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

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International Actuary Association
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A. Does microinsurance provide client value?

B. Is microinsurance viable?

C. Magical Balance
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Microinsurance can reduce usage of burdensome coping mechanisms

Livestock insurance in Kenya

- Less asset selling: 29%
- Less borrowing
- Less child labour: 7%

Health insurance in India

Health insurance in Pakistan

- Premium (3 mo.)
- Savings
- Income
- Reduced Spending
- Cash Gifts
- Formal Loans

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%)

Sources: Yip et al. (2009), Binagwaho et al. (2012), Mahal et al. (2013)
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

Sources: Karlan et al. (2012), Chen et al. (2013)
# Overview of recent impact results

## Outcomes & Impacts

### Financial protection

<table>
<thead>
<tr>
<th>Impact</th>
<th>Evidence available</th>
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<tbody>
<tr>
<td>Lower out-of-pocket expenses</td>
<td>15 ☺☺☺☻</td>
</tr>
<tr>
<td>Less burdensome risk-management strategies</td>
<td>12 ☺☺☺</td>
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<tr>
<td>Higher investment and production</td>
<td>10 ☻☻</td>
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### Better health

<table>
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<tr>
<th>Impact</th>
<th>Evidence available</th>
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<tr>
<td>Access to health services</td>
<td>7 ☻☻</td>
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<tr>
<td>Utilization of health services</td>
<td>14 ☺☺☺</td>
</tr>
<tr>
<td>Improved health outcomes</td>
<td>10 ☻☻</td>
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PACE value assessment

1. Product
   1. Coverage, service quality, exclusions, waiting periods
   2. Sum insured to cost of risk
   3. Eligibility criteria
   4. Value-added services

2. Access
   1. Choice and enrollment
   2. Information & understanding
   3. Premium payment method
   4. Proximity

3. Cost
   1. Premium to benefit
   2. Premium to client income
   3. Other fees & costs
   4. Cost structure and controls

4. Experience
   1. Claims procedures
   2. Claims processing time & quality of service
   3. Policy administration & tangibility
   4. Customer care

- appropriate
- responsive
- simple
- accessible
- affordable

Technical guide available at our website
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Profitable? It depends…

Gross Profit Ratio from selected schemes

Adapted from Angove and Dalal (2014)
Health insurance dilemma

Greater viability for insurers

Better client value, better health outcomes
Competition rationalizes pricing, motivates innovation and client focus

Card, CLIMBS, PPLIC, TSPI, MicroEnsure

Claims & Expense Ratios 2008-2012

- Expense Ratio
- Loss Ratio
- Combined Ratio

Study done by Microinsurance Centre
Scale: Proxy for viability? Precondition?

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

Subsidies?
- 50% do not have subsidies

Number of large schemes
- Asia, 51
- Latin America, 17
- Africa, 28

Source: Study by Cenfri commissioned by ILO
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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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

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

Mapfre Micro Funeral Cover 2007-2010 (per policy)

Study done by Microinsurance Centre
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

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<tbody>
<tr>
<td>RSBY</td>
<td>61%</td>
<td>93%</td>
<td>95%</td>
<td>80%</td>
<td>78%</td>
</tr>
<tr>
<td>Weaver &amp; Artisans</td>
<td>98%</td>
<td>99%</td>
<td>80%</td>
<td>80%</td>
<td>72%</td>
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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)
Thank you!

With generous support from:

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