Microinsurance Learning and Knowledge

MILK Discussion Note #3: Counting Lives Covered: Getting it Right[1]

Keeping an accurate count of covered lives is important for measuring the scale and impact of a microinsurance program, and different approaches can lead to drastically different counts (see box). Documenting covered lives and policy counts is also important because these counts form the basis of two key indicators of efficiency we in MILK and others use to evaluate an insurance program: revenue per life (or policy) and expenses per life (or policy). Without consistency in how these are reported, the ratios are not meaningful in comparing program outcomes to benchmarks or in comparing one program to another. Additionally, because the microinsurance field is comprised of such varied stakeholders as donors and possibly investors with a social focus, insurers and intermediaries with a profit objective, and governments providing subsidies and imposing regulatory requirements we need to be consistent in what we report. Inaccurate or inconsistent reporting creates a multitude of potential problems including difficulty in determining fees to third party vendors, calculating commission to agents and brokers and payments to reinsurers as well as making assessment of risk and profitability difficult. **MILK has developed a proposed approach to counting policies and covered lives, for use with all types of products (life, non-life, and health) at a point in time, outlined in this Discussion Note, and we welcome and encourage your feedback.**

Why is the Counting Approach so Important?

An Example:

An MFI offers a life microinsurance product to its 100,000 clients. The product is tied to loans with four month cycles, and includes both a mandatory credit life component for all clients and a supplemental coverage, which half of the clients elect to purchase. Total revenue per year is USD 200,000. Different approaches to counting can lead to vastly different results:

MILK's approach	MFI's approach
lives covered: 100,000	lives covered: 450,000*
revenue per life: USD 2	revenue per life: USD 0.44

**450,000 = (12/4)*100,000) + (12/4)*50,000*

Inconsistency in reporting

Currently there is no standard method for counting lives covered or policies in force among microinsurance providers. Differences in approach often appear country-by-country, policy type-to-policy type and program-to-program. Policies are reported multiple times if issued more than once in a calendar year (e.g., multiple loans for credit life). Lives are reported multiple times for multiple aspects of a policy. Dependents are/are not counted; or dependents are estimated. Bundled policies with multiple covers are counted as one policy and in other instances as multiple policies. Likewise there is no consistent treatment of riders. These individualized approaches to counting result in inaccurate reporting of the extent of coverage, generally overstating the number of lives covered and policies in force.

For the microinsurance industry in general, a consistent approach to calculating covered lives and policies, as well as consistent treatment for bundled products and riders, will provide greater comparability and offer confidence to stakeholders that the numbers reported have integrity. Thus, MILK proposes the following set of definitions and treatments for vetting with the industry and other stakeholders. We hope that the resulting definitions, following a period of discussion, consensus, and adjustment, will be uniformly adopted for microinsurance reporting.

"Policy" counts

A **"policy"** is evidence of insurance setting forth eligibility, coverage and premium terms issued to a covered person or group. An *individual* insurance "policy" is issued directly to a member. For *group* coverage the individual members should receive certificates as evidence of coverage. Certificates under group plans may be counted as "policies." Those covered under self-insured programs also receive some individual evidence of insurance and may also be counted as a "policy."

For example, in covered groups such as coops and MFIs, the institution may be the primary policyholder and

[1] This MILK Discussion Note was written by Richard Koven and Michael J. McCord. (June 2012)

cover all members with a single group policy under which the institution is also the beneficiary (such as with many credit life policies). All covered members that are primary insureds should be counted as having a policy. An **“active policy”** or **“policy in force”** is an insurance policy, certificate under group insurance, or rider for which the premium is current (or in grace period) and coverage is in effect such that if the insured event occurs a benefit will be paid.

A **“rider”** is an amendment to a policy that adds or modifies coverage. A rider may be counted as a policy if it is sold separately (at a separate time), has a discrete premium, and adds distinctive coverage to the base policy.

For example, an insurer in Ghana offers a life insurance policy, and once a policyholder owns the life policy, they are able to purchase a life cover rider for family members. When both are purchased, these are recorded as two policies, even though there is only one policyholder.

A **“bundled policy**” is a package of separate covers sold as one for a single or “composite” premium. Bundled policies should be counted as one policy even if the underlying coverage derives from multiple insurance policies. Two policies sold at the same time to the same person (e.g., life and health) with discrete coverage and premiums where the member can choose to purchase one or both or neither would be counted as two policies if both were purchased (or in another way provided).

PROPOSED CALCULATION – POLICIES IN FORCE

Policies in force = (active policies) + (active eligible riders)

[Note: bundles are counted as one policy]

PROPOSED CALCULATION – POLICY COUNT

Policy count = (Policies in force at the end of the prior period) – (policies lapsed during the period [including death]) + (policies issued during the period)

“Covered lives” counts

A **“covered life”** is a client, member, spouse, natural or adopted child, grandchild or parent eligible for coverage under an insurance policy or self-insurance program for whom a discrete premium is paid or for whom contributions are made. Dependents may be counted under life or health policies but not under agricultural, livestock or property insurance programs (where one life would be considered “covered”[2]).

A bundled product with health and life covering the individual policyholder plus the policyholder’s spouse would be calculated as two covered lives for the bundle.

A “**unique covered life**” is counted at a particular point in time (e.g., 31 December 2012). for a person who is covered by more than one policy or covered by a policy that renews during the period, as one covered life.

PROPOSED CALCULATION – UNIQUE COVERED LIVES

Unique covered lives = (primary insureds) + (secondary insureds)

The person who applies for insurance or is the member / direct client of an organization that is providing insurance is the **“primary insured**.” That person’s dependents are **“secondary insureds.”**

[2] While we recognize that technically the livestock or the crop is covered is covered in such policies, we treat these as relating to the farmer who is covered in the case that his or her crops fail or livestock dies.

Examples:

	Example	Counts at 31 December 2012
1	An individual purchases a one-year term life policy on 1 February 2012 with scheduled monthly premiums payments. On 1 April 2012 she purchases an annual health policy for herself and her husband. She made consistent and timely payments through the end of the year.	a. Active policies = 2 b. Covered lives: life = 1 c. Covered lives: health = 2 d. Unique covered lives = 2
2	If the individual in Example 1 stopped making premium payments in October 2012, we would count zero in all categories from that point forward.	a. Active policies = 0 b. Covered lives: life = 0 c. Covered lives: health = 0 d. Unique covered lives = 0
3	An individual is part of an MFI with a group personal accident policy that is in effect during the duration of the 4 month loan. He borrows three consecutive times during the year (one outstanding loan at a time), and has a loan outstanding at year end.	a. Active policies = 1 b. Covered lives: life = 1 c. Unique covered lives = 1
4	An individual purchases an annual bundled life, health, and property policy on 1 May 2012 and makes regular timely premium payments. The policy covers the buyer and her husband, her three children, and their home.	a. Active policies = 1 b. Covered lives: life = 5 c. Covered lives: health = 5 d. Covered lives: property = 1 e. Unique covered lives = 5
5	An individual who is part of a coop purchases a life insurance policy for himself and a separate rider that covers health for his wife and four children. The annual policy is purchased on 1 June and he has stayed current with all payments.	a. Active policies = 2 b. Covered lives: life = 1 c. Covered lives: health = 5 d. Unique covered lives = 6

Additional notes

Policy counts should be kept by policy type (e.g., life, health, property, agriculture, etc.) with the same method of counting applied to each type, as well as in aggregate for the microinsurance program.

Record keeping methods may currently preclude some programs from counting unique lives. Such programs would benefit from changes to allow more accurate policy counts, as they represent the denominator of the key ratios of premiums and revenues per life. Similarly, the importance of accurate policy counts and the records needed to keep them should be considered and addressed from the outset of any new microinsurance program.

Though it is hoped that the microinsurers will follow the definitions that come out of this activity, all microinsurers, researchers and others should ***always disclose their method of counting*** policies and covered lives when reporting this information.

Like any young industry the evolution to standard reporting practices is necessary to the growth and maturation process. Clear and consistent reporting of lives covered and policy counts, we believe, will be helpful to microinsurance practitioners, donors, investors, regulators and other stakeholders.

MILK welcomes comments on these proposed definitions and asks that you direct them to: mjmccord@MicroInsuranceCentre.org

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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. For more information contact Michael J. McCord (mjmccord@microinsurancecentre.org), who directs the project.