



MILK Discussion Note #1: Doing the Math: Can Delayed Payment of Claims Erode the Value of Life Microinsurance?

Partnership in Learning

MicroEnsure has partnered with the MILK project on one of our first client math studies in an effort to better understand the value to clients of paying claims efficiently. The study will be focused in the Philippines, where MicroEnsure began its efforts in 2007. In the Philippines, MicroEnsure's largest client is TSKI a leading microfinance bank with around 300,000 active borrowers. A term life product with a funeral benefit and personal accident rider is attached to loans; the insurance is provided by Grepa Life and the Malayan Insurance Companies.

Challenges in the Microinsurance Market in the Philippines

The Philippine microinsurance market is in many ways considered one of the most mature markets in this relatively new microinsurance sector, with over five million clients served. The participation of large insurers, specialized microinsurance intermediaries, Mutual Benefit Associations (MBAs), cooperative savings and loans institutions, microfinance institutions, rural banks, and commercial banks make the market a fertile ground for learning about the microinsurance industry and the value it has been able to bring to clients. While the development of this market suggests that many of the administrative and operational hurdles common in early adoption may be smoothed out, MicroEnsure notes that there is still a long way to go. One specific area is claims payments. In 2010, it typically took MicroEnsure between 40 and 100 days to pay claims after the insurer was notified of the death. According to MicroEnsure's CEO, Richard Leftley, insurers' documentation requirements were burdensome for beneficiaries of life microinsurance and extended the claims payment process as long as 115 days. Richard visited the Philippines in February 2011 to better understand the situation. He found that the time it took to get documents resulted in a significant cost. "It cost one client 14% of the value of her claim (in lost time and fees) just to get the documentation she needed to make the claim". This problem suggests that assumptions about the value of the pay out when an insured event takes place may be overly optimistic. In response, MicroEnsure worked with their insurance partners who have significantly reduced the claims process to nearly 10 days by cutting documentation requirements and streamlining processes.

MILK and What We Propose to Learn

One of the principal questions MILK seeks to answer is: Does microinsurance help protect people from large shocks (high cost events) in comparison to other alternatives? The problem in the Philippines shines a light on the subtleties at play in this question. If the cost of making a claim (in terms of getting documentation or "bridging" the financing need with other sources of funds) is too high, even potentially valuable products might offer low or no financial value to clients, who may have been better off turning to other financial sources or reducing expenditures significantly following the event.

MicroEnsure and MILK have partnered to "do the math" by performing a brief analysis of the direct financial value of having insurance both when claims are paid in a timely manner and when claims are paid with large delays. In July, 2011, we began interviewing our first group of clients still receiving slow claims payments. We also interviewed a second group, comprised of other members of the same communities that suffered a death in the family, but did not have insurance coverage. Over the coming months, MILK will seek to better understand what value proposition insurance offers under different turnaround times by interviewing a third group of MicroEnsure clients who have made claims through the restructured process and waited between 10 and 30 days. For all samples, we will seek to understand the total cost of the insured risk and how this was financed, and the role that MicroEnsure's insurance payment played for holders of microinsurance. We will analyze the sources of the funds used to cover the event (credit, savings, insurance, cash transfers or none at all) and the costs of using these different strategies for the 3 groups. Over the course of our 3-year research project, MILK will then compare this study to others in other regions to better understand the financial value of life insurance as well as the effect of claims durations on the financial value of insurance to clients and their families.

Microinsurance Learning and Knowledge (MILK) is a project of the MicroInsurance Centre that is working collaboratively to understand client value and business case in microinsurance. Barbara Magnoni leads the client value effort and Rick Koven leads the effort on the business case. Contact Michael J. McCord (mjmccord@microinsurancecentre.org), who directs the project, for more information.