

MICROINSURANCE
PAPER No. 32

March 2014

BUSINESS CASE FOR MICROINSURANCE
PART II: FOLLOW-UP STUDY ON THE
PROFITABILITY OF MICROINSURANCE

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First published 2014

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ILO Cataloguing in Publication Data

Angove, J.

Business Case for Microinsurance Part II: Follow-up on the profitability of microinsurance / Angove, J. and Dalal, A.

International Labour Office - Geneva: ILO, 2014
50 p. (Microinsurance paper no.32)

ISBN: 978-92-2-126328-9 (web pdf)

International Labour Office

Key Words - microinsurance / viability / business case

11.02.3

ILO Cataloguing in Publication Data

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ACKNOWLEDGEMENTS

We would like to express gratitude to the insurers for their participation in the research. We sincerely thank Guillermo Lopez and Leticia Furst from ASR, Barbara Chesere from CIC, Birendra Mohanty from ICICI Lombard, Thembisa Mapukata and Colette Patience from Old Mutual, Carlo Diaz from Malayan Insurance, and Lourdes del Carpio Gómez de la Torre from La Positiva.

We also extend thanks to Christopher Cherry, who assisted with the research.

We wish to convey special thanks to Rick Koven, Denis Garand, Jeanna Holtz, Craig Churchill, Pranav Prashad and Thomas Wiechers, who reviewed the first draft of the paper, for their valuable insights and useful comments. We extend particular thanks to Mary Yang for her guidance during the project.

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EXECUTIVE SUMMARY

Although insurers are becoming more active in microinsurance and are optimistic about future profitability, questions around whether insurers achieve returns for shareholders for microinsurance need to be explored further. Can insurers really serve the poor and be true to the interests of their shareholders? Is microinsurance a legitimate line of business or just a socially responsible endeavour? Can insurers do well (financially) by doing good (for clients and society)? Understanding the drivers of profitability and the factors enabling good financial performance is critical to the development of viable microinsurance initiatives.

Investigating the financial experience of a variety of microinsurance initiatives to see what drives profitability can help other insurers to identify factors that will help make their businesses more successful. This research follows the financial experience of six insurers over three years (2009-2012), looking at changes to some of their microinsurance initiatives and providing new insights into drivers of profitability. These microinsurance initiatives were first investigated in a 2010 study. That study revealed that insurers were facing challenges with profitability and had implemented a number of corrective measures, particularly in the area of distribution and claims management. This study aims to investigate whether those measures have been successful over the longer term.

The analytical framework from the previous study is used to explore the factors underlying the financial performance of the microinsurance, with a focus on three drivers of profitability: achieving scale, controlling claims costs and managing expenses.

ACHIEVE SCALE

The majority of the microinsurance products in this study have grown significantly over time although some have seen variable growth and stagnant or reduced premium volumes. Increased competition has been a challenge to business growth and profitability for the Kenyan, South African, Filipino and Indian insurers although it is encouraging that microinsurance markets are developing in these countries. The following drivers of scale were identified:

- Use managers to motivate staff to sell insurance as financial incentives are not sufficient to encourage the staff of the partner to generate large sales volumes.
- Balance resources between servicing existing clients and generating new business. Both need continual attention otherwise business volumes decline.
- In competitive markets, differentiate products through benefits and servicing, rather than price, to foster loyalty.
- Generating sufficient business volumes is important to cover the costs of developing new products, distribution channels and administration systems.

Although some of the products investigated have reached high levels of policy volumes, there is still potential for significant growth, given the market size.

CONTROL CLAIMS COSTS

Reductions in claims costs have had the greatest impact in transforming the loss-making products into profitable ones. The following strategies have helped insurers reduce claims costs:

- Adjust premiums for riskier groups for funeral insurance, and introduce differentiated pricing for riskier groups to manage adverse selection for health insurance
- Introduce effective claims verification processes to manage claims fraud for health insurance.
- Use reinsurance for property cover to mitigate the risk of accumulation in areas exposed to weather-related risks.

MANAGE EXPENSES

Working with groups and aggregators and making use of partner infrastructure are the main strategies used by insurers to achieve scale and keep costs low at the same time. Gearing up for scale by setting up efficient systems and processes is important to keep ongoing management expenses low. Effective use of technology through the development of systems that link to partners has assisted some insurers to reduce expenses. The following factors help manage expenses:

- Negotiate low fees with partners responsible for distribution and administration activities.
- Eliminate duplicate processes, automate processes and anticipate scale.
- Make use of resources from other departments rather than developing internal skills.

This follow-up research shows that microinsurance has grown over the past three years and that the insurers in the original case studies continue to devote resources to build their microinsurance business. The game is changing because of new opportunities in the market (for example, mobile money) and increased capacity as markets mature. Monitoring financial experience and keeping in touch with customers are essential in order for companies to learn from failures and challenges.

Although the financial analysis indicates that some initiatives are profitable, assessment of the overall profitability of microinsurance business is more challenging. Microinsurance business is expanding and evolving so even though individual products may be profitable, microinsurance portfolios as a whole may not be profitable. Further research is needed to understand these dynamics.

ABBREVIATIONS AND ACRONYMS

ASR	Aseguradora Rural
BAC	Bankers Assurance Corporation
BANRURAL	Name of a microfinance bank in Guatemala
CIC	Co-operative Insurance Company
MFI	Microfinance institution
MICO	Malayan Insurance Company
NGO	Non-governmental organization
NHIF	National Health Insurance Fund
RSBY	Rashtriya Swasthya Bima Yojana
SACCO	Savings and credit cooperative
W&A	Weavers & Artisans cooperative

1 > INTRODUCTION

Insurance companies have the potential to be key players in the provision of valuable protection to low-income households – they have the expertise and the capacity. A Microinsurance Network survey found that 33 of the top 50 commercial insurers on the Forbes Global 2000 list were involved in microinsurance (Coydon and Molitor, 2011). About 50 per cent of these indicated that microinsurance was profitable and 95 per cent believed that it would be profitable within the next three years. Access to new markets was the main reason given by the insurers for involvement in microinsurance. Social motives and building brand awareness and were given as secondary reasons (ibid.).

Although insurers are becoming more active in microinsurance and are optimistic about future profitability, questions around whether they achieve returns for shareholders need to be explored further. Can insurers really serve the poor and be true to the interests of their shareholders? Is microinsurance a legitimate line of business or just a socially responsible endeavour? Can insurers do well (financially) by doing good (for clients and society)? Understanding the drivers of profitability and the factors enabling good financial performance is critical to the development of viable microinsurance initiatives.

This paper investigates what drives profitability for six insurers across the globe. It builds on a study on profitability conducted in 2010 (Angove and Tande, 2011). The previous study revealed that insurers were facing challenges with profitability and had implemented a number of corrective measures, particularly in the areas of distribution and claims management. This study investigates whether these measures have been successful in the longer term.

The dynamic nature of the microinsurance industry means that insurers are continually innovating and learning. Over the past three years, the six insurers featured in this paper have added new products and withdrawn failing ones, adapted marketing and distribution strategies, redesigned administration systems and reengineered processes to improve servicing. This study examines the impact of these changes and outlines the evolution of initiatives. It compares the performance of different products and looks at the effect of partnerships with distribution channels on the volume of business and the viability of microinsurance.

METHODOLOGY

This research followed a case study approach, using the drivers of profitability framework developed for the previous study (see section 2). The research combines (a) analysis of financial results using key performance indicators and (b) interviews with insurers in which the underlying drivers of profitability were explored.

The experiences discussed in this study are unique to each insurer. The findings from the case studies therefore do not yield general principles that are applicable across different circumstances; however, examining the challenges and successes of these established microinsurance initiatives could provide insights for other practitioners.

This study focuses on growth and profitability. It does not focus on the appropriateness of profits or analyse the social performance of the products. Nevertheless, comments are made on the value of products to clients when that value links to the growth and financial performance of the business.

Limitations of data

This report is based on financial and qualitative information provided by insurers. The analysis is only as reliable as the data and information upon which it is based. A number of challenges were experienced in collecting data, the main ones being:

- reluctance on the part of insurers to disclose detailed information due to commercial sensitivity,
- lack of availability of data separately for microinsurance business, particularly for expenses (information therefore had to be gathered from a number of different sources),
- the stage of development of the initiatives and the short history for some products.

These challenges affected the level of detail of the analysis and need to be borne in mind when considering the results.

In some cases, assumptions had to be made to perform the financial analysis. These assumptions are discussed under the relevant analysis sections of the paper.

While reasonable steps have been taken to ensure the validity of the data and information, the authors cannot accept liability for errors arising from incorrect data or information. This report must be read as a whole and considered in its entirety for the most accurate understanding and interpretation.

The paper is organized as follows:

- Section 2 provides an overview of the drivers of profitability framework
- Section 3 describes the six cases
- Section 4 presents financial analysis based on the framework
- Section 5 concludes with the main findings and recommends areas for future research

2 > FRAMEWORK TO ASSESS PROFITABILITY

Financial viability implies that a microinsurance initiative needs to generate sufficient income to cover its own costs, as well as make a contribution to the overheads of the insurer and generate profits for them. To be commercially attractive, microinsurance must generate returns to compensate shareholders for the capital invested and the risks involved in underwriting the business.

The framework used in this study defines profit as revenue (premium income) less costs (claims costs and expenses). Overall profitability is expressed as profit as a percentage of premiums.

Besides considering the annual results, it is important to consider profits emerging over time relative to the costs of investment in distribution, people and systems. Understanding the time needed for the profits from microinsurance to cover the initial investment gives an indication of the financial investment required before profits are earned for shareholders.

The framework presents the three main drivers of profitability: achieve scale, control claims costs and manage expenses (acquisition and management). Table 1 summarizes the strategies to achieve profitability and the key performance indicators (see Appendix I for details) for each driver.

Table 1. Framework of drivers of profitability

Drivers	Achieve scale (Selling to new customers and retaining business)	Control claims costs	Manage expenses (acquisition and management)
Strategies	Partner with existing groups, including governments Design appropriate products (and allow them to evolve) Price products appropriately Balance sales, servicing and retention	Price for the risk Manage adverse selection, moral hazard and claims fraud Manage claims volatility and co-variant risk	Make good use of existing infrastructure and resources Invest in simple processes and efficient technology
Key performance indicators	Covered lives/ policy volumes Premium volumes Retention ratio	Claims ratio (including claims expenses)	Acquisition expense ratio Administration cost ratio

Achieve scale: Given the relatively low premium amounts and profit margin per policy, in order to be worthwhile for the insurer, microinsurance products need to achieve scale to maintain a stable risk pool; justify start-up costs; cover overhead and fixed costs; and generate sufficient profits. In addition, high persistency is needed to achieve profitability.

Control claims costs: Microinsurance products need to provide valued benefits, at reasonable cost, without exposing the insurer to undue risk. This implies that risk management measures should be built into the design of the product and efficient claims management processes should be implemented. Reinsurance can protect the insurer against high claims costs.

Manage expenses: Two key challenges in managing acquisition costs are gaining access to a geographically broad customer base and convincing customers with a low level of awareness of insurance of the value of the product. Many insurers work with aggregators and make use of existing infrastructure and resources to create efficiencies and reduce

expenses. Once clients are acquired, the challenge is to serve them efficiently; technology is a key factor in maintaining service levels and quality at low cost.

A number of the insurers in the study started with simple products and made use of existing relationships for distribution. Over time, the insurers have invested in new products, acquired new distribution partners and found new premium collection methods. A long-term commitment and innovation are keys. Further, demonstrating the value of insurance products to the low-income market is necessary to sustain business growth in the long term.

3 > CONTEXT

This paper analyses the experience of six insurers from diverse environments, with varying ownership models, organizational structures, distribution strategies and products. This section gives an overview of the initiatives, which are summarized in

Table 2. See Appendix II for more details.

Table 2. Insurers and products reviewed

	Product (benefit)	Target market and distribution	Structure
Aseguradora Rural (ASR), Guatemala	Life Student (life and health) Passenger (2x benefit for claims related to bus accidents)	Clients of BANRURAL, a network of rural banks and ASR's parent company Via BANRURAL network in rural areas	Microinsurance managed under the life insurance business
Co-operative Insurance Company (CIC), Kenya	Credit life Bima ya Jamii (health and life) Afya Bora (health)	Members of MFIs ¹ and SACCOs ² Via MFIs, SACCOs and other groups with whom it has existing relationships	Managed by product line with commercial insurance business Planning to create a separate microinsurance subsidiary
ICICI Lombard General Insurance Company, India	W&A (group health) RSBY (govt.-subsidized health)	Members of weavers and artisans' co-operative People below the poverty line, as identified by the state Via enrolment team	Managed under business units organized by product line. No separate microinsurance unit.
La Positiva, Peru	Credit life Water board life: pilot	Clients of MFIs and NGOs Members of rural water boards	Separate affinity and microinsurance unit
Malayan Insurance Company, Philippines	Personal accident (with health rider) Property (residential/business)	Clients of pawn shops, rural banks and lending institutions, co-operatives and NGOs Via pawn shops, rural banks and other credit providers	Prior business managed by the Retail Underwriting Group. From 2011 new business is managed by BAC, a subsidiary
Old Mutual, South Africa	Group funeral (life)	Members of burial societies, funeral parlours and savings clubs Full-time salaried agents	Managed by Foundation Market, a separate business unit

¹ microfinance initiative ² savings and credit cooperatives

ASEGURADORA RURAL, GUATEMALA

Aseguradora Rural (ASR) is a medium-sized insurer in Guatemala. In 2007, ASR was purchased by BANRURAL, one of the largest microfinance banks providing financial services to the low-income market in rural and peri-urban areas. ASR

does not have a department specifically dedicated to microinsurance. There is, however, a bancassurance manager and team responsible for managing the relationship with BANRURAL's agent network. ASR uses the infrastructure of the BANRURAL banks at a low cost since the bank is part of the same financial group.

Market context

The Guatemalan microinsurance market has grown by 23 per cent per annum since 2005, but the sector is still at an early stage of development. Despite good growth there is limited coverage, diversity and competition. Only 7 per cent of the low-income population is covered by insurance and nearly 70 per cent of those covered have only life and disability cover (McCord et al., 2012a).

Products and distribution

ASR expanded from four to six microinsurance products between 2010 and 2013. It conducted market research on demand within the low-income market. Newer products include benefits that are popular with the market; for example, policyholders receive double benefits for claims related to bus accidents under the passenger cover product. Microinsurance has become a significant source of business for ASR, comprising about 50 per cent of individual life and accident and health business. Life cover (*vida y accidentes*) was introduced in 2007 and makes up the largest premium volumes. The case study focuses on ASR's life cover (life, funeral and disability), student cover (health, death and disability) and passenger cover (accidental death, disability and hospitalization) products.

BANRURAL's agent network is the main distribution channel and products are marketed mainly to the clients of BANRURAL. An exception is the passenger cover, which can be purchased by anyone.

Overview of profitability

Overall the ASR microinsurance products have shown high levels of profitability over the past five years, partly because of limited competition in this target market. Profits for microinsurance have exceeded expectations, which has encouraged ASR to expand its microinsurance product range. The passenger cover has grown significantly since its introduction in 2010 and has proved to be particularly successful for ASR. In addition to low claims and expenses, favourable reinsurance terms have contributed to profitability.

CO-OPERATIVE INSURANCE COMPANY, KENYA

The Co-operative Insurance Company (CIC) is an established commercial insurer owned by over 1,000 cooperative societies. Microinsurance was initiated under the Life & Health Division in 2001, with the introduction of a credit life product for savings and credit cooperatives (SACCOs). The product range now spans both life and general insurance. There has been a major change to the structure of the insurer since the last study, with the division of CIC Insurance into CIC Life and CIC General in 2010, which necessitated the separation of life and general microinsurance products. This separation has presented challenges in budgeting, systems and reporting. CIC plans to create a separate microinsurance subsidiary in order to have a dedicated team and systems for microinsurance, but still use the infrastructure of the main businesses.

Market context

Insurers in Kenya have focused mainly on life, accident and credit life products for the low-income market. Microinsurance is growing in Kenya, with the number of lives covered by microinsurance products increasing by 17 per

cent between 2008 and 2011, to reach 1.3 million lives in 2011 (McCord et al., 2012b). There is significant interest in microinsurance among Kenyan insurers and the market is becoming competitive.

Products and distribution

CIC offers a range of life and general products to the low-income market. Compulsory credit life is the longest-standing product and accounts for the majority of microinsurance premium volumes. CIC has introduced Afya Bora, a voluntary health insurance product to replace Bima ya Jamii, the health product that was offered with the national health insurance scheme (see Box 1 for of CIC's history in health insurance). The case study focuses on the credit life and Afya Bora products.

CIC sells the majority of its microinsurance products to existing groups, such as clients of cooperatives, SACCOs and MFIs. Due to the insurer's cooperative ownership structure, SACCOs remain a loyal customer base for CIC. But CIC has recently experienced challenges in allocating sufficient resources to both servicing existing clients and selling new business. The insurer is exploring other distribution channels, such as mobile phones, for its new M-Bima savings product.

Box 1. CIC's experiences in providing health microinsurance

CIC initially developed health microinsurance in partnership with Kadet, an MFI. After a successful pilot with Kadet, other MFIs were added as distribution partners, but the required sales volumes were not achieved. The product increased in popularity when CIC added higher-cost hospitals to its health provider network, but it made a loss as most policyholders opted for treatment at the higher-cost hospitals, and CIC had to discontinue the product.

CIC then developed Bima ya Jamii, a bundled product offering life and health benefits. The health benefits were provided under Kenya's National Health Insurance Fund (NHIF). The product was piloted with Kenya Women Finance Trust and initial sales projections were promising. Although the product was profitable, the anticipated sales volumes were not achieved and the product was discontinued because of challenges in working with the NHIF, regarding the affordability of the product and the servicing of claims.

CIC replaced Bima ya Jamii with the Afya Bora health product. It established a relationship and negotiated preferred rates with a number of health-care providers. It took a year to develop the new product and sales for Afya Bora were low in the first year. Profitability was high, at 42 per cent, but the claim experience deteriorated over the second year and it is not expected that the product will be profitable in 2013.

Overview of profitability

CIC considers its relationship with SACCOs as key to the success of its microinsurance business. The credit life business has generated consistent profits for CIC, with the exception of 2012. CIC uses the profits generated from the credit life business to support expansion into other microinsurance products, including health insurance for credit life clients.

ICICI LOMBARD, INDIA

ICICI Lombard is the largest private non-life insurer in India, accounting for 23 per cent of the premiums of the private non-life market. It manages microinsurance products with commercial insurance business under the relevant product line unit, allowing it to use the resources available to similar products in the commercial insurance market. ICICI Lombard has established the Financial Inclusion Solutions Group to provide insurance solutions for government welfare initiatives, primarily in rural areas.

Market context

India is the largest microinsurance market in Asia and Oceania, accounting for 64 per cent of the cover in the region and showing a growth rate of 31 per cent per annum from 2010 to 2012 (Oza et al., 2013). India stands out from other countries in this study, in the extent to which the government provides either complete or partial insurance premium subsidies to poor households. The two products reviewed are subsidized by the state and national governments.

Products and distribution

ICICI Lombard offers a range of microinsurance products, including weather, health, personal accident and property insurance. This study focuses on two government-subsidized voluntary health insurance programmes: Weavers & Artisans (W&A) and the Rashtriya Swasthya Bima Yojana (RSBY). The government subsidizes the premium for the schemes and allocates particular regions to insurers to manage, based on a tender process. ICICI Lombard carries the risk and performs all distribution and management functions. ICICI Lombard enrolls the eligible households, identified by government agencies, through salaried teams and partners like FINO Tech, a technology and service provider.

The previous business case study focused on Manipal Arogya Suraksha (MAS) health insurance and a weather insurance scheme (Angove and Tande, 2011). These schemes were not selected for the 2012 case study because MAS scheme remains small and weather insurance is a commercially sensitive product.

Overview of profitability

The two health insurance schemes investigated in the study were initially loss-making. Financial experience has improved over the period, with the W&A scheme showing profits in recent years, and the RSBY scheme showing lower losses. The improvement in experience is due to strict claims and expense management. Competitive pricing for RSBY keeps premiums low and reduces profit margins. Although the W&A scheme is generating profits for the insurer, it has not yet generated sufficient returns to cover the development cost of the information technology and communications platform that links health-care providers with the insurer.

LA POSITIVA, PERU

La Positiva is a prominent insurance group in Peru offering a range of general insurance and life products through its general insurance and life insurance companies. It has a long history of serving the low-income market, having introduced its first microinsurance product in 1988. It is seen as a leader in microinsurance in Peru given the large number of products it sells and its relatively wide range of distribution partners. Microinsurance is managed under a separate business unit that focuses on affinity groups, microinsurance and rural insurance. La Positiva sees working with the government to establish social schemes that can be underwritten by commercial insurers as key to the expansion of the microinsurance market. La Positiva is working with the government to provide agricultural insurance for small-scale farmers.

Market context

Peru is among the top five countries in Latin America in terms of lives covered by microinsurance products, with 5.3 million covered lives in 2011. The growth of the microinsurance market has been supported by the insurance regulator. Financial intermediaries are an important distribution channel for microinsurance products, with 94 per cent of microinsurance policyholders being NGO, MFI or bank clients (Régent et al., 2011).

Products and distribution

La Positiva offers credit life, life, personal accident, cancer indemnity, critical illness and crop microinsurance products distributed through a range of distribution channels, including MFIs and NGOs. It is exploring new ways of accessing the rural market, for example, through rural water boards, which are community-based organizations responsible for collecting payment for the water used by farmers for irrigation. These water boards serve 1.6 million farmers.

This case study focuses on the mandatory credit life cover for MFI and NGO clients and the term life cover distributed to farmers through rural water boards.

Overview of profitability

The credit life product has shown relatively strong levels of profitability. The Water board life cover made a loss in its first year owing to high expenses and low volumes. Losses have reduced over time, because of lower training and marketing costs. La Positiva expects this product to become profitable in 2015.

MALAYAN INSURANCE COMPANY, PHILIPPINES

Malayan Insurance Company is the largest general insurer in the Philippines. The insurer became involved in microinsurance in 2004, with a view to expanding into new markets. With the growth of the microinsurance business it became clear to Malayan that it was necessary to create a dedicated unit or insurer to focus on microinsurance and it made its subsidiary, Bankers Assurance Corporation (BAC), responsible for all new microinsurance products (see Box 2). The parent company, Malayan Insurance Company was to continue to manage the existing microinsurance products. Henceforth, the product portfolio managed by the parent company is referred to as MICO and the product portfolio managed by the subsidiary is referred to as BAC.

Box 2. A separate subsidiary for microinsurance business

In 2011 BAC became responsible for generating new business and underwriting all new microinsurance schemes. The route of using a separate insurer for microinsurance was viable for Malayan as the subsidiary already existed and the insurer did not have to meet the capital requirements of \$23 million to obtain a new insurance licence. The main change for BAC was to focus on microinsurance products and develop internal skills. Back office services like legal services, human resources and finance were still shared with the parent company. The subsidiary was able to draw on the experience of the parent company in setting up its microinsurance initiatives.

In 2011, BAC developed its microinsurance brand, Bayan Asenso Microinsurance. In 2012, BAC entered into a number of new partnerships with MFIs and mutual-benefit associations, contributing to a fivefold increase in premium volumes.

Market context

The Philippines is the second-largest microinsurance market in Asia. The Philippines accounts for 12 per cent of the cover in Asia and Oceania and showed growth in cover of 18 per cent per annum between 2010 and 2012 (Oza et al., 2013). The microinsurance market in the Philippines is growing, with existing players showing strong growth and further insurers expanding into the market. Commercial insurers are investing in microinsurance and there is evidence of growing competition. A range of products is available including life; accident, burial and medical benefits plans; asset protection for fire, lightning, flood, typhoon or earthquakes; and weather-index crop insurance. The main reason for the success of the microinsurance market is the strong collaboration between the public and private sectors. Moreover, the enabling regulatory environment, financial literacy campaigns and partnerships with traditional and non-traditional delivery channels have supported the development of the market.

Products and distribution

BAC has developed three core products that are tailored for distribution partners, according to the customer base and the sales method of the partner. Buhay Asenso provides cover for loss of life resulting from accidents and financial assistance for burial expenses. A health cover rider is available on this product. Bahay Asenso provides cover for loss or damage of the insured residence due to fire and Nego Asenso provides financial assistance in the event of loss or damage of the insured micro-business due to fire.

Malayan has developed relationships with a number of distribution channels. The key distribution channels are the national pawn shop network (with more than 1,500 branches and eight mobile hubs); rural banks and lending institutions; and cooperatives and NGOs. The insurer is experimenting with partnerships with schools and universities.

Overview of profitability

MICO's microinsurance portfolio (products retained by the parent company) has shown strong levels of profit from inception and the microinsurance portfolio for BAC has shown early signs of profits despite an increase in claims in the second year of business. MICO and BAC attribute the profitability to designing products that cover risks that are insurable. They also attribute success to the partnership with distribution channels and their regular monitoring of it. BAC has been able to draw on the experience of MICO in setting up its microinsurance business.

OLD MUTUAL, SOUTH AFRICA

Old Mutual is the largest and oldest life insurer in South Africa. It offers a wide range of products across all income segments in South Africa, including life and investment policies to individuals as well as asset management services to pension funds. Old Mutual established the Foundation Market business unit in 2007 to focus on the low-income market. This separate business unit establishes its own objectives and creates unique, responsive and efficient processes for product design and monitoring and evaluation. But being part of the wider insurance group provides it with access to resources and skills (for example, legal and actuarial) that would otherwise be expensive to establish.

Market context

South Africa accounts for 60 per cent of the total lives covered by microinsurance products in Africa (McCord et al., 2012b). A variety of insurance products are now available to the low-income market, with voluntary funeral products being the most pervasive. The market for funeral insurance is highly competitive, with most large insurers and a number of specialist players offering it. A draft document outlining the principles for the regulation of microinsurance has been developed in South Africa but microinsurance regulations are yet to be finalized.

Products and distribution

Old Mutual's dominant microinsurance product is group funeral cover sold to groups like funeral parlours and small burial societies through tied agents who are responsible for sales and servicing. It is mandatory for all members of the group but is not linked to loans or other financial products. Old Mutual also sells an individual funeral product through a retailer in South Africa, but the sales volumes remain low. The group funeral product was therefore selected as the focus of this case study.

Overview of profitability

The group funeral product made a loss before 2009, but has shown consistent profits of between 5 per cent 10 per cent of premiums since the implementation of a strict claims monitoring process and enforcement of policy conditions. Growth in business volumes has been relatively low and as a result business volumes remain lower than the level required for the salaried-agent model to be financially viable. The group funeral business has been in a consolidation phase over the past few years. Old Mutual has implemented systems to improve persistency and to prepare for future growth.

It should be noted that the profitability figures given here omit the financial education costs incurred by Old Mutual. In South Africa insurers are required to spend 0.2 per cent of pre-tax profits on financial education as part of government development targets (see Box 3).

Box 3. Old Mutual's financial education project

The financial education project is used to generate leads for insurance business and Old Mutual has seen benefits from these activities in terms of increased sales and retention levels in regions where financial education programmes are active. The financial education project is funded out of the budget for the Foundation Market and translates to about US\$1 million per annum or 8 per cent of the gross written premiums for microinsurance. The costs of the project have not been reflected in section 4, the profitability analysis section, because this contribution to consumer education is expected from all insurers and is not a consequence of selling to the low-income market. The overall profitability results would be closer to break-even if these costs were included in the analysis.

INVESTING IN THE MARKET: WHAT HAS HAPPENED SINCE 2009?

This section gives an overview of the evolution in products, distribution and premium collection seen since 2009. Most of the insurers entered the market with simple products. They developed relationships with distribution partners and gained a better understanding of the needs of the low-income market through their initial product offerings. As they saw successes in terms of policy volumes and profits, they expanded their microinsurance portfolios and made extensive investment of capital and human resources. Donor funding has been used to support the development of some of these initiatives.

Product evolution

All the insurers have either introduced new products or added benefits to existing products in the last three years. Changes to product offerings focused on meeting the needs of the low-income market and were based on feedback from existing partners or market research conducted by insurers.

New products: ASR introduced its passenger cover in 2011 and its Vivo Segura health product in 2012 (see Box 4). The substantial premium and profits from its flagship life product enabled ASR to bear the high initial expenses for the health product without a significant reduction in the overall profitability. Malayan expanded its product range from personal accident to home and business property cover. After a long process of refinement, Old Mutual launched Pay When You Can, an individual funeral cover product sold through retailers. Over the 25 years that La Positiva has been involved in microinsurance, it has expanded its microinsurance product range to include credit life, personal accident, life cover, critical illness, agricultural insurance and natural disaster cover. CIC expanded its microinsurance cover from credit life to personal accident, health, savings, pension plans and funeral and property riders.

Box 4. The development of ASR's Vivo Segura health product

In 2010 ASR started developing a health insurance product called Vivo Segura for female clients of BANRURAL. The product covered cancer treatment and preventative health-care procedures related to cancer, plus life insurance. Health-care services were provided by the Empresa Promotora de Sericios de Salud health-care network, which had an existing relationship with BANRURAL.

The product development process included the following activities:

- market research on benefits and willingness to pay through focus groups, interviews and free medical clinics
- a pilot study in one region of Guatemala
- involvement of international and local actuarial expertise, as well as medical experts, in the product design and pricing
- working with a partner (National League against Cancer) to create awareness of the importance of preventative treatment
- training of sales agents on women's health, product coverage, issuing and claims (ASR gave presentations to individual branches to explain the product and sales methods).

Product sales in the pilot phase did not reach targeted levels. Bank agents tended to focus on selling banking financial products at the expense of the Vivo Segura product. ASR needed to provide bank agents with incentives to sell this product as well as its other insurance products. Bank agents also needed additional training to be able to explain the more complex health product.

Vivo Segura made a loss in 2012 owing to high expenses. The total expenses in 2012 were 96 per cent of the gross written premium, compared to 12 per cent for other ASR microinsurance products. The main costs were paying health-care providers for preventative medicine and the cost of marketing, which comprised 49 per cent and 36 per cent of the gross written premiums respectively. The expenses for the product accounted for 20 per cent of overall microinsurance expenses, but the product only contributed 3 per cent of the microinsurance premium volumes.

Source: ILO (2013)

Additional benefits: ICICI Lombard is involved in a pilot project to expand health insurance benefits to cover outpatient services in addition to hospitalization for two districts in the RSBY scheme (see Box 5). CIC has introduced funeral cover and fire and burglary cover as additional benefits to the credit life cover for certain groups. Malayan has introduced calamity cover for losses due to earthquakes and typhoons for products distributed by certain partners.

Box 5. ICICI Lombard: Outpatient benefits for RSBY

ICICI Lombard, together with the Indian Ministry of Labour and Employment and the ILO's Microinsurance Innovation Facility, was involved in pilot projects to investigate the viability of providing outpatient benefits as part of the RSBY health insurance scheme. The pilot projects were undertaken in the Puri district of Orissa and the Mehsana district of Gujarat in 2011 and 2012.

As part of these pilots, all households enrolled in RSBY received outpatient benefits that included a maximum of ten consultations, plus follow-up visits and medication. The pilots relied upon the RSBY infrastructure, including smart cards for the identification of beneficiaries. The empanelled health-care provider network was expanded to include outpatient health-care providers. New software was developed for health-care providers to submit claims. Health-care providers were trained on the benefits package, using the technology platform, reimbursement procedures and reporting protocols.

Source: ICICI Foundation (2013)

Distribution and premium collection

Insurers have explored new channels for distribution and new methods of premium collection. Malayan, CIC and La Positiva entered into new partnerships. Malayan moved beyond its traditional partners of NGOs, MFIs, pawn shops and rural banks and recently entered into a partnership with a large university in the Philippines.

CIC has explored direct distribution for its M-Bima savings product, which uses mobile money infrastructure to collect premiums. CIC has traditionally used tied agents to distribute its savings products. M-Bima uses a direct and retail distribution model to lower costs by about 20 per cent compared to the cost of using a tied agent for an equivalent product. Mobile money makes it cheaper to collect premiums regularly. CIC felt that the traditional method of using financial institutions to collect premiums was expensive for microinsurance, as it could cost up to 33 per cent of the premium, resulting in poor client value for a savings product if policyholders bear the costs.

La Positiva entered into a partnership arrangement with rural water boards in 2009 in order to access the rural market in Peru more effectively. Costs of 196 per cent of premiums were incurred in the first year of the initiative because of low policy volumes and high start-up costs, including a baseline study, computer equipment, office supplies, new staff, development of training material and marketing and awareness events co-ordinated from the Lima office. Losses went down to 10 per cent in 2013 because of higher business volumes and lower expenses.

Administration systems and servicing

Investments in systems have focused mainly on reducing costs and increasing customer retention through better enrolment and claims payment processes and ongoing administration. Updates to the administration systems for ASR, La Positiva and Malayan have focused on creating efficiencies. ICICI Lombard and CIC have developed specialized systems for the cashless payment of health insurance claims. These systems allow health-care providers to submit claims directly to the insurer.

4 > FINANCIAL ANALYSIS AND DRIVERS OF PROFITABILITY

This section outlines the financial performance of the initiatives. The analysis considers the overall profitability of the initiatives and the effect of the drivers of profitability. Profitability is measured by the profit, gross of reinsurance, relative to the premiums.

Figure 1 and Figure 2¹ show profit for each of the products for 2008 and 2012 and Table 3 shows the percentage of total microinsurance for the insurers as well as the premium volumes and covered lives for the individual products for 2012.

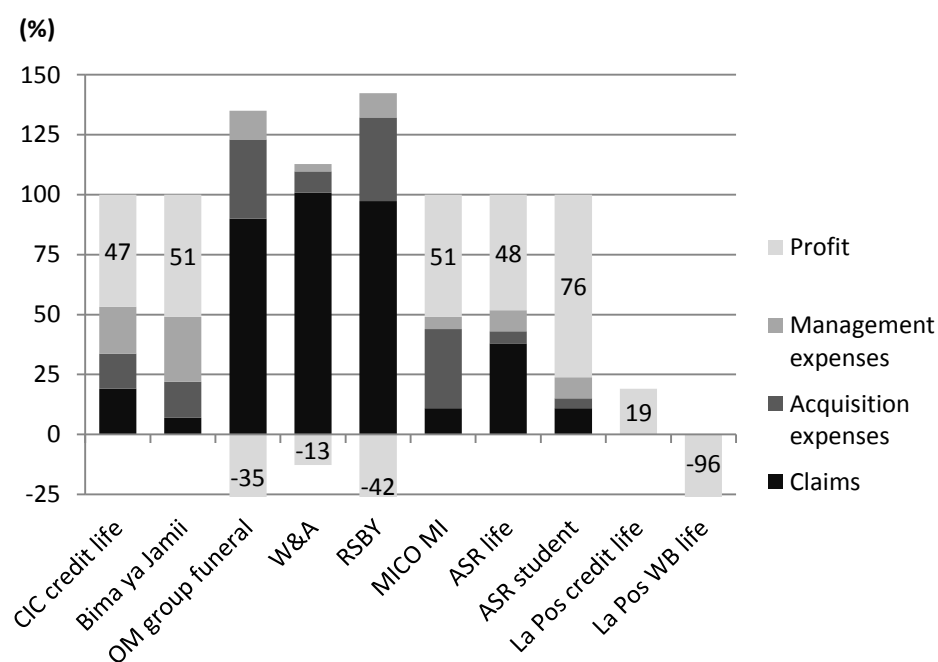
Table 3. Profitability and scale of the reviewed products

Insurer	Product	Type	Covered lives (1 000s)	Gross written premiums (US\$'000s) ¹	% of overall microinsurance portfolio	Profitability
ASR	Life	Voluntary	190	8 130	69	✓
ASR	Student	Voluntary	21	430	4	✓
ASR	Passenger	Voluntary	130	2 550	22	✓
CIC	Credit life	Mandatory	150	2 870	40	✓ → ✗
CIC	Afya Bora	Voluntary	5	280	4	✓ → ✗
ICICI Lombard	W&A	Voluntary (subsidized)	6 380	30 180	21	✗ → ✓
ICICI Lombard	RSBY	Voluntary (subsidized)	13 730	42 030	29	✗
La Positiva	Credit life	Voluntary group	40	Not available	Not available	✓
La Positiva	Water board life	Voluntary group	1.7	Not available	Not available	✗
Malayan - MICO	Personal accident, property and health	Voluntary	Not available	4 944	100	✓
Malayan - BAC	Personal accident, property and health	Voluntary	Not available	281	100	✓
Old Mutual	Group funeral	Voluntary group	500	Not available	Nearly 100	✗ → ✓

¹ These premium volumes and other amounts in the report are based on the following exchange rate US\$1 = 7.9 Guatemalan quetzal, 40 Philippine pesos, 85 Kenyan shillings, 55 Indian rupees.

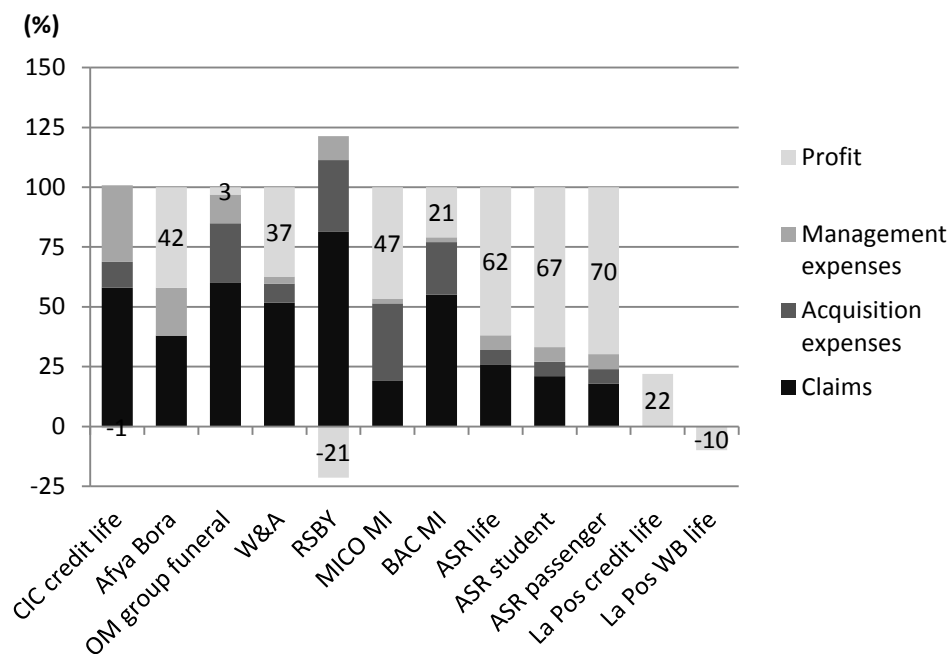
¹ Premiums less claims incurred and expenses, as defined in Appendix I. All financial information for Old Mutual and the acquisition expense information for MICO is based on a range of values provided by the insurers due to the commercial sensitivity of the numbers.

Figure 1. Gross insurance profit ratio, 2008



¹Information for the RSBY scheme and water board life cover reflects figures for 2009 as low business levels affected the reasonability of the results in 2009 for RSBY and the water board life cover was only launched in 2009.

Figure 2. Gross insurance profit ratio, 2012



A quick look at Figures 1 and 2 highlights interesting trends. First, products that cover simple risks, like credit life, term life and personal accident products show relatively high profits, with profit ratios between 20 per cent and 90 per cent. In most cases the products are profitable from the first year. However, CIC's credit life product fell to -1 per cent in 2012 (compared to 31 per cent in 2011) owing to a large number of claims with high amounts, higher expense allocations

and a fall in business volumes due to increased competition. Old Mutual's group funeral product, offered in a highly competitive funeral insurance market, also shows lower profit ratios, with profit ratios between 0 and 10 per cent from 2009 to 2012². In contrast to life insurance, the three health insurance schemes have struggled to reach profitability, mainly due to low scale and higher claims costs.

Second, insurers that have negotiated low distribution fees are able to control their acquisition costs, as seen in the difference in acquisition costs in 2012 for ASR (5 per cent of premiums) and MICO (30 to 35 per cent of premiums) and RSBY (35 per cent of premiums).

The largest loss (96 per cent) was experienced by La Positiva's water board life product in its first year. The high loss was mainly due to low policy volumes and the cost of initial investment. Losses went down to 10 per cent in 2012.

The current study continues to illustrate that success in microinsurance depends on iterative learning from successes and failures and making corrective measures to improve profitability over time. Old Mutual and ICICI Lombard were able to improve their profitability through better control over their claims costs.

Although many of the initiatives are showing profits, some have not generated sufficient accumulated profits over time to cover the start-up costs and expansion of product lines. Given constraints around commercially sensitive information and record-keeping for initial investments in microinsurance, many of these results do not reflect the full costs of setting up the microinsurance initiatives.

All of the insurers in this study indicated that microinsurance was expected to cover costs and be sustainable in the long term. Some insurers indicated that achieving social objectives was also important and that the insurer would accept lower profit margins for certain products, particularly for products like health insurance. Insurers may also allow longer timelines to cover initial costs and generate profits for the business than they would for commercial insurance products.

ACHIEVE SCALE

Microinsurance needs to reach large policy volumes to generate profit and justify the investment required to build the business. The insurers in this study use a variety of strategies to achieve scale, including working with aggregators, tapping into existing demand, and offering compulsory products. The scale reached by a microinsurance initiative is measured in terms of covered lives and premium volumes.

Microinsurance is becoming a more significant proportion of the business written for a number of insurers. Microinsurance comprises more than 40 per cent of ASR's life business while CIC's credit life business increased from 6 per cent to 12 per cent of the group life premium volumes. Microinsurance has become a significant proportion of the business of ICICI Lombard, owing, in part, to government support for health insurance for low-income households and to regulatory requirements to serve the "rural and social sectors". Rural and social business made up 13 per cent of the premium volumes of ICICI Lombard, and the two health microinsurance products investigated here account for more than 25 per cent of its health insurance premiums for 2012.

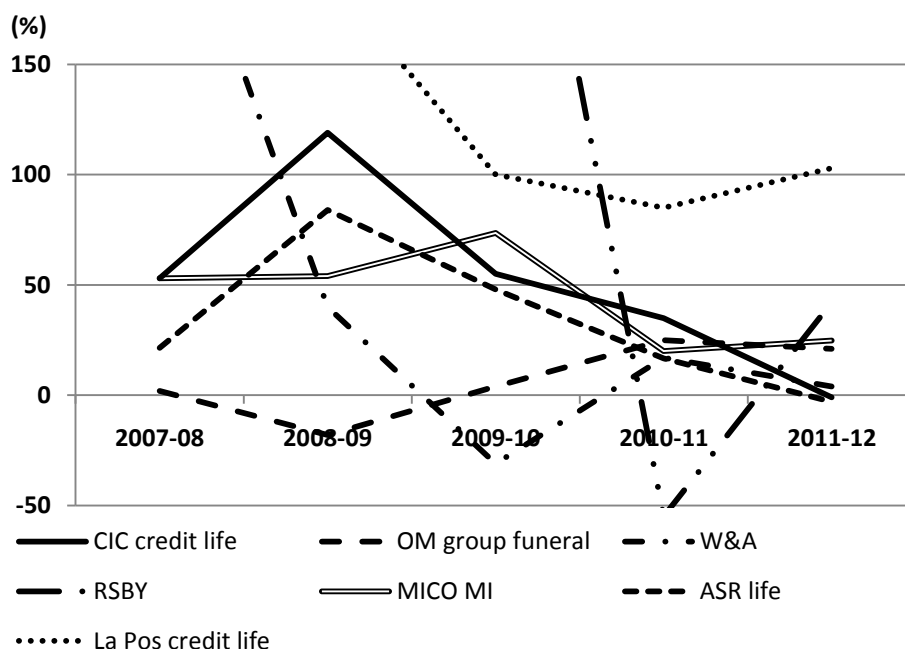
Although premium volumes and the number of lives covered are becoming more significant, there is potential for all the insurers to expand, given the size of the market. In general, take-up of the voluntary products is quite low in relation to the market size. For example, less than 10 per cent of BANRURAL clients have purchased a policy with ASR. The ICICI Lombard health insurance schemes show higher take-up rates: 50-60 per cent for the W&A scheme and 50 per cent for

² The 3 per cent profitability ratio included in figure 2 is based on a range provided by Old Mutual due to the commercial sensitivity of the number.

the RSBY scheme. This illustrates the advantage of government involvement in identifying eligible households and subsidizing premiums. Nevertheless, there is room for greater penetration.

Figure 3 shows the growth in premiums over the past six years for the products with significant premium volumes for each insurer.

Figure 3. Growth in gross written premiums, 2008-12



Many insurers started with simple products that were popular with the low-income market. ASR, CIC and La Positiva reached significant policy volumes with their generic voluntary life cover and credit life policies. Old Mutual took advantage of high demand for funeral cover in South Africa with the group funeral product.

However, as markets became more competitive, ASR and CIC found it challenging to sustain growth. ASR experienced challenges in getting bank agents to sell insurance. As a result, premium volumes for its life cover product showed a 3 per cent decline in 2012. CIC is beginning to experience challenges in extending cover to new groups, because of competition in the market for MFI business and resource constraints within the marketing team, resulting in a 1 per cent decline in its credit life business in 2012.

Other products also show variable growth patterns. The variable growth for Old Mutual's group funeral product illustrates the tension between setting premiums at a financially viable level and growing business in a competitive environment. Old Mutual increased rates for groups with high claims ratios in 2006 and 2007, which resulted in a loss of business of 18 per cent in 2009 (but improvement in financial performance). This is discussed in greater detail in section 4.2.

The uneven growth patterns for the ICICI Lombard products highlight the challenges of working with government-subsidized schemes. Winning a government tender can lead to large increases (42 per cent of premiums in 2012), but also large losses in business volumes (55 per cent for RSBY in 2010) when tenders are not renewed. Competition for RSBY business has led to premiums falling by 15-20 per cent each year. There is concern over whether the continued decrease in premiums is sustainable. The number of lives covered by ICICI Lombard under the RSBY scheme went down by 45 per cent in 2011 after ICICI Lombard lost tenders for certain districts owing to price competition. The insurer has concentrated on managing claims fraud, monitoring fees paid to health-care providers for treatment and controlling

expenses to keep premiums low. Similarly, policy volumes for the W&A scheme are dependent on government budgets for premium subsidies. The limitation on the budget for subsidized premiums partly explains the decline in business for this scheme in 2010. The experiences of the insurers show the benefits and limitations of working with partners, the challenges of setting viable premiums and maintaining growth in a competitive market, and the importance of motivating staff and of finding the balance between servicing existing business and selling new business. These strategies are explored in detail below.

Partner with existing groups, including governments

All the insurers work with aggregators like rural banks, cooperatives, MFIs, SACCOs, pawn shops, burial societies and funeral parlours to access the market. A number of insurers cite the relationship with their partners or existing customer groups as one of the keys to their success. For example, all these partnership arrangements have contributed to the achievement of scale for the insurers in this study: the vast customer base of BANRURAL in rural areas (ASR), the large customer base of pawn shops (MICO), the large number of cooperative members (CIC), funeral parlour schemes and burial societies (Old Mutual), and the W&A cooperative (ICICI Lombard). Partners with a widespread network of branches, such as BANRURAL and the water boards, are especially effective.

Working with partners that are part of the same financial group as the insurer enables the insurer and the partner to align profitability objectives. This has created a competitive advantage for ASR and CIC.

It is important to note that the client base of the partner indicates the potential market size, but does not ensure take-up of insurance, particularly for voluntary products. Also, changes in the business of the partner can affect the insurer. For instance, the decline in premiums for La Positiva's credit life product was due to the decline in loans issued by its MFI partners during the recession.

Design appropriate products (and allow them to evolve)

All the insurers either introduced new products or added benefits to existing products between 2010 and 2013 in order to meet the needs of the market and establish a competitive edge. Input from partners, developing a relationship with the community, market research and pilots can be invaluable in gaining insights into the preferences of the market and in creating awareness. ASR, CIC and ICICI Lombard conducted extensive market research and pilot studies on client preferences and willingness to pay. ICICI Lombard continues to check the popularity of benefits through client feedback and by monitoring the use of benefits.

The ASR passenger cover product was designed around the preferences of the market and has shown relatively high premium volumes in the first two years. Malayan works with partners to tailor terms and conditions and additional benefits to the preferences of the partner's customer base. It gets feedback on products through regular meetings with distribution partners that have a closer connection with low-income market. This avoids the need to conduct costly market research studies.

Old Mutual gets insights into the needs and demands of the market through its financial education and community development initiatives for the low-income market.

Price products appropriately

Premiums that are affordable for the target market are critical for selling products and retaining customers. Limiting cover and allowing clients flexibility with their premium payments are important in this regard.

ASR and Old Mutual offer a range of benefits to policyholders. This allows the customer to select coverage for which they pay a premium they can afford. The insurers who offer health insurance keep the cost of providing cover low by limiting cover and negotiating lower fees with contracted health-care providers.

In India, premium subsidies allow the W&A and RSBY products to reach market segments that would have been excluded because they were unable to pay. Premium subsidies thus expand the potential target market for insurance and demonstrate the advantage of aligning insurance with government social objectives.

CIC, ASR and Old Mutual have flexible premium payment options, allowing customers to tailor the payment of the premium to their income patterns. Approaches to reducing the cost of selling and managing the business to keep premiums low are discussed in section 4.3. Competitive premiums are particularly important in markets where there are a number of insurers competing for customers. However, if the insurer is to make a profit, it cannot reduce premiums beyond a certain level. CIC and Old Mutual decided not to lower premiums below a financially viable level, but instead to focus on differentiated products and servicing to attract and retain clients (see Box 6).

Box 6. Staying competitive

Old Mutual and CIC have experienced challenges in maintaining business volumes, because of intense competition in their markets. Despite the increased pressure for competitive premiums, the insurers have chosen not to reduce premiums below a financially viable level, although this has had an impact on business growth.

In Kenya, high levels of profit in the credit life market have led to fierce competition for the credit life business, with a number of insurers offering very low premiums. Rather than reducing rates to match those of competitors, CIC has concentrated on enhancing its products by providing optional benefits like funeral cover and fire and burglary cover for the asset that is pledged as collateral for the loan. But insufficient growth has begun to affect profitability, as costs have continued to increase while growth of business has declined.

In order to keep premiums competitive, Old Mutual has had to maintain them at a lower level than supports the costs of the full-time salaried sales agents. This has affected profitability, keeping it below 10 per cent for the past few years, although Old Mutual expects the situation to improve when business volumes reach a commercially viable level. Rather than competing solely on the basis of premiums, Old Mutual is focused on training sales agents and refining processes to enable them to provide quotations more quickly during sales, and on improving servicing by making it easier for client groups to update membership information.

Balance sales, servicing and retention

Although the factors discussed above contribute to scale, take-up of voluntary products is still low compared to the potential market size. Insurers have tried to improve the promotion of products through regular awareness-raising and marketing campaigns, better incentives for sales agents for voluntary insurance and better marketing to existing groups for compulsory insurance.

La Positiva has employed low-cost marketing methods in rural areas, such as distributing flyers and advertising via murals and the radio. Malayan provides marketing support to its partners, including brochures, posters, banners and text messages, depending on the requirements of the scheme. ICICI Lombard uses health camps to create awareness of the W&A scheme and Old Mutual uses its financial education programme to create brand awareness, although it does not market individual products through this programme. ASR, La Positiva, Malayan and CIC use the partner's staff to sell their voluntary products, including bank agents, loan officers and rural water board secretaries. These agents receive commission from the insurer. Relying on the staff of distribution partners for sales can lead to challenges as partners' staff

are not likely to be focused on microinsurance. ASR's analysis revealed that high sales volumes were usually seen in branches where the manager had a special interest in microinsurance.

Motivating partner staff to sell complex insurance products is especially challenging. ASR learnt that low sales of its health product, Vivo Segura, were partly due to difficulties the sales agents had in understanding the product, which was complicated. Malayan takes care to tailor the complexity of the product to the amount of time that the sales agent will have with the customer and to ensure that selling microinsurance does not become an extra burden to the partner. Malayan found that simple products with no rider benefits had better sales when the salesperson did not have much time to explain the product, even if clients were likely to value the additional rider benefits. Malayan found that more simple products needed to be sold through rural banks (as the tellers spend less time with customers) but more complex products could be sold through MFIs because the loan officer spends more time with the customer.).

Training the staff of the distribution partner on the product features, and the enrolment and claims handling process is important for generating sales and ensuring good customer service. CIC, ASR and La Positiva have training programmes for partner staff.

Marketing and relationship-building are important when working with groups and developing partnerships. This means that even for compulsory products, resources need to be devoted to developing business. Malayan and CIC devote a significant amount of time and resources to marketing products and building relationships with partners, thereby building loyalty to the insurer and good persistency. For Malayan, a steering committee representing the insurer and the partner meets quarterly to discuss performance indicators and possible improvements to the initiative. This gives the partner a sense of ownership of the product and gives the insurer feedback on products.

Simple and efficient processes and appropriate technology have contributed to the growth of business for ASR, La Positiva and Malayan. These insurers use web-based systems that link partner branches to the insurer's system. Old Mutual is establishing a system to allow funeral parlours to submit member information directly to the system, thus enabling the insurer to produce quotations for new business more quickly. For ICICI Lombard's RSBY scheme, the paperless enrolment process and the use of technology in the form of biometric smart cards are costly but enable scale through the registration of millions of families.

Claims processing is arguably the most important stage in the insurance process from a customer's perspective. Customer satisfaction is built on the quality of customer service and on whether the insurance company meets the promises it made when the product was sold, in particular, whether it pays claims promptly. Trust and demand are also created when people can see that insurance has helped somebody in their community. ICICI Lombard publishes a list of names of the families that have claimed on their RSBY policies, as part of promoting the product before the enrolment cycle. La Positiva publicizes its products by drawing murals of families who have claimed.

High retention rates are important for the profitability of microinsurance, owing to the high acquisition costs incurred when enrolling new clients. The products under review have seen mixed persistency, reflecting differences in the renewal process, market competition, customer loyalty and in how much emphasis the insurer puts on servicing existing policyholders. ASR has experienced a persistency rate of 80 per cent and above for the life cover product because of the automatic renewal process for policies. This can be compared to a 30 per cent renewal rate in 2009 and 2010 for CIC's Bima ya Jamii (ILO, 2010), where policyholders initiated the renewal of cover. Cooperatives, as the owners of the insurer, are loyal to CIC, which contributes to renewal rates for groups of at least 80 per cent over time. In contrast, retention levels for Old Mutual's group funeral cover have ranged between 50 and 60 per cent because of intense competition. Improving servicing for large groups and increasing retention have been identified as keys to improving the profitability of this business. A significant amount of time is needed to maintain relationships with existing clients, which

can take resources away from generating new business, as seen from the experience of Old Mutual and CIC (see Box 7).

Box 7. Balancing sales and servicing

Servicing existing partners and client groups is important for the persistency of microinsurance business. A number of insurers have experienced challenges in deciding how much of their marketing and sales staff's time they should allocate to new business and how much to existing business as the business grows.

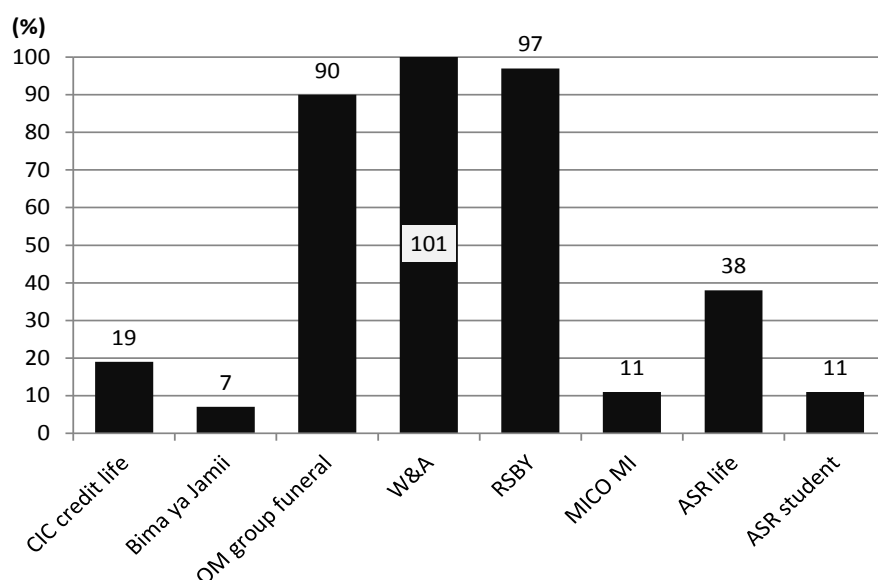
The CIC marketing team has recently begun to experience challenges in acquiring new business because of the conflicting responsibilities of servicing existing groups and marketing to new groups. As a result, most of the growth in the CIC credit life business in the last year has been related to growth of the membership size of existing groups.

Old Mutual uses a full-time salaried sales team to sell and service group funeral products. But the insurer has also experienced challenges in growing business to a level that sustains the cost of the salaried agent model, because of smaller group sizes and difficulties retaining larger groups. The sales agents are also finding it challenging to generate sufficient new business while also servicing existing policies. Servicing existing policies takes up about 30 per cent of a sales agent's time. The dual role of sales and servicing is leading to lower productivity and poor service levels. Old Mutual is in the process of separating its sales and servicing functions and introducing dedicated service consultants. This has shown both improved sales and better retention in the regions where it has been introduced.

CONTROL CLAIMS COSTS

Keeping claims costs below the levels priced for is essential for the long-term viability of a microinsurance initiative. Managing claims costs has in fact been the driving force behind insurers moving from losses in 2008/09 to profits in 2012 (Figure 4 and 5).³

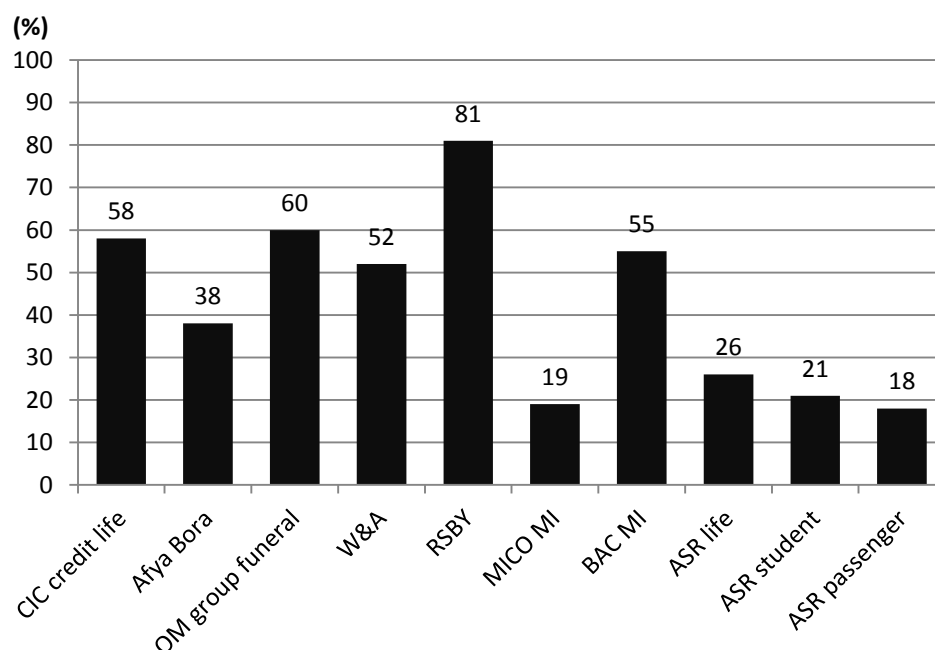
Figure 4. Gross claims ratios, 2008



Note: RSBY scheme shows 2009 figures and claims ratios for Bima ya Jamii only reflect life cover claims.

³ Claims ratios for Old Mutual are based on a range of values. Claims ratios for the W&A and RSBY schemes include claims processing expenses of 25 per cent of expenses.

Figure 5. Gross claims ratios, 2012



A number of insurers in the study have experienced low claims ratios in the first year of a product. Part of the reason could be that beneficiaries are not aware of all the benefits. ASR life cover, for instance, had a claims ratio of 2 per cent in the first year of the product in 2007. The RSBY claims ratios were low in the first year, but increased in subsequent years as members became more familiar with the benefits as they filed claims. Early claims experience in 2013 indicates that experience will be similar for the Afya Bora health product. Afya Bora showed a claims ratio of 38 per cent in 2012 but this seems to be an under-representation of the ultimate claims experience and the business is expected to make a loss in 2013.

There is a clear difference in claims experience between the simple life products and the group funeral and health insurance products. The compulsory credit life products and annually renewable life products have the lowest claims ratios, ranging from 11 per cent to 58 per cent. These products are traditionally priced at higher margins. CIC's experience in 2012 is inconsistent with the experience of other credit life business. CIC saw a deterioration in the claims experience and an increase in the claims ratio to 58 per cent for the credit life product in 2012. The lowest claims ratios are experienced by the MICO products, which account for a higher number of covered lives than the other life products in the study. MICO has seen an increase in its claims ratios from 11 per cent in 2007 to 19 per cent in 2012, which is partly explained by the introduction of fire cover for one of the larger schemes and of calamity benefits for some partners over time.

In contrast, Old Mutual and ICICI Lombard experienced high claims ratios of between 80 and 102 per cent at the early stages of the funeral and health insurance initiatives. Both insurers put measures in place to reduce claims relative to premiums, to the extent that only the RSBY scheme remained loss-making in 2012.

Old Mutual introduced regular monitoring and different premium rates for each group. It also stopped the practice of replacing a deceased dependant with a new dependant, as the risk of the new dependant was not priced into the product. These changes have reduced claims ratios from above 80 per cent prior to 2009 to between 60 and 70 per cent, which is below the insurer's claims target. Old Mutual has also managed to halve the number of complaints by reducing the time for claims settlement from an average of 17 days to five days.

ICICI Lombard has introduced an online cashless claims system, whereby health-care providers are paid directly, which has allowed for more effective claims validation and auditing. The insurer has thus reduced the level of fraud and improved the claims ratios for the health insurance schemes. An improvement in the claims ratios can also be explained by an increase in scale. Claims are linked to the scale of the initiative – larger business volumes increase the size of the risk pool, thereby reducing the effects of claims volatility and adverse selection.

Although this was not a focus of the study, low claims ratios can raise questions of poor value for clients and could signal problems in the long term if clients stop buying products because they do not see value or if policymakers enforce regulation to protect consumers. It is difficult, however, to determine a claims ratio that is appropriate, because a number of insurers sell more than one product and use more profitable products to finance expansion into other products that are sold to the same client base.

Insurers control the cost of claims through pricing for the risk, managing adverse selection and fraud, and in some cases through the use of reinsurance.

Price for the risk

The lack of data in the low-income market is a challenge when setting premiums. For the life insurance products, insurers set premiums based on their experience with similar products in the commercial insurance market, with added margins for uncertainty. The approach of adapting existing rates from other insurance business was adequate for ASR and Malayan as there has been no need to adjust premiums because of high claims experience. In contrast, Old Mutual experienced higher than expected claims ratios for certain groups, resulting in initial losses on the group funeral business.

It can be challenging to price health microinsurance products as it is difficult to make accurate assumptions about service use. People's consumption of health-care services might change once they are insured. The risks related to the uncertainties in pricing health insurance products are seen in the high claims ratios for ICICI Lombard and increasing claims expenses for CIC's health product, Afya Bora, in 2013.

Insurers manage part of the uncertainty through annually renewable products, which allows them to alter premiums on a regular basis if claims are higher than expected. Regular monitoring and the quality of data captured through information systems are important in this regard. Monitoring the claims for different groups enabled Old Mutual to identify high-risk groups and increase the premiums for these groups. Conversely ICICI Lombard reduced premiums paid by the Government on its W&A product because of a lower than expected claims experience. CIC indicates that monitoring the claims experience is a key factor in refining the premiums for the Afya Bora product since there has been uncertainty around the applicability of the data on service use, on which the original premiums were based.

Manage adverse selection and claims fraud

Regular monitoring of claims experience is also important for identifying claims fraud and adverse selection.

Adverse selection can be mitigated through the design of a scheme; for instance, by the use of compulsory insurance cover for group members (for example, for credit life and the group funeral cover), or through waiting periods (for example, the group funeral cover), limited medical questions (for example, the ASR life cover) or claims exclusions (for example, the ASR student cover and Afya Bora). Adverse selection led to high early claims ratios for the Old Mutual group funeral product. ASR indicated that adverse selection was not common for its microinsurance products. Nevertheless, there have been a few instances of policyholders increasing cover when they expect to claim. Adverse selection can also be a significant risk for voluntary health insurance products because unhealthy individuals are more likely to enrol.

Claims fraud can be managed through robust claims validation processes. For the life products in this study all insurers require beneficiaries to submit documents as proof. Although this is cumbersome for policyholders, insurers are adamant that these processes are essential to prevent claims fraud. Insurers are automating systems and permitting electronic submission of documents to reduce the time for claims validation. Malayan relies on trained staff of the partner to process claims and a web-based claims system because sending the claim to the insurer creates delays and makes it difficult to detect fraud.

ICICI Lombard has implemented sophisticated claims verification procedures to manage claims fraud over time (see Box 8). Implementing claims control helps the insurer to avoid paying claims that were not reflected in the pricing of the product. The following measures have been implemented in the W&A and RSBY schemes and the Afya Bora products; many measures are similar to those applied in commercial health insurance:

- exclude certain types of medical treatment, for example, dental care
- implement treatment protocols with health-care providers
- cap the annual claims per family
- require policyholders' co-payment for outpatient benefits (although this presents the additional challenge of discouraging policyholders from seeking outpatient treatment, thus potentially increasing hospitalization costs)
- work with cashless payments so that there is less incentive for policyholders and health-care providers to collude to submit false claims for the cash
- set up preferred rates with empanelled hospitals
- review of diagnosis and treatment by an expert
- dis-empanel health-care providers that are involved in claims fraud or unreasonable billing practices
- build risk management measures into the microinsurance initiative, for example, health-promotion camps or preventative medicine clinics.

Box 8. How ICICI Lombard manages claims fraud

The introduction of more efficient claims processing has made a significant contribution to the reduction of the claims ratio for the W&A and RSBY schemes by reducing fraud. Given the size of the schemes and the large numbers of claims, it was essential that ICICI Lombard establish an automated claims system.

ICICI Lombard originally used paper claims submitted manually to local branch offices. This system was inefficient and resulted in too much paper and lost documents. The automated, web-based system enables the insurer to process claims more efficiently and cost-effectively. Automated processes have allowed the insurer to implement additional claims verification processes, including a trigger system that generates alerts to identify potential fraud (for instance, a health provider with a 15-bed capacity submitting claims for 30 patients on one day). It has also allowed ICICI Lombard to separate its operational and verification functions and create an independent field surveillance and audit team to identify fraud.

The introduction of these processes has reduced claims ratios by 20 per cent. The improved claims processes have also reduced the cost per claim from \$1.3 to \$1.0 and the time to reimburse health-care providers from 65 days to 25 days. The improved efficiency in reimbursing providers has enabled the insurer to negotiate lower rates for their services. ICICI Lombard uses a similar cashless system for the RSBY scheme, employing an inpatient technology platform developed by FINO Tech for identification, claims submission and claims payment.

Manage claims volatility and co-variant risk

The low benefit levels for microinsurance mean that there is limited risk exposure to large single claims. The sum assured for most microinsurance policies falls under the minimum retention limits for reinsurance for the insurers in the case studies. The claims ratio for CIC's credit life product doubled in 2012 because of a relatively large number of claims with high sums assured that were not reinsured. CIC's experience is unusual but shows that microinsurance business can be exposed to claims volatility due to larger benefit amounts. The greater risk in terms of claims volatility for microinsurance is an accumulation of claims. The costs of these can be managed through reinsurance. The use of reinsurance to manage exposure to claims volatility and co-variant risk is discussed in Box 9.

Box 9. Reinsurance

One of the main challenges facing the microinsurance market in the Philippines is that distribution channels are usually community-based, with policyholders clustered in particular areas. This concentrated geographical exposure creates a risk of claims accumulation for insurers. This risk is exacerbated by exposure to weather-related risks like typhoons. Close monitoring of exposure is needed and it is essential for Malayan to address accumulation and catastrophic losses. The effects of an accumulation of claims can be seen in the higher claims ratios (over 50 per cent) for BAC in 2012, due to a large number of claims for typhoons. Malayan reinsures the accident and calamity microinsurance risks under the reinsurance programme for the overall business.

ASR has a quota share arrangement with its reinsurer for its entire life business, including microinsurance, where premiums and claims are shared in the same proportion. ASR has negotiated good terms on this reinsurance programme. While gross of reinsurance claims ratios ranges from about 15 to 40 per cent, net of these claims ranges from about 10 to 20 per cent. The reinsurance programme therefore makes a significant contribution to the profitability of ASR's microinsurance business. The contribution of the reinsurance arrangement to the profitability of microinsurance is dependent on whether ASR will be able to continue to negotiate these favourable terms with its reinsurer in the future.

The insurers providing health insurance have also used reinsurance. The two ICICI Lombard health schemes are reinsured, but reinsurance is not significant and does not have an impact on the financial experience. CIC has negotiated reinsurance for the Afya Bora product, owing to the high level of uncertainty around future claims on this new product. However, the reinsurance programme had not been fully implemented at the time of the research.

MANAGE EXPENSES

The third element of the framework relates to expense management. Keeping expenses at an acceptable level is important to maintain profitability. Using a cost-effective distribution approach and implementing cost controls to manage ongoing costs are important to the profitability of microinsurance initiatives. The need for affordable and competitive premiums encourages insurers to look for ways to reduce costs. Expense management and scale are therefore intertwined, in that scale is important both to cover fixed costs and to make initial investments in technology systems and market research worthwhile. Scale also allows insurers to reduce their expenses by negotiating lower fees. On the other hand, setting up efficient systems supports the achievement of scale and the effective servicing of clients. This section describes how the insurers in the case studies manage acquisition and management costs.

Acquisition costs

Acquisition costs comprise marketing and promotion activities, fees paid to partners, salaries or incentives paid to sales agents and the cost of training programmes for sales agents (see Figure 6 and 7).⁴ For ICICI Lombard, the acquisition costs also include the costs of biometric smart cards for the identification of enrolled members.

Figure 6. Expense ratios, 2008

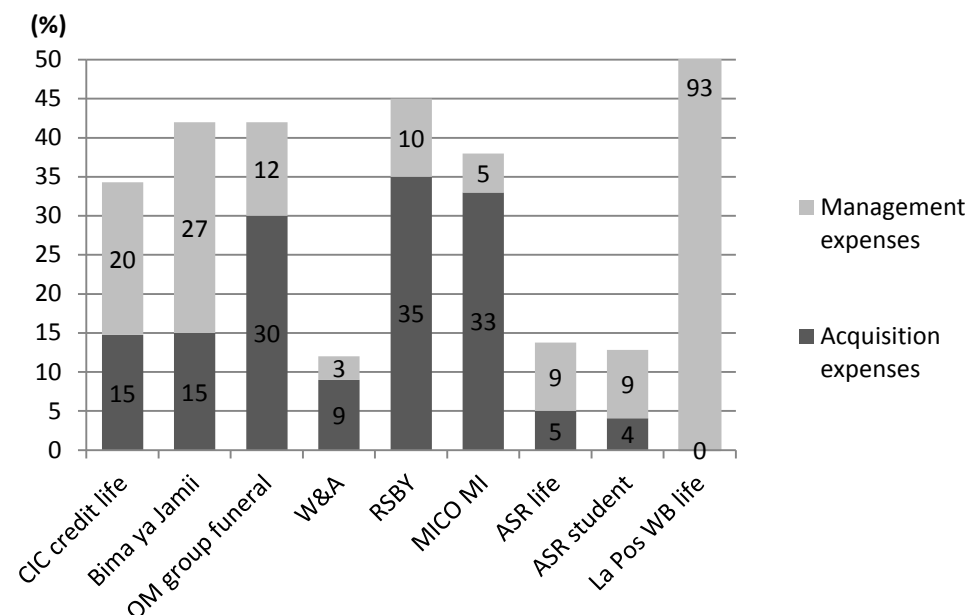
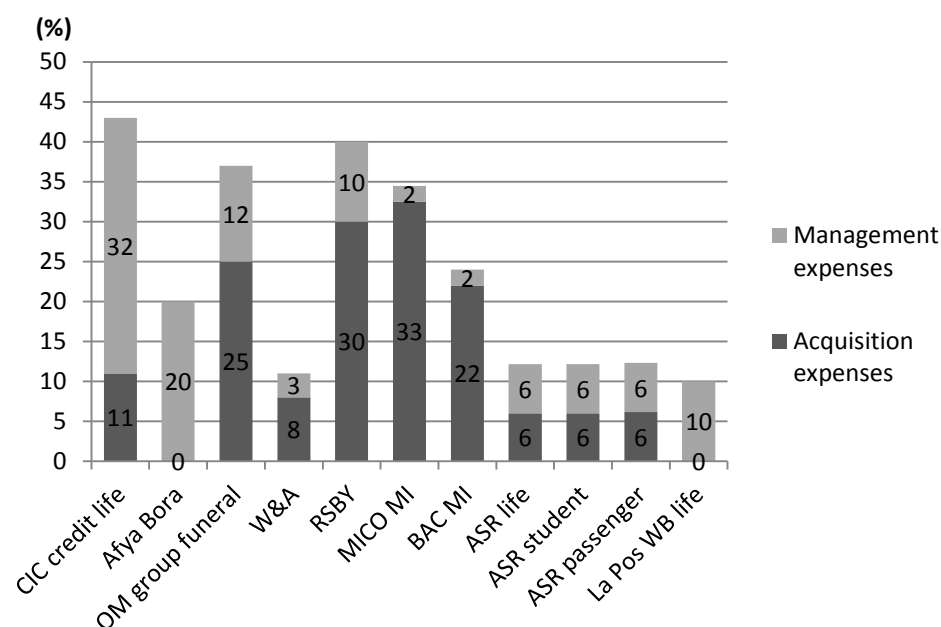


Figure 7. Expense ratios, 2012



⁴ Expenses for CIC include an allocated amount of group life expenses based on premium volumes. Management expenses for ASR are calculated as a proportion of the expenses of the insurer based on premium volumes. Expenses for RSBY are estimates based on Koven et al., (2013). Management expenses for W&A are based on the manager's estimate. Old Mutual expenses and Malayan Insurance acquisition expenses are based on a range of values.

The highest acquisition costs in 2012 are for Malayan and RSBY, which work with external partners to distribute products. The relatively high acquisition costs of between 30 and 38 per cent of gross premiums reflect higher fees paid to partners for enrolment. For Malayan this also reflects the higher commission rates for personal accident products. Malayan also pays partners to administer and assist with claims. ICICI Lombard outsources the enrolment of eligible families to FINO Tech, a technology and service provider that enrolls clients using a smart card with biometric identification. Distribution fees to FINO Tech were about 30 per cent of premiums in 2012.

In contrast, the acquisition costs for ASR and CIC's schemes are lower as both the insurers work with "internal" or close partners. The costs for ASR's life product range between 5 and 10 per cent. ASR uses BANRURAL staff and bank infrastructure to sell insurance and is able to negotiate low fees because BANRURAL is the owner of the insurer and benefits from the profits it makes. Acquisition costs for ASR have increased over time because of increased spending on marketing. ASR increased its marketing activities in 2009 with the introduction of posters in bank branches, radio marketing campaigns and prizes for customers. These marketing activities make up between 20 and 50 per cent of acquisition costs each year between 2009 and 2012 for the life product.

CIC pays a 10 per cent fee to SACCOs and MFIs to distribute and service the credit life product. In addition the acquisition cost ratios for this business make an allowance for a proportion of the acquisition costs of the group life business, the business unit where credit life business is managed. Group life acquisition costs have been variable over time, the lowest allocation of acquisition costs to the credit life business was 1 per cent (2012) and the highest allocation was 14 per cent (2009) of premiums.

The high acquisition cost ratio, of between 25 and 45 per cent, for Old Mutual is due to the high cost of the salaried sales force relative to business volumes generated. Few agents have generated sufficient premium volumes to cover their salaries. The salaried agent model was chosen because agents needed to be remunerated for servicing existing policies as well as for new sales. Old Mutual has put plans in place to improve business retention and sell more products to larger groups. Through the various new sales and business-retention strategies, Old Mutual intends to grow premium volumes so that sales advisor costs will go down from 27 per cent to 14 per cent of premiums in the future.

La Positiva has reduced its acquisition costs by hiring local sales supervisors in order to reduce travel costs. It has reduced marketing costs and made advertising more appropriate to the rural market by using local radio and murals. The cost of advertising in rural areas is only 4 per cent of the cost in urban areas.

All of the insurers working with distribution partners have supported the partner to enable their staff to understand the products and other insurance-related matters (see Box 10). Training of the partner's staff is expected to facilitate better explanation of products to customers at the enrolment stage and better client service in terms of answering queries and claims handling.

Box 10. Cost of training sales staff and building capacity of partners

ASR has set up an insurance school for BANRURAL bank managers and a training programme for bank sales agents. Training costs comprise 12 per cent of expenses and 1.5 per cent of gross premiums. ASR also uses web-based training for sales agents.

La Positiva has reduced the cost of capacity-building workshops for the supervisors and sales force by designing an e-learning course and reducing the frequency of on-site workshops. At the end of each module candidates' understanding is assessed. This process has released insurer resources and enabled the insurer to monitor the sales force more closely in the field. Training costs are 17 per cent of premiums.

CIC has indicated that the need to train the staff of partner SACCOs, MFIs and other groups on the new Afya Bora health product presents a challenge to their marketing team as this training takes a lot of time and groups are scattered across the country.

Management costs

Ongoing management costs include maintaining and servicing existing policies, and meeting company overheads and ongoing management costs.⁵ To manage these costs, the insurers in this study focus on working with groups, developing efficient processes, having simple products and making good use of existing resources. Insurers set strict budgets for administration in order to keep the ongoing management costs low relative to premium volumes. The insurers regularly monitor operating expenses and take action to reduce costs if costs are increasing relative to premium volumes.

Malayan Insurance, ASR and ICICI Lombard's W&A scheme show the lowest ongoing management expenses: between 2 and 12 per cent. Increased business volumes and a focus on efficient processes and systems have contributed to the lower management costs. ICICI Lombard has reduced costs for the W&A scheme by developing in-house administrative capacity rather than outsourcing to independent third-party administrators.

Management expenses are higher for the Old Mutual group funeral product. The funeral group sizes are relatively small, with the majority of groups having fewer than 100 members. Administration relating to these groups can be resource-intensive. Old Mutual is updating its systems to make the data collection process more efficient. These efficiencies will allow Old Mutual to manage increased policy volumes at the same staff levels and improve the profitability of the product.

Expenses for CIC's credit life business increased, from 20 to 32 per cent between 2008 and 2012. The premium growth rate for credit life dropped from 55 per cent in 2010 to negative 1 per cent in 2012, while the expenses increased due to an increase in the expenses for group life business, the business. A major contributor to the increase in the expenses for group life business was the allocation of the costs of ten branches and area offices to group life business that had previously been borne by the insurance group. In addition the separation of the life and non-life business at CIC in 2010 resulted in duplication of resources, processes and activities for microinsurance. CIC is planning to set up a separate subsidiary for microinsurance business in order to allow products to be managed more efficiently. It is expected that ongoing management expenses will be 20 per cent.

Make good use of existing infrastructure and resources

CIC, ASR, La Positiva and Malayan Insurance outsource the administration of insurance business to aggregators to reduce the cost of collecting premiums and administering and servicing policies. Although these insurers were able to use partners' existing infrastructure and resources, some investment was required in modifying systems and developing processes for microinsurance. Access to the staff and resources of the wider insurer group enables a microinsurer to manage costs. The microinsurance units at Old Mutual and ASR pay fees to the other departments of the insurer (for

⁵ Expenses are managed at company or business unit level for most insurers in the study. The insurers have not kept separate records of expenses related to the microinsurance. Overhead expenses and ongoing management cost of the business unit housing microinsurance have been allocated to the individual microinsurance initiatives in proportion to premium volumes. The allocation of management expenses by premium volumes implicitly assumes that management expense ratios are the same for all products written under that business unit and does not account for instances where the costs of administering and servicing the microinsurance business may be lower or higher than for the commercial insurance business.

example, the actuarial and legal departments) for the use of their services, but this is still more cost-effective than building a skilled team of these staff dedicated to microinsurance.

Invest in simple processes and efficient technology

The relatively low ongoing management costs for ASR and Malayan are due to simple and efficient processes. ICICI Lombard controls its ongoing management costs for the health insurance schemes through strict budgets and regular monitoring of expenses. Automated processes enable it to control costs and monitor large business volumes effectively. ICICI Lombard invested in an in-house technology platform to link to health-care providers for the W&A scheme. The scheme has not yet generated sufficient profits to cover the initial cost of the system, but in-house administration of the health scheme is expected to be a cost-effective strategy in the longer term.

Using technology effectively assists insurers in working with large volumes of policies and dispersed groups. Most of the insurers in this study use automated enrolment processes and web-based systems that link the partner with the insurer. Old Mutual and CIC have introduced systems to automate new business acquisition, but these are still at the early stages.

5 > CONCLUSIONS AND RECOMMENDATIONS

The case studies reveal that the insurers had mixed experiences of increasing business volumes and making (or keeping) their microinsurance initiatives profitable. This research helps us to understand the factors that drove profitability and assess the impact of the corrective measures the insurers took when they were facing challenges in 2009.

Increasing business volumes and sustaining them are important factors in making a microinsurance initiative viable. The research indicates slower growth in microinsurance business over time because of challenges with sustaining growth in voluntary products, balancing the servicing of existing policies with the generation of new sales, and dealing with increased competition in certain markets. Increased competition has been a challenge to business growth and profitability for the Kenyan, South African, Filipino and Indian insurers although it is encouraging that microinsurance markets are developing in these countries. In response to the competition, all of the insurers have focused on fostering customer loyalty, differentiating products, improving the servicing of products and reducing costs rather than solely competing on price and reducing premiums to levels that are not sustainable.

Overall, although some of the products investigated have reached high policy volumes, given the take-up of microinsurance products in relation to the market size, there is still potential for significant growth.

Working with partners and existing groups was highlighted as a key factor in achieving scale and managing the costs of distribution and administration in the previous study. The current research corroborates this finding, but further experience has shown the importance of working in partnerships in which the insurer is able to negotiate lower fees for distributing, administering and assisting with the servicing of policies.

As far as loss-making products are concerned, the most effective way to transform their financial position has been to reduce claims costs. Old Mutual and ICICI Lombard improved claims experience by implementing measures such as differentiated pricing to manage the risk of adverse selection and validation processes to prevent fraud. Gearing up for scale and setting up efficient systems and processes are important for keeping ongoing management expenses low. Insurers that use information systems that link to partner systems can facilitate more efficient sales, administration and claims processes, and have lower management expense ratios, all of which contribute to the overall profitability of their microinsurance business.

This follow-up study has shown that microinsurance has grown between 2009 and 2012 and that the insurers in the original case studies have continued to devote resources to build their microinsurance business. All the insurers in this study have invested in new products and some have also expanded their distribution channels for microinsurance business. Most of these new initiatives have yet to show profits and are being supported by the profits from more mature microinsurance products.

The game is changing because of new opportunities in the market (for example, mobile money) and knowledge gained from experience as the market matures. It is essential for companies to monitor financial experience and keep in touch with customers in order for them to learn from failures and challenges. However, this research shows that insurers are already doing this. They have invested in new premium collection mechanisms to meet market demand. They have changed processes and systems over time to create cost-efficiencies and serve customers more effectively. Greater efficiency combined with increased customer loyalty are beginning to result in higher business volumes and greater profitability.

These case studies provide valuable insights into the drivers of profit for microinsurance initiatives. However, further research into the financial performance and profitability of similar products and distribution models will be helpful in understanding benchmark ratios and drivers of profits in other market contexts. That study could be structured so that insurers could participate anonymously in order to protect sensitive data.

Further research to assess the overall profitability of microinsurance portfolios would be useful. This would help practitioners to understand how individual products contribute to the overall profitability of an insurer. Also, research on the profitability of microinsurance in different market segments and of government-subsidized schemes would be helpful as these government subsidies generally target a segment of the market that is excluded from the cover provided by formal insurers.

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7 > APPENDIX I: CALCULATION OF PERFORMANCE INDICATORS

We considered the Key Performance Indicators developed by the Microinsurance Network, but developed our own indicators for this study.

Table 4. Calculation of performance indicators

Item	Calculation
Gross insurance profit ratio	$1 - \text{Gross claims ratio} - \text{Total expense ratio}$
Renewal rate	$\frac{\text{Number of policies renewed (current year)}}{\text{Number of policies (previous year)}}$
Gross claims ratio	$\frac{\text{Gross claims incurred}}{\text{Gross earned premiums}}$
Net claims ratio	$\frac{\text{Net claims incurred}}{\text{Net earned premium}}$
Acquisition expense ratio	$\frac{\text{Acquisition expenses}}{\text{Gross written premiums}}$
Management expense ratio	$\frac{\text{Management expenses}}{\text{Gross written premiums}}$
Overall expense ratio	$\frac{\text{Total expenses}}{\text{Gross written premiums}}$

8 > APPENDIX II: PERFORMANCE INDICATORS FOR INSURERS

Table 5. Cover and premium levels

Insurer	Product	Cover	Premium (US\$)
CIC	Credit life (average)	2 220	40
	Afya Bora (family)	Inpatient 2 950	150
		Outpatient 590	
Old Mutual	Group funeral	353 to 1 412	2.5 to 9.4
ICICI Lombard	W&A	Inpatient 273	12.4 (policyholders pay 1)
		Outpatient 136	
ASR	RBSY	Inpatient 545	10 (policyholders pay 0.5)
	Life	3 165 to 18 987	38 to 186
	Student	1 260 to 3 165	18 to 70
	Passenger	3 165	17

Table 6. Growth in written premiums (%)

Insurer	Product	2007-08	2008-09	2009-10	2010-11	2011-12
CIC	Credit life	53	119	55	35	-1
	Bima ya Jamii		412	4		
ICICI Lombard	W&A	252	40	(31)	17	4
	RBSY		5 619	339	(55)	42
Malayan	MICO	53	54	74	18	16
	BAC					516
ASR	Life	21	84	48	17	(3)
	Student		389	218	(12)	(14)
	Passenger					1
La Positiva	Credit life		190	100	85	103
	Water board life			448	125	133

Table 7. Gross insurance profit ratio (%)

Insurer	Product	2007	2008	2009	2010	2011	2012
CIC	Credit life	34	47	44	28	31	(1)
	Bima ya Jamii	60	51	27	-	-	-
	Afya Bora	-	-	-	-	-	42
Old Mutual	Group funeral	(20)-(25)	(25)-(35)	0-10	0-10	0-10	0-10
ICICI Lombard	W&A	-	(13)	(14)	6	15	38
	RSBY	-	(11)	(42)	(38)	(23)	(21)
Malayan	MICO	49	51	50	53	47	47
	BAC					77	21
ASR	Life	90	48	58	63	64	62
	Student	-	76	60	58	71	67
	Passenger	-	-	-	-	73	70
La Positiva	Credit life	-	19	21	20	17	22
	Water board life	-	-	(96)	(17)	(14)	(10)

Table 8. Gross claims ratios (%)

Insurer	Product	2007	2008	2009	2010	2011	2012
CIC	Credit life	31	19	19	31	27	58
	Bima ya Jamii (life)	4	7	15	-	-	-
	Afya Bora	-	-	-	-	-	38
OM	Group funeral	80-100	70-90	60-80	60-80	60-80	60-80
ICICI Lombard	W&A		101	102	83	74	52
	RSBY		66	97	98	83	81
Malayan	MICO	11	11	15	13	19	19
	BAC					0	55
ASR	Life	2	38	32	21	22	26
	Student		11	31	17	14	21
	Passenger					13	18
La Positiva	Credit life	N/A					
	Water board life	N/A					

Table 9. Net claims ratios (net of reinsurance) (%)

Insurer	Product	2007	2008	2009	2010	2011	2012
ICICI Lombard	W&A	-	98	102	83	75	52
	RSBY	-	56	101	97	82	80
ASR	Life	2	22	18	12	16	15
	Student	-	9	23	13	11	18
	Passenger	-	-	-	-	7	11

Table 10. Total expense ratios

Insurer	Product	2007	2008	2009	2010	2011	2012
CIC	Credit life	34	34	37	41	42	42
	Bima ya Jamii	36	42	57	-	-	-
	Afya Bora	-	-	-	-	-	20
Old Mutual	Group funeral	25-45	25-45	35-55	45-65	35-55	25-45
ICICI Lombard	W&A	-	12	12	11	11	11
	RSBY	-	45	45	40	40	40
Malayan	MICO	34-39	35-40	33-38	32-37	32-37	32-37
	BAC	-	-	-	-	22-24	23-25
ASR	Life	7	14	10	16	14	12
	Student	-	13	9	25	14	12
	Passenger	-	-	-	-	14	12
La Positiva	Credit life	N/A					
	Water board life	-	-	93	17	14	10

Table 11. Acquisition expense ratio

Insurer	Product	2007	2008	2009	2010	2011	2012
CIC	Credit life	21	15	24	22	18	11
	Bima ya Jamii	16	15	19	-	-	-
	Afya Bora	NA					
Old Mutual	Group funeral	-	20-40	30-50	40-60	30-50	20-40
ICIC	W&A	-	9	9	8	8	8
Lombard	RSBY ¹	-	35	35	30	30	30
Malayan	MICO	30-35	30-35	30-35	30-35	30-35	30-35
	BAC	-	-	-	-	21-23	21-23
ASR	Life cover	1	5	6	9	6	6
	Student cover	-	4	5	13	6	6
	Passenger cover	-	-	-	-	6	6

¹ Estimate based on Koven et al. (2013).

Table 12. Ongoing management cost ratio (%)

Insurer	Product	2007	2008	2009	2010	2011	2012
CIC	Credit life	13	20	13	19	24	32
	Bima ya Jamii	20	27	38	-	-	-
	Afya Bora	N/A	-	-	-	-	-
Old Mutual	Group funeral	-	10-20	10-20	10-20	10-20	10-20
ICICI Lombard	W&A	-	3	3	3	3	3
	RSBY	-	10	10	10	10	10
Malayan	MICO	4	5	3	2	2	2
	BAC	-	-	-	-	1	2
ASR	Life cover	6	9	5	8	8	6
	Student cover	-	9	5	12	8	6
	Passenger cover	-	-	-	-	8	6

MICROINSURANCE INNOVATION FACILITY

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

