



International
Labour
Office



Introduction to CLIENT VALUE SERIES

Dear microinsurance providers and supporters,

For several years, the MicroInsurance Centre's Microinsurance Learning and Knowledge (MILK) project and the International Labour Organization's Microinsurance Innovation Facility (Facility) have been assessing if low-income people actually benefit from insurance and how the value they derive from insurance can be enhanced. This three-part series summarizes the evidence (Brief 1), translates the results into guidance to improve client value for practitioners and consultants (Brief 2), and provides recommendations for policymakers, funders and other stakeholders (Brief 3). Together this evidence makes a substantial contribution to the body of work on client value.

The evidence and recommendations are based on extensive research combining both practical and academic analysis and documentation (see Box 1). The Facility worked with over 60 innovation partners to understand how client value can be improved. It also commissioned more than 30 rigorous studies, primarily to understand the demand and impact of microinsurance. These studies provide exciting and credible results from leading academics, such as Stefan Dercon and Daniel Clarke (Oxford), Dean Karlan (Yale), Esther Duflo (MIT), Michael Carter (UC Davis) and Shawn Cole (Harvard).

MILK initially performed a review of existing literature on the value of microinsurance, identifying key gaps in knowledge. It conducted 17 client math studies that complement the academic research by providing clearer insights, such as how to design attractive product features and ways to embed insurance within a myriad of risk management solutions.

Both MILK and the Facility have explored key issues related to demand and distribution, as these are intricately related to value. The evidence shows that the product's value proposition is one of the most important determinants of demand, and improving value has a positive effect on take-up and retention. Thus, the promotion of client value represents a win-win solution for providers to increase outreach and retention, while enhancing protection for clients.

Is there value?

We find that *microinsurance can and often does provide value*, but it does so to varying degrees and in different ways, and sometimes not at all.

BOX 1 METHODOLOGIES SUPPORTING THE SERIES

Various approaches have been used to prove and improve the impact of microinsurance. To assess the "proving" agenda, the emerging evidence about the impact of microinsurance is based on academic studies that have applied rigorous research methodologies like randomized control trials.

The "client math" methodology, developed by MILK provides valuable, complementary insights. It drew on the seminal work *Portfolios of the Poor* (Collins et al, 2009), which analysed financial diaries, and was developed with contributions from Jonathan Morduch (NYU). The methodology uses surveys of insured and uninsured people who have suffered a shock, such as a death in the family or a hospitalization, to document the shock's full cost as well as the resources used to finance the loss. While it does not prove impact, it aims to better understand the financial consequences of the shock as well as the role that various financing tools, including insurance, can play when a shock occurs.

Much of the evidence on "improving value" comes from the Facility's pool of over 60 action research partners. These insurance companies, brokers, NGOs, cooperatives and other microinsurance providers strived to answer practice-based learning questions. By actively participating in the research, the partners often find that the analysis yields answers for product and process improvements that enhance the offering's viability and/or value proposition.

PACE, the Facility's client value assessment tool, is one of the research frameworks used by Facility partners. PACE helps organizations examine their products from the clients' perspective by comparing the insurance offering with other formal and informal risk management tools. PACE provides a framework to evaluate the value of products and related processes across four dimensions: product, access, cost and experience. It allows practitioners to identify, consolidate, and then prioritize potential changes

Brief 1 consolidates evidence from our original research and leverages other evidence from the field. A preview of the results is presented in Box 2. While not all the findings are positive, the extensive and growing pool of evidence reviewed in the recent literature review by European Development Research Network (EUDN) shows that “microinsurance seems to achieve markedly positive results under specific provisions.” The challenge then is to identify the “specific provisions” that yield positive results, which we attempt to do in Briefs 2 and 3.

How to improve value?

Practitioners are on the frontline, poised to dramatically improve the quality of their products. The results from many evaluations show how small but pivotal changes can significantly enhance products. Context also matters, as providers and consumers may only be able to accept certain products and features at different stages of market development. During early stages, the focus should be on client value fundamentals that offer simple solutions to support a household’s risk-management mix while ensuring access, understanding and a positive client experience. If fundamentals are in place, even mandatory products that partially cover single risks can offer an important value proposition. More comprehensive, multi-risk covers offered voluntarily can be offered only if markets are sufficiently developed; in other words, once clients are ready to adopt them and providers can administer more complex solutions. Value can be further improved at any stage by including value-added services, combining insurance with other financial services, and using technology without losing client ‘touch’.

Other stakeholders such as policymakers and funders have an important role to create an enabling environment to improve client value. This includes regulations that strike a balance between client-centric innovation (e.g. claims standards), consumer protection and solvency. Governments can also enhance equity and efficiency through smart subsidies and promote public-private partnerships, especially in health and agriculture.

Who should read the series, and why?

Everyone delivering or supporting microinsurance development should read Brief 1 to understand how client value is created. Brief 2 translates the results into recommendations for practitioners to improve value, while Brief 3 provides targeted guidance for governments, funders and other stakeholders.

The promotion of client value is a good business practice, which is the main reason why providers should read this series. A product that offers value to clients increases their satisfaction and loyalty, and therefore is an important driver of demand, both for initial enrolment and renewal. This approach is particularly important

BOX 2 THE EVIDENCE ON CLIENT VALUE: A PREVIEW

The impact of insurance to improve welfare and reduce the vulnerability of the working poor can be assessed at several different levels.

Microinsurance can provide value through financial protection leading to lower out-of-pocket costs and reducing the use of burdensome coping strategies, such as selling productive assets or child labour. With appropriate product structure and service response, even policies that partially cover the cost of a shock can deliver value to low-income persons. However, microinsurance is generally not sufficient to address financial risks on its own, and thus must complement other risk-management vehicles such as savings, credit or social security.

Microinsurance can lead to better financial choices, notably increased investment in higher risk, higher return economic activities, as insured feel more protected, which helps break the vicious cycle of poverty.

In the medium and long term, the financial protection and incentives to invest created by insurance can reduce vulnerability, leaving insured households better equipped to handle an array of risks, even those not covered by insurance.

Different types of insurance can have specific benefits. Health microinsurance, for example, provides value by improving access to healthcare and improving utilization of healthcare services. These behaviours should result in better health outcomes among the insured, but only a few studies have focused on such indicators thus far.

when striving to expand the market to include persons who have never had exposure to insurance before. In addition, a focus on improving client value changes the provider’s organizational culture. Client-centric companies are more likely to succeed, especially when serving a market that is new for most of the insurance companies.

Other stakeholders, especially governments, can play a critical role in the development of the sector. This series highlights how insurance services, and the insurance industry, can contribute to achieving a range of public policy objectives, particularly related to financial inclusion and social protection. On the flip side, while insurance is a powerful tool to align incentives to make systems more efficient, it can also have unintended negative impacts if it is not regulated and managed properly.

We hope that this series provides answers to critical questions about the value of microinsurance. The evidence presented is encouraging, and while more work is needed to both prove and improve client value, the sector seems to be moving in the right direction. We hope this series inspires people to act and take the sector forward to provide quality insurance services for the millions of low-income households who still lack access to effective risk management solutions.

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