

# IMPROVING CLIENT VALUE FROM MICROINSURANCE

## Insights from India, Kenya and the Philippines

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As microinsurance providers, governments and donors try to provide better value to clients, they are faced with the same questions: are clients benefiting from microinsurance? How do we measure those benefits? How do we improve the value proposition for the clients?

This briefing note<sup>1</sup> presents results from the analysis of 15 microinsurance schemes in India, Kenya and the Philippines using the ILO Microinsurance Innovation Facility's client value assessment tool called PACE (Product, Access, Cost and Experience). The PACE tool looks at the added value for clients of insurance products by comparing the products to each other and to alternative means of protection from similar risks (including informal mechanisms and social security schemes).

The PACE tool helps practitioners develop a better value proposition for clients. The tool focuses on *improving* value, rather than *proving* it. It is not a substitute for demand or impact studies. The tool provides an initial assessment of the product and processes and aims to provide actionable insights for practitioners. It can help instil a client-centred approach to microinsurance, while simultaneously informing the design of more rigorous studies or policy debates. This briefing note highlights three main uses of the PACE tool: identifying opportunities to increase client value, conducting competitor analysis at the country level, and balancing client value and strategic business choices.

### Using PACE to identify opportunities to increase client value

It is widely recognized that microinsurance products can deliver value to low-income households only

if they are appropriate, accessible, affordable, responsive and simple. As illustrated in Figure 1, the PACE framework is designed around these five principles and is structured into four dimensions of Product, Access, Cost and Experience:

- **Product:** describes appropriateness by reviewing coverage, benefit level, eligibility criteria and availability of value-added services
- **Access:** focuses on accessibility and simplicity by investigating choice, enrolment, information, education, premium payment method and proximity
- **Cost:** measures both affordability and value for money, while looking at additional costs to keep down overall costs of delivery
- **Experience:** assesses responsiveness and simplicity by looking at claims procedures and processing time, policy administration, product tangibility and customer care



<sup>1</sup> This brief is excerpted from the Microinsurance Paper no. 12, which includes the relevant citations and details on methodology and the cases reviewed. The paper is available at [www.ilo.org/microinsurance](http://www.ilo.org/microinsurance). Michal Matul works for the ILO's Microinsurance Innovation Facility, Clemence Tatin-Jaleran and Eamon Kelly are independent consultants.

One key aspect that differentiates PACE from other client value assessment tools is that PACE looks at both product specifications and related processes. Often, the problem with microinsurance schemes is that processes to enable access or to service claims are poorly designed and undermine the value of the products. By evaluating current processes from the client perspective, PACE can identify improvement opportunities. Following are selected examples of value creation opportunities within the four dimensions of PACE, which were identified during the PACE analysis of 15 life or health microinsurance schemes.

## IMPROVING PRODUCT FEATURES TO EXPAND MEMBER BENEFITS

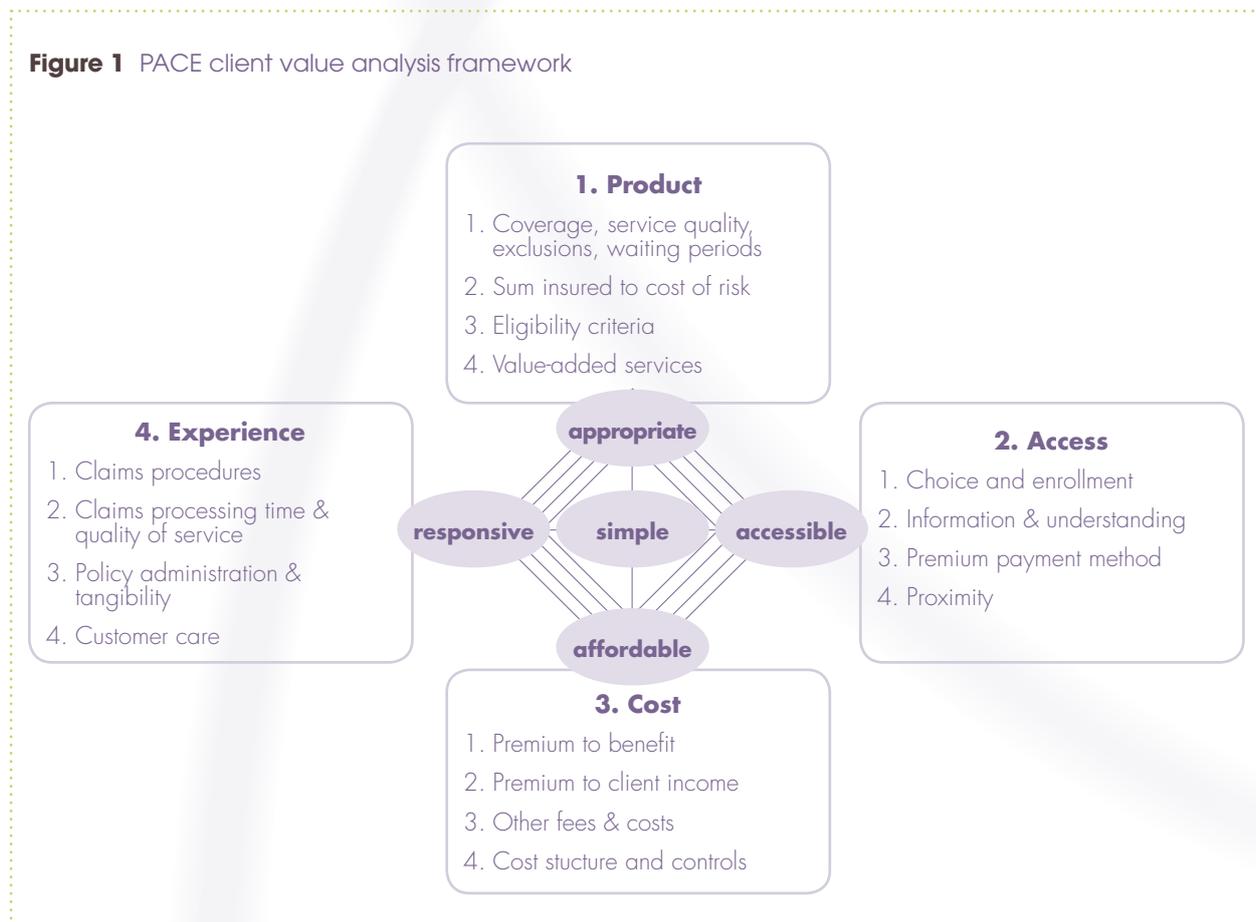
One of the main challenges with life insurance is to improve the value of accidental death and disability (AD&D) benefits. Often the client value of AD&D policies is questionable due to high premiums for a very low frequency risk, exclusions and long waiting periods, which, in principle, are not necessary to control adverse selection for accidental coverage.

Given low-income households' high exposure to accidents and their challenges in coping with unexpected expenses, it is important to continue to improve the value of AD&D products. Some providers in the Philippines, like CLIMBS, simplified the list of exclusions and introduced no waiting periods for

accidental benefits. Similarly, CARD and MicroEnsure provide accidental coverage soon after enrolment, while natural death benefits increase incrementally over time. Another good feature of the CARD product is to pay out disability benefits in monthly instalments rather than as a lump sum; this is similar to getting a monthly wage and can instil better financial discipline among the beneficiaries.

Designing health microinsurance is inherently more complex than in the case of life products. Most of the reviewed schemes in India and Kenya incorporate non-insurance benefits such as preventive health services or discounts for outpatient services in their in-patient health offerings (see Box 1). Another relatively easy way to enhance benefits in health microinsurance is a hospital-cash feature, or a benefit for loss of income due to hospitalisation. This can be useful when clients need to pay (informally) for drugs or for services due to under-financed public health systems. In addition, it can provide protection for informal workers who are not compensated for loss of income by social security systems. For example, Cooperative Insurance Company (CIC) in Kenya pays out KES 2,000 (US\$ 22) per week for up to 25 weeks during a hospitalization. In India, Self-Employed Women's Association's (SEWA) health workers come to the hospital on the first or second day of hospitalization to provide an advance on a claim that is reimbursed in full later on.

**Figure 1** PACE client value analysis framework



## FACILITATING ACCESS

Intuitively, offering a choice between products or specific features within products should be beneficial. Too much choice, however, can complicate decisions, and discourage clients from buying an otherwise valuable product. Also, mandatory products that offer no choice are usually less expensive as they may have lower administrative expenses, reach scale faster and avoid adverse selection. The merits and downsides of mandatory versus voluntary products are better discussed when all client value dimensions are considered at once (see Box 2).

Some microinsurance providers are experimenting with a hybrid approach. In the Philippines, MicroEnsure offers a mandatory life insurance product to borrowers of the microfinance institution, Taykay Sa Kauswagan, Inc. (TSKI), with an opt-in feature for clients who want to continue coverage after their loans are paid off as many clients also save with TSKI. The basic idea is to control adverse selection through a mandatory offering delivered with superior service that allows clients to appreciate the product, and buy it voluntarily or upgrade to a higher option in the future.

Low levels of insurance literacy make it difficult for clients to understand policies and use them properly, which undermines client value. Addressing this challenge requires educating clients about the product and how it can be used within a range of other available risk management solutions. Financial education is especially important when clients

either do not decide to buy the product themselves (mandatory offerings), pay little for subsidized offerings, or are offered a complex product.

Comprehensive financial education requires use of various channels to relay educational messages intended to change consumer behaviours. MicroEnsure's education program, for instance, is based on three pillars: 1) financial literacy on savings versus insurance through comic books, songs and CDs, 2) explanation of product benefits and logistics, and 3) education of TSKI staff on the same content with an emphasis on claims administration. Such comprehensive education is however costly, and it is unlikely that microinsurers can deploy such broad programs on their own without support from donors, government or industry bodies. Hence, providing clear information about the product is a good start for microinsurers. FICCO in the Philippines and ICICI Lombard in India provide useful examples. The former provides a very simple policy document that conveys key benefits and logistics of the policy, and the latter includes a list of exclusions provided on the back of the insurance card.

## LOWERING COSTS AND IMPROVING VALUE FOR MONEY

Value for money can be measured by comparing all insurance and non-insurance benefits to the total premium paid. Of the reviewed schemes, it is not surprising that the subsidized products provide the best value for money. Products with many value-added benefits, such as that of Uplift (see Box 1)



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### Box 1 Process of improving client value at Uplift

Uplift Mutuals started its health insurance scheme in 2003 with a maximum coverage of INR 5,000 (US\$111) for an annual premium of INR 50 (US\$1.11) per person. The cover included 100 per cent reimbursement for inpatient treatments at public hospitals and 80 per cent at private hospitals. In 2007, outpatient discounts on consultations and medicines were added and day-care procedures and accidents were included in the cover, while pre-existing conditions were excluded for two years (previously they were excluded for only one year), and the premium was increased to INR 60 (US\$1.33) per person. At the same time, Uplift hired fully dedicated field staff to improve customer care. In 2009, Uplift raised the sum insured to INR 15,000 (US\$333) for a premium of INR 100 (US\$2.22) per person.

Uplift had to address three issues during its early years: 1) a high claims rejection ratio, 2) an increase in cost of claims, and 3) an increase in out-of-pocket expenses for their members. Due to lack of awareness, many claims were submitted for excluded cases. The scheme was unable to control health care costs because it relied on a small network of empanelled providers, so it could not compare costs or offer proximity to some members. Uplift also realized that its members value access to information on health services as much as the financial benefit of insurance.

Several interventions took place to tackle the above challenges. To improve access, Uplift developed a network of more than 300 credentialed health providers offering price discounts of 10 to 50 per cent, and instituted a 24/7 helpline to assist members to obtain access to an appropriate health provider. To increase value for all members, even those with no hospitalisation claims, Uplift expanded its client services to include drug discounts, monthly health camps, free check-ups and health education to prevent seasonal illnesses.

Uplift's efforts to improve client value seem to be paying off. As of early 2011, the scheme covered more than 100,000 people, the claims rejection ratio was two per cent, the loss ratio has increased to 47 per cent, services ratio (proportion of members accessing outpatient or inpatient health services) was 56 per cent, out-of-pocket spending decreased by 22 per cent, and the renewal ratio increased from 48 per cent in 2008 to over 60 per cent in 2010.

Uplift health microinsurance scheme is currently not fully sustainable. Premiums are enough to cover insurance operations but are not yet sufficient to sustain the value-added benefits, which are subsidized by a donor. Uplift estimates that tripling the current membership should generate economies of scale to sustain the full programme.



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also score well on this dimension. In the Philippines, where there is a mature market for life products, all products provide similar value for money.

The value for money analysis helps to identify if products are overpriced. One reason for overpricing may be to compensate for inefficient processes. For example, of the four reviewed Kenyan offerings neither the cheapest nor the most comprehensive product seems to provide the best value for money. Both products have claims ratios between 80 to 120 per cent, which means that members get more for their premiums. But a ratio that high is also a sign of a problem with the product, which ultimately can be bad for both the insurer and the client. It seems that other Kenyan microinsurance providers have more efficient processes or better cost controls because even with lower claims ratios they offer better financial value to clients.



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Many health schemes have co-insurance arrangements of 10 to 20 per cent. Some of the Indian schemes reviewed include member cost sharing on expensive surgical procedures or accidental hospitalisation cases that should have limited impact on controlling moral hazard but can significantly increase vulnerability for those who are exposed to the catastrophic risks. Client value can be increased if cost sharing is eliminated for rare but expensive events or limited to some maximum out of pocket cost per policy per period, while still used for more frequent, low-cost events.

## ENHANCING EXPERIENCE

Settling a claim is when insurance becomes tangible for clients, and it provides an opportunity for insurers to build trust and increase loyalty. For the composite products reviewed in Kenya, the PACE analysis found that the list of required documents for some of the products reviewed is often too long; and it is not clear whether the additional paperwork makes any contribution to the insurer's controls, but it definitely deteriorates the clients' experience. These processes can be simplified, as illustrated by MicroEnsure, by reducing documentation requirements for verification and allowing for the use of village head certificates and affidavits. In the Philippines, the PACE analysis points to several good examples of client value enhancements. Providers like CLIMBS, MicroEnsure and CARD pay the funeral benefit component of the policy within 24 hours, while the rest of the life

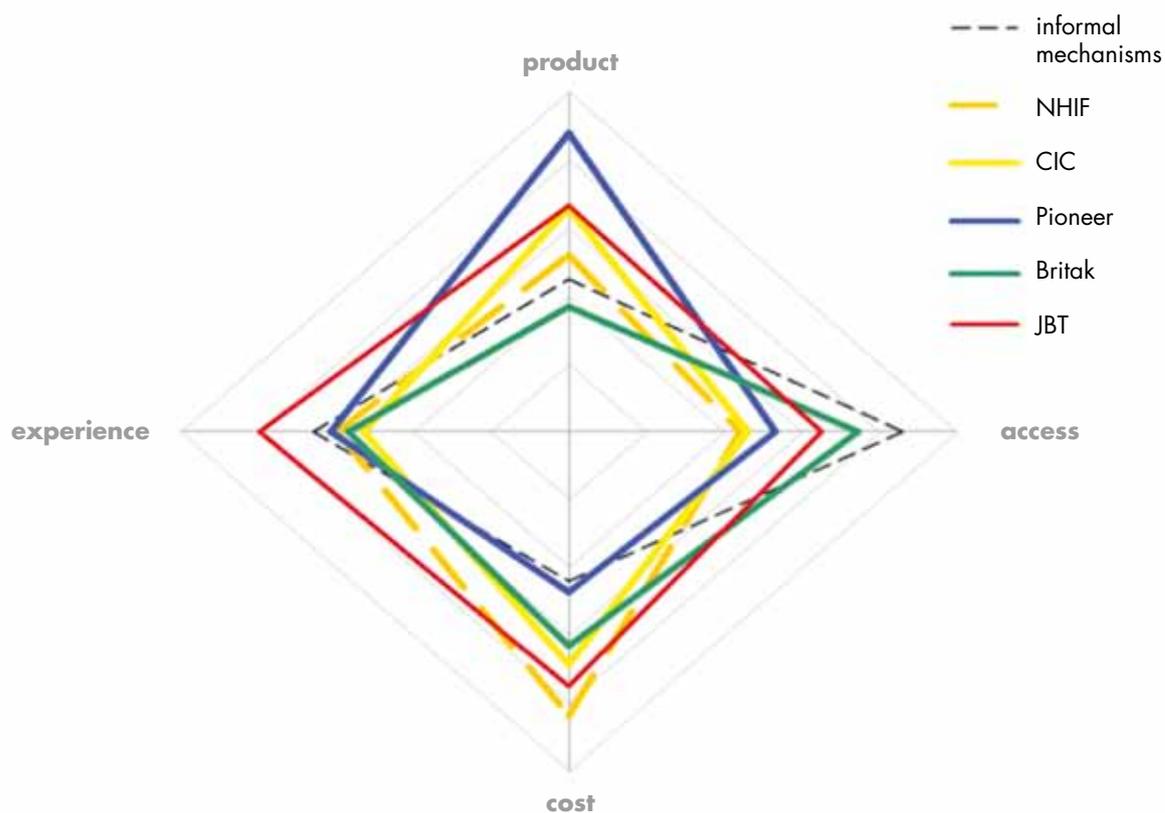
benefit is paid slightly later and is subject to more documentation.

As products and distribution models become complex, the role of customer care in microinsurance has become more important. Insurers are making a greater effort to provide support to clients before, during, and after a sale. With advancements in mobile telecommunications, call centres are being tested in microinsurance and some of the reviewed schemes provide access to a toll-free number. Access to a call centre can enable clients to understand the basic features of the product and check their policy status. It also establishes a feedback and grievance mechanism.

### Using PACE for competitor analysis at country level

Informal mechanisms and social security schemes provide a benchmark to assess the value of microinsurance in the context of other risk management options. The results from the PACE analysis of 15 microinsurance schemes in Kenya, India and the Philippines show that there is, indeed, a place for microinsurance to complement informal risk-sharing practices and social security schemes. As shown in the examples from Kenya and India below, using PACE to do a comprehensive 'competitor' analysis can further identify how the value from a specific microinsurance product can be improved in relation to alternative risk-management solutions. The PACE analysis also provides an overview of the value from similar offerings on a specific market.

**Figure 2** Client value PACE assessment, Kenya



	informal mechanisms	NHIF	CIC	Pioneer	Britak	JBT
product	2.3	2.6	3.3	4.4	1.9	3.3
access	4.3	2.2	2.3	2.7	3.7	3.3
cost	2.2	4.2	3.4	2.4	3.2	3.8
experience	3.3	3.0	2.7	3.1	2.9	4.0

In Kenya, the PACE analysis compared three composite products by CIC, Pioneer Assurance and Britak, and two in-patient health insurance offerings by Jamii Bora Trust and National Health Insurance Fund (NHIF), an extension of a government initiative to provide universal health coverage (results in Figure 2)<sup>2</sup>.

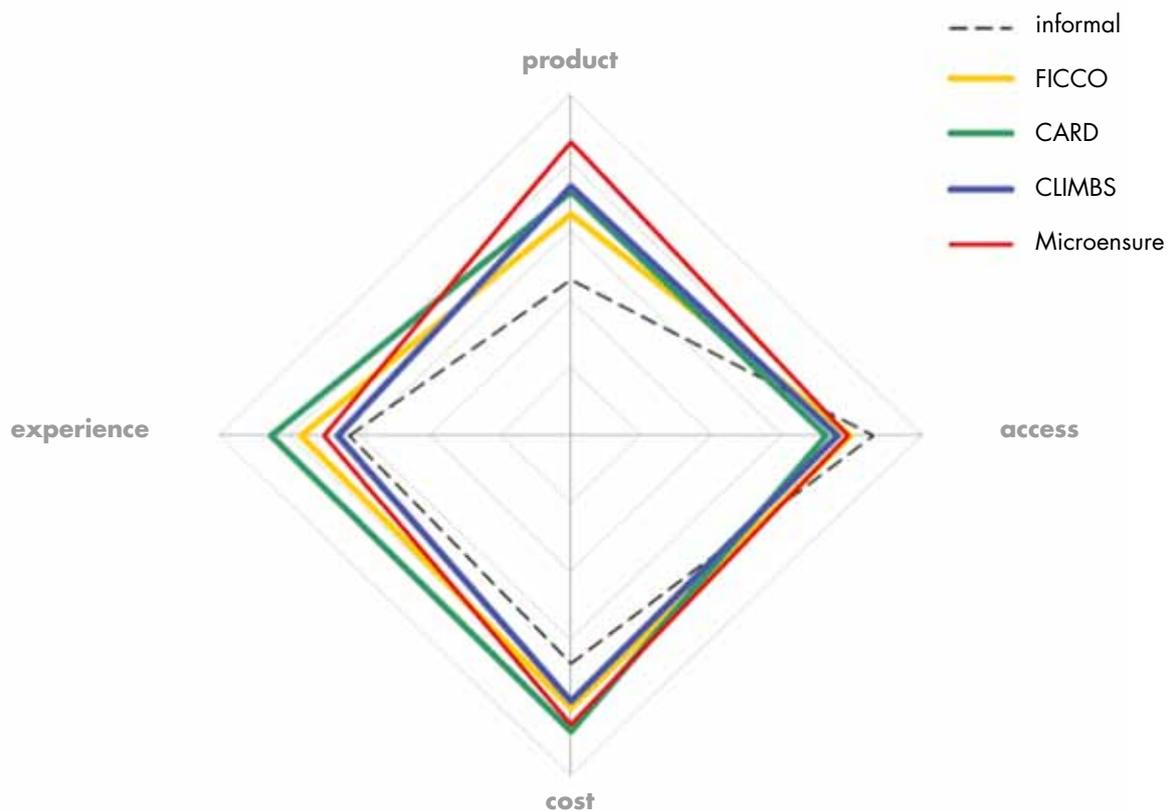
The low scores received by almost all products (except Jamii Bora, see Box 2) can be attributed to the complex nature of composite products and the limited maturity of the reviewed schemes. In theory, there are strong arguments in favour of composite products given high acquisition costs in

**Box 2** The value of Jamii Bora over informal schemes

According to the PACE analysis, Jamii Bora Trust’s microinsurance product is the only product that significantly adds value. This product mimics informal mechanisms in terms of access and provides superior service, while at the same time providing more comprehensive cover than NHIF for a similar price. The relatively good value for money stems from the fact that adverse selection is limited due to the mandatory nature of the product, and adequate controls are put in place to reduce fraud and moral hazard by health care providers. The mandatory, credit-linked feature lowers the ranking for access as clients do not have any choice and in most of the cases finance premiums through loans. However, this is counterbalanced by product simplicity and the proximity of Jamii Bora branches. Giving the members more choice is now being discussed, but it seems that making the product voluntary to all Jamii Bora Trust members might reduce value for money as adverse selection and administration costs will increase significantly.

<sup>2</sup> The scoring uses a five-point scale (5 equals high client value) and criteria on all 16 sub-dimensions. While it is plausible to assume that all four main dimensions are almost equally important, not all 16 sub-dimensions carry the same significance.

**Figure 3** Client value PACE analysis, Philippines



	informal	FICCO	CARD	CLIMBS	MicroEnsure
product	2.3	3.3	3.6	3.7	4.3
access	4.3	4.0	3.6	3.8	4.0
cost	3.4	4.0	4.4	3.9	4.3
experience	3.2	3.8	4.3	3.3	3.5

microinsurance. However, the inherent complexity of a composite product makes it difficult to explain to clients, expensive to administer, and difficult to maintain high quality service, resulting in barely affordable products. These factors have resulted in low take-up of the products reviewed.

In the Philippines mandatory life products with disability and funeral benefits were selected for the PACE analysis, those of CARD and FICCO, who run the biggest mutual benefit associations, CLIMBS, a regulated, cooperative insurer working in a partner-agent model with microfinance institutions and cooperatives, and MicroEnsure’s scheme with TSKI.

All the products reviewed score almost the same on the core dimensions of the PACE framework. The products have various strengths and weaknesses, but

offer good coverage and service for a reasonable price; the price is within the willingness to pay range declared by low-income households. Concern over the value for money still remains a question, as all the products are very profitable, suggesting that there is an opportunity to raise benefits or reduce premiums.

The analysis points to the correlation between client value and maturity of markets. In the Philippines, where for more than a decade microinsurers have been continuously improving life products, there seems to be no question about the value of all the reviewed products. In Kenya, where innovations in composite products such as health and life have just started, the client value of most offerings is under question as they are not much better than informal mechanisms nor do they complement the social security scheme.



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### Using PACE to balance client value and strategic business choices

There are intrinsic trade-offs between client value and business considerations. A balanced value approach across all four dimensions of PACE makes sense for a client, but it might not be the best choice for a microinsurer that wants to differentiate its offering in a competitive environment. There is often no simple answer to which business strategy is optimal, but what is obvious is that incorporating clients' feedback in strategic decisions is vital, especially with growing competition. PACE or other client value assessment tools can help accomplish this. The PACE results can form input to the planning that also considers the broader economic environment and institutional

factors. Microinsurers can repeat a PACE analysis regularly to provide input to guide the product review and repositioning.

### Concluding thoughts

In the ongoing value creation process, a competitive environment and market orientation can lead to improvements. Often enhancements are small adjustments that make a significant difference for low-income consumers. There are many trade-offs in this process but it is widely acknowledged that client value should drive business viability. Better products mean reaching economies of scale, a prerequisite in microinsurance, in a more timely fashion.

Housed at the International Labour Organization's Social Finance Programme, the **Microinsurance Innovation Facility** seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation. See more at [www.ilo.org/microinsurance](http://www.ilo.org/microinsurance)



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