

“Pilot Test of Micro-Life Insurance Product: Results and Lessons Learned”

Dissemination Workshop

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1. Background

At one time or another in their lives, most people experience financial stresses that are potentially disastrous. This is especially true for the poor in developing countries. Any natural calamities and disasters to the poor are considered to be the severely shocking hazards. Once they experience such hazards, it will be hard for them to regain from such devastating shocks. There is therefore a growing realization of providing micro insurance product as a microfinance service along with more established services such as savings and credit. Although there are many challenges to this endeavour it is apparent that unless a mechanism of reasonable level of social security is established it is hard to retain any form of economic gain. People from all economic levels try to avoid the uncertainties they can. Some microfinance institutions (MFIs) have been offering savings and emergency credit to relieve some of their borrowers' stresses and help them to secure, and even improve, the financial status.

It has become clear that savings and emergency loans, though critical, address only relatively simple life cycle events and minor emergencies. The issues of health care financing, deaths and property loss, for example, often require a greater level of support so that the beneficiaries do not slide back down the slippery slope of poverty. So, micro-insurance is a new concept in the field of microfinance to reduce the vulnerabilities of the microfinance clients and to save them from such disastrous anomalies. This concept evolved out of the experiences gained over two decades in micro finance. Financing the poor is sometimes a risk. This risk comes from the nature of investments and health hazard of the client itself, which ultimately makes the loan repayment uncertain. As Insurance is one of the scientific methods of handling risks, it reduces risk to both the clients and the MFIs.

Unfortunately about 38% of the poor population in Nepal are living below the poverty line. Nepal has the experience of micro-finance models like Grameen, Village Banking, Savings and Credit Cooperative, ROSCA and Self-help groups. These models attempt to serve extreme poor to some segment of non-poor as well. Total number of clients reached through both formal and informal sectors MFIs is estimated at around one million. Very small percentage of micro-finance clients is being served by some micro-finance institutions (MFIs) through their own micro-insurance products. After CMF's study on micro-insurance, it is clear that the premium rate determined by such MFIs is relatively expensive and also not based on systematic study and mortality experiences. Prevailing legal environment for offering micro-insurance service to the poor people is also not favourable for MFIs. It is obligatory to establish insurance company to do an insurance business. The small savers do not buy insurance services, either because they are unaware of availability of the limited schemes in micro insurance field or because the insurance products are not designed to suit their felt need and affordability. The old insurance companies have concentrated their services in a few major cities and the new entrants have also been trying to cater the same market. On the one hand the competition in the city areas is growing tremendously among the insurance companies, the large majority of poor population are uncovered from any insurance protection against life cycle risks on the other.

CMF undertook a study on risks and vulnerabilities faced by rural women in Nepal in 2000 in two phases with financial support from Women in Development Technology (WIDTECH) project of USAID, and technical support from the Assessing Impact of the Micro-enterprise Services (AIMS) unit. The first phase study report revealed that at all poverty levels, the poor, who often work in the informal economy, are exposed and vulnerable to a large range of risks. The major risks include illness, death of an income earner, enterprise risks and life cycle risks. The poor have a range of informal coping mechanisms, *ex ante* and *ex post*. A mix of formal and informal financial arrangement is employed to deal with risks. Individual informal insurance such as borrowing, use of savings or selling household assets is the most common for dealing with shocks. Informal group based

mechanisms-such as community mobilization of labour, collection of money or food from community members- were used in the event of deaths, marriages, or agricultural variations such as crop failures.

The second phase of this project identified a group term life insurance as a micro-insurance product for the MFI clients. The product is a voluntary product and targeted to MFI clients, spouse and their parents. The Consultative Group to Assist the Poorest (CGAP) awarded CMF under its Pro-Poor Innovation Challenge Award to test the micro-life insurance product so identified. To start the project CMF made partnership with the National Life and General Insurance Company (NLGIC) from among the local insurance companies and with the Nirdhan Utthan Bank Ltd. (NUBL) and Bindhabasini Savings Fund Co-operative Society Limited (BISCOL) from among the MFIs.

2. Project Objective

The overall objective of the project is to pilot test, refine and make ready for roll out at least one micro-insurance product that is suitable for the poor population of Nepal, particularly poor women.

Specific objectives of the project:

- Development of at least one micro-insurance product.
- Development of an appropriate delivery mechanism.
- Designing of procedural manual and marketing materials.
- Development of clear feedback mechanism for monitoring and implementation of the product.

3. Activities Carried Out

CMF has carried out the following activities during the project period (July 2002 to June 2004):

3.1. Selection of pilot test partners

In the beginning three MFI partners were selected for pilot testing purposes: Bindhabasini Savings Fund Cooperative Limited (BISCOL), Janakalyan Savings and Credit Cooperative Limited (JSCCL) and Nirdhan Uttan Bank Limited (NUBL). But due to some internal problem within the organization, JSCCL stepped back from the partnership for pilot testing. NLGIC has been offering a micro-life insurance product to the clients of partner MFIs.

3.2. Participation in a Regional Study Tour

Two members of the micro-insurance pilot test team from CMF participated in a study tour to Bangladesh and India to observe micro-insurance programs and in particular micro-life insurance. The team observed the micro-insurance activities of BRAC, Delta Life Insurance Company, ASA, Grameen Bank, Grameen Kalyan, Prosheika and Safe Save in Bangladesh and that of FWWB and SEWA in Ahmedabad, India.

3.3. Undertaking of Market Research for Prototype Testing

Clients of three MFIs were selected and interviewed using two types of questionnaires. A checklist, used for focus group discussions (FGDs) and qualitative in nature was used to gather feedback and recommendations from the clients about the product and how it could be changed to better suite the needs of the clients. A questionnaire, more quantitative in nature was administered to individuals to gather information on loan amount, total savings, membership status, family size, marital status, education level, mortality information and occupation.

The findings of the research were particularly useful in developing training and marketing materials for MFI staff to educate clients about the concept of insurance and selling the product. Because of the limited knowledge of respondents on micro-insurance, participants of the market research provided very few comments or suggestions. On the whole, the response was positive and most clients expressed their interests in purchasing the product.

3.4. Develop and sign MOUs for MFIs, CMF and Insurer

Representatives of partner MFIs (NUBL and BISCOL), CMF and NLGIC met to discuss the MOUs. The conditions of the pilot test and the responsibilities of each partner were formalized in MOUs, which were then signed to mark the official commencement of implementation of the product. After signing the MOUs, the partner MFIs began to implement the product and sold it directly to their clients.

As outlined in the MOUs, a group policy was issued by the insurer to each partner MFI, which, in turn, was enrolled to MFI clients/members under the policy on a voluntary basis. CMF has played an intermediary role for ensuring the timely submission of insurance proposal forms to the insurance company and timely processing of insurance claims. Premium payments and benefits issued to clients were not done through CMF, however, CMF monitored these transactions and facilitated communication between the partner MFI and Insurer.

3.5. Develop a Detailed Procedural Manual Useful for MFIs and CMF

A procedural manual was developed for partner MFIs to assist them in implementing the product and to help them understand the process through which premiums were collected and benefit issued to the clients. This manual was developed both in English and Nepali languages, and updated on an ongoing basis to reflect the changes.

3.6. Develop Marketing Materials for the Product Under Pilot Testing

Marketing materials were developed with assistance from a designer who was specialized in educational media for poor people in Nepal. MFI field staff have been using media (posters) for educating clients about micro-insurance and demonstrating the features of the product. A simple pamphlet was also developed at CMF, which was distributed directly to MFI clients.

3.7. Develop Training Materials to Provide Training to MFI Staff

A comprehensive micro-insurance booklet in Nepali language has been developed in coordination with NLGIC. It explains the concept of micro-life insurance and how the product can benefit clients of MFIs. CMF has distributed this booklet to the partner MFI staff during training.

3.8. Develop a Pilot Test Team

The Pilot Test Team comprising representatives from the Insurer, MFIs and CMF was formed. The time to time meeting of the pilot test team contributed to resolving the problems seen during the implementation of the project. All the team members have shown their full commitment to make the pilot test and partnership relationship successful.

3.9. Develop an MIS for Tracking the Micro-insurance Policyholders, Application and Premium Collection Process

An outside consultant was hired for assisting in the development of the MIS. A database was used by CMF to track information on policyholders and to monitor the process of premium payment and benefit transferred by the MFI and Insurer respectively. One staff of CMF is assigned for data entry of all policy papers received from the MFIs. This staff is also responsible for verifying policy papers to ensure that the papers meet approval requirements before sending them to NLGIC. The database also tracks the claim approval process in a similar manner. The system is designed in such a way that other MFIs can eventually use it.

3.10. Commence Pilot Test

Although considerable work had already been undertaken during the first two quarters of the project, the pilot test was officially commenced on January 1, 2003. By this date, all partner MFIs had received training and were ready to formally implement the product.

3.11. Organization of Trainings to the NUBL Staff

Two training were organized for the staff of NUBL. During the pilot phase, four branches under two area offices of NUBL were included in the pilot test. Each training was of two day duration and altogether 40 staff received the training. CMF and NLGIC jointly delivered this training. Similar

training package was delivered to altogether 12 participants of Janakalyan Savings and Credit Cooperative (JSCCL) and BISCOL.

Similarly, two refresher trainings were organized for the staff of NUBL. These one-day long training were organized with a view to solving the problems seen in the field through the participatory discussion and clarify the technical issues faced by the staff in the delivery of micro-insurance product. Altogether 36 staff of NBUL received this training. CMF and NLGIC jointly delivered this training.

3.12. Develop Monitoring Mechanisms and Indicators

Two approaches had been used for monitoring – on-site and off-site. During field visits, CMF's concerned staff directly reviews the proposal forms filled out at the field level, marketing materials used, product promotion styles, and effectiveness of MFI staff on dealing with the insurance related issues with the clients, recording premium collection in the appropriate accounts, delivery of premium within the agreed time frame and many other related issues.

Upon receipt of the proposal forms, CMF's concerned staff looks at the issues like age of the insured (verify whether these are within the acceptable limit), insuring person and the choice of the sum assured limit, relation between premium paid and sum assured chosen, starting date and expiry date of the policy etc.

3.13. Organize Review Meeting of the Pilot Test Team Members

During the pilot test period two pilot test team meetings were organized. These meetings were used for sharing the overall progress of the pilot test program. Different issues and problems faced by each partner were thoroughly shared. Few intermediate decisions had been made to make the product delivery system more efficient and to simplify the operational procedures.

3.14. Ensure Effective Implementation of the Pilot Test Through Regular Follow-up and Monitoring Visits

Regular visits to the pilot test areas were done to ensure the smooth implementation of the pilot test. During such visits, meetings with the clients, staff and others interested to join the scheme were held. In the meeting, clients and staffs' queries and problems were discussed and their possible solutions were sorted out. For the issues related to insurer, meeting with the insurer was held to trace out the solution.

3.15. Ensure Timely Collection and Submission of Premiums



Timely collection and submission of premium in the bank account of insurer had been done regularly. MFI field mechanism was proved to be really efficient on collecting and depositing the premium amounts on time. No cases of violation of agreed terms and time limits fixed in the Memorandum of Understanding (MOU) between the parties have been reported.

CMF has been receiving insurance proposal forms every week from the field. We have been seriously taking into consideration the deadline agreed for submitting the forms to the insurance company.

3.16 Assist MFIs and Insurer in Timely Settlement of the Claim Cases

To date, five death cases have been claimed. The insurer paid four claims received from the NUBL, Kalaiya Area. Fifth death claim from the same area is under processing. All of these deaths are found to be natural in nature. CMF assists insurer in timely settlement of claim amount. CMF processes the claim forms, ask the MFIs for the additional documents and information, if any thing is found to be lacking, and submit the insurer within two days of the receipt of the documents from the MFIs. No mistrust among the parties, involved in the whole process of delivering the insurance product, has been felt to date.

4. Features of Micro-life Insurance Product of CMF

-  Group Term Life (for 1 year) – Fully Voluntary.
-  MFI clients/members, their spouse and parents (Age 16 – 64).

- Covers both natural and accidental death.
- Excludes suicidal death up to two years from the date of first policy issued and death caused by breach of civil or military code.
- Sum Assured : Choice of 40,000; 20,000 & 10,000 (for Client/member & Spouse)
Sum Assured : Choice of 20,000 and 10,000 (for Parents)

Sum Assured 40,000 includes:

- = Funeral Cost (15,000)
- = Outstanding Loan (6,000)
- = Transitional Cost (19,000)

- Premium : 280 for 40,000 ; 140 for 20,000 and 70 for 10,000
- Accidental Death : Double Benefit
- Additional Incentive for regular insurance clients:

Y1=100% (of base amount)

Y2=105% (of base amount)

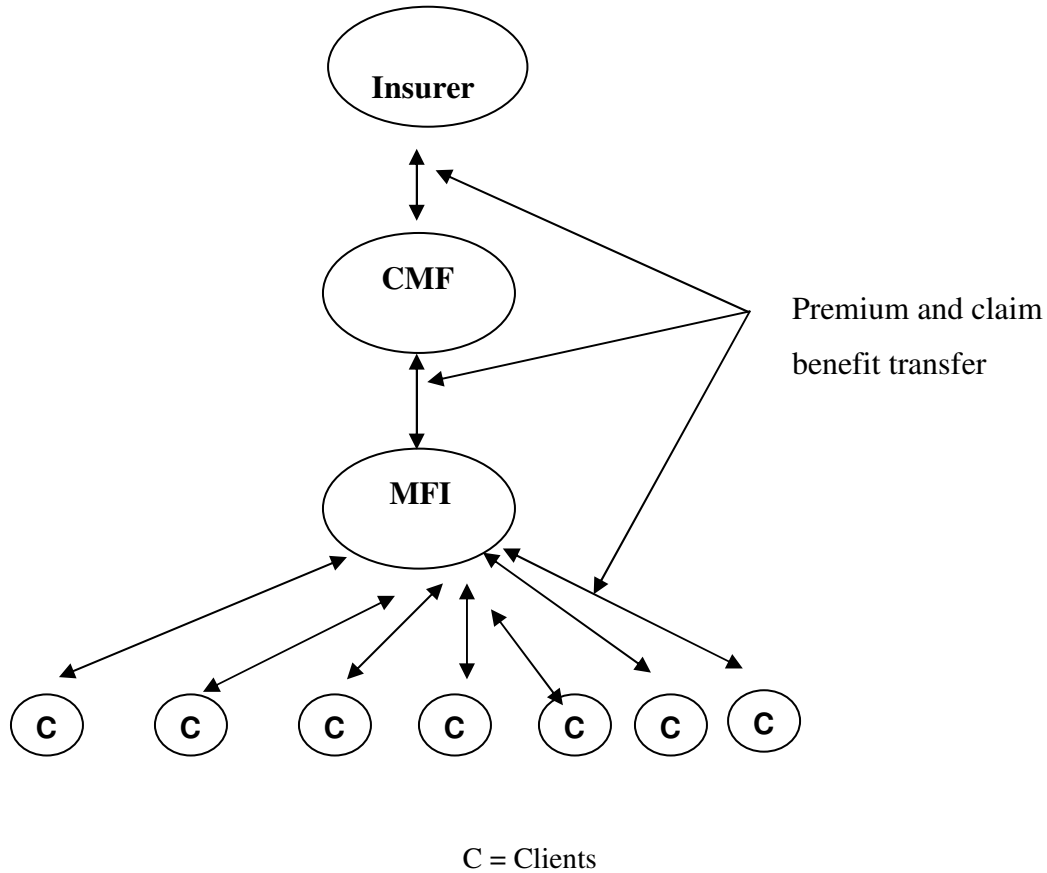
Y3=110% (of base amount)

Y4 and above =115% (of base amount)

(Client returns to Y1 if there is any break in coverage)

5. Delivery Mechanism

In this Partner Agent Model relationship, every process involved (between insurer and MFIs) in the implementation of the pilot test is passed through CMF. CMF works as a prime facilitator for providing technical knowledge through training and awareness raising initiatives to the MFIs and potential clients, whereas the MFI functions as a front pillar for collecting premium from the clients, inspecting the cases and timely delivering the premium and necessary documents to CMF. Insurance company provides certain percentage of premium collected from the insured members to CMF (dividable to MFIs as well) to support operational expenses incurred in this business. At the beginning, CMF involved intensively in developing functional relationship with all parties, developing training and marketing materials and most importantly putting a procedural manual in place.



6. Results

Chart 1: below shows that out of total 4,309 insured as of end of May 2004, 96 % are female and only 4% are male. This is mainly because the trend is in favor of enrolling MFI members themselves rather than their spouse and parents. Since 97 % of the total insured belong to the NUBL, it is logical to say that the number of female insured is in heavily dominant position as NUBL's all clients are female. However in the case of BISCOL, 61 % of insured are male and only 39 % are female. As of mid-December 2003, 36% of insured were female and 64% of insured were male. This shows the increasing trend of female clients of BISCOL in purchasing the policy.

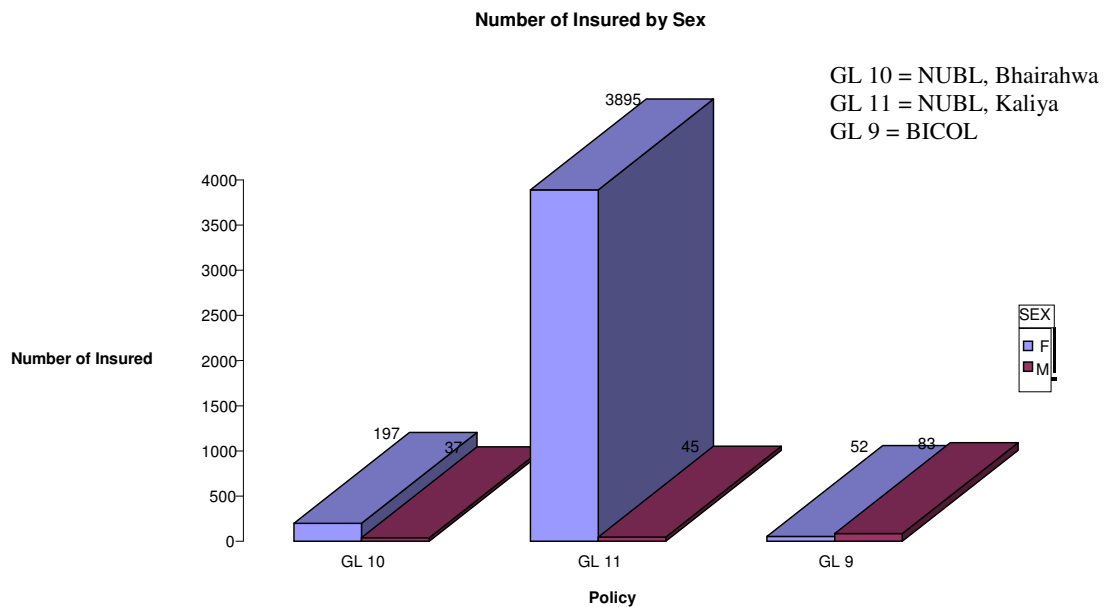


Chart 1

The table 1 below shows that the average age of all insured is 35. However, the relation wise disintegrated data shows that the average age of members, member's parents and member's spouse is 35, 59 and 45 respectively.

Table 1: Relation wise Average Age of Insured

Relation	Average Age
Members	35.32
Parents	59.1
Spouse	44.87
Average of all	35.56

Table 2 below shows the average age of insured by institution. Average age of insured members of NUBL, Bhairahawa, NUBL, Kalaiya and BISCOL are 38.4 years, 35.03 years and 39.1 years respectively. Similarly, average age of member's parents of NUBL, Kalaiya and BISCOL are 59 years and 58 years respectively. Members' parents from the Bhairahawa area have not been insured yet. In addition, average age of member's spouse of NUBL Bhairahawa, NUBL, Kaliya, BICOL are respectively 41.2 years, 48.3 years and 40.7 years.

Table 2: Relation wise Average Age of Insured by Institution

Relation	Institution	Number	Average Age
Member			
	NUBL, Bhairahawa	202	38.34
	NUBL, Kalaiya	3887	35.03
	BISCOL	127	39.1
Total		4216	35.32
Parents			
	NUBL, Bhairahawa	-	-
	NUBL, Kalaiya	11	59.2
	BISCOL	1	58
Total		12	59.1
Spouse			
	NUBL, Bhairahawa	32	41.2
	NUBL, Kalaiya	42	48.3
	BISCOL	7	40.7
Total		81	44.9
Grand Total		4309	35.56

Almost 92% of the insured have chosen the smallest product of NRs.10,000 as a sum assured paying NRs. 70 as premium (Table 3). This is attributable to the number of NUBL clients as most of the NUBL clients have chosen the smallest product of NRs. 10,000 as a sum assured value. However, in the case of BISCOL, 88% of total insured have chosen the largest product of NRs. 40,000 as a sum assured paying NRs. 280 as premium.

Table 3: Sum Assured Wise Number of Insured

Institution	Number of insured by SA (as of end of May 2004)			
	10000	20000	40000	Grand Total
Nirdhan, Bhairahawa	144 (61)	56 (24)	34 (15)	234 (100)
Nirdhan, Kalaiya	3830 (97)	54 (1.4)	56 (1.5)	3940 (100)
BISCOL	4 (3)	12 (9)	119 (88)	135 (100)
Grand Total	3978 (92)	122 (3)	209 (5)	4309 (100)

Number in parenthesis is in percentage.

The table 4 below gives detail of the total amount of premium collected and total amount of sum assured by institution. By the end of May 2004, total amount of Nepalese Rupees 353,920 has been collected for total sum assured amount of NRs. 50,580,000.

Table 4: Total Sum assured and Premium by Institution

Relation	Institution	Sum assured	Premium
Member			
	NUBL, Bhairahawa	3290000	23030
	NUBL, Kalaiya	40310000	282030
	BISCOL	4820000	33740
	Total	48420000	338800
Parents			
	NUBL, Bhairahawa	-	-
	NUBL, Kalaiya	220000	1540
	BISCOL	20000	140
	Total	240000	1680
Spouse			
	NUBL, Bhairahawa	630000	4410
	NUBL, Kalaiya	1090000	7630
	BISCOL	200000	1400
	Total	1920000	13440
	Grand Total	50580000	353920

Till now, five death cases have been claimed. All death cases are natural in nature. Among these death cases, three cases have been claimed for the sum assured value of Rs.10,000, one case has been claimed for the sum assured value of Rs.20,000 and one case has been claimed for the sum assured value of Rs.40,000. NLGIC has already paid the sum assured amount of four death cases. The benefit claim of Rs.10,000 of one death case is under processing. So, NLGIC has already paid an amount of Rs.80,000 to the families of deceased clients.

7. Benefits to The Stakeholders Involved in Launching the Product

Launching of the term micro-life insurance product has been successful in addressing the social objective of the partner MFIs by providing insurance benefits to the low income families of the deceased clients. In the case of clients of Nirdhan Utthan Bank Ltd. (NUBL), these benefits have helped the families of deceased clients in meeting the funeral cost, repaying loans and meeting the transitional costs. This has shown the good demonstration effect among other clients of NUBL, which has caused increased demand of this product among the clients.

In addition, the product has also helped the MFIs in meeting its financial objective in two ways. One way is by protecting the MFIs (NUBL) from high default rate as part of the benefit given to the

families of deceased clients has been used in repaying the loans of the MFIs. Another way is by generating capital for the MFI in terms of acquiring some percentage of commission and profits from the insurer.

Since CMF and NLGIC had a social objective of providing appropriate insurance service (as one of the risk-managing options) to the low income households, joining hand with the MFIs in launching the term micro-life insurance product has addressed their social objective by providing insurance benefits to the low income households. Similarly, launching of this product has contributed to meeting the financial objective of CMF and NLGIC by earning income in terms of commission (for CMF) and profits (for both CMF and NLGIC).

8. Innovativeness

- A. Launching the micro-life insurance product following the Partner Agent Model itself is an innovation.
- B. The price of the product is cost effective for both MFI clients and insurer. MFI clients can afford to pay the premium rates fixed under the term micro-life insurance product.
- C. This term micro-life insurance product is renewable each year. With the same premium rate, the base amount of the sum assured value increases by 5% in second year, by 10% in third year and by 15% in fourth year and above.
- D. Not only the clients/members, but clients/members' spouse and parents can also be insured under this term micro-life insurance scheme. However, they need to pay separate premium and have to be within age range of 16-64 years.
- E. Establishing partnership with the regulated insurer has facilitated the provision of insurance products to MFI clients while eliminating risk to the MFI, minimising the administrative burden, and requiring little additional management capacity.
- F. Following Partner Agent Model to provide insurance service to the MFI clients has contributed to eliminating legal restriction to provide insurance service. As per the legal requirement of Nepal, any organization should be registered with the Insurance Committee to provide insurance service to the clients. According to this requirement, MFIs are not allowed to provide insurance service to the clients. However, following the Partner Agent Model has enabled the MFI to sell the insurance product of the formal insurance company to its clients as insurance company's agent.
- G. At one point, formal insurance companies may want to provide its services to the rural poor clients. They have the product and reserves, but do not have an efficient delivery channel to this sector. On the other hand, some MFIs have an efficient delivery channel to the poor and a desire to offer quality insurance products to their clients, but they do not have expertise and reserves to develop and manage an insurance product. Following Partner Agent Model would address these needs of both MFIs and insurance companies.
- H. The model would contribute to generate income for the MFIs, in terms of earning commissions and sharing profits, for facilitating customer interactions for the insurer (sales and basic servicing).
- I. In this model all parties, including the insurer, the MFI, and the clients, can benefit from the potential power of insurance without destabilising the MFI or distracting it from its core business.

9. Challenges Faced and Lessons Learned

Challenges:

- ***Attitude of MFI staff:*** Some staff consider the insurance work as a burden rather than responsibility due to lack of incentive for this work. This issue was discussed in the pilot test team meeting. The meeting asked NUBL to calculate the cost required to fill up one insurance proposal form. NUBL accordingly calculated the cost, which showed the cost of Rs.49 required to fill up one proposal form. The cost was calculated on the basis of the costs of staff time and logistics required to fill up 10 insurance proposal forms. Later on, it was suggested that the staffs needed to sell as much policy as possible so that the NUBL could acquire more commission. If NUBL earn more commission, it is possible that the NUBL can provide extra incentive to its staffs. In addition, it was also suggested that if the scheme is expanded to other areas, there would have been earning of more commission and profits for the NUBL, which in turn could help in providing extra incentive for the staff involved in this activity.
- ***Challenge of Marketing the Product:***

As the MFI staffs are in direct touch with the clients, somehow they have been educating the clients about the product through the use of insurance booklet, poster and leaflet. However, as they do not meet members' spouses and parents in a regular basis, marketing product to this group of potential insured has been felt challenging.
- ***Challenge of verifying the progress with partners:*** This is related to the counting of total number of insured, premium collected, and other similar statistical information at certain points of time for verification. There is a system that these proposal forms are collected by MFIs first. After scrutinizing the information, they send those forms along with the deposit slip to CMF. Again we verify the forms and send to Insurer. So, by the time when we prepare the cumulative figures for the progress of work, MFIs receive already more proposal forms. Therefore, the insurance company may not have received the actual number of issued proposal forms. For this, we have developed a system recently to track the information by certain date of issue of proposal forms, not on the basis of receipt of the forms by different partners.
- ***Use of enough time for filling up a proposal form***

Filling up a proposal form is time consuming. The participants suggested that either the proposal form should be made more concise by deleting repeated questions or separate staff should be assigned for this job.
- ***Lack of identity card***

Unavailability of identity card issued from the insurance company has sometimes made difficult to sell policy in the field. It would be better if NLGIC provided its identity card to NUBL staff.
- ***Lack of time***

Lack of time has made constraint for the staff to understand and provide sufficient knowledge on insurance and its importance to the clients. It is suggested that there should be insurance course in the compulsory group training (CGT).
- ***Political problem***

Due to the current political situation of Nepal, it is difficult to work in the rural areas. Therefore, it is difficult to approach intensively to the rural clients to explain them about the micro-insurance scheme.

Lessons Learned:

- Since the scheme is voluntary, it is difficult for staffs to force the clients to purchase the policy. It takes time to convince rural clients to purchase policy voluntarily. It is suggested that term micro-life insurance scheme should be made compulsory for the borrower until they get convinced on importance of insurance. Once they convinced, it should then be made voluntary.
- Demonstration effect is very important in increasing the number of insured clients. In Kalaiya area of NUBL, after providing benefits to the families of two deceased persons within short span of time, there seemed relatively a fast increase in number of clients showing interest in purchasing the insurance scheme.
- While introducing new products in relatively bigger MFIs where there is already ample amount of work for the field staff, certain amount of monetary incentive need to be well thought/designed before starting the work.
- It is realized that the special mechanism need to be developed for marketing the product to the parents and spouses of MFI members.
- Introduction of insurance course in the Compulsory Group Training of NUBL would help in convincing staff to take this insurance scheme as their responsibility rather than their burden.
- Since filling up proposal form is time consuming because of repetition of same points many times, the staff who are already overburdened with work, do not show much interest in selling the insurance products by convincing the clients. The proposal form should therefore be made more concise.