MICROINSURANCE CONFERENCE
21– 23 NOVEMBER 2006
CAPE TOWN

CGAP WORKING GROUP ON MICROINSURANCE
CASE STUDY NO. 10 - MADISON INSURANCE, ZAMBIA
BY LEMMY MANJE

PARTNER-AGENT MODEL

GOOD AND BAD PRACTICES

Presented by
AGNES CHAKONTA, DEPUTY GENERAL MANAGER
MADISON INSURANCE COMPANY ZAMBIA LIMITED

1 National context of Zambia

- Zambia is a landlocked country located in South Central Africa with a population of about 10 million.
- Economy was largely dominated by socialist features until the early 1990's when it opened up to the private sector led economy.
- The economy is based largely on copper mining.
- Agriculture and Tourism are some of the sectors that the current Government is committed to developing seeing the potential in the natural resources that Zambia has.
- Zambia has one of the Seven wonders of the world – the Victoria Water Falls.

2 (a) Overview of microfinance and microinsurance in Zambia

- The role of microfinance is to provide finance to low income earners and small scale entrepreneurs.
- Microfinance institutions are operating in an environment without specific regulatory framework.
- There is no explicit Government policy on microfinance.
- Formal microinsurance began in 2000 and transactions have increased dramatically since 2001.
- The range of microfinance products have remained narrow with most products being closely linked to micro credit.

2 (b) Overview of microfinance and microinsurance in Zambia (continued)

- The concept of microinsurance is not widely appreciated in Zambia.
- A few informal or unregistered insurance activities exist e.g. funeral funds at market place where premiums rates are not based on actuarial analysis but on what the members can afford.

3 (a) Case study of Madison Insurance Company Zambia Limited

- Madison Insurance Company limited was the first private insurance company to commence operations in Zambia in 1992.
- It started as a subsidiary of Meridian International Bank based in Nassua, Bahamas.
- When the meridian group collapsed in 1995 the company was saved under the leadership of Mr. Lawrence Sikutwa, Managing Director.
- Currently Madison is a wholly owned Zambian company.

3 (b) Case study of Madison Insurance Company Zambia Limited (continued)

- Madison was the first insurance company to provide microinsurance to low income households through Microfinance Institutions (MFIs) .
- MFIs provide insurance to low income households in order to protect their loan portfolios from default caused by death, sickness and permanent disability.
- The company offers a policy called Credit Life Assurance with a Funeral expenses rider to MFIs.
- Madison's involvement in microinsurance commenced in 2000 through a partnership with Pulse Holdings Ltd.

3 (c) Case study of Madison Insurance Company Zambia Limited (continued)

- Other prominent partners currently are Finca Zambia, Pride Zambia and Cetzam Opportunity Microfinance Limited. All these MFIs offer similar micro finance products.
- Insurance is provided through a Partner – Agent model.
- In this model, MFIs are legal policy holders for both Credit Life and Funeral Expenses Insurance.

4. Microfinance Institutions and delivery models

- Most microfinace institutions issue loans through some type of group lending method that places emphasis on mutual guarantees and peer pressure.
- Collateral requirements are usually replaced by guarantee of the group members, although this is often supplemented by cash collateral.
- For example, if a member of a group is ill or dies, the MFI usually expects the group to repay that member's debt—a requirement that can sometimes cause the whole group to default.
- In this respect Insurance plays a vital role of keeping groups intact by paying off the amount owing by the incapacitated or deceased member of the group.

5 (a) Microfinance Institution - Delivery Models

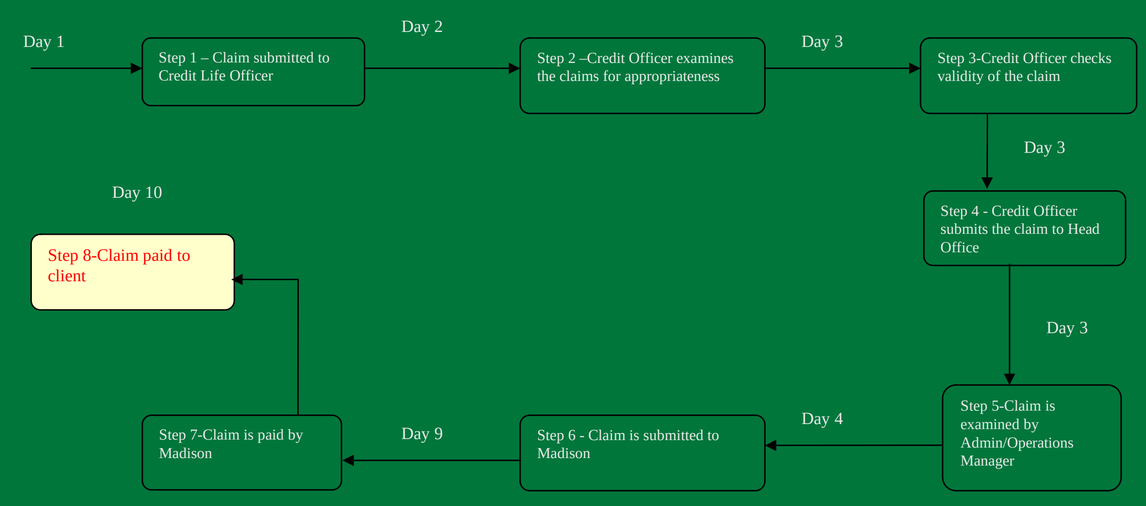
- PRIDE Zambia : Solidarity group and individual lending
- PULSE : Solidarity group and individual lending
- CETZAM :Trust banks, solidarity group and individual lending
- FINCA Zambia :Village bank

5 (b). Microfinance Institution - Delivery Models (continued)

- The main difference in the group methodologies is the number of members in each of the groups.
- For solidarity group lending, the group size is usually five persons.
- Trust banks and village banks typically contain 20 to 30 members.
- Individual lending is a relatively new concept to most MFIs.

Claims Management

Typical Claims settlement process



Note: In a case where documents are not properly filled in (Step 1 or Step 5) the Claim will be returned to CO/Client and the process will gain additional days –around 2-3 more days

	Credit Life (CLAS)	**Funeral Insurance Policy**
Group or Individual	Group Product ;the MFI is the legal policy holder on behalf of its borrowers	
Term	Borrowers are covered for the length of the loan term (from 3to 24 months)	The product has a renewable term of one year (1) year
Eligibility	No medical examination required but applicant must appear physically fit. Must be a borrower of the MFI, aged between 18 & 62 years	
Renewal Requirement	Group scheme renewable annually. Individuals renew automatically with each loan.	
Rejection rate	None	
Compulsory or Voluntary	Mandatory	Mandatory or principal borrower. Voluntary for additional lives
Product Coverage	Disbursed loan amount (plus interest for FINCA) Instalments for the specified period of illness except for CETZAM)	Principal borrower -US$108 (or $216 at PRIDE for loans longer than 1 year) Spouse -US$86 Biological children and dependants living with the principal borrower (maximum of 6) -US$54
Exclusions	Self-inflicted death or illness Death or illness from illegal activity Death or illness from alcohol or drugs not prescribed by a doctor The age limit for dependants is 25 (for funeral insurance)	
Pricing -Premiums	See Section 4.4	
Co-payments/Deductibles	None	
Mode of premium payment	Either deducted from loan amount or paid upfront in cash; MFIs forward premiums to the insurer at the end of each month	
Commission	Commission paid to MFI to cover administration costs:10% (for CETZAM,PRIDE and FINCA); Profit -sharing arrangement for PULSE (see section 2.6)	

5 (c) Microfinance Institution - Delivery Models (continued)

- The introduction of individual loans was a response to client dissatisfaction with the mutual guarantee system and the small loan sizes available through group methodologies.
- Most MFIs that use group methodologies also require forced savings to cushion social collateral. Although this forced savings is called the Loan Insurance Fund (LIF), it does not really have a risk pooling function and instead effectively serves as cash collateral.

6 (a) Microfinance Institutions working with Madison Insurance Company

(i) PULSE Holdings Limited

- This was the first MFI to partner with Madison.
- It mainly offers two types of business loans:
  - a) Ntemba-a group loan product for micro traders,
  - b) Small Business loans for individuals.
- It also has two emergency loan products:
  - a) A household emergency loan to meet financial needs arising from funerals, school fees, medical expenses etc.
  - b)A business liquidity loan to provide quick cash to take advantage of business opportunities.

6 (b) Microfinance Institutions working with Madison Insurance Company (continued)

(i) PULSE Holdings Limited (continued)

- The insurance policy pays off ;
  (a) the original disbursed loan amount in the event of the borrower dying before repaying the loan in full
  (b) the loan repayment installments due for the period when the client is ill subject to agreed limitations. For example maximum of three installments.
- There is a rider cover called Thandizo (literally translated means ‘assistance’) which provides funeral insurance cover to the borrower and selected household members.
- PULSE has a network of nine branches all based in Lusaka with individual clientele of 1,945 as at the end of October 2004, reducing from 3,063 at the end of 2001.

6 (c) Microfinance Institutions working with Madison Insurance Company (continued)

(i) PULSE Holdings Limited (continued)

PULSE has faced a number of challenges over time among others, high delinquency, default, low client retention, HIV/AIDS, fraud and staff turnover.

- To improve the situation, PULSE recently underwent a major restructuring that included product refinements, product diversification, policy changes institutional changes and staff changes. The full impact of these changes are yet to be seen, but the preliminary indications are positive.

6 (d) Microfinance Institutions working with Madison Insurance Company (continued)

(ii) CETZAM Opportunity Microfinance Limited

- This MFI started in 1995 as a self-funded volunteer organization to fight poverty through microenterprise development.
- In 1996 CETZAM initiated a partnership with Opportunity International (OI), a global NGO that provides technical assistance to its MFI partners around the world.
- In 2002, CETZAM changed its name to CETZAM Opportunity Microfinance Limited.
- CETZAM offers individual loans and group loans through trust banks and solidarity groups.
- In 2002, CETZAM partnered with Madison for credit life insurance cover.

6 (e) Microfinance Institutions working with Madison Insurance Company (continued)

(ii) CETZAM Opportunity Microfinance Limited (continued)

- CETZAM's clientele comprises mainly of women entrepreneurs.
- The number of clients has dropped from a high of about 20,000 in 2002 to 4,050 active clients as at June 30, 2004 due to poor growth management, fraud and delinquency problems.
- To deal with these problems, CETZAM underwent a major restructuring that included policy changes, institutional changes and staff changes. The positive impacts of these changes are just beginning to show.

6 (f) Microfinance Institutions working with Madison Insurance Company (continued)

(iii) PRIDE Zambia

- PRIDE Zambia was established in 2000 with support from the Swedish International Development Agency (SIDA).
- The project's main goal was provision of financial services to micro and small entrepreneurs to generate income, create employment, and stimulate business growth.
- After successful completion of the project phase, PRIDE Zambia was incorporated as a company limited by guarantee.

6 (g) Microfinance Institutions working with Madison Insurance Company (continued)

(iii) PRIDE Zambia (continued)

- PRIDE Zambia has four loan products:

  (i) Group Loan Scheme: For low-income entrepreneurs, primarily in groups of five, which are then confederated into groups of fifty members.

  (ii) Micro-loan: For micro-entrepreneurs with very low incomes in groups of not more than twenty-five members.

  (iii) Premium Loan: For medium income entrepreneurs in groups of not more than five members.

  (iv) Salary Guaranteed Loan: This is an individual loan product for salaried employees.
- Pride Zambia has branches in almost all the nine (9) provinces of Zambia.

6 (h) Microfinance Institutions working with Madison Insurance Company (continued)

(iv) FINCA Zambia

- The Foundation for International Community Assistance (FINCA) opened its first office in Lusaka in 2001.
- FINCA Zambia is affiliated to FINCA International, an American NGO with a worldwide network of affiliates.
- FINCA Zambia provides financial services to poor women using a modified village bank approach. The products include micro-enterprise loans.
- Like most MFIs, FINCA recognised the need to address the major risks that confronted its clients through partnership with Madison.
- FINCA Zambia has approximately 10,000 clients.
- It operates in 14 districts located in 4 Provinces of Zambia.

7. Administration Fees and profit sharing

- In the partnership with Madison Insurance, MFIs are compensated for their sales and service functions in two different ways: administration fee or profit sharing.
- The profit sharing formula is as follows:

  Institution's share of profit = 50% (0.70 x premiums paid – claims)
- Profit sharing is calculated at the end of each financial year. Any losses are the sole responsibility of Madison.
- Of the four MFIs, two MFIs - PULSE and PRDIE ZAMBIA participate in profit sharing arrangement while the others receive a fixed administrative fee as a percentage of the premiums collected.

8. Membership – Major Risks and vulnerabilities

- The first tier of risks faced by majority of MFI clients in Zambia are death and illness.
- The second tier of risks relate to various economic stresses that cannot be met out of regular household cash flow:
  - Illness of members of the family
  - Education Expenses
  - Funerals of members of the family
  - Food
  - Accommodation
  - Theft

9. Membership - Coping Strategies

- Most clients take money from their enterprises to cope with risks, causing a compounding problem of lowering income that inevitably affects loan repayments.
- For clients who opt to borrow money from moneylenders, the problem deepens.
- Donations from friends and relatives help to offset the expenses incurred during funerals. However, these donations are not guaranteed, and the poorer households tend to receive less significant assistance.
- Selling off assets and borrowing from moneylenders which makes it harder to recover and resume previous levels of consumption and living standards.

10. HIV/AIDS and Microfinance

- According to the Zambia Demographic and Health survey 2001-2002, 15.6 percent of the adult population is HIV positive (23 percent in urban areas and 11 percent in rural areas).
- The rapid spread of HIV/AIDS is having an increasing negative impact on the operations of microenterprises and the livelihoods of low income households.
- The risk and cost of HIV/AIDS on small and micro enterprises are particularly chronic given the limited amount of human and financial resources at their disposal.

11 (a) Case study conclusions By Lemmy Manje(ILO Official)

- **Microinsurance product development:**
  Effective participation of MFIs in the product development process requires an enhancement of their insurance knowledge and skills.
- **Product review:**
  MFIs need to understand the product review criteria used by the Insurer.
- **HIV/AIDS and microfinance:**
  Microinsurance facilitates access to loans by HIV patients who are not yet in a critical condition.
- **Customer satisfaction:**
  Customer satisfaction measurement is a crucial but neglected component of the partnership between the insurer and MFIs.

11 (b) Case study conclusions (continued)
By Lemmy Manje(ILO Official)

- **Premium collection:**

  The method of premium collection has an impact on client perception of an insurance product.
- **Linking the product to loan repayment:**

  A link between the insurance coverage and on-time loan repayment creates serious client satisfaction problems and may contribute to desertion.
- **Staff and client education:**

  Training of staff involved in the selling and servicing of microinsurance is very important particularly in providing consistent product information and standardising responses to frequently asked questions.
- **Internal communication:**

  Effective internal communication on products is very important.

11 (c) Case study conclusions (continued)
By Lemmy Manje(ILO Official)

- **Staff workload:**

  Simplification of registration and processing documentation can reduce the workload for credit officers and speed up the claim settlement process.
- **Marketing insurance as a product:**

  The success of insurance lies in marketing it as a product.
- **Market or product orientated:**

  The market focus approach is the best in delivering insurance.

  Insurers and MFIs need to refrain from perpetuating certain myths about their clients.
- Dealing with myths about client education:

11 (d) Case study conclusions (continued)
By Lemmy Manje(ILO Official)

- **Strategic approach in microinsurance expansion:**
  For MFIs pursuing an expansion plan, insurance should be part of the strategy.
- **Pilot testing**:
  Like any microfinance product, pilot testing is essential for microfinance products.
- **Having sufficient capacity to act as an agent**:
  MFIs partnering with insurance companies have to have the capacity to uphold their end of the bargain.

12 (a) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(i) **Role of Insurer:**

An insurance company should consider embracing more roles in the delivery of insurance through MFIs.

Observation:

- Going forward Madison will take a more supportive role to MFIs in educating their clients about the value of life assurance, getting feedback on product satisfaction , avoiding fraudulent tendencies especially with the sickness cover and making them understand how the sickness cover operates.

12 (b) “Lessons learned” of the case study by Lemmy Manje and Insurer’s observations

(ii) Mode of premium collection:

Two of Madison’s partners, CETZAM, and PULSE, deduct premiums from the loan amounts along with other loan fees. As a result, clients perceive insurance as a cost for acquiring a loan – in fact a much higher cost than it actually is. This mechanism for premium collection might be feasible if the organizations had a greater commitment to client education and ensured that clients understood exactly how much they were actually paying for insurance.

Observation:

- Going forward the programme to supplement to the efforts of MFIs in educating their clients about life insurance will be enhanced.

12 (c)“Lessons learned” of the case study by Lemmy Manje and Insurer’s observations

(iii) Limited Understanding:

Focus group discussions showed that most clients had a shallow understanding of insurance features and benefits. Client education is certainly weak for all MFIs, and this is largely due to staff limitations. Staff responsible for servicing insurance products should receive adequate training to enable them to effectively educate clients on insurance and indeed promote microfinsurance products.

Observation:

- As said in 12 (a) and 12 (b) for the future we will take a more comprehensive education program for MFIs clients.

12 (d) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(iv) Marketing:

There is lack of insurance marketing by MFIs since the insurance products are largely mandatory. Product information provided to clients should be standardized and simplified to avoid claim rejections resulting from misinformation. A simple brochure for each client showing the breakdown of fees and benefits and describing the claim settlement process, would be a worthwhile consideration.

12 (d) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(iv) Marketing:

Observation:

- In the process of disseminating more information to the clients of MFIs Madison will in future design brochures to cover key features of our products in a simplified language to enable members understand the role of life assurance in the scheme.
- Madison shall also endevour to market to the same clients of MFIs some of our Personal Lines Products e.g Education Policies , Wealthibuilder Policy and Household Insurances.

12 (e) "Lessons learned" of the case study and insurer's observations (continued)

(v) Mandatory and voluntary provision:

Credit life insurance is provided as a mandatory product, but there is scope for funeral insurance to be voluntary, especially if it is covering other family members. Interestingly, two of the MFIs have voluntary coverage for funeral expenses. However, uptake seems to be very low and largely dependant on the marketing efforts of individual branch managers and credit officers.

12 (e) "Lessons learned" of the case study and insurer's observations (continued)

(v) Mandatory and voluntary provision:

Observation:

- The reason why we have made life assurance compulsory under the MFIs loans is that if life assurance was made optional, the majority of the client would not take up cover, leaving the MFIs exposed to the risk of not being able to recover the outstanding loans in the event of death of the borrowers.
- Mandatory life insurance also gives 'peace of mind' to both the MFIs and their clients knowing that in the event of death of a member, the insurance policy will liquidate the loan debt.
- The funeral expenses policy is kept voluntary because it is an additional benefit rider.

12 (f) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(vi) No link between insurance benefits and loan repayments:

CETZAM requires all its borrower groups to be up-to-date with their loan repayments in order for individual members to receive insurance benefits. While the logic of using insurance benefits as a carrot to maintain timely loan repayments makes sense for the MFI, this link has caused significant dissatisfaction from clients adversely affecting their perception of insurance.

12 (f) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(vi) No link between insurance benefits and loan repayments:

Observation:

- The product described above is sold by a different insurer in Zambia.
- The product that is sold by Madison Insurance Company is guaranteed because the risk premium is paid in advance as a single premium hence there is no link between payment of the claim and the loan repayment status.

12 (g) "Lessons learned" of the case study and insurer's observations (continued)

(vii) Product negotiation and insurance knowledge:

There seems to be a dearth of insurance knowledge among MFI senior managers. Consequently, they are not able to participate effectively in microfinance product design, nor are they particularly effective in negotiating with insurers. As a result, the end-user clients are not yet receiving sufficient insurance value for their money.

12 (g) "Lessons learned" of the case study and insurer's observations (continued)

(vii) Product negotiation and insurance knowledge:

Observation:

- The Madison products are reflective of World Class Standards which are tailor made to to suit client needs.
- In addition some of the MFIs personnel are very knowledgeable to the extent that they have in the past negotiated on premium rates and policy wordings by bringing samples of premium rates and Policy documents from outside the Country because they have International links . So they can not be viewed as being incapable of negotiating competitively with us.

12 (h) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(viii) Capacity to act as an agent:

Although acting as an agent for an insurance company (or buying group policies on behalf of clients) is the easiest way for an MFI to provide microfinance, it still requires some work and expertise. Many of the MFIs that partner with Madison are experiencing problems with their core credit services, and consequently are not able to pay sufficient attention to insurance. Unfortunately, neglect of the insurance services presents its own product dissatisfaction among clients, which also contributes to delinquency and dropouts. It is even plausible, though hard to confirm, that one reason why the MFIs are experiencing difficulty with their loan products is because the introduction of insurance has created extra work and distractions for staff at all levels.

12 (h) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(viii) Capacity to act as an agent:

Observation:

- The facilitation of insurance cover by MFIs in Zambia can not be seen as a extra work for MFIs as it is in their interest to secure their loans.
- With regard to expertise, Madison provides the necessary technical guidance and training to MFIs.
- According to our records, MFIS are not neglecting insurance services .
- MFIs should not be viewed as Agents but as Policy holders and Administrators of Microinsurance .

12 (I) “Lessons learned” of the case study by Lemmy Manje and Insurer’s observations

(ix) Commission Vs profit sharing:

While 3 of the MFIs receive a 10 percent commission from the insurer for their efforts, PULSE has negotiated a profit sharing arrangement. More experience is needed to assess which of these compensation arrangement best benefits the end-user clients.

12 (I) “Lessons learned” of the case study by Lemmy Manje and Insurer’s observations

(ix) Commission Vs profit sharing:

Observation:

- The payment of administration fee or Profit sharing is not intended for the MFIs to make a ‘profit ‘but to meet their administration costs.
- However the choice between administration fee or profit sharing is optional . Where profit share is opted for, in the year when the policy makes a loss the MFI will left with no compensation for incurred administration expenses , whilst administration fee is a guaranteed offset against administration expenses of MFIs.

12 (I) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(ix) Commission Vs profit sharing:

Observation continued:

- The assessment of weather to opt for profit sharing or administration fee has no effect on the accurring benefits to the end – user as both methods are meant to offset the MFI's administration costs.

12 (j) "Lessons learned" of the case study by Lemmy Manje and Insurer's observations

(x) Insurance and HIV/AIDS:

Before introducing insurance, the group lending methodology screened out potential borrowers suspected of being HIV positive. The mutual guarantee required group members to be responsible for outstanding loan balances if a member died, and for late loan instalments due to sickness. Insurance has changed the picture. Since group members are no longer responsible for the outstanding loan in the event of death or prolonged illness, they are less concerned about excluding members who might be HIV positive as long as they appear physically healthy.

12 (j) “Lessons learned” of the case study by Lemmy Manje and Insurer’s observations

(x)Insurance and HIV/AIDS:

Observation:

- The value of microinsurance is that using the principle of large numbers , life assurance is provided to all active borrowers without discrimination against those who might be HIV positive.

13 (a) Good practices of providing Life Assurance Cover to facilitate Microfinancing

- The main benefit of insurance to the poor is to enable them have access to resources that will help them better their lives. Insurance gives capability to MFIs to have confidence to lend out money to as many poor people as possible knowing that insurance backs them in case of a loss.
- The insurance cover removes the need for the poor to provide collateral security in order to access the loans. This leads to more people accessing the loans and improving their living standards.
- The funeral expenses policy rider removes the responsibility of footing funeral bills of close relatives or other group members.

13 (b) Good practices of providing Life Assurance Cover to facilitate Microfinancing

- The availability of insurance cover also helps improve the lives of the poor by giving them a sense of protection, surety and direction. Insurance shields them from loss arising from death or illness of other members of the group.
- Insurance cover has helped HIV/AIDS infected members to have access to loans despite their HIV status as long as they are physically fit to work. The cover is non medical and members suspected to be infected with HIV will be accepted willingly into groups as members are aware that in case of premature death the policy will settle the outstanding debt and the members will not be affected.

13 (c) Good practices of providing Life Assurance Cover to facilitate Microfinancing

- Individuals are able to obtain bigger loan amounts from MFIs for bigger investment opportunities after a good record of loan repayment of the previous loans .
- Provision for review of the product after a specific period makes it possible to review premium rates and make futher product improvements where necessary.

14 Bad practices in Microinsurance

- Insurers are not recognising the characters and preferences of the low income market. Therefore going forward the insurer should take more time to look at other areas that are of concern to the underprivileged if its contribution to poverty alleviation is to be widely appreciated .
- Not much time is taken to retrain microfinance institution staff and educate their clients about insurance for it to be fully appreciated.
- The failure to continuous retrain and educate microinsurance Staff and their clients results in delay of claim notification and submission of claim supporting documentation.

15 (a) Concluding Remarks of the Insurer

- Without insurance, in the event of a client dying, MFIs have to write off the outstanding loan debt unless the surviving members of the group pay the outstanding loan amount left by the deceased which however contributes to dissatisfaction of surviving members eventually leading to the entire group defaulting.
- Insurance schemes therefore are a remedial measure, mitigating effects of death, sickness and funeral expenses for low income households and MFIs microfinance institutions.
- The credit life and funeral expenses insurance offered by Madison cover death and sickness risks faced by MFIs and their clients.

15 (b) Concluding Remarks (continued)

- Some buyers of micro insurance do not understand the benefits that micro insurance has to offer. Therefore, it should be ensured that the MFIs explain clearly the benefits of micro insurance as they are selling their products to their clients.
- Since insurance removes the burden of paying outstanding loans left by deceased members from the surviving members, group members do not stigmatise prospective members who might be HIV positive or terminally ill.
- The HIV infection rate of 15.6% mentioned under slide 10 is actually a significant improvement from a high of about 25% in the previous years. This improvement is due to the awareness campaign programs by Government and other supporting NGOs.

15 (c) Concluding Remarks (continued)

- MFIs should not be viewed as Agents but as Policy holders and Administrators of Microinsurance .
- As an insurance company, Madison would not be able to develop products that address all the risks and economic stresses faced by MFI clients e.g food , accommodation and education expenses .

THANK YOU FOR YOUR ATTENTION