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CLIENT VALUE SERIES

Brief No. 2

Creating client value: Ten blueprints for microinsurance providers

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This brief provides recommendations for insurance companies, other risk-carriers and distributors (broadly defined as providers) on how to improve the value that their microinsurance offerings provide to clients. These insights are based on evidence (see Brief 1) and close collaboration with a diverse set of more than 60 providers over the last six years. This brief starts with four key lessons that are an important background for the ten blueprints that follow.

KEY LESSONS

Providing client value is good business

Providers care about client value because it drives business viability. In fact, in the long term there is no trade-off between value and viability, and building customer loyalty should be a goal of any long-term business plan (Reichfeld, 1996). “Creating value is critical because it provides a competitive edge and builds customer loyalty, facilitating growth in market share. Moreover, when providers are attuned to client

needs and know how to translate them into new product offerings they can more easily tap new market segments. A diverse range of services helps institutions mitigate risk by not becoming overly dependent on one product and one customer segment. Not all these benefits are reaped in the short term, but providers with a long-term perspective stand to gain by taking a customer-centred approach” (ACCION, 2013).

Providing client value is especially critical for microinsurance given the intangible nature of insurance and the negative perceptions associated with it. The evidence shows that the value proposition of products is one of the main determinants of microinsurance demand (McCord et al., 2012; Matul et al., 2013).

Value is multidimensional

In its simplest terms, client value is the difference between what the customer gets from a product and what s/he gives. This definition can be applied to microinsurance, where value could be defined as the difference between the quantified benefits of a product (the payout) and its premium. The definition is limited, however, as it often omits some aspects of value that are recognized by clients but are more difficult to measure (Matul et al., 2011; Zimmerman et al. 2013). The ILO’s Microinsurance Innovation Facility, through its partnerships, has found that providers view value as multidimensional, transcending the quantified benefits (the payout) and the costs of the premium. Processes that facilitate access to insurance and ensure good experience with it are needed for clients to receive the full benefit of products.

¹ This brief is the second in a series of three briefs on client value in microinsurance. The series is produced by the ILO’s Microinsurance Innovation Facility and the MicroInsurance Centre. In the introductory letter to the series we explain our research methodologies. Brief 1 summarizes evidence and Brief 3 presents advice for governments, regulators and donors. All briefs can be accessed via our websites. Michal Matul and Aparna Dalal work for the ILO’s Microinsurance Innovation Facility. The authors would like to thank Camyla Fonseca for valuable research support; Jeanna Holtz, Craig Churchill, Michael J. McCord, Barbara Magnoni and Emily Zimmerman for their detailed feedback on the first draft; and all the Facility staff and partners for offering their insights.



Embracing this multidimensionality, the Facility's PACE (Product, Access, Cost, Experience) tool helps practitioners to assess the client value of a product by comparing it with other insurance offerings (formal and informal) as well as other financial products that help clients manage risk (for example, credit or savings). Figure 1 shows the improvements made by SAJIDA Foundation, a microfinance institution (MFI) in Bangladesh, when it used PACE to analyse the client value of its product.

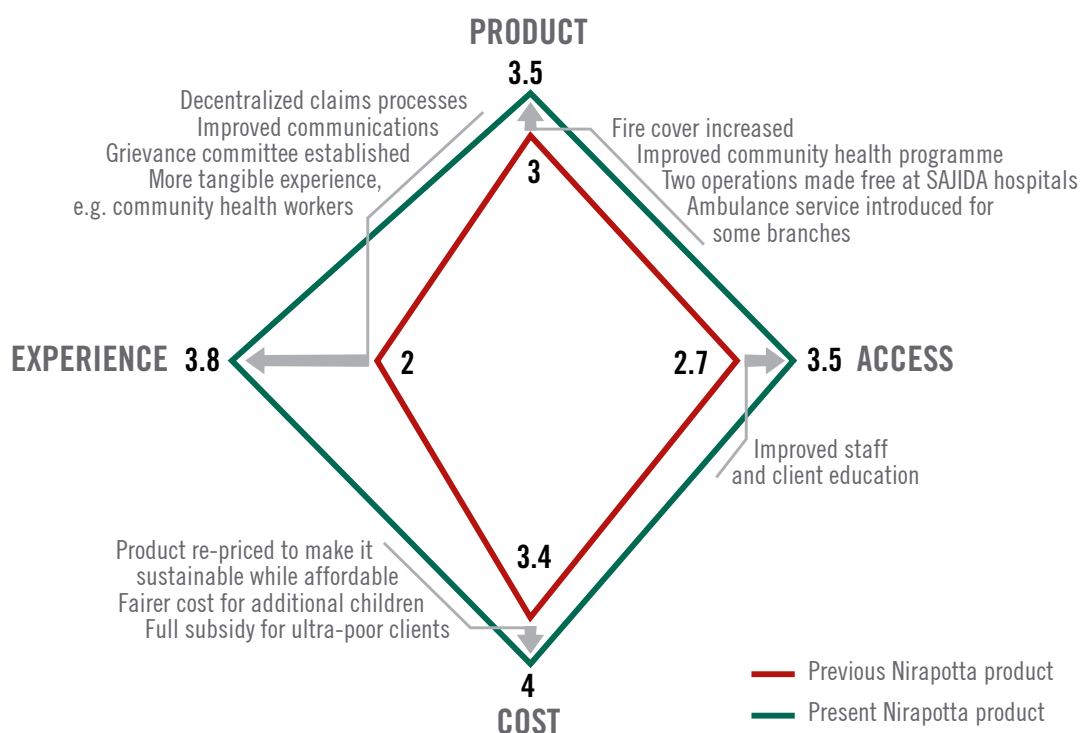
Timing and sequencing matter

Client value can be improved over time as the microinsurance market develops and matures. High-value products are generally difficult to offer in nascent microinsurance markets. Instead, providers may start with basic products such as credit life or hospital cash. Even products with limited benefits can be valuable if they are appropriately designed, accessible, well serviced and offered at a reasonable price. It is important to get the fundamentals right, as explained in the first four blueprints below.

Simple products create an opportunity for providers to develop confidence about serving a new market segment, while enabling them to collect data to price products more accurately. Simple products are also a useful starting point for low-income consumers as they provide a chance for them to learn about insurance and see how it works without a major upfront investment – sometimes they even get it for free.

If providers and consumers have a positive experience with simple products, and with each other, it will set the stage for more comprehensive cover. It is possible for providers to deliver greater value in a viable way as markets develop. We find more valuable products in

FIGURE 1: PACE ANALYSIS OF SAJIDA'S NIRAPOTTA PRODUCT



mature markets that have a strong insurance culture, capable insurers, appropriate infrastructure, and enabling regulation and policy.

If the market continues to develop, it is possible that providers will even compete to serve low-income consumers, which will further enhance customer value. For example, in the mature life microinsurance market in the Philippines, growing competition led the average combined ratio of five life microinsurance companies to increase from 43 per cent to 74 per cent between 2008 and 2012, mostly driven by an increase in claim ratio (Koven, 2013).

When deciding what products to offer, it is important for practitioners to consider the stage of development of their market. Products that are not ready to be adopted by consumers or are too difficult to administer, or do not create a positive first-time experience with insurance, can do more harm than good, and may delay progress for several years.

All insurance matters

Low-income households live complex financial lives. Their risk-management strategies typically have gaps or inefficiencies, creating an opportunity for insurance to offer value.

Health, agriculture and catastrophe insurance seem to be the products for which there is most need as

low-income households are particularly exposed to the shocks and natural disasters these would cover. But other products can also reduce vulnerability. A simple, well-designed funeral insurance product can ease the financial stress of a family member's death by reducing funeral costs and/or replacing some of the deceased's lost income. In doing so, insurance can reduce reliance on more burdensome coping strategies such as selling assets or borrowing at high interest rates. Brief 1 provides evidence on value from different types of product.

TEN BLUEPRINTS TO CREATE CLIENT VALUE

Below we present ten blueprints to help practitioners embrace clients' needs and improve the value of their products in a viable way. The blueprints are divided into two categories: fundamentals and enhancements. Products work well when the fundamentals are in place. Enhancements represent options that practitioners can consider, depending on their strategy, capacity and the level of market development. While enhancements create client value, they also pose risks and can erode value if not managed properly.

FUNDAMENTALS

- 1** START SIMPLE WITH PARTIAL, SINGLE, MANDATORY COVER
- 2** BOOST ACCESS AND UNDERSTANDING
- 3** ENSURE GREAT CLIENT EXPERIENCE THROUGH CLAIMS AND SERVICING
- 4** OFFER COMPLEMENTARY SOLUTIONS

ENHANCEMENTS

- 5** BUNDLE INSURANCE WITH OTHER FINANCIAL SERVICES
- 6** INCLUDE VALUE-ADDED SERVICES
- 7** USE TECHNOLOGY WITHOUT LOSING CLIENT "TOUCH"
- 8** EXPAND BENEFITS
- 9** PROVIDE CHOICE THROUGH VOLUNTARY OPTIONS
- 10** OFFER MULTI-RISK PRODUCTS

BLUEPRINT No. 1

START SIMPLE WITH PARTIAL, SINGLE, MANDATORY COVER

SIMPLE

Simple products can provide value to clients. There are simple options across all product lines, for example, hospital cash, credit life, funeral and fire. Overly complex products fail if delivered ahead of their time, fuelling distrust.

Microfund for Women, an MFI in Jordan, offers hospital cash to its borrowers, and optionally to their family members (90,000 lives covered as of 2012). The product does not have any exclusions and the claims process is simple. Experience thus far indicates that clients find it easy to claim a benefit. While the claims rate is still lower than national hospital use rates (8 per cent versus 14 per cent), the frequency of claims shows that clients know how to use the product.

Old Mutual faced slack sales when it first introduced a retail funeral product called Pay When You Can (PWYC), distributed through one of the biggest food retailers in South Africa. PWYC was originally designed to be flexible, with clients having the option to top up cover on an ongoing basis. The product was not successful, mainly because it was too complex and clients had difficulty in comprehending the waiting periods associated with the top-ups. Based on PACE analysis, Old Mutual simplified the product, while still meeting the needs of clients.

PARTIAL

Partial coverage can fill gaps and smooth consumption better than informal alternatives. Covering a portion of the full cost of the risk allows the product to be more affordable.

Kore W, the catastrophe property insurance offered by Fonkoze, an MFI in Haiti, offered debt cancellation and a cash payout of up to USD125 in the event of a disaster. While this coverage was insufficient to cover all losses faced by clients, analysis showed that the product performed better than informal risk management mechanisms across all dimensions of client value (see Figure 2). After suffering losses, both the insured and the uninsured relied on savings, asset sales, income and informal loans to finance the shock. While selling assets was a common financing strategy, the uninsured sold substantially more assets than the insured and depleted their savings to stay afloat. As a result the consequences for their long-term financial well-being were worse. The insured, by contrast, were more likely to reduce consumption in the short term while waiting for the insurance benefit.

SINGLE

Single-risk products are easier to deliver and can provide client satisfaction

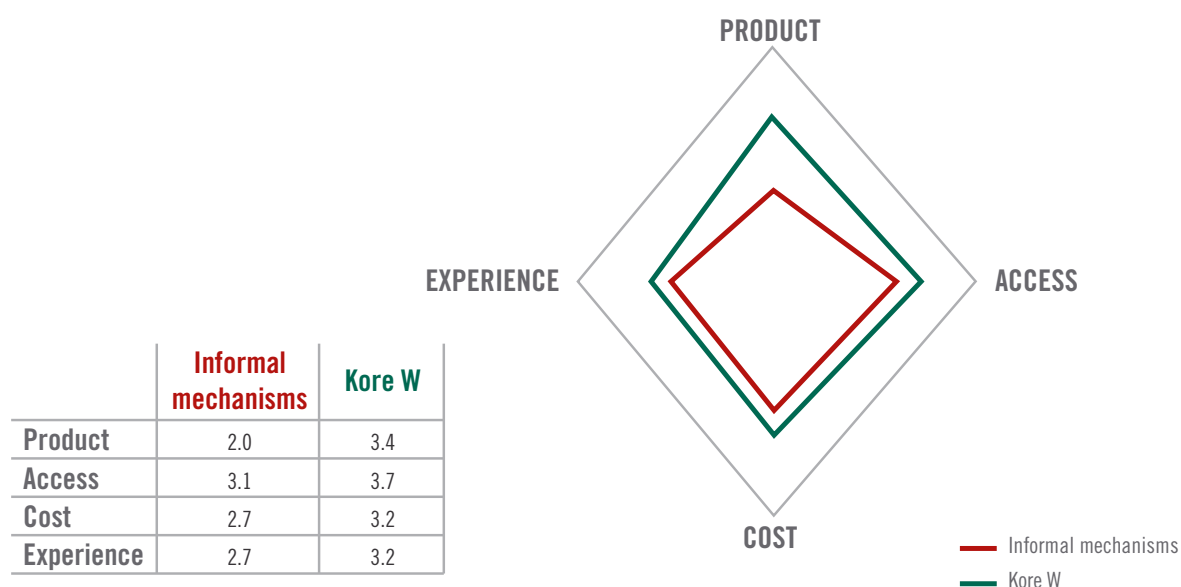
Cooperative Insurance Company (CIC), an insurer in Kenya, offered a composite health and life insurance, which quickly reached more than 15,000 policyholders but was removed from the market after 2 years because of low renewals and increasing operational challenges. CIC, together with its partner National Hospital Insurance Fund, was challenged by the complexity of the product, which was difficult to explain and administer.

MANDATORY

Mandatory and embedded products are more affordable and convenient, can reach scale quickly and are less exposed to adverse selection.

Tigo, a mobile network operator (MNO) in Ghana, offers free life insurance for customers and one family member. The sum assured ranges from USD104 to USD520, depending on the amount of airtime used each month. To be covered, clients must spend at least USD2.60 for the lowest benefit level or USD20.80 for the highest. The customer has to enrol for the insurance by filling in a form and can stay on this free plan indefinitely, provided the monthly airtime requirement is met. Through this mobile insurance model, Tigo has 550,000 policies in force, covering over 1 million lives. Even though 93 per cent of Tigo Family Care clients had never had private insurance before, 94 per cent of them can now explain the product benefits correctly.

FIGURE 2: FONKOZE'S KORE W VERSUS INFORMAL MECHANISMS



Source: MILK Brief No 23

Read more:



Improving credit life microinsurance, Facility Microinsurance Paper No. 9
 Funeral insurance, Facility Microinsurance Paper No. 10
 Mobile phones and microinsurance, Facility Microinsurance Paper No. 26
 Getting better at improving client value: the case of Fonkoze's Kore W microinsurance product, MILK Brief No. 23

ONLY IF

Blueprint No. 1 is relevant if the other fundamental blueprints – 2, 3 and 4 – are embraced. Poor credit life products create a bad image for simple, mandatory offerings. Lack of client awareness results in low claims. For simple, mandatory products to work well, providers need to excel at client education, create positive experiences for clients, and ensure that the products add value compared to alternatives.

BENEFITS

FOR CLIENTS: Decent value at an affordable price to test insurance

FOR PROVIDERS: Quick scale, costs under control and foundation to cross-sell



ACCESS

Clients face numerous obstacles when accessing insurance, such as unclear application forms, cumbersome documentation requirements, limited opportunities to ask questions, etc. Obstacles complicate decisions and discourage clients from buying. Simple procedures that do not require repeated contact are most likely to increase access. Technology is a prime enabler.

Kilimo Salama, a weather index crop insurance product available to Kenyan farmers, eliminates all paperwork, making the enrolment procedure quick and easy for both distributors and clients. Farmers visit a certified agro-dealer, who offers insurance to cover the cost of inputs purchased. If the farmer decides to buy the cover, the value of the inputs the farmer would like to insure is entered using a mobile phone application. The dealer is informed of the premium owed and the farmer pays the dealer for both the goods and the premium. The dealer registers the farmer's details on his mobile phone. Straight after registering, the farmer receives a text message with the policy number and coverage details.

USAGE

Enrolment is not enough. Clients must use the product, i.e. claim the benefits or use the value-added services (VAS). Low usage translates into low value and often low renewals.

Aseguradora Rural, an insurer in Guatemala, sold 8,000 voluntary insurance policies with life and health components through a large and trusted bank in just two months. However, clients did not use the VAS such as health check-ups, discounted medicines and consultations. Clients did not fully understand the product. Aseguradora Rural is now working to improve client understanding through increased promotion, phone calls, and product information provided by doctors.

UNDERSTANDING

Providers must educate clients about products in order to boost usage and help clients make good choices. Education should continue beyond enrolment. Providers should focus on explaining the product, its value and processes, rather than on broad financial literacy, which should be delivered by governments. Content needs to be sequenced. Clients need to understand the key issues at the beginning and learn about other features as time goes on.

When MicroEnsure and yuMobile originally launched yuCover in Kenya, they underestimated the complexity of the product and the difficulty of the self-enrolment procedure, which required customers to use an English-only USSD menu. Many clients had low levels of understanding; for example, they did not understand the meaning of permanent disability. This resulted in claims for broken arms, bruises, scrapes and scars, which were rejected, producing a negative impact on renewal. To improve client understanding, MicroEnsure and yuMobile plan to:

- use voice technologies such as outbound calls and Interactive Voice Recognition;
- ensure a consistent educational message to clients; and
- introduce local language USSD applications and call centres

BEHAVIOUR

Clients face behavioural constraints and struggle to translate their intentions into action because of too much choice, inability to prioritize their long-term needs and contextual factors. Providers need to factor these constraints into the design of products and processes to help clients make good choices. Small changes can make a surprising difference.

Appreciation of the value of insurance might not translate into behaviour change if obstacles to action remain. Leventhal et al. (1965) show how small process changes can help. Participants in their experiment were educated about the risks of tetanus and the value of vaccination, and provided with information about where to be immunized. The education changed their beliefs about tetanus and their attitudes towards it. It failed, however, to change their behaviour: only 3 per cent of the participants were immunized. The vaccination rate rose to 28 per cent when participants were also provided with a map showing the nearest infirmary and were encouraged to think practically about a suitable appointment time. A similar strategy could be used by Aseguradora Rural to boost the use of VAS – the key is to first identify the obstacle that is preventing action.

KILIMO SALAMA ENROLMENT PROCESS



Source: Briefing Note No 23

Read more:



The psychology of microinsurance: Small changes can make a surprising difference, Facility Microinsurance Paper No. 5

Emerging practices in consumer education on risk management and insurance, Facility Briefing Note No. 3

Why people don't buy microinsurance and what we can do about it, Facility Microinsurance Paper No. 20

Audiovisual mass media campaigns for insurance education: Stages and lessons, Facility Microinsurance Paper No. 21

Removing obstacles to access microinsurance, Facility Microinsurance Paper No. 27

The moment of truth: Claims management in microinsurance, Facility Briefing Note No. 24

ONLY IF

Identify obstacles from the client's perspective and act on priorities. Barriers to access and understanding are numerous and differ across market segments. It is often not possible to remove all obstacles at once. Providers need to use market research to identify the obstacles for the relevant segments, and decide which ones are the most important to act upon.

BENEFITS

FOR CLIENTS: Convenience, usage and better choices

FOR PROVIDERS: Higher take-up and renewals



ENSURE GREAT CLIENT EXPERIENCE THROUGH CLAIMS AND SERVICING

CLAIMS

The claims process should be simple and convenient and adapted to the needs of the low-income market.

Transparent processes create trust. Community leaders and institutions can be leveraged to administer claims. Rejections fuel distrust, hence exclusions and waiting periods might not be beneficial overall to providers.

From the client perspective, cashless claims are often superior to reimbursable expenses but monitoring is required to make sure the service quality meets client expectations.

ICICI Prudential, a life insurer in India, has simplified claims documentation. Village elders can provide a declaration of death. A community declaration of good health for the deceased is permitted ex-post in lieu of medical underwriting during policy issuance. Multiple forms of beneficiary identification are accepted and illiterate beneficiaries can sign documents with an x, with an accompanying signature from a witness.

DHAN Foundation, a professional development organization in India, provides members with information about how claim payments are made for its index crop insurance product. Data from rainfall gauges are available to the insured daily. Consolidated data are also sent to village information centres. This enables clients to check whether the payments received are consistent with the rainfall data.

Alternative Insurance Company (AIC) in Haiti provides cashless funeral benefits through a network of funeral parlours selected on the basis of the quality of their service. AIC monitors the service quality of the parlours by asking clients for feedback regularly.

TIMELINESS

Providers need to find a balance between timely payouts and proper checks to prevent fraud. Timeliness is essential to prevent clients from using burdensome coping strategies. Speed is important but clarity on timing is even more important. Providers need to set out clear expectations and keep their promises to clients.

MILK studies demonstrate that for property insurance settlement periods in excess of 40 days force insured clients to borrow and reduce consumption in order to meet living expenses, rebuild damaged property or restock their businesses. For life insurance, however, prompt but not immediate payment may provide more long-term value, as observed in the Philippines. Expenses for the wake increase when payouts are ultra-fast (within a few days of death) while they increase for funerals when payouts are fast (within a week). Further delayed cash payouts might offer value by replacing income after losing a breadwinner rather than simply covering funeral costs. Delayed payouts can also help beneficiaries to resist the temptation to overspend on funerals.

SERVICING

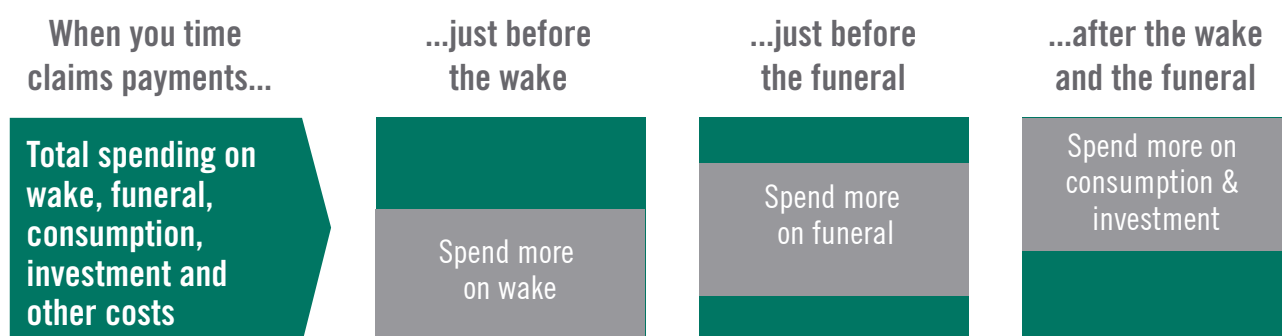
Customer care is at the heart of client satisfaction. A range of convenient channels needs to be established, from the start, to answer clients' questions and resolve grievances. Call centres and mobile-based communication can complement trained distribution agents.

Old Mutual decided to split sales and servicing for its group funeral business because servicing took up to 30 per cent of sales force time. More than half the agents did not meet targets, and inadequate customer care led to high lapse rates. In response, Old Mutual assigned one agent from each regional sales team solely to servicing, while others focused only on sales. The servicing agent manages the client relationship and steps in once the sale is complete to perform policy administration, handle claims, and respond to grievances and questions. Initial results are promising: sales targets have been met and the lapse rate has decreased by 5 per cent.

CIC in Kenya uses a variety of communication channels to service its Jijenge Savings Plan. If agents are not available clients can phone a call centre, which operates with extended hours to allow people to call in the mornings and in the evenings. CIC also telephones clients whose policies are about to lapse. CIC has learnt that SMS communication is good for basic information transfer and reminders, but has limitations if used to educate clients.

KILIMO SALAMA ENROLMENT PROCESS

When you pay a funeral/life claim influences how the money is used



Source: MILK Infographic #27

Read more:



Improving client value from microinsurance: Insights from India, Kenya and the Philippines, Facility Microinsurance Paper No. 12
 Why people do not buy microinsurance and what can we do about it, Facility Microinsurance Paper No. 20
 The moment of truth: Claims management in microinsurance, Facility Microinsurance Paper No. 28
 Beyond the actuary's guess - lessons from 15 studies on client value of microinsurance, MILK Publication



ONLY IF

Providers need to monitor all customer touch points carefully. Trust and a positive first-time experience with insurance are possible when business processes are aligned to create a great experience for clients. Ensuring great client experience requires trust, and trust is created by keeping promises. Practitioners need to take a holistic approach in order to increase trust. They should develop a checklist to evaluate whether all customer touch points work, whether trust-building strategies are effective and whether all processes and people are aligned in the effort to build trust. This is a worthwhile investment, since trust is hard to build and easy to destroy.

BENEFITS

FOR CLIENTS: Positive experience, trust and tangibility

FOR PROVIDERS: Higher renewals and referrals and customer loyalty



COMPLEMENTARITY

Insurance is one element in a low-income household's risk-management portfolio. Insurers develop products that fill gaps in risk management. It is useful to compare the offering with informal risk-sharing practices, other financial services and social security systems. Insurance must complement other solutions, as it rarely covers the full costs of a loss event. Exploratory market research is a must to understand the full financial picture.

Using results from market research, Aseguradora Rural (see Blueprint 2) incorporated clients' most pressing concerns into the design of its product. It incorporated cancer treatment as surveys revealed that cancer was the top health concern for 71 per cent of the bank's female clients. Maternity cover, on the other hand, was removed from the policy as clients were less interested in paying for this protection.

Hollard Insurance in South Africa offers a funeral insurance product that provides a rental car, airtime and payments toward groceries for 6 or 12 months after the funeral – in addition to the lump sum cash payout for the funeral. Clients can choose to receive a monthly payout for a fixed number of months rather than a lump sum benefit. Marketed as funeral insurance, this product recognizes the need for an income stream for the beneficiary, which is not provided through informal burial societies.

MAFPRE/Codensa cashless product in Colombia not only offers a standard funeral package but also provides assistance with documentation and transportation of the body. The package also reduces the likelihood that the bereaved are misled or defrauded by funeral homes. A MILK study has shown that the service together with the financial benefit resulted in a significant reduction in lost earnings.

SEGMENTATION

Clients' needs are not all alike. Simple products can cater to universal needs, but there are many specific needs that could be addressed. The more enhanced the offerings are (see next section), the more insurers should distinguish between market segments and address specific preferences by customizing products. Although too much customization might be expensive to administer, providers should at least make use of the data on current clients and fine-tune its offerings to core segments.

CIC segmented the client base of its Jijenge Savings Plan by their saving behaviour. One group was labelled "super savers"; these were self-employed and casual workers aged 26–35 or 46+ with monthly incomes ranging from 5,000 to 20,000 Kenyan shillings. As the persistency rate for super savers was almost twice as high as for other clients, CIC decided to adjust its marketing strategy to attract more super savers in the future.



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Read more:



Improving client value from microinsurance: Insights from India, Kenya and the Philippines, Facility Microinsurance Paper No. 12
«Doing the Math» - Cashless Funeral Microinsurance in Colombia, MILK Brief No. 8



ONLY IF

Keep learning from clients. Quick responses are needed to adapt to changing needs. Insurers need to recognize that marketing is a company-wide effort. Cross-functional market research teams expose organizations to the needs of low-income persons and the realities of their lives. At least part of market research and data analysis needs to be done in-house for organizations to be able to extract the small details that can make their products successful. PACE and client math (explained in the introductory letter to this series) are useful tools to guide market research and translate insights into action.

BENEFITS

FOR CLIENTS: Effective risk-management solutions

FOR PROVIDERS: Client loyalty



SAVINGS

Solutions that bundle insurance with other financial services can offer more value to both low-income people and financial service providers.

Savings and insurance are complementary, with savings being used for less severe but more frequent risks, and insurance for more severe but less frequent risks. If bundled, they can offer a better risk-management solution than if only one is offered. In addition, linking insurance to savings promotes asset-building, overcomes liquidity constraints and helps to create trust as clients can more easily gain experience of financial services.

In China, the government-sponsored New Cooperative Medical System combines savings and insurance to help low-income people manage health-care expenses more effectively. The most common benefit packages are based on three models: Model 1 covers inpatient services in township health centres and hospitals; Model 2 adds medical savings accounts to cover outpatient care in village centres; Model 3 covers inpatient and outpatient services in township health centres and hospitals, and provides medical savings accounts. With almost 90 per cent of the eligible population participating, Models 2 and 3 were almost twice as popular as Model 1 (Ma et al., 2012). Models 2 and 3 led to lower use of burdensome coping mechanisms by clients, and Model 3 helped reduce out-of-pocket health expenditure (Babiarz et al., 2010).

Savings products can be used to help clients to save up for health insurance premiums, which are often considerable lump sums that are hard to generate with irregular cash flow. For example, UpLift in India has introduced a savings-linked health insurance product that allows clients to save the annual premium through a savings account, thereby allowing UpLift to reach non-borrowers and ex-borrowers. Through this mechanism, UpLift has been able to achieve a renewal rate of 70 per cent, which is remarkable considering that renewals are voluntary.

There are creative ways to bundle savings and insurance that make sense for both clients and providers. Evidence from MicroEnsure in Ghana shows that bundling savings and insurance can increase insurance penetration and stimulate savings. Depositors who held a minimum balance of USD60 each month were entitled to free life insurance with benefits of up to USD180. Five months after the launch, bank deposits had increased by 19 per cent. Deposits from clients with balances below USD60 increased by 207 per cent. This increase, along with anecdotal evidence from interviews with depositors, suggests that many customers saved more as a result of the free insurance cover.

ENDOWMENT

A savings product for low-income people needs to strike a balance between discipline and flexibility through penalties and rewards. Low-income households need to experience short-term benefits in order to stick with policies in the long-term. Endowment products often fail to deliver value because of high lapses.

A key challenge is to encourage clients to save systematically. CIC in Kenya and Max New York Life in India developed marketing campaigns to promote savings under endowment products. Persistency levels of only 30–40 per cent were not enough to create value for customers. Traditional endowment plans cannot deliver value to low-income clients because opaque lapse and surrender conditions fuel mistrust rather than fostering discipline. Savings products for low-income people must strike a balance between requiring discipline and providing flexibility through a mix of immediate rewards for persistency with no lapses and less severe penalties, underpinned by simplicity and transparency. Max New York Life incorporated some of this thinking but the non-lapsable product was too flexible to create discipline.

CREDIT

Insurance has the potential to unlock access to credit for micro-entrepreneurs, especially for small-scale farmers, as it reduces the risk lenders incur through natural hazards. Additionally, as discussed in Brief 1, insurance can increase agricultural productivity as better-protected farmers are more likely to invest in higher-risk but also higher-return activities.

In India IFFCO-Tokio, a cooperative insurer, offers a credit-linked cattle insurance product sold through cooperative banks. Cooperative banks require farmers to have insurance tied to their cattle loans to protect the bank's loan portfolio from default risk in the case of the death of the cattle.



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CASH TRANSFERS

Remittances are often used as informal insurance. Receivers buy much less insurance than non-receivers. However, remitters would prefer a formal insurance solution to get some control over how their money is used by their families in their home countries. Tapping into remittance cash flow and infrastructure can improve access.

SegurCaixa, an affiliate of La Caixa, one of the largest cooperatives in Spain, offers one of the few migration-linked insurance products to reach scale. In 2008, 66,000 legal migrants, mostly from Africa and Latin America, were insured with SegurCaixa Repatriación and 14,000 were covered by SegurIngreso. SegurCaixa Repatriación pays a sum upon the death of the migrant and covers the repatriation of the migrant's body to his or her country of origin, as well as travel expenses for a family member or friend. Through SegurIngreso, beneficiaries receive a payment as well as regular monthly income for 5 years in the event of the migrant's death.

Seguros Futuro offers a similar repatriation and remittance insurance product that is marketed to families of migrants in El Salvador. The product is distributed through a network of savings and loans cooperatives with a potential to serve approximately 100,000 members with family members abroad.

Read more:



Formalizing the informal insurance inherent in migration, Facility Microinsurance Paper No. 7
Savings in microinsurance: Lessons from India, Facility Microinsurance Paper No. 14
Why people do not buy microinsurance and what can we do about it, Facility Microinsurance Paper No. 20

ONLY IF

Understand borrowing, saving and remitting behaviours to create a bundle that will work. Bundling is difficult and more research is needed to understand which interventions, deployed under which circumstances, can deliver on their promise. A review of literature on demand shows that bundling insurance with other financial services can increase the demand for both products if they are seen as complementary solutions. But results are mixed, showing that bundling insurance with other financial services is a difficult task that requires a thorough understanding of how the target group uses other financial services. If done incorrectly, bundling can suppress insurance demand and undermine client value.

BENEFITS

FOR CLIENTS: Better risk-management mix, financial inclusion, asset-building and tangible benefits

FOR PROVIDERS: Higher take-up and renewals; cross-selling opportunities; additional distribution channels



ALIGNED INCENTIVES

Value-added services (VAS), defined as non-insurance benefits bundled with insurance products, improve both client value and business viability in insurance. VAS can align incentives between clients and providers and motivate them to work towards the same end (e.g. improved health), thereby improving value and reducing costs. VAS can be a simpler way to enhance value than by expanding benefits through more comprehensive insurance coverage (see Blueprint #8).

In 2009, the CARE Foundation deployed community health workers (CHWs) in 50 villages to offer primary and preventive care consultations and sell outpatient health insurance. Insured households could make cashless visits to the CHWs up to a sum assured of 2,500 Indian rupees (INR) for a premium of INR 300 per year for a family of four, while uninsured households paid a small fee of INR 12 (USD 0.24) per visit. After screening patients, the CHWs used mobile phones to consult a doctor located in a remote clinic to prescribe an appropriate course of action, or if necessary to refer the patient to a doctor. Mahal et al. (2013) found that insured households made substantially more visits to the CHWs and had more referrals to doctors and hospitals. In contrast, they spent fewer days in a hospital bed and incurred lower out-of-pocket expenses for hospitalization. This result suggests that more frequent outpatient visits to the CHWs led to earlier diagnosis and treatment of illnesses with more timely referrals to a hospital, and hence lower overall health-care costs.

Some providers offer VAS through mobile phones. For example, Weather Risk Management Services (WRMS) in India provides various value-added services such as weather forecasts and alerts, and crop market prices to clients via mobile phones as part of its crop insurance package. WRMS learnt that farmers preferred receiving weather alerts, as opposed to a daily weather forecast. They responded to the alerts by adapting their irrigation techniques to save crops.

TANGIBLE

VAS enable clients to receive tangible benefits from insurance, even when they don't claim. When clients experience these benefits they see the value of insurance and are more likely to renew.

Swayam Shikshan Prayog (SSP) found the use of VAS by clients to be associated with increased renewals. As an added benefit of its cashless inpatient health insurance product, SSP offered clients a discount of approximately 50 per cent on fees for consultations with a selection of local physicians and a 40 to 70 per cent discount on the retail price of drugs. Clients who had accessed discounted outpatient services were three times more likely to renew their policy. Clients who did not use either outpatient or inpatient services had a 15 per cent renewal rate, compared with a 45 per cent renewal rate for those who used outpatient services, and a 69 per cent renewal rate for those who used both outpatient and inpatient services.



TYPE OF VALUE-ADDED SERVICE (PRESENT AND FUTURE)

VAS CATEGORY	VAS INTERVENTION
PREVENTATIVE	Health education
	Health camp
	Health check-up
THERAPEUTIC: CONSULTATIONS	In-person consultation
	Remote consultation: Dial-a-Doctor
	Remote consultation: assistant using remote doctor and technology enable diagnostics
THERAPEUTIC: ACCESS TO LOW COST SUPPLIES AND SERVICES	Low-cost medicines
	Low-cost clinics
	Low-cost diagnostics
	Emergency medical assistance

Source: Microinsurance Paper No 19

Read more: Value-added services in health microinsurance, Facility Microinsurance Paper No. 19



ONLY IF

VAS should be introduced one at a time to allow clients to use each one. VAS must be promoted to provide maximum benefit. There are many types of VAS. Scale is as important for VAS as for the core insurance product. Providers should concentrate on fewer VAS rather than many, to ensure sufficient resources to scale them, promote them and deliver quality service. Preferably, either the insurance product or VAS (in either order) should commence and reach some degree of scale and stability before the other proceeds. Otherwise, the success of both interventions may falter.

BENEFITS

FOR CLIENTS: Tangible benefits, access to services, lower costs, improved outcomes

FOR PROVIDERS: Aligned incentives, lower costs, higher renewals



TOUCH

Client “touch” is essential. The roots of microinsurance are in frequent interactions with clients to educate and sensitize them. Insurers will need client touch points throughout the customer life cycle, especially as products become more sophisticated. Hence, insurers need to be thoughtful in using technology to automate client relationship management so that the quest for efficiency does not mean losing client “touch”.

The risk of low-touch or agent-less models is clear when comparing the experience of mobile insurance products supported by MicroEnsure in Ghana, where agents performed enrolment, and in Kenya, where clients self-enrolled using their mobile phones. Tigo Family Care in Ghana reached more than 1 million customers in less than a year. Ninety-three per cent of Tigo policyholders had never had insurance, yet 94 per cent understood it well. In contrast, after 1 year yuCover in Kenya had 700,000 customers who prequalified for insurance, but 46 per cent failed to register because of low understanding, while another 35 per cent did not because of technical problems. Of the 56,000 customers who managed to activate the policy, 87 per cent did not fully understand the product. As mentioned in Blueprint 2, MicroEnsure is taking measures to counter this negative client experience by increasing touch points via a call centre and mobile network operator (MNO) agents, but damage to trust is often difficult to rebuild.

MOBILE

Mobile phones can improve efficiency and provide access to insurance for large groups of people.

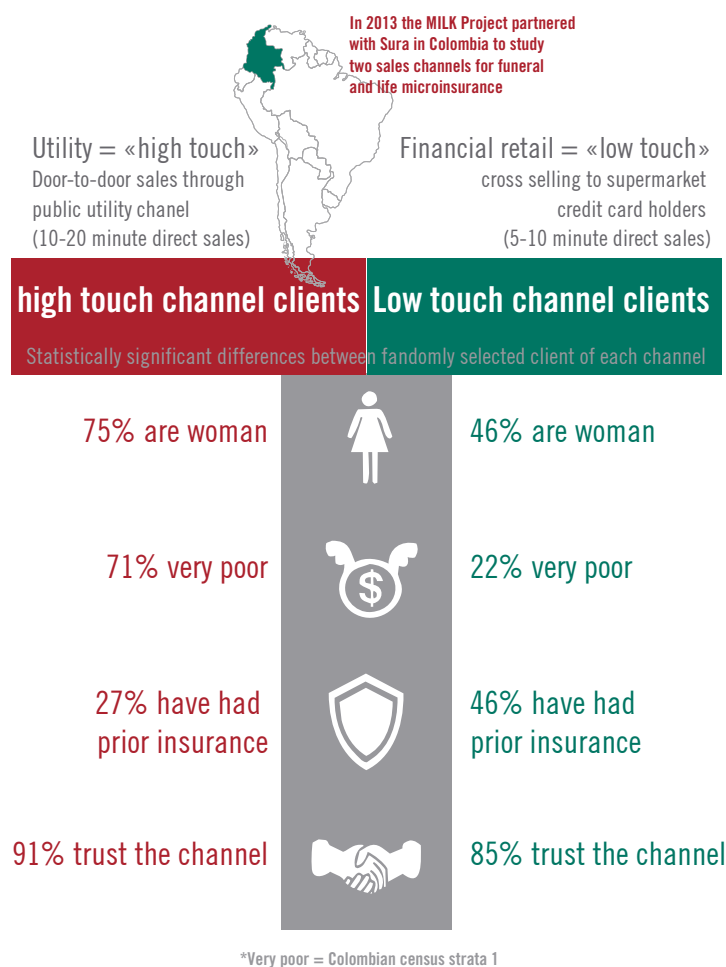
Analysis of the client value of eight pioneering mobile insurance schemes shows that insurers, mostly through partnerships with MNOs, were able to use mobile phone technology to deliver insurance to millions of people who had had no previous access to it. While most of the products were life cover, Tata AIG in India and Kilimo Salama in Kenya, were able to deliver agriculture and livestock insurance.

Products can be further improved and customized. Insurers and MNOs can analyse client behaviour and mobile money transactions or airtime transfers to segment the market and offer customized insurance solutions.

WIN-WIN

Some technology applications can increase client touch but still reduce overall costs by minimizing inefficient processes.

IFFCO-Tokio, a cooperative insurer in India, offers cattle insurance. By using radio frequency identification chips, IFFCO-Tokio has improved its claims processes such that the viability of the product and the value for farmers are both better. When an insured animal dies, the farmer calls the insurer’s representative. In the pilot stage IFFCO-Tokio processed most claims within 8 to 30 days, a significant improvement considering that livestock claims previously took up to 6 months to process. Farmers appreciate the quick response time so they can dispose of the carcass as soon as possible. Since IFFCO-Tokio uses its own representative for the verification, it has greater control over the process, reducing the chances of fraud. The claims ratio fell to 35 per cent, a significant drop from historic ratios of 150 to 300 per cent. Premiums and transaction costs have fallen for clients.



Source: MILK Infographic: High Touch vs Low Touch Microinsurance: Exploring trade-offs in low cost distribution

Read more:



A case for livestock insurance, Facility Microinsurance Paper No. 17
 Mobile phones and microinsurance, Facility Microinsurance Paper No. 26
 Removing obstacles to access microinsurance, Facility Microinsurance Paper No. 27
 «The right touch» - Reducing distribution costs in alternative channels for microinsurance, MILK Brief No. 33

ONLY IF

Effective use of technology considers the impact on client “touch”. Providers need to carefully monitor results when they automate “touch points”. Technology must imitate the human interactions as much as possible. While implementing new technology, consider initially providing high-touch support to low-touch processes to test the adoption of the technology. This can counter potential negative effects on trust.

BENEFITS

FOR CLIENTS: Affordability, access, experience and trust

FOR PROVIDERS: Higher efficiency and renewals



MORE LIVES

There are many options to extend benefits when moving beyond simple, partial, mandatory products. The simplest is to insure family members of the policyholder under the same policy.

MFIs often enhance basic credit life by extending coverage to the borrower's family. Most often the spouse is covered, and occasionally children and parents. Sometimes, benefits are lower for the spouse and children, for example AIG Uganda's group personal accident policy covers only 50 per cent and 25 per cent, respectively, of the borrower's sum assured. Family coverage is often valuable, especially if the spouse is also the breadwinner.

The risk of adverse selection or gender discrimination when adding family members needs to be monitored. When SSP in India allowed clients to include five family members under its health insurance policy, 70 per cent of children enrolled were sons, suggesting a preference for insuring boys.

MORE BENEFITS

Adopting a conservative approach to pricing in the beginning is good for both clients and providers. It is wise to start small, and gradually expand coverage based on claims experience. Offering overly generous benefits to clients who are new to insurance may backfire. As providers gain experience and scale (and more client data) they will be able to improve the value and reach of viable products. See also Blueprint #6 on how benefits can be expanded through VAS.

Hollard, a South African insurer, covers thousands of clients with its funeral policies, sold through the retailer PEP. This now successful partnership experienced challenges early on as a result of offering a benefit package that was not viable at the premium required. To avoid the damage to PEP's brand that might have occurred if they had increased the premiums, Hollard and PEP agreed to phase out the product and launch a new one.

Hygeia Community Health Care in Nigeria offers a comprehensive health insurance product providing access to private and public health-care facilities for primary and secondary health-care services. To make the care affordable, Hygeia subsidized the premium heavily at first, and slowly increased the client's share over several years. At the end of 2012, premium contributions from the insured represented 16 per cent of total premium in Lagos and 6 per cent in Kwara, a distant state. The short-term premium subsidies have helped to expose the market to health insurance and enabled Hygeia to gather pricing data. However, increasing the level of contribution is a challenge: Hygeia has faced resistance from clients to each increase. The jury is still out as to whether Hygeia will be able to retain enough clients to make the scheme viable after subsidy reductions.

PUBLIC PARTNERSHIPS

There is scope to link to government-sponsored social protection initiatives to extend benefits, especially to poorer client segments that might need subsidies for comprehensive health or agriculture insurance. See more on subsidies in Brief 3 of this series.

To serve the poorest in Cambodia, the SKY programme, a community-based health insurance scheme launched by the French NGO GRET, used donor-funded Health Equity Funds (HEFs), third-party sources that reimburse public health facilities for user fees from which the poor are exempted. HEF members in a pilot district were included in the SKY insurance programme, with premium paid by donors, and they received the same benefits as non-poor members. Research shows that having insurance led poor people to make more use of public health-care facilities. In the third year of the pilot, HEF members with SKY insurance (treatment group) visited a health-care centre 1.5 times per year on average, compared with an average of 0.5 visits for HEF members outside the pilot.



Copyright: Crozet, M., 2010

PRIVATE PARTNERSHIPS

Microinsurers should make use of synergies with businesses from other sectors. Insurance can drive the core business of distribution partners, and by helping them to earn more or achieve other business objectives, provide an incentive for these partners to sponsor part of the premium. Evidence shows that financial institutions, employers, MNOs and retailers can improve their bottom line by providing insurance.

Naya Jeevan in Pakistan works closely with large and small employers to provide health insurance to 25,000 low-income employees. Employers pay all or part of the premium, making it affordable for beneficiaries. In return beneficiaries can access cashless health-care services at over 190 high-quality, private hospitals. The product covers hospitalization, including all trauma, inpatient emergencies, day procedures and ambulatory surgery. Members also benefit from Naya Jeevan's VAS, such as a 24/7 "family doctor" tele-health line, targeted preventive health education sessions, and new member health check-ups. Small employers appreciate the scheme as they see a direct benefit for their workforce (and are no longer asked to finance the high costs incurred when employees or their family members are hospitalized). To reach the scale necessary to achieve viability, Naya Jeevan also needs to attract large employers, which requires flexible, efficient processes and a national presence.

Read more:



Microinsurance that works for women: Making gender-sensitive microinsurance programs, Facility Microinsurance Paper No 3;
Beyond sales: new frontiers in microinsurance distribution, Facility Microinsurance Paper No. 8
Improving credit life microinsurance, Facility Microinsurance Paper No. 9
Leveraging health microinsurance to promote universal health coverage, Facility Microinsurance Paper No. 23
Using subsidies for inclusive insurance: lessons from agriculture and health, Facility Microinsurance Paper No. 29

ONLY IF

There are many options to expand benefits but fundamentals need to be well established, and providers need to be able to deliver quality. The costs of providing additional benefits, client education and servicing are substantial. Comprehensive schemes can fail if they offer generous benefits from the start rather than following a gradual path.

BENEFITS

FOR CLIENTS: Better risk management

FOR PROVIDERS: Competitive edge



CHOICE

Voluntary insurance options allow households to select the solutions that are most relevant to them or to opt out of insurance altogether if the product does not sufficiently meet their needs.

There is a range of options between purely mandatory and purely voluntary products that can be considered. Voluntary options are exposed to the risk of adverse selection if they are not well managed. But, creating first a large risk pool with basic, often free, mandatory or embedded cover and providing good experience can stimulate demand and is one way to limit adverse selection for additional voluntary options.

Giving clients the chance to opt-out is an efficient way to maximize enrolment, but can erode value for clients who may not know about the option or how to exercise it.

Compartamos, one of the largest MFIs in Mexico, provides term life insurance to borrowers. The product is sold in modules, with each module providing a fixed amount of cover (approx. USD1,100) at a fixed price. All borrowers receive one free module of life insurance and have the option to purchase additional modules. Free initial coverage allows Compartamos to negotiate attractive premiums with its insurer for a large risk pool. The free first module of insurance also allows borrowers to experience the product and see claims being honoured promptly. Fifty-two per cent of all borrowers voluntarily purchased at least one additional module.

A similar model is used by some mobile insurance schemes. Tigo, a mobile phone network in Ghana, introduced a “freemium” model in 2011, where customers could double their free coverage by paying a small monthly premium. As of June 2013, Tigo had 550,000 policyholders and covered 1 million lives. Of these, 400,000 policies were “freemium” clients, who qualified for double the amount of free benefits by paying a small top-up premium that was deducted from their airtime.

The French NGO GRET, in collaboration with the Cambodian Government, tested an opt-out option for garment workers insured under a broader social protection scheme. Given that the scheme was intended to be mandatory in the future and that garment workers were highly satisfied with the product but often forgot to renew their policies, GRET automatically renewed policies and gave clients the chance to opt out of the scheme. Few clients opted out.

OVERLOAD

Too much choice can complicate decisions, limit action and prevent clients from buying a valuable product. To balance choice and simplicity, the number of options offered to low-income clients should be commensurate with their financial literacy.

In the case of Compartamos, most borrowers are eligible to purchase up to seven additional insurance modules, but, 99 per cent of the borrowers who choose to purchase additional insurance only purchase one module. Similarly, CIC in Kenya provided 16 coverage levels for its savings-linked product, but 96 per cent of clients bought the cheapest one.

Behavioural studies prove that choice overload can substantially reduce demand. Bertrand et al. (2010) sent direct-mail marketing letters for a consumer lender. They randomly varied different elements of the letter, including the interest rate, the size of the table of loan examples, and a comparison with a competitor's interest rate. The number of examples presented in the letter influenced people's decision to apply for a loan. Potential borrowers who received a letter with one example of the loan amount, interest rate and term were more likely to apply for a loan – not necessarily with the amounts and rates advertised – than those who received letters with several examples. This small advertising detail made a real difference: the estimated effect on loan applications was the same as that of a 25 per cent reduction in the interest rate.



Copyright: Crozet, M., 2008

Read more:



The psychology of microinsurance: Small changes can make a surprising difference, Facility Microinsurance Paper No. 5

Improving client value from microinsurance: Insights from India, Kenya and the Philippines, Facility Microinsurance Paper No. 12

Removing obstacles to access microinsurance, Facility Microinsurance Paper No. 27

Scale: Thinking big, Facility Microinsurance Paper No. 30

ONLY IF

Voluntary options are best introduced after clients have had a good experience with simple, mandatory products. Voluntary options add complexity to marketing (promotion, sales, distribution and customer care) and can invite adverse selection. Sustained demand for voluntary insurance by low-income households is still the exception. For example, two years after successfully providing mandatory hospital cash insurance to its borrowers, Microfund for Women piloted voluntary cover for family members. During the first 10 months, only 10 per cent of eligible clients bought the cover. The pilot demonstrated a number of the usual challenges such as insufficient loan officer training and incentives and limitations on clients' capacity to pay. MFW also needed to design more cost-effective ways to promote the product.

BENEFITS

FOR CLIENTS: Choice, access and more tailored solutions

FOR PROVIDERS: Cross-selling and new markets



VALUE FOR MONEY

Composite products that cover several critical risks have the potential to improve the ability of low-income households to manage risk. These products should provide better value for money than single-risk cover because of lower transaction costs.

Some MFIs offer credit life plus, insurance that covers multiple risks. The MFI Opportunity Uganda, for instance, expanded its credit life insurance to include fire protection for inventory since many of its borrowers were vendors working in fire-prone market areas. If a fire destroyed a vendor's shop, insurance paid off the outstanding loan.

SAJIDA Foundation covers more than 500,000 lives with its Nirapotta product, which includes health, life and fire insurance as well as education scholarships and legal aid. Based on PACE analysis in 2012 (Figure 1), the multi-risk coverage was refined to improve client understanding and experience as well as to offer better value for money. Price levels were reviewed for different groups of borrowers, while benefits for health and fire cover were increased and more VAS were included. Health insurance reimburses clients for inpatient health care, with fixed cash benefits ranging from USD6.25 to USD37.5, which cover on average 30 per cent of the clients' out-of-pocket costs. In addition, two SAJIDA hospitals offer normal deliveries and cataract operations free of charge, as well as other treatments at a reduced price. Other VAS are offered by CHWs. Loan and life insurance cancels the outstanding loan balance (up to USD487) and provides a cash benefit of USD50, in the event of the client's death. Fire insurance provides a benefit of USD125 in the case of loss due to fire. Education scholarships provide an average of USD6.25 per month to students from the age of 11 onwards. Legal aid provides legal consultation services and referrals.

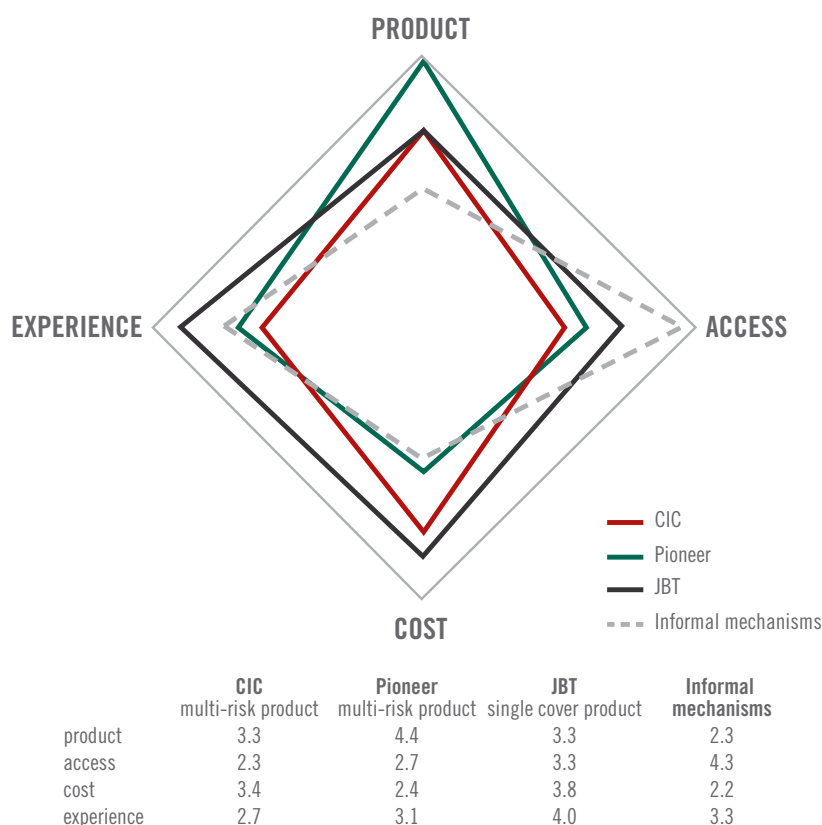
ONE SIZE DOESN'T FIT-ALL

It is important to tailor products to meet the needs of specific client segments. This is especially important with multi-risk products, since not all the benefits may be relevant for every client. Besides product customization, another option is to offer voluntary options within a composite product.

Zurich Brazil in collaboration with Caedu (a chain of retail shops) has developed three products for the lower-middle-income class, based on market research carried out by Caedu. The product combines different types of insurance that can be purchased individually or combined. The different types of cover include 200 Brazilian reais (BRL) for theft of property; BRL 150 for 3 months of unemployment, as well as three monthly vouchers for food; and BRL 10,000 for death or disability due to personal accidents, with 12 vouchers for food. Optional additional cover is related to health services like telemedicine, and discounts for consultations and medicines.



FIGURE 3: PACE ASSESSMENTS COMPARING SINGLE AND COMPOSITE COVERS IN KENYA



Source: Microinsurance Paper No 12

Read more:



Improving credit life microinsurance, Facility Microinsurance Paper No. 9
Improving client value from microinsurance: Insights from India, Kenya and the Philippines, Facility Microinsurance Paper No. 12

ONLY IF

Multi-risk products provide good value when (a) the insurance market is developed enough for clients to understand benefits and (b) insurers have the experience and capacity to deliver quality. After experience with single-risk products since 1992, in 2001 VimoSEWA decided to offer a composite health, life, accident and asset product. This basket of benefits was again unbundled in 2010 because of difficulties in managing the mix of claims from different types of cover. Five other Facility partners have tried composite products in countries as diverse as India, Kenya and Brazil. All these attempts failed as providers struggled to explain products to the market, achieve scale and administer multi-risk cover. Further problems were fuelled by partnership challenges between life and non-life sister companies. Consequently, most of the products scored poorly on the Access and Experience dimensions of PACE (see Figure 3), hence were unable to compete with alternatives.

BENEFITS

FOR CLIENTS: Better risk management and value for money

FOR PROVIDERS: Lower acquisition costs and cross-selling



3. CONCLUSION

Client value is critical for the viability of microinsurance products. The ten blueprints provided here aim to support practitioners to develop a sustainable emerging market strategy. An iterative process of understanding clients' perceptions and needs, as well as their aspirations, preferences and constraints, and using this knowledge to improve products and processes, can increase client value and provide insurers with a competitive edge at each stage of market development.

The key to achieving long-term success is to lay down strong fundamentals at the beginning and then to gradually innovate, enhancing microinsurance products and strategies. Simple, partial, mandatory products can offer value, provided they complement existing risk management solutions, and include processes to boost clients' understanding and ensure positive experiences. The six enhancements presented in this brief should be viewed as a menu for practitioners to pick from depending on their context. All the enhancements offer excellent opportunities to win market share, yet pose risks; hence they need to be piloted and implemented with care.

Microinsurance providers can make a big difference to the lives of low-income consumers by improving insurance products, while still operating in a viable way. Many of the suggestions and tools presented in this brief can be implemented by them, no matter which market environment they operate in. Providers can also partner with regulators and governments to build a client-value-friendly environment by following the blueprints outlined in Brief 3. A win-win-win scenario, whereby consumers, providers and governments all realize their objectives through better insurance offerings is possible if they find ways to collaborate to achieve this common goal.

For more information:

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Microinsurance Learning and Knowledge (MILK) project
MicroInsurance Centre
www.microinsurancecentre.org
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