MEASURING PERFORMANCE IN MICROINSURANCE

In October 2010, a first workshop on social performance indicators for microinsurance with 15 micro-insurance practitioners was organised by ADA, BRS and the Microinsurance Network.

The workshop concluded with a set of **8 principles** and **11 social performance indicators** that are concrete, practical focused and closely linked to the financial performance indicators for micro-insurance. The indicators will allow microinsurance providers to develop a balanced view on their performance that recognise the social goals inherent within microinsurance as well as the need to be financially sound.

ADA, BRS and the Microinsurance Network are involved in the first initiative to develop Key Social Performance Indicators for micro-insurance. These indicators are still in the 'draft' phase and will evolve through field testing and feedback. Alongside the existing financial ratios, social performance indicators are intended to provide a balanced view of the performance of micro-insurance institutions.

For further information and additional resources, visit the website www.microfact.org

SOCIAL PERFORMANCE INDICATORS FOR MICROINSURANCE

Summary Note

THE KEY PRINICPLES OF SOCIAL PERFORMANCE IN MICROINSURANCE

Before calculating microinsurance performance indicators, it is important to integrate a set of principles. These principles represent practices that are critical for the achievement of social performance. Principles marked with an * are also key principles for the financial performance of microinsurance.

1. Client focus*

Organisations should be keenly attuned to the true needs of clients and management decisions should always consider impact on clients.

2. Inclusion

Microinsurance should seek to include those who are exposed to higher risks and lack access to regular insurance. It covers issues such as exclusion criteria, pricing and payment structure.

3. Conduct assessment of client risks in product development stage

Microinsurers should assess the risks of clients and their communities as part of the product development stage. Respecting this principle will improve client satisfaction.

4. Conduct regular client satisfaction assessments

This principle is linked to the need to consult clients on the benefits they receive from purchasing a microinsurance product. It calls on microinsurers to establish effective consultation mechanisms.

5. Protect client data

This principle underlines the importance of confidentiality and the need to create relationships of trust with clients.

6. Transparency*

This principle stresses the need to share data and information in a transparent manner and in understandable language for clients and stakeholders.

7. Audited standards and policies aligned to the mission and vision of the organisation

This principle calls for social goals to be included in the microinsurer's mission statement and translated into procedures and policies. Respecting the principle should lead to ethical staff behaviour and high standards of customer service.

8. Environmental policy in place

The organisation should have an environmental policy. This principle underscores the need for microinsurers to take steps to reduce negative impacts on the environment.

THE KEY PERFORMANCE INDICATORS

A set of eleven social performance indicators were agreed during the workshop of which five are already used as financial performance indicators (marked with a *). For these indicators, the interpretation of the ratio in terms of social performance analysis will be different from the interpretation in financial performance analysis.

This set of indicators is not exhaustive but should be considered elementary for social performance analysis for microinsurance schemes. They are not presented in a hierarchical order and all should be calculated on a product level except for the staff retention ratio. It must also be understood that many the indicators are interrelated and can be dependent on one or more of the others.

Incurred Claims Ratio*

Definition

The incurred claims measures how much of the premium income is paid out as claims. The indicator illustrates whether the insurance product provides good value for the premiums paid by the client. It is defined as the incurred claims in a period divided by the earned premium for the same period.

How to calculate

Incurred claims ratio = Incurred claims / Earned premium

Note

- Incurred claims = Cash claims + changes in Incurred But Not Reported Reserve (IBNR) + change in Claims In Course of Settlement (CICS) + change in Accrued Liability Reserve (ALR);
- Earned premiums = Premium income (not cash premiums) – Change in Unearned Premium Reserve (UPR);
- Change in a reserve = reserve level at the end of the current accounting period less reserve level at the end of the previous accounting period.

Claims Rejection Ratio*

Definition

The claims rejection ratio measures how many claims are denied from a given sample. It shows whether claims are paid out and can show whether the product is understood clearly by the client. This is also linked to how well the product is explained by the microinsurer. It must not be forgotten that rejected claims can generate negative views of the microinsurer.

How to calculate

Claims rejection ratio = Number of claims rejected / Number of claims under a given product

Renewal Ratio*

Definition

The renewal ratio measures the number of insured that renew their policy. The ratio explains whether clients value the product and it responds appropriately to the risks they face. This ratio should be monitored over several periods. Low renewal can indicate client dissatisfaction and inadequate pricing amongst other things.

How to calculate

Renewal ratio = Number of renewals / Number of potential renewals

Note

- Number of renewals: Number of policies which were actually renewed;
- Number of potential renewals: Number of polices that could be potentially have renewed excluding those that have become ineligible due to old age, death, or due to other reasons.

Promptness of claim settlement ratio*

Definition

The promptness of claims indicator measures the time elapsed between when incident occurs to when the client actually receives the payment. It shows if claims are settled within a time-frame that is appropriate to client needs. It can also shed light on how well product design helps clients to use the insurance service.

How to calculate

Calculate the percentage of claims paid within each interval

Interval	Number of claims	% of total claims
0 to 7 days	___	___%
8 to 30 days	___	___%
31 to 90 days	___	___%
More than 90 days	___	___%
	Total___	100%

Social Investment Ratio

Definition

The indicator social investment ratio measures the amount of resources the microinsurance providers dedicate to information, education, communication and prevention. This ratio aims to illustrate whether the microinsurer budgets for activities that benefit the local community.

Social investment ratio = Social investment expenses / Incurred expenses

Note

- Social investment expenses = Expenses for information, education, communication and prevention activities;
- Incurred (operating) expenses is the sum of actual expenses incurred in the period, including commissions and items that are commonly overlooked such as amortisation of equipment, depreciation, and cost of software development. Expenses should not be reduced to reflect subsidies or grants.

Coverage Ratio*

Definition

The coverage ratio is the proportion of the target population participating in the microinsurance programme. It indicates if the insurance product achieves high rates of penetration and participation among the microinsurer's target population. The ratio can also reveal the success of the insurer in reaching specific market segments targeted for social reasons (e.g. the very poor).

How to calculate

Coverage ratio = Number of active insured clients / Target population

Note

- Number of active insured clients rather than number of active policies;
- The target population should be defined in the microinsurer's business plan.

Poverty Outreach Ratio

Definition

The poverty outreach ratio is the proportion of the clients under the poverty line out of the total number of clients. It shows the extent to which the microinsurer is able to reach the poorest segments of the population. The poverty level of clients will be obtained through surveys upon registration or by conducting a poverty survey. The definition of poverty will vary upon context but needs to be explicitly stated.

How to calculate

Poverty outreach ratio = Number of clients under defined poverty line / Total number of clients

Note

- The poverty line will vary according to the country. Possible sources to find a given country's poverty line include the government or alternatively the websites www.povertytools.org or www.progressoutofpoverty.org

Rural Outreach Ratio

Definition

The rural outreach ratio is the proportion of the rural clients out of the total number of clients. It illustrates whether the microinsurer manages to achieve high rates of client participation in rural areas.

How to calculate

Rural outreach ratio = Number of clients living in rural areas / Total number of clients

Note

- Rural areas are settled places outside towns and cities such as villages and hamlets. Semi-urban areas are not rural areas. When possible, it is best to use the government definition for consistency.

Complaints ratio

The complaints ratio measures the number of complaints registered over the number of policies. It is intended to show whether clients are treated fairly and whether they exist adequate mechanism for client recourse, amongst other things.

How to calculate

Complaints ratio = Number of complaints registered / Total number of policies

Note

- This indicator assumes the microinsurer has a complaints' tracking mechanism in place;
- Complaints used for this indicator must be registered and can include verbal and written complaints.

Transparent Sales Ratio

Definition

The transparent sales ratio measures the number of clients who have received product information prior to or during the purchase of the insurance. It is linked to client protection and shows whether products are marketed and delivered in a transparent manner.

How to calculate

Transparent sales ratio = Number of policyholders who have received information prior or during purchase / Number of new policies

Note

- The number of clients who have been transparently informed about the pricing, terms, conditions and exclusions of the policy should sign a receipt recognising that they are in the possession of information prior to purchase;
- Information should be given in a manner that is easy to understand for the client.

Staff Retention Ratio

Definition

Staff retention is the percentage of staff having stayed with the organisation during the last reporting year. It's a reflection of staff satisfaction and measures how many of the members of staff stay with the organisation. Staff satisfaction also positively affects how staff interacts with clients and therefore is strongly linked to client protection and the quality of service delivery.

How to calculate

Staff retention ratio = Number of employees who have remained / Average number of employees

Note

- The number of employees who have remained is the result of the average number of employees during the period minus the number of departures during the period.