



An Update on the Lessons Learned from the Working Group on Microinsurance

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Update on Working Group Activities

Working Group on Microinsurance

Working Group

Demand

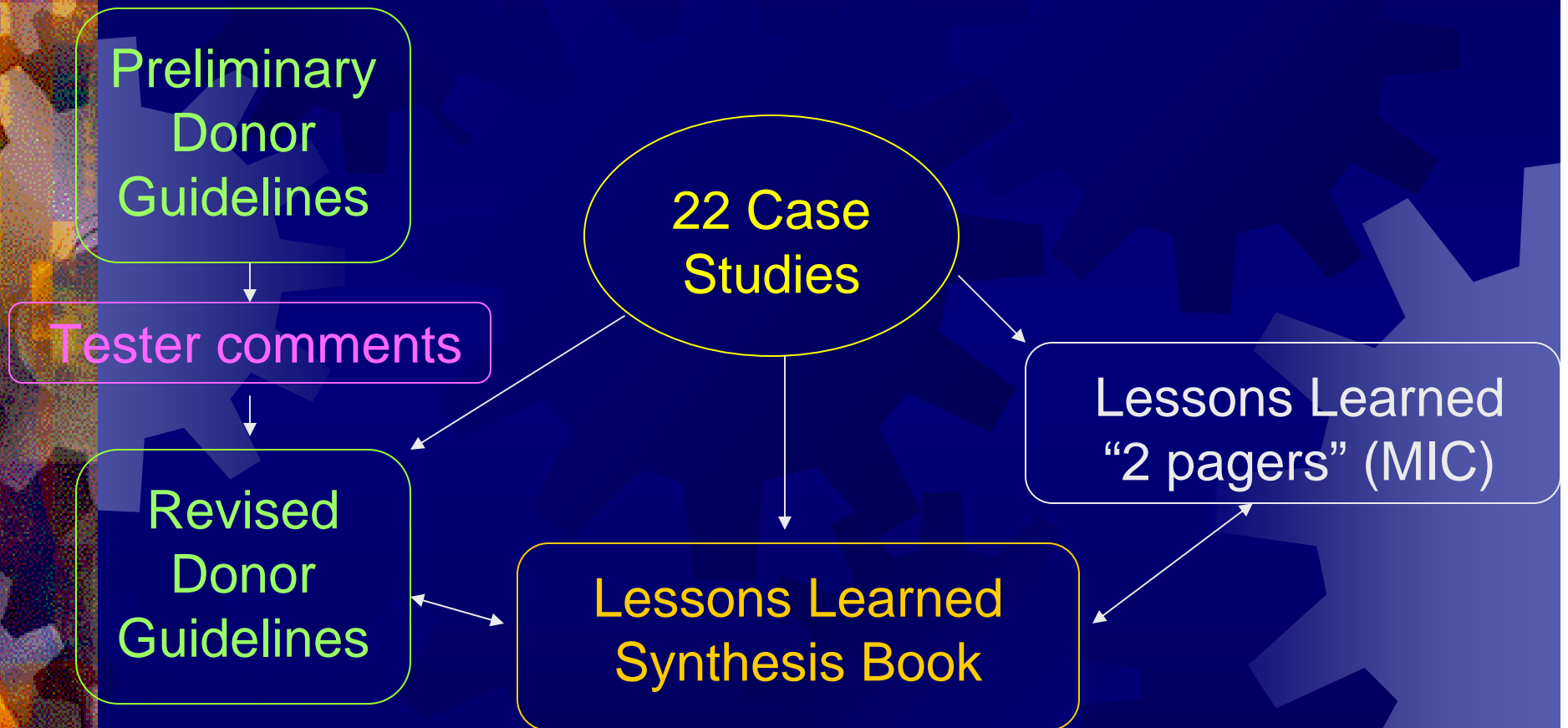
Practices

Policy

Dissemination

Benchmarking(?)

Practices Group Activities in Context



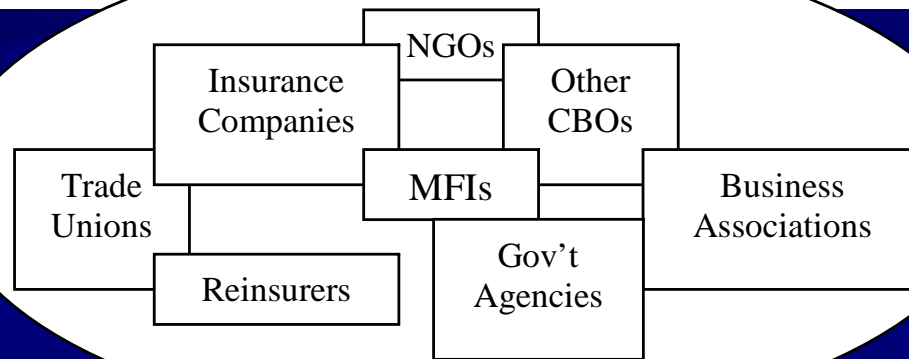
Donor
Guidelines

Case Studies and
Synthesis Manual

Direct Project Impact:
*Improved Use of Donor Resources for
Microinsurance*

Direct Project Impact:
*Improved Technical Know-how and
Dissemination of Innovations*

Potential suppliers of
microinsurance, possibly in
partnership with each other



Indirect Project Impact:
*Improved Quality and
Availability of Microinsurance*

Vulnerable, Low-income Persons:
Potential Pool of Microinsurance
Customers

Now....On to the lessons

- ★ **WARNING:** Comments in this section are based on nine published cases, plus some knowledge of three others, but the total pool will be twenty-two. The sample size is limited, and thus comments at this point should be more for discussion and not seen as final results of the case study activities.

Product Design

- ★ Always assess the impact on the company of any new product (CARD)
- ★ Be very careful expanding to family members
- ★ Keep it simple, group based, mandatory
- ★ Outsourcing improves design flexibility (Tuw Skok)
- ★ Can reduce lapses with less frequent payments (Delta)
- ★ Relate the premium to the benefit (AIG)
- ★ Insurer should set final premium
- ★ Consider offering service instead of payment (ServiPeru)

Product Delivery

- ★ Staff training and appreciation is necessary for significant sales growth. (Common)
- ★ Creating ones own delivery channel may result in higher operations costs. (Delta)
- ★ Became a minimum expected benefit to MFI clients
- ★ Mandatory products can leave customers with very little understanding. Mandatory products DO NOT reflect demand. (AIG, MUSCCO, CARD, TYM)
- ★ Major problems can be the result of the agent (claims delays)
- ★ Do not underestimate demand. Make sure you are ready for rapid growth. (CARD, AIG, Columna)

Financial Value of Networks

<u>AIG Uganda[1]</u>			<u>Delta Life[2]</u>	
2003	2004 est.		2002	2001
54%	50%	Loss Ratio	10%	8%
36%	34%	Operational Costs Ratio	45%	48%

- **AIG Uganda** uses MFIs (23) to deliver its product;
- **Delta** has created its own distribution network similar to that of Grameen Bank

[1] Michael J. McCord, Felipe Botero, and Janet S. McCord. AIG Uganda: CGAP Working Group on Microinsurance – Good and Bad Practices in Microinsurance, Case Study No. 9, Geneva ILO, 2005.

[2] Michael J. McCord and Craig Churchill. Delta Life Bangladesh: CGAP Working Group on Microinsurance – Good and Bad Practices in Microinsurance, Case Study No. 7, Geneva ILO, 2005.

Evolution


- ✦ Lack of evolution in products and processes hinders growth (AIG)
- ✦ Evolution must be controlled (ServiPeru) This may require institutional change (ServiPeru – brokerage and insurers)
- ✦ Evolution must be balanced on both the demand and supply side (TYM – Fixed premium claims increased 4.5X from 2000 to 2003 – added Hospitalisation)
- ✦ Remuneration evolution has shown benefits (several moved to commissions)
- ✦ Evolution of social motivation to commercial motivation
- ✦ With bad news, throw a treat (CARD, AIG)

Institutional Structures

- ★ **COMPUTERIZATION!** For data mining and efficiency
- ★ Separation of insurance and other business (CARD, Tuw Skok, AIG,) **Focus on core competencies** (Delta, lost USD2 mill on microcredit, ServiPeru)
- ★ **Life versus Non-Life/General License** (limitations need to be addressed)
- ★ **Brokerage firm might be more flexible** (Tuw Skok, ServiPeru)
- ★ **Decentralization of claims can be more efficient**

Management and Governance

- ★ A member owned insurer (MBA) needs an advisory committee of professionals to guide it.
- ★ Limits to management capacity can be expanded with reinsurance or outsourcing (Tuw Skok, ServiPeru, MUSCCO)
- ★ Must treat microinsurance with the same business approach as regular ins.
- ★ The board should require actuarial reviews, and follow recommendations (MUSCCO increased premiums by 60%, Delta, CARD)
- ★ Need to review the microinsurance products as a separate product line (AIG)



"Follow your calculator, not your heart."

(Aris Alip, CARD MRI)

Financial Performance

★ Growth in Net Income

★ Observations (over 4 years ended 2003)

- 3 regulated companies grew >100%
- 1 regulated company grew 45%
- 2 unregulated companies grew 3% and 62%
- 1 unregulated company grew 41% in one year

★ Comments

- Limited growth in unregulated because of limited / lack of reinsurance and reserves
- Regulated are protected and monitored with strong profit motive

Financial Performance

★ Growth in Total Premiums

★ Observations (over 4 years ended 2003)

- Growth of regulated companies:

- 3 grew rapidly >80%
- 2 largest grew slowly or saw minor reversal

- Growth of unregulated companies:

- 1 flat and 1 with >20% in one year

★ Comments

- Slow regulated insurers:

- 1 is reengineering but growth has been stagnant for 4 years
- 1 is huge already and this limits premium growth without adjustments

Financial Performance

☀ Loss Ratios

☀ Observations (data per year)

- Range from 8% to 63%
- Highest, in the 32% to 63% range, are with health or illness covers
 - Unregulated are at the top and bottom of the range, regulated is 55%
- Life covers (without health), are in the 8% to 40% range
 - Endowment causes lowest loss ratios because of savings component
 - No apparent difference between regulated and unregulated

☀ Comments

- Overall loss ratios remain rather low
 - This may relate to inefficiencies
- Significant volatility due to numerous factors, though 5 of 8 are reasonably flat.

Financial Performance

★ Administrative / Operations Ratios

★ Observations (data per year)

- Range from 12% to 68%
- Lowest, in the 12% to 15% range, pay no commissions, and work through their own network of members
- Highest pays reinsurance (only 1 other is noted as paying for reinsurance) and the highest commissions by up to 16%.
- Between the outliers the three regulated insurers working through corporate agents cost 32% to 34% in 2003
- The regulated insurer that has created its own distribution network costs about one-third more than those with corporate agents

★ Comments

- Only one example but it shows clearly that using corporate agents is substantially cheaper than creating ones own network.
- The ratios in general are significantly too high. They should be in their teens or low 20%s. This likely relates to inefficiencies.

Financial Performance

★ Profit Ratios

★ Observations (data per year)

- Of those reporting (7 of 8), all target institutions were profitable in at least the latest year of data collected.
- The range is from 0.2% of premiums to 45%
 - The highest is an unregulated cooperative, as is the lowest

★ Comments

- Profitability is proven by these institutions, even when offering some level of health insurance.
- The regulated fully commercial insurers generally earn lower profits than the cooperative or otherwise based insurers.



The MicroInsurance Centre

"Developing partnerships to insure the world's poor"

www.microinsurancecentre.org

All case studies are available on this web site