

Assessing value from index insurance for farmers



Michal Matul, 13 May 2016, Zurich

Who are we?

Enable insurance sector, governments and their partners to realize the potential of insurance to...

...reduce household vulnerability

...promote stronger enterprises

...achieve public policy objectives (UHC, food security, climate change)

...through building quality risk-management solutions at greater scale

Research & innovation

Pushing the frontier

Community of practice

Market development

Accelerating progress

Cutting-edge knowledge

Practical solutions

Capacity building

Putting insights into practice



Leaders in consumer-centric solutions

Driven by evidence and experience-based learning

Partnership catalyst



Value (from the client's perspective)

The benefits
provided by your
product(s)

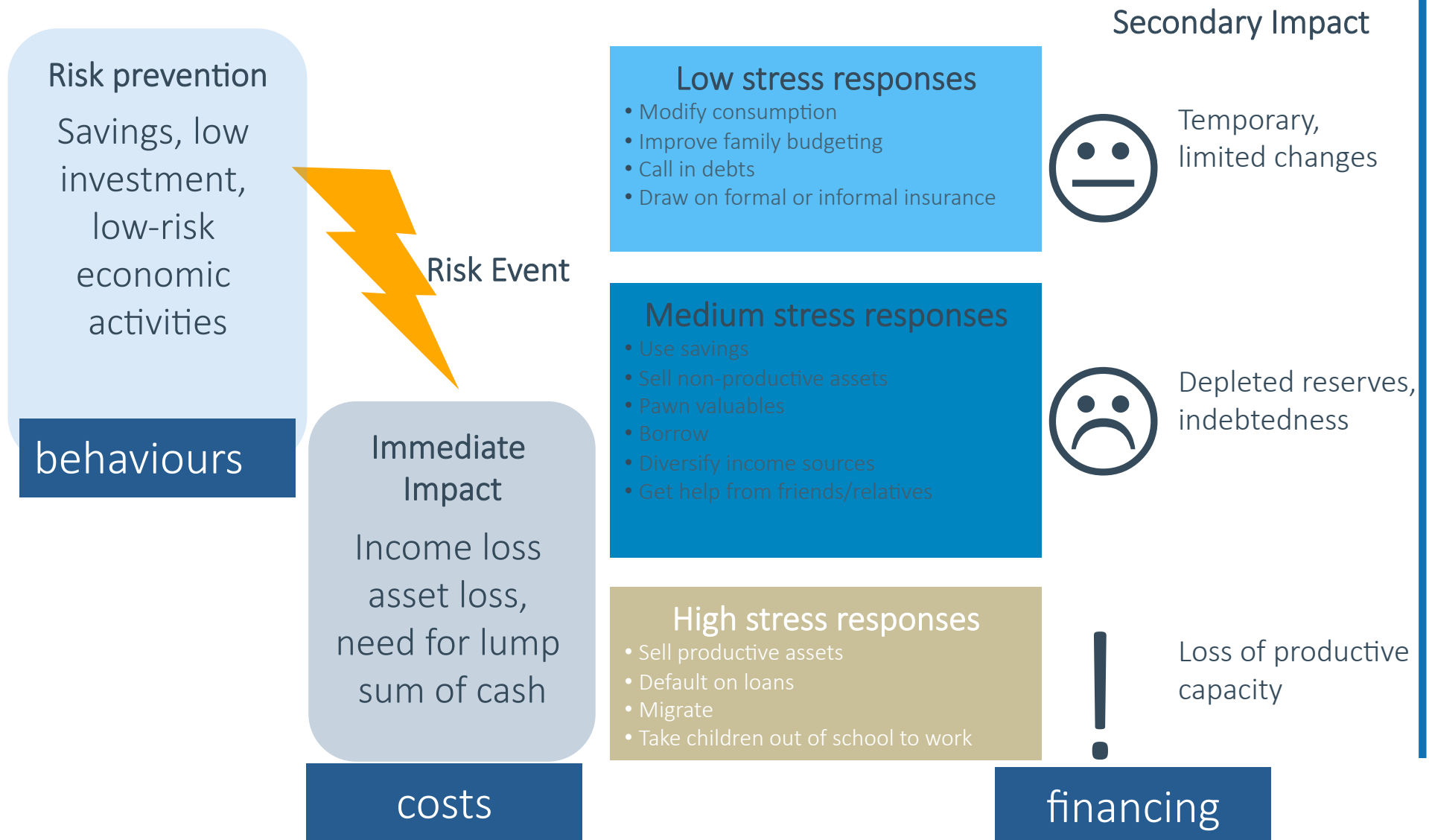
The cost of
receiving your
product(s)



The benefits provided
by the competition's
product(s)

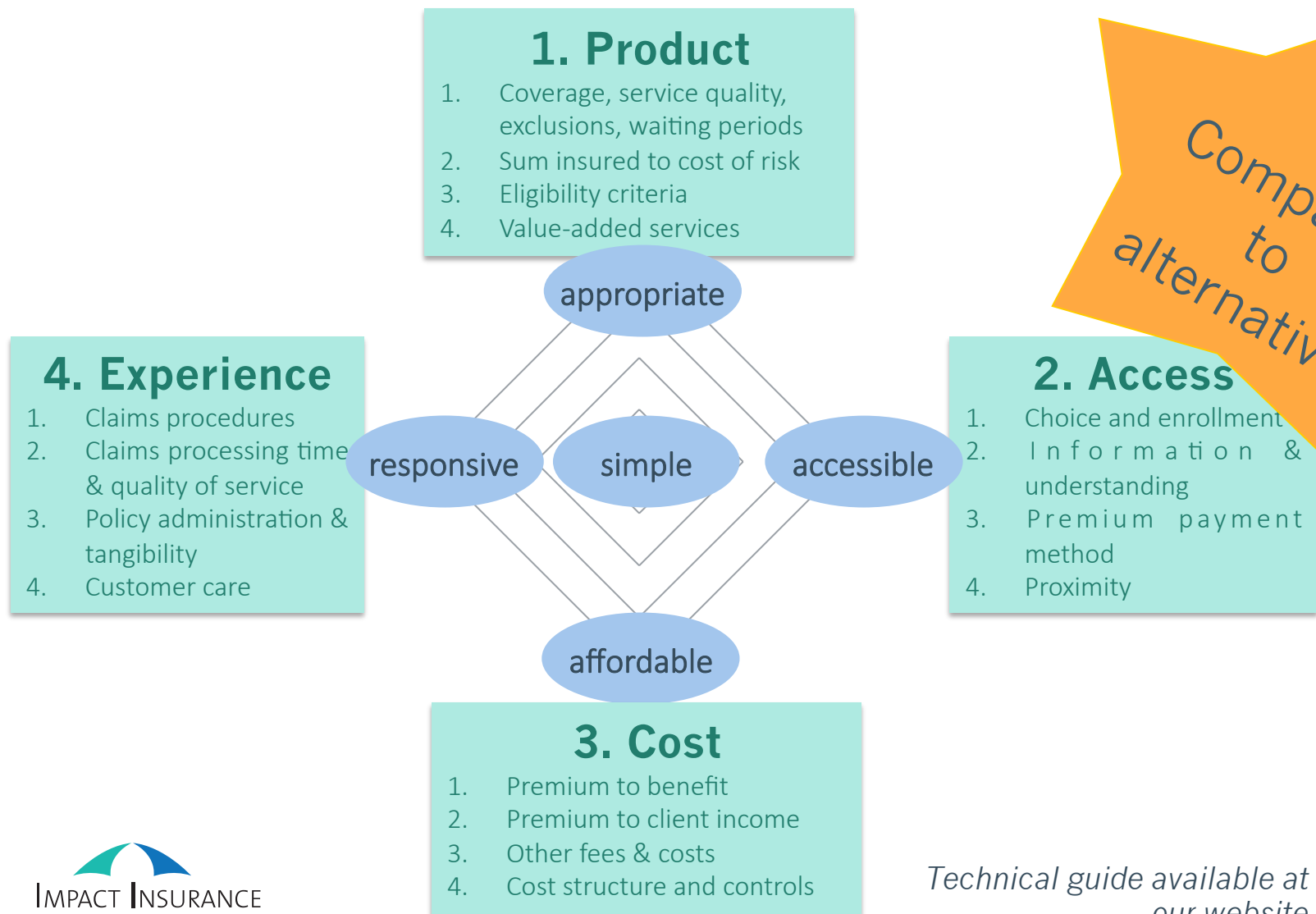
The cost of receiving
the competition's
product(s)

Risks impact at household level

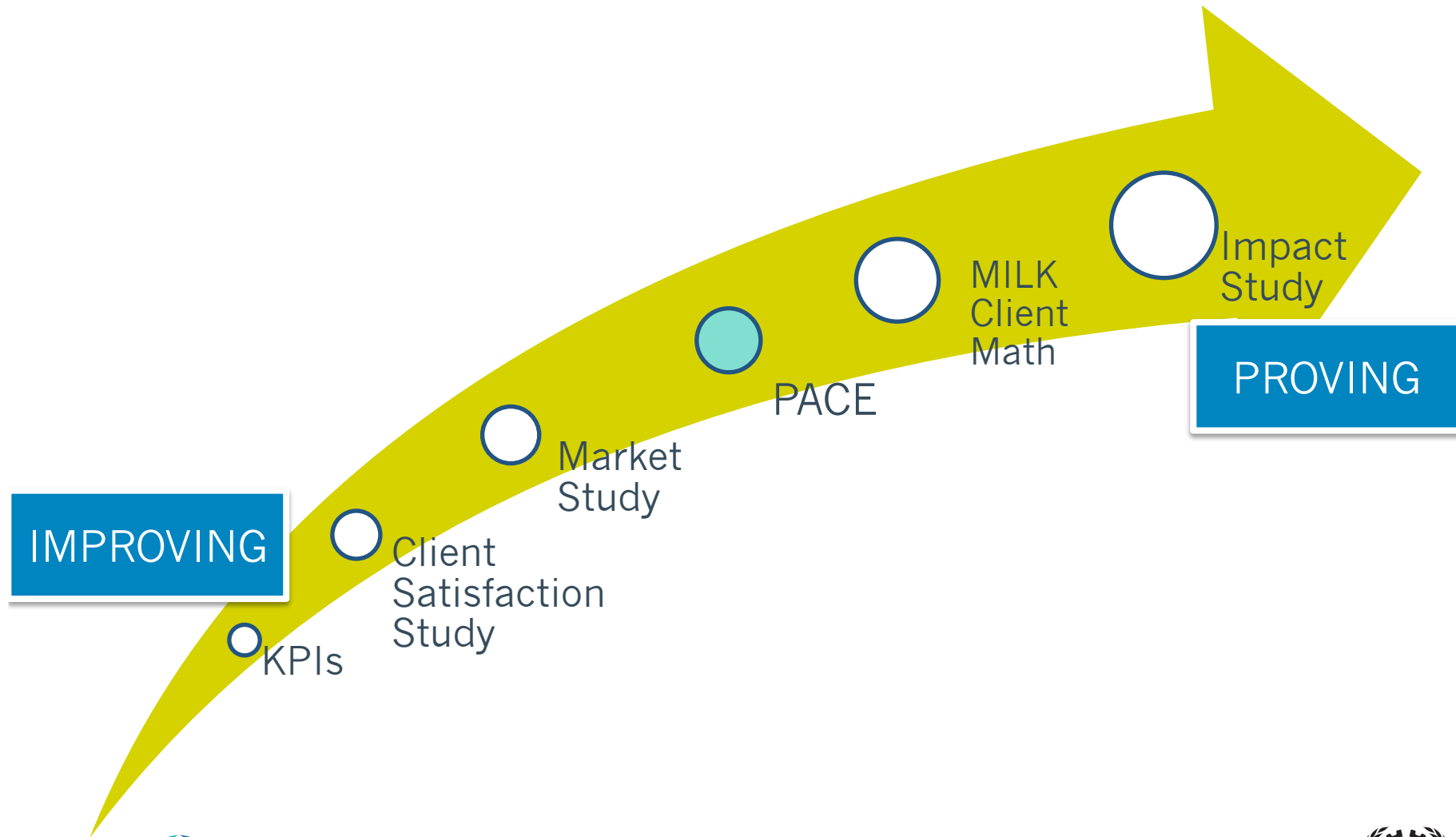


Think holistically about how to improve value

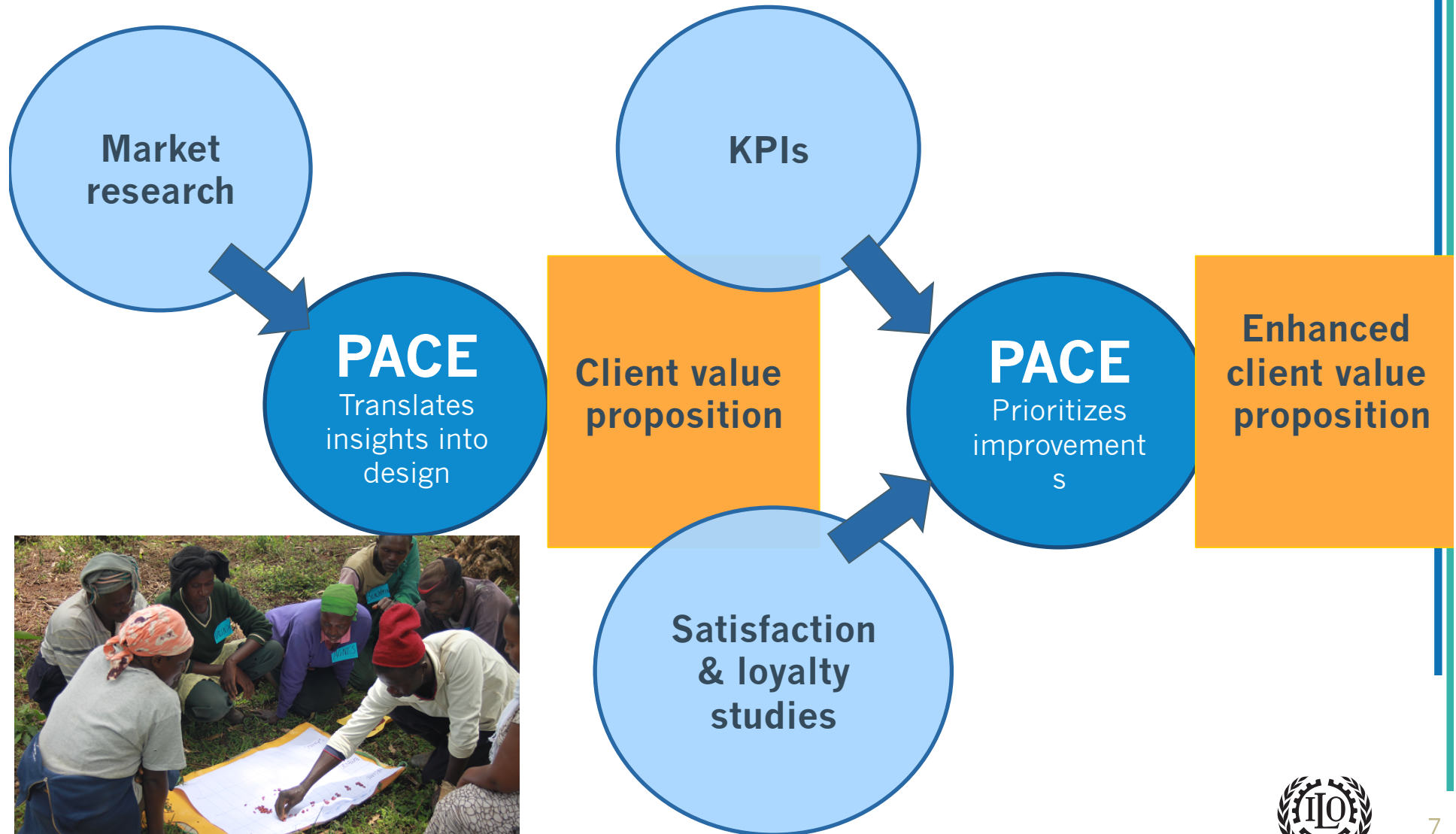
PACE framework: embracing many dimensions of value



Client value assessment tools



PACE as a business tool that helps to gradually improve the value proposition



How might an index insurance product 'go wrong'?

BAD INDEX. The index on which the product is based is so poorly correlated with farmers' losses that it's akin to buying a (very expensive) lottery ticket.

WRONG CROP. Insurance covers a consumption crop, while farmers grow cash crops that are riskier, more profitable, and rely on inputs that are financed with a large bullet loan.

CLIENT PROTECTION GAP. Clients buy insurance but some don't understand or remember that they have coverage and do not know when or how to claim.

PACE v2.0 for index insurance

PRODUCT **A**CCESS **C**OST **E**XPERIENCE *PACE tool (~60 separate criteria)*

Narrowed to include indicators most relevant to index insurance

Added “safe minimum standard” concept to address contract value in the face of basis risk

Added nuance around some particularly important client protection indicators

Added elements of direct client (end user) feedback

Simplified scoring and created objective measures

Value Assessment Tool

4 dimensions:

PRODUCT **A**CCESS **C**OST **E**XPERIENCE

14 indicators

1 of 4 possible scores: FAIL / POOR / AVERAGE / STRONG

Applicability of the tool

Assessment

- Product design phase or after launch
- Inform funders' decisions of whether to support a product
- Inform providers' decisions of whether to discontinue, maintain, or adapt a product
- Compare the value proposition of different products

Trouble-shooting and improving value

- Identify changes needed to improve value

Monitoring

- Track improvements over time
- Detect concerns that may arise

Potential Audiences

Insurers

Reinsurers

Delivery channels

Governments

Funders

Certifying entity?

Revised scorecard

➤ 4 dimensions and 14 indicators of value:

Product	1	Coverage meets a "safe minimum standard"
	2	Covers appropriate risks
	3	Makes a positive contribution to clients' overall risk management capacity
	4	Does not exclude potential clients on the basis of anything other than applicability of covered risk
Access	5	Enrollment and renewal procedures designed to minimize unintended gaps in coverage
	6	Clients are adequately informed of product details
	7	Staff are adequately trained, incentivized, and supervised to inform clients and sell responsibly
	8	Payment methods are appropriate to clients
Cost	9	Price is affordable and accessible
	10	Product delivers adequate value for money
Experience	11	Claims are processed in a timely manner
	12	Claims processing procedures are simple and easy
	13	Provider is responsive to clients' questions and objections
	14	Clients receive evidence of coverage

Indicator example: coverage meets a 'safe minimum' standard

Sources of data

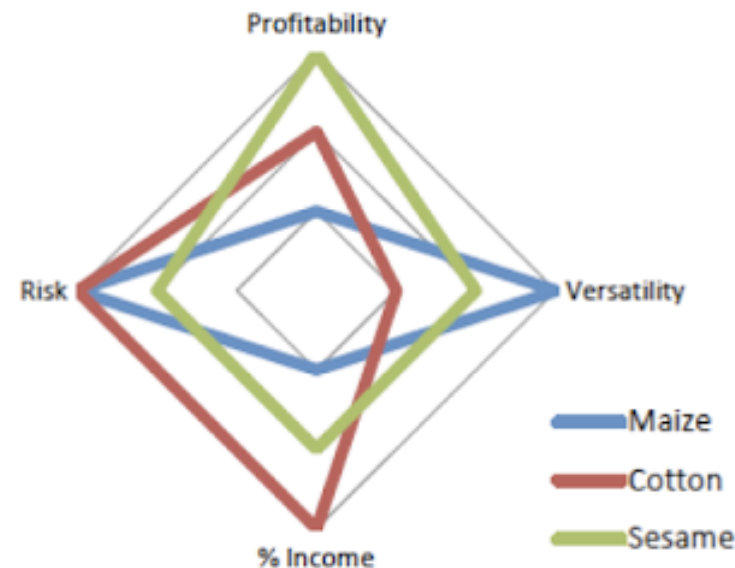
- Administrative data
 - Historical index performance
 - Historical crop yield
- Client interviews, focus group discussions, or other input on “good” and “bad” years in the region
 - Historical crop outcomes to supplement gaps in administrative data

Measurement outputs

PASS	Product price < Reservation price
FAIL	Otherwise

Indicator example: Product covers appropriate risks

- Insurance is most appropriate for risky, highly profitable crops that are important to clients' income streams
- Index insurance covering maize in Burkina Faso fared poorly against other crops that might have been covered.



Indicator example: Clients are adequately informed of product details

Staff training and sales tools can support client understanding

- In Colombia, a video and sales protocol support loan officers in explaining a new crop insurance product
- Anecdotal evidence that initial client understanding was quite good, especially of details covered in the video
- ...but understanding does not always translate to recall. In phone surveys,
 - 5% did not remember purchasing insurance
 - 59% were incorrect about or did not remember covered events
 - 97% were incorrect about or did not remember the benefit amount



Indicator:

0 (less than 90% of clients are aware that they have coverage or of the crop(s) covered)

1 (at least 90% of clients aware they have coverage and of the crops covered)

2 (at least 90% of clients aware they have coverage and of the crops covered, events triggering a payout, approximate benefit amount and premium paid)

Indicator example: Staff are adequately trained, incentivized, and supervised to inform clients and sell responsibly

"I knew it was voluntary, but my loan officer said I had to buy it to get the loan... It would be best if, when we said no, they would just accept the 'no.'"

-Microfinance borrower who felt pressured to purchase insurance

"[My loan officer] explained all the benefits, but I decided I don't want it. He said 'OK, that's fine.'"

-Borrower who understood that it was a truly voluntary choice

"voluntary" sales with pressure..... to truly free choice



Indicator:

0 (limited staff training on insurance product and limited sales protocol/oversight OR staff incentives/evaluation clearly opposed to responsible sales)

2 (good training and supervision of staff and staff generally follow protocols AND incentives/evaluation structured to support responsible sales)

1 (otherwise)

Indicator example: Clients receive evidence of coverage

- Documentation of coverage can
 - Remind clients of what they have
 - Direct them to a resource for help or more information
 - Act as a tool to help enforce rights
- Need not (and usually shouldn't) be a full policy document



Sources of data

- Product documentation
 - Policy, certificate of coverage, or other documentation given to clients
- Client interviews:
 - Clients' perceptions of the documentation and ability understand it when shown to them

Measurement outputs

0	Clients get no documentation of coverage
1	Clients get some evidence of coverage, in paper or electronic form
2	Clients get documentation that summarizes the main elements of coverage using appropriate language and level of detail AND at least 60% of those interviewed can read and understand it

2 levels of analysis, 4 possible scores

Level 1

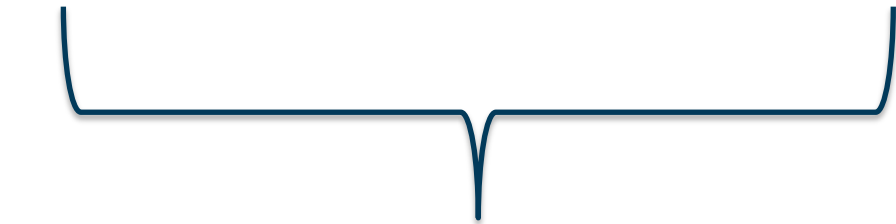
Individually essential to product value without any one of these, the product cannot be considered to offer value

Level 2

Extremely important to product value, but a product might still be valuable if it is poor or absent

Pass/Fail

Poor, Average, or Strong (0,1,2)



Level 1 Score:	PASS	<i>(pass all Level 1 indicators to pass)</i>
Level 2 Score:	1.2	<i>(simple average of all Level 2 scores)</i>
Overall Assessment:	AVERAGE	<i>(of possibilities Fail / Poor / Average / Strong)</i>

Tool architecture

Dimension	Level	Indicator	Data source	Data required	Measurement output	SELECT SCORE	Product stage
PRODUCT	Level 1- Pass/Fail	1. Coverage meets a "safe minimum standard" (using SMS or basis risk ratio)	Administrative data	Historical index performance and crop yield	Pass (product price < reservation price or BF) Fail (otherwise)	<input checked="" type="checkbox"/> Pass <input type="checkbox"/> Fail	All
	Level 1- Pass/Fail		Client FGDs or interviews, interviews with non-clients, and/or interviews with local input suppliers or others who are aware of "good" and "bad" years in the region	Historical crop outcomes to supplement gaps in administrative data on yield			All
	Level 1- Pass/Fail	2. Covers appropriate risks	Management interview	Evidence that the relevance of the coverage (crops and risks covered) was investigated and evaluated in comparison to alternatives	Pass (some investigation performed) Fail (otherwise)	<input checked="" type="checkbox"/> Pass <input type="checkbox"/> Fail	All
	Level 2- Score 0-2		Client interviews	Clients' perceptions of the relative role of the crop in income generation and of the relevance of the covered risk	0 (less than 60% of clients perceive the crop as relevant to their household income and perceive the risk to be high) 1 (at least 60% of clients perceive either the crop as relevant to their household income or perceive the risk to be high) 2 (at least 60% of clients perceive the crop as relevant to their household income and perceive the risk to be high)		
	Level 1- Pass/Fail		Client interviews	Clients' perceptions of the availability of other risk management tools or (after claims) of the role insurance played	Pass (at least 60% of clients perceive the product to mitigate at least 50% of their risk) Fail (otherwise)		Mature
	Level 1- Pass/Fail	4. Does not exclude potential clients on the basis of anything other than applicability of the covered risk	Product documentation	Documented product eligibility criteria	Pass (no documented or informally applied exclusions) Fail (otherwise)	<input checked="" type="checkbox"/> Pass <input type="checkbox"/> Fail	All
	Level 1- Pass/Fail		Staff interviews or FGDs	Informally applied eligibility criteria			Mature
Level 2- Score 0-2	5. Enrollment and renewal	Product documentation	Term of coverage; protocol on communication with clients	0 (Term of coverage is not linked to crop cycle or client's loan) 1 (Term of coverage is linked to crop cycle and/or loan, but clients are not enrolled)		Mature	

Filter for product stage

Scoring based on defined measurement outputs

Scores selected on this page generate an overall result

Level 1 Score: PASS

Level 2 Score: 1.2

Overall Assessment: AVERAGE

Additional sheets provide guidance on data collection and interpretation



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Thank you!



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