

Premium collection & claims payment:
minimising transaction cost
&
maximising customer service.

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A broad approach to transaction costs

What are transaction costs?

- search and information costs
- negotiation and decision costs
- monitoring and implementation costs

on the market side (insurance – client interaction)

AND

inside the insurance arrangement due to growing size and complexity

Broad approach: "everything" which is needed to make a necessary component of insurance happen („real“ costs and opportunity costs)

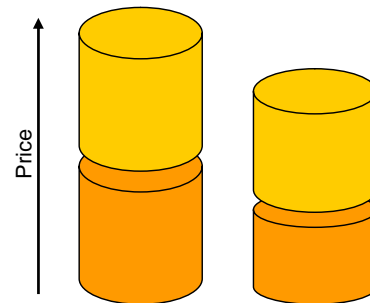


Why is focus on transaction costs so important?

Microinsurance products have to be affordable for poor clients

Two components that define the price:

- Actuarial necessary premium to cover a certain risk
- Administration and transaction costs



Transaction costs might offer the biggest chance to get the price down!

But: Who bears the costs? (i.e. does community involvement simply mean to shift costs to the client?)



Premium collection (1)

Premium structure

- ❖ flat premium
 - The same premium is charged from every client for the same benefit package
 - easy to administer
 - No complicated flow of information
- ❖ adjusted premium to risk, to income
 - detailed information required
 - detailed communication/explanation necessary

Kind of payment

- ❖ Cash/direct transfer
 - Security risk in money flow -> adds cost of control
- ❖ Account – tied payments
 - convenient for client and MIU
- ❖ Deductions/ transaction – tied payments
 - convenient for client and MIU



Premium collection (2)

Payment procedure

- ❖ timing & frequency
 - Once a year
 - Easy for the insurance
- Multiple collection periods
 - Convenient for client
- ❖ Spot of payment
 - Who comes to whom?
- ❖ Length of the premium collection period, grace period
- ❖ Payment in installments

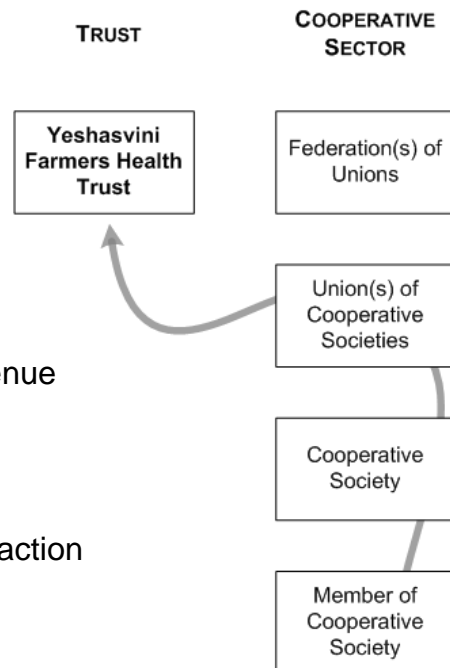


Paying in milk: The example Yeshasvini Trust



Main results:

- Cashless payment: Deduction from milk revenue
- Installments for families
- Fewer people handling money
- Use of existing structure helps keeping transaction costs low



The role of trust in premium collection

Paying premium for insurance:

- payment in advance
- intangible good
- “uncertain“ benefit for individual

-> no immediate return -> Trust is important

Dimensions of trust:

- Trust as willingness to meet obligations
- Trust in the ability to meet obligations (confidence)

Lesson: buying insurance is an issue of trust -> more trust less transaction costs in premium collection -> trusted structure needed



Ensuring a secure flow of funds

Lack in security has adverse effects on microinsurance and client as microinsurance loses money (& prestige) and client might have coverage refused

Control mechanism needed: where money is, fraud is not far behind

Proper documentation is the basis: receipts & maintaining registers – computer based can be a real option



Lessons premium collection

- A relationship of trust is a necessary condition for premium payment
- Right timing for collection important
- Clients might appreciate financing tools like paying in installments or loan
- Choosing the structure of an established institution helps to keep transaction costs low (especially in case of financial structure)
- Non-cash payment (e.g. deductions) helps adding security
- Often there might be a conflict of interest between mechanisms convenient for an insurer and the clients



Forms of claims payment

- Cash lump sum – provides a choice
- Cash over time – avoids “bigger box”
- Cheque – can be hard to cash
- Deposit into a savings account
- In-kind benefits



In-Kind Benefits

- Burial societies provide a “funeral” often via in-house funeral parlours.
- Health insurance – serious burden on poor if they have to be reimbursed.
 - Microcare have invested in infrastructure resulting in direct payment.
 - MIS and staff in hospitals is an investment.



Payment to client or MFI?

- Cases of claims never reaching the client.
- Perhaps safer to pay out over time or into a savings account.
- Allowing the MFI to verify and pay claims reduces transaction time and increases client satisfaction.



Lessons claims payment: Education is key

- If staff are aware of the claims process then transactions costs will reduce and clients will be satisfied.
- If a client is unaware of “how it works”, even a perfect claim will dissatisfy.
- Education is key – training, street theatre.

