

Microinsurance through Microfinance Institutions: Present State and Future Challenges

(The paper is authored by:

M.A. Baqui Khalily, Robert Palacios, Shaikh Shamsuddin Ahmed and Suborna Barua)

Presentation by:

M A Baqui Khalily

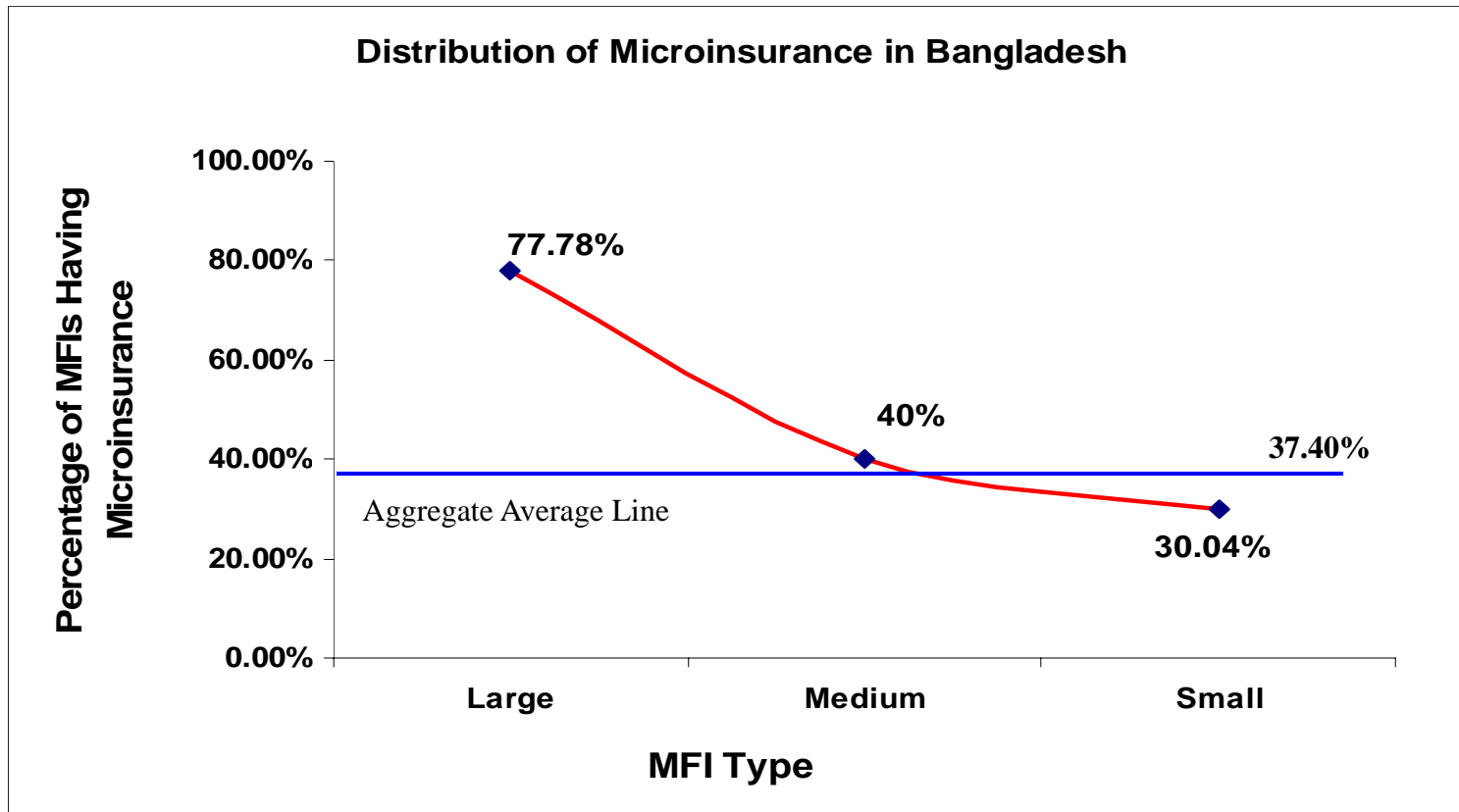
March 18, 2009

Institute of Microfinance, Dhaka

Rationale and Objective

- **Rural households are subject to various risks as they have limited earnings and very little or no accumulated wealth.**
- **Adversities or negative externalities such as illness, death in the family, loss of property, theft, and natural or manmade disasters increase risk.**
- **Microfinance Institutions (MFIs) are at a unique vantage point to deal with the issue of vulnerability and high risk of the poor households.**
- **The basic objective of this paper is to provide an in-depth analysis of the state of micro insurance practices, organization and management of micro insurance through the microfinance institutions.**

State of Microinsurance through MFIs



- **But Nothing more can be observed from this statistics**

Previous Studies on Microinsurance in Bangladesh

- **Hasan (2008)**
 - The study found that 16 percent of 61 NGOs/MFIs offered life insurance. The dominating scheme is loan risk insurance - around 72 percent.
 - Average premium per thousand was Tk. 8. Sum insured was the outstanding loan balance.
 - Premium was set not by any scientific method but rather based on assumption.
- **ILO (2003)**
 - documents micro insurance products and practices of some 24 institutions offering micro insurance schemes in Bangladesh.
- **Therefore, the past two studies provide an excellent survey of the micro insurance schemes. BUT missing was understanding behavior of MFIs.**

Data Sources and Basic Statistics

- Randomly selected samples of 35 MFIs offering micro insurance

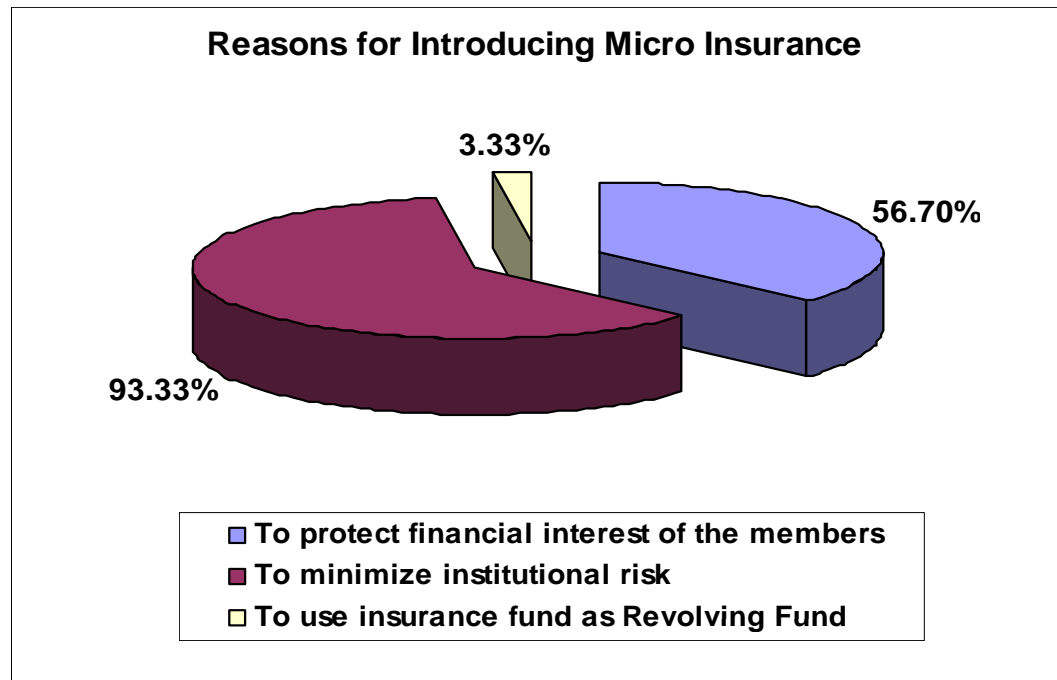
Basic Statistics (Average)	Classification of MFIs				
	Very Small (N=5)	Small (N=12)	Medium (N=9)	Large (N=5)	Very Large (N=4)
Number of borrowers	2528.40	12393.25	89016.44	152714.40	3747800.00
Number of members	2818.60	13876.42	60082.78	167050.20	4384920.80
Loans outstanding (Tk. Millions)	12.14	72.52	280.60	964.50	17,070.00
Net Savings (Tk. Millions)	5.13	19.19	114.20	385.40	14,870.00
Loan outstanding per borrower	4802.64	5851.82	3152.23	6315.71	4554.67
Net savings per member	2029.44	1548.66	1282.91	2523.67	3967.66
Savings as % of Loan Outstanding	42.26%	26.46%	40.70%	39.96%	87.11%
<i>Source: Micro Insurance Survey, 2008</i>					

Microinsurance: South Asian Experience

- **India**
 - The overall market was estimated to reach at Rs. 250 billion by 2008 (ILO 2004).
 - The broad majority (52%) of the insurance products cover life or accident-related risks. The health coverage remains very limited with only 12 products.
 - Micro insurance is under the Insurance Regulatory and Development Authority (IRDA) .
 - In major cases (66%), insurance products were linked with micro finance.
- **Sri Lanka**
 - Microinsurance is **embedded with microfinance** services by government, private or cooperatives with mainly health, life and credit insurance by **charging a monthly premium** on the sum of outstanding loan balances, or by **charging a one-time fee** on each loan.
 - There is no separate insurance regulation or no special regulatory provisions.

Microinsurance in Bangladesh

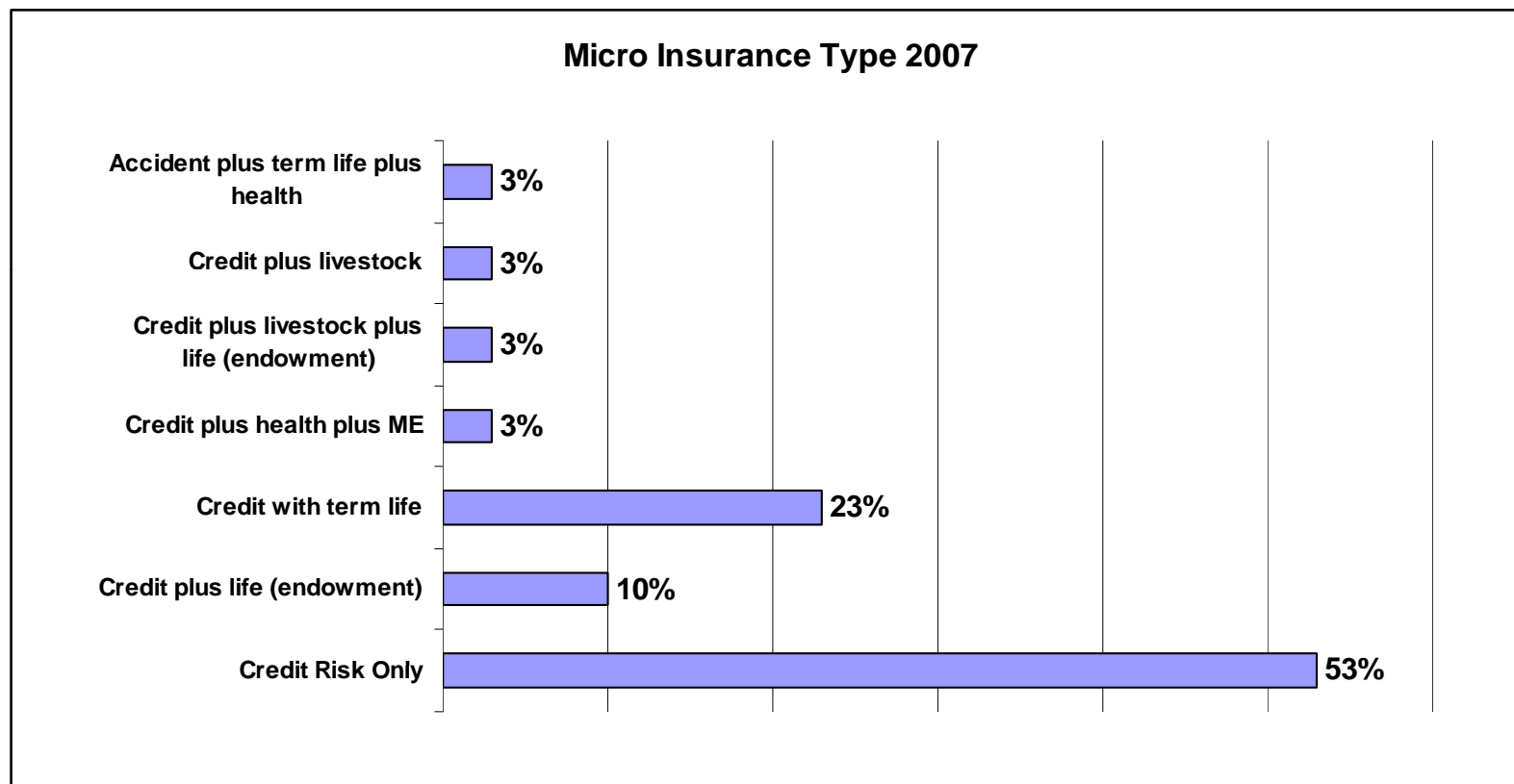
Why do MFIs offer Microinsurance?



Does it Reflect Perceived Probability of Risk?

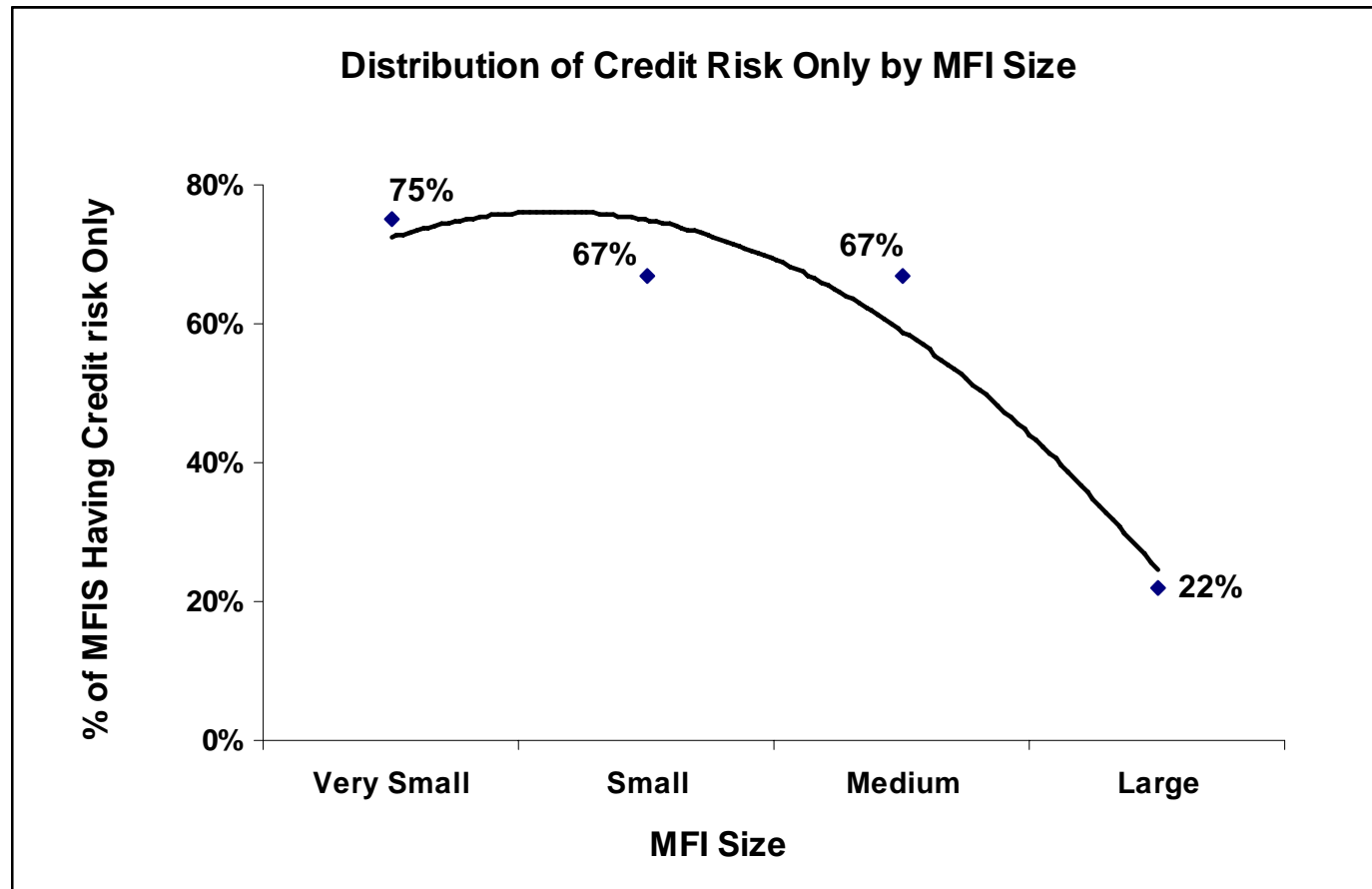
Average perceived probability of 0.224 if microinsurance is absent

What Micro Insurance Products Do MFIs Offer?



Evident that MFIs perceive their institutional protection from credit risk as priority over any other reasons

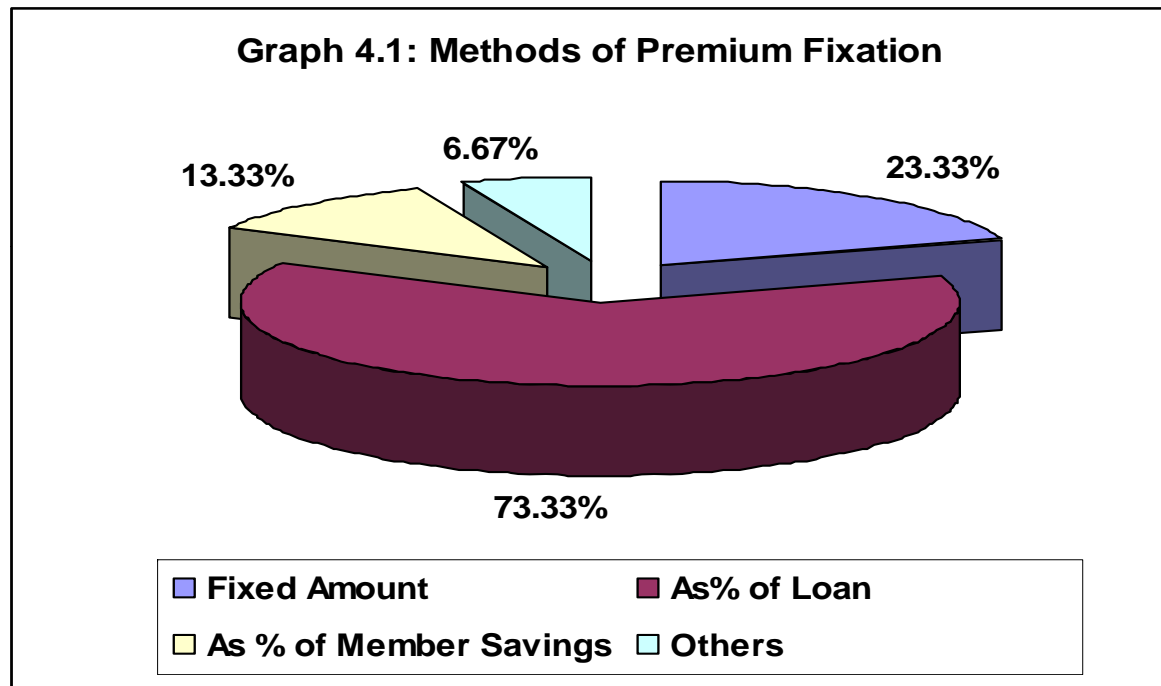
Who Offers What?



Microinsurance through MFIS: Findings from Case Studies

MFI	Product Type	Findings
HEED Bangladesh	Credit Risk Only	It provides risk assurance almost uniquely to the institution, and not to the clients and fails to provide reasonable social security to the clients.
BURO Bangladesh	Credit plus Term Life Product	There is a social protection aspect of the insurance product where the aim is to reduce the vulnerability of households, due to sudden death in the family, and to improve the ability of individuals to take advantage of economic opportunities, even when faced with losses.
ASA	Credit with Endowment Life Insurance Product	In addition to covering the life of the borrower, the product also insures the outstanding loan balance in case of death of husband/guardian of borrower.
SAJIDA Foundation	Health, Term Life, and Accident Insurance	SAJIDA plays the double role of insurer as well as service provider, i.e. it provides health insurance through its own medical facility with support from a private medicine firm. The accident insurance product design is consistent with South Asia in general.
Grameen Bank	Credit plus Livestock Insurance	The livestock micro insurance benefits both parties as it assures the collection at least half of the unpaid loan for GB, while it is relieving the client from having to pay the full outstanding amount.
Integrated Development Foundation	Credit plus term Life plus Microenterprise	Micro enterprise borrowers with credit size above Tk. 30,000 are covered by a separate insurance fund created from premium and IDF's contribution.

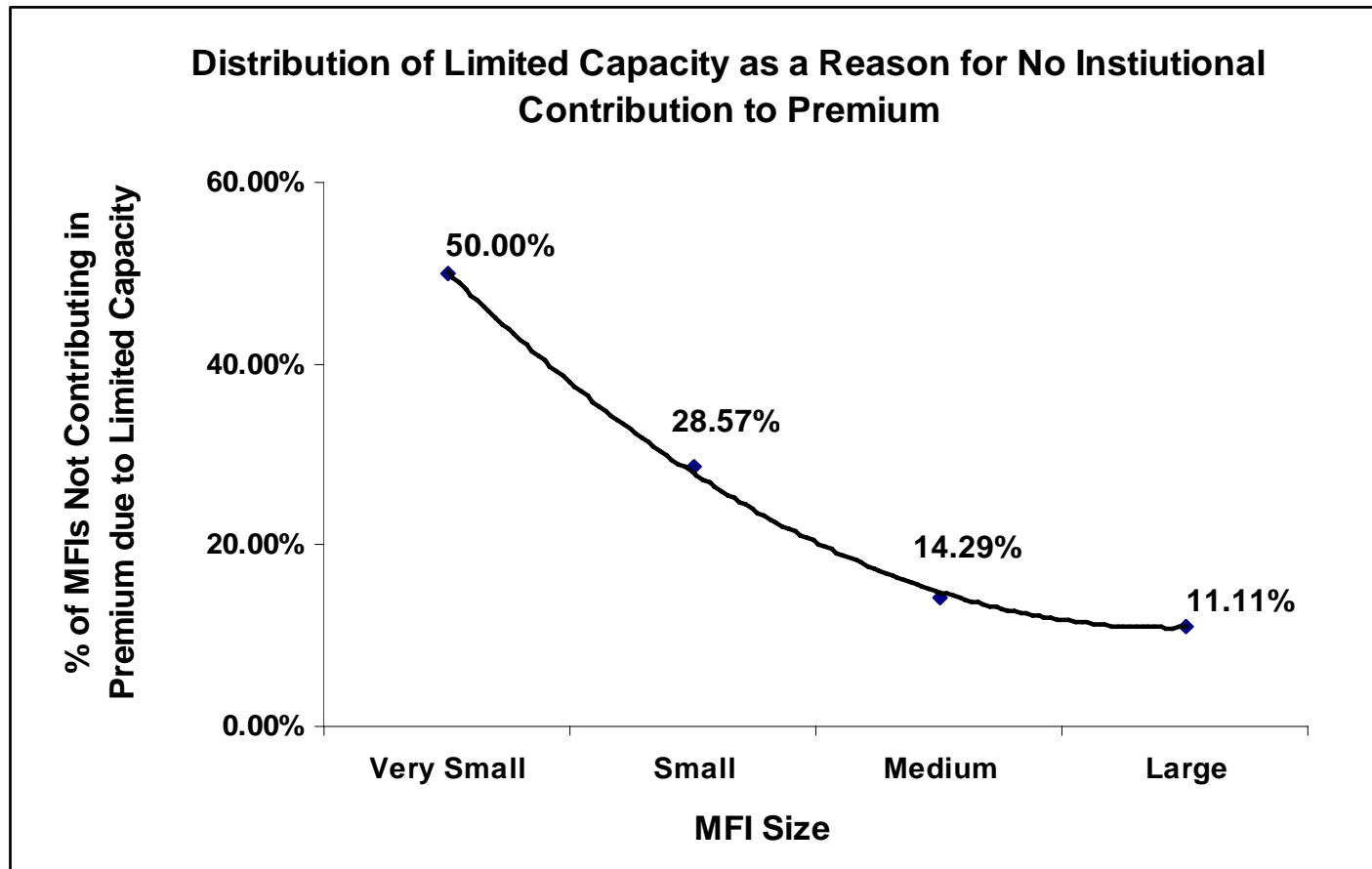
Premium Fixation and Payment



* Around 97% of MFIs receive premium once at the time of loan disbursement.

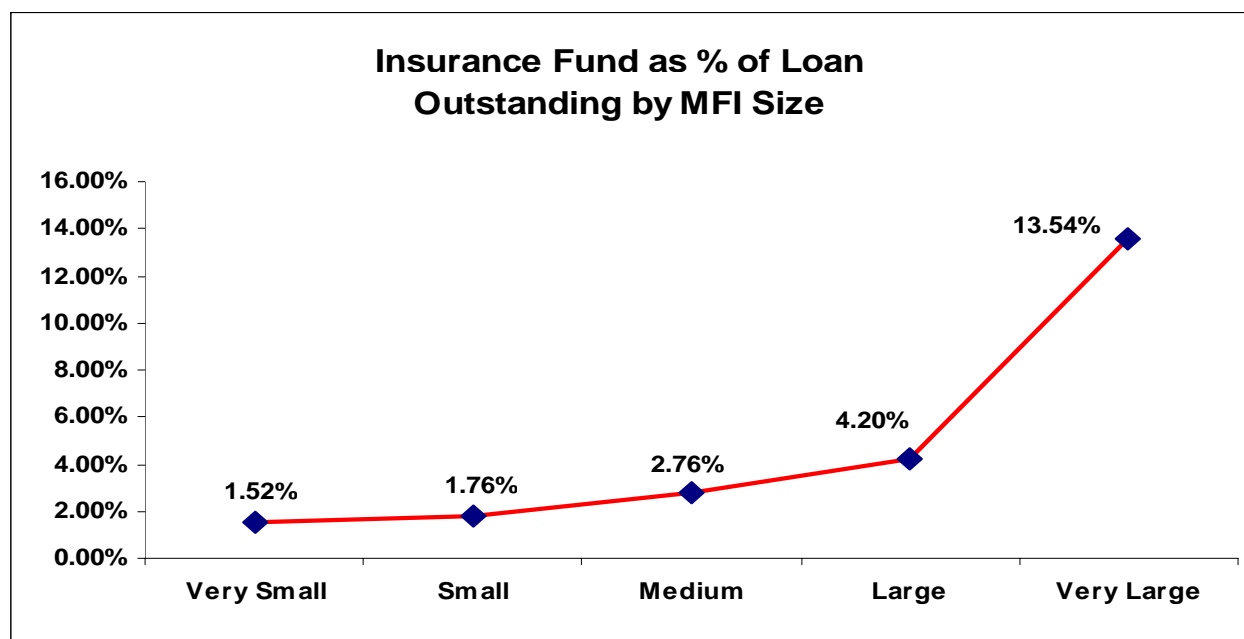
* More than 2/3rd of MFIs charge premium as <1% of loan.

Why Do Institutions Not Contribute to Premium?

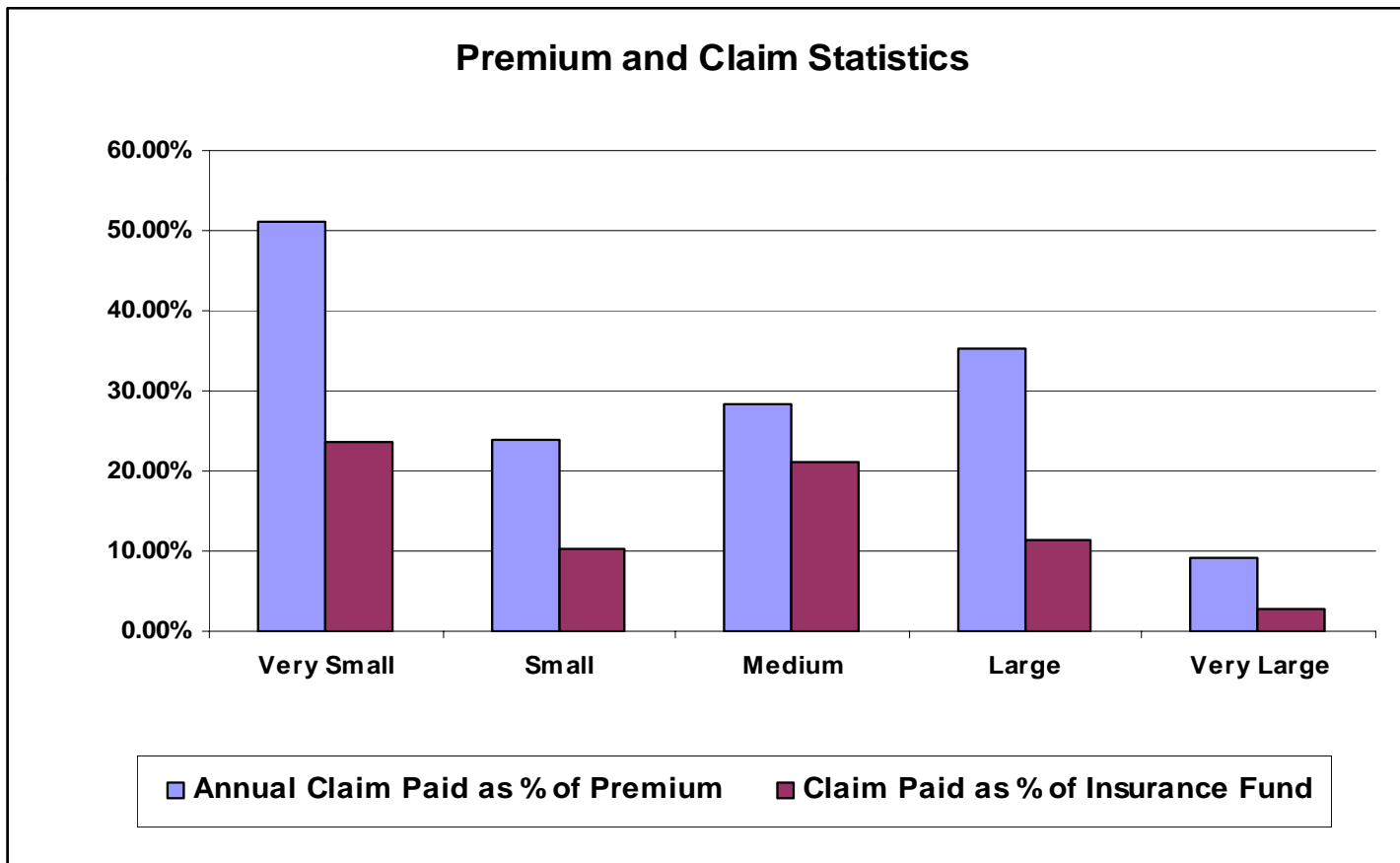


Extent of Insurance Fund

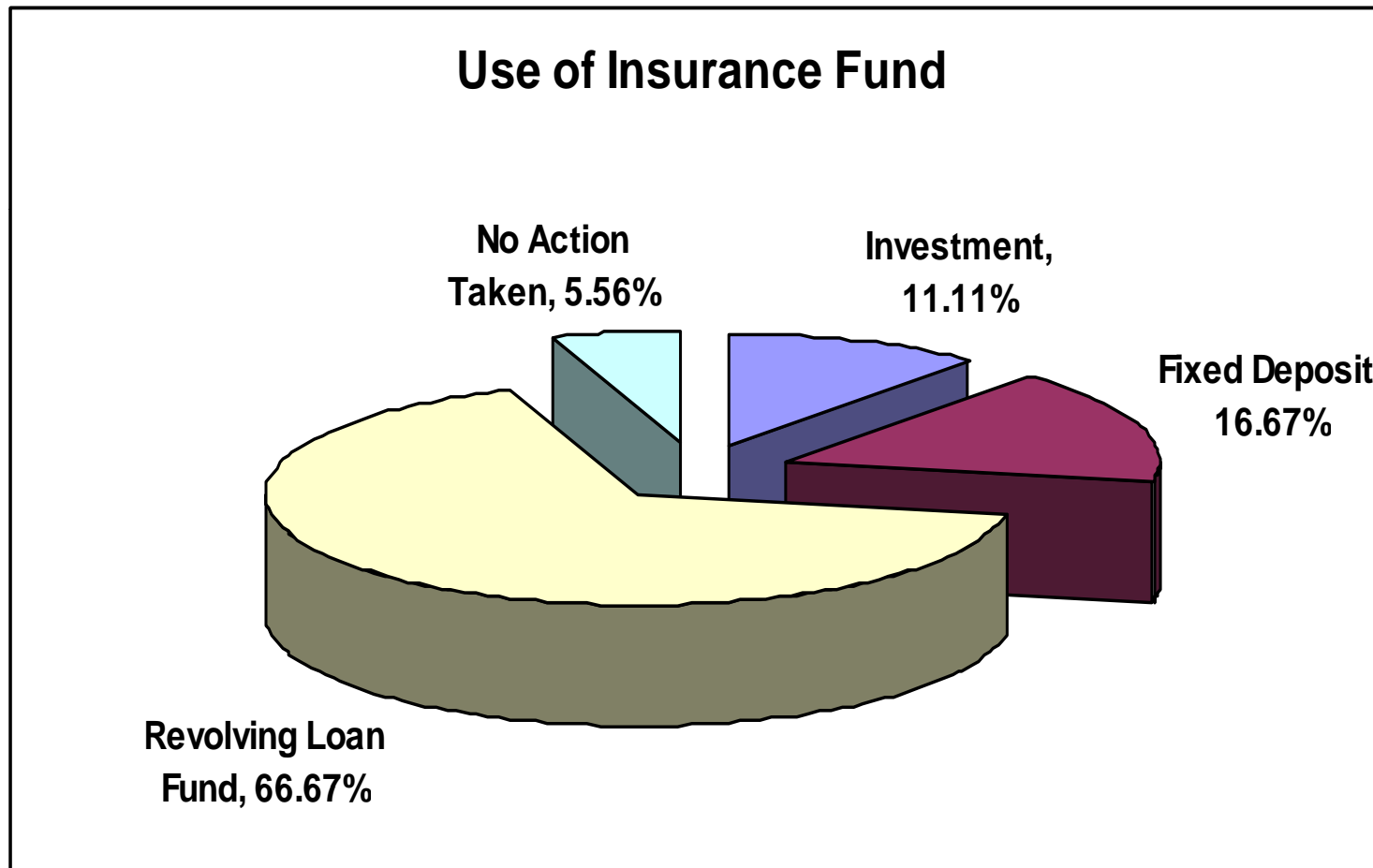
Average Insurance Financial Statistics						
MFI Type	Insurance Fund	No. of Observation (N=26)	Savings Balance	Loans Outstanding	Insurance Fund as % of Loan Outstanding	Member Savings as % of Loan Outstanding
Very Small	0.20	3	5.44	13.00	1.52%	41.84%
Small	1.27	8	19.19	72.52	1.76%	26.46%
Medium	7.75	9	114.20	280.60	2.76%	40.70%
Large	38.40	3	359.00	915.00	4.20%	39.23%
Very Large	2,870.00	3	19,124.22	21,200.00	13.54%	90.21%



Is Premium Rate Reasonable?



Management and Use of Insurance Fund



Three Critical Issues for Development of Micro Insurance Through MFIs

Issue-1: Are poor households aware of micro insurance? What to be done to build their awareness? What products would they need?

- **Training of poor households through MFIs**
- **Survey is needed for identifying product needs.**

Issue – 2: What kind of institutional structure and management should be in place to make micro insurance more effective through MFIs?

- MFIs do have advantage in offering cost effective micro insurance program
- BUT they have to be equipped with all technical knowledge and skills
- Insurance fund can not be used for lending. Needs to manage separately.
- Micro insurance might be undermined for micro credit
- Separate division with separate structure.

Issue-3: What regulatory arrangements be made? Will there be any conflict?

- **Needs to be clearly examined.**
- **A separate regulatory agency may create conflict.**
- **MRA can not assume task of monitoring micro insurance**
- **Insurer-MFI partnership with some delegated authority to MFIs and appropriate incentive structure.**

FINAL COMMENT

- **MFIs have always addressed the problem of market failure in credit market as well as in insurance market.**
- **Their advantages have to be extracted within appropriate governance framework.**