



The Aga Khan Agency for Microfinance

The importance of renewal, and the benefit of customer loyalty

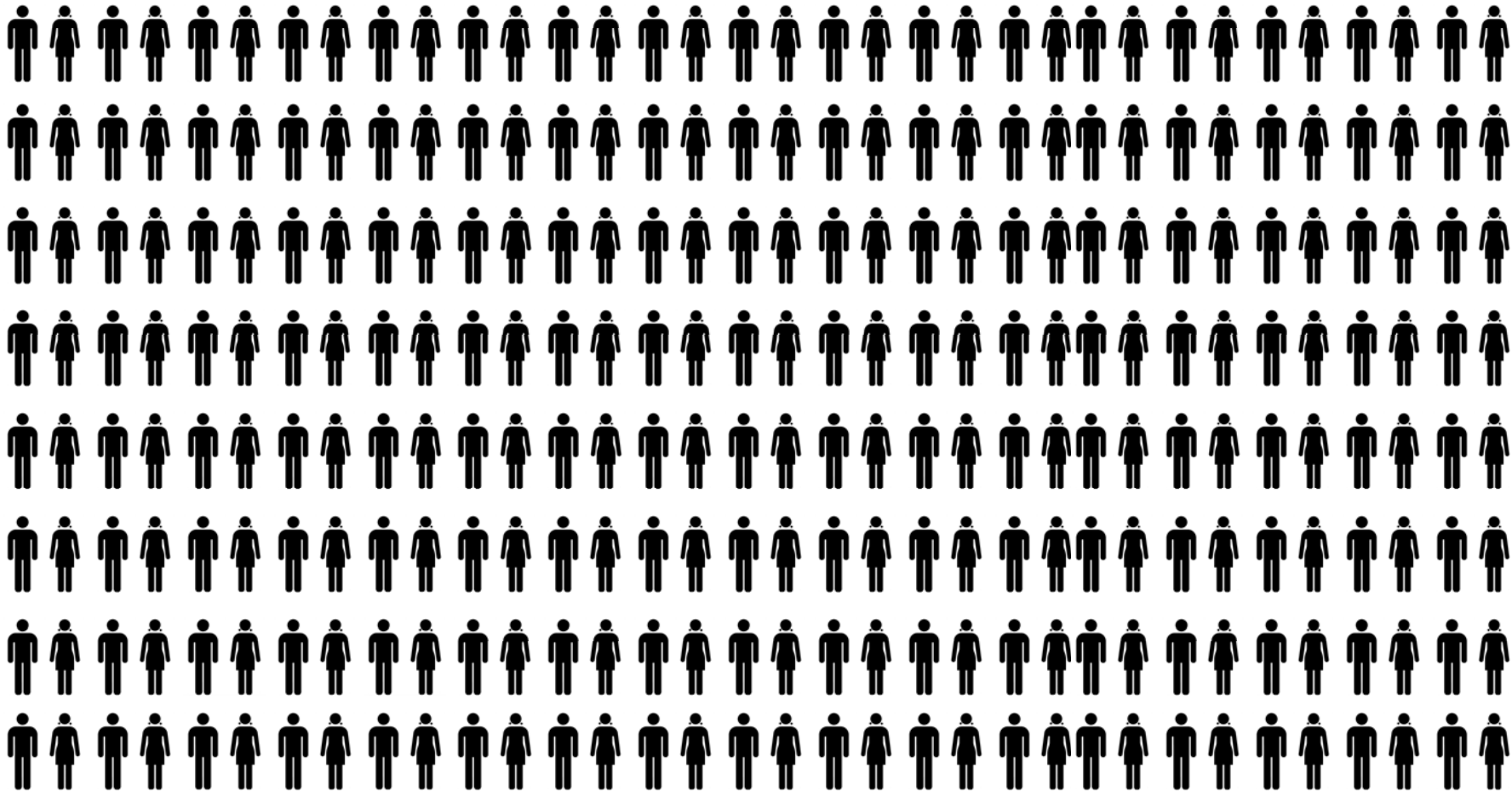
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5.11.2009

Agenda

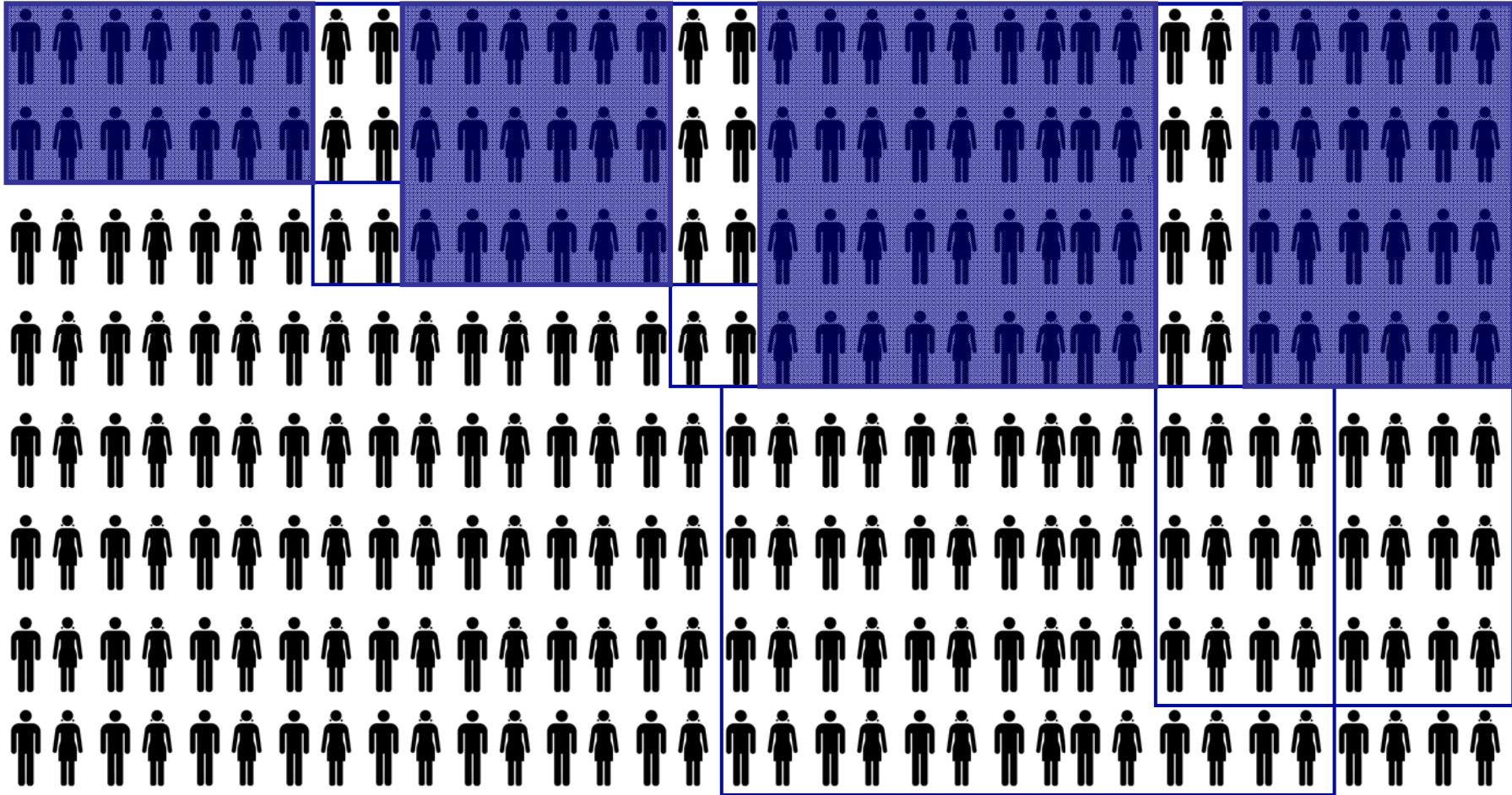
- Growth is important, but renewal is more important
- What drives renewal and non-renewal?
- How can we influence renewal?

Catchment areas are of limited size



Renewal Rate Ratio = Number of Renewals / Number of Potential Renewals

Growth despite low Renewal ...



... will not last long



- This can also happen with “mandatory” insurance
- There is usually more than one Microfinance Institution for borrowers to choose from – if they are unhappy with the insurance they are forced to buy they switch to another MFI
- This will put serious stress on your relationship with the distributing MFI





The message of low renewal ratios

- “Low renewal ratios are often a sign that the providers of coverage have not met the social obligation of helping members to **understand** the role that insurance has in stabilizing their situation. There may be other reasons for a low renewal ratio such as not **meeting real need** of the insured, **poor service** at provider hospitals etc.”
(Performance Indicators for Microinsurance, Garand and Wipf, 2008)
- “High renewal rates indicate that members **value service**, are **committed to financing their health care needs**, find the premiums **affordable** and consider the services provided to be **acceptable**.”
(Health Microinsurance Schemes: Monitoring and Evaluation Guide, ILO)





Examples of renewal ratios

- Adamjee Pakistan: 21% (from 220,000 initially enrolled)
- The Co-operative Insurance Company of Kenya: < 5%
- UpLift India: 60% (loan linked program)
- Healing Fields India: 15% (year one)
- Yeshasvini India: 43% in yr 3, 62% in yr 4
- SKS India 2007: 96% healthy, 98% sick
- Vimo SEWA India (annual premium):

2003: 22%
2004: 30%
2005: 41%





Own experience 1

- Hospitalisation insurance attached to microfinance loan in Pakistan
- Customer Awareness and Satisfaction survey:
- Do you think this health insurance is useful?
46% said YES
- Would you like it for another year?
42% said YES
- Final Word?
43% said it is a good facility / scheme





Own experience 1

- Reasons for discontent:
 - Unclear understanding of benefits, exclusions and procedures
 - Affordability of premium (single upfront premium)
 - Extent of cover
 - Proximity of network hospitals



Own experience 1 – lessons learnt

- **Communicate** better
- Communicate **continuously**
- **Understand** people's worries, and offer solutions (e.g. monthly premium)
- **Give** them a bit of what they want, in addition to what they need
- **Reinforce** initial acceptance:
 - « peer comfort »
 - « post sale customer loyalty strategy »





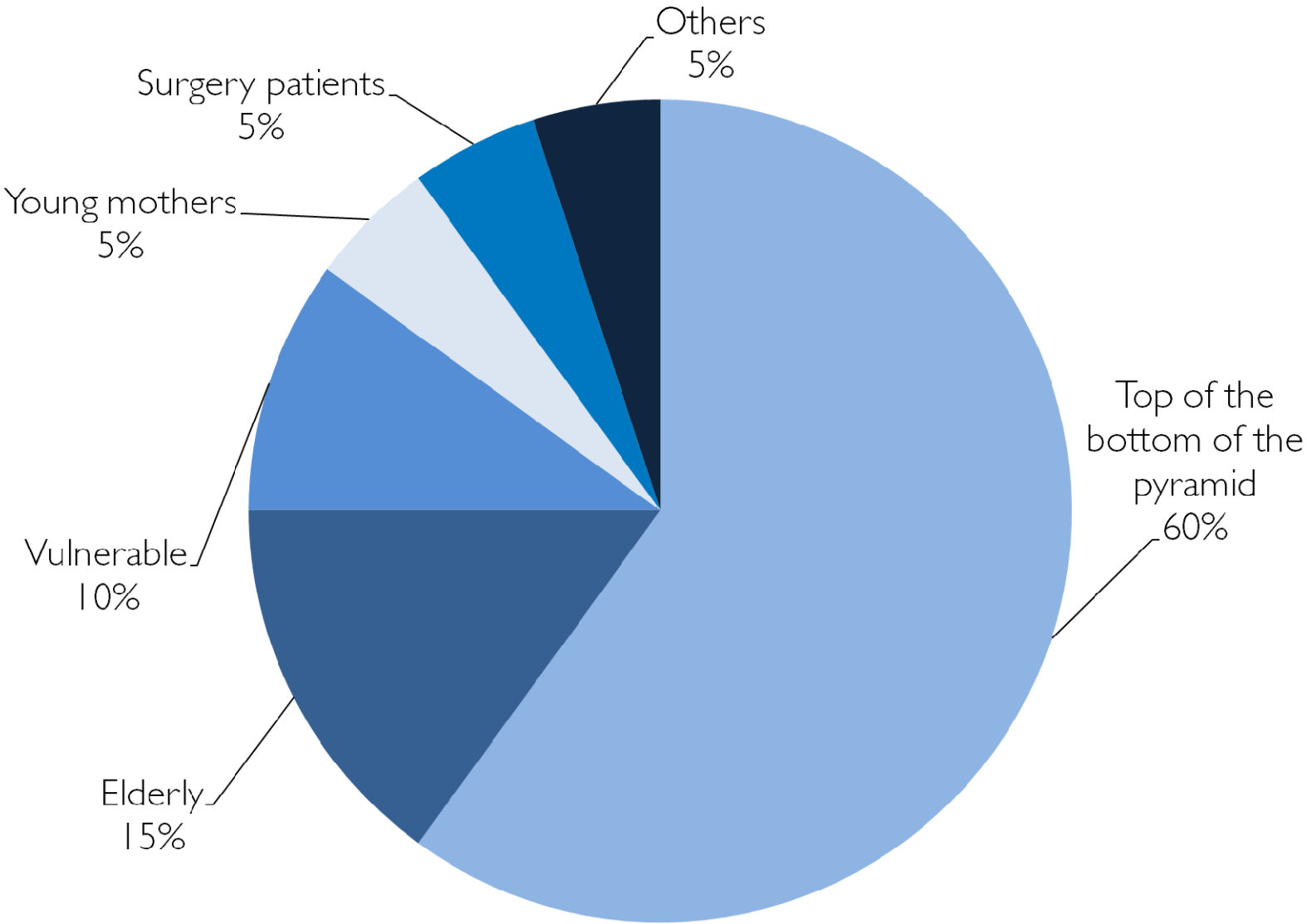
Own experience 2 – the product

- Rural village based (Northern Areas of Pakistan)
- Semi-voluntary (50% of village must participate)
- Broad insurance coverage
(**maternity**, **pre-existing** conditions, no **age limits**)
- Single upfront premium 5 USD per year for everyone
- Annual one-time enrolment (November)
- First enrolment 6,000 lives insured, second enrolment 20,000
- Renewal reward: 20% increase in maximum benefit limit
(nominal incentive that went unutilised)
- **47% renewal rate** (*at least*)





Own experience 2 – who renewed?

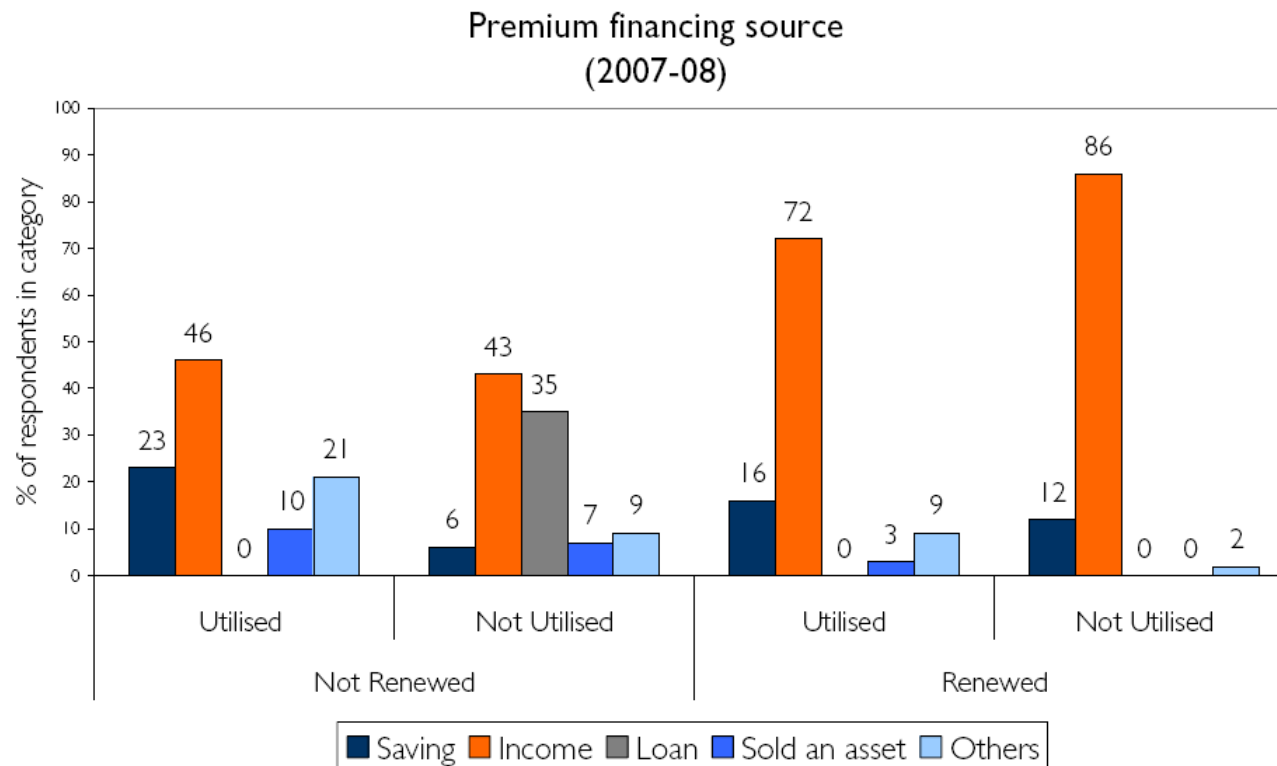




Who renewed?

Top of the BoP

- Greater ability to pay and general socio-economic level
- Healthier – but value insurance nonetheless





Who renewed?

Elderly

- Heightened sensitivity to health risks
- Chiefly cardiovascular, respiratory problems – some chronic

Age category	Incidence rate per age category (approx.), 2007-08	
	Clients who renewed	Clients who did not renew
51 to 60 years	12.0%	7.6%
61 to 70 years	14.8%	10.4%
71 to 80 years	36.3%	23.0%



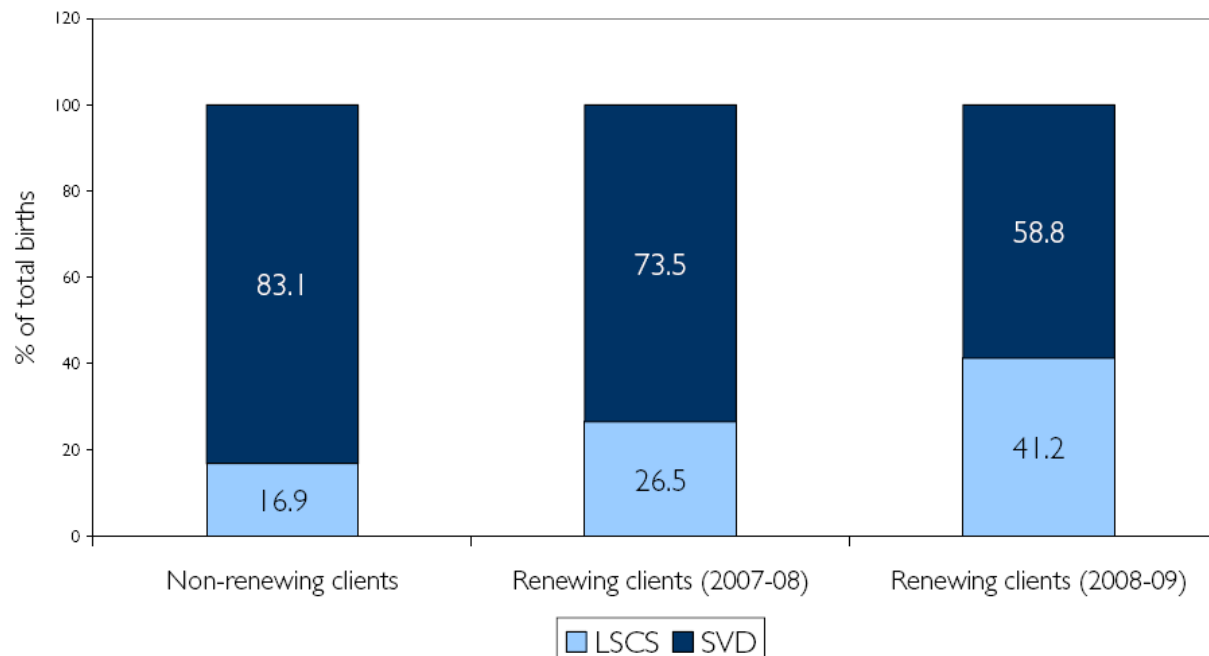


Who renewed?

Young mothers

- Feel vulnerable after childbirth, value healthcare for their kids
- Likelihood of re-experiencing complications at childbirth
- General stress on organism (hypertension, diabetes, etc)

Proportions of normal vs caesarean deliveries





Main reasons for not renewing

Value deficit

- Belief that cost outweighs benefits
- Generally healthy – only worry about hospitalisation when hospitalised
- More concerned with outpatient care



Main reasons for not renewing

Affordability

- Affects poorer half of target population
- Difficulty finding cash to pay for policy
- Reliance on loans to finance premiums
- Requirement that entire family be covered
- PKR 50 premium increase



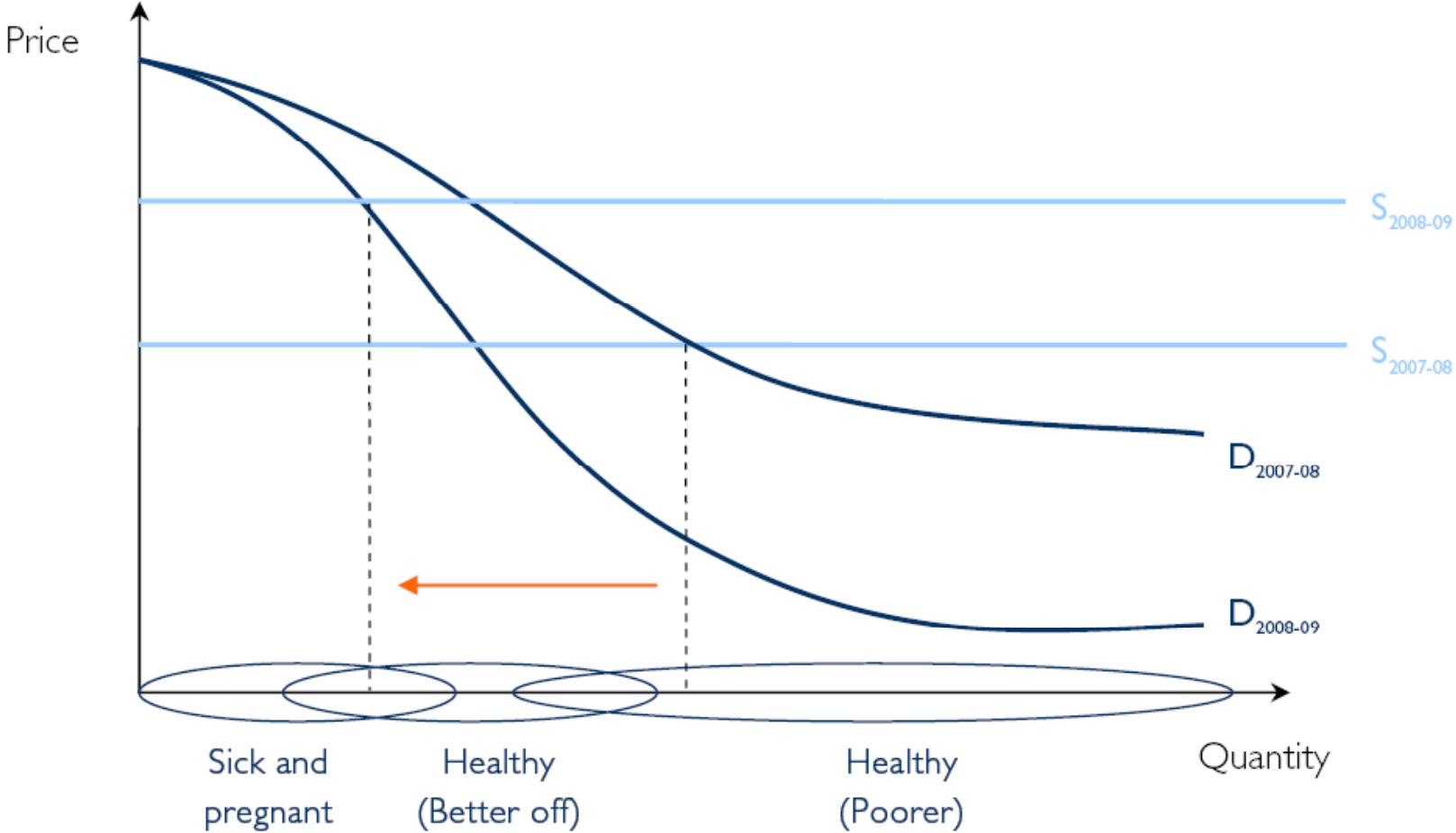
Main reasons for not renewing

Treatment

- Some treated individuals exited scheme
- Chiefly chronic cases (hypertension, chronic obstructive pulmonary disease)
- Why?
 - Either learnt how to control condition after hospitalisation
 - Or felt insurance of limited use in addressing their needs



Supply and demand

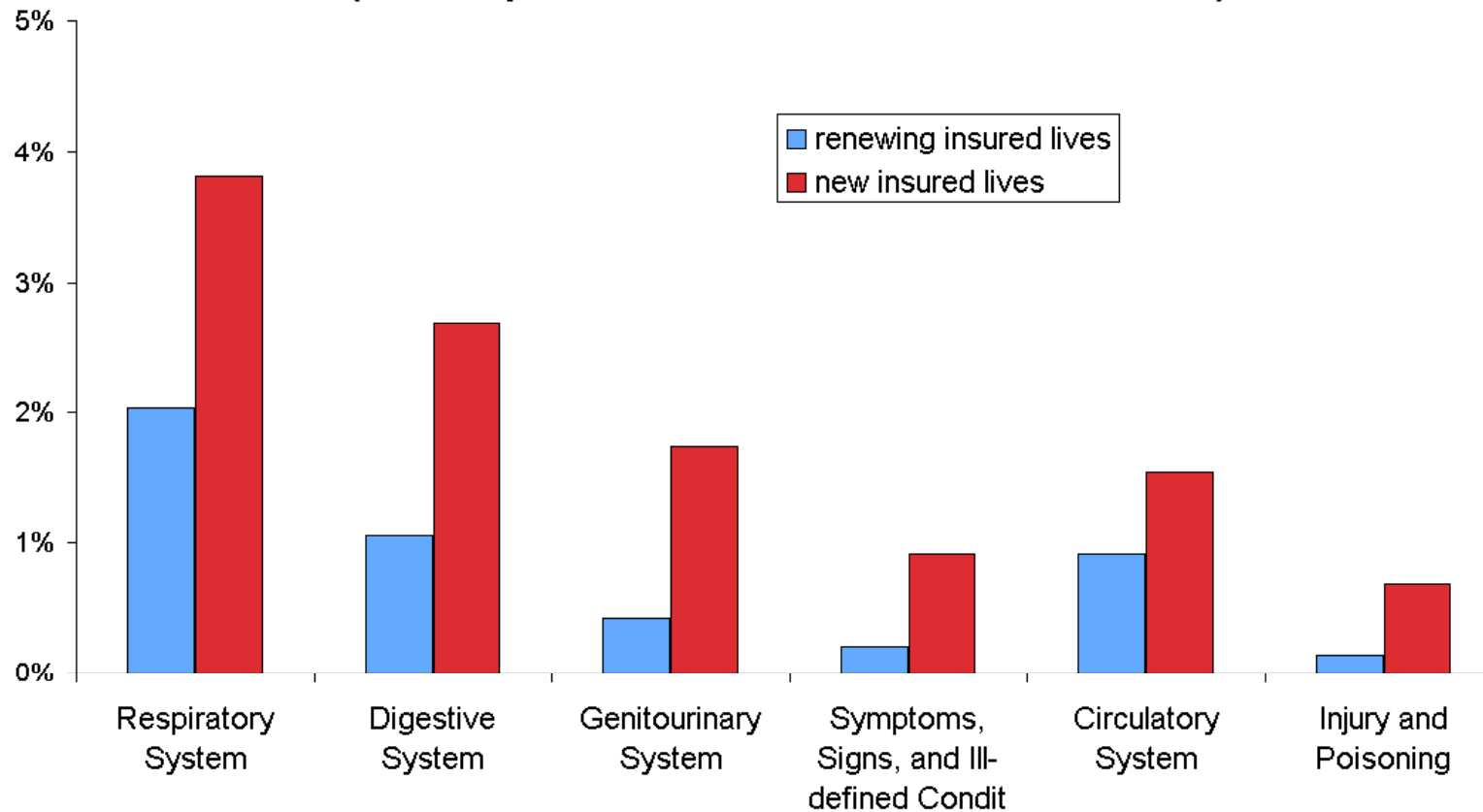




Reasons to focus on renewal

- Depending on product design, renewal clients claim less

**Incidence by diagnosis group for new and renewing clients
(Own experience 2: Northern Pakistan - H1/09)**





Reasons to focus on renewal

- Renewal clients know the product better, can serve as multipliers and ambassadors in their communities
- Renewal is easier to handle than new enrolments: key data is already there
- Brand loyalty is expected beyond graduation from poverty
- **Customer Lifetime Value**
 - = present value of the future cash flows attributed to the customer relationship
 - gives a benchmark for appropriate acquisition expense
 - Acquisition of new customers usually more expensive than retention of existing ones





So what did we do?

- Communication:
 - Interact frequently with the client
 - Make them see what the insurance has done for the community – if not for him/herself (incl. [testimonials](#))
 - Make sure clients - and all intermediaries - understand the product 100% - but don't focus on technicalities only, adress also the [emotional side](#)
 - Give « peer comfort »
 - Increase your visibility in their world (« [pull strategy](#) »)
 - [Why not advertise?](#)





So what did we do?

- Product:
 - Look for ways to add **tangible benefits** that can be experienced by everyone, even if not insurance strictly speaking
 - Remind of the various « **hidden** » **values of insurance** (e.g. in health): bulk purchasing power, quality assurance, expert guidance etc.

- Service:
 - Be excellent
 - Know your customer



