TUW SKOK
Poland

CGAP Working Group on Microinsurance

Good and Bad Practices

Case Study No. 2

Craig Churchill and Terry Pepler - May 2004

Good and Bad Practices in Microinsurance

This paper was commissioned by the "Good and Bad Practices in Microinsurance" project. Managed by the ILO's Social Finance Programme for the CGAP Working Group on Microinsurance, this project is jointly funded by SIDA, DFID, GTZ and the ILO. The major outputs of this project are:

1. A **series of case studies** to identify good and bad practices in microinsurance
2. A **synthesis document** of good and bad practices in microinsurance for practitioners based on an analysis of the case studies. The major lessons from the case studies will also be published in a series of **two-page briefing notes** for easy access by practitioners.
3. **Donor guidelines** for funding microinsurance.

The CGAP Working Group on Microinsurance

The CGAP Microinsurance Working Group includes donors, insurers and other interested parties. The Working Group coordinates donor activities as they pertain to the development and proliferation of insurance services to low-income households in developing countries. The main activities of the working group include:

1. Developing donor guidelines for supporting microinsurance
2. Document case studies of insurance products and delivery models
3. Commission research on key issues such as the regulatory environment for microinsurance
4. Supporting innovations that will expand the availability of appropriate microinsurance products
5. Publishing a quarterly newsletter on microinsurance
6. Managing the content of the Microinsurance Focus website: www.microfinancegateway.org/section/resourcecenters/microinsurance

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Acknowledgements

The authors wish to thank the good people at TUW SKOK for their warm reception, their time and consideration during our visit, and for their thoughtful responses to our numerous questions, including Grzegorz Glowacki (Head of Marketing), Krystzna Medykowska (Head of Underwriting), Katarzyna Bieranowska (Head of Training and Sales) and Janina Szulc (Manager, Claims Department). We also extend our thanks to Wiktor Kaminski, the Vice President of the National Association of Cooperative Savings and Credit Unions. Special thanks go to Mary our interpreter who tirelessly and enthusiastically assisted us. Last, but certainly not least, we thank Grzegorz Buczkowski, the President of TUW SKOK, for not only enduring our visit to Sopot, but also for volunteering to conduct a case study of his own (see the forthcoming case on CARD Mutual Benefit Association).

Acronyms

AD&D	Accidental death and disability
CFF	Central finance facility
CU	Credit Union
CUNA	Credit Union National Association
EIU	Economic Intelligence Unit
EU	European Union
FPCU	Foundation for Polish Credit Unions
GDP	Gross domestic product
ICA	International Cooperative Alliance
ICMIF	International Cooperative and Mutual Insurance Federation
ISO	International Organisation for Standardisation
KNUiFE	Supervisory Commission for Insurance and Pension Funds
MFI	Microfinance Institution
NACSCU	National Association of Cooperative Savings and Credit Unions
P&C	Property and casualty
PIU	Polish Chamber of Insurance
PLZ	Polish Zloty
PPP	Purchasing power parity
PUNU	State Office for Insurance Supervision
SKOK	Cooperative Savings and Credit Unions
TUW SKOK	Mutual Insurance Company of Cooperative Savings and Credit Unions
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank
WHO	World Health Organization
WOCCU	World Council of Credit Unions
Zl	Zloty

Executive Summary

As the primary insurance provider of the Polish credit unions (CUs), TUW SKOK's history is linked to the re-emergence of the credit union movement after the fall of communism. Not long after the new credit unions began collecting savings, the National Association of Cooperative Savings and Credit Unions (NACSCU) planned for the provision of insurance as well. In 1993, CUNA Mutual and the Foundation for Polish Credit Unions (FPCU) launched Benefit, a joint venture that provided loan protection, life savings and funeral insurance. Along with its technical assistance, CUNA Mutual provided 90 percent of Benefit's initial capital. After four years of operations and moderate success, the partners decided to go their separate ways.

In 1997, NACSCU and the Foundation led the credit union's insurance activities in a different direction. The association decided that the greatest priority, and most immediate market potential, was with the credit unions themselves, rather than their members. So the National Association launched a property and casualty (P&C) insurance company to provide corporate products that protect the credit unions.

Soon thereafter, TUW SKOK was born, with initial services focused on deposit insurance and loan protection. In 2000, the insurer received additional licences allowing it to reach out to credit union members themselves. In recent years, TUW SKOK has unveiled numerous personal insurance products for credit union members, including a variety of accidental death and disability policies, homeowners or tenant's coverage, protection against debit card fraud and robbery, and savings completion insurance.

TUW SKOK started serving individuals in 2001. Despite significant growth over the past three years—it now has nearly 100,000 policyholders— is only reaching roughly 10 percent of CU members, so it still has a major market opportunity. But is TUW SKOK providing microinsurance? It is difficult to say. Although the insurer is not purposely extending insurance to low-income people, it is filling a market niche below the rest of the Polish insurance industry. Either way, TUW SKOK provides a number of valuable lessons for microinsurance providers:

- **Role of a brokerage company**: TUW SKOK's structure is largely organised around an outsourcing model. The central agency in this model is a brokerage company owned by TUW SKOK, NACSCU and the Foundation, which serves as the link between the credit unions and insurance companies, including but not limited to TUW SKOK. Where possible the insurance provided by the brokerage comes from TUW SKOK, but the insurer is not licensed to offer all types of insurance.
- **Staggered implementation**: TUW SKOK essentially has two markets: corporate clients (the credit unions) and individual clients (the credit union members). By starting with the corporate client base, TUW SKOK was able to build a strong financial foundation before launching into retail services.

- **Mutually beneficial relationships**: TUW SKOK's place in the credit union system gives it a captive market, or at least an advantageous position to reach the market. The success of TUW SKOK depends entirely on the success of the credit unions. So on the one hand, the insurer can be very efficient since it does not have to maintain a sales force; on the other hand, sales are dependent on the motivation of the credit unions and their staff.
- **Greater sales success with integrated products**: For most agents, their primary role is to fulfil their credit union duties; insurance is a secondary function. An early lesson from TUW SKOK's experience with products for CU members is that it is easier for staff to sell insurance that is linked to their core services (savings and credit) than stand-alone insurance products.
- **Bias incentives toward the institution?** TUW SKOK does not yet have evidence to back up this assertion, but it believes that it will have greater sales success if the credit unions earn greater fees, at the expense of commission to individual agents. The logic behind this approach is to get greater management buy-in, and then the managers will more actively encourage staff to sell insurance. The credit union can then decide how much to pass on to the individual agent.
- **More incentives**: Besides commissions, TUW SKOK has introduced additional incentives for achieving volume thresholds. When a credit union sells 1000 policies, the brokerage firm pays it a bonus of $1200. To stimulate competition among its agents, TUW SKOK rewards the top 20 salespersons with a long weekend trip to Rome or Paris for two.
- **Simple products**: Product design is kept simple for ease of administration, training of agents, and member understanding. Insured amounts and benefits are suited to the demographics of the credit union membership.
- **Monthly premium payments**: Although most products are priced on a per annum basis, every attempt is made to provide a monthly premium alternative to facilitate affordability. For example, for one of the tenant's products, the credit union is encouraged to provide a one-year, interest free loan to allow the member to remit premiums monthly.
- **Premium collection**: The partnership between TUW SKOK and the credit unions greatly facilitates premium collection. All credit union members have savings accounts, so for stand-alone insurance products, each month the CU deducts the relevant premium amounts from the members' accounts and forwards it to TUW SKOK. Since this is an electronic transaction rather than a physical financial transaction, the transaction costs are dramatically reduced.
- **Complications with disability claims**: For disability claims, the benefit varies depending on the degree of disability. This assessment tends to be subjective, and the findings between doctors can vary significantly, causing delays in claims processing. In fact, the number one cause of claims complaints stems from disagreements regarding the extent of the disability. TUW SKOK is exploring ways of further simplifying its disability products.
- **Savings completion insurance**: This product is designed to encourage CU members to open a contractual savings account for which the member determines the savings goal and period of time. In the event of accidental death of the member, TUW SKOK will pay the beneficiary the difference between the savings target and the savings balance at the time of death (there is also a disability component). This insurance product is attractive to the credit unions because it is helps them to make their contractual savings product more attractive to their members.

1. Context

1.1 Macroeconomic Data

Table 1: Macro Data

		Year/ Period	Source
GDP ($ Billions[1])	187.7	2002	World Bank (WB)
Population (millions)	38.6	2002	WB
Population density per km2	127	2001	WB
Percentage urban / rural population	62,6	2001	UNDP – Human Development Indicators 2003 (UNDP)
GDP/Capita ($)	4,561	2001	UNDP
GDP Growth Rate	1,2 %	2002	WB
Inflation – Average annual change in consumer price index (%), 2000-2001	5.5	2000-2001	UNDP
Exchange Rate (current, X Currency per US$1)[2]	Zl 4.1 : US$1	2002	Economist – Economic Intelligence Unit – Country Brief (EIU)
PPP GDP per Capita	10,477	2002	(EIU)
Infant Mortality (per 1000 live births)	8	2001	UNDP
Under Five Mortality (per thousand)	9 m, 8 f	2002	World Health Organisation (WHO)
Maternal Mortality (per 100,000 live births)	8	1985-2001	UNDP
Access to safe water (% of population)	n.a.		
Health Expenditure as % of GDP (public/private/total)	6.1	2001	WHO
Health Expenditure per capita ($)	629	2001	WHO
Doctors per thousand people (Rate per 100,000 population / Year)	236	1997	WHO
Hospital beds per thousand people (urban/rural)	n.a.		
Adult Literacy rate – (% age 15 and above)	99,7	2001	UNDP

1.2 Role of the State in Insurance and Social Protection[3]

Regulatory Reform

Poland has played a pioneering role among former communist countries in the transformation of its insurance market. In the early 1990s, Poland's Ministry of Finance initiated a reform of the insurance system to develop a modern insurance market. The changes implemented in

[1] All $ figures in this paper refer to US dollars.
[2] This exchange rate will be used in all calculations of current figures in this paper.
[3] Source: Polish Chamber of Insurance, www.piu.org.pl.

Poland had to be compatible with European Union (EU) regulations to facilitate the future integration of Poland into the European market. The most important reforms included:

1. Opening the insurance market to new Polish and foreign insurers.
2. Further market liberalisation based on the principle of mutuality towards other insurers.
3. Introduction of the solvency margin and guarantee capital as indicators of proper financial economy of the insurer.
4. Establishing a guarantee fund, protecting the interests of victims of accidents covered by compulsory insurance.
5. Setting up the insured persons' protection fund, protecting the policyholders in the case of insurer's bankruptcy.
6. Introduction of the prohibition to conduct simultaneously both life and non-life business
7. Introduction of mutual insurance companies.
8. Limiting the form of insurance business to joint-stock and mutual companies.
9. Limiting economic activity in the insurance sector to insurance or insurance-related business.

These reforms were designed to create a fair and competitive insurance environment that would be consistent with the regulatory regimes in the European Community. The ultimate goal was to have a framework that would attract international capital to develop the insurance industry in Poland. Given the performance of the industry, the increase in the number of foreign insurance companies and significant increase in foreign capital, it appears that the reforms have been successful. However, higher capital requirements and the cost of guarantee and protection funds can make it more challenging in developing local insurance companies.

Overview of the Insurance Market

Besides the clients or policyholders, the Polish insurance market consists of three elements: insurance companies, insurance intermediaries, and supervisory agencies.

Insurance companies can be categorised in three ways:

1. According to statutory (legal) differentiation companies can be divided into life and non-life insurers.
2. Based on their ownership structure, they can be divided into joint-stock companies and mutual insurance companies.
3. According to the origin of capital companies are divided into private and public, as well as local- and foreign-owned.

To ensure professional and efficient distribution of insurance products, insurance intermediation has been established. There are two types of service providers: brokers and agents. Broker is a specific insurance intermediary who concludes and executes insurance agreements on behalf of the client and can source products from multiple insurers. An agent is a person or an entity not having a legal status, who is authorised by the insurance company to conclude agreements on behalf of a specific company or to intermediate in concluding agreements.

As of January 2004, insurance agents selling life and/or non-life insurance products will require successful completion of an approved 150 hour training program. Agents selling banc-assurance products, such as credit life, will require successful completion of a 16 hour training program.

Two controlling organizations—the Financial Institutions' Department in the Ministry of Finance and the State Office for Insurance Supervision (PUNU)—were responsible for monitoring the insurance market. Recently the Supervisory Commission for Insurance and Pension Funds (KNUiFE) was created, through merger of the PUNU with the Office for Supervision of Retirement Funds, to supervise both insurance companies and retirement funds. This independent entity has also taken over the licensing authority from the Ministry of Finance, thus completely separating MoF from any supervisory role in the insurance market.

The Insurance Ombudsman is a separate institution appointed by the Finance Minister for a four-year term. His responsibilities include representation and protection of policyholder's interests, preparation of draft legislation, conducting of training, and information dissemination.
[0]
The Polish Chamber of Insurance (PIU) established under insurance law in 1990 is an insurance industry association. At the beginning it was a voluntary association of insurers, but since 1995 PIU membership has been obligatory. Its main responsibility is to serve as a channel for insurers to shape the legal and regulatory environment. It also organises trainings and seminars, and publishes industry performance information.

Industry Performance

The Polish insurance industry has experienced significant growth over the past decade, as shown in the table. Since 1993 the number of licensed insurance companies increased almost two and half times, with the greatest growth occurring for life insurance companies. Accordingly the primary capital increased significantly as well; the total value of the primary capital at the end 2002 was in real terms ten times higher than in 1993. The Polish market has also experienced a significant change in the share of foreign capital, increasing from 20 percent in 1993 to 72 percent at the end of 2002. The most dynamic period of growth of foreign investments in Polish insurance sector was by the end of nineties, suggesting that foreign investors see the Polish insurance industry as a relatively low-risk, high-return investment.

Both the life and non-life insurance industry reported improved net financial results in 2002 over 2001. The life companies generated a net result of $141 million in 2002, an increase of 41 percent over 2001, while non-life net results were $231 million in 2002, an increase of 32 percent. However, net results varied significantly among insurers. Out of 37 life insurers in 2002, only 11 posted a positive net financial result, and amongst the 36 non-life insurers, only 21 had a positive net financial result. These results are partly attributable to the fact that some insurers are relatively new in the market and have only been in business for a few years. It is unreasonable to expect positive net financial results during the start-up period.

Main Descriptors of Insurance Market Development in Poland (1993-2002)

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of Insurers										
Life	7	10	13	15	21	24	31	35	36	37
Non-life	23	26	27	31	32	31	36	33	35	36
Total	30	36	40	46	53	55	67	68	71	73
Primary Capital (in thou. PLZ*)										
Life	123'890	342'565	385'109	385'565	489'228	822'631	1'297'694	1'671'140	1'964'449	2'129'150
Non-life	286'567	443'651	482'671	562'278	890'456	1'119'409	1'523'608	1'707'714	1'924'691	2'020'822
Total	410'457	786'216	867'781	947'843	1'379'684	1'942'040	2'821'302	3'378'854	3'889'140	4'149'972
Share of foreign capital in primary capital (in %)										
	20.0	13.2	14.6	18.2	25.3	32.7	50.1	59.1	67.8	72.0
Gross premium written (in thou. PLZ*)										
Life	2'727'018	2'986'673	3'369'706	4'230'242	5'361'120	6'353'852	8'076'229	8'960'004	9'435'681	9'909'291
Non-life	6'789'654	6'656'125	6'789'505	8'224'866	10'897'352	12'062'371	13'457'545	13'440'911	13'372'156	13'254'923
Total	9'516'673	9'642'798	10'159'211	12'455'108	16'258'473	18'416'223	21'533'774	22'400'916	22'807'837	23'164'214
Gross Indemnities and Benefits Paid (in thou. PLZ*)										
Life	1'568'757	1'616'372	1'666'769	1'852'245	1'991'939	2'164'852	2'443'828	2'777'165	3'445'164	4'306'787
Non-life	4'260'163	3'883'983	3'999'709	4'572'417	6'506'139	6'760'493	8'202'645	8'180'911	7'972'174	7'795'978
Total	5'828'920	5'500'355	5'666'478	6'424'662	8'498'078	8'925'345	10'646'473	10'958'076	11'417'338	12'102'765
Gross Premium Written per Capita (in PLZ*)										
Life	70.82	77.41	87.28	109.48	138.67	164.32	208.94	231.86	244.25	259.19
Non-life	176.33	172.53	175.85	212.86	281.88	311.96	348.16	347.81	346.14	346.70
Total	247.16	249.94	263.13	322.34	420.55	476.28	557.10	579.67	590.39	605.89

* All figures in PLZ in real terms for 2002 calculated according to inflation rates published by the Central Statistical Office
Source: "Insurance 2002," Polish Chamber of Insurance

1.3 State Promotion of Insurance Activities

The Polish government does not actively promote insurance activities, although it has created a relatively healthy market environment that is resulting in an increasingly competitive industry.

1.4 The Role of the State in Social Protection

In terms of social protection schemes provided by, or supervised by, the state, there are two areas of focus: 1) pensions and retirement, and 2) health coverage. New pension reforms are designed to promote a basic social safety net, combining obligatory and voluntary contributions. Employers pay 20 percent of salaries into the social fund, which provides for unemployment benefits, basic pension, social welfare, and disability coverage. Employees are required, through payroll deductions, to fund the state provided universal health care. The self-employed are also expected to participate.

1.5 Insurance Industry Basics

Table 2. Insurance Industry Basics

Issues	Observations
Name of insurance regulatory body (or bodies)	Komisja Nadzoru Ubezpieczen I Funduszy Emerytalnych (KNUiFE – Supervisory Commission for Insurance and Pension Funds).
Key responsibilities of the regulatory authority	• Approves and grants licenses to companies that intend to issue life and non-life insurance policies • Approves premium pricing tariff • Supervises the industry to protect the interests of the insuring parties, the insureds, and the beneficiaries of insurance contracts
Minimum capital requirements for insurance license	Insurance is divided into two groups – life and non-life (personal and property insurance). Within life there are 5 classes of insurance. Within non-life there are 18 classes (for the full list, see Appendix 1). The application for a license must define which group and classes the company intends to operate in. It must file a Business Plan and provide an Organization Fund to cover operating costs for the initial period of operation. Minimum required capital is determined by the class(es) in which the company intends to operate. For example €800,000 is required for life stock company, between €200,000 and €400,000 for stock non-life company depending on planned class of business. For mutuals, the capital levels are respectively €600,000 for life and between €150,000 and €300,000 for non-life.

Issues	Observations
Other key requirements for an insurance license	• Name of company, registered office, address, territory and scope of operation • Equity capital and legal status • Draft statute and general conditions of risk insurance • Sources of financing • Background (education, professional experience, non-conviction statement) and consent to employ members of management, supervisory board, and actuary. • Financial reports for the past 3 years or for the entire period of operation and bank statement for one year. • Plan of operation for 3 years and business organization
On-going capital requirements for an insurance company	On-going capital requirements are determined by the class(es) of insurance the company is licensed to operate in. The minimum is determined by the class, which produces the greatest requirement.
Other key requirements for regulatory compliance	Maintain a liquidity margin of 18% of premium (non-life company) conducting business in compliance with the law, the statute, plan of operations, and provision for meeting financial obligations
Minimum capital requirement for reinsurer	Not available
Number of regulated private insurers	As of 2002 there were 37 Life private insurers and 36 Non-Life private insurers.
Value of annual premiums of regulated private insurers	As of 2002: For Life insurers - $1,235 million For Non-Life - $1,009 million
Number of regulated public insurers / value of total annual premiums	As of 2002, one Life public insurer (PZU Zycie S.A.), and one Non-Life public insurer (PZU S.A.). Note: PZU Zycie is 100% owned by PZU S.A., which in turn is 50% state-owned. The remaining 50% is owned by Banks (20%), a private insurer consortium (20%), and employees (10%).
Value of annual premiums of regulated public insurers	As of 2002: PZU Zycie S.A. - $1,273 million PZU S.A. – $1,669 million
Number and type of other regulated insurance organizations	None
Value of annual premiums of other regulated insurance organizations	N/A
Number of re-insurers (if any)	As of 2002: For Life – 31 For Non-Life - 32
Value of annual premiums of reinsurers	As of 2002: For Life - $49 million For Non-Life - $581 million
Unregulated organizations that offer insurance	None
Certification requirements for agents	As of January 2004, insurance agents selling life and/or non-life insurance products will require successful completion of an approved 150 hour training program. Agents selling banc-assurance products will require successful completion of a 16 hour training program.

1.6 Overview of Microinsurance in the Country

Microinsurance does not really exist in Poland. Besides the social protection initiatives for health care and retirement, there are not any specific efforts to extend insurance coverage to the low-income market or to the informal economy.

2. The Institution

2.1 History

As the primary insurance provider of the Polish credit unions, the short history of TUW SKOK[4] is integrally linked to the evolution of the credit union movement in the country. Actually, Poland's credit unions (CUs) have a long and rich history— Franciszek Stefczyk started Poland's first credit union in 1890 and there were perhaps 3500 credit unions serving more than one million people at their peak between World War I and II. The 150 credit unions that survived the Second World War were incorporated into the state-owned bank at the advent of the communist era, essentially eliminating the concept of member-owned and -governed financial services from the landscape for over 40 years.

The democratisation of Poland at the end of the 1980s opened up significant opportunities and significant challenges. On the one hand, the market for retail financial services was broad and nearly untouched—only 30 percent of the Polish population used formal banking services. But that also represented the challenge: the enormous potential market was unfamiliar with savings and credit, and especially unfamiliar (if distrustful) of insurance.

With initial financial support from USAID and technical support from WOCCU, the Polish credit union movement began rebuilding itself in 1990, essentially from scratch, with the first CU opening its doors in August 1992. The political conditions at the time, with the government led by Solidarity, a former trade union, were certainly sympathetic to credit unions. According to Evans and Richardson (1999), Solidarity openly encouraged its members to create or join credit unions. This free advertising created a favourable public image; many people were predisposed to join a credit union because of the unwavering support of Solidarity.

Yet, pragmatic policymakers also felt compelled to design the regulatory environment to fully insulate the financial system from the credit unions. In the Credit Union Act (1995), the National Association of Co-operative Savings and Credit Unions (NACSCU) was assigned full responsibility for regulating and supervising the credit unions, as well as facilitating all financial interactions between the credit unions, or SKOKs, and banks. Credit unions could only access money from banks through the National Association. If credit unions failed, they were not going to affect the rest of the banking system (see Box 1).

[4] TUW SKOK stands for Towarzystwo Ubezpieczen Wzajamnych Spoldzielczych Kas Oszczednosciowo Kredztowych, which means Mutual Insurance Company of Cooperative Savings and Credit Unions.

Box 1: National Association of Co-operative Savings and Credit Unions

NACSCU is the apex organization through which credit unions are allowed to do business in Poland. With the approval of the Credit Union Act of 1995, NACSCU assumed a pre-eminent role as the true axis of the entire Polish credit union network. Legally, NACSCU was charged with the responsibility of establishing prudential standards and norms for credit unions, and then enforcing those norms through a comprehensive audit and supervisory role. To effectively monitor the compliance of these standards, NACSCU requires strict monthly reporting requirements of all credit unions.

What is unique about the Polish National Association is that, in fulfilling these functions, it is able to cover its costs. The key to the financial success of NACSCU has been the commercially-oriented services which it offers to credit unions to help them serve their members. These services are offered either through NACSCU, or a subsidiary or affiliated organization:

- **Central Finance Facility** (CFF): The CFF provides liquidity protection to credit unions in the event of unanticipated member savings withdrawals. All credit unions maintain in the CFF at least 5 percent of all savings deposits and 100 percent of their capital reserves (shares and institutional capital). The Central Finance Facility manages the liquidity of the SKOK network. It is the only credit union entity that can borrow from banks; base-level credit unions can only borrow from the CFF for their financing needs. The CFF has two investment options with its liquidity: government bonds or loans to credit unions in need of external financing.
- **Stabilization Fund**: The Stabilization Fund was set up to assist credit unions that have experienced financial difficulties in the volatile economic conditions of the financial marketplace. Credit unions must deposit 1.22 percent of their total assets in the Stabilization Fund, which is used as soft loans to help weak credit unions strengthen their financial position.
- **H&S Software**: All credit unions that belong to NACSCU must use the SKOKOM credit union software, developed by this company. This software is particularly important in facilitating NACSCU's supervisory activities.
- **SKOK School and Training Centres**: The Credit Union College and the regional training centres educate credit union personnel in all matters related to credit union principles, philosophy, operations, financial management, and member services.
- **TUW-SKOK Mutual Insurance Company**: Last but not least, this credit union-owned insurance company provides credit unions and their members with a variety of important insurance products, such as property and casualty insurance, credit disability insurance, fidelity bonding insurance, and savings deposit insurance.

Adapted from Evans and Richardson (1999)

With an enabling regulatory environment, a strong apex institution, good technical assistance, capable leadership and political connections, Poland's credit unions have achieved remarkable growth during their ten year history, averaging more than 50 percent increase in membership per year (see Table below). With 923 outlets at the end of 2002, the credit unions represent Poland's 3rd largest financial network. In 2002, the largest SKOK, Stefczyk Credit Union, named after the movement's founder, was ranked 79th among top 100 financial institutions in the country, including commercial and cooperative banks, insurers, and pension and investment funds.

Although the actual number of credit unions reached a peak of 232 in 1999, at the end of 2003 there were only 102 credit unions. This consolidation resulted primarily because of mergers; only a few small credit unions dissolved. Indeed, the mergers probably represent a positive result for NACSCU—especially since the number of branches and members continues to grow—because the consolidation generates economies of scale that allow formerly small SKOK's to invest in technology, such as ATMs, debit cards and smart cards. Otherwise, as the Polish financial services industry becomes increasingly competitive, the SKOKs might start losing market share.

Growth of Credit Unions in Poland, 1992 to 2003

	Branches	Members	Assets (US$)	Deposits (US$)	Loans (US$)
1993	32	21 325	5 221 089	3 984 820	4 064 039
1994	106	46 178	14 831 046	12 285 235	10 732 048
1995	137	85 200	40 300 787	36 628 024	33 372 400
1996	168	137 958	79 797 628	69 253 125	58 488 186
1997	237	194 000	105 217 152	89 303 381	80 170 928
1998	290	258 739	158 073 027	138 895 066	112 949 678
1999	420	305 699	213 219 199	178 757 401	161 445 936
2000	560	394 449	289 700 939	240 398 822	209 117 802
2001	680	525 055	440 280 278	391 566 793	310 440 594
2002	923	703 012	639 345 242	586 954 710	432 234 348
2003	1285	924 200	893 048 128	831 550 802	588 235 294

Benefit: TUW SKOK's Predecessor

TUW SKOK's roots reach back to the early days of Poland's modern credit unions. Not long after the credit unions began collecting savings, NACSCU was planning for the provision of insurance as well. In 1993, CUNA Mutual, the US-based credit union insurance group, and the Foundation for Polish Credit Unions[5] (FPCU) launched a joint venture, Benefit. This life insurance company was designed to meet the risk management needs of credit unions and their members. In this mutually beneficial arrangement, CUNA Mutual provided the initial technical expertise: the underwriting experience, the products and pricing, procedure manuals and insurance contracts, and staff training; NACSCU brought the market. CUNA Mutual also provided a grant of $100,000, and secured $4 million from USAID to assist in the development of the credit union system in Poland.

Benefit offered three basic products, which were common in the credit union market:

1) **Loan protection**: to cover the outstanding balance of the loan if the borrower dies, to ensure that the debt dies with the debtor
2) **Life savings**: in the event that a depositor dies, the beneficiaries would receive 2 or 3 times the account value as a payout

[5] The Foundation was set up in 1990 channel donations for the promotion of credit unions in Poland. As the education and development arm of the Polish credit union movement, FPCU is tax-exempt. It owns the building which houses TUW SKOK, NACSCU and other related organisations, and it has an ownership stake in the insurance company, the brokerage, and the software company.

3) **Funeral insurance**: a basic term life policy with 2 to 3 different sum assured options; this product was paid for by the members, whereas the CUs paid for the other two

These three products were purposely kept extremely simple. Although Benefit was a regulated insurance company, its basic product line and clearly defined market allowed it to generate surpluses with only four employees.

In 1994, FPCU established Asekuracja, a brokerage company, to offer insurance coverage that was not available from Benefit to the credit unions and their members.

Along with its technical assistance, CUNA Mutual provided 90 percent of Benefit's initial capital. The expectation was that the FPCU would gradually increase its stake by reinvesting dividends. Unfortunately, the experience did not exactly follow the roadmap. The minimum capital requirement for a Polish life insurance company was set at €800,000, but inflation rates for the Polish Zlotys of 20 to 30 percent meant that the insurer was constantly replenishing capital to meet the foreign currency-denominated capital requirements, despite generating annual surpluses. After four years of operations, the ownership structure remained the same, with both shareholders becoming increasingly frustrated. The Foundation very much wanted a greater stake in the company; while CUNA Mutual watched its share devaluate, and was even forced to provide additional capital in some years to fulfil the statutory requirements.

The Creation of TUW SKOK

In 1997, the two partners went their separate ways. CUNA Mutual bought out the Foundation's 10 percent share and then sold the whole company to foreign insurance company that was interested in getting into the Polish market.

NACSCU and the Foundation led the credit union's insurance activities in a completely different direction. The association underwent a strategic re-evaluation during which it assessed which types of insurance were more important for it to offer itself, and which types made more sense for it to broker from other insurance companies. Based on this analysis, the National Association decided that the greatest priority, and most immediate market potential, was with the credit unions themselves, rather than their members.

So instead of remaining in life insurance, the National Association decided that it was more appropriate to launch a property and casualty (P&C) insurance company, which has a separate regulatory regime and a lower capital requirement (€300,000). Within this company, NACSCU could address the credit union's most urgent need, for deposit insurance, as well as other corporate products that protect the credit unions.

The process of acquiring a new P&C licence, with the accompanying business plans and approval procedures was likely to take at least a year, with no guarantee that it would actually succeed. Instead, NACSCU explored the possibility of purchasing an existing insurance company and then restructuring it to meet the needs of the credit unions. Such an opportunity presented itself in August 1997, when regulators gave a failing mutual insurer, TUW Praca a two-week window of opportunity to find new capital or be liquidated (see Box 2). Under tight deadlines, the National Association was able to convince regulators to approve its plan to inject new capital into TUW Praca and reorient its operations toward the needs of credit unions. TUW SKOK, the Cooperative Savings and Credit Union Mutual Insurance Company—TUW Praca's new name and identity—officially opened its doors for business in 1998.

Box 2: TUW Praca's experiment with Unemployment Insurance

In the early 1990s, as unemployment in Poland began to rise, a group of trade unions launched an initiative intended to offer some protection to workers in state-owned enterprises targeted for restructuring. The idea was to create a mutual insurance company owned by trade unions and their members, which would extend unemployment insurance to workers.

Efforts to raise capital for the insurance company from trade unions did not come close to achieving their intended targets, which should have been a warning sign. Instead, the initiative's backers turned their attention to the Ministry of Labour. The timing of their request was fortuitous because the Ministry had some additional resources and needed to be seen doing something about the growing unemployment problem. With $500,000 from the Ministry's Job Fund, amounting to 90 percent of the share capital, the trade unions were able to get a license to launch TUW Praca. But the effort was essentially stillborn. After a couple of years, the insurer only had 100 policyholders, operating costs had eaten away most of its capital, and regulators were threatening to close its doors.

In hindsight, it appears that TUW Praca's brain trust had not done its homework. Market research probably would have shown that workers considered unemployment as government's responsibility rather than the responsibility of individual workers. Consequently, trade union members were not interested in buying their own unemployment insurance because they believed that the government should provide that type of social protection.

The only legacy remaining from TUW SKOK's corporate roots is the fact that the Ministry of Labour still owns 3.5 percent of the insurance company.

TUW SKOK is a mutual insurer more by luck than by design, although the legal structure certainly suits the organisation. The availability of the TUW Praca corporate shell was the biggest factor in establishing the mutuality of TUW SKOK, but if it had a choice, NACSCU would have preferred a mutual insurance company for three primary reasons. First, mutual insurers have a smaller initial capital requirement than companies limited by shares, €300,000 to €500,000 for P&C. Second, the mutual legal structure better suited the organisation's core service, providing deposit insurance, which is not a commercial product. Lastly, the operating philosophy of mutual insurer is consistent with the credit unions—they both are designed to benefit their members rather than to generate profits for their owners. TUW SKOK's mission is "to identify insurance needs of its members—cooperative savings and credit unions and their members—and provide high quality insurance products which meet such needs."

Although Benefit's key staff members were now employed by TUW SKOK, the services and functions of the new company were indeed quite different. With a licence in insurance group 16, insurance for different financial risks, TUW SKOK's initial set of services focused on the needs of the credit unions, especially for deposit insurance and loan protection. Through the brokerage firm, the credit unions were still able to access life insurance, but from other insurance companies.

In 2000, the insurer received additional licences allowing it to offer coverage for civil liability, accidental death and disability, illness, and damages caused by elements. These licences allowed it to extend the range of services for credit unions while setting the stage to reach out to credit union members themselves.

With its captive market, TUW SKOK was able to quickly address the insurance needs of the credit unions. By 2001, 90 percent of the SKOKs had coverage for fire and robbery, and all credit unions had fidelity bonding and deposit insurance. With the corporate market essentially saturated, TUW SKOK turned its attention to meeting the needs of credit union members. This move was designed not only as a growth strategy, but also to strengthen ties with TUW SKOK's core market, the credit unions. Until this time, TUW SKOK represented an expense for the credit unions—every month or year they needed to pay the insurer for coverage. The transition to member-pay products has the additional benefit of generating additional revenue for the credit unions in the form of administration fees or commissions.

In recent years, TUW SKOK has unveiled numerous personal insurance products for credit union members. These products fall into three general categories: 1) accidental death and disability (AD&D); 2) homeowners or tenant's cover; and 3) coverage against the unauthorised use of debit cards. (Details about TUW SKOK's products are provided in Section 4.)

Coupled with one of the AD&D packages, TUW SKOK also included a funeral insurance product. In 2002, during their routine on-site review process (which occurs every 2 to 3 years), regulators concluded that, as a P&C insurer, TUW SKOK was not licensed to offer funeral insurance and prohibited it from selling future policies. TUW SKOK did not appeal the ruling, since it did not want to engage in a legal battle that it was unlikely to win. The ruling, however, moved the insurer and NACSCU more aggressively down a path on which they were already treading, to start or purchase a life insurance company.

As with before, buying an existing company proved easier than starting one from scratch. The purchase of Metropolitan Life Poland was concluded in August 2003, and it is scheduled to begin writing policies in February 2004. It is interesting to note that this was the first time in Poland's financial markets that a foreign–owned institution was bought out by Polish investors.

TUW SKOK's History Highlights

1990	The establishment of the Foundation for Polish Credit Unions (FPCU) to provide education about credit unions and establish a legal framework
1992	With technical assistance from WOCCU and funding from USAID, the first credit unions in Poland start collecting savings
1993	CUNA Mutual and FPCU team up to create Benefit
1994	Asekuracja, a brokerage company, is launched to offer credit unions types of insurance cover that are not available from Benefit
1997	CUNA Mutual buys out FPCU's share of Benefit and sells the company to foreign investors
	NACSCU purchases failing mutual insurer and renames it TUW SKOK
2000	TUW SKOK receives additional licences and expands corporate coverage TUW SKOK obtains ISO 9001 quality certificate for insurance product design and distribution
2001	TUW SKOK begins introducing personal insurance through group and individual policies via credit unions (and the brokerage) to CU members
2002	Regulators prevent TUW SKOK from offering funeral insurance
2003	NACSCU, TUW SKOK, and the Foundation purchase a life insurance company

Historical Lessons

TUW SKOK's President, Grzegorz Buczkowski, who was also the Managing Director of Benefit, maintains that the huge imbalance in the ownership structure of Benefit was a significant contributing factor to the severing of relations with CUNA Mutual. Although FPCU reaped dividends from CUNA Mutual in the form of technical expertise, similar experience could have been gained by establishing a brokerage company to partner with local insurers.

Buczkowski recommends that other would-be microinsurers establish a brokerage company as an entry point, rather than trying to start with an insurance company. To take full advantage of the learning opportunities, he suggests that the brokerage assist the insurer with claims, since claims underwriting is one of the more challenging aspects of offering insurance. Then over time, use the commissions earned from brokering insurance to build up sufficient capital to start one's own insurance company if experience shows this will be more advantageous financially, or strategically, than continuing as a brokerage.

Buczkowski also cautions against starting an insurance company with the bare minimum required capital. A larger capital base would have given the insurer more flexibility and would not have required it to repeatedly top up its capital in the early years.

Table 3. Insurance Organisation Basics

Issues	Observations
Legal structure	Mutual insurance company, owned by: NACSCU (93.9%), Ministry of Labour (3.5%), Foundation for Polish Credit Unions (2.2%), credit unions and their members (0.4%)
Registration status	Non-life insurer (property and casualty)
Regulation status	TUW SKOK has the following specific licenses: - Group 16: insurance of different financial risks (Feb '95) - Group 1: Accident insurance, including work accidents and professional disease (Sept '00) - Group 2: Illness (Sept '00) - Group 8: Damages due to natural disaster and other elements (i.e., fire) (Sept '00) - Group 9: Other non-life damage (i.e., robbery) (Sept '00) - Group 13: General civil liability insurance (Sept '00) - Group 14: Credit insurance (i.e., mortgages, insolvency) (Sept '00)
Start of corporate operations (year)	1993 serving the credit union market (Benefit) 1995 as TUW Praca (the legal shell purchased by NACSCU in 1997) 1998 as TUW SKOK
Start of microinsurance operations (year)	Same as above
Core business	Providing insurance coverage to credit unions and their members (primarily providing deposit protection)
Target market – core business	Credit unions, credit union members
Geographic area of operation	National, although predominately urban
Development, marketing, or servicing policies with other institutions	- Asekuracja brokerage firm manages the corporate sales - Personal policies (member-pay) are sold by specific credit union staff
Reinsurance provider, provider type	None
Reinsurance type	None

Table 3.A Insurance Organisation Basics - Trends

	2003	2002	2001	2000
Total assets (US$)	9 457 487	7 646 094	6 599 499	4 543 961
Total capital	6 311 230	5 234 375	4 721 303	4 067 633
Number of branches[6]	4	3	1	0
Total number of all clients (thousands)*	924 200	703 012	530 233	430 167
Total number of microinsurance policyholders **	93 456	54 706	25 140	16 200
Number of microinsurance staff	41	38	31	25
Number of policyholders / microinsurance staff (%)	2280	1440	811	648
Microinsurance marketing costs (US$)***	115 000	104 170	87 940	54 350

* This represents all CU members since they are covered by deposit insurance.
** This represents the number of CU members covered by member-pay, group policies.
*** Estimated at 50 percent of the whole marketing budget.

[6] All of TUW SKOK's administrative functions take place in the head office. All of the sales activities take place in the 1000 credit union branches across the country. TUW SKOK's four regional offices are responsible for providing training to CU staff and to assist with the introduction of new products.

2.2 Organisational Development

Outsourcing

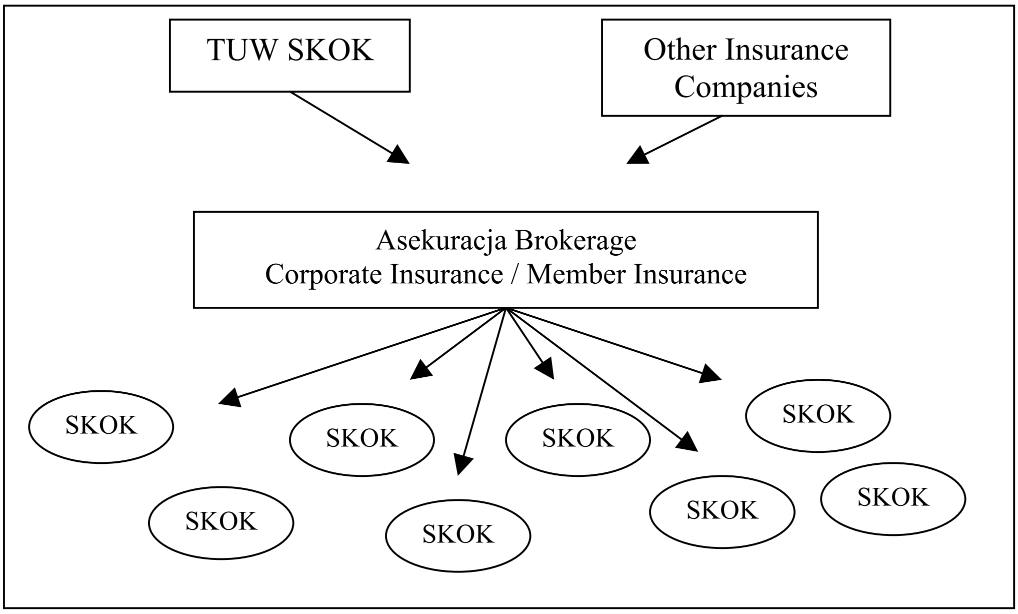
TUW SKOK's structure is largely organised around an outsourcing model. The central agency in this model is Asekuracja, a brokerage company owned by TUW SKOK, NACSCU and the Foundation for Polish Credit Unions (see Figure 1). The brokerage serves as the link between the credit unions and insurance companies, including but not limited to TUW SKOK. Where possible the insurance provided by the brokerage to the credit unions comes from TUW SKOK, but the insurer is not licensed to offer all types of insurance. In which case, the brokerage will go to the open market and issue a bid for services to several insurance companies. This arrangement allows NACSCU to offer credit unions products, such as car insurance, for which TUW SKOK is not licensed.

The brokerage also facilitated the transition from Benefit to TUW SKOK. As Asekuracja serves as the face of the insurer to the credit unions, it was able to avoid significant gaps in coverage when NACSCU's in-house insurer switched from a life to a non-life insurance company.

Besides the relationship with the brokerage, TUW SKOK also outsources other key activities:

- *Market research*: Although TUW SKOK undertakes some smaller market research activities in-house, it outsources larger studies to a market research firm.
- *Actuarial services*: When it was a relatively small insurer, TUW SKOK could not justify employing a full-time actuary, and therefore it contracted an actuarial consultant for a few days a month. The actuary was used for product development, pricing and for setting reserves. With the recent purchase of the life insurance company, the business has grown to a sufficient scale to justify hiring an actuary on a full time basis.
- *Software development*: TUW SKOK is part owner of the software firm that develops the MIS for the credit unions. H&S Software, housed in the same building as TUW SKOK, NACSCU and the Foundation, also develops some of the software used by the insurance company.
- *Sales*: Besides the corporate sales outsourced to the brokerage firm, TUW SKOK (via Asekuracja) also outsources the retail sales activities to the credit unions and their staff.
- *Claims adjusting*: For its property insurance policies, TUW SKOK insurer relies on independent claims adjusters to assess and document the damage. For disability products, the insurer also has a list of medical doctors who it trusts to determine the degree of disability.
- *Investment management*: Although TUW SKOK currently manages its investments in-house, with the advent of the new life insurance company, it is likely to outsource this activity to a professional fund manager.

Figure 1: Role of the Brokerage Firm, Asekuracja

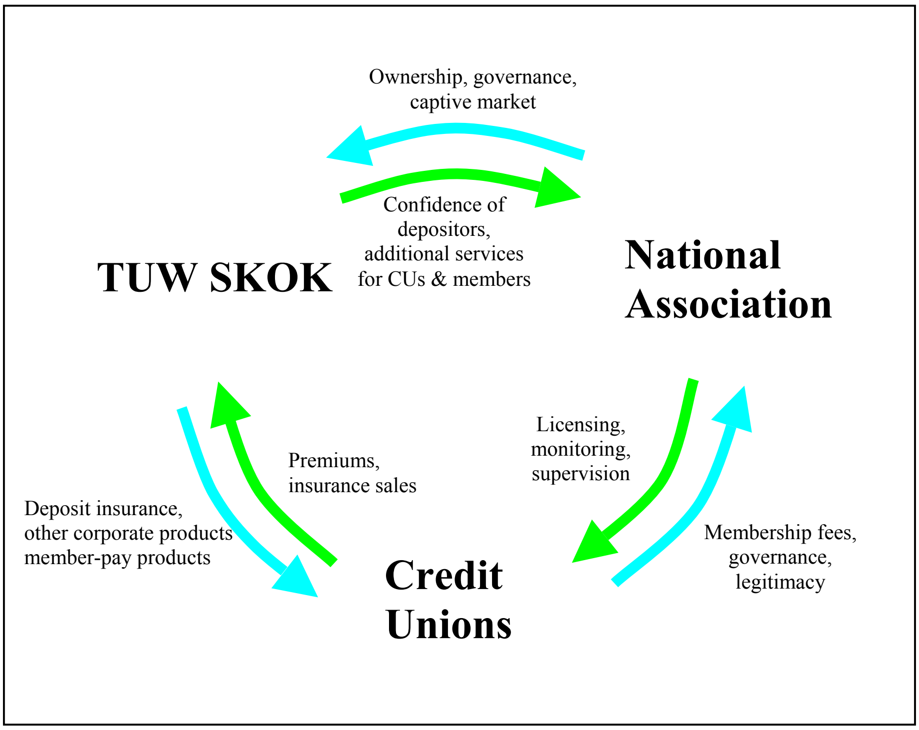


Sales Challenges

The outsourcing of the sales activities to the CUs—as a piece of the entire relationship between the insurer, the National Association and the SKOKs (see Figure 2)—is one the more interesting and challenging aspects of TUW SKOK's structure. The success of the TUW SKOK depends entirely on the success of the credit unions, their financial health (especially for deposit insurance), their ability to grow, the ability of their staff to sell insurance products, and the willingness of CU managers to promote insurance sales. No matter how good the insurance company is, its fate is in the hands of the credit unions.

TUW SKOK's sole raison d'être is to serve the credit unions and their members. Yet the nature of that relationship and the diverse range of those services create a dynamic tension that must be carefully balanced and monitored. For the deposit insurance, which the CUs are required to access from TUW SKOK, the insurer is concerned about controlling the risk of unhealthy credit unions, for which it relies on the monitoring and supervision function of the National Association. For other corporate products, TUW SKOK (via the brokerage) has to convince the CUs that they want to purchase liability coverage or fire protection, for example.

Figure 2: Relationship between TUW SKOK, NACSCU and the CUs



For TUW SKOK's third set of products, the member-pay policies, the insurer relies on the credit unions to sell insurance to their members. This arrangement creates challenges relating to quality of the sales force, their commitment and motivation to sell, and their availability for training and selling. To train the CU staff, TUW SKOK's brokerage firm has five trainers at the head office and four regional managers. The small regional offices are responsible for training CU staff and assisting with the introduction of new products.

Since TUW SKOK is not in a position to force the credit unions or their staff to do anything, its primary means to address these challenges is through incentives. With different products the insurer has tried different means of structuring commissions and administration fees to reward credit unions and agents. Although there is not yet sufficient evidence to assess what combination of incentives is most effective, TUW SKOK is in the process of tilting the incentives more toward the credit unions than individual agents to garner greater management support for insurance sales.

The insurer also recognises that it is easier for CUs and their part-time insurance agents to sell insurance that is linked with a savings or credit product than stand-alone insurance policies. If someone wants a contractual savings product, for example, then it is quite natural to ask them if they would like the inexpensive savings completion insurance in the event of accidental death or disability.

For the member-pay products, the credit union and the insurer could be competing for the member's finite financial resources. The only way they both can succeed is if they can increase the amount of money that the consumer is willing (and able) to spend on both.

To overcome some of these challenges, TUW SKOK invests time and money in cultivating a good relationship with the CUs, with a strong emphasis on communication and information sharing. Twice a year, the insurer holds a retreat with the managers of the major credit unions, and uses that opportunity to inform the CUs of upcoming plans, to solicit feedback on product design and customer service, and to cultivate sales competition between credit unions. TUW SKOK recognises that it must remain close to its market and that it should not to trick or fool the market, or try to be too clever.

Insurance and Management Expertise

Training for insurance sales is by TUW SKOK via the brokerage firm, through four regional offices strategically located throughout the country. To become an officially licensed agent, credit union staff will now need to attend 150 hours of training—which includes the basics of insurance law, terms of insurance contracts, etc.—and then pass an exam overseen by the insurance commission. Despite the insurer's role in providing the training, the expertise and effectiveness of its part-time sales force is one of the TUW SKOK's weaknesses.

In the areas where TUW SKOK has greater control, such as marketing, claims and product development, it has managed to assemble a capable team. Several senior managers have expertise in the insurance industry before joining TUW SKOK, while others have built up their competencies over the years of employment with the insurer, the brokerage firm or the National Association. Staff development costs are borne by TUW SKOK, which pays for anything from a two-day course on customer service to an MBA programme.

The quality of management is evidenced in the fact that TUW SKOK obtained ISO 9001 quality certification in 2000—the first insurance company in Poland to receive such a certification for the entire insurance operation. This seal of approval reflects the organisation's systematic approach toward product development, work flows, strategic and business planning, and internal communication.

Governance and Oversight

TUW SKOK has a five person board of directors: three from NACSCU and two from the Foundation. The Board meets quarterly and reviews all pertinent information regarding TUW SKOK's operations, including development plans and financial reports.

TUW SKOK submits short reports to the Insurance Commission (KNUiFE) every month, including a profit and loss statement, cash flow report, and a list of large risks (any policy with coverage amount exceeding 10 percent of capital and reserves). A more extensive report is filed quarterly, amounting to some 90 pages of details. TUW SKOK is also required to submit annual auditor's reports and shareholder resolutions, and to seek approval from KNUiFE for any changes to the articles of incorporation. The insurance commission conducts regular on-site inspections roughly once every three years, although it could make an emergency inspection if it thought something was amiss. TUW SKOK believes that transparency is the recipe for maintaining good relations with regulators.

2.3 Resources

Neither TUW SKOK nor Benefit benefited directly from any donor support, however USAID's support of WOCCU and CUNA Mutual certainly provided indirect advantages for Benefit that have carried over to today. Essentially all of TUW SKOK's institutional capital has come from NACSCU, which originally came from the credit union members themselves.

2.4 External assistance / relationships

Historically, the company's predecessor, Benefit, received significant technical support from CUNA Mutual, and much of the expertise from NACSCU's first foray into insurance has carried over to TUW SKOK. Today, the primary external relationship is with the International Cooperative and Mutual Insurance Federation (ICMIF), which TUW SKOK joined in 1999. The primary benefit from ICMIF membership has been the exposure to other mutual insurers from around the world. TUW SKOK is also a member of the European Cooperative and Mutual Insurers (ACME), and through NACSCU the insurer is indirectly associated with WOCCU and the International Cooperative Alliance (ICA).

2.5 Risk management products offered by the institution

The insurance company only offers insurance products, but through the credit unions members have access to a full complement of risk-managing financial services, including insurance, accessible savings and emergency loans. The most popular loan product is a short-term instant loan, repayable in one lump sum of principle and interest for a term not exceeding one month. These loans are typically used for income smoothing purposes between pay days. Term deposits and contractual savings are also popular, allowing people to accumulate a nest egg that can be used either for investment or risk management.

2.6 Profit allocation and distribution policy of the institution

As a mutual insurance company, TUW SKOK is not allowed to declare dividends. Essentially the company is not profit oriented, but rather its aim is to compensate members' losses. Surpluses are generally used to build up capital and reserves, but are sometimes remitted to the credit unions in the form of premium refunds. For example, in 2003 the shareholders decided to refund deposit insurance premiums to credit unions with satisfactory claim experience over the previous 3 years.

2.7 Institutional policy on investment of reserves

At the moment, TUW SKOK's President manages all of its investments. Eighty percent of reserves are invested in debt, principally in government bonds. The remaining 20 percent is invested in equity, but primarily in related companies: the brokerage firm and the software company. TUW SKOK intentionally adopts a very conservative approach to investments, seeking safety over profits. With the introduction of life insurance in 2004, TUW SKOK plans to outsource its investments to an external asset manager.

2.8 Reinsurance

As a P&C insurer with significant capital and reserves, TUW SKOK has not felt the need to seek out reinsurance. This arrangement is likely to change when the new life insurance company comes on line. In addition, at some point TUW SKOK will look for consumer credit reinsurance so it can offer such coverage to credit unions.

3. Members

TUW SKOK essentially has two different sets of clients. When it reinvented itself in 1997, its primary market was Poland's credit unions themselves. Besides mandatory deposit insurance, TUW SKOK provided coverage for the credit unions' physical infrastructure against fire and theft, and bond coverage for staff fraud. In 2001, the insurer began to expand more aggressively into member services, introducing a range of property and casualty coverage intended to meet the risk management needs of individual credit union members.

Table 4: Client Information Table

Issues	Observations
Intended target groups/clients	Credit unions and credit union members
Actual clients	Credit unions and credit union members
Exclusions of specific groups	Non-credit union members
General economic conditions	Vulnerable to unemployment
% of clients in the informal economy	4 percent
Social characteristics of clients	Combination of white and blue collar workers
Geographic characteristics	Throughout Poland, primarily urban areas
Nature of membership	Credit union's common bond (primarily employment-based)
Methods of recruitment	Through the credit unions

3.1 Conditions

The credit unions in Poland have broad national coverage, with heavy concentrations in urban areas and throughout industrial southern Poland. While TUW SKOK does not have data about the characteristics of its member policyholders specifically, there is information available to describe credit union members in general.

As shown in Figure 3 and Figure 4, credit union members are generally wealthier and better educated than the country's general population. Yet, despite these averages, 41 percent of CU members have less than a high school education, and in 65 percent of the members' homes the per capital income is less than $213 per month. Due to the association with employment-based credit unions, 71 percent of members are employed, compared to 40 percent of the general population—four percent of credit union members are self-employed. Exactly half of the credit union members are women. Some basic quality of life indicators, in the table below also suggest that credit union members are on average better off than the general population.

There are several reasons why the members of Polish credit unions appear to be better off than the general population. First, the SKOKs are largely an urban phenomenon, and incomes and living conditions are much higher in urban areas. If CU members where compared to the general population in the same areas in which they are operating, the results are likely to be significantly different. Second, as shown in Figure 5, CU members are in their prime income-earning years, with 51 percent between the ages of 41 and 55, compared to 39 percent for the general population. Lastly, most members are employed, so they do have some form of steady income, even if the income is so small that they are forced to repeatedly take out small short term loans to cover their basic needs until the next pay day.

These results mostly mirror a similar study conducted by WOCCU in 1998. Based on those findings, Evans and Richardson (1999) conclude that the "credit union membership (is) composed of, in significant portions, people in the lower economic ranks of the Polish economy. In as much as predominately employee-based credit unions can be diversified, the Polish credit unions have members from all salary levels."

Figure 3: Education of CU Members

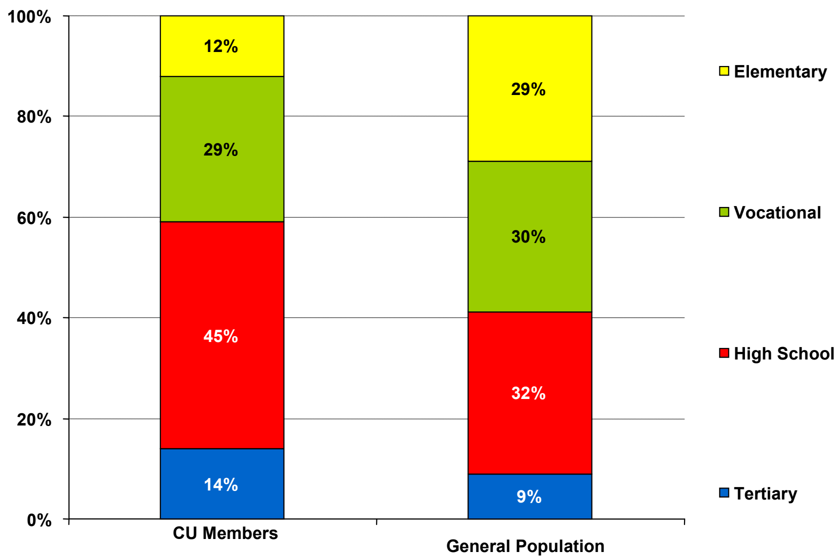


Figure 4: Distribution of Monthly Income per Household Member

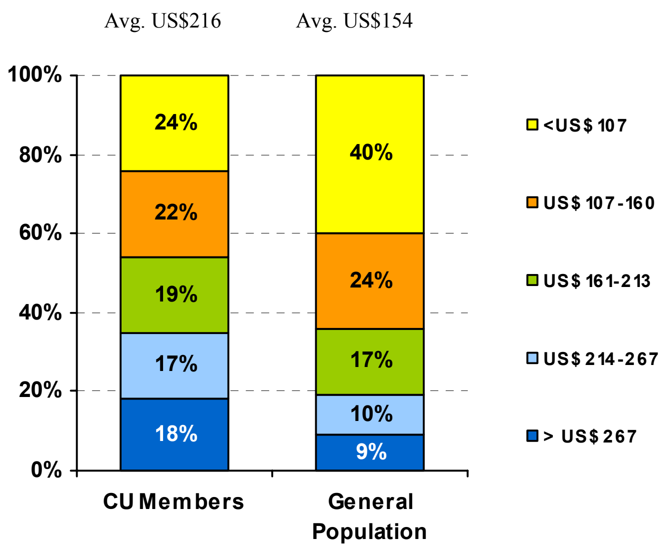
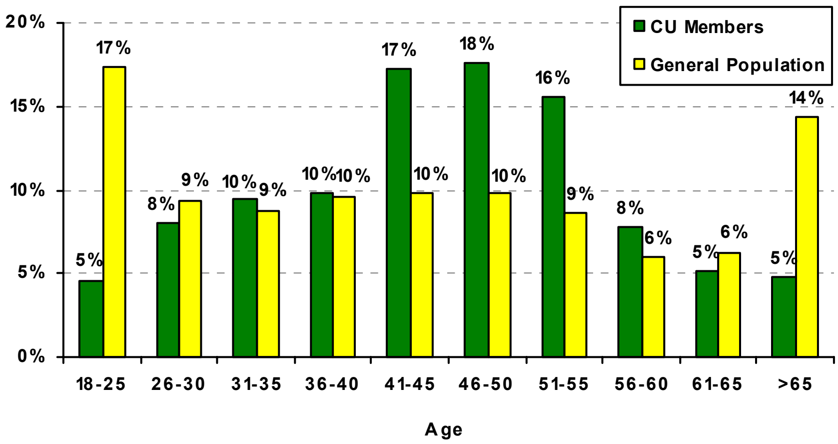


Table: Socio-economic Conditions of CU Members

Socio-economic conditions	Credit Union Member (percentage)	General Population (percentage)
Owns a stereo system (hi-fi)	66	25
Owns a mobile telephone	60	43
Owns a car	50	40
Owns a computer	40	28

Figure 5: Distribution of Credit Union Members by Age



Unfortunately, without comparative data on the socio-economic conditions of TUW SKOK's policyholders, it is not possible to know for sure whether they reflect the average credit union membership, or whether they represent a subset that is poorer than average. It is useful to note that at least two-thirds of the credit union members have some type of insurance coverage, via employers or insurance companies.

TUW SKOK, which only started reaching out to individuals in 2001, is currently serving just 5 percent of CU members. It is possible to assume that TUW SKOK's policyholders may come from the lower end of the credit union market. This assumption is based on the fact that so many SKOK members already have insurance, and because the design of TUW SKOK's products—the simple applications and claims procedures, the low insured sums and correspondingly low premiums—is more tailored to the characteristics of lower income clients than the products from other insurers. Is TUW SKOK providing microinsurance? It is difficult to say. Although TUW SKOK is not purposely reaching down and experimenting with ways of extending insurance to low-income people, it does appear to be filling a market niche that is below the rest of the Polish insurance industry.

The typical microfinance means for assessing the poverty level of the clients, the depth of outreach indicator (average loan outstanding/GNP per capita), has very little meaning in this context. It is not particularly useful partly because, as a middle income country, Poland's GNP per capita is relatively high. But more importantly, the credit union's loan sizes are quite small (averaging around $600, or 13% of GNP per capita), not because their borrowers are extremely poor, but because the loan term is very short, often just a month or less. Consequently, the depth of outreach indicator would suggest that SKOK members are much poorer than they really are.

3.2 Vulnerabilities and coping strategies

Little information is available regarding the vulnerabilities of the TUW SKOK's target market. Given the availability of comprehensive health care, it is generally considered that the primary concerns of the CU members are: a) worsening economic conditions resulting in inflation, higher costs and unemployment; and b) disability and death.

3.3 Relationship between risks and services

After focusing for several years on the credit unions, TUW SKOK has only recently returned to the member services' market. As a P&C insurer, TUW SKOK has recognised that it cannot offer the types of insurance products that would probably be of most interest to SKOK members, and its efforts to creatively address that issue were prevented by regulators (see Section 2.1). With the launching of the life insurance company in 2004, TUW SKOK will be positioned to better meet the priorities of the target market.

3.4 Familiarity with insurance

When talking to TUW SKOK staff, one gets the impression that the Polish population in general, and low-income Poles in a particular, are either unfamiliar with insurance or have major objections to providing such. Yet the data on credit union members clearly shows that insurance is quite prevalent:

- 65 percent have accidental death and disability coverage
- 49 percent have auto liability insurance
- 43 percent have life insurance
- 42 percent have apartment insurance
- 29 percent have theft and collision insurance for their cars
- 20 have unit-linked life insurance

In analysing this information, it is important to distinguish between voluntary cover and mandatory or pseudo-compulsory cover. It is also important to segment the market instead of making generalisations based on market averages.

4. Products

TUW SKOK markets several insurance products designed specifically for credit unions and their members. At incorporation in 1997, TUW SKOK was focused on credit union products, which would assist in stabilizing the credit union system and ensure it represented a viable alternative to other financial institutions in Poland. Consequently the first products marketed were:

- Corporate property and casualty for the credit unions
- Deposit insurance insuring members' deposits against credit union failure (see Box 3), and
- Bonding coverage for credit union employees.

Box 3: TUW SKOK and Deposit Insurance

By law, the National Association of Cooperative Savings and Credit Unions is required to provide mandatory deposit insurance to its credit unions. NACSCU does this through its insurance company, TUW SKOK. For the insurer, deposit insurance is not a commercial product; for example, pricing does not include a profit margin. The deposit insurance services are managed quite separately from TUW SKOK's other products.

Deposit insurance coverage is currently for €22,500 per account. Interestingly, the CU's deposit insurance covers 100 percent of the account balance up to the ceiling, while for banks the coverage is only 90 percent—the ceilings are the same.

To manage the risks associated with deposit insurance, NACSCU and TUW SKOK categorise the credit unions into five classes based on their capital strength and performance.

To date, TUW SKOK has had very few claims for deposit insurance, stemming from the failure of a couple of credit unions. This low incidence of claims is due in part to good fortune, but it is mostly because of the close monitoring performed by NACSCU in collaboration with the insurer's risk assessment department.

In more recent years the product development focus has been on meeting the insurance needs of individual credit union members. These products include a variety of accidental death and disability policies, property casualty insurance, debit card insurance (against fraud and robbery), and savings completion insurance.

Currently the individual member products represent approximately 10 percent of TUW SKOK's total premium volume. The other 90 percent is derived from insurance coverage sold to, and paid for by, the credit union. Since it has essentially saturated the credit union market, future premium growth is expected to arise from insurance products sold directly to members through the credit union.

All member products are priced on a group basis. Product design is deliberately kept simple for ease of administration, training of agents, and member understanding. Insured amounts and benefits are designed to suited to the demographics of the credit union membership. Although most products are priced on a per annum basis, every attempt is made to provide a monthly premium alternative to facilitate affordability for the credit union membership.

This report focuses on three products in detail:

1) Property insurance,
2) Savings completion insurance, and
3) Family accidental death and disability program.

Property Insurance

Property insurance protects the contents and fixtures of the insured's home or apartment against theft and loss due to a damaging event. The policy also provides protection for civil liability, for example in case someone is injured while visiting and decides to sue. Credit union members have the opportunity to select from two levels of coverage: $1,867 or $4,000. TUW SKOK's offering is unique in that most non-life insurers in Poland will not write policies below $4,000. The lower sum assured enables poorer members to obtain insurance that may otherwise not be available to them.

No site inspection is required to issue a policy. Policyholders provide a list of the household contents, including a description, serial numbers, etc. for anything worth more than $200. If a claim is submitted, the policyholder must provide proof of possession, such as a receipt or warranty card.

The most common cause of loss is water damage, due to the aging of house and apartment infrastructures. Consequently the coverage for water damage has a fifteen day waiting period from the date coverage begins to reduce risk for TUW SKOK. All other perils are covered the day the policy begins. While there is no deductible, TUW SKOK has a minimum claim amount of $27 to avoid processing frivolous or minor claims.

Table 5A: Product Details - Apartment (Tenants) Property Insurance

	Product Features and Policies
Microinsurance Type	Apartment (Tenants) Property Insurance
Group or individual product	Group
Term	12 months
Eligibility requirements	Any credit union member
Renewal requirements	Annual renewal
Rejection rate	Not available, however requests for coverage on "summer houses" and garages are declined.
Voluntary or compulsory	Voluntary
Product coverage (benefits)	Insures the fixed elements of the house/apartment against fire, theft, and water damage. Members have the choice of two coverage options – 1. $1,867 maximum coverage 2. $4,000 maximum coverage Coverage for civil liability provides a maximum benefit of $4,000 in option 1 and $6,670 in option 2.

	Product Features and Policies
Key exclusions	• Intentional damage, gross negligence, due to war, under the influence of alcohol, thunder and lightning, earthquake, nuclear disaster, environmental spills, while the house/apartment is under construction, or where damage is caused by machinery used in conducting a business in the home. • Loss of, or damage to, jewellery, valuable collections, valuable papers, computer software and data, and photographic equipment caused by the rescue effort is also excluded. • Waiting period for damage due to water/flooding – 15 days. • Claims are limited to 50% of replacement value. • Claims under $27 not covered.
Pricing – premiums	• For option 1. $26 annually • For option 2. $58 annually For option 2, credit unions are encouraged to provide an interest-free loan for 12 months. Commission paid to credit union for option 2 is higher to compensate for interest-free loan (see section 4.5 for details).
Pricing – co-payments and deductibles	None
Length of time in market	18 months

Savings Completion Insurance

Savings Completion Insurance is a unique product, designed to encourage credit union members to develop a regular savings programme through a contractual savings account. The member determines the savings goal and time period, up to a maximum of ten years. The credit union has software that will then calculate the amount of the monthly deposit to achieve the savings target. The software also calculates the monthly premium for insurance coverage. In the event of accidental death of the member, TUW SKOK will pay the beneficiary the difference between the savings target and the savings balance at the time of death. There is also a disability component that supplements the member's salary if the member is unable to work for more than 30 days.

This insurance product is particularly attractive to the credit unions because it is closely integrated into their core business. While the property insurance is a stand-alone product unrelated to savings and credit, savings completion coverage helps the CU to achieve its own goals by making the contractual savings product more attractive. It is also easier for CU staff to sell because they can ask when setting up the account if the member wants the additional insurance coverage; whereas with the property insurance, there is not such a natural transition.

Table 5B: Product Details - Savings Completion Insurance

	Product Features and Policies
Microinsurance Type	Savings Completion Insurance
Group or individual product	Group
Term	For the specified saving period up to a maximum of 10 years.

	Product Features and Policies
Eligibility requirements	Credit union member with a targeted savings plan – coverage expires at age 65
Renewal requirements	None – coverage expires at age 65
Rejection rate	Not available.
Voluntary or compulsory	Voluntary
Product coverage (benefits)	• Insures the achievement of the targeted saving amount up to a maximum of $17,333 due to accidental death. • Disability benefit is provided when the member is unable to work for more than 30 days as a result of an accident. Benefit payable is the difference between the member's salary and benefits paid by any other insurers or programs. Salary is determined as the average for the six months prior to the accident. Coverage is limited to six months.
Key exclusions	Accidental death due to war, criminal offence, or under the influence of alcohol.
Pricing – premiums	Premiums are formula-driven based on target savings amount and saving period. Credit union software provides the monthly payment including the insurance premium. Premium rate is 0.07% per month per $267 targeted savings. Premiums are collected as part of the monthly deposit, and then remitted to TUW SKOK each month.
Pricing – co-payments and deductibles	None
Length of time in market	4 years

My Family AD&D Coverage

TUW SKOK offers three different AD&D policies, but has recently added coverage for the whole family in response to requests from the credit unions. "My Family" is an accidental death and disability product designed to provide coverage to the credit union member and members of the immediate family. Immediate family is defined as spouse, all dependent children, and parents of both adults. Each family member has coverage for accidental death, while only the credit member is covered for disability. The product also provides coverage if death is caused by a sudden illness. Other benefits include coverage for medical and hospitalisation costs incurred by the credit union member as a result of an accident or sudden illness.

"My Family" is a group product. The composition of coverage and benefit levels is determined by the credit union and applicable to all members who participate in the programme. For example the credit union selects the sum insured amount, and decides whether or not medical and hospitalisation coverages are to be included. This arrangement provides flexibility for the credit union in tailoring the product to best suit the needs of its members.

Table 5C: Product Details - "My Family" Accidental Death & Disability

	Product Features and Policies
Microinsurance Type	"My Family" Accidental Death & Disability
Group or individual product	Group
Term	12 months, with automatic renewal
Eligibility requirements	• Credit union member, including spouse, children, and parents of adults, up to 65 years of age. • Children are covered up to age 18, or if in school coverage continues to age 25.
Renewal requirements	Annual renewal. If insurance is suspended, there is a 3-month waiting period before coverage is re-instated.
Rejection rate	Not available.
Voluntary or compulsory	Voluntary
Product coverage (benefits)	- Disability coverage applies only to the member and benefit amount is dependent on percentage of disability as determined by a physician. • If disability is between 1 and 20 % then 1.5% for each 1% of disability times the sum insured is payable. • Between 21 and 40%, then 2.0% for each 1% of disability times the sum insured is payable. • Between 41% and 70%, then 2.5% for each 1% of disability times the sum insured is payable. Between 71% and 100%, then 3% for each 1% of disability times sum insured is payable - Sum insured is determined by the credit union; $1,333 being the most common option; $2666 is the maximum amount. - Accidental death or sudden illness leading to death of the member, spouse, or family member. - Death of the credit union member as a result of an accident provides the beneficiary with 300% of the sum insured. If death is a result of a sudden illness beneficiary will receive 100% of sum insured. Accidental death of the spouse provides a benefit equal to the sum insured. Accidental death of a child provides a benefit of 30% of the sum insured, and in the event of the accidental death of a parent or in-law, a benefit of 20% of the sum insured is payable. - Hospital plan option (elected by credit union) provides $5, $8 or $13 (again, coverage level selected by credit union) per day of hospitalisation for the credit union member only. Medical costs are covered up to a maximum of 25% of the insured amount.
Key exclusions	• Suicide, accidental death due to extreme sports, war, criminal offence, or under the influence of alcohol. • Six month waiting period for death due to sudden illness. • Hospitalisation of less than 48 hours is not covered. • Only medical and hospitalisation costs incurred in Poland are covered.

	Product Features and Policies
Pricing – premiums	Premiums are based on occupational class assigned to the credit union. For AD&D: Class I - $0.36 per $267 per year Class II - $0.40 per $267 per year Class III - $0.43 per $267 per year The above rates are for the $1,333 option. Above $1,333 the rates are 110% per $267 up to the maximum coverage of $2,666 coverage. For hospital cash: Class I - $0.17 per $2.67 per year Class II - $0.20 per $2.67 per year Class III - $0.23 per $ 2.67 per year The $2.67 being the multiple of the daily hospital cash benefit selected by the credit union. Class I: office workers, teachers, doctors. Class II: industry line workers, drivers, forestry workers, police, firemen. Class III: miners, high voltage line workers, explosives experts, divers. It is one price per family regardless of number of family members.
Co-payments and deductibles	None
Length of time in market	18 months

4.1 Partners

TUW SKOK underwrites all products with no reinsurance partners. Its intimate partnership with the NACSCU, the credit unions, the brokerage company, the Foundation for Polish Credit Unions and the software firm (as described in Section 2.2) all play a critical role in TUW SKOK's success.

4.2 Distribution Channels

Individual member products are sold through credit union insurance "agents" and activity is managed by credit union employees designated as "coordinators". Agents are employees of the credit union, some of whom are officially licensed to sell insurance products. Current regulations permit the sale of group insurance products through unlicensed agents. Estimates of the number of agents ranges from 700 to 1,000 credit union employees. Out of this number, approximately 100 to 200 are actively selling insurance, and approximately 225 are officially licensed to sell individual life, and property and casualty coverage. Many credit union employees have been trained to sell insurance policies but are not actively doing so.

In January 2004, new regulations will require licensing of all agents involved in the distribution of insurance regardless of whether the policy is a group or individually underwritten product. Licensing will require satisfactory completion of a regulated 150 hour training program. The only exceptions are "banc-assurance" products—insurance products tied to a financial instrument, such as credit life, credit disability, and mortgage life. Ability to sell banc-assurance products will require satisfactory completion of a 16 hour training program. This change in regulation may have a significant impact on individual member insurance sales, since many of the current products in TUW SKOK's portfolio will require an agent to be licensed (i.e., having successfully completed the 150 hour program).

TUW SKOK has experienced mixed success with this distribution channel. Membership penetration has been relatively low to date, although some credit unions are more successful in distributing insurance than others. Some of the factors correlated with sales success include size of credit union, management attitude, and employee attitude. Larger credit unions have experienced better penetration rates than smaller ones. This correlation would appear to be more than just a factor of membership size, and is more closely linked to management's view of the integral nature of insurance offerings in combination with the CU's primary financial services.

Credit union management's attitude toward the strategic fit of individual member insurance products is a primary factor of sales success. More successful credit unions view the strategic nature of insurance in their product offering and demonstrate appropriate management disciplines such as setting sales targets.

The greater success of the larger credit unions may also have to do with market opportunities and priorities. With new and growing credit unions, savings mobilisation and the extension of credit are the primary focuses; insurance is secondary. Once the credit union achieves a level of maturity, however, insurance may be seen more as a member benefit and source of non-interest revenue for the credit union.

The agent's attitude towards insurance is also a factor in achieving positive sales results. Currently there is no pre-screening of "agents" as to personality, capability, or propensity for sales success. As part of its budget process, TUW SKOK sets annual sales goals. Interestingly though, these targets are not sourced from the agents, nor are they even shared with them. It was estimated that only six credit unions set insurance sales targets for their employees.

Commissions are paid through the brokerage to the credit unions and the agents. Historically the agent has received a greater proportion of the commission. However, given the limited sales success to date, TUW SKOK is transitioning to a new formula that will provide more, if not all of the commission to the credit union. The credit union will then have the flexibility to decide how much would be shared with the agent. Another reason for this change is because it is sometimes difficult to attribute sales to individual agents as multiple credit union staff maybe involved. Furthermore, TUW SKOK has had some difficulty managing commissions' information for hundreds of very part-time agents.

TUW SKOK has also introduced additional commissions for achieving volume thresholds. When a credit union sells 1000 policies, the brokerage firm pays it a bonus of $1200. To stimulate competition among its agents, TUW SKOK rewards the top 20 salespersons with a long weekend trip to Rome or Paris for two (rewarding a spouse or partner for their support and sacrifice). The insurer also strives to pay commissions on time to reinforce to the agent and the credit union that TUW SKOK is a responsible and responsive company. As TUW SKOK gains more experience with these reward systems, it hopes to influence credit unions to take a more disciplined approach to insurance distribution, and begin to set sales targets and clarify expectations.

There are approximately 58 coordinators that have been designated by the credit unions to manage insurance sales activities and serve as a liaison between the insurer and the agents. Of the 58 coordinators, only three are full-time, and they work in the larger credit unions. This suggests that certain economies of scale are needed before the credit unions can make a sufficient human resource investment in insurance sales.

TUW SKOK, or rather the brokerage firm, has five staff members that provide training to agents and coordinators. The primary focus is product training; however there is a rudimentary sales training programme. This programme covers topics such as: how to approach clients, how to identify needs, how to deal with objections, and how to promote products. Anecdotally TUW SKOK sees an increase in sales immediately after the training, and then results gradually diminish over time. A significant obstacle for TUW SKOK is gaining time commitments from the credit unions for agents to attend training sessions.

The sales process in most credit unions is passive. In other words, agents wait for the business to come through the door as opposed to pro-actively asking for the business. For most agents, their primary role is to fulfil their credit union duties; insurance sales are a secondary function. Consequently, agents say they do not have sufficient time to effectively discuss members' insurance needs. However, once an interested member is engaged, there are few rejections given the nature of the insurance contract. TUW SKOK's member insurance is group based, so eligibility requirements are easily met.

4.3 Benefits

Products are designed for the demographic characteristics of Poland's credit union members. Insured amounts are relatively low; consequently premium pricing is within an acceptable range for the average income earned by members. Since most of the member products are relatively new, there have been few changes to the benefits. However, TUW SKOK recognizes that as more experience is gained over the next two years, it will be in a better position to review benefits and associated pricing.

4.4 Premium Calculation

Generally TUW SKOK keeps its premium calculation methodologies simple and wherever possible provide for monthly premium collection. Premiums are collected by the credit union and subsequently remitted to the insurer. For the products profiled above, risk premium is set at 70 percent, and the remaining 30 percent is expected to cover overheads, administration, loss adjustment expenses, and generation of surplus.

Commissions paid are in addition to the risk and expense premium. For the apartment coverage, for the lower ($1,867) sum assured, TUW SKOK pays roughly 15 percent commission, with the bulk of it going to the agent and only a nominal amount going to the credit union. But for the higher option ($4,000), TUW SKOK pays nearly 25 percent commission, most of which goes to the credit union to encourage it to provide the interest free loan.

For the savings completion product, commission is 20 percent split between the credit union and the agent at the credit unions' discretion. For the "My Family" AD&D product the commission ranges from 20 to 25 percent, which is paid to the credit union. All commissions are paid through the brokerage company – Asekuracja.

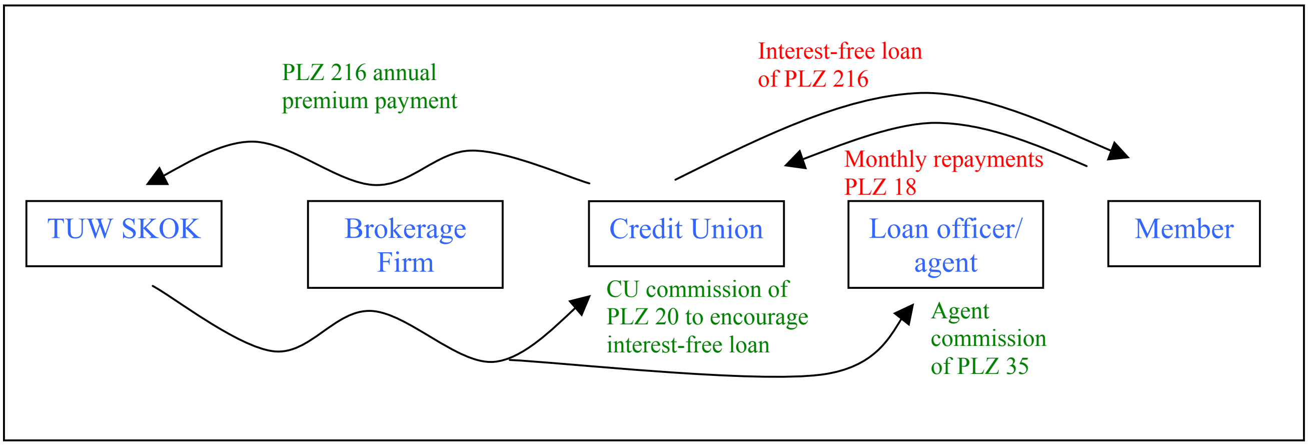
4.5 Premium Collection

The partnership between TUW SKOK and the credit unions greatly facilitates the premium collection process. All credit union members have savings accounts, so for stand-alone insurance products, each month the CU deducts the relevant premium amounts from the members' accounts and forwards it to TUW SKOK. Since this is an electronic transaction rather than a physical financial transaction, the transaction costs are dramatically lower.

In addition, two of the insurance products have other premium collection advantages:

- For the property insurance Option 2, with the higher sum assured, the annual premium may be financed over twelve months by an interest-free loan through the credit union (as shown in Figure 6). TUW SKOK pays a higher commission on option 2 to compensate the credit union for the interest-free loan.
- For the savings completion insurance, the monthly premium is built into the monthly deposit made by the member.

Figure 6. Follow the Zloty: Money Trail for Property Insurance, Sum Assured PLZ 15,000



4.6 Claims Management

TUW SKOK's claim department consists of one manager and 5 staff members. They are responsible for the adjudication of all insurance claims, and the assignment of loss adjusters (property insurance) and doctors (disability claims). For each product, the claims process, and the causes of delays and rejections vary significantly.

In general, TUW SKOK strives to settle all claims within 30 days. To expedite the claims process, TUW SKOK has set up a 24-hour toll free number, but thus far only 10 percent of the claims are started through the call centre; most claimants visit the credit union first. In fact, the possibility of initiating the claims process at the credit union creates a comfort level for many policy holders since they can deal with people that they know and trust.

When claims are paid, the money is then either transferred directly to the member's account, or by postal transfer. Again, the link with the CUs represents a significant advantage because it facilitates the payment process with minimal transaction costs.

A member who is dissatisfied with the adjudicator's determination may appeal the claim in writing. All appeals are reported to the Board of TUW SKOK, which in turn decides to uphold the original determination or send it back to the Claims Manager for a second review. During the first 9 months of 2003, the board considered 69 claim complaints, of which 16 decisions had been modified or reversed, 48 upheld, and 5 were still in process. Reversals or modification to benefits usually occur with disability claims, whereby the policyholder submits supplementary medical information, or a second review by TUW SKOK's assigned doctor, leading to an increase in benefit.

This section summarises the claims process and the primary challenges for each of the three products.

Property Insurance

Once TUW SKOK receives a claim for damage or theft from the member and confirms coverage is in-force, a loss-adjuster is assigned to investigate the claim and prepare a loss report. There are a number of independent claims adjusters in Poland who work for a variety of insurance companies. The availability and expertise of claims adjusters is generally not a problem; they are expected file a report within 10 days. The claims department will then assess the claim based on the loss report and determine the benefit payable.

For property insurance, the most common reason for delay in processing a claim is the adjuster's documentation is either late or incomplete. The insurer stops using adjusters that repeatedly have problems. The most common causes for rejection include: claims for water damage made within the 15 day waiting period and claims under the minimum of $27. The fact that over 1 in 5 claims are rejected suggests that the agents may not be sufficiently informing policyholders about the product specifics, or the agents themselves are unaware.

The most common claim is due to water damage caused by broken pipes. To avoid members buying the insurance the day after an incident, TUW SKOK has a 15 day waiting period from the start of coverage before water damage is covered. The minimum claim amount reduces frivolous claims and costly claims handling.

Table 6A: Claims Settlement Details - Apartment (Tenant) Property Insurance

Apartment (Tenant) Property Insurance	Observations
Parties involved in claims settlement	• Member contacts credit union and obtains claim form for submission to TUW SKOK. Member may also contact TUW SKOK directly to initiate claim. In 90% of the cases the member contacts the credit union. • Once coverage is confirmed, a loss adjuster is assigned to evaluate the claim. Upon acceptable completion of the loss adjustment report, funds are dispersed according to member directions. • Final adjudication determined by TUW SKOK claims staff.
Documents are required for claims submission	• Loss adjuster's claim report • Claim form
Claims payment method	Direct transfer to member's financial institution of choice or postal transfer.
Time from insured event to claim submission (average days)	12 days
Time to pass through any intermediaries (average days)	N/A
Time from submission to payment (average days)	28 days
Claims rejection rate	22%

Savings Completion

The beneficiary initiates the claim by completing the necessary documents. The credit union has a responsibility to provide information to TUW SKOK confirming the member has been making the necessary monthly savings deposit and that the insurance premiums have been collected and remitted to TUW SKOK.

Most common reason for delay is the beneficiary is either unaware or forgotten that insurance is in place. To reduce lapses, a reminder notice is mailed out within a month after the payment was missed. Rejections generally result from the member's failure to make consistent monthly deposits to their savings plan.

Table 6B: Claims Settlement Details - Savings Completion Insurance

Savings Completion Insurance	Observations
Parties involved in claims settlement	• Beneficiary contacts credit union and obtains claim form for submission to TUW SKOK. Beneficiary may also contact TUW SKOK directly to initiate claim. • Credit union confirms savings plan in place and premium collected. • Final adjudication by TUW SKOK claim staff.

Savings Completion Insurance	Observations
Documents are required for claims submission	• Death Certificate • Doctor's statement indicating cause of death • Acceptable identification of beneficiary
Claims payment method	Direct transfer to beneficiary's financial institution of choice or postal transfer.
Time from insured event to claim submission (average days)	60 days
Time to pass through any intermediaries (average days)	N/A
Time from submission to payment (average days)	26 days
Claims rejection rate	Not available

My Family AD&D

This policy covers accidental death and disability for up to eight people. To initiate a claim, either the credit union member or a member of the family would file a request depending on the circumstances. In the case of death, a claim form along with the necessary documents is provided to TUW SKOK for adjudication. For a disability claim, the member is required to obtain a physician's report indicating the cause of the disability and an assessment of the percentage of disability. After processing the request, TUW SKOK requires the claimant to see its physician at for a second opinion. TUW SKOK makes final adjudication as to the benefit payable.

Disability claims often take a long time before they are ever submitted because the extent or impact of a disability may take weeks or months to unfold. Delays in disability claims processing usually result from incomplete physician's reports, and discrepancies between the attending physician and TUW SKOK's doctor as to the percentage of the member's disability. For disability claims, the benefit from TUW SKOK depends on the degree of disability. This assessment tends to be quite subjective, and the findings between doctors can vary significantly. In fact, the number one cause of claims complaints stems from disagreements regarding the extent of the disability.

For death claims, delays occur in trying to ascertain if indeed the death was due to an accident or a sudden illness, rather than natural causes. With the funeral package that TUW SKOK used to offer (before being stopped by regulators), there were hardly any claims rejections because it covered all causes of death. For the previous product, some credit unions would immediately pay the claims and then be reimbursed by the insurer, but this arrangement does not work for accidental deaths because the claim may be rejected.

In the case of Accidental Death and Disability reasons for rejection include: a) premium not paid, b) sudden illness was within the 6 month waiting period, c) cause of disability was determined to be not a result of an accident, or d) the accident occurred before insurance coverage was in place.

Table 6C: Claims Settlement Details - "My Family" Accidental Death and Disability

"My Family" Accidental Death and Disability	Observations
Parties involved in claims settlement	For disability, member contacts credit union and obtains claim form for submission to TUW SKOK. Member may also contact TUW SKOK directly to initiate claim. In 90% of the cases the member contacts the credit union. Member' doctor must complete an assessment report. TUW SKOK assigned doctor subsequently completes report indicating loss or disability percentage. For death the beneficiary contacts the credit and obtains claim form for submission.
Documents are required for claims submission	For Disability: claim form, attending physician report, and TUW SKOK's final doctor assessment. For Death: death certificate, doctor's statement indicating cause of death, and acceptable identification of beneficiary.
Claims payment method	Direct transfer to member's financial institution of choice or postal transfer.
Time from insured event to claim submission	56 days on average
Time to pass through any intermediaries	N/A
Time from submission to payment	59 days on average
Claims rejection rate	Not available

4.7 Risk Management

TUW SKOK has reasonable risk management and controls in place. They have little history of fraudulent claims and their claims processes appear adequate for the types of products they underwrite. There have been cases where a claim has been submitted for a second time, but these have been caught and obviously rejected. The role of independent loss adjusters and the use of two doctors for disability claims also help to minimise fraudulent claims.

TUW SKOK has built into their products effective protection against adverse selection. For example, the property insurance has a 15 day waiting period from the start date of coverage for water damage to protect the company against a member purchasing coverage immediately after the occurrence of a loss. Another example is the 6-month waiting period in the "My Family" product for death or disability due to sudden illness. Group policy provisions provide for premium changes in a timely manner should claims escalate and pricing becomes inadequate.

Pricing to date appears to be adequate. Both the property and savings completion insurance have loss ratios of approximately 20 percent; "My Family" has a loss ratio of 50 percent. These are well within their pricing assumption of 70 percent for risk premium. However, this does raise the question of whether prices are too high, benefits are too low, or claims management too strict. TUW SKOK recognizes this fact and intends to review the price to benefit relationship once enough experience has been obtained.

4.8 Marketing

The Marketing Department of TUW SKOK is responsible for market research, product development, and product promotion. The annual marketing budget is developed on the basis of a percentage of projected premiums. For the fiscal year 2003 the budget was over $200,000, including roughly half for posters and pamphlets.

The primary focus of the Marketing Department is to promote the insurer and its products to credit union staff and management. While there is no direct education provided to credit union members, TUW SKOK provides marketing materials to the credit union, which can be displayed in the branch and leaflets that can be included in monthly statements. Most of the marketing materials are designed to provide awareness to credit union members that individual insurance products are available through their credit union. The effectiveness of the marketing activity has not been assessed.

In terms of market research, credit union members are surveyed every 2 to 3 years, using an external research firm (for details, see Section 3.0). Annually, TUW SKOK surveys the agents and credit union management using internal resources.

Marketing funds are also allocated for social community activities, such as an annual children's painting and drawing competition, support for the Social Primary Music School in Gdansk-Orunia, sponsorship of Poland's junior champion in the 800 metres event, and the football team of Gdansk Lechia Club. These low-key events promote TUW SKOK's image as an institution close to the community, which prefers to spend money on a youth football club rather than flashy advertising.

TUW SKOK's marketing efforts consist primarily of brochures and posters. TUW SKOK also engages in branding efforts (see marketing brochures in Appendix 2). For example, the organisation uses a big green key to represent the property insurance policy. This key is ubiquitous in the credit unions that sell the property insurance. TUW SKOK's logo is also very similar to that of the National Association of Cooperative Savings and Credit Unions, reinforcing the symbiotic relationship between the two.

There is, however, a need to promote the value and benefit of the products to agents and credit union management beyond just supplying marketing materials and training. Although members obtain claim forms from their credit union, neither the credit union nor the agent is aware of the outcome of the process unless the member relates this information back to the agent. There is an opportunity to reinforce the value of individual insurance products; for example TUW SKOK could report to each credit union and agent on a regular basis (e.g., quarterly) on the total claims paid to the credit union's members, the average time for claim processing, and the commissions generated as result of sales. This reinforces the value for the credit union membership, as well as the value for the credit union to generate non-interest income through insurance sales. Indeed, agents are more inclined to promote products if they believe that members benefit from the coverage.

There is also an opportunity to encourage agents to buy insurance products themselves. Agents who have purchased insurance are better at selling the benefits to the member. To stimulate purchase by agents, TUW SKOK could offer discounts or other incentives to credit union employees.

4.9 Customer Satisfaction

Renewal rates and reasons for non-renewal are not actively tracked and therefore actual data was limited. Based on the educated assumptions of TUW SKOK staff, the apartment insurance product has an 80 percent renewal rate and the primary reason for non-renewal is due to the economic condition of the member (i.e., he or she can no longer afford the coverage). The savings completion insurance is unique and therefore difficult to track. Targeted savings plans are usually for a period of two to three years. It was estimated that approximately half of the insureds will begin a new program after completing the previous plan; however this estimate could not be confirmed.

Client satisfaction is generally monitored by the complaints received from policyholders. TUW SKOK maintains a specialized complaint database where complaints are logged. One staff member is responsible for reviewing and responding to all non-claim complaints, while those related to claims are forwarded to the Claims Manager (see Section 4.6). Common non-claim complaints are related to errors between the credit union and TUW SKOK or between the agent and the member. In some cases the member has paid the premium to the credit union, however it was never remitted to TUW SKOK. In other cases the member feels the agent misrepresented the product.

5. Results

TUW SKOK has experienced significant growth over the last three years, since it started offering insurance for credit union members, with a 60 percent increase in premiums per year. Keep in mind, however, that the member-pay products only represent 10 percent of the total premiums in 2003, so growth is largely attributable to the expansion of the credit union network and its need for insurance (e.g., to cover new branches and employees). Nevertheless, the overall trends are quite positive. TUW SKOK has managed to keep net income steady while increasing its reserve ratio and improving efficiency (i.e., decreasing its administrative cost ratio. If the claims ratios remain below 30 percent, then TUW SKOK may be in an enviable position to increase benefits, lower premiums or both.

TUW SKOK produces regular financial statements to monitor the overall performance of the company. It does not produce profit and loss statements by product line to monitor the individual performance of each line of business. However, they do have the necessary data to monitor premium and claims by line of business, and given that loss ratios are well within their risk premium assumptions this should not be a cause of concern. As individual product volumes grow, they may want to consider developing statements for individual product, or groups of products, with proper expense allocation to ensure that management has the tools to assess the ongoing viability of any given product or class of product.

Table 7: Key results

	2003	2002	2001	2000
Net income (thousands $)	940	311	338	319
Total premiums (thousands $)	8,760	5,588	3,494	2,177
Growth in premium value (%)*	53.2	54.6	54.3	-
Gross claims paid out (thousands $)	2,091	1,305	929	649
Claims/total premiums (%)	23.9	23.4	26.6	29.8
Administration Costs (thousands $)	1,739	1,620	1,226	816
Administrative costs / premiums (%)	19.9	29.0	35.1	37.5
Commission (cost of acquisition) (thousands $)	1,081	709	407	217
Commissions / Premiums (%)	12.3	12.7	11.7	10.0
Reinsurance / Premiums (%)	-	-	-	-
Technical Insurance Reserves (thousands $)	6,158	3,255	1,582	876
Reserves added for the period / Premiums (%)*	32.3	29.0	19.2	-
Net income added for the period / Premiums (%)*	7.1	-0.7	0.2	-
Claims cost per total number insured ($)	21.6	24.2	33.3	40.1
Growth in number of insured (%)	79.6	93.5	72.2	-
Income earned from investment of premiums (thousands $)	424	526	505	317

Exchange rate used (PLN to 1$)	0.26645	0.26035	0.25176	0.24213

* ratio based PLN amounts

6. Microinsurance Product Development

One of the key features of an ISO 9001 certification is a systematic and formalised product development process. Such a process is important for a company like TUW SKOK, which is regularly developing new products. Although this report focuses on three, the insurer offers twenty to thirty different products—no one is quite sure exactly how many. Some products are no longer being sold, but there are policies still in force. Some products were developed for specific credit unions, but are not widely available. Some products are just minor variations of the same product.

In developing a new product, TUW SKOK follows the process outlined below.

Product Development Flow Chart

No	Tasks	A	B	C	D	E	F	G	H	I	J	K
1	Concept development				Ass	E						
2	Concept verification						E					
3	Development of design workplan				E							
4	Verification of workplan				Ass	Ass	E					
5	Development of General Conditions of Insurance				Ass			E				
6	Obtaining opinions, making adjustments	Ass	Ass	Ass	Ass	E				Adv		
7	Development of tariffs				Ass		RI		E			
8	Development of profitability simulation					Ass	RI		E	Ass		
9	Verification of General Conditions of Insurance						E					
10	Final verification of General Conditions of Insurance									RI	E	
11	Forwarding information to the ones concerned				RI	RI	App					E
12	Development of insurance documentation		Ass	Adv		E				Adv		
13	Development of marketing activities schedule				E	Ass				Ass		
14	Product verification						E					
15	Entering General Conditions of Insurance and insurance forms into database											E
16	Forwarding documentation (Verification of insurance conditions, tariffs, forms)	IR	IR	IR	IR	IR				IR		E
17	Staff training	Ass				E						
18	Development of training materials	RI			E					RI		
19	Product validation				E					Ass		
20	Assessment of sales results, opinions of intermediaries and respondents				E	RI	RI					
21	Product launch for sale or returning to designing stage	Ass			E	Ass				RI		

Flow Chart Key

Person Responsible	Action
A – Director of Training Department	Adv- Advises
B – Manager of Insurance Team	App – Approves
C – Manager of Claims Adjustment Team	Ass – Assists
D – Director of Development Department	E – Executes
E – Director of Insurance Department	IR – Instruction sheet / manual
F – Management Board	RI – Receives information
G – Legal Adviser	
H – Actuary	
I – Insurance Intermediary	
J – General Meeting of TUW Members	
K – Legal Specialist	

The property insurance product provides a good example to illustrate this process. TUW SKOK was originally motivated to develop new products to offer CU members as much protection as possible. Research had shown that many CU members were purchasing insurance from other companies (see Section 3.4), and TUW SKOK wanted to find the right entry point to entice them to switch providers. TUW SKOK hired a market research team to conduct focus group discussions, which indicated that people were primarily interested in auto, life and property insurance. This experience caused the insurer to frown on the usefulness and cost effectiveness of focus groups, since the expensive market research team told the insurer the same information that it had already gleaned through informal discussions with CU managers.

To offer life insurance, TUW SKOK would need to start another company, something that it is now working on. Auto insurance is very competitive with tight margins—while TUW SKOK might consider venturing into auto insurance in the future, it was not the right place to start. Based on the needs of the target market and a competition analysis, and after further consultation with managers in the large CUs, TUW SKOK decided to develop a property insurance product (42 percent of the credit union members already had such a policy with other insurers).

Once the prototype and business model were approved by the board, then the actuary, lawyers and MIS people were consulted, and they helped to finalise the details. The product development team was then responsible for developing a product manual and staff training. The product was initially tested in two credit unions that had a strong sales history for three or four months to sort out procedural issues, for example requiring applicants to indicate if they were owners or renters—the pilot test was not intended to assess demand or to adjust product details.

With revised product manuals and staff training materials, TUW SKOK then began the process of rolling out the product to other credit unions, which included conducting a number of product training sessions across the country.

TUW SKOK does not systematically assess its current products, but through semi-annual meetings with the managers of the large SKOKs it does get regular feedback on the products. Plus it carefully monitors claims ratios.

7. Conclusions

7.1 Lessons for Microinsurance

It is certainly an open debate as to whether TUW SKOK is really providing *micro*insurance. Operating in a middle-income country, TUW SKOK's clientele will naturally be better off than low-income persons in a developing country. Although the insurer is not purposely reaching down and experimenting with ways of extending insurance to low-income people, it appears to be filling a market niche below the rest of the Polish insurance industry. For example the sum assured for the tenant's package is below the amounts available elsewhere. Plus, the use of credit unions as the delivery channels allows TUW SKOK to reach people who are among the lower ranks of the Polish economy.

The debate, however, is not necessary. Either way, TUW SKOK provides a number of valuable lessons for microinsurance providers, as described below.

Institutional Structures and Relationships

Role of a brokerage company. The role of Asekuracja, the brokerage company, is one of the most significant contributions to the current thinking in microinsurance. The brokerage was instrumental in facilitating the transition from Benefit to TUW SKOK without major inconveniences to the credit unions and their members because it accessed products from other insurers to fill the gap. Even today, as TUW SKOK is not licensed to provide all types of insurance, Asekuracja can ensure that the needs of the credit unions can be met.

This arrangement demonstrates two important lessons for microinsurance. First, perhaps the partner-agent model is too restrictive since it implicitly limits the relationship between a microfinance institution (MFI) and one insurer.[7] A brokerage firm between MFIs and the insurance companies might represent a more flexible and responsive model than a partner-agent arrangement. An additional advantage of this structure for the promotion of microinsurance is that the brokerage would also not depend on the MFI as its sole delivery channel and could explore other means of extending insurance to the low-income market.

The second lesson comes from Buczkowski's recommendation that other would-be microinsurers establish a brokerage company as an entry point, rather than trying to start with an insurance company. Indeed, some MFIs are exploring the possibilities of creating an insurance company, but they might be better off starting with a brokerage firm. Then over time, they could build up sufficient capital and expertise to start their own insurance company if that proved to be appropriate.

Outsourcing. TUW SKOK's heavy reliance on outsourcing—not just to the brokerage company—represents another lesson. Microinsurance providers do not have to do everything themselves. To related companies, TUW SKOK outsources its software development and

[7] Of course the relationship does not have to be restricted, as some MFIs in India are demonstrating. Some MFIs have numerous partnerships to offer different insurance services; other MFIs regularly switch partners in search of a better deal.

sales. Unrelated companies or consultants have provided market research, claims adjusting, and actuarial services. Also, outsourcing arrangements can change. Previously, actuarial work was outsourced and investments were managed in-house; but because of changes to scale and complexity, those arrangements are in the process of being reversed as TUW SKOK hires a full-time actuary and outsources the investment management.

A diversified approach. TUW SKOK essentially has two markets: the credit unions and the credit union members. These distinct markets require distinct product lines, which enable the insurer to diversify its risks. In addition, although data was not available to prove the point, it is possible that the credit union products are, or were, subsidising the member products. Even if that is not true, by starting with the corporate client base, TUW SKOK could build a strong financial foundation before launching into retail services. Therefore organisations that are entering into microinsurance may want to consider whether they want to serve that market exclusively, or whether a more diversified approach would be more effective. If they choose a diversified approach, then they need to decide on the best starting point.

Mutually beneficial relationships. TUW SKOK's place in the credit union system is (mostly) an enormous advantage. The credit unions are required to buy deposit insurance from TUW SKOK, which gives the insurer a guaranteed stream of premiums with no acquisition costs. And most of the credit unions also source their other corporate policies from TUW SKOK. As long as the insurer does not do anything rash to scare away the credit unions, it essentially has a captive market.

Although the introduction of products for credit union members is creating some sales challenges, as discussed below, the use of the credit unions as its delivery channel will also prove to be a tremendous blessing once it works out the kinks. The credit unions are growing by leaps and bounds, and generally have a solid financial position. Furthermore, they represent an extremely cost effective means to reach nearly a million Poles.

So what is the lesson for microinsurance? Can this model be replicated elsewhere, with other types of microfinance providers, or is it a unique arrangement that only makes sense within a credit union system? These questions are certainly worth considering, especially in a country where there are a number of MFIs that do not compete directly and therefore might be inclined to collaborate in creating an insurance company or brokerage firm, instead of every MFI creating their own.

Overcoming Sales Challenges

The success of TUW SKOK depends entirely on the success of the credit unions. While this arrangement allows the insurer to be very efficient—since it does not have to maintain a sales force—its success in retail sales depends on the motivation and expertise of the credit unions and their staff. The challenge for TUW SKOK is how to influence the performance of its sales force when it is not in a position to directly manage or control its agents. At this stage, TUW SKOK is still learning and testing different approaches, such as:

- **Threshold incentives**: TUW SKOK has introduced bonuses for CUs when the reach certain sales milestones.

- **Agent competitions**: To stimulate competition among its agents, TUW SKOK rewards the top 20 salespersons with a long weekend trip for two to exotic locales.
- **Bias incentives toward the institution**: TUW SKOK is also in the process of allocating more commissions to the CU rather than to individual agents. The logic behind this approach is to get greater management buy-in, so that the managers will more actively encourage staff to sell insurance. The credit union can then decide how much to pass on to the individual agent.
- **Improve staff training**: TUW SKOK (via Asekuracja) is also in the process of improving its sales training. One of the problems in providing training is finding the time for agents to attend. Courses are often offered on the weekends or evenings because staff cannot get away during working hours. TUW SKOK also created its four regional offices to bring the training closer to the agents.

In addition, TUW SKOK is considering steps to improve sales, such as:

- **Increasing agent awareness**: TUW SKOK may provide information to the credit unions and agents on the total claims paid to the credit union's membership, the average time for claim processing, and the commissions generated to demonstrate the value that the insurer provides to the credit union and its members.
- **Stimulate agent purchases**: By offering discounts or other incentives to credit union employees to purchase insurance, TUW SKOK could enable them to speak from personal experience and strengthen their sales pitch.

Although early days, TUW SKOK has learned some useful sales lessons for other microinsurance providers:

- **Seek synergies**: It is much easier for CU staff to sell insurance that is linked to their core services (savings and credit) than stand-alone insurance products. For example, it is much easier to sell the savings completion insurance than property insurance.
- **Economies of scale**: In the larger credit unions, their volume of insurance sales is sufficient to justify a full-time insurance coordinator. Although the impact of this staff structure has not been formally analysed, it is assumed that a full-time coordinator is able to generate even greater sales results. For microfinance institutions therefore, under some circumstances it might be appropriate to hire a dedicated insurance staff member, perhaps even before the volumes justify it, so that someone can be committed to stimulating sales, rather than everyone doing it part-time, in passing, when it is convenient, if at all.

Product Menu

TUW SKOK's diverse product menu provides a couple of useful insights for other microinsurers.

First, **disability insurance** may not be the most appropriate product for the low-income market, or if it is offered it needs to be simplified considerably. Given the small sum assured, it is hard to justify the costs of processing claims, including the doctors' fees, the costs of resolving "degree of disability" disagreements (and the corresponding public relations problems), not to mention the time spent by the board of directors in considering appeals.

Furthermore, for workers in the informal economy, it is often difficult to classify what type of work they do, so the pricing structure would also have to be simplified. It will be interesting to see if TUW SKOK starts de-emphasising disability cover once it is able to offer life insurance.

The **savings completion insurance** demonstrates the synergies that are possible between insurance and an MFI's core business of savings and credit. What is particularly interesting is that, unlike other insurance + savings or insurance + credit products, this one is entirely voluntary. Perhaps such a product will inspire further innovation in microinsurance that can complement a savings or credit product if the client wants it.

Another issue that is worth exploring is whether a **deposit insurance** scheme, like that offered by TUW SKOK to the credit unions, could be created for microfinance institutions in a country. Essentially the credit unions in Poland operate in a parallel financial system; the only point of contact between the credit unions and the banking industry is through the National Association's central finance facility. If such an arrangement could be replicated for MFIs, it could enable them to offer savings accounts without risking their depositors' money.

Product Design

TUW SKOK has happened upon the same lessons that are apparent to most microinsurers: product design should be kept simple for ease of administration, training of agents, and member understanding. Insured amounts should be kept small with correspondingly low premiums. In particular, clients should be able to pay premiums monthly to make the products more affordable.

Perhaps TUW SKOK's most significant innovation in this regard is the interest free loan offered by the credit unions to encourage members to buy the tenant's policy with the $4000 sum assured. Why would credit unions offer an interest fee loan? Because the insurer provides them with a commission that is greater than the interest that they would have earned on the loan (as long as the principle is repaid—a risk that the CU takes).

Premium Collection

Lastly, the partnership between TUW SKOK and the credit unions greatly facilitates premium collection. Since all credit union members have savings accounts, the CU can easily deduct the relevant premiums from the members' accounts and forward them to TUW SKOK, with hundreds of small premiums batched into one electronic transfer. The simple lesson for microinsurance is that it is extremely advantageous to offer savings before offering insurance because it lowers transaction costs while increasing the scope for potential insurance products that could be offered, while simultaneously increasing the impact since people can have insurance protection without having a loan.

7.2 Next Steps

TUW SKOK is working on a number of strategies to expand and improve its product portfolio. The most significant step is the acquisition of an existing life insurance company, which will speed up the process of expanding its life insurance portfolio. This company will make it possible to offer funeral insurance again, a product that was quite popular with members and credit unions during the Benefit era.

The new company will also allow TUW SKOK to provide banc-assurance products such as credit life, credit disability, and mortgage life insurance. This option is important given the changes in licensing of agents effective January 2004. Licensing for banc-assurance products will only require a 16-hour training course, compared to the 150-hour course required to sell all other insurance products. In addition, banc-assurance products are believed to sell well in a credit union environment because they are tied to other financial instruments, such as a personal loan or mortgage. Banc-assurance products also benefit the credit union since they generate non-interest revenue and reduce credit risk.

TUW SKOK also plans to undertake a review of its accidental death and disability products. It currently offers five products that encompass different variations on group AD&D coverage. This product proliferation exacerbates the difficulty in training of agents and can confuse the members, leading to misunderstanding and, although not deliberate, the misrepresentation of the product. TUW SKOK intends to simplify its product menu by reducing the variations and focusing on the key elements that will meet the needs of the majority of credit union members.

There are also plans to move to individually underwritten insurance products for both life and non-life, which would be a significant challenge and transformation for the organisation, and probably signal a move upmarket. To date TUW SKOK has offered group products, which simplify the underwriting process and eligibility requirements. Individually underwritten products will require the addition of qualified staff to review and underwrite the insurance applications as well as tighter controls for risk management.

TUW SKOK is also in the process of re-writing its insurance contracts to ensure they are consistent with new legislation regarding consumer rights, privacy, and refunds. Many of these legislative changes are being driven by Poland's accession to the EU.

Appendix 1: Classes of Insurance in Poland

BRANCH I: Life Insurance

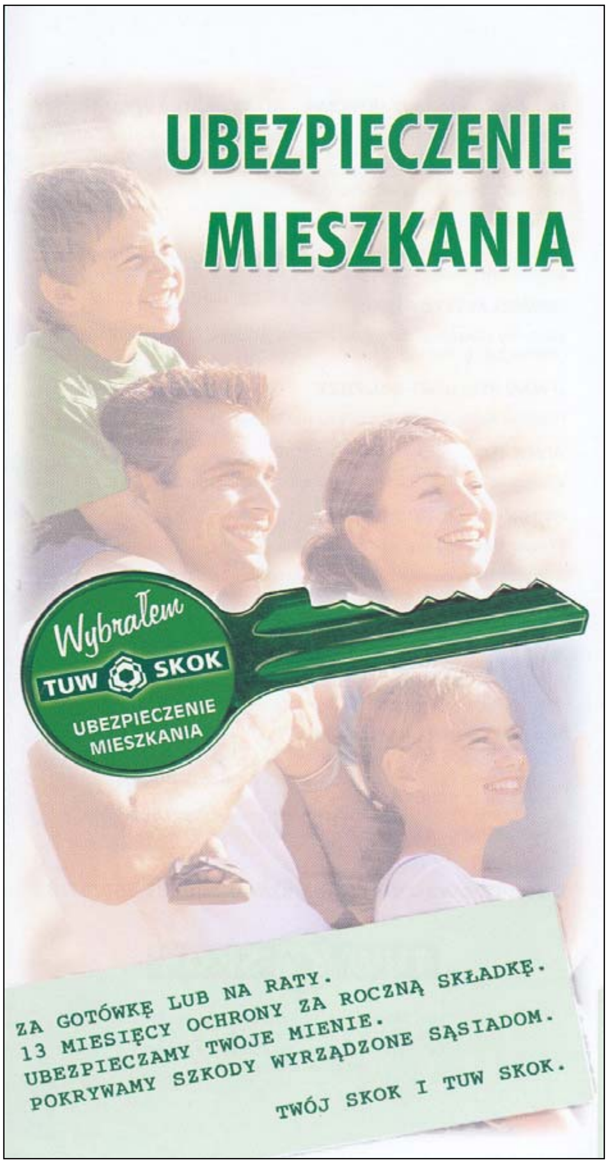
1. Life insurance.
2. Dowry insurance, equipage for children.
3. Life insurance, if is connected with the investment fund.
4. Annuity insurance.
5. Accident and sickness insurance, if are supplementary to insurance mentioned in the groups 1-4

BRANCH II: Other personal and property insurance

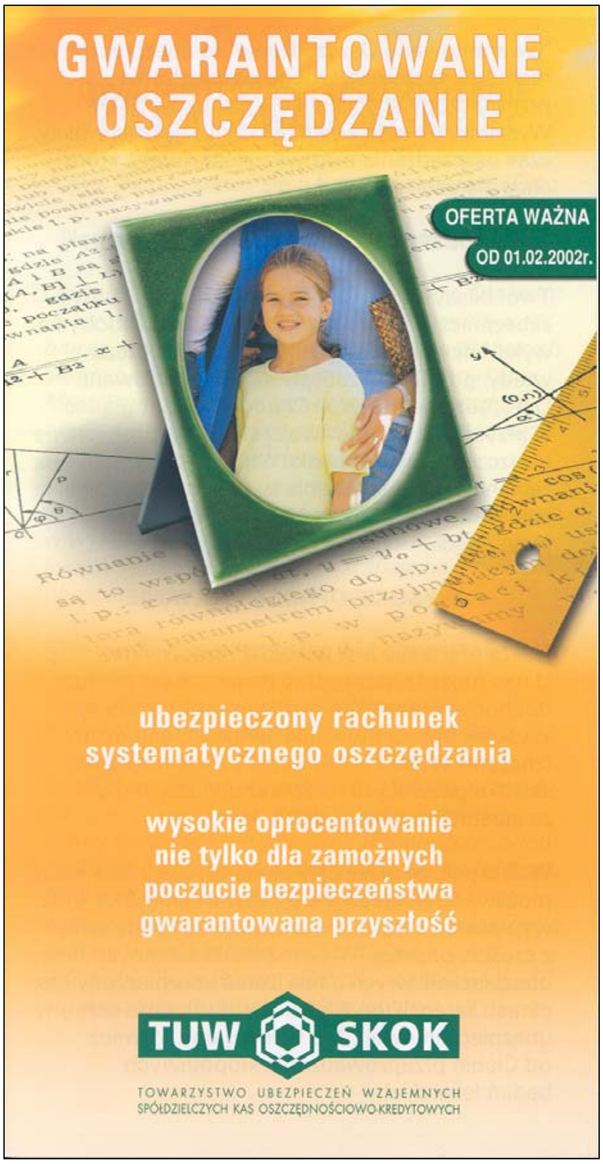
1. Accident insurance, including work accidents and professional disease:
    1) single benefit,
    2) duplicated benefit,
    3) mixed benefit,
    4) Transportation of people.
2. Sickness insurance:
    1) single benefit,
    2) duplicated benefit,
    3) mixed benefit.
3. Casco insurance of the overland vehicles, excluding railway vehicles, including damages in:
    1) Car vehicles,
    2) Overland vehicles without own drive.
4. Casco insurance of railway vehicles, including damages in the railway vehicles.
5. Casco insurance of air ships, including damages in the air ships.
6. Insurance of marine and inland sailing, including damages in:
    1) Sea ships,
    2) Inland ships.
7. Insurance of transported goods, including the damages on the transported goods, regardless of single type of the transport.
8. Insurance of the damages of the natural disasters and other elements, including damage of things not mentioned in the groups 3 - 7, caused by:
    1) fire,
    2) explosion,
    3) storm,
    4) other elements,
    5) atomic energy,
    6) slides or crumps.
9. Insurance of other damages of things (if not included to the groups 3, 4, 5, 6, or 7), caused by hail, frost and other reasons (i.e. robbery), if these reasons have not been included to the group 8.
10. Civil liability insurance of all kinds, resulted from ownership and exploitation of overland vehicles with own drive, including the liability insurance of the freighter.

11. Civil liability insurance of all kinds, resulted from ownership and exploitation of air ships, including the liability insurance of the freighter.
12. Civil liability insurance of marine and inland sailing resulted from ownership and exploitation of marine and inland ships, including the liability insurance of the freighter.
13. Civil liability insurance (general civil liability insurance) not mentioned in groups 10 - 12.
14. Credit insurance:
    1) General insolvency,
    2) Export credit,
    3) Instalment repayment,
    4) Mortgage credit,
    5) Agricultural credit.
15. Insurance guarantee:
    1) direct,
    2) indirect.
16. Insurance of different financial risks, including:
    1) risk of employment,
    2) insufficient income,
    3) bad weather conditions,
    4) loss of profits,
    5) unexpected general expenses,
    6) unexpected merchant expenses,
    7) loss of the commercial value,
    8) loss of the permanent source of income,
    9) indirect commercial losses not mentioned above,
    10) other financial losses.
17. Insurance of the law protection.
18. Insurance of providing the help for persons that faced hardships during the trip or during the absence at the place of residence.

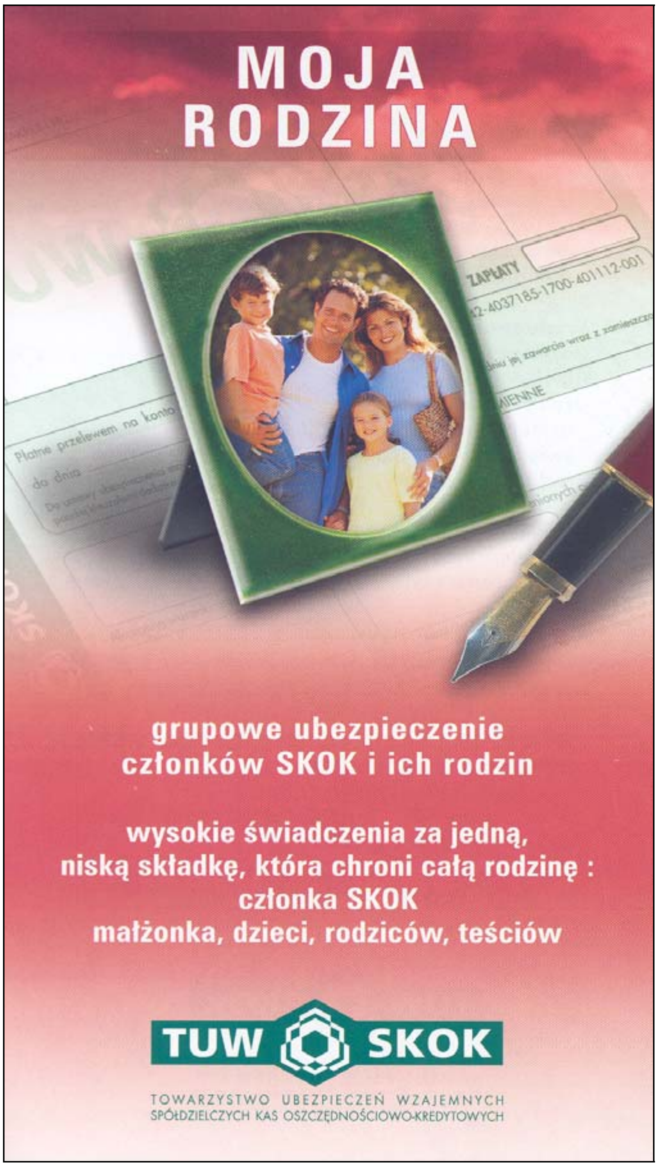
Appendix 2: Marketing Brochures



Homeowners' Insurance
(also for tenants)



Guaranteed Savings
(Savings completion insurance)



My Family
(Accidental Death and Disability coverage)

Loan Insurance