

AN EXPLORATIVE STUDY ON
"FEATURES OF MICROINSURANCE SCHEMES COMPLEMENTING
POVERTY ALLEVIATION ROLE OF MICROFINANCE AND
MICROINSURANCE SERVICE DELIVERY MECHANISMS OF SELECTED
MICROFINANCE INSTITUTES (MFIs) IN BANGLADESH"

SHAKERA SIDDIKY

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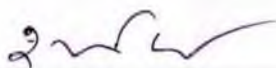
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A Dissertation
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Abstract:

SIDDIKY, SHAKERA, BRAC UNIVERSITY, February 2007. "Features of Microinsurance Schemes Complementing Poverty Alleviation Role of Microfinance and Microinsurance Service Delivery Mechanisms of selected Microfinance Institutes (MFIs) in Bangladesh"

The main objective of the study is to explore the features of a number of existing micro insurance schemes complementing poverty alleviation role of microfinance and microinsurance service delivery mechanisms followed by selected number of Microfinance Institutes in Bangladesh.

The analysis was based on primary data collected through personal interviews with seven MFIs having some sort of microinsurance products for members and non-members. The data for the study was collected from March 2006 to June 2006.

Explorative research and qualitative analysis were used to achieve the study objectives. The major findings of the study are (1) All microinsurance products are mandatory and complementing either saving or loan products offered by the MFIs (2) all the MFIs follow provider model of microinsurance service delivery, that means MFIs provide the care as well as take charge of designing insurance products, collect premiums, review claims, handle payments etc. using the existing structure (3) the predominant reason for introducing microinsurance scheme is to remove financial barriers of the poor to mitigate risk (4) most of the schemes are offered to the existing loan and saving beneficiaries and health insurance is offered to existing groups and community people (5) need of adequate underwriting, actuarial and business planning expertise is acute among the MFI (6) benefit packages cover a number of IGA and Non-IGA project related risks (7) administrative costs of claim and reimbursement are kept to a minimum (8) MFIs have various measures to control financial risks of particular importance are moral hazard, adverse selection, cost escalation, fraud and abuse.

Based on the finding the main challenges of offering microinsurance products to the target beneficiaries are a) To do full cost recoveries of the new financial scheme in short term b) To keep premiums affordable and flexible coverage c) Need for qualified human resource d) need for technical expertise and e) absence of reinsurance. Partner-agent model has been suggested to overcome the challenges faced by the MFIs. A path has been recommended at the end to design and introduce sustainable and viable insurance scheme based on the technical capacity of the MFIs.

CHAPTER I

INTRODUCTION

1.1 A short background on Bangladesh

Bangladesh, a land of 147,570 square kilometres, belongs to the ten most densely populated countries in the world. It is situated on a fertile alluvial plain formed by large rivers, the Padma and the Jamuna. Its topography is flat with no great mountains or deserts, and its rivers are vast. Bangladesh is bordered by India to the north-east and west, Myanmar to the south-east, and the Bay of Bengal to the south.

Since independence in 1971, Bangladesh has recorded strong progress in its quest for economic and social transformation. Key social indicators-birth rates, life expectancy, girl's school enrolment, and child immunization- have improved remarkably, and poverty has been declining. Bangladesh has achieved substantial progress in mass literacy, public health, reduction of population growth and self employment support for rural poor. Primary education is compulsory and female education is free through the first eight years. Infant mortality has decreased significantly. There has been also a sharp decline in the fertility rate.

The increased participation of women in poverty alleviation programmes as well as in ready-made garments sector, which provides jobs for more than one million women, has helped create an awareness of women's issues at all levels. An unparalleled concentration of innovative and committed non-governmental organizations has brought micro-credit revolution and guided countless indigent women and landless households into income generating activities. But with a per capita income of only \$360, complementing innovative financial schemes are essential to optimize the poverty alleviation role of micro finance hence unshackle the economy's potential for growth in the 21st century.

1.2 Microfinance

An understanding of microfinance and microinsurance is vital when discussing microinsurance service delivery mechanisms and features of existing microinsurance schemes as a complementing product of microfinance to make a greater dent in poverty.

"Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too

poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without." (Gert, 2004)

"(Microcredit) is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor....charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty." (Yunus, 2003)

"It could be for a new tool, a machine, or a shop in the marketplace- millions of the world's poor and low-income people have taken advantage of small loans to improve their lives. Over the past three decades, people have used these loans, known as microcredit, to launch new enterprises, create jobs and help economies to flourish. Poor people have proved time and again that they are able to repay these loans on time." (UN, 2005)

MFIs provide four categories of services to the poor: (a) financial intermediation, (b) social intermediation services for building human and social capital; (c) enterprise development services including training and technology transfer; and (d) social development services covering health, sanitation, education.

The progression from microcredit to microfinance signifies more than a swing in naming. The focus of micro credit at one point of time was on the development of highly standardised¹ products that are simple to administer and in which fraud is easy to control as a means to break the cycle of poverty. Though the provision of credit to the poor used methodologies that were radical, subsequent innovations, especially in terms of broadening the range of financial service for the poor and designing more suitable financial products with a better fit with the livelihood opportunities and constraints of the poor, remained large stunted, leading many to describe the industry as a case of 'monopoly with monoproductions'. One reason for the evolution to micro finance is that the previous approach often fails to take into account the complex nature of low-income households' life style and income sources. While designing microfinance programs all these objectives are of great importance but a careful experimentation with new innovative approaches to provide more client responsive financial services can attain better balance between clients' preferences and institutional imperatives.

¹ Such standardisation has been argued to be at the heart of ASA self reliant model (Jain, 1998)

1.3 Role of microfinance in poverty alleviation:

The microfinance programme has benefited the poor in more than one way. The programme has strengthened their subsistence through the diversification and strengthening of their survival strategies; enhanced their security by giving them access to assets and rights and augmented their self-respect by providing them choice and independence. The microfinance programme has empowered women and raised their socio-economic and political consciousness. The provision of social development services has contributed to improving their health status and enhancing their literacy and awareness levels.

1.3.1 Income

A number of studies conducted in Bangladesh in the 1980s and 1990s on the impact of microfinance programmes highlight the fact that access to microfinance results in an increase in income/consumption. The results from a few of the studies are shown in Table 1. The table shows that the increase in income/expenditure as a result of MFI participation ranges from 11 to 40%.

Table 1: Impact of MC on Household Income/Expenditure.

Source	Name of MFI	Income/expenditure per annum (Taka)	Project (P)	Control (C)	% change $\frac{(P-C) \times 100}{C}$
Hossain 1984	Grameen Bank	Income, per capita	1762	1346	30.9
Hossain 1988	Grameen Bank	Income, per capita	3524	2523	39.9
IMEC 1995	Proshika	Income, per household	22244	17482	27.2
Rahman 1996	PKSF	Expenditure, per household	26390	23802	10.9
Khandker 1998	Grameen Bank	Expenditure, per capita	5180	4202	23.3
Khandker 1998	BRAC	Expenditure, per capita	5050	4335	16.5
Halder 1998	BRAC	Expenditure, per capita	8244	6480	27.2
IMEC 1999	Proshika	Income, per household	48635	43584	11.6

Note: Results across studies are not comparable, because of variations in methodology and the areas covered.

A recent study conducted by Atiur et al. (2005) supports the findings of the earlier studies. The study finds that the total household income of microfinance borrowers of PKSF partner MFIs has shown a secular growth ranging from 2.8% to as high as 12.2% per annum during the periods from 1977-2004. The study observed that though non-participants had the highest average household income at the outset, they were gradually surpassed by participants due to successful interventions of microfinance institutions.

1.3.2 Social Impact

Measuring social impact in terms of living conditions (structure of homestead), access to basic services (water and sanitation), health (mode of treatment, expenditure), education (schooling of children), and assets, the study by Atiur et al. (2005) found that microfinance intervention has a positive impact. Some of the earlier studies mentioned in Table-1 also found positive social impacts from microfinance programme.

1.3.3 Empowerment

Atiur et al. (2005) measured empowerment using the following eight indicators: (i) mobility; (ii) awareness; (iii) decision to spend income; (iv) ability to make small purchases; (v) ability to make large purchases; (vi) involvement in making important household decisions; (vii) relative freedom from domination by the family; and (viii) political awareness. They find that women participating in microfinance programme are significantly empowered with reference to all the indicators. Analysing primary field data, Simeen Mahmud (2004) found a positive impact on women's welfare from microcredit programmes. Hashemi et al (1996) and Kabeer (1998) found that microcredit programmes have a positive impact on women's empowerment.

The UN Human Development Report 2005, while explaining Bangladesh's moderate growth and rapid human development, records the role of microfinance in women's empowerment in the following ways: Improved access to health and education for women, allied with expanded opportunities for employment and access to microfinance, has expanded choice and empowered women. While disparities still exist, women have become increasingly powerful catalysts for development, demanding greater control over fertility and birth spacing, education for their daughters, and access to services.

1.3.4 Impact on Poverty

Khandker (2005), a World Bank researcher whose study spans 14 years, was able to draw from research done in 1991/92 and again in 1998/99 by the World Bank and the Bangladesh Institute of Development Studies. Khandker found:

- Moderate poverty in all villages declined by 17 percentage points, 18 points in programme areas and 13 percentage points in non-programme areas.
- Poverty declined by greater than 20 percent for programme participants who had been members since 1991/92, which is about three percentage points

per year. Greater than half of this reduction is directly attributable to microfinance.

- The impact was greater on extreme poverty than moderate poverty.
- Spillover effects among non-participants due to growing economic activity: Microfinance reduced poverty among this group by some 1.0 percentage points annually for moderate poverty and 1.3 percent annually for extreme poverty.

Based on his data, Khandker concluded that microfinance accounted for 40 percent of the entire reduction of moderate poverty in rural Bangladesh. Atiur et al. (2005) in their study found that between 1998 and 2004, the head count ratio for eligible (target) regular programme participants fell by 10 percentage points (from 78.5 percent to 68.3 percent) as against of 5 percentage points for eligible households (from 75 percent to 70 percent) that never participated in microfinance. The households that left microfinance between 1998 and 2000, (and never rejoined) appeared to have performed best in terms of reduced poverty incidence and poverty gap ratio.

1.4 Microinsurance

After micro credit comes micro insurance. Lately, the idea of micro insurance has caught the attention of researchers, NGOs, donor agencies, policy makers, and social scientists involved in tackling poverty. The optimism that accompanies micro insurance stems mainly from two different sources: (1) the success of micro credit programs in ameliorating the conditions of the poor in different parts of the world by enabling them through asset and/or skill formation to generate sustained income (Morduch, 1999a), and (2) the growing recognition of the role that risk plays in the lives of the poor, and hence the need to increase the ability of the poor to cope with their various risks. Improving the risk management capacity of the poor has come to be viewed as an integral part of any poverty alleviation program (Holzmann & Jorgensen, 1999).

In the Microinsurance Donor guideline for the microfinance institutions the definition of microinsurance is alienated in two parts. First, 'insurance' refers to a financial service that uses risk pooling to provide compensation to individuals or groups that are adversely affected by a specified risk or event. Second 'micro' portion of the definition refers to the subset of a product that is designed to be beneficial and affordable for low income individuals or groups. Microinsurance defined as "the protection of low income people against specific perils in exchange for regular

premium payments proportionate to the likelihood of and the cost of the risk provided (Munich Re Foundation 2006).

The effectiveness of improved access to credit and savings on poverty alleviation is dependent on how these additional financial resources are utilised by the poor. The poor are faced with many risks and are highly vulnerable to fluctuations in their income and expenses arising from health costs, property theft and fire, violence, death, disability and catastrophes. Available credit and savings provide some protection against the effect of these losses, but by using all of their available financial resources to try and recover from these events many find themselves falling further into poverty.

Microinsurance can protect sudden drop in income or meet sudden expenses due to IGA project related risks such as

- Death of the loanee
- The IGA/project (house, shop, farm, workshop, business enterprise etc.) is burnt by fire,
- IGA project is incurring loss due to natural calamities (i.e. flood), political situation or social situation like robbery, eviction,
- IGA project implementer is unable to implement the project due to physical injuries or accidents like losing hand, leg, eye/being paralyzed etc.
- Death of IGA cows, goats or any other livestock purchased and maintained with the credit money.

Or non-IGA project related risks such as

- Death, sickness, accident of borrowers, savers and family members.

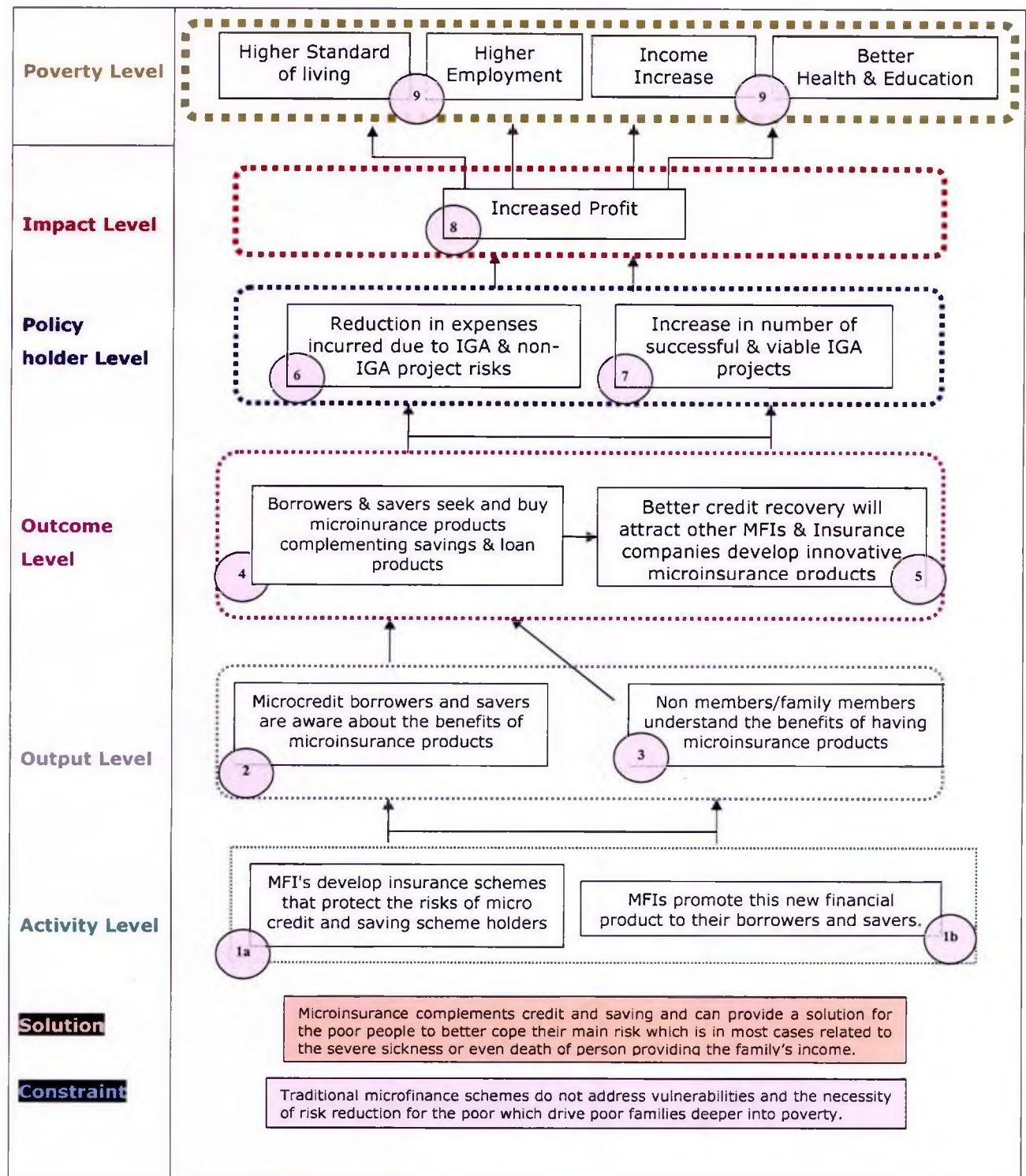
Microinsurance can thus protect those who are just above the poverty line against unforeseen events that may cause them fall into poverty again. Microinsurance can work as a safety net particularly at the poorest levels where vulnerability to risk is much greater and there are fewer opportunities available to recover from a large loss.

1.5 Potentials of microfinance in poverty alleviation

This section of the research explains a conceptual model that highlights the importance of microinsurance supporting the sustainable development of the poor through micro finance schemes to reducing the poverty in Bangladesh. The conceptual model is presented in a logical tree of activity leading to impact.

- Constraint: Traditional microfinance schemes do not address vulnerabilities and the necessity of risk reduction for the poor which drive poor families deeper into poverty. This problem can be addressed by the following solution.
- Solution: Providing microinsurance can ensure that the foundation on which poverty alleviation is built and is strong enough to keep the individual out of poverty.
- Activity Level:
MFIs can take following steps to design an insurance programme:
 - a) Develop microinsurance schemes (can be mandatory or voluntary) protecting IGA and non-IGA project related risks faced by beneficiaries (borrowers and savers) considering affordability, flexibility based on MFI's technical expertise. (1a)
 - b) Promote this new financial product to their beneficiaries rigorously and educate them about the benefits of the insurance products. (1b)
- Output Level:
Because of the activities following results are expected:
 - a) Microcredit borrowers and savers are aware of the benefits of financial schemes (credit and saving) that include insurance policies etc. and the demand for a comprehensive financing scheme will increase. (2)
 - b) Non members or family members understand the benefits of having microinsurance products. (3)
- Outcome Level:
Based on the outputs following outcomes are expected.
 - a) Borrowers and savers seek and buy comprehensive microinsurance products. (4)
 - b) Credit recovery of the MFIs improves as the beneficiaries are insured against IGA and Non-IGA project related risks and perils. Realizing that other MFIs and insurance company will try to develop and offer competitive financial schemes complementing microfinance schemes. This will also attract some new insurance providers to develop innovative microinsurance product to cater the new market. (5)
- Changes at the beneficiary (both loan and saving holders) Level:
The outcomes will bring the following changes at beneficiary level.
 - a) Reduction of expenses due to sickness, death or accidents either related to IGA project risks or associated with the members of the family. (6)
 - b) Increased number of successful and viable IGA projects. (7)

Figure 1: Microinsurance impact logic.



- Impact (both loan and saving holders) Level:
a) Over all the poor households will be able to earn more profits form IGA project and protect the sudden income erosion due to the perils. (8)
- Poverty Level:
Microinsurance will play a vital role to complement the poverty alleviation role of microfinance schemes (both loan and saving products) and hence ensure increased income, empowerment, better standard of living, better health, increased sustainable employment for the poor.

- Assumption of impact:

In the logic it has been shown that the intervention will lead to impact, and impact is assumed to occur because of one or more than one following happenings, these are, MFIs have the capacity to design and promote microinsurance products, borrowers and saver are aware about the new product, borrowers and savers are seek and buying microinsurance etc. The common information may include number of policyholders, number of schemes offered by the MFI, cost of introducing new services, average time for claims settlement, loan recovery rate, customer satisfaction, etc.

This model can also act as an impact forecasting tool. In order to assess the impact following answers of the questions are required and specific indicators have to be set:

Table 2: Questions and indicators for impact assessment.

	Questions	Indicators	Measurement or assessment technique
1a	If the MFI is capable to introduce microinsurance product	Service delivery variables and promotional tool development	Organization Assessment
1b	If the MFI is capable to promote the new service to the ultimate beneficiaries		Survey and interview
2	If the beneficiaries are aware about the new microinsurance product	Awareness % of the beneficiaries	Survey and interview
3	If non members/family members understand the benefits of having microinsurance products	Awareness % of non-members and demand of microinsurance product	Survey and interview
4	If borrowers and savers seek and buy microinsurance products complementing savings & loan products	Number of schemes sold & premium payment record	Internal records
5	If other MFIs and Insurance organizations start developing innovative microinsurance products	Number of new MFIs and Insurance company offering microinsurance products	Observation
6	If there is reduction in cost incurred due to IGA & Non-IGA project risks	Amount of claims paid and loan recovery rate of the MFI	Internal records & case studies
7	If number of successful & viable IGA projects has increased	Number of successful & viable IGA projects and reasons	Survey
8	Increased profit of microfinance beneficiaries(borrowers and savers)	% of beneficiaries feel secured against their misfortune and	Survey and interview
9	If access to health, education, standard of living and employment increased	% increased of standard of living and employment	Survey

Thus, role of microinsurance should to be given equal importance to that of loans and savings, indeed the success of loan and savings schemes depends on the availability of complimentary insurance products.

1.6 Problem of the study

Since the end of the 1990s an increasing number of microfinance institutions have been trying to develop insurance products for their clients to reduce risk including: health and life insurance, livestock and crop insurance, property insurance, and compulsory insurance against loan defaults. SEWA in India has pioneered provision of microinsurance to its members. Other examples include NHHP/FINCA Uganda, UMASIDA, SEWA and GRET. In some contexts indigenous mechanisms for informal insurance exist. For example in South Africa poor people combine resources from ROSCAs, other informal savings and credit arrangements and insurance to cover costly funeral expenses (Roth 2001). However, the reach of existing microinsurance schemes is still limited although attempts are continually being made to involve more and more people by upscaling, extending and replicating the schemes. (Jütting, 2000; Siegel, Always, & Canagarajah, 2001).

It is high time to look at Bangladesh experience of microinsurance and learn more about the crucial factors of designing microfinance scheme as one of the tools to manage risk that complements poverty alleviation role of microfinance and develop an understanding about the models of microinsurance service delivery to determine the appropriate model based on the technical capacities and strength of the MFIs.

1.7 Objectives of the study:

The main objective of this research can be enumerated as follows:

a) To study features of a number of existing micro insurance schemes complementing poverty alleviation role of microfinance and microinsurance service delivery mechanisms followed by selected number of micro finance institutes in Bangladesh.

The scope of the study was limited to the analysis of the above mentioned objective and the mentioned areas which would indicate the policy implication arising there from.

CHAPTER II

REVIEW OF LITERATURE

Microinsurance being an emerging field, the secondary literature on microinsurance augmenting poverty alleviation role of microfinance is limited. Statistics that illustrate the relationship between the microinsurance schemes and poverty alleviation are not readily available; but they can be construed from the experiences of the organizations and their clients. As clients' demand for products and services are growing, the organizations are increasing their outreach and diversifying their services. In this section a number of relevant case studies, newsletter and conference experiences along with available literatures are highlighted.

2.1 Role of microinsurance complementing microfinance in poverty alleviation

Recent studies by the World Health Organization show that every year approximately 44 million households throughout the world, or more than 150 million individuals, are faced with catastrophic bills for health services (exceeding 40% of their financial capacity), and about 25 million households or more than 100 million individuals are pushed into poverty by the need to pay for such services. Overall, low-income groups, especially in developing countries, have a greater proportion of so-called "catastrophic levels" of health spending.

Ali (2000) pointed out in one of the microfinance new letters entitled 'Provision of Microinsurance for Microfinance Clients' that for the poor and for those just above the poverty line, a drop in income or increase in expenses can further reduces their already low standard of living. The risk is that some peril such as death, sickness, accident or old age may interrupt income, forcing the disposal of productive assets or household consumables to recover from the loss, which in turn decreases future income and current livelihood. Hulme & Mosley (1996) also found in another study that there is also a high risks of non-payment due to lack of protection against natural hazards which limits the availability of credit to the poor.

In welcome address of Microinsurance Conference 2005 focused on 'Making insurance work for the poor: Current practices and lessons learnt' the Chiarmman of the Board of

Trustee of the Munich Re's Foundation² mentioned that, "Microinsurance complements credit and savings and can provide a solution for poor people to better cope with their main risk, which is in most cases related to the severe sickness or even death of the person providing the family's income. Access to insurance enables people to look after their farms or concentrate more on developing their business while mitigating other risks of life, health, property or the ability of work." He also stated that "The year of Microcredit 2005—which should be called the year of microinsurance, so that it also includes microinsurance—is the United Nations' call to build inclusive financial sectors and strengthen the powerful, but often untapped, entrepreneurial spirit existing in impoverished communities."

In World Bank Report 2000, it has been argued that Micro-insurance programs can increase HDI by providing creditors with greater security and incentive to lend to micro-enterprises. Insurance enables the policyholder to save a portion of his income, without the need to use it on medication, fire, theft and death which can instead be invested in a child's education. The requirement for less income also enables parents to send their children to school instead of working in the fields, better education leads to better health and better income earning potential as well as population control.

Jonathan Morduch concluded in "Micro-insurance: the next revolution?" concluded that Practitioners have worked hard, sometimes against the odds, to get microinsurance efforts started. A micro-insurance revolution could be a major step toward improving the well-being of the world's poor, but, it is important to design products with a full picture of how the products will fit into clients' lives (and possibly affect non-clients too). In that light, we should also bear in mind that micro-saving can be a key part of a household's best insurance strategy.

2.2 Microinsurance product designing and service delivery mechanism

In a roundtable on Microinsurance Services in the Informal Economy, Ford Foundation (2000) concluded that whilst both savings and credit facilities are integral in assisting the poor overcome unforeseen losses their benefits are limited to the capacity of the individual to save or make repayments. When bad conditions and their consequences persist for several years such as drought and flooding, then the use of savings as protection is limited. In addition, high risks of illnesses, death and disability of the breadwinner means outstanding loans become difficult to repay.

²Munich Re's Foundation aims to facilitate the development and exchange of knowledge and experience in microinsurance, helping the poor at risk.

In South African Microinsurance Case-Study, a working paper of Social Finance Programme & In Focus Programme on Boosting Employment through Small Enterprise Development, Michael Aliber surveys SME operators in South Africa, to assess the risks that they face, and then explores the possibility of insuring those risks. He concludes that there is an important, albeit limited, role for microinsurance (especially life insurance) and MFIs can do more to provide microinsurance. There are three principal recommendations a) MFIs should work collectively to try to improve their scope for introducing a range of different microinsurance products. b) Further research is required to better understand the clientele of the MFIs, and their exact insurance needs and prospects c) The MFIs should receive some assistance in this regard.

"A Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products" this guideline for developing microinsurance products argues that before introducing any microinsurance product MFIs have to consider the resources, skills, and infrastructure required to manage an insurance product profitably. In this guideline it was clearly mentioned that insurers must be able to specify the risks against which they offer protection. It is easy to say "we want to offer life insurance," but to actually design and provide insurance coverage, an MFI needs to be much more explicit. MFIs need to make explicit choices about (1) which risks will and will not be covered and (2) the size and type of benefits to be provided. MFIs should be able to answer questions relating to coverage, benefits, pricing, marketing, claim and product management, risk management, investment etc. before going ahead with a microinsurance product.

McCord (2001) while doing a case study of provider model in Cambodia, summarized the lessons learnt a) Where possible an insurer should utilize existing infrastructures to improve efficiencies and keep costs minimized b) When payment or savings mechanisms allow for frequent small payments this is much less painful to clients than requiring one relatively large payment. This alone will have a strong impact on client uptake and potentially on client retention c) one may need several iterations of the methodology to make the product work for both the institution and its clients d) The input of a doctor, above and beyond direct provision of health care, is highly beneficial to clients. This provides credibility to the insurer, improves client health, and likely saves money for the insurer and e) Significant alterations to the model should be made prior to the payment of premiums so that the institution can provide services as contracted, and more properly price the product.

CHAPTER II

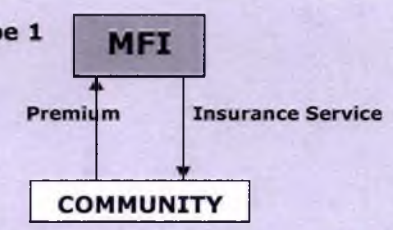
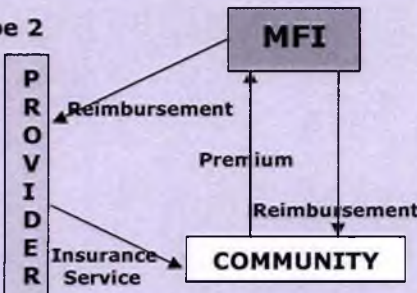
THEORETICAL AND CONCEPTUAL FRAMEWORK

This section discusses the theoretical framework of the study based on the three general models -- the provider model, the insurer model, and partner agent model or linked model of insurance provision that been practiced by the Micro Finance Institutes (MFIs). This will form the basis of analysis of microinsurance service delivery mechanisms of the MFIs.

3.1 Theoretical framework

- Provider Model: MFI is both the **provider** of the care as well as the **insurer**, take charge of the funds collected.
- Insurer/Full Service Model: MFI takes the **responsibility of the funds and the associated financial risks**. They **purchase care** either form other providers or **reimburse the patients** who have gone to other providers.
- Partner-Agent/Linked Model: MFI **collects premium** and **hands it over to a formal insurance company**. So there is a **minimum financial risk** with MFI and their role is mainly in **managing the scheme**.

Table 3: Example of Provider Model and Full Service Model.

Type 1 	Provider Model • The service provider and the insurer are the same, i.e., hospitals or doctors offer policies to individuals or groups • Example: Gonoshatsasthya Kendra in Bangladesh
Type 2 	Full-Service Model • The provider is responsible for all aspects of product manufacturing, sales, servicing, and claims assessment • The insurers are responsible for all insurance-related costs and losses and they retain all profits. • Example: SEWA in India

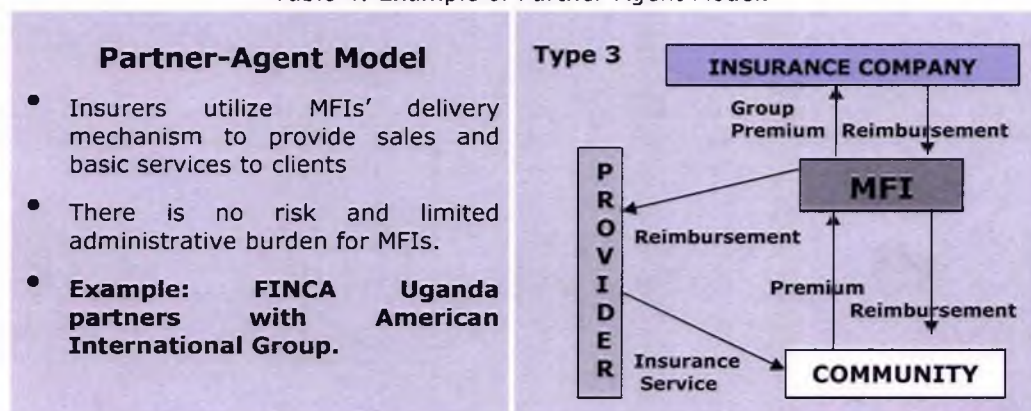
Source: CGAP Presentation (2003), (Appendix One)

The **full service model**, under which a single company undertakes all the tasks, from product design, sales and collecting premiums, to reviewing claims, handling

payments and even providing reinsurance. The insurance organization takes on all the insurance-related risk and deals directly with the policyholders. Commercial insurers, health care service providers and certain MFIs are examples of organizations that use the full service model. In some cases a third-party service providers may also be involved. For instance, in the case of health insurance, a third party may provide medical services. In specific where the insurer and service provider are the same entity, the model is known as a **provider model**.

The third type of microinsurance provision scheme is the **partner-agent model**, under which an insurer enters into a contract with an agent who markets its products. The most popular partner-agent model used to serve low-income households is the MFI-insurer partnership. In this type of partnership, the MFIs serve as a sales agent for a commercial insurer. Four parties are involved: the insurer, the agent (the MFI), the policyholder, and if applicable, the external service provider. The MFI and the insurer work together to design a product for low-income clients, and both entities negotiate the rate offered to the customer. The MFI handles marketing, premium collection, and other customer services. It also participates in claim reviews and issues payments on claims. In return, the MFI receives a commission. The insurer absorbs all the risks, sets the final rate, pays the claims, and monitors that all legal requirements are being met.

Table 4: Example of Partner-Agent Model.



Source: CGAP Presentation (2003). (Appendix One).

The partner –agent model is a 'win-win-win' arrangement. The insurer is able to reach a market (through the MFI) that it cannot reach on its own; the MFI can provide members with better services at lower risk ; and low income households get valuable protection that would otherwise not be accessible (Microinsurance Conference 2005).

Determining which model is the most appropriate for a given institution's situation depends on availability of partners and resources, organizational capabilities, degree

of risk and interest of maximizing financial gains from the insurance products (Appendix One).

3.2 Comparative advantages of MFIs as microinsurance service provider

Within the insurance industry microinsurance schemes can be offered by a range of service providers. Based on their technical capacity and expertise different organizations have different advantages and disadvantages offering microinsurance products to the poor weaker section of the community.

Traditionally, commercial insurers have not covered low-income households because of the high administrative and transaction costs involved in reaching these customers, particularly those in remote areas, and their lack of familiarity with the demand profile. When attempting to reach these customers they must often deal with issues of adverse selection and more hazard, as well as a lack of actuarial information for setting premiums. Some commercial institutions are interested in downgrading operations to suit a new type of clients. The popularity of endowment policies that help the poor gradually build up assets is something Delta has in common with Tata-AIG, which offers separate term policies as well (Appendix Two).

The two cases demonstrate that insurance companies can reach the low market directly, at least in Bangladesh and India. Direct selling helps overcome some of the problems in the partner-agent models, where some insurers may not have good control over their distribution channels and may be separated from the market segment (Microinsurance Conference 2005). However, the private sector is generally reluctant to invest because the target group is not known and considered risky, and regulations are not favourable for micro services. These factors are valuable for the development of microinsurance in general, and also for the discussion on MFIs' capability as providers of MI products.

The clients live in poorer urban or remote areas; have high fluctuations in their cash flow (no stable income); it is necessary to explain the service to them; they must be protected (illiterate or semi-literate with limited access to information). In addition, the delivery cost is high due to the small amounts and high volumes.

MFIs have better product sales due to their good relation with clients and also they have higher rates of cash collection which ensures their sustainability and growth. MFIs already maintain a close relation with their clients and know about the needs of the members. Thus the information asymmetries are minimized. The clients trust MFIs than the commercial insurance providers and due to this trust relationship MFIs

find it easy to assess customer satisfaction and to adjust the financial products on a timely manner. MFIs encompass following a comparative advantage over other micro insurance providers.

Table 5: Strengths & weaknesses in Microinsurance provision by organization type.

Tasks	Mutual Insurers	Community based Groups	MFIs	Mutual Insurer Networks	Social Insurance	Commercial Insurance
Product Sales	+	+	+	-	-	-
Premium	+	+	+	-	-	-
Collections, Claim Review and payment						
Product design	-	-	-	-	+	+
Pooling Risk	-	-	-	+	+	+

Note: (+) is advantages and (-) disadvantages

Source: Loewe, M. (2002)

MFIs use their existing structure to build awareness and use loan officers to market & sale, collect premium and settle claims. Additionally potential clients are already organized in groups – a prerequisite for group insurance. *For the MFI, providing insurance products lowers default rates and reduces the clients need to draw down on savings, which improves the profitability and sustainability of the organisation* (Ford Foundation 2000, Brown & Churchill 1999, Hulme & Mosley 1996).

MFIs face additional hurdles offering microinsurance products to their clients, including lack of technical knowledge regarding insurance products, burdensome regulatory requirements, highly concentrated portfolios, and lack of reinsurance vehicles. MFIs can offer microinsurance services based on their technical and personal strengths. Advantages and disadvantages of the microinsurance models are presented below:

Table 6: Advantages and disadvantages of the three models of Microinsurance.

Particulars	Provider Model & Insurer Model	Link Model
Freedom to suit the local market	Under these models insurance packages are flexible to suit the local market.	Depends on the insurance company's products.
Premium	The premiums are set by MFI usually based on affordability rather than actuarial calculations.	Set by insurance company and usually based on actual calculations.
Benefit package	Benefit packages are usually comprehensive and meet the local needs.	Under this model the traditional insurance policies are exercised with its exclusions and limitations.
Financial risk	Financial risk lies with the MFI.	Financial risk lies with the insurance company.

The challenge is to design and implement a microinsurance delivery model based on the technical and personal capacity of the MFI that will ensure sustainability in long run and cater the interest of the target group, hence work as a building block of microfinance program to alleviate poverty.

CHAPTER IV

METHODOLOGY

4.1 Location of Research

The study covers only MFIs based in Dhaka city. Dhaka district was selected purposely because as a) concentration of MFIs are more in Dhaka and if not, most of the MFIs have head offices in Dhaka, (2) the area is easily accessible for the researcher. Moreover the researcher is based in Dhaka and got knowledge about this area.

4.2 Variables Studied

The research covers only the variables related to the service delivery mechanism of micro insurance schemes offered by a numbers of MFIs in Bangladesh.

The following variables are covered in the research.

- Features of microinsurance products offered by the selected MFIs
- Microinsurance service delivery model followed by the MFIs
- Reasons to introduce microinsurance products
- Target population for microinsurance products
- Premium setting and collection,
- Benefit packages offered by the MFIs,
- Claims and reimbursements process,
- Distribution of management function and
- Methods used to manage risk

4.3 Sampling Procedure

The micro-insurance concept is relatively new in Bangladesh. A small number of schemes have been in operation for more than six years while the majority has operated for three years or less. The sample to be representative, data has been collected from seven MFIs offering microinsurance schemes. According to Inventory of Microinsurance Schemes Bangladesh of October 2003 report of International Labour Organization (ILO) eighteen MFIs offer some sort of microinsurance products (life, health, livestock etc.). Preliminary, Dhaka based MFIs have given preference for short listing. While finalizing the MFI newly started microinsurance schemes have been avoided. Finally, the sample to be representative, seven MFIs (almost 45% of the sample) has been selected randomly as a sample. This sample is convenience based.

4.4 Data Collection

Data for this research was collected from the MFIs using semi structured questionnaire as well as closed interview schedule. The data was collected from March 2006 to June 2006. The questionnaires were filled based on the respondent's verbal response to the questions in face to face interviews. This research is based on seven MFIs offering micro insurance schemes to their clients in Bangladesh.

4.5 Methods of Data Analysis

Qualitative research formed a much larger and more important section of the research. Qualitative research was mainly exploratory in nature, carried out to clarify the precise model of microinsurance service delivery that depicts the dimensions of the appropriate model for Bangladesh.

Relevant quotations from useful literature and materials have been cited, where applicable. The references of the used materials have been duly listed at the end of the report.

CHAPTER V

FINDINGS AND DISCUSSIONS

5.1 Findings of the study

The research reveals that MFIs, being one of the important innovators and practitioners in customizing loan and other risk reducing mechanism for the poor, have shown that they can also respond to their clients' needs for insurance. They have recognized that insurance protects the client as well as the institution. A number of important variables need to be kept in mind while designing microinsurance schemes that complements poverty alleviation role of microfinance schemes. The studied variables (i.e. service delivery model, premiums, benefit packages, claim & reimbursement, management, risk management) have been discussed and compared in this section.

Table 7: At a glance Microinsurance information of seven MFIs.

Name of the organization	IDF	DSK	Podokkhepp	Sajida Foundation	Shakti Foundation	Uddipan	Proshika
Status	Operational	Operational	Operational	Operational	Operational	Operational	Operational
Ownership	Community based owned by the MFI						
Organizational Structure	Life insurance is run as a part of regular financial program activities and health insurance is offered to local community and non-members.						
Risk Coverage	LI, Primary health, disaster & hospitalization	PHC and LI	IGA project risks (b)	PHC, SHC	LI, PHC	Only LI	LI, natural disaster, loans and livestock
Potential Target	>100000	>100000	100000	>100000	>170000	N/A	1 crore
External funds	No, PKSf	NO, PKSf	PKSf	Start up grant	No	PKSf	No
Waiting period	1-3 weeks	NO	YES	NO	1-3 weeks	2 weeks	1-3 months
Schedule of Contribution	Weekly contribution	Yearly (part of loan instalment)	Yearly (1%) of loan amount	Yearly (part of loan instalment)	Weekly 5 taka	Yearly	Annual deposits (disaster and LI) & direct payment on livestock
Mandatory	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Marketing	WOM, Weekly meeting, Posters & leaflet	WOM(a) Weekly meeting	WOM Weekly meeting	WOM, billboard and leaflet	WOM Weekly meeting	WOM Weekly meeting	WOM Weekly meeting
Feature of benefit package	All risks are addressed under one premium	* Separate insurance package	One premium gives access to all policy	Co payment	Deposit is returned after 5 years	N/A	MSE Growth through new businesses generation

*LI+ HI+ Disaster Insurance

(a)WOM = Word of mouth (b) IGA risk= Project all related risk

5.1.1 Features of microinsurance products offered by the selected MFIs:

All the *Loan protection insurance* offered by the MFIs ensures that in the event of death of the borrower all outstanding repayments are written off. *Health and disability insurance offered by the MFIs* enables the poor to cover the costs of medicine, hospital stay and treatment as well as protecting the loss of income due to sickness or injury. Sajida Foundation, DSK and Shakti Foundation are offering health insurance. Only Sajida Foundation has initiated informal mechanisms to cover the vulnerable section. Life insurance covers the costs of burial, and disaster insurance replaces assets lost due to natural calamity or destruction. DSK and Uddipan offer life insurance schemes that complement loan schemes. *Life savings insurance*, which pays the deceased beneficiary the amount held in the savings account plus a benefit enables funeral expenses to be taken care of and replaces some of the loss of income source. Shakti Foundation has introduced life saving insurance. *Livestock insurance* is offered to protect the poultry and livestock bought with the micro credit by the borrower. Proshika offers a large percentage of loans for the purchase of cattle. They have introduced Livestock insurance to cover the risk of death of the live stock is offered to the client complementing the credit scheme. Crop insurance is not introduced by any of the selected MFIs.

The insurance products are designed based on the saving or loan products of the MFIs and mandatory in nature. Thus the work of mouth is one of the main source of marketing.

5.1.2 Microinsurance service delivery model followed by the MFIs

All the MFIs follow provider model that means MFIs provide the care as well as take charge of designing insurance products, collect premiums, review claims, handle payments etc. using the existing structure. The premium, benefit package and administrative costs vary depending on the insurance product. Premium is used to meet the operational costs of the program and providing the care.

Figure 2: Microinsurance service delivery model of selected MFIs.



The design of service delivery depends mostly on the technical and financial capacity of the MFI. Sajida Foundation and DSK have own hospitals that's why they adopted the provider model for health care insurance. MFIs like Proshika, Uddipan, DSK, IDS and Shakti Foundation started with life insurance based on their savings and loan products.

5.1.3 Reasons to introduce microinsurance products

After reviewing the microinsurance schemes offered by MFIs, it was found that there are financial barriers to mitigate IGA and Non-IGA project related risks that cause sudden income erosion of the beneficiaries. The predominant reason for introducing microinsurance scheme is to remove those barriers. MFIs felt that health care and funeral costs were high and were impoverishing their beneficiaries. Some of the MFIs started to create a safety net to protect and serve policy holder's interest and attain better loan recovery. Following table shows the undercurrent reasons of the MFIs to introduce microinsurance products.

Table 8: Reasons for initiating microinsurance by the MFIs.

Name of the MFIs	Safety Net	Demand led	Financial Barrier
Life insurance products			
Shakti Foundation	Y	Y	
DSK	Y	Y	
Uddipan	Y	Y	
Health Care Insurance			
Sajida Foundation		Y	Y
DSK	Y		Y
Shakti foundation	Y		Y
Combined insurance product			
Proshika			Y
IDF		Y	Y
Podokhhep		Y	Y

The table shows that Shakti, DSK and Uddipan started microinsurance schemes as a safety net to mitigate death and health care related risks. A number of schemes have been introduced based on the borrowers and savers demand for an insurance product. Financial barrier plays an important role to improve access to health care and mitigate risks associated with natural disaster and livestock.

5.1.4 Target population for microinsurance products

The MFIs have specifically targeting the existing microinsurance scheme holders (either borrower or saver) within a definite geographical location. This is mostly the case for health insurance demanded by the target community. Only Sajida Foundation appears to have some degree of risk sharing across the income groups. This is not surprising given the fact that all these schemes were initiated by the MFIs who are working with specific communities. The study reveals that the target clients of micro

insurance products are both rural and urban poor people. A few MFIs are also serving peri urban beneficiaries. Besides some of them are also offering insurance products to the hard core poor and micro-enterprises.

5.1.5. Premium setting and collection

In case of setting the premium, much emphasis is given to the affordability of the clients. As all the MFIs follow provider model, the predominant feature is to use of exiting staff/volunteers for premium collection. This reduces the administrative costs considerably. Premium is collected mostly at the time of disbursement of the loan on yearly basis. For the saving based insurance products, premium is collected weekly.

5.1.6 Benefit packages:

MFIs have designed life insurance schemes to complement both loan and saving instruments. Shakti Foundation and Uddipan have taken extra step further, covering an additional life, i.e of the spouse of the client, which was in response to the need felt. This has been given more importance as the women feel that there is greater need for covering the lives of their spouses (the so called bread earner of the family) because the death of the spouse is a greater loss to the family, which the women will have to cope with. Sakti foundation are facing problem with the frequent claims of the savers while Uddipan has just started for its borrowers. All the benefit packages had an upper limit, ranging from BDT 2000 to BDT 5000. Life insurance under provider model does not have any exclusion (Table 9).

Table 9: Benefit package of life insurance schemes.

Features	Shakti Foundation	UDDIPAN	DSK
Insurance Scheme	Security Deposit Scheme	Life Insurance Scheme	Life Insurance Scheme
Beneficiaries	Saver and spouse	Borrower and spouse	Borrower
Risk Coverage	Natural death for 5 years	Natural death for 1 year	Natural death for 1 year
Benefits	◊If member/spouse dies, 5000 BDT is paid & policy automatically terminates. ◊If no claim is made premium is returned otherwise the member has to continue weekly payment of the premium. ◊If the member wants to leave, the premium money is given back.	◊If borrower dies, 5000 BDT is paid to the nominee with in the stipulated time ◊If spouse dies 2000 BDT is paid to the borrower within the stipulated time.	◊In case of death of policyholder, the outstanding loan amount is written off and nominee receives amount of already paid back loan.

Sajida Foundation, DSK and Shakti Foundation are offering health insurance. A number of benefits such as health consultation, essential drugs, hospitalization and treatment are provided at a subsidised rate to the members of different financial schemes, their family and other non-members. Sajida foundation is the only MFI that is able to meet the operational costs of the health facilities and in next two years will attain breakeven. Economies of scale are the main strategy followed by Sajida which

allows buying the health care services (Example: doctors charge less if the numbers of operation in a month is more) at a cheaper price and selling it at a subsidised price. Awareness building is one of the common visions of all the insurance providers. Under these schemes the hardcore poor are addressed. The schedule of contribution varies from weekly to annual payment (Table 10).

Table 10: Benefit package of health insurance schemes.

Features	Sajida Foundation			DSK	Shakti Foundation
Name of the Scheme	Sajida Health Scheme			Micro health insurance scheme	Shakti Health Scheme
Beneficiaries	Members and non-members			Members and non-members	Members (family) and non-members
Risk Coverage	Primary health, hospitalization and treatment			Primary health	Preventive & curative health care
Benefits	Services	Mem	Non-M	- Health Consultation at subsidized rates. - Essential drugs at 50% discount. - Hospitalisation up to 25% discount. - Awareness building and training.	- Medicine and some basic pathological tests at cost price - Awareness building and training.
	General treatment	Free	30		
	Antenatal care	Free	20		
	Normal vaginal delivery	300	1000		
	Menstrual Regulation	300	500		
	Pathology investigation	30% less	Mkt rate		
	Operation	3500-8500	5000-12000		
	T.T	Free	Free		
	Birth spacing injection	25	25		
	Treatment loan	No interest	N/A		
	Annual Health card	100-150/family	200/person		
	Specialist Doctor	50	100		

IDF and Proshika introduced insurance schemes that address more than one risks. This is a new approach to address the maximum number of risks having a larger pool of beneficiaries. Both IDF and Proshika covers IGA and Non-IGA related risks for borrowers and savers of microfinance schemes (Table 11).

Table 11: Benefit package of combined/multiple insurance scheme.

Features	IDF			Proshika
Name of the Scheme	Microinsurance /Emergency Fund			Proshika savings Scheme
Beneficiaries	Micro credit borrowers			Savers
Risk Coverage	Combined package of Primary health, life, accidents, disaster and hospitalization			Natural disasters, life
Benefits	Item	Mem	Family	1) In case of damage/destruction to homestead due to river erosion, cyclones/tornadoes -policyholder receives twice the amount of savings deposit but the savings deposit will remain intact, and he/she will have the same rights to it like other members. If the victim defaults on a loan, 2) In case of death of policyholder, nominee receives a minimum 1 of twice the amount of the deceased member's savings balance. If the deceased member had any outstanding loan with, then loan and service charge will be recovered, and the balance if any, is transferred to the nominee.
	LI Lonee			
	1 st & 2 nd	500	Tk. 1500	
	3 rd	+ based on outstanding loan	Tk. 2000	
	Health Insurance Lonee			
	1 st & 2 nd	Tk. 1000	Tk. 1000	
	3 rd	Tk. 1500	Tk. 1500	

Only Proshika offers Livestock Insurance scheme for its micro enterprise borrowers for poultry and livestock. The live stock is purchased through the Livestock Purchase Committee. One time premium is paid and the claim is paid in two years in case of livestock. Additional benefit can be derived out of the scheme by paying only taka 10 for livestock exchange if needed (Table 12).

Table 12: Benefit package of livestock schemes for micro enterprises.

Features	Insurance Scheme
Name of the Scheme	Proshika Livestock Insurance
Risk coverage	Only Poultry and live stock
Beneficiaries	Micro Enterprises
Benefit package	<u>Livestock exchange:</u> -paying 10.00 taka additional premium only livestock for production purpose can be exchanged <u>Poultry Life insurance:</u> If animal dies due to disease etc, policy holder is paid: -Tk 0, if death occurs within 90 days policy. -5% of cost of animal if death occurs within 91-180 days -10% of cost of animal if death occurs within 181-270 days. -15% of cost of animal if death occurs within 271-365 days

Padakhhep covers all the IGA project related risks under a multiple insurance scheme for the 1.3 million borrowers. It covers the death of the lonee, spouse and IGA included cow/goat fire hazard, loss of IGA project due to flood, natural calamity etc. A detail description of the scheme is provided in the following table.

Table 13: Benefit package of IGA project related risk for micro enterprises.

Features	Insurance Scheme																
Name of the Scheme	Padakhhep Microinsurance Scheme																
Risk coverage	Health, life, disaster																
Beneficiaries	Micro credit borrowers																
Benefit package	<table border="1"> <tr> <td>Death of a Loanee</td><td>a) Outstanding loan (includes service charge) are adjusted with the savings & outstanding loan is exempted if there's extra savings after adjustment that is returned to the successor</td></tr> <tr> <td>House, shop, farm, workshop, business institutions etc. (IGA/Project) is burnt by fire</td><td>a) Credit service charge is exempted 50% to 100% depending upon inquiry and the amount of loss.</td></tr> <tr> <td>Death of IGA included cows/goats, purchased and maintained with the credit money</td><td>b) Lonee, having four instalments due/unpaid consecutively, is not entitled to get this benefit.</td></tr> <tr> <td>IGA/Project incurred loss due to a) flood or natural calamities and b) political or social reasons like robbery, eviction</td><td>a) Credit service charge is exempted 50-100% depending upon inquiry and the amount of loss. If loanee is unable to pay the outstanding loan amount after adjusting the deposited savings of that date, is exempted.</td></tr> <tr> <td>IGA/Project implementer is unable to implement the IGA/Project due to physical injuries or accidents like losing hand, leg, eye/being paralyzed etc.</td><td>b) Lonee, having four instalments due/unpaid consecutively, is not entitled to get this benefit.</td></tr> <tr> <td>In case of death of the IGA/Project implementer's husband</td><td>The credit service charge of the loanee is exempted 50% to 100%.</td></tr> <tr> <td>For Absconder Loanee Member (if any loanee member flees away from her/his locality for six months continuously)</td><td>a) Outstanding loan is adjusted with the deposited savings and insurance fund. b) If the absconder returns, the instalments are collected and accounted as miscellaneous income.</td></tr> <tr> <td>Community Development</td><td>A portion of the surplus of premium is spent for credit-plus activities at</td></tr> </table>	Death of a Loanee	a) Outstanding loan (includes service charge) are adjusted with the savings & outstanding loan is exempted if there's extra savings after adjustment that is returned to the successor	House, shop, farm, workshop, business institutions etc. (IGA/Project) is burnt by fire	a) Credit service charge is exempted 50% to 100% depending upon inquiry and the amount of loss.	Death of IGA included cows/goats, purchased and maintained with the credit money	b) Lonee, having four instalments due/unpaid consecutively, is not entitled to get this benefit.	IGA/Project incurred loss due to a) flood or natural calamities and b) political or social reasons like robbery, eviction	a) Credit service charge is exempted 50-100% depending upon inquiry and the amount of loss. If loanee is unable to pay the outstanding loan amount after adjusting the deposited savings of that date, is exempted.	IGA/Project implementer is unable to implement the IGA/Project due to physical injuries or accidents like losing hand, leg, eye/being paralyzed etc.	b) Lonee, having four instalments due/unpaid consecutively, is not entitled to get this benefit.	In case of death of the IGA/Project implementer's husband	The credit service charge of the loanee is exempted 50% to 100%.	For Absconder Loanee Member (if any loanee member flees away from her/his locality for six months continuously)	a) Outstanding loan is adjusted with the deposited savings and insurance fund. b) If the absconder returns, the instalments are collected and accounted as miscellaneous income.	Community Development	A portion of the surplus of premium is spent for credit-plus activities at
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5.1.7 Claims and reimbursements process

Claims and reimbursements are handled by the MFIs staff. This is admirable that administrative costs are kept to a minimum. In most of the schemes the community volunteers are used to check on fraud. So communities comprising leaders/volunteers meet to clear claims (applicable for life insurance and livestock insurance). Reimbursements are made in meetings, so that everybody knows the amount of reimbursement and if there is any objection that can be raised. Life insurance claims are settled within two weeks, where as the health insurance is settled instantly as being kind in nature (co-payment/voucher system).

In case of life insurance claim, an application has to be filled and submitted to the Centre Head in group meeting and then sent to the Branch Head. After all necessary investigation, Doctor's (Head office appointed or local) assessment, final approval and assessment the claim money is paid. But in this process if anybody 1) Branch Director ii) Health Center Doctor or Head office Doctor iii) Finance unit has some objection/doubt then the application can be cancelled. Death certificate issued by the local Chairman, Commissioner is a must. The reason of death has to be clearly mentioned in the certificate otherwise it will not be accepted.

MFIs providing health insurance have an upper limit to the benefits; some patient may have to pay an extra charge. Sajida Foundation and DSK have introduced co-payments to raise the revenue and reduce unnecessary utilization. The patients do not have to provide any documentation, except to bring along the Insurance Card at the time of admission. DSK uses voucher system for health care insurance.

In case of livestock insurance to get the insurance benefits the entrepreneur has to a) buy the livestock through group livestock purchase committee and b) ensure proper food and vaccination of the live stock. For claims, current market price is crossed checked by the group and then the amount is paid.

5.1.8 Distribution of management function

Most of the management functions are performed by the MFI staffs/volunteers. This ranges from creating awareness among the community, selling the insurance products, processing claims and reimbursements, managing fraud to redressing grievances. Thus it appears that the MFIs have the ability to manage micro insurance programme and would probably require some help in technical aspects like premium setting, negotiating with the providers and insurance companies.

Table 14: Distribution of management functions in microinsurance service delivery.

Functions	Provider Model
Creating awareness in the community	MFI staff
Fixing the premium	MFI staff
Collection of premium	MFI staff
Managing the insurance fund	MFI staff
Negotiations with providers (applicable for health insurance)	Inherent
Providing care	MFI
Managing claims	MFI
Managing reimbursement	MFI
Managing the risk	MFI
Monitoring	MFI
Feedback from the community	MFI

However it is clear that many of the MFIs do not have an effective management information system and so are not able to assess their effectiveness in terms of objectives. Very few MFIs could give figure on accessibility, on financial protection and even on financial sustainability.

5.1.9 Methods used to manage risk

Moral hazard, fraud, adverse selection, and overuse all raise the costs of insurance provision. Almost all the MFIs have various measures to control financial risks of particular importance are moral hazard, adverse selection, cost escalation, fraud and abuse. Table 15 provides a summary of the general risk management methods practiced by the MFIs. While more can be done, especially in terms of cost containment, it will require technical expertise at the MFI level.

Table 15: Risk Management Methods practiced by the MFIs in Bangladesh.

Risk	Life Insurance	Health Insurance
Advance selection	• Membership from existing group only and in certain cases of health insurance whole family membership. • Definite premium collection period. • Defined risk pool is ensured as premium is same for all in life and health insurance, though in case of health insurance co-payments may differ.	
Moral Hazard	• Claims limits are fixed (applicable for both life and health insurance). • <u>Coverage Restrictions</u>: does not cover life insurance conditions specifically defined in exclusion by the policy and restricted to unnatural (suicide) death of insured or spouse. • <u>Proof of event</u>: The insurance agent visits the place to view the death body and cross check with the group to identify the reason of the death.	
Fraud and abuse	• <u>Coverage Restrictions</u>: cover medical conditions specifically defined by inclusion in the policy and restricted to serious medical death. • <u>Proof of event</u>: Doctor views the stitches/wound in case of the surgery, baby in case of delivery. • <u>Pre-selected provider</u>: Primary care is provided by selected doctors. • Community Checks (Peer group pressure). • Identity cards for insured. • Fixed cash benefit. • Accounting reports prepared in a timely manner.	

Some schemes have implemented differential pricing to reflect different risks and claim experiences to decrease moral hazard. Health insurance offered by the MFIs gives limited coverage and co-payments for different health care services which reduces the likelihood of unnecessary and frequent claims.

MFIs offer insurance schemes as a mandatory requirement to the pre-existing groups of the saving or credit programme. This ensures equal and fixed premium collection period, hence minimize adverse selection. In case of health and life insurance MFIs are enrolling the family unit and minimizing the risk of adverse selection.

All the MFIs offering life insurance require formal death certificates for claim settlement to deter client fraud. In case of health insurance, the MFIs closely monitor the treatment costs and types of treatment are needed over the health care provider. Sajida Foundation has issued Insurance Card and DSK uses voucher system for health care insurance to minimize the fraud. In case of Live Stock insurance, the live stock is purchased through Live Stock Purchasing Committee and for claim settlement current market price is crossed checked by the group.

5.2 Challenges:

The challenges faced by the MFIs to design, introduce and promote a viable microinsurance product to the target beneficiaries include the following:

- It was found that MFIs are still finding it difficult to do full cost recovery of the new financial scheme in short term.
- To keep premiums affordable and flexible coverage is another challenge for the MFIs.
- The added need for qualified staff, internal controls, efficient administration systems, resources for marketing and education is the burning need of the MFIs in order to establishing a sustainable and viable insurance scheme.
- Without reinsurance the level of cover and nature of risk protection provided to the poor is limited to the premiums and reserves of the MFI, this is minimal as with low-income households premiums are small and reserves difficult to accumulate.
- Another issue is need for technical expertise. Providing insurance on a prudent basis for MFI is a complicated process. As MFIs lack in actuarial and business planning expertise, the MFI have found it difficult to start an insurance product. For the MFIs these skills are unavailable in the local community and too expensive to purchase on the open market.

CHAPTER VI

SUMMARY, RECOMMENDATIONS AND LIMITATION OF THE STUDY

6.1 Summary and Conclusion

The research reveals that MFIs, being one of the important innovators and practitioners in customizing loan and other risk reducing mechanism for the poor, have shown that they can also respond to their clients' needs for insurance. They have recognized that insurance protects the client as well as the institution.

It was found that all the selected MFIs follow provider model of microinsurance service delivery. Shakti foundation, DSK and Uddipan started their micro insurance scheme with life insurance products, which is the simplest of the products. Crop insurance being the most complex microinsurance product is not been offered by any of the MFIs. Shakti Foundation and Uddipan have taken extra step further, covering an additional life, i.e. of the spouse of the client, which was in response to the need felt. Proshika offers a large percentage of loans for the purchase of cattle. Very few MFIs have appropriate Management Information System (MIS) to support the insurance program. Sajida Foundation and DSK having own hospitals are offering health care insurance under provider model. This confirms that the MFIs started offering microinsurance products based on their existing technical capacity. Self-insurance, obtaining or accumulating sufficient capital from current insurance operations, start up grant from donor agencies or from affiliated organisations, is very common among the MFIs. Shakti foundation is planning to go for reinsurance arrangement with commercial insurance providers. Most of the MFIs lack in knowledge, skill and expertise to design microinsurance products like any commercial insurance service providers.

One of the top reasons, that micro loans fall into arrears, is due to death, health problem, accident of the borrower or in their family. Insurance built into microfinance schemes (both loan and savings) can reduce give temporary solution to cope with the risk and give them some time to start earning again. Since microinsurance plays a significant role as a tool to complement micro finance, the policy implication for the MFIs is very clear. The MFIs should introduce insurance products that will complement saving and loan schemes and work as a safety net. MFIs should design the microinsurance products based on their technical expertise and personal strength. There should be continuous product development and innovation to meet the needs and lifestyles of the poorer classes and the rural sector.

6.2 Recommendation

6.2.1 *Delivering microinsurance to the poor*

The road to achieving a comprehensive insurance scheme is full of pitfalls and must be undertaken cautiously and carefully with good corporate governance at the heart of each step. A good MFI should try to serve the needs of members, providing flexible, affordable and appropriate products. It will minimise fraud and moral hazard, and encourage participation.

The environment of each country, each region and each village is different and its insurance requirements are also unique, therefore to put forward a standardised approach to establishing a micro-insurance scheme would be impractical. However the paper recommends the following process to design and introduce sustainable and viable insurance scheme based on the technical capacity of the MFIs:

a) Need Assessment:

MFIs should identify the needs of the borrowers and savers to identify the appropriate microinsurance product for the target group. In order to explore the demand for microinsurance the MFIs should undertake the following steps:

- Undertake feasibility study within a pre-existing group such as savers and borrowers of micro credit.
- Introduce a saving culture to cover small losses of client.
- Introduce compulsory schemes to ensure sufficient numbers of policyholders before it becomes active.
- Cover a wide range of risks and minimize exclusion.

b) Partner-Agent Model Vs Own Insurance scheme:

If the MFI lacks the technical and operational capacity then it can do the following:

- Search for a partner; can be another MFI area or established insurance company having expertise in this, and
- Negotiate an appropriate agreement for distribution, training, products and reinsurance for the identified insurance scheme.

Or

- Set up own microinsurance scheme, separate to existing services, with limited coverage and simple products (e.g. loan protection and life insurance) and
- Confirm with donor agency or organisations for long term technical assistance and training needs.

c) Microinsurance product designing, promotion and execution

While developing, promoting and executing the microinsurance scheme MFIs should

- Establish clear and concise policy wordings, product coverage, and administration system for dealing with applications, claims and payment.
- Ensure adequate capital reserves.
- Education & marketing of insurance concept to policyholders,
- Training of staff on principles & practices of insurance to do effective promotion and
- Implement an accurate and timely accounting and information system.

d) Capacity building of internal staff on the technical side:

The MFI should capacity build the internal staffs in the following areas:

- Train staff on reinsurance principles, insurance accounting, reserving, actuarial calculation and
- Specialist training on different product lines.
- Regulatory compliance training for staff, training on investments.

e) Expansion of microinsurance products:

Based on the result of piloting and success of microinsurance schemes the MFI can do the following:

- Investigate and expand in different microinsurance product lines,
- Arrange more intense reinsurance training and
- Administer a regional and national network of branch offices.

f) Setting up own insurance company:

In the long run the MFI can opt for the following and move towards setting up own insurance company:

- Investigate potential collaboration with other micro-insurance schemes,
- Find equity partners from a feasible established insurer
- Raise capital from other potential partners and members
- Lobby government for enabling legislation
- Obtain reinsurance cover

6.2.2 Overcoming challenges:

The most appropriate method to overcome the challenges faced by the MFIs to become an agent for an existing and established insurance company, this arrangement benefits all parties concerned. The micro-insurance provider receives a no risk fee for administrating the business and is able to access the technical

expertise, reinsurance and capital capacity of the partner. The partner is ultimately responsible for maintaining reserves, setting the price, paying claims, dealing with external service providers and complying with legal requirements.

Partner-agent model is widely practiced in India. The same model can be replicated in Bangladesh as a pilot basis and based on the success of the piloting can be scaled up and replicated for a viable solution of microinsurance complementing microfinance schemes. Rather than rushing to microinsurance, MFIs should learn from the existing microinsurance schemes and establish a sustainable and viable insurance scheme following the path way to attain sustainable development for the poor.

6.3 Limitation of the study

Almost all research studies are conducted under certain time and resource constraints. As a result these are bound to have certain limitations. The present study, conducted under such constraints, have several limitations of which the following deserve specific mention:

- **Insufficient secondary information**

A major constraint emanates from the insufficiency of secondary information. No noteworthy prior research could be found which could clearly explain the relationship among microinsurance, poverty and micro finance.

- **Sample size**

The sample size for the MFIs in this study was not too large as microinsurance is comparatively a very new concept in Bangladesh. The sample is convenience-based. Due to time constrain, data cannot be collected from a large number of MFIs, Insurance Companies and Micro credit beneficiaries.

Demand side factors affecting microinsurance service delivery and microinsurance product designing have not been considered under this study. While studying the service delivery mechanisms, major factors affecting microinsurance scheme have been studied in this thesis.

Although the major findings of the study are consistent with the analytical framework of Microinsurance, the above mentioned limitations of the research should be taken into consideration by the readers.

Appendix One

- ***Examples of Microinsurance delivery model and determining appropriate model***

In the **partner-agent model**, insurers and MFIs team up to exploit each other's comparative advantages. Insurers utilize MFIs' efficient delivery mechanism to provide sales and basic services to the clients. MFIs benefit from being able to provide insurance to their clients with no risk and limited administrative burden. FINCA Uganda has entered such a partnership with American International Group (AIG) to provide its clients insurance.

In the **community-based insurance model**, the policyholders are themselves the owners and managers of the insurance program. This model is used mainly in health insurance. The members themselves design, develop, service, and sell the product, and they negotiate with external health care providers.

The full-service insurance model is similar to the model followed by formal sector insurers, where the provider is singly responsible for all aspects of product manufacturing, sales, servicing, and claims assessment. The insurers are wholly responsible for all insurance-related costs and losses, but they also retain all profits.

Under the **provider model**, the service provider and the insurer are the same. Like the community-based model, this model is also used mainly in health services, where hospitals or doctors offer policies to individuals or groups.

Determining which model is most appropriate for a given institution's situation depends on:

- **Availability of partners.**
- **Availability of resources.** The more responsibilities an institution assumes, the greater the resources required in terms of time, money, and training to develop the necessary capabilities. Becoming a full-service insurer typically requires approval of the commissioner of insurance. In most countries, this also requires significant initial capital requirements before an insurer can begin offering policies.
- **Organizational capabilities.** MFIs and other organizations that have an established client base with whom they regularly conduct financial transactions already possess many of the capabilities required to perform product sales and servicing activities; however, many may be poorly equipped to perform the product manufacturing function.
- **Degree of risk.** Institutions preferring not to burden themselves with the risks of offering insurance are more likely to prefer the partnership or group policyholder models.
- **Income potential.** Institutions interested in maximizing the financial gains from their insurance products are more likely to prefer the full-service insurer approach.

Appendix Two

• Case Studies of successful microinsurance service delivery examples

Grameen Kalyan, Bangladesh	Tata AIG India	Delta Life Bangladesh
People Insured: 117,000	People Insured: 15,000	People Insured: 1,000,000
Benefit: Health	Benefit: Endowment Life Time	Benefit: Endowment with profit
Premium Range: USD 0.88-1.76 per year	Premium Range: USD 0.10-0.576 per year	Premium Range: USD 2 per USD 20 face value per year
Grameen Kalyan (GK) was launched in 1996 when Grameen Trust handed over ten of its clinics to this newly registered NGO. Membership of its health scheme is open to all Grameen Bank borrowers and their families, as well as to all villagers living within an 8-km radius of a GK health centre. Grameen Kalyan now operates 28 clinics in eight districts in the country. It plays a dual role, that of insurer and direct service provider. Its operational and financial success is due largely to a generous endowment fund, which was provided by its parent company and on which it has earned a good investment return to offset operating losses. It is grappling with a number of serious challenges of providing health insurance, in particular finding the right balance between providing coverage and covering costs. Its strategy of serving the community at large, and charging higher rate form the less poor, has merits as a tool of cross-subsidisation and needs to be explored further.	India requires what some other countries only encourage, i.e. that each insurer has a set percentage of its business coming from the rural and social sectors. Tata AIG, in fulfilling of its regulatory obligations to serve the rural and social sectors, is experimenting with new delivery channels. It has introduced so called micro grants (the development of the model was partly financed by the DfID grant). This is an innovative direct marketing approach that involves assisting hand-picked low-income women to form quasi insurance agencies. Initial results appear promising. Organizationally, Tata AIG has been clever in pursuing its micro insurance obligations. It has created a separate rural and social team that is well-funded and has the autonomy to innovate. The insurer offers both term and endowment policies to the low-income market and the latter seem to be in greater demand than straight term insurance.	The 15 year old Delta Life is serving the low-income market on its own without donor support or technical assistance. A for-profit company listed on the Dhaka Stock Exchange, it is regarded as the 'Grameen Bank micro insurance', having pioneered a policy that pinpoints specific needs of the poor for credit as well as savings and insurance, all in an uncomplicated endowment package for a 10 or 15 year term. The policies are essentially contractual saving products that will pay a life insurance benefit if the policyholder dies (and the premiums are up to date). The products are well suited for the risk management needs of the low income market since they provide life insurance protection while allowing the poor to gradually buildup assets; and if there is a need for cash, the policyholder can borrow against the surrender value of the policy-savings, credit and insurance all rolled into one. Operating results, however show high termination and expenses ratios for the products, suggesting that the poor are not getting good value for their money.

Source: Microinsurance Conference 2005. *Making insurance work for the poor: Current practices and lesson learnt*. Schloss Hohenkammer, Munich, Germany 18-20 October 2005.

Appendix Three

- **Microinsurance Glossary**

A cquisition costs	Expenses incurred in attracting customers, including sales force salaries, marketing and advertising costs, and other expenses incurred before a prospect purchases a policy.
Actuary	A person who calculates insurance premiums, reserves, and dividends.
Adverse selection	Also called anti-selection, the tendency of persons who present a poorer-than-average risk to apply for, or continue, insurance. If not controlled by underwriting, results in higher-than-expected loss levels.
Age requirement	Stipulated minimum and maximum ages below and above which the company will not accept applications or may not renew policies.
Agent	An insurance company representative who sells and services insurance contracts for the insurer; the intermediary between the insurer and the policyholder.
Aggregate excess policy	A type of reinsurance in which the reinsurer pays claims that exceed certain value during a specific time period.
Annuity	A contract that provides an income for a specified period of time, such as a number of years or for life.
Anti-selection	See adverse selection .
Asset and liability management	Matching the expected maturity of an MFI's assets to the projected demand for funds, i.e., to ensure adequate liquidity to meet payments on their due date.
B eneficiary	The person who receives a life insurance benefit in the event of the policyholder's death.
Benefit or benefit amount	The amount payable by the insurer to a claimant or beneficiary upon the occurrence of the insured event. The benefit amount should be consistent with the insurable interest. Allowing coverage above the insurable interest creates fraud and moral hazard risks.
C ancellation	The discontinuance of an insurance policy before its normal expiration date.
Cede	To transfer all or part of an insurer's risk to a reinsurer.

Claim	A request for payment under the terms of an insurance contract when an insured event occurs.
Claims processing	The system and procedures that links the occurrence of an insured event with a payout. It is extremely important that microinsurers minimise the time spent in processing claims so that payouts can be made as quickly as possible.
Claims rate	Total claims divided by the insurance portfolio.
Claims ratio	The actual claims divided by the expected claims (or risk premium). Insurers generally prefer for the claims ratio to be less than 100 percent—i.e., actual claims are less than expected claims.
Claims rejection	Payouts should not be made if claims do not meet the required criteria (e.g., insured event occurring after the insurance term), however, through product design and client education, every effort should be made to reduce the likelihood that invalid claims are submitted.
Clawbacks	Commission paid to an agent that the insurer retrieves if the insurance contract is cancelled.
Client education	Since the target market may not understand how insurance works and may have some biases against insurance, the delivery of microinsurance may require a training component to teach clients how insurance works and how it might benefit them.
Commission	The part of an insurance premium paid by the insurer to an agent for his or her services in procuring and servicing the insurance contract.
Complaint and suggestion system	An important fraud prevention strategy, MFIs should have a mechanism and a strategy to actively solicit customer complaints that bypasses their primary point of contact, the loan officer.
Compulsory cover	Insurance that one is required to purchase, either because of government mandate (e.g., third party liability auto insurance) or as a condition for accessing another service (e.g., credit life insurance that is required when one takes a loan). Compulsory cover can control adverse selection and significantly reduce administrative costs.
Contract	See policy.

Co-payments	Used by insurers to share risk with policyholders and reduce moral hazard, this mechanism establishes a formula for dividing the payment of losses between the insurer and the policyholder. For example, a co-payment arrangement might require a policyholder to pay 30 percent of all losses while the insurer covers the remainder.
Covariant risk	A peril that affects a large number of the policyholders at the same, e.g., an earthquake; or several risks that consistently occur together (at the same time or under the same circumstances).
Cover or coverage	The scope of protection provided under an insurance contract.
Credibility factor	A statistical measure of the degree to which past results make good forecasts of future results. Denoted Z , this factor is used to calculate the credibility risk premium. For MFI life insurance, the credibility factor equals the square root of N divided by 25 000, where N is the number of policy-years of experience.
Credit life	Insurance coverage that repays the outstanding balance of a loan if a borrower dies.
Death risk	The chance that a borrower will die with a loan outstanding.
Deductible	Also known as excess , an amount that a policyholder agrees to pay, per claim or per accident, toward the total amount of an insured loss. Insurers use this mechanism to share risk with policyholders and reduce moral hazard.
Eligibility	The criteria by which one is able to purchase an insurance policy; intended to control adverse selection (e.g., there may be age restrictions that prevent people above or below a certain age from accessing insurance).
Estate	The assets and liabilities of a person left at death.
Excess	See deductible .
Exclusions	Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments. Moral hazard is partly managed through exclusions that remove the financial gain from the undesirable action. For example, most insurance policies do not pay benefits if the injury, disability or death is self-inflicted. Exclusions also help to control covariant risk; many policies exclude losses due to wars, riots, and natural disasters or "acts of God."
Expense ratio	The ratio of a company's operating expenses to premiums.

Experience	The record of claims made or paid within a specified time period.
Experience rating	Determination of the premium rate for a risk made partially or wholly on the basis of that risk's past claim experience.
Face value	Amount to be paid out by an insurance policy if either the insured event occurs (of for endowment policies if the policy matures).
FAQ sheets	A list of Frequently Asked Questions used to train field staff how to respond to customer queries; helps to standardise information delivery across branches.
Fraud	Intentional perversion of truth to induce another to part with something of value.
Grace period	A specified period after a premium payment is due, in which the policyholder may make such payment, and during which the protection of the policy continues.
Health insurance	Protection from illness, accidents and other health-related risks.
Incurred claims	The claims paid during the policy year plus the claim reserves as of the end of the policy year, minus the corresponding reserves as of the beginning of the policy year. The difference between the year-end and beginning of the year claim reserves is called the increase in reserves; this is added to the paid claims to produce the incurred claims.
Independent	The occurrence of the insurable event should be statistically independent from individual to individual. In other words, the chance of the event happening to one individual is not affected by the fact that it has happened to another.
Insurable interest	The financial loss suffered by an individual when an insured event occurs. If the insured party does not suffer a financial loss, i.e., does not have an insurable interest, there is no need for them to receive a financial benefit.
Insurable risk	The conditions that make a risk insurable are (a) the peril insured against must produce a definite loss not under the control of the insured, (b) there must be a large number of homogeneous exposures subject to the same perils, (c) the loss must be calculable and the cost of insuring it must be economically feasible, (d) the peril must be unlikely to affect all insureds simultaneously, and (e) the loss produced by a risk must be definite and have a potential to be financially serious.

Insurance	A system under which individuals, businesses, and other entities, in exchange for a monetary payment (a premium), are guaranteed compensation for losses resulting from certain perils under specified conditions.
Insured	The policyholder , the person or entity protected in case of a loss or claim.
Insured event	The trigger event that leads to the submission of a claim (e.g., death of the policyholder).
Lapse	The termination or discontinuance of an insurance policy due to non-payment of a premium.
Lapsed policy	A policy terminated for non-payment of premiums.
Law of large numbers	Concept that the greater the number of exposures, the more closely will actual results approach the probable results expected from an infinite number of exposures.
Life insurance	Coverage providing for payment of a specified amount on the insured's death, either to the deceased's estate or to a designated beneficiary; or in the case of an endowment policy, to the policyholder at a specified date.
Life savings	A life insurance product with the benefit linked to the amount of savings that a person has in an account. Popularised by credit unions as a means to promote savings, premiums on this group policy are paid by the financial institution to an insurer based on a multiple of the total value of savings accounts.
Loading	The amount that must be added to the pure premium for expenses, profit, and a margin for contingencies.
Management information system	Computerised and manual methods for keeping track of the data required for designing, delivering and monitoring the performance of insurance products.
Mandatory insurance	See compulsory cover .
Market research	Techniques used to determine a) the strength and characteristics of the demand for insurance, and b) information about insurance and insurance substitutes available in both the formal and informal markets.
Moral hazard	A risk that occurs when insurance protection creates incentives for individuals to cause the insured event; or a behaviour that increases the likelihood that the event will occur, for instance bad habits such as smoking in the case of health insurance or life insurance.

Morbidity	The relative incidence of disease.
Mortality	The proportion of deaths to the total population.
Mortality table	An actuarial table, based on mortality statistics over a number of years, showing how many members of a group, starting at a certain age, will be alive at each succeeding age. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation.
Option	When an insurance company gives the policyholder the right to make some choice in the future that the company guarantees to honour. A common type is the continuation option, whereby policyholders can continue an insurance cover after the original period has concluded.
Outsourcing	The practice of subcontracting work to outside individuals and firms.
Partner-agent model	The least risky approach for an MFI to provide microinsurance. The MFI acts as an insurance agent, selling and servicing policies. The insurance company, or partner, manufactures the insurance product.
Payment delay	Average number of days from the submission of the claim to the payment.
Performance ratios	Key figures that are used to track the financial performance of an insurer (see Table 6.5).
Period of investigation	The time period covered in an experience rating exercise; ideally it should be as long as possible. If a previous exercise was conducted then the new investigation should examine the period since the last investigation.
Pilot test	The implementation of a new product in selected branches for an initial period of time to ensure that the product design and implementation strategy works well before rolling it out to all branches.
Policy	The legal document issued by the company to the policyholder that outlines the conditions and terms of the insurance; also called the policy contract or the contract .
Policyholder	A person or entity that pays a premium to an insurance company in exchange for the coverage provided by an insurance policy.

Policy-years	The average number of policies during each sub-period of an experience rating investigation multiplied by the length of the sub-period in years (e.g., a quarter is $\frac{1}{4}$ of a year).
Portfolio insurance	A method for MFIs to manage death risk by purchasing an insurance policy that would reimburse the MFI for a percentage of the outstanding balance if borrowers die.
Positive selection	The design of an insurance product so that low risk individuals subscribe to it, such as only insuring persons who have been deemed eligible for microenterprise loans since they are presumably healthy enough to run their own businesses.
Pre-existing condition	A physical and/or mental condition of an insured that first manifested itself prior to the issuance of his/her policy.
Premium	The sum paid by a policyholder to keep an insurance policy in force.
Premium rate denominator	To quote the premium as a rate, it is necessary to express it as a percentage of something that has a clear and common meaning to both the MFI and the client. For the outstanding balance products (Credit Life and Credit Disability), the disbursed loan amount is used; for the other products, the denominator is the benefit amount.
Probability	The likelihood that the insured event will occur.
Product manufacturing	The process of determining the product's features, such as the insured event, the waiting period, exclusions, the term, the benefit and the price.
Product servicing	The process of verifying claims and submitting claims requests; all after-sale interaction with policyholders.
Projection to actual analysis	A critical monitoring system to regularly compare an MFI's actual performance to its expected performance.
Proof of loss	Documentation presented to the insurance company by the insured in support of a claim so that the insurer can determine its liability under the policy.
Property insurance	Provides financial protection against loss or damage to the insured's property caused by such perils as fire, windstorm, hail, etc.
Pure premium	See risk premium .
R&D committee	A cross-functional team, which includes representatives from all departments, responsible for shaping and guiding the organisation's product development process.

Random fluctuations	Since insurance involves estimating probabilities, one possible explanation for unexpected claim rates (high or low) is that it is just a natural occurrence that will even out over time; this explanation is particularly applicable to small risk pools.
Ratemaking	The process of estimating the expected costs involved in providing insurance coverage in order to set appropriate premium rates.
Recurring premium	The payment for insurance that occurs in instalments, such as monthly or quarterly payments, as opposed to single premiums, which are paid at the beginning of the term to cover the whole period.
Regulation	Government defined requirements for an insurer, such as minimum capital requirements and necessary expertise; also provides consumer protection through the oversight of insurers, including pricing policies, form design and appropriate sales practices.
Reinsurance	A form of insurance that insurance companies buy for their own protection.
Renewable term cover	Term insurance that can be renewed at the end of the term, at the option of the policyholder and without evidence of insurability, for a limited number of successive terms.
Reporting delay	Average number of days between the occurrence of insured events and the submission of the claim.
Reserves	An amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding.
Risk	The chance of loss.
Risk pooling	The dispersal of losses incurred by a few over a larger group.
Risk premium	The portion of the premium that is used to fund claims and is equal to the expected claims. Also known as pure premium.
Risk-managing financial services	Besides insurance, emergency loans and accessible savings accounts can help low-income persons to manage their risks.
Screening	Also known as underwriting, the process by which insurance applicants are filtered. For example, applicants may be required to sign a "declaration of health" asserting their good health. High-risk individuals may be excluded or charged more.
Settlement	Payment of the benefits specified in an insurance policy.

Stop-loss policy	An agreement from a reinsurer to cover total claims over a certain percentage of premiums.
Sum assured	See total insured benefit .
Take up rate	With voluntary insurance, the percentage of possible customers who do purchase the coverage.
Tender offer	A method of objectively analysing prospective insurance partners or consultants whereby the MFI clearly identifies what activities or interventions it requires and then requests qualified candidates to bid on fulfilling those activities.
Term insurance	Life insurance payable to a beneficiary only when an insured dies within a specified period.
Term of cover	The period within which the insured event must occur for a claim to become payable; could be either a fixed term (i.e., one year, five years) or whole life.
Time limit	The period of time during which a notice of claim or proof of loss must be filed.
Total insured benefit	Also referred to as the total sum assured , this is the sum of all individual benefits.
Trend analysis	A method of evaluating the organisation's performance over time to see if key indicators such as profitability and claims ratios are improving or worsening; in analysing trends, careful attention should be given to seasonal fluctuations.
Underwriting	Process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risk. See also screening .
Unearned premium	The portion of a premium that a company has collected but has yet to earn because the policy still has unexpired time to run.
Unit costing	A method of allocating income and expenses, including a proportion of overhead costs, to specific products or services to assess their profitability; may also include disaggregating costs for different steps in the product delivery process to identify inefficiencies.
Verification	The process by which claims are determined as being valid, i.e., for life insurance requiring a death certificate and/or attending the funeral of the deceased. Verification needs to balance two objectives: a) to provide proof that the insured event occurred from two independent parties, b) without causing undue hardship for beneficiaries. Also known as claims validation , claims underwriting or adjusting .

Voluntary cover	Allows consumers to chose the amount, term and type of insurance that they want; contrasted with mandatory or compulsory insurance.
Waiting period	The length of time a policyholder must wait before one's coverage becomes effective. Designed to control adverse selection; for example with life insurance, a delay between the time when policyholders begin paying premiums and when the coverage is applicable reduces the risk that someone who is about to die will purchase a policy.

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