health outcomes	10 😊😊	4 😞

PACE value assessment



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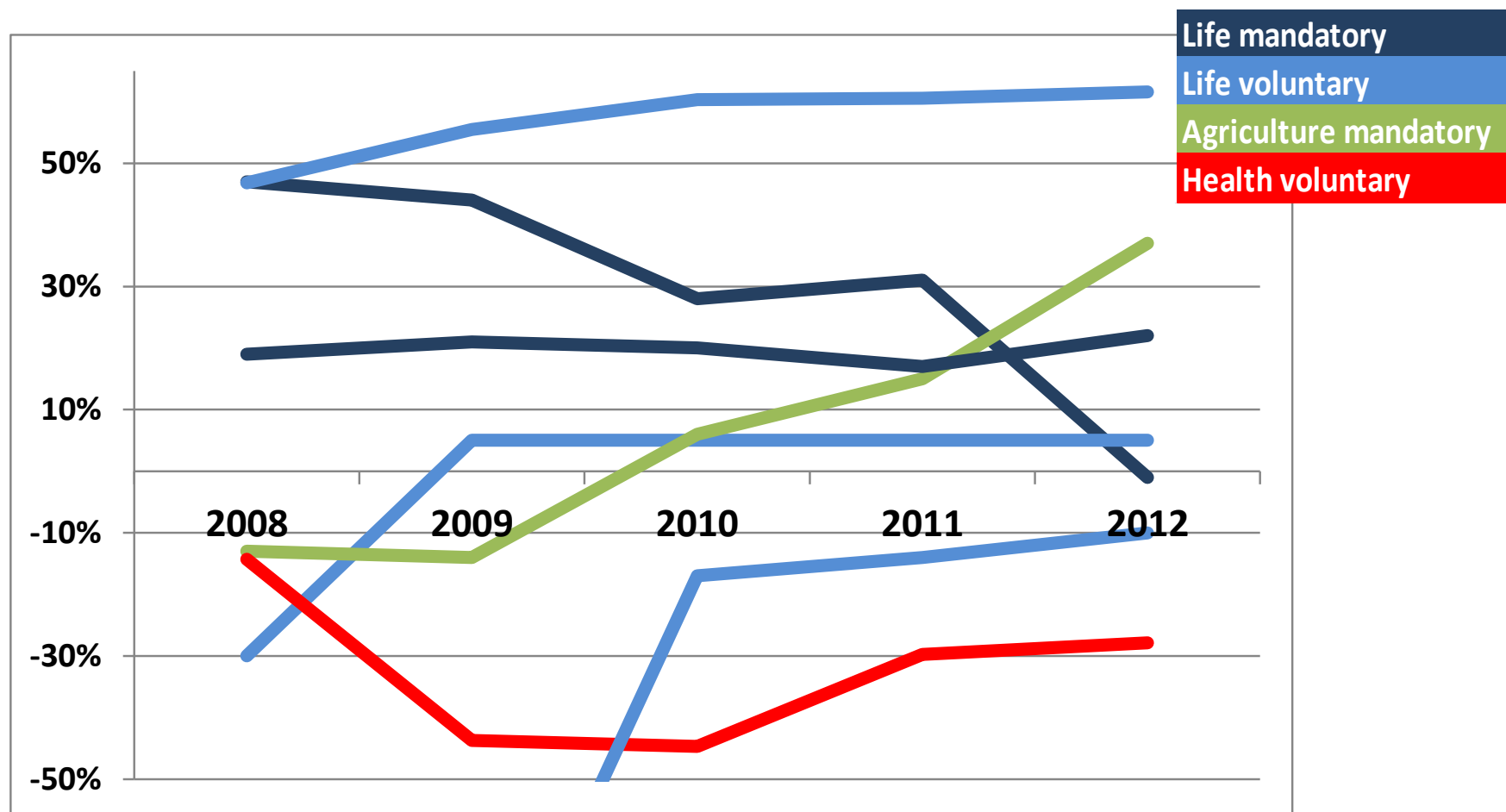
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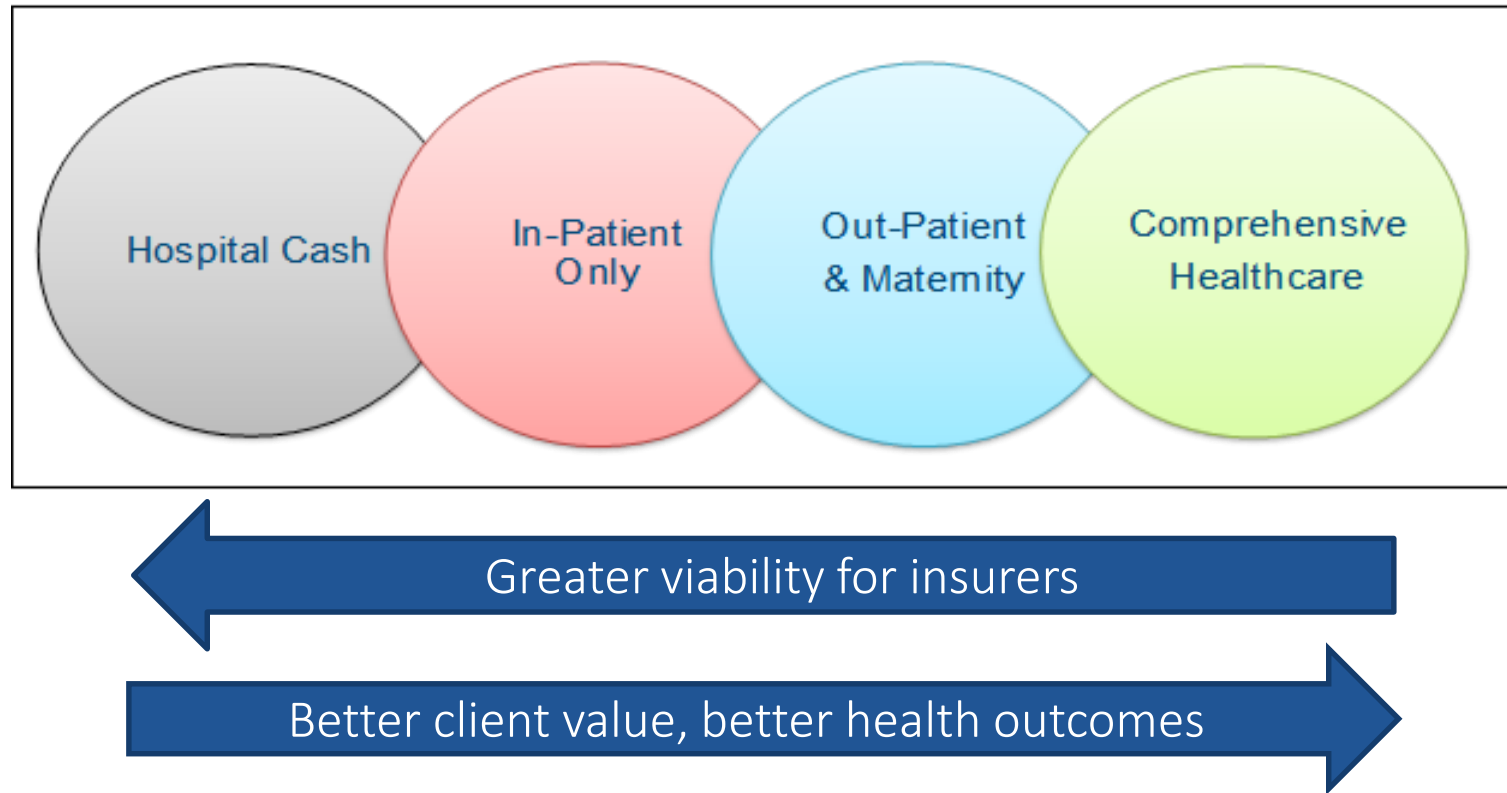


Profitable? It depends...



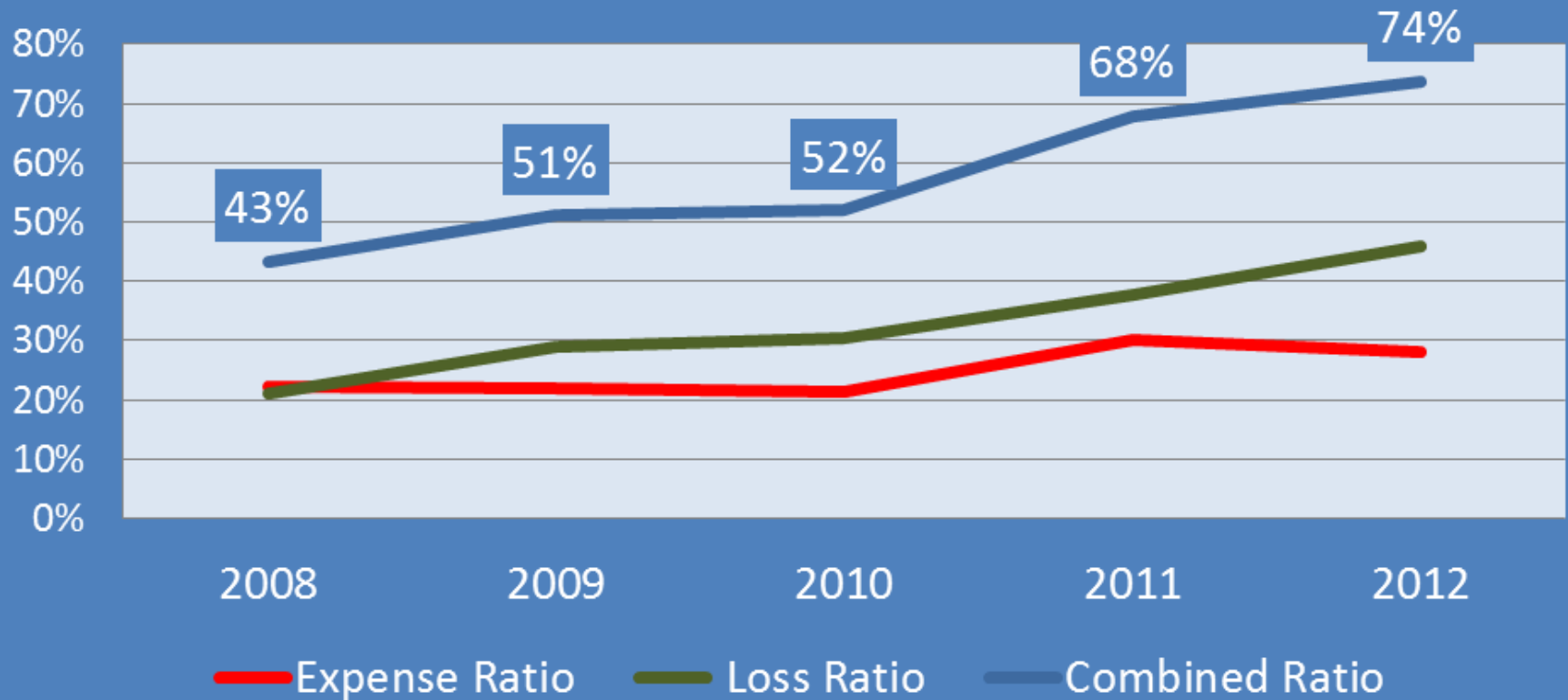
Gross Profit Ratio from selected schemes

Health insurance dilemma



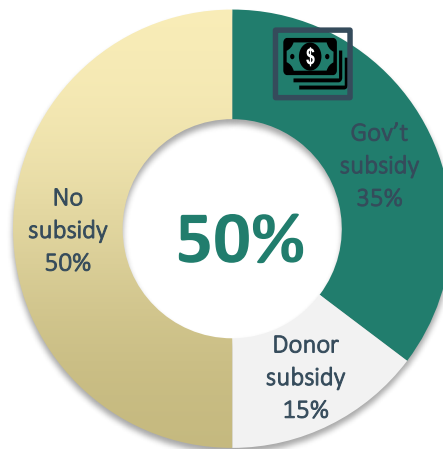
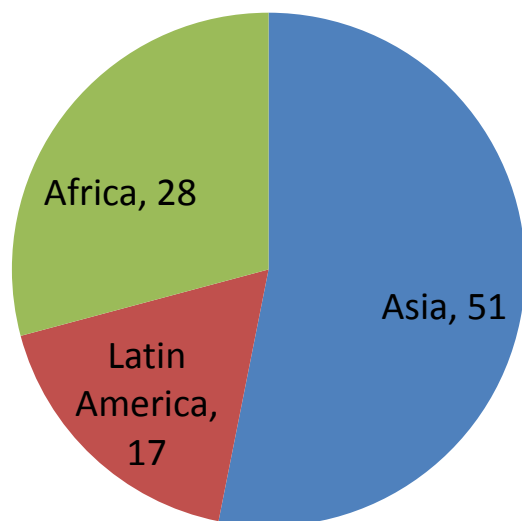
Competition rationalizes pricing, motivates innovation and client focus

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



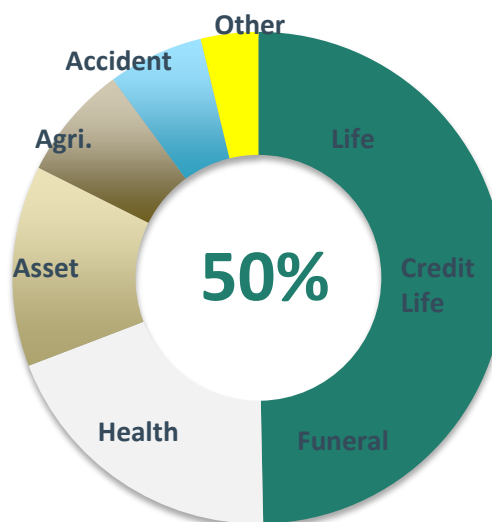
Scale: Proxy for viability? Precondition?

Number of large schemes



Subsidies?

- 50% do not have subsidies



Product Type?

- Life (life, funeral or credit life) dominates the market with 50% of the products
- Subsidised space dominated by health

Key lessons on viability

- Term life, funeral and personal accident insurance tends to be profitable; group products, especially mandatory or automatic covers, often generate surpluses
- Comprehensive health insurance is difficult...subsidies may be necessary for health and agriculture
- Competition in a maturing MI market rationalizes pricing, motivates innovation and client focus
- A long-term perspective with a view of the whole value chain is required
- Scale is critical to the business case since it drives unit costs down allowing a viable product.

Main microinsurance motivations

- Corporate social responsibility
- New market opportunity
 - Pull: growth with unserved market segments
 - Push: competitive pressures in traditional market
- Establish brand loyalty with emerging consumers
- Reverse innovation

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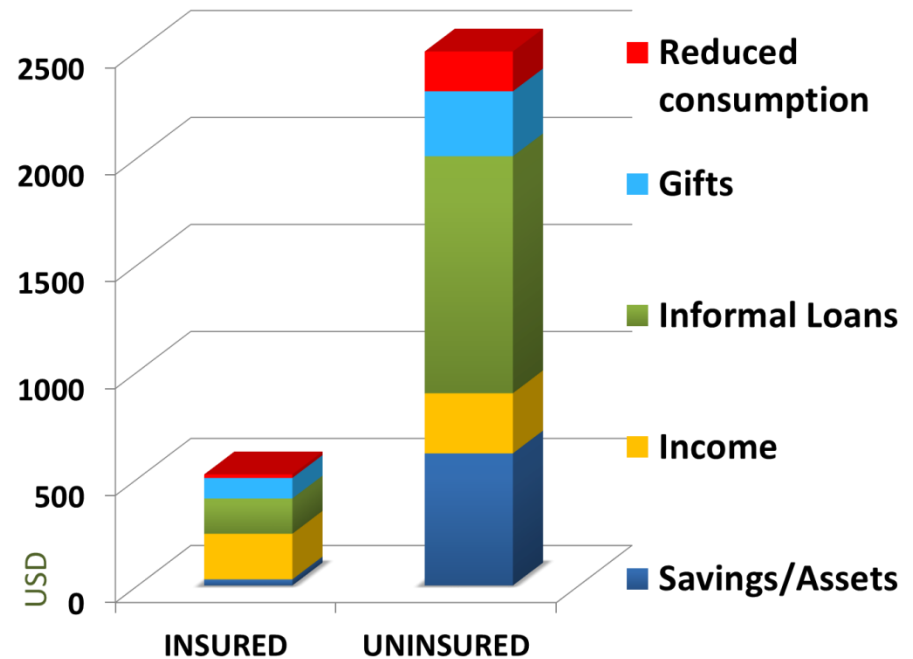
IFFCO-Tokio: Front-end technology



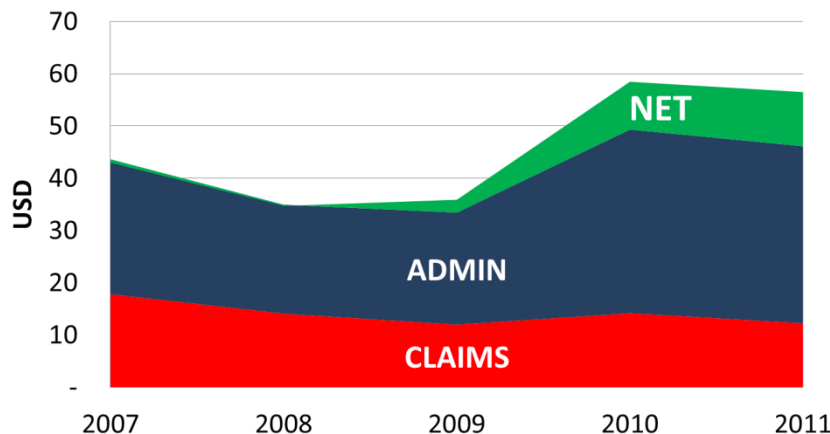
- RFID chips reduce claims ratio to 35% from 150 to 300%, resulting in a combined ratio of 118%
- Lower transaction costs for farmers
- Faster claims processing (8-30 days)
- Acceptance by farmers and banks

Funeral in Colombia

- Clear value compared to uninsured
- Insured retain savings, limit borrowing costs, and have little reduced consumption



Mapfre Micro Funeral Cover
2007-2010 (per policy)



- Profitability took several years
- Very high admin due to distributor fees
- Low claims ratio

ICICI Lombard: claims strategies

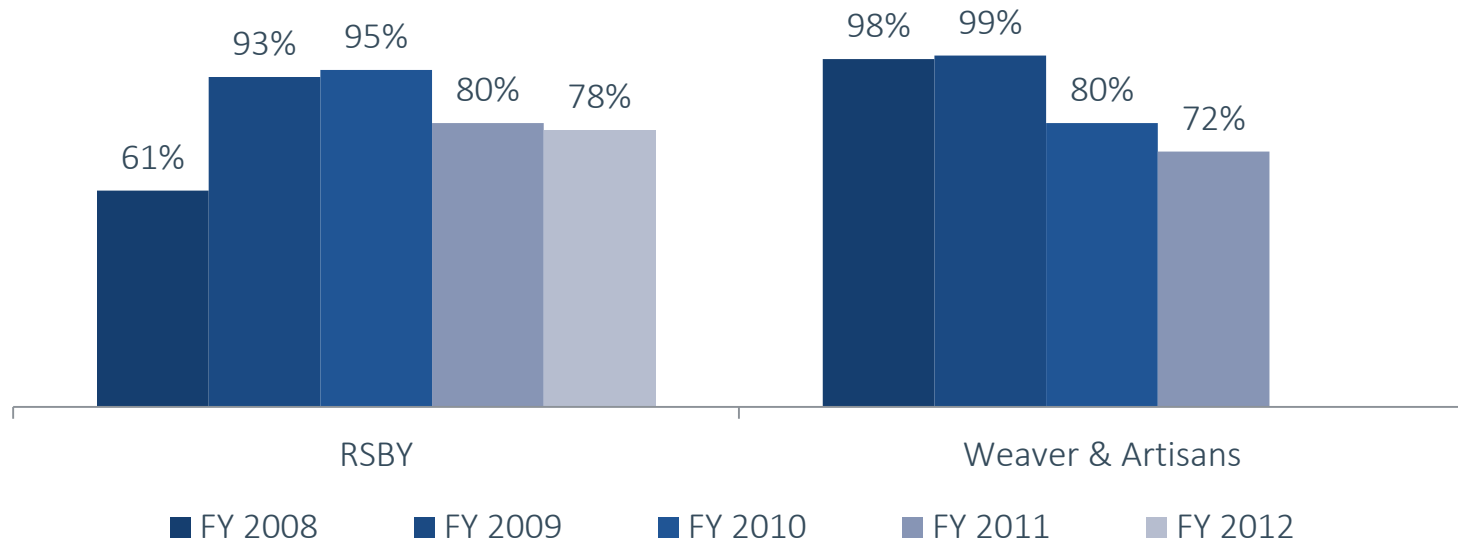
Scale on
technology
platform
(smart card based)

Quality
empanelment
(grading hospitals)

Efficient claims
management
process
(in-house TPA)

Fraud controls
(fraud triggers and
internal surveillance
team)

Gross Loss Ratio



Reduction in claims turn around time: 65->25 days



Other examples

Demonstration cases for *improved client value and business viability*:

- *Haiti*: new claims processes for catastrophic insurance
- *South Africa*: repositioning life and funeral products to reduce costs
- *India*: demonstrating the cost-benefit of adding *outpatient benefits* to the government's hospitalization scheme for the poor
- *Various countries*: enhanced access through *alternative distribution* (e.g. retailers, mobile phone companies, banking correspondents)



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www.ilo.org/impactinsurance

Contact us at: Craig Churchill
churchill@ilo.org
+41 22 799 6242

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