The MasterCard Foundation Symposium on Financial Inclusion:

Clients at the Center

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This document presents transcripts from the plenary conversations and presentations during The MasterCard Foundation Symposium on Financial Inclusion: Clients at the Center 2013. The statements made and views expressed are solely those of the authors and do not necessarily reflect the views of The MasterCard Foundation, the Boulder Institute of Microfinance or the symposium participants. Some have undergone minor adjustments, but in general we preserved the tone of the panels and presentations to provide the reader with the content of the symposium.

Session 5: Creating value for clients through micro-insurance.

How can micro-insurance provide sufficient value to clients to encourage the growth of insurance as an important component in the portfolio of a poor household? What is the value-proposition for meeting the diversity within client needs?

Presenter:	Michael J. McCord - President, MicroInsurance Center
Commentators:	Barbara Magnoni – President, EA Consultants
	Lorenzo Chan – President & CEO, Pioneer Life Inc.
	Mariana Torres – Director General, Aterna
	Rick Koven – Consultant

Michael J. McCord

If we're going to consider clients at the center, we're going to focus on financial inclusion, we have to be thinking about risk management tools for low-income people. As we'll see, risk management tools now are insufficient for people to continue moving along the path, generating their livelihoods, keeping their families from crisis. We'll talk a lot about that here, but current traditional methods are commonly insufficient for that. People go to their friends to get money. Friends of poor people are poor people, right? So they have trouble getting money. We have to think about better ways. Microinsurance will never replace all these traditional mechanisms, as we talked about yesterday. I think Daryl said something yesterday about not replacement, but improvement and bringing people to a level where they're better able to manage these risks. We have to be thinking about those. And if we think about how we can assist low-income people in managing these risks, we have to think about how microfinance institutions can do that, and the greater role that they can play. The MicroInsurance Center did two landscape studies of microinsurance in the last year—one in Latin America and one in Africa. We looked at how many people were getting microinsurance, what kinds, who's providing it, who's distributing it. So in both continents, there were about, give or take, about 45 million people getting microinsurance. Yet, almost all of that, the vast majority of that was in life insurance, very kind of limited – very little health, very little agriculture outside of government programs. And when we think about the needs of people, it goes way beyond that. And so also, one of the interesting things we found is that we look at a study we did in 2005, we saw that in many ways microfinance institutions were drivers—in many ways, not entirely—but were drivers of microinsurance expansion, ways in which we can help improve the risk management potential for low-income people. In the new study, what we find is that microfinance institutions have been far eclipsed. The evolution of MFIs in microinsurance has been limited. The growth of microinsurance and MFIs have been limited. And yet, there's a very important role here. If MFIs are a core component of financial inclusion, a core component of making sure that clients can move ahead, we have a much bigger role here – a much bigger role.

We see that clients have problems that affect our portfolios. When children get sick, when husbands die, when women are hospitalized, this has an impact on our business. Stefan Dercon says, "The lack of insurance is a cause of persistent poverty." I would argue that if we don't have good value microinsurance products, we can never have sustainable development. And I know that most MFIs are trying to help their clients move to a better place. I would argue that you can't move to the better place in a sustainable manner unless you have insurance, and good insurance. And yet at the same time, there have to be benefits for the MFI. MFIs are businesses now. Right? So you have to have benefits. Yesterday morning, we had a great group of people come together and people who have some microinsurance, and have been working with microinsurance—we had people come together and talk about, what are the benefits to MFIs? Because if there's no benefit, then there's no way we can expect MFIs to do business. So we talked about profits, microfinance institutions earn commissions on selling microinsurance. We talked about portfolio protection. Your client dies, the loan gets paid. There's protection in the portfolio. But then we talked about things that were I think much more important, and really beyond that, retention. Client retention. I know Mary Ellen just talked about Microfund for Women in Jordan and she talked about how they have their caregiver program. Caregiver program is attributed to a 15% increase in client retention. Who here would not want a 15% client retention increase? Everybody would. Right? It's not easy. There's work to do to make that happen, but it's possible. We talked about attraction, Motaz will tell you, about how it attracts clients to his business. We see anecdotal evidence that clients who are more stable, who are able to get care faster, are more stable for your business, so they're better borrowers. So there are benefits here that are really important. The problem is we have to offer value for clients. Value.

We have these numbers—45 million—we say a half a billion people have microinsurance across the book, but how much of that really is value for clients? Marten yesterday said, in studies they've done, they see 80% of microfinance institutions offer credit life insurance. In most places, the value clients say they get from credit life is none. It's for the institution. Twenty-seven percent offer a life product. Only a quarter of microfinance institutions are stepping out and offering something that may have better value for their clients. The MicroInsurance Center has, we've worked on a project over the last couple of years looking at, is there value in microinsurance for clients? And in doing that, we go out and we talk to clients, and we see what they're doing. Barbara Magnoni is going to talk about value and how we look at value in the MILK project, and some of the lessons, the really key lessons on value for clients. But in talking to clients about, how do you address these risks? So there's some very, very interesting information, Barbara Magnoni from EA Consultants, and the head of the Value Project, the value component of our Microinsurance Learning and Knowledge Project. And then we're going to have Mariana Torres, who has run the microinsurance activities at Compartamos for ten years, and is now the Director/General of Aterna, which is a joint venture between Compartamos and a brokerage firm in Mexico. Mariana is among the best people in the world at understanding their clients, and understanding how to work their staff to service their clients. It's a great opportunity that we have Mariana. Rick Koven is working on the business case side. If you have value, but no business case, then it's not going to work. So there has to be a business case. So you look for a business case for the insurer, for the distribution channel, for the broker, looking at is there a business case here? So Rick is going to be kind of our word of warning with some additional thoughts on how we can improve things. And Rick has been doing health insurance work for much of his career. He's done our MILK business case work in several countries and had some really good insights into profitability and business case. And then, Lorenzo Chan is from Pioneer Life Insurance in the Philippines, and I see insurers all across the globe, and I can't think of an insurer who is more focused on what clients need than Lorenzo and his team. And so Lorenzo gets a double benefit. One, that he'll talk about business case; but two, he'll show you all an example of an insurer, of what you should expect of a good insurer. Without any more, I want to go to Barbara to talk about the value, the lessons we've gotten from the Microinsurance Learning and Knowledge Project in terms of value.

Barbara Magnoni

Thank you, Michael. As we sort of started to face this question about what is value in microinsurance, we kind of unpacked value into three components of value, and the first was expected value. I have insurance, and I feel safer. I feel more peace of mind. I'm comfortable, and therefore, I may behave in a different way or just feel better about life. And that's our expected value. Our second component is service value. Service value is the service that may come with insurance, typically health insurance services would be sort of the obvious one, as well as education, and other things that might be kind of wrapped up. But where we focus most of our value work, and what I'd like to show you today if we can get this going, is financial value, and kind of what is the value of microinsurance for a client in terms of reducing costs, in terms of smoothing cash flows, in terms of avoiding burdensome strategies like selling important assets in order to cope with risks. And when we think about it, we think of value not just on its own, but sort of the added value vis-à-vis other mechanisms. We've been talking about a lot of different strategies that people use to cope with risks, to deal with their everyday household needs, to grow their businesses. And people have always managed risk one way or another, sometimes in very difficult ways. And so when we look at an insurance product, we're always comparing it to other ways that people are coping with risks, which could be selling assets. It could be using their savings. It could be credit, and it could be friends and family in the communities that help them. So that's sort of our basic value piece.

I'll start with how we do this. So how do we look at this value? What methodologies were we sort of trying to do, and the typical way that people approach kind of client-centered work, or have approached them, Monique talked about this today, was focus groups, calling in your clients, asking them questions, and the problem often with that is that our sample is very biased. I'm sure many of you have done focus groups in the past and know how hard it is to get people to come, and to get a varied representative sample of your clients to come. Often, the ones who come are the ones who may not have responsibilities at home—small children—or are less busy, or really feel a strong connection with your institution, but aren't representative maybe of the less happy people or less satisfied people. So focus groups just don't give us enough of a representative sample. On the other side, we can do a really academic sort of rigorous study where we get representative samples and control groups and all that, and it takes a lot of money, it takes years …

(break due to technological difficulties)

Okay. Fantastic. So, I've been asked to just kind of quickly go through what we talked about earlier so that you can see the slides. So I will summarize it a little bit. We were unpacking value and how we define value, and the first piece that we identified was the expected value. So even if you never have to make a claim with insurance, which many people don't, there's some value in having it. You feel safer, you feel protected, you have peace of mind, you may be willing to invest some of your other resources, it frees up some of that pent-up resource.

The second piece that we see is service value, and service value we usually talk about when we talk about health services. But there are other service that insurance sometimes provides like speedy processes, or help making claims, or getting documentation for claims, or financial education that are important to think about.

But where the MILK project has focused most of our effort has been on the financial value. And the financial value is: are you avoiding using burdensome mechanisms by having insurance? Is insurance helping you smooth out your cash flows? Is insurance saving you money? And we think about this in terms of all of the different risk coping mechanisms that people are using already—so savings, loans, help from friends and family—and where insurance fits into this.

We talked about how we measure it. So the client satisfaction or client focus groups typically have a lot of bias, and it's hard to get a really representative sample from there. We tend to pick clients that are available, that are able to come. We ask them things like are you satisfied, are you happy, what do you need, and they sort of give you the answer that they think you want. And it's really difficult to sort of use that in an effective way. At the same time, on the other side of the spectrum, we have very rigorous academic studies and those studies can be very costly, they can take a long time, and a lot of times with insurance, they're not even that useful because insurance is something that often covers risks that are pretty infrequent. So designing a study around that can be really hard. So what we did was design methodology among some other tools that we're using called "Client Math." And what we do with Client Math is we look at all the different mechanisms that people are using to finance a shock, and we kind of compare that to the overall costs of the shock, and we also compare it to a similar group of cohorts that have had similar shocks but are uninsured, and we'll see how that works in a little bit.

So why do we do that? Why can't we just look at something like this? And yesterday, as Michael was saying we were in conversation with some of you, and talking about, among other things, client value, and a few people said, "Well, value, you sort of take the annual premium, and you figure out what your overall coverage is, and that's going to tell you whether a product is valuable or not." But sometimes that doesn't tell us enough, and I'm going to show you two examples of products that when we do that kind of calculation look kind of similar. These are two life insurance products that are actually focused on funeral. One is in Colombia with MAPFRE. The other one is in the Philippines and I will say it is not with Pioneer, it's a different product, that's offered by a microinsurer with an MFI partner. And if we look at sort of the premium to benefit both of these products, they're quite similar. They're around two percent. So it's hard to sort of identify where the value is in these products, especially in relation to each other.

So we'll start with Colombia, and I'm going to show you sort of the Client Math, and the insights that it gave us. We have two groups, the insured and the uninsured, and we interviewed them and asked them how they finance funeral costs. This product was especially interesting because it's a cashless product. And what that means is that the insurance company has an agreement with the funeral homes, which provides a package of coverage directly to the client so that nobody has to disperse any money. It's cashless, and they're able to kind of get this service very quickly. So what we find first is that the uninsured had to borrow a lot more informally than the insured, and informal borrowing is typically from family or friends. Formal loans were unavailable pretty much or at least limited in their availability. And most of you know that it's hard to borrow money for an emergency. There are not a lot of providers of credit that will give you a loan in a situation of stress. Some people were able to access gifts. Again, the uninsured more so than the insured. And then some used household income. Some tightened their belts, and what we noticed in Colombia in the uninsured, even though that number is kind of small, it's an average number. Those who did have to tighten their belt, it often represented things like not paying for school fees or reducing health expenditures. So these were sort of difficult mechanisms. And in terms of difficult mechanisms, the most difficult was really the savings. This population in both groups didn't have a lot of savings. Not everybody saved, and those who did save didn't save very much. What we found is that the uninsured really resisted using their savings and were able to kind of keep their savings, whereas the insured that did have savings used the entire balance to cover the shock. So how did the insured do? Well, they did well because they had this insurance coverage, and this package sort of covered the rest of the costs of the funeral, and enabled them to use fewer mechanisms and much smaller amounts than the uninsured.

This slide is mislabelled. This is the Philippines funeral coverage, and it's a little bit different because it's a cash product. It's a little bit different because it's in a rural area, and the behaviors and kind of customs are a little bit different, and we'll talk about that. So the insured and the uninsured. In the Philippines, it's quite common, particularly in rural areas, for friends and family and community to contribute to a funeral. And much of the funeral cost was actually covered by friends and family and community equally for similarly for the insured and the uninsured. And what was missing, they were able to cover with loans from those same sources. So maybe gifts didn't cover the whole thing, but loans did. Formal loans, again, not very readily available for these groups. And then there's sort of some other mechanisms that are used to complement, such as gambling, which is sort of a traditional way of raising money for these events, savings, local government support, again household income, and consumption. Then in some cases, asset sales, although that's typically not as common.

So what we saw was two groups, one with insurance and one without, that behaved very similarly, and it's hard to really identify at this point what the benefit of having insurance was because both had to do more or less the same thing, and both had access to informal sources of financing that helped them out a lot. What we did find is that when the insured did get their benefit, which was a few weeks later, it didn't go to waste. They did use some of it to pay back some of their loans which was important, and they also used some for investment, and for other kind of stop-gapping because the household, or one household income earner had died.

So, you know, what do we think? I think when we sort of look at the two products, the Colombian one seems a lot more compelling and more interesting in terms of value, even though they weren't very different in terms of cost per benefit. And I wanted to summarize very quickly what we're learning. So one thing we are learning is products have to be affordable and Mariana will talk a little bit more about that. But they're not accessible if they're not affordable, and access is really important. But premium to benefit isn't enough. We have to look kind of beyond that.

The other thing that we're learning is that insurance isn't a total solution. It doesn't solve the problem. What it does is, it complements and it often complements in a way that helps people avoid some difficult and burdensome strategies such as drawing down on all their savings, or in other cases, selling assets.

And what's unique about insurance, and we're sort of struggling with saying, "Okay, well, could you get that with another financial tool? Why insurance?" And what we are finding, and we haven't gone into it too much in this, but I think it's important to mention is that insurance has some characteristics that are different. One of the things is it crowds-in help from friends and families. So what we found in some studies is that because somebody had insurance, they were more likely to get a loan from a neighbor or from a family member because that loan had a certain collateral with the insurance payment that was expected, and then didn't have to do some harder things because they were able to access that loan. So it will crowd-in some better mechanisms. The other thing that we're finding is that it has some positive behavioral incentives. Yesterday, Nathanael talked a little bit about agricultural insurance, and people investing more in their crops because they know that their crops were safer, their investment was safer. We're also seeing this in health where people who are sick are more likely to go to the doctor sooner in order to … because they have insurance and the ability to pay for it, whereas those without insurance might wait a little longer and try to wait it out. So that has some positive health effects. Other behavioural issues can be frugality. So some people, if they know an insurance payment is coming, they might tighten the household expenditures for a short term in expectation of getting some money sooner, whereas if they don't, they might sell the asset right away, which is another benefit. And with that, I'll send you back to Michael.

Michael J. McCord

Thank you, Barbara. So you see microinsurance has a facilitative role for MFIs; it also has a complementary role with both formal and informal products, and there's an important need to think through how does microinsurance fit with the products in your product line as microfinance institutions. So one of the studies that we did, actually two, one of the Client Math studies, and we also did an RCT with Compartamos, and so Mariana from Aterna is here to talk about what they learned and how that impacted their institutions. So Mariana, please.

Mariana Torres

Well, thank you, Michael. First of all, I will try to, why is microinsurance important to our clients? And to answer this question, first we have to understand the real need of clients. And I know that we have been talking a lot yesterday and today of how to understand the real needs of clients, and Michael helped that to think that I being a new mom, and I could have an example of having a baby crying and trying to understand what is going to be the right formula to keep it calm, and it doesn't matter if we have to make up some songs or dance steps or whatever it takes to keep it calm. And guess what, when you've tried the right formula, the baby starts crying again, and that formula is not efficient anymore. You have to continue guessing and continue understanding that baby, what is going to help him to keep it calm. And in microinsurance, we have it easier because we have to understand the client's needs without, we just have to listen to them to see what they need. And they are constantly, their needs are going to constantly change because of the moment of life they are having, the priorities or strategies. So we have to take the time just to listen to clients to understand those needs.

And that's what we have been doing in Compartamos the last couple of years to try to understand that in this whole group of people, we have different needs, and different styles or types of people, with different priorities or different moments of life. So we have done a lot of work on segmentation of the clients of Compartamos into different groups.

What we got was, the result that we got was we have six different groups of segmentation around their prevention needs. It's focused 100% on prevention strategies that they need, and what it helps … this helps us a lot to understand, depending on the moment of life the client is living, or the strategies or the priorities that they have, to see what product we have to develop to fit their needs and respond to them. And this is what gave us to the next step and said, "Well, if we already understand the client, if we already have the segmentation, we already know that they don't only need life product, that they need health, and that they need education, that they need savings, that they need a lot of things, there are natural disasters, how can we prove that what we are doing in the development of products generates value to them?" And that's when we get to the next step that was implementing the MILK project in Compartamos to see really, and to try to identify if we were generating value to our clients. And there's a lot of details that I invite you to review in the MicroInsurance Center web. There's the formal paper with all the details of all the results of this study, and I am going to point to just three conclusions that help us a lot with this study.

The first one was that to understand that the person that we're insuring were less indebted with the different financial strategies, and that is why microinsurance generates value today. To understand that the person that, once insured, didn't have to go and make formal loans or informal loans, or use their savings or whatever it takes, because the product that they have was on time and was efficient. That helped us a lot to understand the value that we were giving to them.

This leads me to the next point that I wanted to explain. The clients, to make them aware of this benefit. And this is all marketing. When the clients are buying insurance, most of the time they don't really realize the benefits that they have to being insured. So we were trying to make these two different groups. In one group, when we tried to explain with this poster, the results of the Client Math, Michael has them here, show them, and they are like really sweet posters, really fine for the sales force to use in those groups, where they were trying to explain with one emotional poster that is telling the story about what is going to happen if you're not insured and you have a funeral or whatever, and one more rational, what are the expenses they had and everything. And what happened is in the groups that we used these marketing strategies, we sell about 15% more insurance policies than in the groups that we were not using marketing tools. And this only is very important because the client was understanding what he was buying, and the benefit that is to being insured. So this was also a great learning for us, and I'm going to talk in a little bit about what the impact in the organization was, the result in the budget that we have on marketing. So that was really important also to see that the marketing tools and taking time explaining to clients what they are buying will be increasing the sales and the acceptance of the product.

And the last one is to generate awareness inside the organization, inside Compartamos, from the sales force up to the board. It was very important to show these results, and all the results that we have of this program. It will encourage the board and all the directors to impose new projects, new budgets to make microinsurance really work, and really integrate it, and Monique [Cohen] was talking about having this product and different products, and not integrating them, and why it's important to go to the client because it's only one client with different needs, and we have to meet them. So that was also a great learning, and a great impact inside Compartamos from the board to the sales force to be aware of the real needs on how to get these products to their clients, and to have more budget for more projects, and do new products.

The learnings, the marketing, and the sales force training is very important because the sales force are the ones that are going to give the message to the clients. So we have to take the time and the tools to make the sales force really precise, get the message that we want them to get to the clients. Awareness in clients, the efficient claim process, well I think this is a must. We don't have to design a product that we're not going to pay on time and quickly. We will have to generate value. And the simple product responds to simple needs, and this is a segmentation where it helps us to really understand what moment of life the client is living, and what their real needs are. We will develop different products and simple ones to respond to those needs.

The implementation of these lessons, well, first of all, the product design, we will design a product that will have like basic life insurance with a benefit amount that we saw that we could lower the benefit amount and add extra more like assistance products to this product, the result was a 20% saving to Compartamos to the organization. But a better product to the client because it has not only life insurance, but also has now psychological, educational, legal assistance, and the clients were really, really happy with this change.

Training. Well, we have, because of the results of showing them how it works with a group, using marketing, and training the sales force, a rise in the sales against the groups for whom we didn't do that. They raised our budget to train the sales force, and we also give to the sales force these assistance products for free, like an incentive. So the sales force knows the benefits of being insured, and having these assistance products, and that's an easier way to go to the clients and sell what they know is good for them.

Marketing. This is impressive, but we raised 300% the budget in marketing. And using these posters, that are really easier to have. It's been like a total difference in the sales results than before.

And the incentives, the importance of the microinsurance. The model of the incentives of the sales force will include the microinsurance product as an integral model and not separately.

The principal challenges that we have. We still have some challenge with the insurance company to be out of the box, to really understand these real needs—how do we translate it into simple products, to face that segmentation and to understand that we cannot give one same product to everyone. So that's still … it's better now than it was five years ago, but still some principal challenges.

Regulation. With all these money laundering issues, the regulations try to put more chains to the processes and that's a really risk for us to microinsurance because of the flexibility to insure the people or also to pay the claims. So we still try to do a lot of work with the regulators to try to be more flexible without having some controls, further controls or whatever, but to be more flexible. And the other challenge is now as Aterna, that is the broker part of the group, is the thinking of profitable as in the long term of the project, not in the short term. And many microfinance institutions and other channels now are trying to see microinsurance as profitable, and just see the profitable part of the project. So it's been really challenged with all these commissions parts and premiums and the benefit to the client to really understand how in the long term it will be a really profitable project. But it has to be step by step. We have to really think of the clients' needs, how it's going to be developed, the product, how are we going to raise the sales, and in the volume we will have the profitable part. But not only looking on the profit part. And I think that's it for me, Michael. (Applause)

Michael J. McCord

Thank you, Mariana, thank you very much. Mariana left her seven-week old daughter to come and speak with us. So that's quite amazing that she's here. So we've seen a very clear example of talking to clients, understanding clients, creating a process for change within the institution, using the research that was there. Oftentimes, we see research done, we see products, we see activities that allegedly relate to that, but there's a disconnect. But here, very clear movement from understanding to impacts in the institution. And in microinsurance in particular, we have an issue where oftentimes we still have to convince management. And understanding the value of products to clients, having a better understanding of how they can appreciate and see value has, in this case, proven to management that this is something that's worth more of an effort. Another clear point about the costs. There's costs and there's effort involved here. But the key, I think, is to take a long term view of microinsurance. Microinsurance isn't something that we should be looking at for a big return now. Rick will talk a little bit about trajectories, but it's something we have to think about in the long term, and we have to prepare in the long term. This is an investment that we make for better products, better clients, a better mix.

So, of course, the other side of the equation, the business case side, we can offer value. It's very easy to offer lots and lots of value, but then it's hard to get a business case from that. And if we don't have a business case, we're not going to go anywhere. And so Rick is going to talk to us based on the work that he's done, looking specifically into insurance companies, distribution channels, including MFIs, looking at admin costs and how these institutions are doing in terms of profitability. So Rick, please.

Rick Koven

Thanks, Mike. That was quite an entrance, wow! Okay. So, I'm an insurance guy, and I spent my career in insurance, and in January of 2000, CGAP asked me to go to India to look at an emerging microinsurance program that a very prominent MFI had started, and they asked, "What's the business case here? Go take a look." And I came back from that trip thinking like a lot of us did in the early days, "Hey, this is a no-brainer. You don't have to be Einstein to figure this out." Right? Okay, so let's just go back and reconstruct, what was the business case that we thought we had?

Insurance depends on distribution. Distribution is the life blood for insurance. MFIs have distribution. Okay? Not only that, here we in the insurance industry are all competing for that top of the pyramid in saturated markets with compressed margins, and these MFI guys, they have access and distribution into this totally untapped market. Wow, that's amazing. And then from the MFI side, you guys have an asset that can be leveraged. You can diversify your revenue, you can make some profits, and give your members access to a credible product that they don't have access to. Right? A no-brainer, right? Okay. That's what we thought.

When I came back from the trip, I wrote this. This was basically my analysis of the business case. I said there was affinity which we know is a powerful tool in insurance marketing. I said that the demand was unlimited. I said that competition was nonexistent. Can you imagine that? A marketplace without competition and unlimited demand? I said that we have excellent access to this through a low cost distribution system, and in this case, life insurance, the risk was manageable. Again, a no-brainer, right? And for a lot of us, we thought the way to get this accomplished was the partner/agent model which was one of the predominant early models here, and basically the deal was: MFI, you provide cost effective distribution. That's your role. And we the insurer, we'll provide the insurance of expertise, the risk, the administration, right? That's the deal. Okay? Win/win. No-brainer. What happened?

I know I was wrong. It wasn't a no-brainer. It didn't exactly work out the way we thought. In fact, here we are a decade or so later, a lot of programs that didn't thrive, programs that failed, and why? What happened? Well, almost invariably we overestimated demand, and uptake was low. And as you can imagine in insurance, the scale issue is critical, and when you have low uptake, it just doesn't work. The other thing that we probably didn't think through as well is trying to sell insurance, and just to do a gut check here, insurance is sold, not bought. That's something that's always good to keep in mind. Selling insurance on a voluntary basis through the MFI channel proved to be ineffective in many cases, and expensive in many cases. Exactly opposite of what we thought. And there were few instances where everybody in a complex value chain was doing well, and without everybody doing well, it breaks down and it doesn't work.

We at MILK look at eight drivers of business case in microinsurance. We look at the age of the program; scale, of course as I said, is critical; business model, in other words partner/agent/coop/mutual, and so forth; voluntary and mandatory enrollments, which I talked about; the product type—life, health; is there a subsidy, is there a donor subsidy, is there a government subsidy? Another issue, distribution, and the presence of competition. So let me give you two examples from our research that in different ways show you how some of these things work together to make or perhaps not make a business case.

This is Philippines. This is life insurance, mostly credit life, some top off benefits. We went in and examined the, did detailed cost studies of the MFI's distribution, looking at the direct costs and an allocation of overhead, and here's a market where there's some maturity to the market, where the MFIs compete with one another, where having microinsurance is considered the standard, where enrollments are almost all mandatory, where the product is life insurance. Those elements work together until you can see right here the average commission 21%, the average cost, fully loaded cost to the MFI is 13.5%. So they're making money. We have a business case, right? And have a business case at a reasonable commission that the insurers can live with. In these cases, the insurers are making money too.

Okay, completely different story now. Now, we're in India. Now, we're looking at health insurance. Okay? A much heavier lift. If we had full transparency to our customer, this is what the customer would see comparing the dark circle, a publicly subsidized supported program, and on the red circle a private MFI sponsored health insurance program. And by the way, I'm talking about comprehensive health insurance. I'm not talking about hospital cash, or personal accident. I'm talking about real health insurance. Okay.

On a composite basis, if you're in a publicly supported health microinsurance program in India, you're paying in 57 cents, you're getting back $2.30 in benefit. If you're in a private MFI sponsored program, you're paying in almost $2.00 and you're getting back 82 cents. That's not a value proposition that's going to work in the long run, right? That's clear. But what's behind that? What's making, what's producing this result that's a poor value proposition? First of all, it's scale. The average size of a publicly supported health microinsurance program in India is well over a million lives. The average size of a private program is 70,000 lives. The cost to administer a private health insurance scheme in India is two to three times the cost to administer a public scheme. That's a function of scale.

What is working against … the reason private health microinsurance in India is not working is not claims, which we all thought in the beginning. The risk would be too great, the claims loss ratios would be too high. What's working or conspiring against private micro health insurance is the cost, the administrative costs. It's consuming too much of the premium. So that the value proposition isn't there, and the business case just isn't there.

Okay. So thinking about life microinsurance for MFIs. I think the business case is still there. I would still go back to that basic idea that you can leverage an asset that you have, that you can distribute insurance. It's a question of tempering the expectation and proceeding with some level of caution. Voluntary, the overreach is trying to sell a complex product on a voluntary basis in a distribution system that won't carry it. Group enrollments work much better. Mandatory works best. Health insurance is a heavy lift. Life insurance much less complex to do.\ Asking MFI loan officers to sell the insurance in addition to their other job, difficult. Having a dedicated sales force, much more effective. And a small scale standalone operation has a tough go of it, but a donor supported or a program that shares resources or has strong partners along the value chain has got a much better chance of making it.

So going back to our friend, what I think the message I want to leave you with is that first of all the MFI, remember the business deal was provide low cost effective distribution. The MFI has got to deliver that.

You've got expectations of the insurance company, but they're your client too, and you've got to deliver for them.

And lastly, even Einstein was wrong sometimes. And approaching something like this with a little humility is probably a good idea. Thank you. (Applause)

Michael J. McCord

Thank you very much, Rick. A great look into the details of some types of insurance. Rick says business case in some cases, seems we have a lot more to learn about efficiencies and MFIs doing their role in helping to make these products more efficient and to bring down the admin costs. We have to think about the commissions that we require, that we charge. We have to think about the ways, the processes that we're using. Microinsurance is a benefit, as I said, to often clients, and often to the institutions. But we have to work at it, and there's a good deal of work still to be done.

I want to turn now to Lorenzo Chan who will talk from an insurer's perspective in the Philippines working with many microfinance institutions and other types of client-focused groups as one of the most client-focused commercial insurance companies in the world, literally. So Lorenzo, please.

Lorenzo Chan

We are often asked a question, what drives Pioneer to the microinsurance market because we are as traditional as they come. Well, the answer is a bit corny, but it's simple. It has to do with our corporate vision, that of becoming a model Filipino enterprise, and to become the insurer of choice for Filipinos requires going beyond the typical AB corporate market, the very same one everyone else is targeting. To do so, it requires that we expand our reach. The broader CD, perhaps upper E, or what I'd love to call as the mass market. This is a market larger in numbers with some capacity to pay, albeit limited, but who perhaps need insurance the most. But insurance as we all know is not a sexy product. It is often dull, boring, full of technical and fine print, and worse. It's often run by people with low awareness of these realities. After all, no one wakes up each morning saying, "I must go out and buy insurance." It therefore, as Rick mentioned, needs convincing and pushing. So we look for pushers. We look for various institutions to partner with as a distribution channel. And how do we approach it? Traditional insurance is company-centric. Here, clients and partners are told this is what we have, this is what we require, and this is what you must do.

But microinsurance does not work that way. With micro, and several of our speakers yesterday spoke about this, one starts from being client-centric. Under this approach, partners are asked, "What do your members need? How much can they or can you afford to pay? What value do you wish to add to your current offering?" This is why our initial meetings with potential partners often begin with a blank sheet of paper. It is a grid where we fill in the basic blanks together—the kind of protection required, the amount of coverage needed, and the amount of premium that can be afforded, among other things. This grid is a tool where premium costs can be generated after filling in the blanks. But hey, that's only the beginning.

The grid is necessary because the needs of many of our partners go beyond credit life. Today, what we have can be a bundling of products ranging from accident to life, property damage, hospital cash, and even some medical reimbursement. To MFIs out there, a good insurance partner should be willing to collaborate, not dictate. And as Dr. Claudio González-Vega reminded us yesterday, partners must learn to learn from each other. To this end, our staff regularly undergo immersion programs with our partner institutions.

But the true test of an intangible product like insurance comes when there is a claim. Claim settlement now includes the needed requirements, the process claimants follow, and the dreaded waiting period before getting paid. And then there's everything else that's in between. Speakers yesterday referred to this as customer care, product delivery, and what have you. It is therefore our practice to sit down with partners for a performance review six months after the start, and then again prior to the one year anniversary.

In the case of a rural bank partner, we had directly received some claims-related complaints from policyholders a couple of months into the partnership. Checking revealed it took an average of 58 days from the time a loss occurred to the time completed claim documents were filed with the partner bank. From the time the bank forwards requirements to Pioneer, to the time we settle takes an average of another three days for a total of 61. This was and is clearly unacceptable, and might only serve to confirm the usual suspicion of some that insurers are only quick to collect premiums but take their sweet time paying claims. We again approached our partner to find out more so we could effect remedial action. Corrective action led to an improvement to just nine days. The zero you see in the middle section refers to the improved average where we found ourselves paying within 24 hours. So, let's go back to our findings.

Finding number one: Members and bank staff had a lack of awareness and understanding on product features and procedures. And because they did not know much, they did not care as much. Here, we go back to the issue of financial education. Corrective action came in the form of several reorientation sessions for bank staff and clients. To MFIs out there, if you are considering microinsurance, you might want to do it as part of your core offering rather than a "nice to have" item. So this ensures it has a chance of taking off for you. Our bank partner in this case even appointed microinsurance coordinators per branch.

Finding number two: The lack of familiarity also led to centralization of claims processing at the bank's head office. Corrective action came in the form of more training, followed by decentralizing claims to the bank branches. Today, it's not uncommon for partners to send their staff for training with Pioneer.

Finding number three: Unavailable documents, and this is tricky. Some people have no birth or marriage certificates, but are alive. When this happens, the objective is to consider acceptable alternatives without sacrificing standards. In the community center levels, we might look to over a dozen members each time to certify specific facts about a claimant or a beneficiary or an incident. We must also remember there are at times valuable information you can obtain on the ground that cannot be gleaned from the normal legal documents. A claim was once filed for 100,000 pesos—that's about $2,300 US dollars—due to accidental death by drowning. It didn't take long for the staff of our partner MFI at the center level to confirm this was not true. The man had clearly died at home from an illness. Somehow, his body was carted off and thrown into the creek in the middle of the night. And then, there are those opportunities where we can make a difference. Two years ago, our client's family approached us with a problem. The assured had died, but they could not file a claim. They couldn't file because they had no death certificate. They couldn't get one simply because they couldn't pay the hospital. No pay, no body, no certificate. We simply dispatched someone from the office to the hospital to ascertain the facts, then release a partial advance to the family. Simple, yes. Hard? Not really. Unusual? We were informed by the hospital we were the first and only insurer to have done that just so we could pay a claim.

So what is the deal? What is the ideal? The ideal is that the insurer should be adding value to both the partner and clients. It is a no-brainer. The fast and prompt settlement of claims allows a client or the family to recover. This means no need to go to loan sharks. This proves that insurance works, and it adds to the credibility of both the insurer and the MFI partner through whom insurance is introduced. The satisfaction often contributes to the member's retention in the MFI program, as well as new members convinced by word of mouth. The poor also talk to one another. There, of course, remains the challenge of developing a reliable scientific way of measuring client retention. With some partnerships, we've already reengineered application forms to identify whether an insured is new or a renewal. We plan to do this for all. Hence, continuous automation should add to better data tracking, and help in cross selling, and up selling. It is after all a business case.

And do the numbers add up? This is a summary of our first four complete years in microinsurance. While it's really still early days, the growth has been steady, and the numbers sustained. From a mere 28,760 lives giving us premiums of over 11 million pesos, that's $265,000 US dollars, in 2009, we ended last year by hitting two milestones—exceeding the one million lives mark, as well as the 100 million pesos in premiums. That's close to $3 million US dollars.

The growth in numbers has been due in part to the growth in partners. Our satisfied partners have become our most effective endorsers. More than half of our leads the last couple of years were referrals from satisfied partners. This is a slide showing the new partners added in the last three years. Thirty-one in 2011, 41 in 2012, and so far, 28 in the first half of this year.

At the end of June 2013, if we include numbers from 2009 and 2010, we have well over 100 partnerships with different types of organizations. So, where is the catch? After all, it's not a perfect world. Despite what I have shared, we are not spared from the tensions of balancing a business case and client value in obtaining sufficient volume at proper pricing, so losses do not lead us to death. After all, it's in everyone's interest that the program remains sustainable.

The top of our next slide provides a glimpse of the claims ratio. That is claims over premiums from 2009 to 2012. The second row labeled "Combined Ratio" incorporates commissions and other general admin expenses to claims. Notice the difference between the claims and combined ratios are pretty steady except for a jump in 2011. This is due to investments in manpower and IT infrastructure given the expansion.

And how do we compare with the rest of the market? Not too bad. Today, while close to 30 commercial insurers have had micro products approved by insurance commission, only four can claim to have some heft by way of volume. The last of the four companies in this slide, which also has the highest claims ratio, has been known to compete for micro business in the traditional manner—reducing rates, increasing commissions. It isn't working. Ultimately, there is no secret. Microinsurance is a work in progress. Pioneer decided that to live up to our name meant that we had to continue pioneering. In doing so, we were prepared to take a bit less—less margins, less profit—in order to gain a bit more—more buyers and more clients to benefit from insurance. So, to the MFIs still looking for suitable insurance partners out there, you must continue the search and not lose hope. And when all other arguments fail with your potential partners, you must remind your insurers it is not always just about premiums collected or claims paid, but rather lives and families saved. Insurers do not always remember their core mission. So you must never let them forget it. Thank you. (Applause)

Michael J. McCord

Excellent. Thank you so much, Lorenzo. You must never let them forget it. Insurance is not just about premiums and claims; it's about people and lives. And you as the microfinance institutions, and the management, have the role to work with the insurers who have a role to work with you to develop processes, products, pricing, systems that work for the clients. We listen to clients, we talked about value, we talked about ways to build value, we talked about the work that Mariana has done in building value, using client research to build and develop value. And then, Lorenzo talks about how we pull the value, the focus of value and people from the institution into the product approach. And what Lorenzo has shown, which is an excellent demonstration effect for insurers around the world is that you can offer value and you can still be profitable. You can offer value and still be profitable. Lorenzo has worked on this balance between profitability and value, and has focused on making sure that clients are served well. So it's also the issue of service. That was brought up also in terms of the value discussion. Service is so important.

Paying claims, very quickly, one of the things that Barbara pointed out is that when we don't pay claims quickly, clients respond just like they don't have insurance. Because they don't, if you're not getting your claim paid. So we have to think about this service level, and yet all that can be bundled into what can be profitable products for both parties. Rick tells us that we have to be more careful, that this isn't just a no-brainer, that we need to look at better ways of improving efficiencies. Maybe technology will help us do that. Maybe our approach will help us do that. We have to have a long term vision as Mariana said, as Lorenzo said. You have to take a long term vision on how you approach this, and recognize that you're not going to get your benefits tomorrow. As part of your strategy as microfinance institutions, looking at where you are going to go with your credit products, and your savings products, and your insurance products, how do those pieces bundle together so that you're providing a good pool for financial inclusion. You're providing the array and the variety of products that clients need.

Can we just take a moment? We just have a few moments left, but could we just take a moment and provide a final word maybe on key things that microfinance institutions should think about and seriously consider the one key message that would help MFI managers think through where they're going next in microinsurance. Can you start, Barbara?

Barbara Magnoni

I think the one key message that comes out of the combination of presentations is that while the entry costs may be lower than some other products, you still have to do something both in terms of understanding what your clients need, and getting a product that meets those needs, as well as then explaining to the clients how it meets their needs, and doing some work in education and marketing.

Mariana Torres

Well I think, also summing to that, to be aware inside the organization of the importance of these new products of microinsurance, competing maybe with credit or loans or savings. How to try to integrate these microinsurance products with the core business of the MFIs, because if the board or if the managers or the sales force doesn't have this idea of the importance of giving the message of the microinsurance to their clients, then the clients will not have this message. It has to start inside, so we can go outside to the clients to give them that message.

Rick Koven

Yes, three quick things. First of all, to treat insurance as a profit center, or at least as a cost center so you know what the financial outcomes are. Second, we found in India that the public sector programs we're putting there, insurance had to bid every two or three years, and we could see a direct result in the second and third cycle of putting insurance out to bid. The prices came down and down again. Our observation is MFIs rarely put out their insurance to bid on a formal basis, and that would probably be a good idea. And lastly, mandatory enrollment, a lot of you I'm sure are thinking that's a heavy lift, a hard thing to do. But there are gradations of mandatory enrollment. You can have an opt-out. You can have a group all or none. In other words, in any group, the group can decide all in or not. Or, you can have a minimum participation rate. So be creative about enrollment, and I think taking those three things into account, you can have some success.

Lorenzo Chan

I'll make mine very simple. Again, client-centric. And to the MFI partners, you must believe in the value you are bringing to your clients. And to the insurers out there, we must never forget the nobility of the profession. Thank you. (Applause)

Robert Christen

If you would go ahead and take three or four questions. I think we could take about ten minutes if people can ask short questions.

Q&A

Question: Thank you. As a practitioner, I offer insurance services both for loan and for savings. My core business is microfinance, but I also add insurance to it. What is the ideal point where you pat me on my back and say well done, bearing in mind that the customers always want … it's not all want services that you have, the customers do want some want savings, some want loan, some want insurance. So what is the ideal point as a microfinance practitioner offering all these financial services, even with insurance, because all the while we get at forums is that microinsurance is not doing well and we're not offering it. As a practitioner, I stand firm and say I do this. So what is the ideal point that you tell me I'm doing well? I need to know what the balance is.

Question: *Translated:* Hello everyone, I speak French. My name is Mme. Imamou Nourdin Naila, from Grand Comoros. I come from a microfinance institution in Comoros. I have a question for the panel. I would like to know the different types of products that are developed by the insurance companies, you have cited life insurance…and which of the products were most effective, that insurance companies have developed, and what is being used the most by microfinance clients?

McCord: Okay, let's just say quickly in terms of the balance, how do you balance that, you need to understand from your clients. That's the focus is what your clients need, but need does not always translate into demand. There's also education that has to go into that, and you have to look to your clients to find what is most necessary.

The question up here, what products can insurers offer. Lorenzo?

Chan: Well, we do a range, as I mentioned a while ago. We do life, we do accident, property damage arising from storms, flood, typhoon. We have done a bit of hospital cash, as well as medical reimbursement. We are currently looking into a new phase to launch something along the lines of crop insurance. So it can run the range depending on how committed the company is and how firm the partnership is to push the offering.

McCord: Insurers can insure anything. They insured Marilyn Monroe's legs, and singers' voices. Insurers can insure anything. The key is to understand what it is that is really needed, demanded by your clients, and try to work with the insurer to try to develop something around that. Look for the gaps. Again, they talked about the caregiver program in Jordan. National healthcare, you've got a product, you've got gaps in what people are getting. That's what you have to go after, and insurers can do that.

McCord: Barbara, can you talk a little bit about value quickly?

Magnoni: Yeah, I'll also address this issue. In terms of gaps, for example, with self-employed women, we found that when they were using insurance products, often they incurred a lot of costs that were not covered by the insurance in transportation and missing work to go to the doctor, for example, if it was health insurance. And so the total cost of their shock was not much lower even though they had insurance than had they not. So if your target market is self-employed women, you may need to think about what is the cost of not working, and how do I include that in a coverage? With farmers, it's a really different dynamic. Sometimes farmers aren't producing on a day to day basis, and they can take three days off, and it doesn't have an impact, but they might need a larger coverage. So, really you need to kind of understand what those clients are, and what their financial tools and their costs are in order to come up with a really good balance.

McCord: Microinsurance we've seen can have important benefits to clients, to institutions. It's work though. You need to take a long term approach, but you can get the benefits if you focus, if you work with your insurers, if you push your insurers. You can yield the benefits of microinsurance and you can improve the risk management of your clients and improve your book at the same time. So thank you all very much. And to Barbara, Mariana, Rick, and Lorenzo, thank you all very much. I appreciate it. (Applause)