Index Insurance Training
Key performance indicators

KPIs for financial performance of insurer

KPIs	FORMULAE OF KPIs	RELEVANCE OF KPIs	EXAMPLE BENCHMARKS FOR MONITORING
1. Incurred claims ratio	Incurred claims / Earned premium	A very important indicator of financial viability and client value. In the medium term (3-5 seasons), claims ratios for index insurance should be between 30%-70%. - Less than 30% can indicate poor value for money for farmers. - More than 70% can indicate loss-making or mild profitability for insurers.	30%-70%
2. Operational expense ratio	Incurred expenses/ Earned premium	Expenses should include all expenses relating to the specific product e.g. - Acquisition costs (commission, marketing cost etc.) - Claims handling expenses - Renewal expenses - Administrative expenses (printing documents, overheads for the product). - Compliance cost.	5%-30%
3. Combined ratio	Claims ratio + Operational expense ratio	Key for measuring overall cost relating to claims and expenses for the product.	50%-90%
4. Net income ratio	Net income/ Earned premium	Measuring margin for insurers. It should not be extremely high for agriculture microinsurance products.	5%-20%
5. Growth ratio	- (No. of insured in period T – No. of insured in period T-1)/No. of insured in period T-1 - (Collected premium in period T – Collected premium in period T-1)/Collected premium in period T-1	A low growth ratio may indicate the product is not attractive for farmers/aggregators; A very high continuous growth ratio can also indicate that insurer's resources will be stressed - Analyse the growth ratio in conjunction with other KPIs (e.g. claims turn-around time and claims rejection ratio) to see whether the growth ratio is leading to compromised services.	10%-50%
6. Coverage ratio	Insured population / Target population	The target population here may be both aggregator specific as well as the entire target market, e.g. 10% of NIRSAL farmers insured, but maybe only 0.1% of all smallholder farmers in Nigeria.	- Varies by year of launch of products; - 10%-30% increase, year on year
7. Extent of reinsurance	Percentage of risk retained by the insurer and Reinsurance Commission %	Measures extent of retention and business model for the insurer.	Varies. Ideally, retaining at least 10% of the risk for the cedant is recommended. Commissions may vary significantly.