



The Aga Khan Agency for Microfinance

Experimenting with innovative health products

Issues for new practitioners
- early quantitative lessons from 2 schemes in Pakistan

Cartagena, 7th November 2008



Background to the Presentation

- **Part of a 5 year program to Research, Experiment with, Implement and Roll Out Innovative Insurance Products**
 - **Life , Health and Asset Products**
 - **In Tanzania and Pakistan**
 - **Commenced January 2006**



Designing a Scheme

**Recommendation from Mumbai Conference:
Group Scheme**

**Today's Presentation:
Seven Additional Key Issues**



Issue No. 1- The Choice of Distribution Channel

Northern Areas
Hospitalisation
Pilot

Village based,
(semi-urban,
commerce and
agriculture)

6044 Insured

Semi-voluntary



Kashf
Foundation
Hospitalisation
Pilot

MFI based,
(urban,
predominantly
commerce)

9,500 Insured

Mandatory

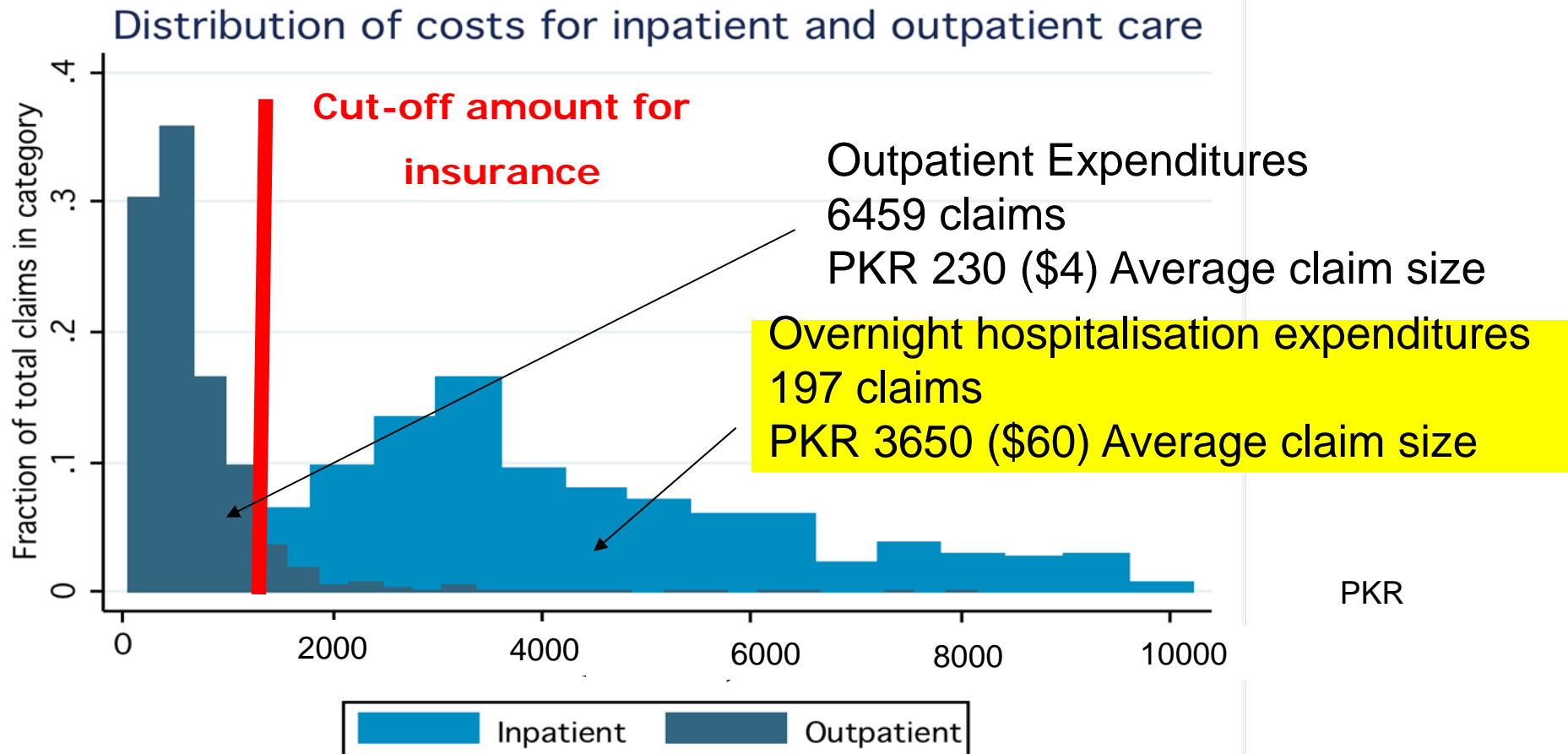


Issue No.2 – What health expenses to cover?

- **Low frequency, high cost events are most suited for insurance**
 - Claims of \$100 and up - events such as Caesarean Section Births, Appendectomy, etc. – predominantly hospitalisation
 - They are likely to have the most financially catastrophic impact on a family
- **High frequency, low cost events are very cumbersome and expensive for insurer to administer**
 - Claims averaging \$3 -\$100 - predominantly out patient
 - Poor insurance value for client,
 - Susceptible to fraud
- **Widely used cut-off proxy – Overnight Hospitalisation expenses**



Issue No.2 – What health expenses to cover? (cont'd)





Issue No.3 – Voluntary, Mandatory or Semi-voluntary

■ Voluntary

- Only the 15 % of the population who are sick, either at the time of purchase, or those who are chronically so, are likely to join
 - There is no risk pooling and essentially no insurance
 - The premium will be at the unacceptable level of the expenditures that the sick would have to pay in any case
- Requires major education component of marketing – expensive
- World wide results so far not encouraging – participation seldom more than 20%

■ Mandatory

- Marketing expenses significantly less
- May cause hardship for the poorest in the group,
- Those poorly versed about about how to use the benefits lose out
- If inadequate education there is a danger that benefits will be utilised significantly less than intended



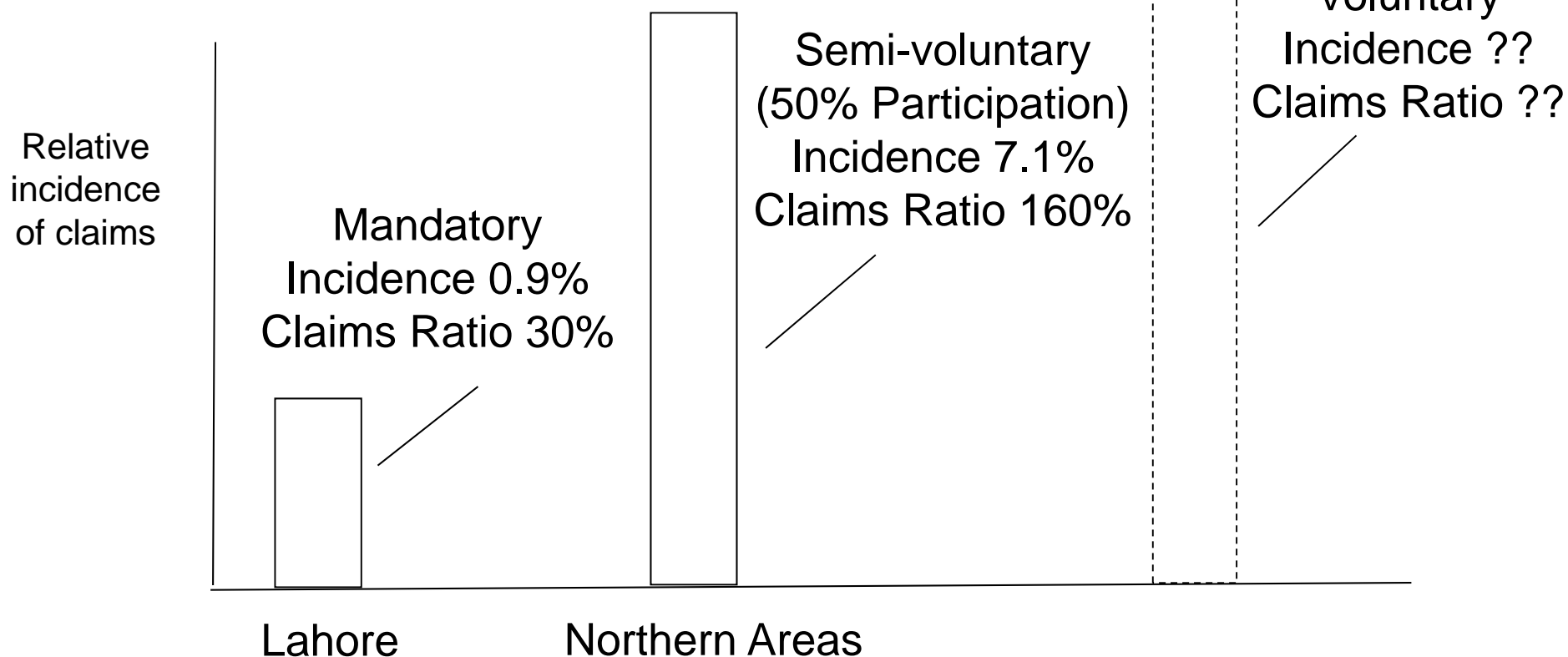
Issue No. 3 (cont'd)

- **Semi-mandatory - Minimum Participation Requirement (generally 70% preferred)**
 - Need to set a specific date when payment (=enrollment) takes place in order to determine whether group (village) qualifies or not.
 - Large volume of membership cards (including verification of IDs) need to be produced on the same day.
 - Need to include decision makers, who most frequently are those most likely to most benefit from scheme (elders, pregnant women)
 - Difficult to validate numbers in calculating participation percentage



Issue No. 3 (cont'd)

■ Claims experience *

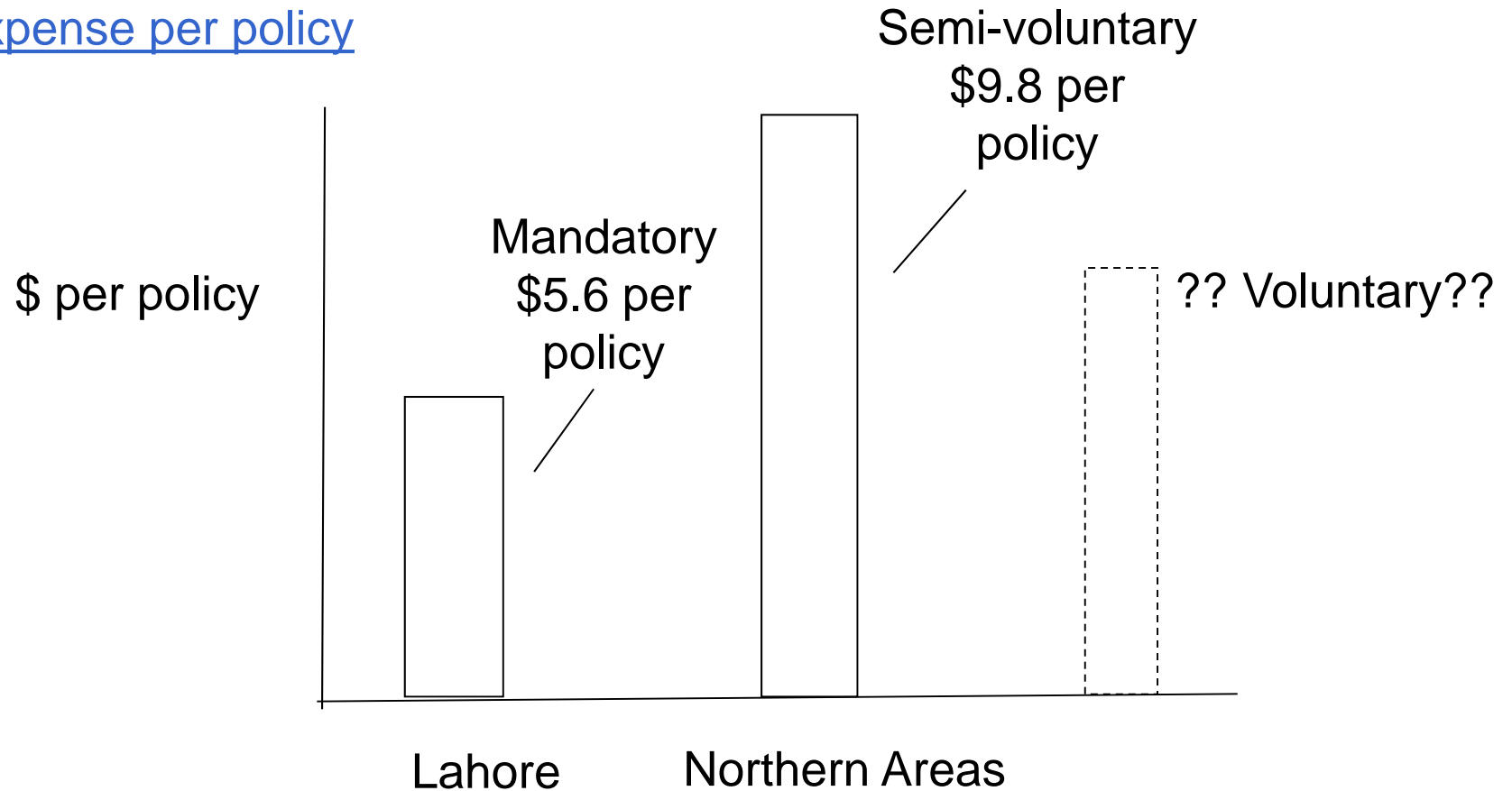


* Realised experience adjusted to be on a comparable basis



Issue No. 3 (cont'd)

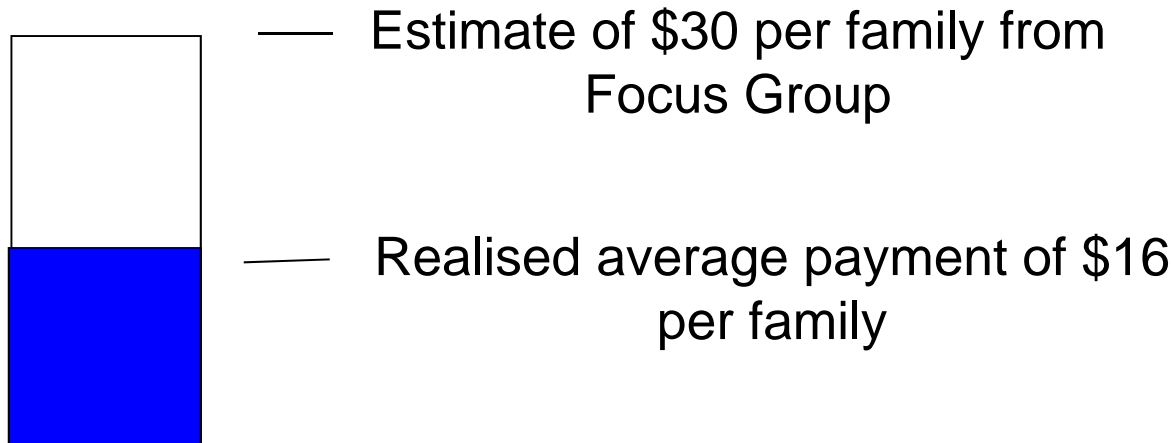
- Direct Marketing expense per policy





Issue No. 4 – Setting the level of premium

- **Market research on ability to pay likely to be too optimistic**
 - In Focus Groups it is difficult for people in front of others to say they cannot pay
 - Survey questionnaire inadequately assesses the competition between various uses of disposable income





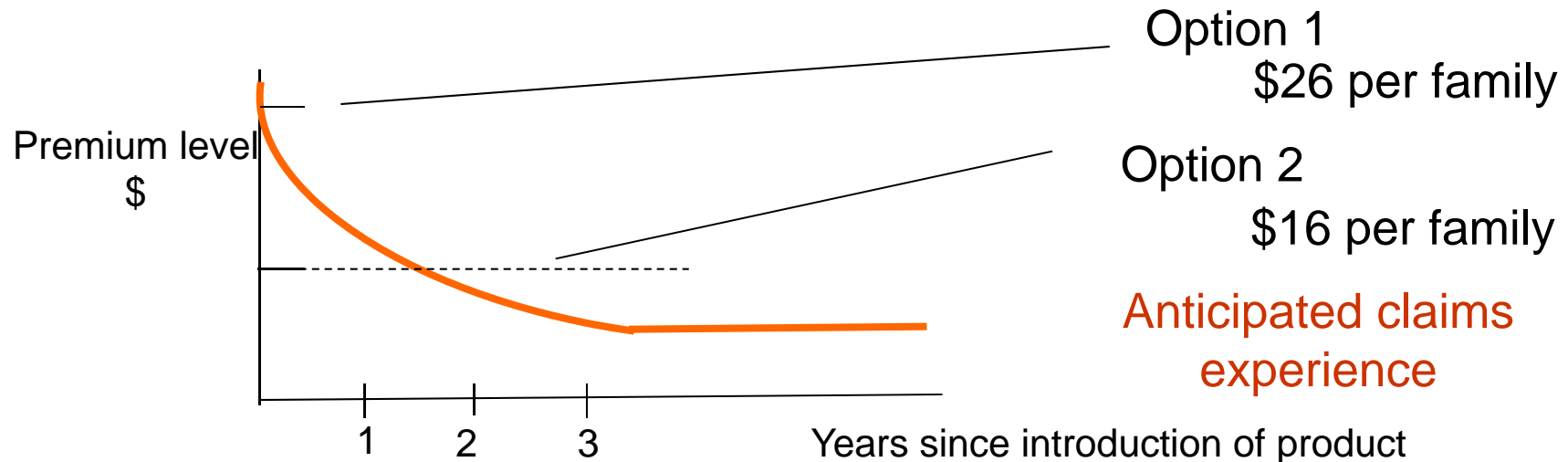
Issue No. 4 – Setting the first year's level of premium (cont'd)

- **Option 1 – Build in substantial additional « risk » allowance into premium pricing**
 - To accommodate, unknown but likely, initial adverse claims experience
 - But may make premium unaffordable for an adequate number of customers
 - Enrolled customers bear cost of experiment



Issue No. 4 – Setting the first year's level of premium (cont'd)

- **Option 2 – Aim for long term premium pricing after elimination of early adverse experience**
 - More affordable for more clients
 - Company's capital or reinsurance bears cost of experiment



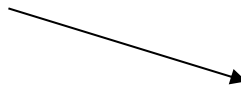


Issue No. 5 – What to exclude, if anything?

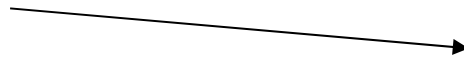
- **Maternity**

- Caesarean Section Birth →
- Normal Birth →

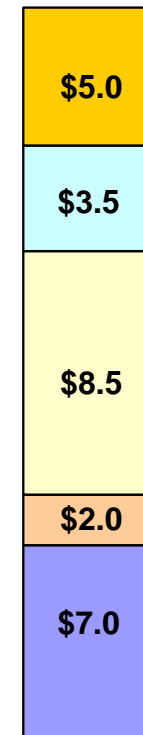
- **Pre-existing conditions**



- **Children**



Effect of Exclusions on Premium*



Total Premium* – if no exclusions

\$26.0

Experience from the Northern Areas



Issue No. 6 – Frequency of Premium payment

- **Monthly payments makes the premium more affordable**
- **It can therefore include several items normally excluded because of cost such as:-**
 - Children
 - C- Section births
- **Requires either MFI or insurance company to finance the annual premium**
 - MFIs and/or insurance companies with weak IT systems may resist this
- **Requires more sophisticated IT system**



Issue No. 7 – Cashless or reimbursement ?

- **Cashless**
 - Strong Client Preference
 - Significantly more attractive for the client,
 - Negotiation of terms and conditions with hospitals consumes a lot of time
- **Reimbursement**
 - can be subject to fraud and source of client discontent

