SOCIAL PERFORMANCE INDICATORS FOR MICROINSURANCE

A HANDBOOK FOR MICROINSURANCE PRACTITIONERS

Social Performance Indicators for Microinsurance is published by ADA in collaboration with BRS, GIZ, Grameen Crédit Agricole Microfinance Foundation and the Microinsurance Network.

This handbook is written by Thérèse Sandmark based on the results from two workshops in 2010 and 2012 on Social Performance Indicators for Microinsurance with a representative group of microinsurance practitioners. The handbook was shaped thanks to extensive and valuable inputs from and Anton Simanowitz, Cécile Lapenu, Florent Bédécarrats, Jennifer Hennig, Matthew Genazzini and Bert Opdebeeck.

A special thanks goes to the participants of the two workshops on Social Performance Indicators for Microinsurance, the members of the Performance Working Group of the Microinsurance Network and all those who provided valuable comments and feedback on the preceding publications on social performance indicators for microinsurance. We encourage readers to contribute further learnings on the social indicators by providing feedback and comments to info@microfact.org

Social performance indicators for microinsurance are closely linked to the financial performance indicators for microinsurance. Chapters on existing principles and indicators have been reproduced and adjusted where applicable from the handbook Performance Indicators for Microinsurance – A Handbook for Microinsurance Practitioners (2nd Edition) by John Wipf and Denis Garand, published by ADA with the support of BRS and the Microinsurance Network.

For more information on performance indicators for microinsurance, visit the dedicated website www.microfact.org or the Performance Working Group page on www.microinsurancenetwork.org

DTP - www.123concept.lu

Foreword

Microinsurance represents an opportunity for low-income families and groups to manage their financial vulnerabilities. This potential is best realised when microinsurance goes beyond traditional notions of premium and claims to offer value for money and products tailored to the specific needs, expectations and understanding of low-income families and groups.

Uplift Mutuals started about a decade ago with the vision that families should be able to manage their health risks. Our ambition to continually improve our products and services to better serve our clients in this direction led us to start monitoring and analysing both financial and social data.

Collecting, analysing and sharing data on a periodic basis has fostered a learning curve for Uplift. Taking constant feedback from our members and tracking data information diligently over the years has helped us not only refine a suitable product for our members, but also establish trust and ownership in the Uplift model and thus improve our financial performance and growth.

The monitoring was initially intended for financial and insurance purposes and allowed us to check whether our products and services were appreciated by the Uplift members. Over time, the regular monitoring coupled with member feedback, enabled us to improve our claims rejection ratio and renewal ratio, and increase our product coverage.

This is exactly what the social performance indicators, which are part of a larger social performance framework, intend to do. They will enable practitioners to see for ourselves if our microinsurance products and services are making sense to our clients: are we providing value for the small premium paid? Are we efficient? Are we effective? This is certainly not limited to donor interest as it will help build client trust, which is critical to the success of microinsurance.

With over 30 practitioners participating in defining the social performance indicators and numerous others testing it, the set of social performance principles, guidelines and indicators, which comes together in one framework, track the "Client Value" latent in microinsurance. The efforts of the Microinsurance Network to involve practitioners from the world over in this process are laudable.

These social performance indicators are still in their primary stage of development and it will depend on practitioners' world over to make them more relevant to our context and improve them further through grass root experiences. It would also be very welcome if as a future course of action, microinsurance clients themselves are associated in improving these indicators.

Microinsurance is a very nascent market and still too supply-led. It will be years before this market matures and to ensure we remain true to client value, the social performance indicators are a good beginning.

Kumar Shailabh
Uplift Mutuals
www.upliftmutuals.org

List of acronyms

ADA	Appui au Développement Autonome
BPL	Below the Poverty Line
BRS	Belgian Raiffeisen Foundation
CARD MBA	Centre for Agriculture and Rural Development Mutual Benefit Association
CGAP	Consultative Group to Assist the Poor
CIC	Cooperative Insurance Company of Kenya
CIF	Confédération des Institutions Financières
GCAMF	Grameen Crédit Agricole Microfinance Foundation
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFC	International Finance Corporation
ILO	International Labour Organization
KPI	Key Performance Indicator
MFI	Microfinance Institution
MIS	Management Information System
MUSCCO	Malawi Union of Savings and Credit Cooperatives
NWTF	Negros Women for Tomorrow Foundation
NGO	Non Government Organisation
PPI	Progress Out of Poverty Index
PAT	Poverty Assessment Tool
SHG	Self Help Groups
SMART (indicators)	Specific, Measurable, Attainable, Realistic, Timely
SPM	Social Performance Management
USSPM	Universal Standards for Social Performance Management

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Introduction

Microinsurance pioneers and practitioners frequently underline their social focus but are often unable to support these intentions with figures and adapted reports. The social performance indicators presented in this handbook allow practitioners to go beyond good intentions by monitoring and documenting their social performance and improving their operations accordingly.

This handbook describes a framework, which includes a set of principles, guidelines and key performance indicators, that is designed to support microinsurance practitioners to monitor, improve and champion social performance. The 10 social key performance indicators provide insight into four dimensions of social performance for microinsurance. Each dimension is defined by a principle and completed with a set of concrete and practically focused guidelines. The social performance indicators are closely linked to the financial performance indicators for microinsurance and provide a balanced view on the overall performance of microinsurance operations, taking both financial and social dimensions into account.

The social performance indicators described in this handbook are the result of a two year sector wide consensus building process led by the Performance Working Group of the Microinsurance Network, in which a fair representation of microinsurance practitioners from different geographic zones, organisational types and product lines took the lead role. This sector-wide participatory approach ensures that the social key performance indicators are applicable to all microinsurance providers, irrespective of legal structure, environment, delivery model and type of microinsurance product offered. It is an important milestone, as the creation of a common language when referring to social performance will contribute to a more transparent and effective microinsurance sector.

At the request of the workshop participants, the social performance indicators take a practical focus and are primarily intended for managers of microinsurance programmes seeking to track, demonstrate and enhance the social performance of their operations. Microinsurance operators also underline the importance of the indicators' applicability and relevance to management reporting, as well as for parameters of good practice to be established through principles and guidelines. A key criterion in the selection of indicators was therefore that they could be generated on a regular and consistent basis, as well as that they should be specific, measureable and time-bound.

Following a short introduction to social performance for microinsurance the main focus of this handbook is to present the social performance framework as a set of principles, guidelines and key performance indicators. For each principle, guideline and indicator there is a definition, explanation and finally, an interpretation of its significance.

Financial key performance indicators

In 2007 a standard set of financial performance indicators was established and has been promoted ever since in the microinsurance sector by the handbook Performance Indicators for Microinsurance, the microinsurance factsheet, the website www.microfact.org, presentations, workshops on the key performance indicators and the KPI assistance project. There is a wide acceptance of the key performance indicators as ever more microinsurers, funders and regulators integrate them into their operations.

To learn more about the financial key performance indicators and updates on the social performance indicators, visit www.microfact.org

What is social performance in microinsurance?

This section provides a brief introduction to the characteristics of microinsurance and the factors that need to be considered in developing social performance indicators for the sector.

Characteristics of microinsurance

When discussing social performance, reference to the microfinance sector is often made as it has put a lot of effort in developing social performance indicators for microfinance. Nonetheless, the very specific characteristics of the microinsurance sector do not allow a simple replication of the microfinance social performance tools and standards. In order to develop a framework to monitor social performance adapted to the microinsurance sector, it is important to understand some of the sector's specific characteristics.

First of all in microinsurance there are often multiple partners involved in the implementation. Typically, a microinsurance scheme involves the following roles:

- The **delivery channel** is responsible for the delivery and marketing of products to the clients. This role is typically carried out by a microfinance institution, an NGO, a mutual or community based organisation, or in some cases a third-party healthcare provider, or even a telecommunications operator or agricultural inputs and service suppliers. On top of bringing the product to the market, the delivery channel is also the point of contact with the client.
- **Product development** can be internalised by a delivery channel or an insurance company but is often carried out by a broker or NGO.
- An insurance company in partnership with a re-insurance company is the typical **financial risk carrier** of the product. In the case of a mutual, the risk is carried by the member organisation itself.
- **Complementary services** such as education and community training is often built into microinsurance schemes. These activities are often implemented by partnering NGOs.

Although one organisation can integrate all of these roles, it is rarely the case. This is the reason why social performance in microinsurance is better analysed at the product level, across all partners involved, rather than at the institution level.

Microinsurance is also characterised by its product diversity and complexity. Microinsurance, like regular insurance, offers protection against a wide variety of risks, including both life risks (illness, injury or death) and non-life risks (property damage or loss). A wide variety of microinsurance products exist to address these risks, each one with its own level of complexity, including livestock insurance, insurance for theft or fire, health insurance, life insurance, disability insurance, insurance for natural disasters, etc.

Due to the characteristics of microinsurance, involving multiple partners and delivery models as well as a variety of product lines, the social performance indicators described in this handbook primarily focus on the product and its purpose, and secondly on the relevant organisations' mission.

Definition

Social performance for microinsurance is defined as:

The effective design and delivery of products that create value for low-income people by allowing them to more effectively manage risk.

Social performance for microinsurance has been divided into the four dimensions:

- **Product value** - The product provides the client with appropriate and effective risk coping mechanisms.
- **Client protection** - The insured are treated fairly and respectfully.
- **Inclusion** - The product aims to include the less privileged.
- **Social performance management** - The microinsurer's institutional system enables social performance management.

Why is social performance important?

Households, particularly vulnerable and low-income households, are exposed to several risks such as illness, death, natural disasters or crop failure. The impact of such events can cause both the loss of income, unexpected expenditures and in worst cases the erosion of assets including their productive base, leading households (further) into poverty. If well designed and delivered, microinsurance products targeted at low-income people provide a formal and reliable coping mechanism and reduce vulnerability to risk. To ensure that products provide value to their clients, microinsurance practitioners should monitor both the financial as well as the social performance of their products.

The financial and the social performance of products often go hand-in-hand and can, to some extent, be seen as two sides of the same coin. Many activities make sense from a social as well as a financial point of view. For example, adjusting a product according to client feedback will benefit the clients and probably also result in more clients renewing.

Institutions that promote the participation of their clients are expected to encounter fewer problems with information asymmetry and can even benefit from voluntary client involvement. These are some of the reasons why improving the social performance of an organisation can lead to better financial results. Five of the ten indicators included in the set of social performance indicators are also used to track the financial performance of microinsurance products, highlighting that they can be interpreted from both perspectives.

Social performance also contributes to the self-regulation of the sector complementing public regulation and supervision. As effective supervisory measures ensuring a fair treatment of clients are rarely in place in markets where microinsurance is present, a focus on social performance can guide insurance regulators, and used to lobby for more conducive regulatory framework, including client protection. It should also be part of the microinsurers' responsibility, mission and even marketing strategy to proactively monitor social performance at the product level and avoid harmful practices.

The positive correlation between social and financial performance has been demonstrated in the microfinance sector and could be expected to occur in the microinsurance sector as well. MFI's have found that deliberate management of social performance can bring significant benefits[1], such as:

- **More appropriate products** and services by gaining a better understanding of the clients' perception
- **Better client retention** rates by integrating client feedback into their operations
- **Lower operational costs** by reducing information asymmetry and even benefiting from voluntary client involvement
- **Enhanced reputation**, brand value and trust by showing its commitment to social performance
- **Stronger policies and procedures** for human resources resulting in better trained and motivated staff
- **Faster growth** by targeting the less privileged, a less competitive and saturated market segment

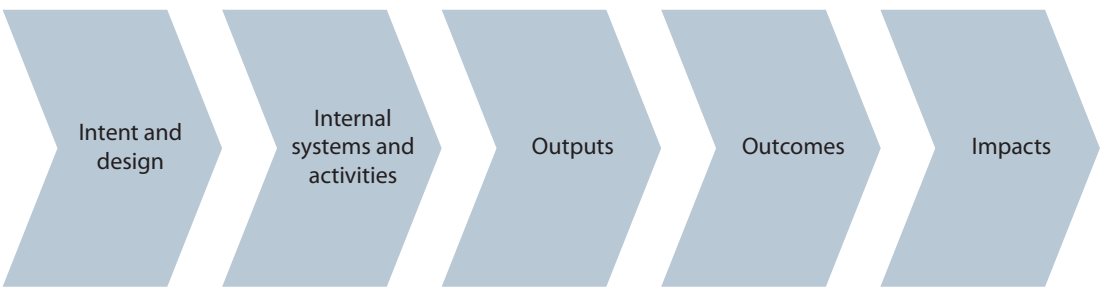
Measuring social performance and assessing impact

The concepts of "social performance assessment" and "impact assessment" are often confused and used interchangeably. However, it is important to differentiate between measuring social performance and measuring the (social) impact of products/organisations.

Impact refers to an outcome (change) that can be attributed to a programme, and is only one element of social performance. Measuring impact generally requires more in-depth research with clients, which cannot routinely be produced by microinsurance organisations. It is also carried out on a less regular basis, allowing enough time to pass in order for a measurable change to occur in the target population.

The term "social performance" encompasses the entire process by which impact is created, often broken down into the following elements:

- **Intent and design**: What are the declared objectives of the institution in providing microinsurance products? What is the purpose of the product? In what way does it seek to create value and for whom?
- **Internal systems and activities**: What activities will the institution undertake to efficiently deliver its microinsurance products? Are systems designed and in place to achieve its objectives?
- **Outputs (activities)**: Do the products reach poor, vulnerable or financially excluded people? Are the products designed to meet their needs?
- **Outcome (client surveys)**: Have clients experienced changes (positive or negative) to their social and economic situation?
- **Impact (causality of outcomes)**: Can these changes be directly or indirectly attributed to the microinsurance products?



1 Bédécarrats Florent, Baur Silvia, Lapenu Cécile, "Combining Social and Financial Performance: a Paradox?", Valladolid, The Microcredit Summit, 2011: www.cerise-microfinance.org/IMG/pdf/Combining_social-financial_perf-paradox_CERISE_11-11-07.pdf

The social performance framework includes principles (intent and design), guidelines (internal systems/ activities) and indicators (outputs). The social performance indicators cannot be used to measure the social impact of products, which is much more complex and costly, and is usually undertaken by an external party. However, social performance information is a useful starting point for impact assessments to formulate relevant research questions, set realistic hypothesis and design adequate evaluation protocols. Impact and social performance assessments should therefore not be seen as separate but complementary.

Social performance indicators for microinsurance

The social performance indicators for microinsurance are first and foremost intended for in-house analysis and monitoring, and are part of a larger social performance framework. The indicators are designed to initiate internal reflections on product and process improvements. For this purpose, practitioners need to clearly define their own goals and analyse the trend of the indicators over time. The social performance indicators can also be used to report to stakeholders like donors and investors.

The social performance framework presented in this handbook is composed of four dimensions:

- Product value
- Client protection
- Inclusion
- Social performance management

Each dimension corresponds to a principle, which can also be seen as the expression of its essential values. The guidelines give indications on how to apply the principles. And finally, the indicators give insight into the extent to which the principles are being applied.

Due to the characteristics of microinsurance (involving multiple partners and delivery models as well as a variety of product lines), the social performance indicators described in this handbook primarily focus on the product and its purpose. The first three dimensions (product value, client protection and inclusion) are therefore specific to the product itself. However, the last dimension, social performance management, focuses on the institutions delivering the product, ensuring that microinsurance products are provided by responsible organisations.

The main goal for using social performance indicators is to produce a realistic picture of a microinsurance programme's outputs in areas considered to be key from a social point of view. When assessed together, these variables give an overall understanding of the product's social performance. Social performance monitoring implies comparing data over time to analyse trends and combining results from different indicators to increase the understanding of the performance for a given microinsurance product. The interpretation of indicators depends on the product type, its maturity and whether it is voluntary or mandatory.

It is recommended to first analyse the social performance of a product with its own evolution over time and/or goals set within the organisation. At a later stage one should aim to find a peer group within the same country or across the same product line willing to share and compare their figures. When comparing with other products it is important to have a good understanding of the different contextual situations and product features to ensure transparency when calculating the indicators. General benchmarks are currently not available for the sector; however this might emerge once the sector has enough information to do peer group comparisons.

Social performance framework for microinsurance

The social performance framework provides a synopsis of the four dimensions social performance for microinsurance focuses on. Each dimension is defined by a principle, representing a 'code of conduct' and concrete guidelines, which illustrate how to apply the principles. The social performance indicators provide insight to what extent the principle is being applied for a given microinsurance product.

	Dimension	Principle	Guidelines	Indicators
Product specific	**Product value**	The product provides the client with appropriate and effective risk coping mechanisms	• Client needs are assessed during the product development stage • Client feedback is monitored to enable regular improvements • Improvements are designed to add value for clients	• Incurred claims ratio* • Renewal ratio* • Promptness of claims ratio*
Product specific	**Client protection**	The insured are treated fairly and respectfully	The microinsurer ensures: • Transparency of all client information • Fair and respectful treatment of clients • Privacy of client data • Mechanisms for complaint resolution exist Based on Smart Campaign guidelines	• Claims rejection ratio* • Complaints ratio
Product specific	**Inclusion**	The product aims to include the less privileged	• Physical, financial and educational obstacles are reduced • Exclusion criteria are reduced • The socioeconomic profile of clients is monitored	• Coverage ratio* • Percentage of insured below the poverty line • Percentage of female insured • Percentage of insured above retirement age • Social investment ratio
Institution specific	**Social performance management**	The microinsurer's institutional system enables social performance management	• Social mission and goals are defined • The board, management and employees are committed to the social mission • External and internal social audits are conducted • Employees are treated responsibly Based on the Microfinance Universal Standards for Social Performance Management.	

* part of the financial KPIs

Note that the dimensions and indicators are not listed in any hierarchical order and although they are treated separately for ease of analysis, they are not separate features in practice. They focus on the key areas that are relevant when monitoring social performance, but can be complemented with additional indicators that are product or organisation specific.

The subsequent part of the handbook will detail each dimension by examining the principle, guidelines and social key performance indicators.

Principles and guidelines

Each dimension in the social performance framework is defined by a principle linked to specific practices or a 'code of conduct' that are critical for the achievement of social performance. The order in which the key principles are presented is not hierarchical and, in practice, should be tackled as complementary issues.

These principles are regarded as an integral part of the management of a microinsurance programme. The implementation of these principles can either be the focus of an internal management review or an external assessment. In both cases, reviewing the practice will help managers identify weaknesses and implement necessary improvements.

The social key performance principles focus on the intent and design of the product, and are as follows:

- **Product value**: The product provides the client with appropriate and effective risk coping mechanisms.
- **Client protection**: The insured are treated fairly and respectfully.
- **Inclusion**: The product aims to include the less privileged.
- **Social performance management**: The microinsurer's institutional system enables social performance management.

The guidelines focus on the internal systems and activities, and provide the necessary focal points for the establishment of a social performance focus in microinsurance. They will assist the managers in applying the principles, and propose practical ways of improving practices and operations that will fulfil the principles.

Social performance indicators

The social performance indicators are variables to monitor and manage the outputs, giving an indication of the extent to which the principles and guidelines are being implemented. The indicators presented in this handbook have a product focus and are centred on the output level rather than at the process level. Other characteristics of the social performance indicators developed through this consultative process are that they are:

- Limited in number as to focus on the KEY indicators - the minimum amount of indicators microinsurance practitioners should report on;
- Quantitative ratios; and
- SMART indicators (Specific, Measurable, Attainable, Realistic, Timely).

Five of the ten social key performance indicators are already part of the financial key performance indicators for microinsurance: incurred claims ratio; claims rejection ratio; renewal ratio; promptness of claims settlement ratio; and coverage ratio (marked with a * in the social performance framework). Their social dimension is further explored in this handbook.

This set of indicators is not exhaustive but should be considered as the foundation for social performance analysis for microinsurance schemes. Complementary sub-indicators can be useful for individual organisations, depending on the product type and business model, but are not put forward as key indicators, as they might not be applicable to all microinsurance practitioners. It must also be understood that many of the social performance indicators are interrelated and dependent on one or more of the others.

The social key performance indicators are:

1. Incurred claims ratio*
2. Renewal ratio*
3. Promptness of claims settlement*
4. Claims rejection ratio*
5. Complaints ratio
6. Coverage ratio*
7. Percentage of insured below the poverty line
8. Percentage of female insured
9. Percentage of insured above retirement age
10. Social investment ratio

Product value

Product value principle

The product provides the client with appropriate and effective risk coping mechanisms

This principle examines the product from the clients' perspective and underlines the importance of regularly reviewing and improving the product and services.

Product value guidelines

The guidelines that assist in applying the product value principle are as follows:

- Client needs are assessed during the product development stage.
- Client feedback is monitored to enable regular improvements.
- Improvements are designed to add value for clients.

Client needs are assessed during the product development stage

Microinsurers might choose to insure the risks that are easiest regarding product design and delivery, but which do not necessarily cover the risks that the target clients are most affected by. Whilst recognising that many risks are not easy to insure, from a social performance perspective it is important that microinsurers assess the risks faced by the clients and their community as part of the product development stage, and integrate this into the product design process. Existing risk management mechanisms also need to be taken into account.

The product should be designed with the end client in mind, taking into consideration suitable and appropriate payment mechanisms as well as exclusions. Particular attention should be paid to gender specific risks and the elderly (e.g. relating to pregnancy and childbirth; informal working conditions; death of a breadwinner; protection at old age etc). The assessment of risk should also include an analysis on whether the product will strengthen or undermine existing risk reduction and coping mechanisms (e.g. burial societies).

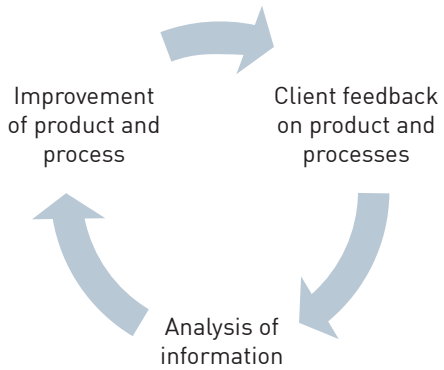
The following questions will help understand to what extent the microinsurance scheme is taking this guideline into account:

- Did the organisation conduct an assessment of the most significant risks faced by the clients at the product development stage?
- Did the risk assessment address the specific needs of the more vulnerable members of the population (women, children and the elderly)?
- Did the risk assessment examine and consider the already existing traditional risk coping mechanisms?
- Did the risk assessment take into consideration risks that impact at community level?
- If no, why not?

A tangible example of applying this guideline is provided by the Cooperative Insurance Company (CIC) in Kenya, which engaged their clients in the product design phase of their health insurance by asking them for inputs regarding the preferred benefits; the size of the cover; and above all, which hospitals they wanted to include in the scheme. CIC then proceeded by contracting the service providers the clients had chosen.

Client feedback is monitored to enable regular improvements

The effectiveness of integrating the assessment of risks faced by clients into the product design phase can be measured once the product has been launched by client satisfaction surveys as well as by analysing the reasons for claim rejections and whether there is a correlation between the most important risks and payouts. Reasons for claim rejections can give valuable insight into the understanding of the products. Surveys can also be used to probe clients for ways to improve the value of the product. These feedback mechanisms give an understanding of the products' ability to address the most important risks.



Improvements are designed to add value for clients

Improving benefits whilst keeping the pricing at the level of the clients' ability and willingness to pay, is part of the review process. Increasing value also contributes to creating client loyalty.

CARD MBA in the Philippines uses an approach they call *riders* by which they gradually add benefits to their existing products to increase the value. This increases the appreciation of their products and the interactions with their clients. For example, a motor vehicle accident cover was added without extra charge to their life cover to expand the benefits to the client.

In some countries however, frequent product reviews are limited by legal constraints like in Bolivia where the law requires a re-approval by the regulatory body of reviewed products each time it is altered. This process might at times be very lengthy, which is why the review process should only be carried out as frequently as the microinsurer is able to do it.

Product value indicators

The social key performance indicators reflecting the product value principle are the following:

- Incurred claims ratio*
- Renewal ratio*
- Promptness of claims ratio*

Incurred claims ratio[2]

"Insurance is a business of claims payments and not of premium payments. The payment of a claim is when the insurance product becomes tangible and when the client decides whether we are selling a dream or a nightmare." NWTF, Philippines

Definition

"The incurred claims ratio indicator is defined as the incurred claims in a period divided by the earned premium for the same period. The period can be a fiscal year or any other accounting period.

A 70 percent incurred claims ratio means that for every 100 of premium earned in a given accounting period, 70 is paid back in the form of benefits (claims).

How to calculate it

Incurred claims ratio = Incurred claims / Earned premium

Notes:

- Incurred claims equals benefits paid during the period plus the change in reserves.
- Earned premium equals premium income in the period minus change in unearned premium reserve."

Significance and interpretation

The incurred claims ratio is relevant to the following questions:

- Are the clients using the products?
- Does the product provide value to the clients?
- Can clients make claims with ease?

This indicator gives a first glimpse at whether the product provides good value for the premiums paid by clients. In essence, this ratio indicates how valuable the programme is to the insured since it measures the average proportion of premium that is returned to the insured in the form of benefits.

"Providing benefits to compensate for losses is the purpose of insurance. A higher claims ratio of a viable programme demonstrates to clients that they are getting good value for their premiums and is likely to

2 For more details on the calculation and financial interpretation, see Garand Denis, Wipf John, "Performance Indicators for Microinsurance – A Handbook for Microinsurance Practitioners (2nd Edition)", ADA with the support of BRS and the Microinsurance Network, 2010. All quotes in this section are from Garand and Wipf, 2010: Performance Indicators for Microinsurance (2nd Edition).

contribute to client satisfaction and renewal." A consistently low incurred claims ratio is problematic since it could indicate the product is irrelevant, meaning the clients' risks were not properly assessed, or that the clients experience difficulty in claiming, or that the products are overpriced. If a low incurred claims ratio persists, the insured population could lose interest in the programme and look towards other insurers to serve them better.

Nevertheless, the incurred claims ratio should not be too high either as this indicates that the programme will ultimately become unsustainable over time. This is crucial from a financial point of view but also for the clients, as the collapse of the programme ultimately results in diminished social and financial protection. A too high incurred claims ratio could indicate that the risk the targeted population is facing has not been understood (e.g. assuming a lower risk) resulting in an erroneously priced product (e.g. too low premium). It can also arise due to an issue with adverse selection if the distribution of risk within the targeted population was wrongly assumed or there were problems with fraud.

The incurred claims ratio can also provide valuable information regarding seasonality of claims if it is tracked and analysed over a longer period of time. For example, with health insurance there are some months of the year when people are more exposed to certain diseases (e.g. malaria), which will increase the number of claims during those months. If this is the case, the microinsurance provider might want to engage in prevention education activities prior to the high risk seasons.

If tracked over a longer period of time, the claims ratio can be linked to the social investment ratio as investments in education, information, communication and prevention activities are expected to decrease the number of claims over a period of time. For example, Healing Fields, an Indian health insurance agent, calculated this ratio for different client groups, geographic areas and partners to get an overview of the utilisation of the product. This insight was then used to target specific actions such as undertaking information campaigns in areas where the ratio was low in order to improve client understanding of the product.

"When monitoring the incurred claims ratio, both of the claims frequency and the average amount paid for claims ought to be studied carefully in order to understand what is happening. It will indicate whether there are many clients who benefit from small pay-outs, or just a few clients who benefit from large pay-outs. Even if the incurred ratio looks normal, both of these components could be either higher or lower than expected. Conversely, if the incurred claims ratio is higher or lower than expected, its components must be analysed to understand the source of the deviation, as this will provide additional insight."

Feedback from practitioners

Out of the 17 practitioners interviewed by phone in the consultative process to establish these indicators, all of them already use this indicator and generate it on a monthly basis through their management information system. They however underlined that for composed products (e.g. life coupled with funeral) it is however important to separate the data for the different components.

For non-pure risk products with strong savings component (e.g. 90% savings; 5% insurance premium; and 5% admin costs) this ratio becomes difficult to calculate. Allianz for example does not use this ratio for its term life products. Instead it uses capital guarantee, which calculates how much of the capital is eventually returned to the client.

Renewal ratio[3]

"Clients are our best ambassadors, so it is important that they renew." La Positiva, Bolivia

Definition

"The renewal ratio measures the proportion of insured that stay enrolled in the programme after their coverage term expires.

A 90 percent renewal ratio means that for every 100 insured, 90 renew while 10 do not.

How to calculate it

Renewal ratio = Number of renewals / Number of potential renewals

Notes:

- The number of potential renewals is the number of clients that could have renewed their coverage. This number excludes those that become ineligible due to old age, death, or due to other reasons which results in ineligibility during the period in question."

The ratio has to be calculated for a pre-identified time frame or for a random sample. Usually it is measured over a one-year period since this is the coverage duration of most term microinsurance products. For a more in-depth understanding of the service quality to the client it is highly recommended to calculate the renewal ratio over a long time period as insurance value is often created over several years, providing further insight into the clients' loyalty to the programme.

Significance and interpretation

The renewal ratio gives an understanding of the following questions:

- Do the clients need the product?
- Do clients demonstrate that they value the product?
- Do clients have satisfactory level of information about the product?
- Does access to insurance enable accessibility to services at times of need? E.g. access to health care, children remaining in school.

"The ratio demonstrates the value of the product as perceived by the client and helps determine how satisfied the insured are: The renewal ratio applies specifically to term products (products with a fixed term of coverage such as one year). If the client is satisfied with the quality of the product and the services, and the product is well adapted in terms of client capacity to pay, they are more likely to renew.

For schemes with voluntary participation, low renewal ratio is often indicative of client dissatisfaction, possibly due to poor communication, unacceptable product value, or unsatisfactory claims payment. It could also simply mean that the insured does not know how and where to renew." In that case it is advised to strengthen the information and education efforts.

3 For more details on the calculation and financial interpretation, see Garand Denis, Wipf John, "Performance Indicators for Microinsurance – A Handbook for Microinsurance Practitioners (2nd Edition)", ADA with the support of BRS and the Microinsurance Network, 2010. All quotes in this section are from Garand and Wipf, 2010: Performance Indicators for Microinsurance (2nd Edition).

Products can also be made more tangible to clients in order to encourage renewal. For example, if few clients are renewing because they feel the benefit to be very hypothetical, the value perceived by clients can be strengthened by adding coverage to the product like health benefits to make it more tangible.

For mandatory products, the renewal ratio can be used to track partner relationship, as the distributing organisation decides to continue with the scheme.

It is particularly interesting to follow the clients who have made claims as their renewal behaviour will give an insight into the services' accessibility and satisfaction at times of need (e.g. access to health care). The microinsurer can also use the indicator to follow up with the clients who have not renewed in order to understand why.

Feedback from practitioners

13 of the 17 practitioners interviewed by phone found this indicator easy to track. They highlighted the importance of keeping track of the client ID-number in case there is a delay between the end of a contract and the start of the new one so that the policy is accounted for as a renewing client. Data sharing amongst the actors (insurance company, broker, delivery channel) is also necessary in order to track the history of the client.

Promptness of claims settlement[4]

"When the clients get the money in their hands is when it counts." CARD MBA, Philippines

Definition

The promptness of claims settlement indicator measures the time elapsed between when an insured incident occurs and when the beneficiary receives the payment. It provides an analytical breakdown of service times taken to report and process a set of claims.

How to calculate it

The indicator is defined in terms of a schedule such as the one presented in the table below. The schedule more accurately describes the claims payment pattern as this type of information is lost in a simple arithmetic average. To find the problem area, the microinsurer should analyse all aspects of the claim process and have a standard time for each step, and this type of analysis will help to detect the problems.

Interval	Number of claims	% of total claims
0 to 7 days	___	___%
8 to 30 days	___	___%
31 to 90 days	___	___%
More than 90 days	___	___%
	Total___	100%

4 For more details on the calculation and financial interpretation, see Garand Denis, Wipf John, "Performance Indicators for Microinsurance – A Handbook for Microinsurance Practitioners (2nd Edition)", ADA with the support of BRS and the Microinsurance Network, 2010. All quotes in this section are from Garand and Wipf, 2010: Performance Indicators for Microinsurance (2nd Edition).

Notes:

- It is not always possible to know how long it takes for the payment to reach the beneficiary (e.g. the benefit received date). In this case, it should be estimated from the paid date for preparing the claims promptness schedule."

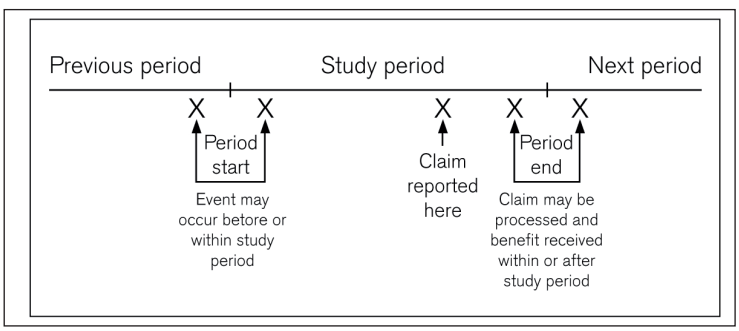
Significance and interpretation

Promptness of claims settlement is important in regard to two issues:

- Are claims settled within a time-frame that is appropriate to client needs (meets their cash-flow needs)?
- Is the product designed to overcome client obstacles in accessing or using the services? E.g. outreach to rural areas; assistance in claim filing process, the inclusion of financial education.

Promptness is defined as the microinsurance provider's ability to respond to the client's cash flow needs when an insured incident occurs. "The acceptable delay depends on the context and the product, however, the shorter the delay, the better for the insured. Paying claims promptly is an important aspect of service and good value. Some claimants need the benefit proceeds right away in order to deal with an emergency situation resulting from the event that triggered the claim, and if claims payment is too slow, they may be forced to sell off their productive assets or borrow from moneylenders at (often) exorbitant rates. Clearly, untimely claims payment diminishes the value of the microinsurance service and in some cases may even aggravate the insured's condition: the client may have been able to cope in an alternative manner had (s)he known beforehand the length of time that it would take to receive the benefits. Some insurers, however, delay payments deliberately, for reasons such as to prevent the use of benefits for grander funeral ceremonies."

This indicator can be used to identify where bottlenecks occur and therefore where the process can be improved. Microinsurance practitioners highlight the importance of tracking the breakdown of each phase (until claim submitted, treated, settled, benefit received), as indicated by the diagram below. By analysing the different phases of the claim settlement process, management can adapt the design of the product and processes to better respond to the clients' cash flow needs.



The first part of the process, e.g. date of incident to declaration date, gives a good understanding of how easy it is for the clients to access the services. This step should be designed in such a way to overcome the obstacles encountered by the clients, meaning that clients are equipped with the right information and knowledge on how to process a claim, how to get the right documentation, and how to contact the insurance provider. This process might be more challenging in rural areas as distances are greater and education levels generally lower. However, the insurance provider should try to incorporate alternative and innovative mechanisms that respond promptly in such circumstances (e.g. by using innovative mobile technology). The analysis may reveal for example, that there is need to provide further assistance in claim filing process.

Rapid claim settlement is an important product feature for CARD MBA Life Insurance, which has a 1-3-5 day claim settlement policy:

- The claim for indemnity must be settled within 24 hours upon notification if the body is not yet buried at the time of validation.
- The claim for indemnity must be settled within three days upon notification and with complete documents if the body is already buried at the time of validation.
- The difficult claims will be given action with finality within five days upon notification.

"Health microinsurance models using a cashless system provide immediate relief to the insured, and such systems would rate highest on this indicator since all claims would qualify to be included in the first [range of 0-7 days]." Since no payments are made directly to the insured, the monitoring of this indicator will not provide much insight. However, payments are made to the health service provider and a prompt settlement of claims with the health service provider is still very important and should be tracked.

In some countries the time of claim settlement is limited by law such as in Peru where the regulators allow insurers up to 30 days to settle claims.

Feedback from practitioners

11 of the 17 practitioners interviewed by phone found this indicator easy to track. MUSCCO in Malawi uses this indicator in its communication with its partnering credit unions to make them appreciate the consequences of rapidly forwarding/processing claims to the claims department. They also use this indicator to track the outcome of awareness-raising activities about the product and its processes by analysing the time elapsed between the occurrence of the incident and submission of the claim.

Client protection

Client protection principle

The insured are treated fairly and respectfully

Clients are paying for a service that will only be rendered in case the insured event occurs in the future and therefore need to trust that this commitment will be honoured. Trust is crucial for market development. If the clients feel that their rights are not being safeguarded, the industry will struggle to gain their trust, resulting in its slow development.

Ground rules shared by all players are needed, but abruptly imposing demanding or inadequate standards can also hamper the sector's expansion. Despite often being presented as antagonistic, self-regulation and regulation are complementary, with the former allowing a bottom-up approach to build adequate norms to supervise practices.

Client protection is often viewed as being the responsibility of the policymakers, regulators and supervisors. However insurers have an important role to play and should also take a proactive role in adopting practices that protect their market. As a new emerging sector, it is crucial that microinsurance practitioners adopt a self-regulatory attitude regarding client protection as the regulation catches up with the industry.

Client protection guidelines

The social performance indicators approach client protection from the practitioners' perspective. The guidelines will assist in applying the client protection principle, and have been inspired from the microfinance Smart Campaign guidelines[5]:

The microinsurer ensures:

- Transparency of all client information
- Fair and respectful treatment of clients
- Privacy of client data
- Mechanisms for complaint resolution

Adherence to this principle can be determined by the following questions:

- Are the incentive structures clearly stated in the staff policies and do these encourage ethical staff behaviour?
- Is staff sufficiently trained to deal with clients in a transparent manner?

5 The Smart Campaign embodies a set of core principles for the treatment of microfinance clients - the minimum standards that clients should expect to receive when doing business with a microfinance institution: www.smartcampaign.org

Transparency of all client information

Microinsurers need to clearly inform clients about insurance services by providing detailed and unbiased information on the microinsurance products in a way that low-income, often illiterate, clients can understand.[6] When clients have clear, sufficient and timely information about product options, they are equipped to decide which products suit them best.

By fostering an atmosphere of open communication, transparency also strengthens the relationship with clients. Transmitting appropriate information to clients is not only compliant with good practices of client protection, but also contributes to correct usage of the insurance product and services and hence to client satisfaction.

Microinsurance providers need to ensure that their partners are also committed to providing clients with full and accurate information on prices, terms, and conditions.

In addition, transparency – particularly pricing transparency – contributes to the development of efficient microinsurance markets by laying the groundwork for fair competition and supporting the principle on responsible pricing.[7]

Fair and respectful treatment of clients

An institution can take measures to safeguard that clients are protected from abusive behaviour from the staff in charge of distributing the products.

Clients should always be treated with honesty, fairness, and respect by all organisations that interact with them. However, due to their low social status, many low-income clients receive poor treatment when dealing with mainstream business or government organisations. Non-discriminatory treatment is fundamental when providing access to microinsurance services as it will help build client trust.

One measurable could be to revise the incentive structure of the staff to ensure that they are encouraged to comply with both social goals and financial targets.

The principle also includes how the staff are incentivised to assist clients with the claims processes and how they are trained to mobilise the target market. If the staff are subject to variable remuneration depending on results, it is essential to make sure that a fixed part remains sufficient and that incentives do not undermine employees' ethical behaviour.

For instance, if bonuses are only calculated based on the number of policies sold or the premium volume, there is a strong risk to encourage irresponsible practices, like exclusion of the poorer and harder-to-reach clients, partial/false information on the product, forced sales, etc. Incentive schemes must include criteria on client profile, renewals and satisfaction/complaints.[8]

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6 "Challenges and good practices in consumer protection in microinsurance", Consumer Protection Task Force, Microinsurance Network, June 2013: www.microinsurancenetwork.org/workinggroup15.php

7 "Putting the Principles to Work: Detailed Guidance on Client Protection Principles", Smart Campaign, 2011 www.smartcampaign.org/storage/documents/20110916_SC_Principles_Guidance_Draft_Final.pdf

8 Responsible Treatment of Clients: Practicing Non-discrimination by Smart Campaign www.smartcampaign.org/tools-a-resources/548

Privacy of client data

According to the Smart Campaign, the confidentiality of personal information is a right that protects privacy and individual liberties. Client data privacy is built from the following six elements: complete policy and procedures; information security; information provided to clients about their rights and responsibilities; waivers of privacy rights; data that could be used for discriminatory purposes; and sharing client data.

This guideline is particularly important regarding the health status of clients. Privacy of health information is as important as privacy of financial information. Health and life insurance providers must have adequate safeguards in place to protect this information.[9]

Mechanisms for complaint resolution

Dissatisfied clients and their complaints are inevitable. Providers should address these problems quickly and effectively. They should ensure that clients are aware of their right to complain, that they know how to complain and that the process is easy for clients to use. Providers should track complaints in order to improve their products and services. Mechanisms for managing complaints should include processes for communicating with clients about their rights and how to submit a complaint, and processes for monitoring and analysing complaints.[10]

Microinsurance practitioners should create an accessible and effective mechanism for complaint lodging and resolution which entails:

- Maintaining an easy-to-use complaint resolution policy and processes that allow quick solutions.
- Employing systems for tracking all complaints and their resolutions.
- Tracking complaints ratios and act upon signals.
- Making efforts to facilitate the resolution of client problems before they become a formal complaint by providing incentives for intermediaries to act upon this premise.[11]

9 "Putting the Principles to Work: Detailed Guidance on Client Protection Principles", Smart Campaign, 2011 www.smartcampaign.org/storage/documents/20110916_SC_Principles_Guidance_Draft_Final.pdf

10 Ibid

11 "Challenges and good practices in consumer protection in microinsurance", Consumer Protection Task Force, Microinsurance Network, June 2013: www.microinsurancenetwork.org/workinggroup15.php

Client protection indicators

The social key performance indicators reflecting the principle of client protection are:

- Claims rejection ratio*
- Complaints ratio

Claims rejection ratio[12]

"Rejected claims can undermine trust in the insurer especially if the reasons for rejection are not well communicated to the clients." Gropere, Benin

Definition

"The claims rejection ratio is the proportion of claims that has been disqualified for benefit payment (rejected), for whatever reason.

A 10 percent claims rejection ratio means that for every 100 claims reported, only 90 result in a benefit payment while the other 10 claims are denied."

How to calculate it

Claims rejection ratio = Number of claims rejected / Number of claims in the sample

Notes:

- Claims registers often don't reflect the actual number as there is often a first filter (by community or delivery channel) or a pre-approval request which is not captured but still a vital aspect of understanding the indicator. To capture the full picture, the microinsurer needs to be aware of the number of enquiries made regarding the cover.

Significance and interpretation

The claims rejection ratio responds to three key questions:

- Are the products clearly understood by the client?
- Are claims paid out?
- Are a high proportion of claims for genuine loss paid out?

A claim can be rejected for many different reasons but the focus for the social performance interpretation of this indicator is on how well the insured understand the product and its cover. If the product is not well understood, the claims rejection ratio could be high for one or more of the following reasons:

- Claims are submitted for events that are not covered.
- Claims are submitted before the waiting period has lapsed.
- The insured is no longer covered due to expiration of the coverage period or by attaining maximum eligible age.
- The insured has a pre-existing condition such as diabetes, which is not covered.

12 For more details on the calculation and financial interpretation, see Garand Denis, Wipf John, "Performance Indicators for Microinsurance – A Handbook for Microinsurance Practitioners (2nd Edition)", ADA with the support of BRS and the Microinsurance Network, 2010. All quotes in this section are from Garand and Wipf, 2010: Performance Indicators for Microinsurance (2nd Edition).

The claims rejection ratio should decrease with time as clients gain a better understanding of the product and staff improve their capacity to inform clients. This process can be facilitated with education campaigns and awareness raising activities.

"The ratio is sometimes also indicative of a programme with too many exclusions. For example, commercial products are sometimes retrofitted to microinsurance programmes and this can increase the complexity and number of exclusions which confuse the poor. In some cases, insurers deny too many claims on technical grounds or because the insured cannot accomplish unrealistic requirements. Sometimes, to lower costs, too little screening of insurance applications will result in a high proportion of ineligible clients. Ineligibility is then only discovered at the time of claim. This increases the rejection ratio."

In adherence with the guidelines of transparency and the fair and respectful treatment of clients, it's important not only to track why a claim is rejected but also how it is communicated to the client. If a claim is rejected, it can result in a negative perception of the microinsurance programme, which can have much further repercussions, especially if the insured person lives in a closely knit community, or is a member of a Self-Help Group (SHG). This indicator is therefore also a good complement to the complaints ratio.

The microinsurance provider should track the reasons for rejecting claims as it will provide an insight into how the product and processes can be improved. If many claims have been rejected due to exclusions, the provider needs to revise these exclusions. The provider might find that they are not actually covering the genuine financial loss experienced by the client and might consider adding benefits to the insurance package, e.g. transport costs for accessing health services.

As health products are often more complex they might face a higher claims rejection ratio. The complexity of these products can also lead some microinsurers to make exceptions to paying invalid claims due to the lack of product understanding of the clients. This was the case of CIC in Kenya and similarly for Uplift Mutuals in India who can accept to pay a claim that has technically been rejected when the community, which plays an important role providing more intimate knowledge of the situation, recommends making the payment.

By analysing the reasons for rejection, this indicator can be linked to the social investment ratio. The reasons for rejection will inform the provider about the knowledge gaps and allow adaptation of the information and education material. The effects of such campaigns can be tracked through the claims rejection ratio and also by tracking the reasons for rejecting a claim.

Feedback from practitioners

Based on the phone interviews most of the 17 practitioners found this indicator easy to track as the majority of the organisations already keep a claim register. However, as mentioned above, these registers are not always a true reflection of the actual figures as they often only account for the claims that reach the head office, excluding the claims that were rejected at the branch level. Insurers who are not in direct contact with the end client find it particularly difficult to access this information from their delivery channels.

It is useful to complement this indicator with a periodic client survey to test the level of awareness of the basic characteristics and procedures of the product. If there is an important knowledge gap a further knowledge test can be conducted with the staff responsible for informing the clients. Star Microinsurance in Ghana, for example, saw their claims rejections decrease as they improved their client education efforts.

Complaints ratio

"A complaint is any problem relating to the product implementation where the client's rights are not catered for." Star Microinsurance, Ghana

Definition

The complaints ratio reflects the overall client satisfaction levels, as well as the ease with which clients can submit a complaint. It measures the number of complaints registered over the number of clients.

A 2% complaints ratio means that the microinsurer received on average 2 complaints out of 100 clients.

How to calculate it

Complaints ratio = Number of complaints registered / Total number of clients

Notes:

- The calculation of this indicator requires the provider to have a complaint tracking mechanism in place. Complaints must be recorded and tracked as part of a redress system. This system may not be connected with an association (such as a government ombudsman scheme), but should be a formal system that produces statistics on complaints.[13]
- There are different modes for processing complaints. It can be verbal or written, at a physical location e.g. a branch office; or through a field officer but also through a customer service helpline. This indicator captures all modes for client recourse.

Significance and interpretation

The complaints ratio answers the following questions:

- Are there accessible and effective mechanisms for client recourse?
- Are complaints dealt with?

Complaint resolution is used as a proxy for determining how well clients are protected against unscrupulous or deceptive practices. It shows whether there is an intention to provide a self-regulated client protection mechanism. Existence of a complaint tracking process indicates that clients have some protection, although tracking registered complaints does not capture complaint resolution or the ease by which a complaint can be made.[14] In order to be effective in treating clients fairly, a system needs to be in place through which they can put forward their concerns and have them answered.

The interpretation of the ratio can vary, and it is therefore necessary to contextualise the data with a more in-depth understanding. Although a high ratio will generally mean that many clients have something to complain about, indicating a flaw in the product and process design, this is only possible if clients can easily register complaints with the institution, e.g. the system for recourse is working well and the clients understand how to use it. Similarly, a low ratio may indicate that clients are very satisfied with the product and that the organisation has an efficient pre and post sales service staff; however it could equally reflect a poorly designed or implemented complaints mechanism.

13 McAlllister Patrick, Dezso Diana, "Building Vibrant and Inclusive Financial Sectors: Success Indicators for Microfinance Associations", SEEP, 2010

14 Ibid.

This indicator does not give the nature of the complaints and requests a qualitative analysis follow-up. For microinsurance practitioners who are aiming to champion social performance it is advised to also track the percentage of complaints resolved both in favour of the client, as well as in favour of the microinsurance provider; and finally the time needed to respond to complaints. The content of the complaints can also be used as a client feedback mechanism providing information on claims processes and general client satisfaction.

Some complaints can have a devastating effect on the insurer. It is therefore important to track the nature of the complaints and to deal with them as soon as possible. For ease of treatment, the complaints can be divided into the following categories: fraud, claims rejection, treatment by staff, and other. They can also be categorised by the severity and impact on client protection.

The indicator is used by some practitioners in their reporting to the board and when updating product features. It is also used to give a reflection of the staff performance. A provider that is issued from a traditional insurance company might be able to benefit from the mechanisms put in place by their parent company. For example, Star Microinsurance in Ghana uses the toll free line of Star Assurance to register complaints.

Many providers complement this indicator with annual client satisfaction surveys to better understand the context of the complaints. There will always be a percentage of people that will not take the initiative to complain and surveys can take this category into consideration.

Feedback from practitioners

Half of the 17 practitioners interviewed in the phone surveys found this indicator easy to calculate. The difficulty lies in capturing the complaint, especially the verbal ones, as there are filters at different levels which can sort out the issue before it is registered. The faster a complaint is dealt with, the better it is for the client. However, it is recommended to register all complaints even if they are resolved at the community level or by field staff. The design and implementation of a complaints tracking mechanism is an essential part of delivering microinsurance products.

Only three practitioners were able to share their complaints ratio ahead of the workshop suggesting that most practitioners currently don't have proper mechanisms for registering complains. Of the three practitioners who did share their complaints ratio, the level varied between 0.02 % to 0.17% underlining that out of context, it is difficult to make any sort of conclusion.

Inclusion

Inclusion principle

The product aims to include the less privileged

Increasing outreach to include the poor, vulnerable and financially excluded people sustainably is a core part of the definition of social performance; the inclusion principle ensures that outreach and access are maximised. Microinsurers should seek to include those who have higher exposure to risks and do not yet have access to regular insurance, or are not covered by any government social security scheme.

The purpose of this principle is for microinsurance providers to take an inclusive view when defining their target population. The questions that should be asked are *who* can benefit from their products and *how* their access to the products can be improved.

Some insurers with a strong social focus might even choose to cross subsidise some products in order to make them accessible to groups who would otherwise be excluded. The destitute and high risk groups are often more costly to cover with insurance and there exists many arguments that these people should be taken care of by governments and not by insurers.

However, in most countries where microinsurance schemes operate, the governments do not yet have the social support structure in place to cater for their needs. In the meantime, the microinsurers with the strongest social focus will try to include these groups to the best of their abilities. The more access and outreach facilitated by the microinsurance provider, the stronger the social focus is in regard to this principle.

Inclusion guidelines

This principle is reflected by the microinsurance scheme's exclusion criteria; pricing; infrastructure to access services; and adapted payment structures. The guidelines that assist in applying the principle are the following:

- Physical, financial and educational obstacles are reduced.
- Exclusion criteria are reduced.
- The socioeconomic profile of clients is monitored.

Physical, financial and educational obstacles are reduced

Inclusion is closely related to the infrastructure in place, which allows people to sign up and use the services. Management should be able to demonstrate efforts made to reach people in less accessible areas such as slums and/or rural areas, or people that might face accessibility problems due to old age or disabilities.

To improve the physical access, the insurance provider can, for example, increase the number of distribution points closer to the target population or through partners (supermarkets, etc.). Technology can also play an important role in reaching out to more clients, such as overcoming physical and educational obstacles, and creating more opportunities for interactions with clients.

Educational obstacles can be reduced by providing detailed and unbiased information on products adapted to the low-income clients. Microinsurance providers can also participate in efforts by regulators and insurance associations in education campaigns on microinsurance as a risk-management tool.

Financial obstacles also might hinder people from benefiting from insurance. Here, the payment structures offered to clients can be crucial regarding inclusion. A product might be affordable if the provider has a flexible payment system (instalments that coincide with available discretionary income), but not affordable if the whole premium must be paid up front. In such cases the client might be forced to take a loan to purchase the insurance. The advantage of premium financing through loans is that it can thereafter be paid back in instalments; the disadvantage is that it increases the debt level of the policy holders and their families, and will cost more.

When the microfinance institution NWFT in the Philippines designed their funeral policy they started by fixing the price at 1 peso per week, which was estimated to be affordable for their clients. Realising the high fees charged by funeral homes, they chose to negotiate the prices with the service providers for their clients. In the end the service provider agreed to reduce the price of funerals for NWFT's clients from 17,000 pesos to 10,000 pesos, enabling NWTF to the keep premium low and financially accessible for their clients.

Exclusion criteria are reduced

It is understood that a microinsurance scheme needs exclusion criteria in order to remain sustainable. For an area which succumbs to flooding each year, it would be normal for an insurance scheme protecting the inhabitants' crops or houses to exclude such an event (as the money would be better invested in flood prevention initiatives) and to focus on other events such as fire, theft and droughts, which are events that occur less frequently and are insurable.

However, at the same time exclusions may limit the ability to access a product to the people who need it the most. In the case of health insurance, the insurer will need to question the medical treatments excluded from the policy, particularly those that affect society's most vulnerable groups such as children, women, the elderly and people with disabilities. When establishing the exclusion criteria for a product, the microinsurance provider needs to consider the balance between the financial and social effect. In general, the less exclusion the insurance has, the stronger the social focus is in regard to this principle.

The socioeconomic profile of clients is monitored

In order to intentionally target vulnerable clients the microinsurance providers need to establish and monitor the socioeconomic profiles of their clients. If such mechanisms are not in place, practitioners will not know who they are actually reaching with their products and services.

Inclusion indicators

The inclusion principle consists in targeting clients that are excluded from the formal system and the social key performance indicators reflecting this principle are the following:

- Coverage ratio*
- Percentage of insured below the poverty line
- Percentage of female insured
- Percentage of insured above retirement age
- Social investment ratio

Coverage ratio[15]

"If people appreciate the product they will renew and recommend it to others." Care Hospitals, India

Definition

"The coverage ratio is the proportion of the target population participating in the microinsurance programme. Every microinsurance programme targets a group of persons, households, or assets to cover. This is called the target market.

A 20% coverage ratio means that 1 out of 5 people you are targeting are insured.

How to calculate it

Coverage ratio = Number of active insured / Target population

Notes:

- In the formula, the number of active insured is used rather than "active policies" since this is all inclusive and can be used when programmes are member-owned schemes, for group plans, and other types of variations.
- The target population is not as straightforward to define, but should be included in the organisations' business plan."

Significance and interpretation

The coverage ratio is related to the following questions:

- Is the target population clearly defined?
- Does the insurance cover achieve high rates of participation and penetration to target clients?
- Is the product designed to overcome client obstacles in accessing or using the services?

Outreach depends largely on how well a product is adapted to the target population's needs and perceived value of the products, thus the indicator reflects the appropriateness of the product and the effectiveness of its implementation and marketing.

It is of great importance for microinsurance programmes to have a clear definition of their target population, which needs to be established and communicated to their partners. The target should be product specific and evolve as indicated by the business plan.

Feedback from practitioners

Once the microinsurance programme has clearly defined its target population, this indicator is considered as relatively easy to calculate. Practitioners use this indicator to understand whether the product is difficult to sell, and in that case whether additional sales efforts are needed.

15 For more details on the calculation and financial interpretation, see Garand Denis, Wipf John, "Performance Indicators for Microinsurance – A Handbook for Microinsurance Practitioners (2nd Edition)", ADA with the support of BRS and the Microinsurance Network, 2010. All quotes in this section are from Garand and Wipf, 2010: Performance Indicators for Microinsurance (2nd Edition).

Percentage of insured below the poverty line

"It is important that microinsurance practitioners are able to demonstrate their achievements in social performance and not only have it stated in their missions and visions." CIF, Burkina Faso

Definition

The percentage of insured below the poverty line ratio is the proportion of clients below the poverty line out of the total number of clients. This indicator reflects whether the insurance scheme is achieving high rates of participation amongst the poor.

A 20% of insured below the poverty line means that 1 in 5 insured have an income below the poverty line.

How to calculate it

Percentage of insured below the poverty line = Number of clients below defined poverty line / Total number of clients

Notes:

- Measuring poverty is very complex. It is recommended to adopt one of the existing tools such as the Progress Out of Poverty Index (PPI) or the Poverty Assessment Tool (PAT), which have been developed for specific country contexts.
- No matter which tool the institution chooses to measure the poverty levels of its clients, it is essential to explicitly state the chosen methodology and poverty level.
- The definition of poverty will vary upon context and also needs to be explicitly stated.

Poverty assessment tools

An organisation can adopt measurement tools to assess the poverty status of new clients, the profile of its existing clientele, and how and why its clients' poverty level changes over time. Initiatives, such as the Progress Out of Poverty Index (PPI) and the Poverty Assessment Tool (PAT) enable the country specific direct measurement of household poverty using simple, robust indicators, statistically correlated with different poverty lines. This indicator is based on the tools adopted to track the poverty status of the clients.

To know more about PAT visit this link: www.povertytools.org

To know more about PPI, visit this link: www.progressoutofpoverty.org

A comparison between these two tools and discussion of their applicability can be found in a Social Performance Task Force user review of the tools: www.sptf.info

Significance and interpretation

The percentage of insured below the poverty line ratio can answer the following questions:

- Does the insurance cover achieve high rates of participation and penetration amongst the poor?
- Is the product designed to overcome obstacles faced by the poor in accessing or using the services?

Most microinsurance providers state that they target the poor but are often unable to demonstrate this with figures. Poor people are usually most exposed and vulnerable to risks and have very little access to formal insurance. Consequently they represent those most in need of appropriate insurance. This ratio demonstrates whether the product design and delivery mechanism are designed to reach poor people and whether they are able to overcome the challenges of accessibility. The indicator can also be used by management to refine products and their delivery.

Poverty is a very broad term and there are different levels of poverty, requiring different services. Generally a national poverty line or international (USD 1.25 and USD 2.50) poverty lines are used to define 'poor'. For a microinsurance product, the most challenging groups to cover will be the destitute and the ultra poor, and it can be argued that this role should be fulfilled by the state. It is therefore important that insurers identify different client segments in order to have a clearer understanding of the poverty level of the clients being reached and to be able to develop products suited to different targeted segments.

Measuring the poverty levels of new clients is crucial as it captures whether the right people are being reached. The poverty outreach can also be compared to the poverty level of the geographic zone where the product is offered. To deepen the understanding of the poor clients, the renewal ratio can be tracked for this segment too. The results taken from this indicator can also serve as a baseline when assessing how the clients evolve once they are in the scheme. However, trying to capture the impact of insurance on the households goes beyond the objectives of the social performance indicators.

In terms of the tools used to calculate the poverty levels of the target population, the PPI tool is becoming more commonly used by practitioners. CARD MBA in the Philippines has systematised the tool by including it in their sign up form for all new members. Prisma in Peru has also used this tool since 2008 and can report to its stakeholders that in 2011, 32% of the new clients are below the national poverty line.

Feedback from practitioners

Practitioners reported that challenges arise when an insurance company needs to consolidate information from various delivery channels that are not using the same poverty assessment tools. There might also be issues with seasonality as the target population can move along the poverty line in accordance with the work flow to and from agricultural areas.

It can be difficult to systematically collect data for all clients; therefore many organisations follow a sample. A number of locally developed tools are also available which are not benchmarked to national or international poverty lines but which give reliable information about the poverty of clients according to locally defined factors. For example, the actors in India can also see whether new clients have a BPL card (Below the Poverty Line), which is issued by some Indian states to vulnerable families.

Percentage of female insured

"Women, in particular in rural areas are very vulnerable, and need to be specially targeted by insurance products." Prisma, Peru

Definition

The percentage of female insured ratio is the proportion of the clients which are women. This indicator reflects whether the insurance scheme is achieving high rates of participation amongst women who bear a disproportionate burden of the world's poverty.

An 80% of female insured ratio means that 4 out of 5 insured are female.

How to calculate it

Percentage of female insured = Number of women clients / Total number of clients

Significance and interpretation

The percentage of female insured ratio is relevant to the following questions:

- Does the insurance cover achieve high rates of participation and penetration amongst women?
- Is the product designed to overcome obstacles faced by women in accessing or using the services?

Women are seen as a group that is particularly in need of risk management strategies such as insurance, and this indicator allows the institution to track its efforts in including women amongst its clients.

Statistics indicate that women are more likely than men to be poor because of the systematic discrimination they face in education, health care, employment and control of assets. Poverty implications are widespread for women, leaving many without even basic rights, such as access to clean drinking water, sanitation, medical care and decent employment. Being poor can also mean they have little protection from violence and have no role in decision making.[16]

Agricultural insurance products typically include more men as they are more likely to be the formal owners of land. Insurance providers can however aim to design insurance products for agricultural activities that are predominantly carried out by women, such as dairy. The same is the case for products that are designed for workers in a specific factory, as this type of employment tends to involve in majority either men or women depending on the work. By extending cover benefits to the workers' spouses, the microinsurers ensure that both men and women have the same access to insurance services.

Feedback from practitioners

Practitioners reported that this was an easy indicator to track and many already use it. Most of the organisations were able to share this indicator at the workshop showing that women actually make up an important share in these schemes following an intentional targeting of them.

16 UN Women: www.unifem.org/gender_issues/women_poverty_economics

Percentage of insured above retirement age

"Age like poverty is an exclusion criterion and fits well under this category."
PlaNet Guarantee, France

Definition

The percentage of insured above retirement age ratio represents the proportion of older clients. This indicator reflects whether the insurance scheme is achieving high rates of participation amongst the elderly who are vulnerable to falling into poverty.

A ratio of 40% means that 2 out of 5 insured are above retirement age.

How to calculate it

Percentage of insured above retirement age = Number of persons above retirement age / Total number of clients

Notes:

- It is understood that most poor people are not working in the formal economy and hence do not 'retire'. For contextualising the age at what people are regarded as old, the national defined retirement age is used for the social performance indicators to reflect regional differences.[17]

Significance and interpretation

The percentage of insured above retirement age ratio is relevant to the following questions:

- Does the insurance cover achieve high rates of participation and penetration amongst the elderly?
- Is the product designed to overcome obstacles faced by the elderly in accessing or using the services?

The composition of the world population has changed dramatically in recent decades. Between 1950 and 2010 life expectancy worldwide rose from 46 to 68 years, and it is projected to increase to 81 by the end of the century. The increase in the number of older people will be greatest in the developing world, with Asia as the region with the largest number of older persons, and Africa facing the largest proportionate growth.

With this in mind, enhanced attention to the particular needs and challenges faced by many older people is clearly required. Nearly two-thirds of older persons live in developing countries, yet older people are still largely excluded from the wider global, regional and national development agendas.[18] With age, a person's needs and potential income will change and they are more likely to be active in the informal sector increasing their probability of falling into poverty. They are a vulnerable target group that is typically excluded from insurance services.

The elderly are in particular need of risk management strategies, such as those provided by insurance, and this indicator allows the institution to track its efforts in including the elderly amongst its clients.

17 See World Bank website for retirement age per country www.worldbank.org/data/exploretopics/getting-a-job#Retirement and pensions
18 www.un.org/en/events/olderpersonsday/background.shtml

Feedback from practitioners

Practitioners reported that this was an easy indicator to track although few actually use it. Most of the organisations were able to share this indicator at the workshop showing that the elderly constitute a very small minority in most schemes as result of exclusion criteria. Additionally, the lack of any sort of marketing specifically targeting this group underlines the exclusion and vulnerability of this group.

Social investment ratio

"It is like the corporate social responsibility you do in your community, like organising health camps. Are you doing something to prevent incidents and the impact of these incidents?"
Star Microinsurance, Ghana

Definition

The social investment ratio measures the amount of resources the microinsurance providers dedicate to information, education, communication and prevention in the local community for which no direct financial returns are expected.

A 10% social investment ratio means that for each 100 premium earned, 10 is invested in the community without expecting any direct economic return.

How to calculate it

Social investment ratio = Social investment expenses / Earned premium

Notes:

- Social investment: not expecting any short term economic return.
- The activities under this definition are not part of the providers' core sales efforts.
- Social investment expenses = Expenses for information, education, communication and prevention activities.
- Marketing is considered as related to the microinsurers' direct sales activities and is not included in this ratio.

Significance and interpretation

The social investment ratio is relevant to the following question:

- Does the microinsurer, in addition to the product offered, seek to improve the risk management capacity of the community in which it operates?

The social investment ratio examines whether the microinsurer engages in any social activities that benefit the communities in which it works by increasing the target populations' knowledge of services, their ability to access and use the insurance products, and change their behaviour in a way that can help reduce or manage their risk. The institution needs to clearly define which activities it includes in this ratio. In the long term, microinsurers can expect positive returns from such investments.

Client education and the provision of information helps build client understanding of the mechanisms and functions of insurance. The expected outcome is that clients are more likely to use the services correctly, which consequently results in higher satisfaction. It will also require fewer resources from the insurance provider to deal with discontented or misled clients.

Microinsurers have an opportunity to provide education and information beyond just product features, focusing on risk management in general and awareness raising of specific risks faced by the target population. They may also engage in more active interventions, such as providing mosquito nets, veterinary services, or improving water or sanitation. These prevention activities may bring benefits for both clients and the insurer and are likely to impact on most of the other indicators as it affects how the clients interact with the product and processes. The value for the insurer is derived from the clients' correct usage of the insurance product, and more broadly through changes in client behaviour that impacts their level of risk exposure.

This is particularly apparent in health schemes where education can have a high impact on people's general health. The advantage for the insurer is that such interventions, if well implemented, could reduce the number and gravity of illness of the insured, which will positively impact the incurred claims ratio. By tracking the budget allocations between the four components of this indicator: information, education, communication and prevention activities; the provider should be able to determine this relationship, which can drive expenditure decisions.

NWTF, an MFI in the Philippines that has adopted the partner agent model to offer microinsurance products to its clients, has a department dedicated to offering non-financial services such as trainings, scholarships, and medical aid to their clients. The Client Services department, which has 7 staff members and aims to reach over 30,000 clients a year, is partially funded by a fee added to the loan interest, and partially funded by partner organisations in the form of donations. Calculating the Social Investment Ratio in this context gives an indication to the amount of capital being channelled back into the community, without expecting a direct economical return.

Feedback from practitioners

According to the 17 phone interviews, less than half were currently using this indicator out of which most of them found it easy to calculate. The main difficulty was the allocation of staff time although systems can be put in place to track this.

Social performance management

The principle and guidelines in this dimension are aimed at the organisation level of the practitioners, unlike the previous chapters, which focused on the product level.

Social performance management principle

The microinsurer's institutional system enables social performance management

Social performance management has been defined as a continual process of translating mission and values into practice. It includes setting clear objectives and creating a deliberate strategy to achieve them, monitoring and assessing progress towards achieving objectives, and using information to improve overall organisational performance.[19]

The aim of the principle is to create an organisational culture that internalises and enables social performance, with guidelines that assist in achieving that objective. This principle can be viewed as a preliminary condition without which the product value, client protection and inclusion principles cannot be reached. As this principle targets the institutional system and not the product, there are no output indicators determined for this dimension.

Adherence to this principle can be determined by the following question:

- Does the organisation have systems in place to continuously translate their social mission and values into practice?
- Does the organisation take into account product value, client protection and inclusion in decision-making and internal processes?

Social performance management guidelines

The guidelines will assist in applying the social performance management principle and have been based on the Universal Standards for Social Performance Management which is a set of management standards and practices developed by the SPTF that apply to all microfinance institutions pursing a double bottom line. Meeting the standards signifies that an institution has strong social performance management practices.[20]

The guidelines for the social performance management principle are the following:

- Social mission and goals are defined.
- The board, management and employees are committed to the social mission.
- External and internal social audits are conducted.
- Employees are treated responsibly.

19 Social Performance Management Principles: www.sptf.info/sp-task-force/declaration-of-principles
20 Universal Standards for Social Performance Management: www.sptf.info/spmstandards/universal-standards

Social mission and goals are defined

Social performance management starts by defining the institution's social mission. It states the institution's social purpose, which serves the broader purposes of increasing access to risk mitigation services for vulnerable or excluded target groups and creating benefits for these clients. Social goals then define the specific client-level outputs the institution expects to achieve. This implies defining the characteristics of its target clients (demographic, socio-economic, business activity) and stating how serving these client groups support the social mission. To achieve the social goals, a strategy needs to mention measurable targets in terms of outputs (e.g. setting targets for the indicators). Such intentions must also be translated into an operational plan establishing how and with what products, services, delivery models and channels these targets will be achieved.

Thereafter information must be regularly assessed on the performance indicators under each of the social principles pursued according to the mission (product value, client protection and inclusion). However, the monitoring of social performance indicators depends to a large extent on the organisation's management information system (MIS), information collection and data segregation. If the data on which the indicators are based is not collected and segregated in an appropriate manner, the indicators will lose their validity.

The system should also allow stakeholders throughout the organisation to have access to relevant information as stakeholder engagement is integral to the monitoring of social goals and mission. This must foster transparency not only amongst organisation members (e.g. board of directors and senior management) but also with other stakeholders (e.g. employees, customers, suppliers, community members, policymakers, etc.).

The board, management and employees are committed to the social mission

The social mission should be visibly endorsed and encouraged by the board, management and employees and their responsibilities must encompass social performance management. It needs to be an integral part of the microinsurance provider's systems and reflected in the product design and customer service. The board and management need to understand the social and financial implications of its decisions and actively seek to balance social and financial priorities.

At the board, level skills need to be developed and maintained to ensure that it can fulfil its responsibilities. It is important that at least one member of the board has expertise in some aspect of social performance and microinsurance (e.g. experience as a microinsurance practitioner, product design experience, market research experience, etc.). The board and management also need to ensure that the systems are in place to allow an effective monitoring of the social performance indicators related to microinsurance. Transparent board procedures and incentive policy (including accountability towards members in a member based organisation) should be applied. Board procedures need to be explicitly stated and have minuted accounts from their meetings. As many microinsurance providers are mutuals or other member-based organisations, it is important to have accountability at board level towards members (particularly with active and efficient participation of members in decision-making).

An effective translation of the social mission into practise also implies that managers are attuned to the true needs of the clients. This means that every management decision takes into account the impact it will have on the client. Policies and procedures should be aligned to the mission and vision of the organisation. Core to these policies and procedures are human resource procedures that promote ethical staff behaviour and reward high standards of customer service. Staff should be encouraged to act according to the stated values of the organisations, which should be kept in mind when establishing productivity targets, staff recruitment procedures, staff training and staff performance management.

The principle also covers how the staff is incentivised to assist clients with the claims processes and how they are trained to mobilise the target market. If the staff is subject to variable remuneration depending on results, it is essential to make sure that a fixed part remains sufficient and that incentives do not undermine employees' ethical behaviour. For instance, if bonuses are only calculated based on the number of policies sold or the volume of premium collected, there is a strong risk of encouraging irresponsible practices, such as the exclusion of the poorer and harder-to-reach clients, partial/false information on the product, forced sales, etc. Incentive schemes must include criteria on client profile, renewals and satisfaction/complaints.

External and internal social audits are conducted

This process of verifying an institution's adherence to its social mission should also be strengthened and complemented by external and internal social audits.[21] Benefits of such audits include that they:

- Enhance organisational reputation
- Alert the board and management to stakeholder trends
- Affect positive organisational change
- Increase accountability of the organisation to its stakeholders
- Assist in reorienting and refocusing priorities
- Provide a road map on how to productively move forward on social issues and for addressing and managing stakeholder concerns
- Improve financial performance
- Allow the organisation to report on its achievements based on verified evidence

Stakeholder engagement is integral to the social audit. The organisation is interested not only in how it (e.g., board of directors and senior management) views its own social performance but also in how diverse stakeholders (e.g., board of directors and senior management *plus* employees, customers, suppliers, community members, policymakers, etc.) view its social performance.

21 Social Performance Map, SEEP Network, 2008: www.setoolbelt.org/resources/841

Employees are treated responsibly

ILO definition of decent work

According to ILO, decent work "sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men".[22]

More specifically, responsible treatment of staff is ensured by the following:

- The institution follows a written human resource policy that protects employees and creates a supportive working environment.
- The institution promotes equal opportunity in the workplace e.g. by addressing particular constraints faced by women.
- There are appropriate and effective mechanisms for staff feedback.

Emphasis on client services and cost-effectiveness is often predominant in human resource practices in microinsurance. Employee commitment to serve the poor and excluded is sometimes expected to compensate for low salaries, despite high demands. This leads to dissatisfaction and high turnover especially when competition increases. Increasingly, human resources are recognised as a key element of social responsibility, essential to maintaining high-quality, well-trained and motivated employees.

This means in particular that a clear and effective human resource policy is in place, is available to all employees and is consistently applied. Working conditions must be compliant with relevant legislation and standards, including national standards of worker safety. The policy must explain employees' rights related to all of the following: wages, benefits, working conditions, safety at work, non-discrimination, freedom of association, and grievance resolution.

Such conditions must be analysed very closely if there are specific clauses for the staff in charge of microinsurance. The institution assesses the health and safety risks (in particular for staff that is travelling) that employees face on the job and provides them with the training and equipment necessary to mitigate those risks free of charge.

Microinsurance schemes must respect the principle of equal opportunity and fair treatment regardless of sex, ethnic background, race, age, disability, descent including caste, religion, sexual orientation, or HIV/AIDS status. This issue needs particular care in microinsurance schemes where part of the personnel involved in the product dissemination is not legally employed by the insurer or the MFI in charge of disseminating it. In such circumstances, there is a strong risk of discrimination towards this staff. In any case, the institution avoids using work provided on a casual, temporary and/or unpaid basis unless its nature is truly short term.

22 International Labor Organization: www.ilo.org/global/topics/decent-work/lang--en/index.htm

Staff feedback is essential to establish a satisfactory working condition and to foster staff commitment with the institution and its social mission. This is not only the case for newcomers, but also for long time employees. The Imp-Act Consortium[23] has summarised several mechanisms to collect them:

- Periodic assessments of employee expectations and/or employee satisfaction surveys.
- Regular meetings with supervisors in departmental teams to make sure that management understand employee concerns and needs.
- One-on-one meetings with supervisors for individuals to discuss what motivates them to do their job and what their hopes are for the future.
- Systems to collect employee feedback when employees don't feel safe to communicate directly with their managers, such as official grievance procedures, or naming of an impartial person to represent employee concerns anonymously (staff representative).

The Imp-Act practice-based guide for microfinance gives an example of "staff happiness" surveys. Staff satisfaction positively affects how staff interacts with clients and therefore is strongly linked to the quality of service delivery. As a result, it is highly recommended to accompany the staff in their skills enhancement to improve client relations.

Implementing environmental policies for microinsurance

For organisations which aim to champion social performance, it is recommended to also take into consideration the environmental risk factors in the microinsurance product design. Such shift is still early in the microinsurance sector, but it is increasingly part of donors' and investors' expectations.

Such efforts can cover various aspects:

- Tracking and reducing the volume of materials used (paper for example) and favouring the use of recycled inputs.
- Assessing and limiting energy consumption, which can be not only direct, but also indirect, such as the use of computers, cars, etc.
- The positive effect of such measures (waste reducing) on the administration and marketing of the organisation.
- Ensuring that microinsurer clients are also adapting a responsible behaviour towards the environment.

Several resources can help a microinsurer improve their environmental performance on these aspects, including the Global Reporting Initiative, which has produced an ESG (Environment, Social, Governance) framework for triple bottom line reporting of financial institutions. This has been used by many corporations, such as Munich RE, Allianz, and AXA:
www.globalreporting.org/reporting/sector-guidance/financial-services

23 Campion Anita, Linder Chris and Katherine E. Knotts, "Putting the 'social' into performance management", Imp-Act Consortium, Institute of Development Studies, 2008: www.imp-act.org/sites/default/files/spm_practice_guide_english.pdf

Conclusions and way forward

This handbook represents an important milestone for the microinsurance sector as it documents a sector wide consensus on the social performance indicators. It recognises the primary goal of the microinsurance business, which is not about profit maximisation, but setting up risk mitigation mechanisms for the poor, who don't have access to formal insurance or social protection mechanisms. The social performance indicators provide a management tool to analyse and monitor whether a microinsurance programme is performing well from a social point of view.

The commitment and involvement of all the participating organisations in the development process is testament to the demand for social performance monitoring in the sector. It demonstrates that consensus can be reached amongst a diverse group of practitioners, confirming that a set of principles, guidelines and indicators can be applied to the wide variety of microinsurance products and delivery models.

The principles and their guidelines set out the foundation of 'good practice' that enables the social performance indicators to be monitored and improved. Over time it is expected that these principles will develop into standards, and as practice is documented, benchmarks can be set.

The social key performance indicators include five that are also recognised as financial key performance indicators, and thus demonstrating the feasibility of working towards a single set of key performance indicators in microinsurance that combines both the financial and social dimensions.

Additional insight is being gained into social performance management for microinsurance on a continuous basis and this handbook is intended to evolve hand in hand with the learnings. Readers are encouraged to apply the principles and indicators within their own organisations and to send their feedback to the Performance Working Group of the Microinsurance Network (info@microfact.org). New leanings and findings on social performance management for microinsurance will continue to be shared through the Microinsurance Network's communication channels and through the dedicated website www.microfact.org, or the Network's website www.microinsurancenetwork.org.

The partners behind this initiative sincerely hope that practitioners will learn, use and improve this instrument to build a stronger, fairer and more transparent microinsurance sector.

Annexes

Annex I - Background of the social performance initiative

In October 2006 and July 2007, ADA and BRS in collaboration with the CGAP Working Group on Microinsurance (now the Microinsurance Network) organised two workshops to develop performance metrics for microinsurance. Over 30 practitioners from Africa, Asia and Latin America participated in these workshops, which concluded with the selection of 9 key principles and 10 financial Key Performance Indicators (KPIs).

Whilst these principles and indicators focused on financial performance, workshop participants highlighted the importance of ensuring a balance between financial and social measures, and reflecting the social purpose of the microinsurance business. The social purpose of the sector consists in setting up risk mitigation mechanisms for low-income and excluded people, who don't have access to regular insurance or social protection mechanisms. This was captured by including "client focus" as one of the key principles established in the financial KPIs, meaning that the indicators should be interpreted from the client perspective. In addition, for each of the 10 financial key performance indicators, the handbook Performance Indicators for Microinsurance includes a 'social interpretation' paragraph that highlights the social significance of each indicator.

The inclusion of a client focus in the KPIs formed a good foundation for developing social performance indicators, and in 2010, the Performance Working Group of the Microinsurance Network started to develop social indicators for microinsurance. As the representative body of the global microinsurance sector, the Microinsurance Network was keen to take into account the learnings from the microfinance sector, where social performance standards and tools have flourished. One of the main lesson taken from this experience was to harmonise the social indicators across the sector from the start.

The participative process applied to develop the microinsurance financial KPIs – leaving the lead role to a fair representation of the microinsurance practitioners rather than the donor community – proved successful and was adopted for the development of the social performance indicators, leaving them to be shaped by the practitioners of microinsurance.

In October 2010, a first set of principles and indicators were established in a workshop with 15 microinsurance practitioners. These were then reviewed and tested throughout 2011. A series of email surveys and phone interviews were conducted between February and May and a meeting was held in August in London to consolidate the findings. The retained principles and indicators were then tested within two organisations, Negros Women for Tomorrow Foundation (NWTF) in the Philippines and Uplift in India, to analyse whether the indicators were coherent and provided a complete overview of their activities.

The resulting new social performance indicators were then reviewed in a second workshop with 18 microinsurance practitioners, in July 2012. The new social performance indicators were validated, bringing to a close the two years of consensus building amongst the microinsurance practitioner community.

Participant organisations

Organisation	Country
Afya Yetu Initiative	Kenya
Alexandria Business Association (ABA)	Egypt
Aseguradora TAJY	Paraguay
BancoSol	Bolivia
CARD Mutual Benefit Associations (MBA)	Philippines
CARE Hospitals	India
Caurie Micro Finance	Senegal
Confédération des Institutions Financières (CIF)	Burkina Faso
Cooperative Insurance Company (CIC)	Kenya
CRECER	Bolivia
Dhan Foundation	India
Gropere	Benin
Healing Fields	India
International Finance Corporation (IFC)	Worldwide
La Positiva Seguro	Peru
Negros Women for Tomorrow Foundation (NWTF)	Philippines
PlaNet Guarantee	Senegal
Prisma	Peru
Pro Mujer	Nicaragua
Réseau des Caisses Populaires du Burkina (RCPB)	Burkina Faso
Star Microinsurance Services Limited	Ghana
TYM - Mutual Assistance Fund	Vietnam
University of Dhaka	Bangladesh
Uplift Mutuals	India
Vimo SEWA	India

Annex II - Social performance and client value initiatives

The client value of microinsurance, either direct or indirect, represents the added value of having insurance in comparison to other available risk coping mechanisms. The value is realised either when claims are made, or as a result of behavioural changes as a result of owning a policy and trusting that it will be honoured.[24]

Since the first social performance indicators workshop in October 2010, the concept of 'client value' has become the focus of many donors. This interest has led to the emergence of complementary initiatives. The following table adapted from the ILO's Microinsurance Innovation Facility[25] attempts to compare the different approaches.

Client value assessment approaches

	Key performance indicators[26]	PACE	Market study	Client satisfaction study	MILK client math[27]	Impact
Rationale	Raise red flags about current client value performance; Help set priorities for improvement	Identify value creation opportunities; Explore strengths and weaknesses of current design in relation to alternatives	Understand needs and preferences of target population	Understand client satisfaction, renewal behaviours and client loyalty	Understand the financial value at the time of a claim of products in comparison to alternatives	Assess outcomes/ impacts on indicators related to behaviour change or wellbeing of households / communities
Key audience	Practitioners and enablers	Practitioners and enablers	Practitioners and enablers	Practitioners	Practitioners and enablers	Enablers
Type	Ongoing monitoring	Ad-hoc audit	Ad-hoc study	Ad-hoc study, ongoing monitoring	Ad-hoc study	Ad-hoc, longitudinal study
Stage	Product monitoring	Product development or refinement	Product development	Product refinement	For more mature products	For more mature products
Data source	MIS	Secondary data on current design and clients	Primary and secondary data on current and prospective clients	Primary and secondary data on current clients, MIS	Primary client interviews and MIS data	Primary and secondary data, at least two rounds of data collection
Complexity / costs	Low	Low to medium	Medium to high	Medium	Medium	High

24 Qureshi Zahid, Reinhard Dirk, "7th International Microinsurance Conference 2011", Munich Re Foundation, 2012, p 62 www.munichre-foundation.org/dms/MRS/Documents/Microinsurance/2011_IMC/MIC2011_Report.pdf
25 Matul Michal, Tatin-Jaleran Clemence, Kelly Eamon, "Improving Client Value from Microinsurance", ILO, 2011, p 6 www.ilo.org/public/english/employment/mifacility/download/mpaper12_clientvalue.pdf
26 Microinsurance Performance Indicators Toolkit: www.microfact.org/microinsurance-tools
27 MILK client math methodology: www.microinsurancecentre.org

PACE (Product, Access, Cost and Experience), the client value assessment tool developed by the ILO's Microinsurance Innovation Facility, examines the added value for clients from insurance products by comparing them to each other and to alternative means of offering protection from similar risks.[28]
www.ilo.org/microinsurance

The **MILK project** of the MicroInsurance Centre is also looking into the client value questions by conducting a series of "Client math studies", which evaluate responses and experiences of large shocks, such as, death, fire, natural disasters, from low-income people with and without insurance. It is a quantitative assessment of the plausible gains to having insurance. It offers an insight into the ways that insurance is used, and explores the role insurance plays compared to alternative risk coping mechanisms.[29]
www.microinsurancecentre.org/milk-project.html

The **Smart Campaign** is a global campaign committed to embedding client protection practices into the institutional culture and operations of the microfinance industry. In close collaboration with the Performance Working Group and the Consumer Protection Task Force of the Microinsurance Network, they have presented the "Smart Microinsurance" tool, which is specifically designed for MFIs that serve as intermediaries, offering microinsurance products provided by an external insurance company.
www.smartcampaign.org

The **Social Performance Indicators** presented in this handbook are intended to foster coherence and compatibility with other initiatives, in particular the Smart Campaign, MILK and PACE.

28 Microinsurance Trilogy N°26, Microinsurance Network, Spring 2012.
www.microinsurancenetwork.org/newltr/fichier/MiN_Newsletter_26_EN.pdf
29 Ibid

Annex III - Financial key performance indicators[30]

In October 2006 and July 2007 over 30 microinsurance practitioners from Asia, Africa and Latin America discussed appropriate measures for microinsurance performance during workshops organised by ADA and BRS in collaboration with the CGAP Working Group on Microinsurance (now: Microinsurance Network). The workshops were concluded with the selection of 9 key principles and 10 financial key performance indicators (KPIs).

A sector wide expectance for these financial key principles and indicators has been observed. By 2012 over 250 microinsurance practitioners have been trained in applying and interpreting the KPIs. The financial performance indicators have been incorporated by leading microinsurance funders and regulators like CIMA, who integrated the KPIs in its microinsurance legislation in 14 West-African countries. Support for the KPIs is organised through the dedicated website www.microfact.org from where a handbook and microinsurance factsheet can be downloaded and training or tailored assistance can be requested.

The key principles

Before calculating microinsurance performance indicators, it is important to integrate a set of principles. In a sense, these can be viewed as a priori conditions or assumed requirements without which transparent and accurate performance measurement is impossible.

The nine key principles are:

- **Separation of data**
- **Collection of relevant and accurate data**
- **Production of financial statements**
- **Calculation and setting up premium and claim reserves**
- **Efficient claims monitoring**
- **Clear investment policy**
- **Right technical insurance expertise**
- **Transparency**
- **Client focus**

Financial key performance indicators

The main goal for using performance indicators is to produce a realistic picture of a microinsurance programme's overall performance in key areas. This means that even when multiple partners are involved, indicators should be calculated from the combined data of all partners. Although there may be some differences in performance and interpretation, the principles and indicators are applicable to all microinsurance providers irrespective of legal structure, environment, organisational setup and type of microinsurance product offered. This set of indicators is not exhaustive but should be considered as key for performance analysis for microinsurance schemes. The full handbook is available for download at www.microfact.org or www.microinsurancenetwork.org

30 For more details, see Garand Denis, Wipf John, "Performance Indicators for Microinsurance – A Handbook for Microinsurance Practitioners (2nd Edition)", ADA with the support of BRS and the Microinsurance Network, 2010

Financial key performance indicators

Indicator	Definition	Key questions	How to calculate it
Incurred expense ratio	The incurred expense ratio indicator is defined as the incurred expenses in a period divided by the earned premium for the same period.	How efficient is the delivery of microinsurance?	Incurred expense ratio = Incurred expenses / Earned premium
Incurred claims ratio	The incurred claims ratio indicator is defined as the incurred claims in a period divided by the earned premium for the same period.	How valuable is microinsurance to the insured?	Incurred claims ratio = Incurred claims / Earned premium
Net income ratio	The net income ratio indicator is defined as the net income for a period divided by earned premium in the same period.	Is the microinsurance product or programme viable?	Net income ratio = Net income / Earned premium
Renewal ratio	The renewal rate measures the proportion of insured that stay enrolled in the programme after their coverage term expires out of those that are eligible to renew.	How satisfied is the insured? How well does the product meet the true need?	Renewal rate = Number of renewals / Number of potential renewals
Coverage ratio	The coverage ratio is the proportion of the target population participating in the microinsurance programme.	How well developed is insurance awareness? How competitive is the product vis-à-vis other products or household risk management alternatives?	Coverage ratio = Number of active insured / Target population
Growth ratio	The growth ratio is defined here as the rate of increase in the number of clients. The growth rate measures how fast the number of clients is increasing or decreasing.		Growth ratio = (Number of insured n – Number of insured n-1) / Number of insured
Promptness of claims settlement	The promptness of claims settlements indicator is an analytical breakdown of service times taken to report and process a set of claims.	How responsive is the service? How well does product fit the insured's needs? How well does the insured understand the product?	See publication
Claims rejection ratio	The claims rejection ratio is the proportion of claims that has been disqualified for benefit payment (rejected), for whatever reason.		Claims rejection ratio = Number of claims rejected / Number of claims in the sample
Solvency ratio	The solvency ratio is defined as the ratio of admitted assets to liabilities.	What is the insurer's ability to meet future obligations?	Solvency ratio = Admitted assets / Liabilities
Liquidity ratio	The liquidity ratio is defined as the ratio of cash or cash equivalents to "short-term" liabilities of the programme.	How readily can the insurer meet its short term expense and claim obligations?	Liquidity ratio = Cash or cash equivalents / Short-term payables

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Appui au Développement Autonome (ADA) is an NGO based in Luxembourg specialised in microfinance and collaborates with microfinance institutions all over the world through financial and non-financial support and exchange.
www.microfinance.lu

The Belgische Raiffeisenstichting (BRS) supports local savings, loans and insurance initiatives according to co-operative principles. BRS's support includes in depth technical assistance, training and financial support.
www.brs-vzw.be

The Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ) aims to give people the freedom to shape their own lives, by making their own decisions and taking responsibility for them, without suffering material hardship.
www.bmz.de

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) offers customised solutions to complex challenges and are an experienced service provider and assist the German Government in achieving its objectives in the field of international cooperation.
www.giz.de

Grameen Crédit Agricole Microcredit Foundation encourages the development of local microfinance institutions and of social businesses in developing countries.
www.grameen-credit-agricole.org

The Microinsurance Network seeks to promote the development and proliferation of insurance services for low-income persons through stakeholder coordination and information sharing.
www.microinsurancenetwork.org

Any feedback or comments can be sent to info@microfact.org

For more information on this initiative, visit www.microfact.org

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