Client Value and Microinsurance

Synthesizing 3 years of learning

Barbara Magnoni
Client Value Project Manager
The MILK Project

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“The Actuary’s Guess”

Traditional Views of Insurance Value

Premium

Expected benefit
(sum assured x likelihood)
What is Value in Microinsurance?

Value can be:

1. **Expected** (incentives, peace of mind)
2. **Service** (access to services)
3. **Financial** (cost savings, cash flow, financial burden)

- Reduce investment
- No response
- Save
- Insurance
- Savings
- Friends and family
- Reduce spending
- Formal & informal credit
- Asset sales
- No response
- No response
- Insurance
Measuring Financial Value

- Group client satisfaction studies are not enough
  - Need more rigorous sampling & measurement

Client Math:
- What is the added value of insurance vis-à-vis other common coping strategies?
- Measures the full cost of a shock & financial responses
- Compare insured vs. uninsured
# Programs and Context

## HEALTH

<table>
<thead>
<tr>
<th>Location</th>
<th>Shock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya (x2)</td>
<td>High-cost hospitalization</td>
</tr>
<tr>
<td>India (x2)</td>
<td>Medium-cost hospitalization</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Management of hypertension</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Acute illness</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Routine women’s health care/simple infections</td>
</tr>
</tbody>
</table>

## PROPERTY

<table>
<thead>
<tr>
<th>Location</th>
<th>Shock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>Flood</td>
</tr>
<tr>
<td>Haiti</td>
<td>Flood</td>
</tr>
<tr>
<td>Philippines</td>
<td>Flood</td>
</tr>
<tr>
<td>Colombia</td>
<td>Flood</td>
</tr>
</tbody>
</table>

## LIFE

<table>
<thead>
<tr>
<th>Location</th>
<th>Shock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>Death</td>
</tr>
<tr>
<td>Philippines (x2)</td>
<td>Death</td>
</tr>
<tr>
<td>Mexico</td>
<td>Death</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Death</td>
</tr>
</tbody>
</table>

*Samples of approx. 30 insured and 30 uninsured in each study*
How much did the shock cost?

<table>
<thead>
<tr>
<th>Months of Income</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5 weeks</td>
<td>$37</td>
</tr>
<tr>
<td>1.9 months</td>
<td>$400</td>
</tr>
<tr>
<td>2.2 months</td>
<td>$236</td>
</tr>
<tr>
<td>8.3 months</td>
<td>$1404</td>
</tr>
<tr>
<td>3.9 months</td>
<td>$651</td>
</tr>
</tbody>
</table>

Costs shown for uninsured respondents.
Costs don’t capture the full burden

- People don’t rebuild houses
- Not all labor is paid (women)
- Long-term costs vs. short-term measures
- Long-term consequences of not repaying debt
How are these costs financed?

Consider different levels of access and burden
Financing Funerals
Financing Funerals

Uninsured use more burdensome strategies or under-fund (post-funeral) needs

But insurance is not sufficient: Insured still used 3.6 strategies vs. 2.6 uninsured

Cashless coverage can offer good value (save on churning, hassle), but is inflexible (only covers the funeral)

Consider alternative financing means, and “bigger box” risks when timing payments

*Number of strategies used by insured include insurance
Value of cashless benefit estimated based on uninsured respondents’ direct costs.
Financing Property Damage
Financing Property Damage

- Designed to cover loans rather than stimulate HH economy/business
- Loan coverage may have helped clients bounce back more quickly
  - Loan forgiveness covered 1.7 months of HH income
  - New cash injection w new loans
- Loan coverage helps reduce burden and preserve credit access in the longer term
- Insured used slightly less of each strategy, but the same number (3.7 insured* vs. 2.5 uninsured)

*Number of strategies used by insured include insurance
Financing Hospitalization
Financing Hospitalization

- Costs were dramatically lower for the insured (particularly with some products)
- Opportunity costs vary greatly; insurance helped indirectly by reducing the burden of other costs
- No one financing mechanism is sufficient
- Insured used 2.3 strategies vs. 1.6 uninsured
- Some care may have been better at the outpatient level
- Women’s opportunity “costs” may be larger than quantified

*Number of strategies used by insured include insurance
Value of cashless benefit estimated based on uninsured respondents’ direct costs.
Financing Outpatient Health
Financial value is not always in the reduction of burdensome coping strategies.

- Insured used 1.7 strategies vs. 1.2 uninsured.

Primary benefits are behavioral:
- Use it or lose it
- Seek care sooner and with less serious symptoms
- Preventative care promotion
- Frequent usage increases product’s “salience”

*Number of strategies used by insured include insurance*

Value of cashless benefit estimated based on uninsured respondents’ direct costs.
How did Insurance Help?

- Insured use similar strategies on average, just less of each.
- Size of the shock and shock type plays a key role in determining the number of strategies, not insurance.

*Graph combines insured and uninsured*
What did we learn about financial value?

Microinsurance must be **affordable** and **deliver** on its promise

- But its value is more than premium/benefit

Microinsurance **is not alone the total solution** to risk management needs

- But it can be an important complement
  - It can help reduce reliance on difficult strategies

Microinsurance **can offer added value** vis-a-vis other tools

- It can crowd in loans from friends and family
- We have also seen positive behavioral incentives (healthcare seeking; frugality)
But

...even when there is value, there is not always demand

- We need to understand how people link value to purchases if we are to make a business case
Financial Value is key, but not sufficient for demand

DEMAND FOR INSURANCE

- Perceived Risk & Need for Protection
  - Awareness/salience of risk
  - Availability of other coping strategies
  - Information about cost of risk
- Perceived Value of Product
- Psychological Influences
What Influences Demand?

DEMAND FOR INSURANCE

- Perceived Risk & Need for Protection
- Perceived Value of Product
- Psychological Influences

- Price
- Coverage (valuable, appropriate, and understood by client)
- Trust in insurer and delivery channel
- Good service
Awareness/salience/knowing alternatives/information

- Does the insurance product cover risks that are hard to finance?
- Borrowers who purchased any insurance increased by 15 percentage points with this approach.

Outlines funeral costs and how clients and peers typically finance them, with real data.
Price and Trust

- Clients are price sensitive and “trust” sensitive, even when they perceive value

- MILK RCT: After subsidy was removed, 86.5% of clients paid for coverage
  - But total coverage levels dropped

Smart subsidies build demand

- Gift a first experience to build trust and familiarity with product.
- Once demand is established, clients buy on their own (though perhaps not at the same level as if cover were subsidized)
Experience and Trust: SURA

Colombia

Lower touch distribution depends on prior demand factors such as economic stability and previous financial experience.

**High Touch**
Door-to-door sales through public utility channels (10-20 minutes)

- 71% are very poor*
- 33% have bank acct
- 27% had prior insurance
- 91% trust the channel

**Low Touch**
In-store cross selling to retail credit card users (5-10 minutes)

- 22% are very poor*
- 69% have bank acct
- 46% had prior insurance
- 91% trust the channel

* Strata 1 in Colombia
Demand and Distribution

CLIENT VALUE

BUSINESS CASE
Thank You