Sobering results from a bundling experience

In Brief 2 of the client value series [1], we argue that bundling insurance with other financial services requires care and attention. SKS, India’s largest microfinance institution (MFI), found that bundling health microinsurance with its loans substantially lowered renewal rates. Clients who were offered the bundled product were 16 percentage points (or 23%) less likely to renew their loan within one year of the pilot. Even though the insurance covered hospitalization and maternity expenses at a price that was actuarially fair, a new study [2] by researchers at Harvard and MIT found that many clients preferred to give up loans than to pay higher interest rates for the insurance.

The lack of demand is surprising given that the baseline survey indicated that households frequently faced serious health shocks. It makes sense, however, considering implementation challenges faced by the MFI and its insurer. The endline survey showed that very few people were able to claim the insurance benefit, largely because clients were never provided with the health insurance documents and cards needed to do so.

Clients’ experience of claims drives satisfaction and renewals. This is evident in the results of Fonkoze (Haiti) [3] and Microfund for Women (Jordan) [4], who experienced steady (or in some branches, higher) renewal rates after the introduction of bundled insurance. In both cases, the MFIs paid special attention to claim procedures (EI 47 [5] and EI 60 [6]), investing in simplification, standardization, decentralization, and efficiency (for example, establishing procedures that allowed the MFI to quickly authorize small claims on behalf of the insurer).

Failure to ensure great experience has implications for the insurer, distributor and, most importantly, clients. In the case of SKS, the majority of clients who dropped out lost access to microloans altogether, hurting their businesses and livelihoods.

To find out more, see Research Paper 37: Bundling health insurance and microfinance in India [2]

For more on how practitioners can improve client value, see Client Value Brief 2: Creating client value? Ten blueprints for microinsurance providers [1]