DELTA LIFE
Bangladesh

CGAP Working Group on Microinsurance
Good and Bad Practices
Case Study No. 7

Michael J. McCord and Craig Churchill – February 2005

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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As authors we have absorbed what we could, and provide the key elements within this paper. We shoulder any errors or omissions.

Acronyms

ASA	Association for Social Advancement
BDT	Bangladesh Taka
BIA	Bangladesh Insurance Association
BRAC	Bangladesh Rural Advancement Committee
CGAP	Consultative Group to Assist the Poorest
DCS	Daily Collection Statement
DFID	Department for International Development
DGH	Declaration of Good Health
ESR	Erythrocytic Sedimentation Rate
EVP	Executive Vice President
FMR	Full Medical Report
GDP	Gross Domestic Product
GGB	Gono-Grameen Bima
GNBI	Global Network for Banking Innovation
GTZ	Gesellschaft für Technische Zusammenarbeit
ILO	International Labour Organization
M	Month
MFI	Microfinance institution
MIS	Management Information System
NGO	Non-governmental organisation
OL	Ordinary Life
PPP	Purchasing Power Parity
PR	Premium Receipt
PUR	Pathological Urine Report
Q	Quarter
SIDA	Swedish International Development Agency
SOAP	Underwriting tool: Sex, Occupation, Age, Physical condition
SVP	Senior Vice President
UNDP	United Nations Development Programme
US$	United States Dollar
W	Week
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organization
WWB	Women's World Banking
Y	Year
ZOC	Zone Operations Centre

Executive Summary

Delta Life Insurance Company was founded in late 1986 soon after the denationalisation of the Bangladesh financial sectors. Delta Life's initial products consisted primarily of endowment policies, which combined contractual savings with life insurance, targeted at Bangladesh's middle and upper classes. Not long after the organisation started however, the founder, Mr. Shafat Ahmed Chaudhuri, and other owners recognised that Delta needed to develop something quite innovative if the organisation was going to be relevant to the vast majority of the population who lived below the poverty line.

In 1988, inspired by the growing success of the Grameen Bank and other microcredit schemes in Bangladesh, Delta launched an experiment of its own, Grameen Bima or village insurance. Initially, the design for Grameen Bima called for collaboration with a microcredit NGO that provided the delivery structure for Delta's endowment product. This partnership dissolved after a short time because of a difference in objectives.

Delta then developed its own delivery network and quickly realised the benefits of selling its own policies. Subsequently it developed and introduced an urban microinsurance project, Gono Bima, which offered a similar endowment product.

In 1991, the company began introducing loans to complement the endowment policy. The loans were intended to stimulate additional income for policyholders, which would help to promote their economic development while making it easier for them to pay their premiums. This proved disastrous. Repayment fell to about fifty percent and Delta was left with a significant loan loss.

In the mid to late 1990s, Delta Life's microinsurance programmes experienced astonishing growth. Together, Grameen and Gono Bima grew from less than 40,000 new policies issued in 1994 to more than 450,000 policies issued in 1998. As the decade came to a close, however, Delta felt the effects of this reckless growth. The rapid expansion revealed significant weaknesses in information systems, internal controls and administration.

Profits were also slow to come, or at least that was the impression. In 2002, Delta's board decided to spin off Gono and Grameen Bima into a non-profit company. However, after an actuarial report later that year showed that the microinsurance projects were actually contributing to profits, it was decided to retain the projects and reorganise them for greater efficiencies. A reengineering of the microinsurance operations in 2002 and 2003 included the following critical areas:

- Improving internal controls
- Upgrading information systems to provide better analytical information
- Consolidating Gono and Grameen Bima microinsurance projects into the Gono-Grameen Bima (GGB) division
- Decentralising authority to the regional and field levels

- Restructuring by separating sales and servicing from administrative functions
- Developing incentive compensation schemes
- Implementing variable premium payment frequencies allowing flexibility for policyholders and improved efficiency for organisers
- Professionalizing the institutional culture
- Eliminating project loans from the microlending activities.

These adjustments have generated clear benefits to the company. For example, partly as a result of the consolidation of Gono and Grameen Bima, administrative costs have declined. Also, decentralising authority has sped up the sales, premium collection and claims processes, as well as the company's ability to address policyholder issues.

Over the years, Delta's social motivation has evolved into a commercial motivation, benefiting the company as well as its roughly one million poor customers. Along the way, Delta Life has learned a number of valuable lessons, many of them the hard way.

Institutional Lessons

- Delta has shown that it is possible for an insurance company to **create its own distribution network** to sell voluntary, individual insurance policies directly to the low-income market, and to achieve profitability, without any donor support, though over a rather long period.
- By building up its Ordinary Life (or traditional insurance) business to a fairly significant scale, **Delta cross-subsidised the start-up of the microinsurance activities**. For direct microinsurance to be possible, it probably needs to be offered by a company that also services the upper market so the organisation can create administrative efficiencies, professionalize systems, and lower expense ratios.
- Insurers have to **focus on their core competencies**. Although Delta's project loans were heralded as a tremendous accomplishment in the late 1990s, after a few years of reflection (and mounting bad debts), they are now seen as a major failure.
- **Microinsurance must be managed with the same business approach as traditional insurance**, even if the intention is to achieve developmental objectives. Good management is especially important for organisations that are entrusted with the long-term savings of poor households.
- Delta has not managed its tremendous growth very effectively. It recognises now that more **authority needs to be closer to the clients**.
- Microinsurers should not overlook **the critical importance of management information systems**, especially for large volumes of small policies. Effective management of an insurance business depends on timely and accurate information to: price products appropriately, pay claims expeditiously, manage staff effectively, monitor performance carefully, etc.
- **When money is involved, fraud will not be too far behind**. Careful attention should be given to internal controls before an organisation pursues exponential growth.

Product Design and Delivery Lessons

- **Endowment policies are extremely appropriate** for the risk-management needs of the low-income market since they provide life insurance protection while allowing the poor to gradually build up assets.
- Products that **allow policyholders to access savings sooner** and more regularly (though still in the medium term) have proven most popular with Delta's microinsurance policyholders.
- The assumption that microinsurance policyholders must pay weekly premiums proved not entirely correct. The cash flows of low-income households are not just variable; they are also heterogeneous. To meet the needs of the market, it is necessary to **offer a range of premium payment options and face values**.
- It is very **difficult to have savings, credit and insurance relationships with customers**. For example, field workers who sell endowment policies approach premium collection in softer and less aggressive manner than collecting loan repayments, creating confusion for those who try to do both.
- Distribution through other organisations (such as MFIs) means that the insurer does not have control over the priorities of the agents. The alternative—direct distribution—requires the insurer to have its own army of field operatives and the corresponding infrastructure, which significantly increases operating costs. The appropriateness of these **distribution channels depends on the type of insurance being offered**.

Organisational Development and Marketing Lessons

- Many **low-income households want insurance** protection, especially if it is coupled with asset building.
- The **good intentions of personnel do not necessarily translate into good management**. Delta is now more concerned about hiring people with management and/or insurance expertise into management posts than with their development orientation.
- Effective compensation systems remain elusive. **Microinsurance requires a unique sales culture** that effectively marries a concern for clients' welfare with the commercial interests of the insurer, but how exactly can that be achieved? Delta's GGB division relies heavily on part-time workers who sell insurance occasionally on a commission basis. It is not yet clear that this is the most effective approach.
- **Reward systems need to avoid causing undesirable behaviour**, such as spurts of new policies at the end of a sales period, splitting one policy into two smaller ones to increase volumes, or the provision of unofficial rebates to new clients.
- Delta's tagline, "**Delta Life, Prosperous Life**," communicates to prospective clients that the organisation is about improving one's life rather than worrying about death. This message helps to overcome some of the resistance that can emerge with insurance policies. In addition, the endowment policies are marketed primarily as savings products.

1. The Context

1.1 Macroeconomic Data

Even as the recipient of well over US$30 billion in grants and loans from donors since its independence in 1971, Bangladesh remains one of the poorest and most densely populated countries in the world.

The Bangladesh economy is primarily agricultural based, though the government has been trying to diversify through attraction of foreign investment and movement towards a market orientation. Cotton woven goods account for around 80% of Bangladeshi exports and the government sees significant concentration risk in this situation. Indeed, the dependence on agriculture makes Bangladesh vulnerable to natural disasters such as cyclones, floods, and droughts, as well as to world commodity price adjustments. The World Trade Organization (WTO) identified these as among the main problems for Bangladesh, and includes in this list civil unrest and political instability, and inadequate infrastructure.[1]

Table 1. Macro Data

Bangladesh		Year/ Period	Source
GDP (US$ Billions)	47.3	2002	WB
Population (millions)	135.7	2002	WB
Population density per km2	1024	2001	WB
Percentage urban / rural population	25.5	2001	UNDP
GDP/Capita (US$)	350	2001	UNDP
GDP Growth Rate	4.4	2002	WB
Consumer Price Index (%) Average Annual Change	5.1	1990-2001	WB
Exchange Rate (current, X Currency per US$1)[2]	1 US Dollar = 60.55 Bangladeshi Taka	05.03.04	Oanda.com
GDP per Capita (PPP US$)	1,610	2001	UNDP
Infant Mortality (per 1000 live births)	51	2001	UNDP
Under Five Mortality (per thousand)	71 m; 73 f	2002	WHO
Maternal Mortality (per 100,000 live births)	400	1985-2001	UNDP
Access to safe water (% of population)	97	2000	UNDP
Health Expenditure as % of GDP (public/private/total)	3.5	2001	WHO
Health Expenditure per capita (US$)	58	2001	WHO
Doctors (Rate per 100,000 population / Year)	20	1997	WHO
Adult Literacy rate (% age 15 and above)	40.6	2001	UNDP

[1] http://www.eia.doe.gov/emeu/cabs/bangla.html
[2] This exchange rate will be used in all calculations of current figures in this paper.

1.2 The Insurance Industry in Bangladesh

Legislation and Regulation

After independence, the Bangladesh government nationalised the insurance industry by Presidential Order. It was later denationalised in the mid-1980s. Between the Bangladesh Insurance (Nationalisation) Order of 1972 and the Insurance Act (1938, revised in 2001), there emerge a number of issues that potentially could impact microinsurance:

- *Insurers cannot transact both life and general insurance business*: While protecting the insured by not allowing a commingling of long and short term liabilities, this regulation potentially restricts the efficiency with which microinsurance products can be sold.
- *Limitation of expenses of management in the life insurance business*: Designed to protect the Life Fund from depletion due to expensive insurance structures, this policy creates a potential problem for an insurer that is trying to serve the low-income market, which is a more expensive market to reach. The current requirement for a life insurance company is 38 percent of gross premiums.
- *Licensing of insurance agents*: Included to ensure a minimum level of agent quality, this requirement can make it difficult to use the staff of microfinance institutions (MFIs) as agents, or to develop a huge sales force to directly market to low-income consumers. Additionally, agents are due commission on renewal premiums even after they have left the insurance business, which creates an additional administrative complication when dealing with thousands of very small policies.
- *Diverse institutional options*: The Insurance Act (1938) allows for a variety of institutional options for insurers, including provident funds and mutual insurance companies, which may be appropriate forms for providing microinsurance, especially because of the lower capital requirements, as shown in Table 2.

Table 2. Capital and Deposits required of various Types of Insurers[3]

Insurer Type	Capital Required (*millions* of BDT)	Capital Required (*thousands* of US$)	Deposit Required (*millions* of BDT)	Deposit Required (*thousands* of US$)
Life Insurance Company	75[4]	1,240	4	70
General Insurance Company	150	2,500	3	50
Specified Miscellaneous Insurance Company	15	250	6	100
Co-operative Insurance Society (life insurance)	10	170	10	170
Co-operative Insurance Society (general insurance)	20	330	20	330
Mutual Insurance	10	170	1.4	20
Provident Society (*actual values*)	5,000	83	50,000	830

[3] The Insurance Act, 1938, and Rules, 1958 (updated 2001), M.M. Ali, Seraj Book Syndicate.
[4] Forty percent subscribed by sponsors, 60% open to public subscription for Life, General and Miscellaneous.

The government is working on the development of a new insurance law. The Chief Controller of Insurance indicated that there had been no requests from insurers or others to make any legal adjustments to facilitate microinsurance.

The Chief Controller of Insurance had been in the job for less than six months. It became clear that this position was one of transience as the government appointed people (generally from outside the industry) for a short time while awaiting other opportunities. Significant leadership and knowledge comes from the Deputy who has served many years in the Directorate. Because the leadership of the Chief is so limited, there has been very little analysis of the insurance sector and its players by that office.

Regulated insurance companies are required to pay 0.15 percent of gross premiums as their annual fee to support the Insurance Directorate. The Chief Controller of Insurance suggested that this fee would be increased to 0.35 percent of gross premiums to generate the funds needed to improve the capacity of the Insurance Directorate. Such a change in the fee structure will improve the inflows to the Directorate, but it could have a significant impact on the provision of insurance to the low-income market since the poor are less able to shoulder the additional costs.

Overview of the Insurance Market

The Insurance Directorate, under the Ministry of Commerce, is the regulatory body of the country's insurance sector. A total of 60 insurance companies were operating in Bangladesh in 2004. Of these companies, fifty-seven were private, two were state-owned, and one was foreign-owned. Since at least 1997, the private sector life insurers have been increasingly improving their market share relative to public life insurers, as is shown on Table 3.

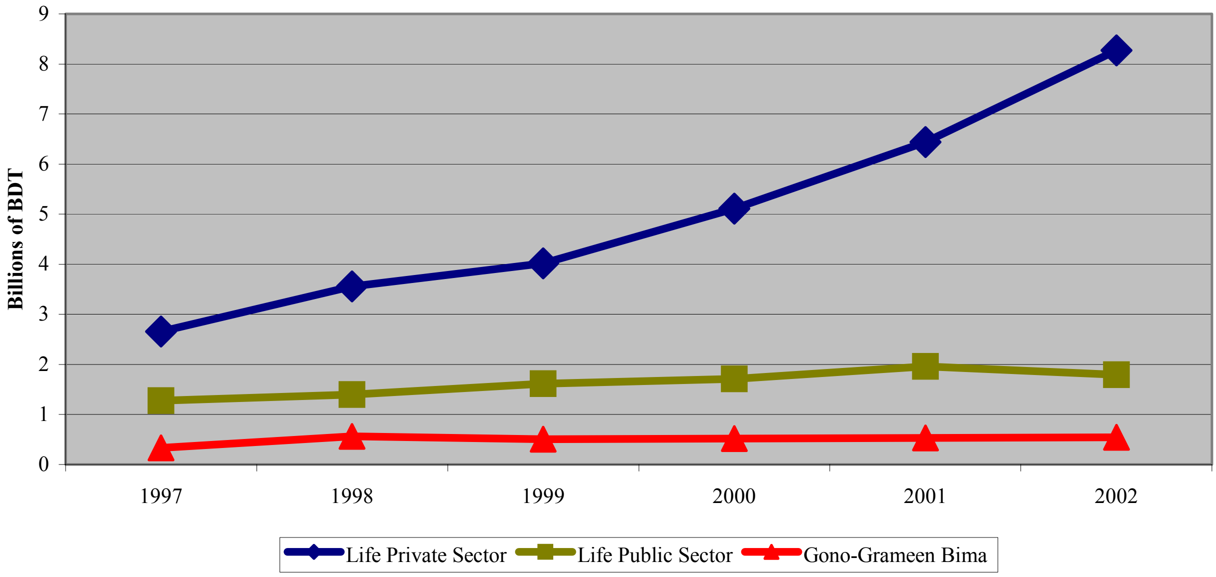
Table 3. Life Insurance Market Share by Premiums Received

	1997	1998	1999	2000	2001	2002
% Private	68	72	71	75	77	82
% Public	32	28	29	25	23	18
% Gono-Grameen Bima	9	11	9	8	6	5

(BIA Annual Report 2002, and Delta prepared documents)

More important than simply improving their market share, the market itself has dramatically expanded during this period. The total life market grew BDT 6 billion (US$ 99 million) over the past five years. Virtually all of this increase is related to private sector activities, while the growth of public sector life insurers has remained relatively flat, as shown in Figure 1.

Figure 1. Bangladesh: Life Insurance Premium Growth



Industry Performance

Especially in terms of the life insurance business, the industry has been growing dramatically with substantial premium gains each year since 1989. Fund balances have, at least recently, kept up with this growth. However, even with the rapid growth, insurance density for Bangladesh in 2003 was a mere US$ 2.1 spent on insurance per capita for the year, which is the lowest insurance density of the eighty-eight countries assessed by Swiss Re.[5] Insurance spending as a percentage of GDP in Bangladesh is also among the lowest, at 0.57 percent—only Saudi Arabia is lower on the list.[6]

The Bangladesh Insurance Association (BIA) notes in its 2002 annual report that the recent growth in life premiums "was due to the expansion of life business in the country through the introduction of new products like Gono Grameen Bima" and others like it. Reflective of the insurance density and penetration levels, the BIA notes that "despite satisfactory growth, the vast majority of people in the rural areas are yet to be covered under life policies."[7]

[5] Swiss Re Sigma, World Insurance in 2003: Insurance Industry on the Road to Recovery. No. 3/2004. Other examples of insurance density include: India 16.4, Pakistan 2.9, and Indonesia 14.5
[6] Ibid. Other examples of insurance penetration include: India 2.88%, Pakistan 0.62%, and Indonesia 1.49%.
[7] BIA Annual Report, 2002.

Table 4. Insurance Industry Basics[8]

Issues	Observations
Name of insurance regulatory body	The Insurance Directorate, headed by The Chief Controller of Insurance
Key responsibilities of the regulatory authority	Consumer protection, licensing, policy approval, monitoring and investigations
Minimum capital requirements for insurance license	See Table 2, above
Minimum deposit requirement with Bangladesh Bank	See Table 2, above
Other key requirements for an insurance license	Either life or general provision
On-going capital requirements for an insurance company	Maintain at least minimum capital and deposits
Other key requirements for regulatory compliance	Reporting, separation of funds
Number of regulated private insurers (12/31/02)	Life = 15 Non-Life = 42 Brokers = Nil
Value of annual premiums of regulated private insurers (2002, $)	Life = 135 million Non-Life = 75 million
Number of regulated public insurers	Life = 1, Non-Life = 1
Value of annual premiums of regulated public insurers (2002, $)	Life = 30 million Non=Life = 15 million
Number of re-insurers	Two local, several international
Other unregulated organisations, if existing, that offer insurance	Unknown though there are several being implemented by MFIs
Certification requirements for agents	Minor fee, generate six policyholders, pass exam, can either sell for life or non-life

1.3 State Promotion of Insurance

According to the Chief Controller of Insurance, the state's role in the promotion of insurance has been limited to regulation and supervision. The Insurance Directorate sees its role as a consumer protector and not a promoter for the industry. The capacity of the Directorate is limited, and at this point it does not have sufficient capacity to undertake promotion even if it wanted to do so.

1.4 The Role of the State in Social Protection

Government social protection schemes are mostly focused on the formally employed, as detailed in Appendix 2. Appendix 3 lists schemes designed to assist the low-income, un- or self-employed, such as:

- Food for work or training
- Disaster relief and reconstruction
- Free health care at public facilities
- Discount transport on public buses

[8] Unless otherwise noted regulatory information was gathered from: "The [Bangladesh] Insurance Act, 1938 and Rules, 1958 (Modified up to October 2001).

- Free education for boys to grade five and girls to grade twelve
- Food for school programmes for low-income families that send their daughters to school
- Subsidised gas for low-income households (fixed BDT 375 per month, or US$ 6).
- Subsidised electricity

In reality, however, most of the social protection provided in Bangladesh comes from non-governmental organisations (NGOs), sometimes in partnership with the government. For example, the State is involved in health programmes with BRAC and other MFIs to provide low-income people with access to quality health care service providers. It also has partnerships with health care facilities such as Gono Shasthaya Kendra with its pharmaceutical business, medial training facilities, as well as its network of clinics designed to improve access to and quality of health care.

1.5 Overview of Microinsurance in Bangladesh

Microinsurance is rapidly expanding in Bangladesh. Following the lead of Delta Life, regulated insurers have been introducing similar products. Microinsurance products are becoming more competitive, and there are a variety of risk mitigation options available to the low-income market. Delta estimates that at least 17 other insurance companies are offering a GGB-like product to the low-income market, reaching perhaps more than a million customers.

Besides regulated insurers, many MFIs have some level of insurance provision covering disability and/or death. Recognising the link between good health and productivity, some MFIs are also trying to bring quality health care to people who have not had access to these in the past. Three of these institutions are examined closely in the upcoming "*Comparative Study of Health Microinsurance Projects in Bangladesh,*" published by the CGAP Working Group on Microinsurance.

The Insurance Directorate is currently not taking any action for or against unregistered microinsurance schemes. The Chief Controller of Insurance notes regulations that guide the provident funds, and mutual and cooperative insurers provide a mechanism to formalise these organisations, as well as improving the potential for the consumer protection activities of the Insurance Directorate. The Directorate generally appears ambivalent toward microinsurance.

2. The Institution

2.1 History

Delta Life Insurance Company was founded in late 1986 by Mr Shafat Ahmed Chaudhuri and 21 sponsors, mostly expatriate Bangladeshis living in Kuwait. Chaudhuri was a British-trained actuary—the only actuary in Bangladesh at the time—who had worked in insurance companies in Great Britain and Kuwait, and had served as Bangladesh's Controller of Insurance soon after independence in 1971. By launching Delta Life following the denationalisation of the Bangladesh financial sectors in the mid-80s, Chaudhuri became the father of private life insurance in the country.[9]

Delta Life's initial products consisted primarily of endowment policies, which combined contractual savings with life insurance, targeted at Bangladesh's middle and upper classes. Not long after the organisation started, however, Chaudhuri recognised that Delta needed to develop something quite innovative if the organisation was going to be relevant to the vast majority of the population who lived below the poverty line. He strongly believed that the poor needed insurance more than the rich.

The Start of Microinsurance

Inspired by the growing success of the Grameen Bank and other microcredit schemes in Bangladesh, Delta launched an experiment of its own, Grameen Bima or village insurance, in 1988, as a project under the Delta Life corporate umbrella. Indeed, there was no coincidence about the branding. If poor villagers were repaying small loans from Grameen Bank, then they would certainly need access to savings facilities as well as the security provided by Grameen Bima's life insurance.

This non-traditional insurance scheme was based on beliefs that continue to guide Delta's microinsurance initiatives:

- Insurance can contribute to the economic emancipation of the underprivileged.
- Poverty alleviation cannot bring success if it is dependent on grants.
- The common people of Bangladesh are honest, hard working, dependable, dedicated, and cooperative. They have tremendous potential for social advancement.

Besides covering the risks of death for the poor, Delta's management identifies additional benefits from its endowment policies, including alleviating poverty, empowering women and promoting mass employment. Since 85 percent of Bangladeshis live in poverty, a major objective for the company is to help people to move above the poverty line.

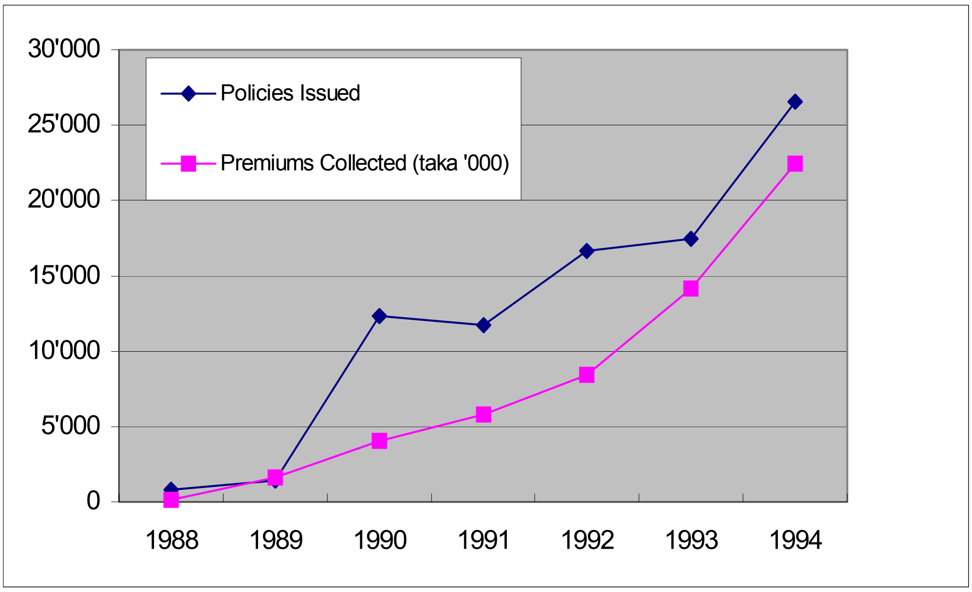
In the initial design of Grameen Bima, the project collaborated with a microcredit NGO that provided the delivery structure for Delta's endowment product. This partnership dissolved

[9] Chaudhuri also played a key role in setting up a health insurance company, Green Delta Insurance, and the Delta Medical Centre.

after a couple of years because Delta found that the NGO's staff were more interested in lending than mobilising savings or selling insurance. While clients were willing to take loans from the organisation, they were less comfortable entrusting it with their savings.

In 1990, Delta started its own delivery network and quickly realised the benefits of selling its own policies (see Figure 2). In 1991, the project began introducing loans to complement the endowment policy. The loans were intended to stimulate additional income for its policyholders, which would help to promote their economic development while making it easier for them to pay their premiums.

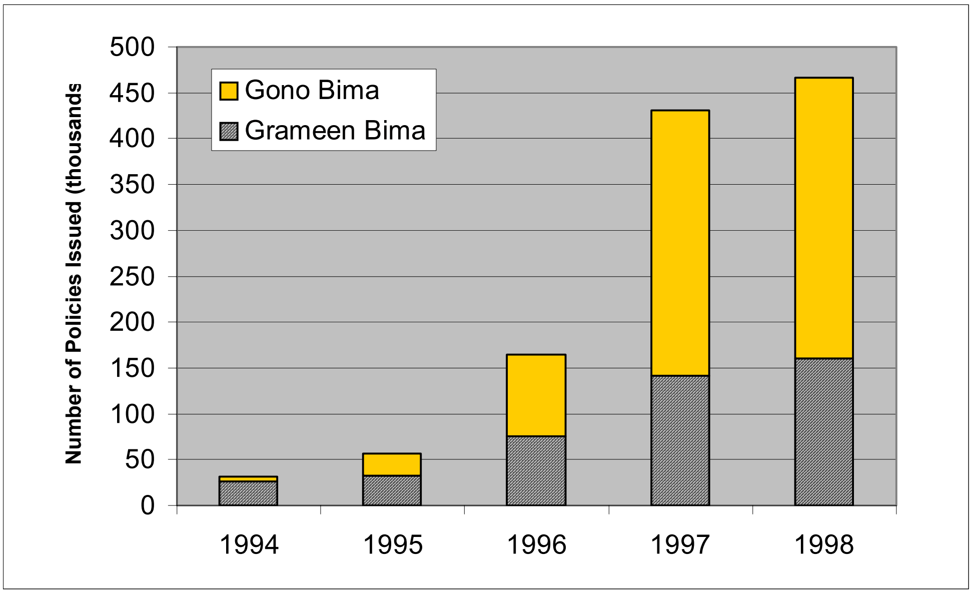
Figure 2. Growth of Grameen Bima (1988-1994)



Grameen Bima also piloted innovative ways of using insurance to promote development. In the mid-90s, it experimented with female child education and offered an insurance product that would pay bonuses when the policyholder's daughter passed certain education milestones, but a penalty would be assessed if the daughter married before a certain age. In collaboration with the government, Grameen Bima also offered a family planning and insurance product that paid higher sum assureds to policyholders who had fewer children. The product was phased out after the government changed policies, reinforcing Delta's belief in self-reliance.

At the end of 1993, Delta launched a second microinsurance project, Gono ("urban") Bima, designed for the urban slums. Besides the different geographic focus—rural vs. urban—the main distinction between the two is that Grameen ("rural") Bima collected weekly premiums while the Gono Bima requested them monthly. Otherwise, both were selling 10- and 15-year individual endowment policies with sum assureds between BDT 5,000 and 50,000 (US$ 83 to 830). One of the professed reasons for creating the second project, rather than just extending the first project into urban areas, was to stimulate a sense of competition to achieve faster growth.[10] Whether or not this was the original intention, the establishment of Gono Bima certainly fuelled growth (see Figure 3)—although this is perhaps more attributable to Gono Bima's aggressive management team than the competition with Grameen Bima.

Figure 3. Growth of Grameen and Gono Bima (1994-1998)[11]



By 1998, Delta's microinsurance projects began to feel the effects of their astonishing growth, especially Gono Bima. The rapid expansion revealed significant weaknesses in both projects' information systems, internal controls and administration. In particular, significant discrepancies began appearing with the projects' loan portfolios (see Box 1) and premium collections.

Box 1. Combining Microcredit and Microinsurance

One of most innovative aspects of Delta Life's microinsurance product was a loan component. Motivated by the amazing success of microcredit in Bangladesh, Delta also got into the act by offering loans of its own. Consequently, Delta was essentially offering a savings, credit, and insurance all rolled into one product. And perhaps for the first time in Bangladesh, microloans were provided by an organisation that had not received any donor money—all of the money that was being loaned out came from the poor themselves.

The first and most popular product was the **project loan** for income-generating purposes, offered to groups of policyholders. Groups of 7 to 11 persons would decide which 3 or 4 members would receive the first batch of loans. The group would guarantee the loan and other group members would not receive their loans until the first set paid them off. Typical loan sizes were between BDT 3,000 and 5,000 (US$50 to 83).

[10] Another explanation for the creation of Gono Bima is that Delta needed an appropriate position in which to place a manager, so the organisation created a project for him.
[11] This graph just shows the policies that began in each year. The growth curve would be even more striking if it showed the number of active policies in each year, but unfortunately that information is not readily available as it is difficult to ascertain which policies remained in force and which ones lapsed.

The other type was Delta's **policy loan**, which providers of endowment policies are required to offer according to insurance regulations. Policyholders were not eligible for policy loans until they had made 2 years of premium payments. By law, policyholders are allowed access to 90 percent of the surrender value of the policy. There were no stipulations about the purpose of policy loans.

Both project and policy loans were for 12-month terms with monthly repayments at 20 percent flat interest. If the principle and interest is not paid by the end of the 12 months, late fees are assessed until the maturity of the policy (or until it has been surrendered). Late fees for the policy loan are 1 percent per month; for project loans the late fee is 6 percent per year.

Although repayments were in the acceptable range during the mid-1990s, the recovery rate plummeted at about the same time as the insurance portfolio skyrocketed. In fact, one of the explanations for the growth is that organisers were using the project loans as a marketing tool, promising to provide loans once people bought a policy.

Poor portfolio quality with the policy loans was understandable and not a major cause for concern. They were fully secured and organisers actively encouraged policyholders to pay their premiums rather than their loans—if they had to choose between the two—to keep the insurance contract in force.

But repayment problems with the project loans were a serious concern because they represented more money and were only backed by the commitments of other group members. The main problems with the lending activities included:

- Staff were not trained how to use a group lending methodology or how to manage borrower groups, so the group guarantee was not particularly effective
- The primary indicators used to measure the performance of organisers were the number of new policies and the amount of premiums collected; their loan repayments were not carefully monitored or reinforced
- The culture associated with collecting timely repayments is quite different than collecting premiums, yet organisers treated them in the same way.[12]

Furthermore, as a regulated insurance company, there is some question as to whether Delta is legally able to provide project loans. There are restrictions on the investment practices of insurers, and it is probably inappropriate for Delta to be investing premiums in its own loan portfolio.

Relationship with Ordinary Life

Since Grameen and Gono Bima were initiated as Delta Life projects, they were physically and conceptually separated from the company's mainstream insurance operations. This separation allowed the projects to experiment and innovate, and to forge microinsurance as a unique hybrid of insurance and social development.

From a product design perspective, some critical distinctions emerged. To accommodate the cash flow of poor households, microinsurance premiums were collected frequently—weekly or monthly—compared to the biannual or annual collections in Ordinary Life, as Delta refers

[12] With a premium payment for an endowment, the organisation is essentially asking the client to let it hold his or her money, so it is not too appropriate to push too aggressively if the client is not able to pay right away. With a loan, however, the client has the organisation's money, and the organisation has a responsibility to get it back.

to its upper-end products. The sum assured amounts were smaller; the maximum microinsurance face value was raised to $2000 in the late 1990s, which represented the bottom end of the Ordinary Life coverage to create a full continuum of service. The underwriting practices were also simplified for microinsurance. Prospective policyholders only had to sign a declaration of good health, whereas Ordinary Life customers needed a medical exam. Microinsurance claims requests also received somewhat less scrutiny than those of Ordinary Life, which were reviewed by a high-level claims committee.

Perhaps the greatest distinction, and the most significant innovation, was the door-to-door collection of premiums by the field staff. This collection system harks back to insurance's early days in North America, where insurance agents collected penny-a-week premiums from factory workers and salaried employees. The target market in Bangladesh, however, is dramatically different. The bulk of Delta's microinsurance policyholders are self-employed, farmers and agricultural workers in the informal economy with occasional and unpredictable incomes. Delta Life was pushing the insurance frontier in terms of depth of outreach.

Pricing for non-traditional insurance, as Delta referred to Grameen and Gono Bima before the term "microinsurance" came into vogue, was lower than the Ordinary Life products during the early days. The pricing structure reflected the social priority for the two projects, which were initially more concerned about development objectives than viability. Also, to simplify calculations, although they were individual policies, they were priced based on an average age (35 years old), whereas the traditional products were individually priced.

This hybrid between insurance and social development necessitated that the microinsurance activities have a unique organisational culture. Therefore, the microinsurance and Ordinary Life staff were completely separated, both in the field and in the head office. The administrative offices of Grameen and Gono Bima were even housed in different buildings. A key reflection of the different cultures comes from the compensation and responsibilities for field staff. Microinsurance field workers, called organisers, were paid through a stepped salary scale depending on their premium revenues, and they managed the entire relationship with the policyholder, including premium collections, loans and loan repayments, and claims. Ordinary Life agents, however, worked on a commission basis and served primarily a sales function.

The projects also developed their own administrative systems, which allowed for clear cost allocations and accounting. This separation could deflect any criticism that Delta's shareholders were profiting on the backs of the poor.[13] The only services Delta provided to the microinsurance projects were actuarial, IT support and investments.

Two major disadvantages emerged from this clear separation. First, the separate administrative systems meant that Delta was not able to benefit from the back office efficiency that might result from a more integrated approach. In fact, the projects themselves had duplicate administrations creating an additional redundancy. Second, the business approach to controls and information systems present in Ordinary Life had not been extended

[13] In 1995, Delta Life went public and is now traded on the Dhaka Stock Exchange. Based on an understanding of the Board, dividends were to be declared based on the performance of Delta excluding the microinsurance activities.

to the microinsurance projects. With their manual information system, the microinsurance projects could not produce timely or reliable management reports. The projects were somewhat neglected by the organisation's management.

Time of Transition

In 1996, the Government of Bangladesh introduced compulsory insurance for Bangladeshi migrant workers travelling abroad for employment—mainly to the Middle East and Asian countries. It was a single payment policy under which compensations were paid to the beneficiaries for disability or death of the migrant worker while working abroad.

Delta Life manoeuvred itself to the exclusive right to issue this policy. Delta set up an office at the Manpower Bureau, the government department handling the affairs of the migrant workers. A huge number of policies were issued daily and BDT 1,000 premium for each policy was collected in cash. The volume was so overwhelming that Delta officials were not able to maintain a proper record of daily transactions. Even today, it is not known exactly how many policies were issued and how much cash was collected.

Incentives and rewards to the government officials were frequently paid in cash from the premium collections. The Managing Director was informed of the amounts verbally and his verbal approval taken for the payments. The Board, though aware that payments were made, was not kept informed of the amount or the parties. These loose arrangements gave scope for misappropriation by Delta employees at all levels.

Delta Directors started receiving anonymous calls and letters about the payments and misappropriation of funds by its employees. Allegations were received against Head of Ordinary Life, Head of Gono Bima and Head of Grameen Bima. Several newspaper articles appeared and the Government of Bangladesh suspended the scheme in 1998.

At this point, the board realised that the organisation had outgrown its capacity. Not only were there problems on the insurance side, but simultaneously the quality of the loan portfolio plummeted, reflecting a problem with staff training, product design, as well as fraud. The board became particularly concerned when it appeared that a senior manager was involved in fraud. When the board criticised Chaudhuri's handling of the situation, he resigned.[14]

From Chaudhuri's resignation until 2002, Delta Life experienced a dark and difficult era. As the organisation tried to recover from internal discord, Delta also had to cope with a worsening economic environment and the initial effects of burgeoning competition. It experienced significant staff turnover, including a number of key senior managers, and lacked strong leadership and clear vision. Ironically, at the same time, Delta appeared on the international radar screen. The microfinance industry was beginning to be interested in extending insurance to low-income communities, and Delta had by far the most experience and the greatest outreach.

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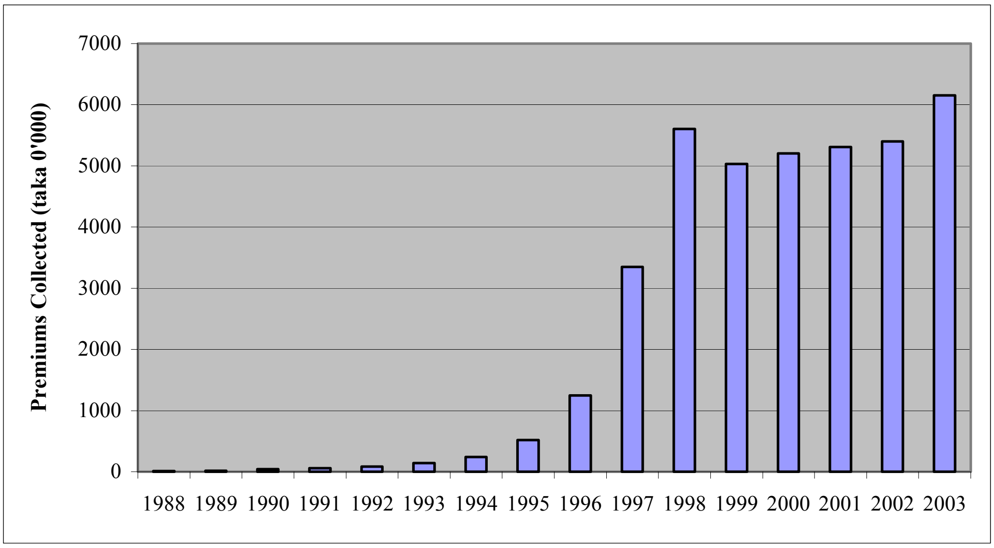
[14] As founder of the company, Chaudhuri had held both the managing director and chair positions until 1994 when the Companies' Act required a clear separation between board and management. This governance structure arrangement seemed to empower the board to exert greater influence.

During this period, there were plans to merge the operations of the two microinsurance projects and then to spin them off into a separate entity. The board had actually resolved to form a non-profit subsidiary to house the two projects. The process of reorganising into Gono-Grameen Bima (GGB), as the new division was named, and the efforts to clean up the insurance and loan portfolios caused stagnation between 1999 and 2002 (see Figure 4).

Figure 4. Growth of Microinsurance Premiums at Delta Life (1988-2003)



The leadership vacuum was filled when Monzurur Rahman—a tea planter, businessman, and one of the original sponsors of Delta Life—assumed the chair of the board in 2001. Over the years, Rahman had aggressively expanded his original stake in the company by buying publicly traded shares, but he was not actually on the board in the late '90s and early '00s because regulations prohibited board members from holding directorships of both banks and insurance companies, and he was on the board of Pubali Bank. Although he had exerted his influence indirectly through allies and family members, when the cross-directorship restriction was repealed Rahman became more involved in Delta. Under his leadership, and in the hands of Managing Director Das Deba Prashad, operations began to move in a positive direction.

In 2002, management and board of Delta Life began looking at the microinsurance experiments in a different manner after an actuary's report showed that they were profitable. Indeed, even though Gono-Grameen Bima was going through a very difficult period, the exponential expansion in 1997-98 showed that there was an enormous market for microinsurance. As competition increased for the more traditional life insurance clients, the more than 100 million low-income persons in Bangladesh represented an intriguing market opportunity if Delta could get its information system and controls in place.

Even without good systems, the microinsurance activities were generating more than $10 million a year in premium revenues, which in 2000 represented 43 percent of the gross premiums of Delta Life. The cost structure was high, but it was coming down as the merger of Gono and Grameen increased efficiency. Furthermore, over eight percent of Delta's life insurance fund[15] came from microinsurance, and it was growing. Rahman realised that if the efficiency trend continued, controls tightened further, and systems developed to produce timely and reliable management information, the microinsurance activities were a significant commercial opportunity.

Not only had GGB become too big to let go, but the only way that it might succeed is if it was brought closer to the Ordinary Life operations, not pushed further away, since this would create administrative efficiencies, professionalize the systems, and lower expense ratios. Delta's microinsurance operations needed to transition from a predominately social initiative to a commercial and professional approach to achieving social (and commercial) objectives.

Reengineering

Rather than spin off the microinsurance operations into a non-profit organisation, Rahman and the board decided to fix Gono-Grameen Bima instead. In 2002, they brought in Aziz Ahmed, the former Managing Director at BRAC Bank, who had considerable expertise in information technologies and reengineering, to serve as an advisor and change agent. After travelling around the country to understand the structure and the operations, Ahmed recommended that the board approve sweeping changes to the microinsurance division. With the board's blessing, Ahmed and his new GGB management team implemented the following changes toward the end of 2002 and throughout 2003:

- **Internal controls**: One of the first steps was to reduce fraud through new receipt books and an inventory control system. Field staff were instructed to deposit all collections (premiums and loan repayments) at least once a week, and systems were put in place to reconcile the receipts with the bank statements. Ahmed also recommended that the internal audit departments of the Head Office and GGB be consolidated and beefed up.
- **Information systems**: To improve the management of GGB, it was necessary to improve performance measurement. While the organisation maintained reasonably good information on cash flows, it was not able to assess any information about clients because it was not previously entered into the computer. To rectify the situation, Ahmed created a separate company, Delta Information Technologies, Ltd. to develop a new software system for the microinsurance operations.
- **Consolidation**: Despite efforts to merge Grameen and Gono Bima over the previous three years, the consolidation was not completed. In particular, the field structure of Grameen Bima had an additional administrative layer that needed to be removed to bring it in line with the new organisational structure. There was also a need to harmonise the cultures between Gono and Grameen Bima—the former was more aggressive, to the point of recklessness, while the latter was deeply entrenched with social ideals. In the new structure, Delta was organised into two divisions: Ordinary Life and Gono-Grameen Bima.

[15] The total life insurance fund for Delta at 12/31/2000 was BDT2.6 billion (US$43 million), which includes BDT 0.2 billion (US$3.3 million) from a consolidated Gono and Grameen Bima.

- **Decentralisation**: Although it was in the plans before Ahmed arrived, he pushed for greater decentralisation of responsibilities to regional offices known as Zone Operations Centres (ZOCs). By devolving power to the ZOCs, management hoped to improve efficiency and customer service.
- **Restructuring**: Ahmed also pushed through a clearer separation of responsibilities between development (or sales and service) and operations (or administration). This separation created a development department that runs from the field all the way up to the head office staffed by people who know how to sell and service insurance products, establishing a career path for field staff. At the same time the operations department, consisting of people who prefer office work, was designed to perform support functions. This clear separation essentially used the institutional structure to change the organisational culture, so that greater emphasis would be placed on the interface between the organisation and the policyholder.
- **Compensation**: Another change proposed by Ahmed was to move field workers toward commission-based compensation. The board was more cautious on this issue, and suggested a pilot test to assess the effect of commission pay on morale, performance, and customer service.
- **Premium frequency**: For years GGB assumed that frequent payments worked best for policyholders since it would be easier for them to find little bits of money often, than bigger sums of money occasionally. Not only did this create significant transaction costs for the organisation, but the assumption also proved not to be entirely correct. When Grameen and Gono Bima began merging, management moved gradually to adopt monthly payments across the board. Under the new regime, a broader array of repayment options were allowed, and organisers were encouraged to accommodate clients' seasonal cash flow with quarterly or biannual premiums if appropriate.
- **Institutional culture**: The separation of development and operations and a commission based compensation were just a couple of pieces in a broader approach to create a more professional, business-like approach within the GGB division. Other efforts to proactively shape the institutional culture include: developing job descriptions with evaluation criteria, setting performance targets and a performance review system, and promotions based on ability and merit.
- **Microlending**: As described in Box 1, GGB offered two types of loans, neither of which were particularly successful. In the reengineering, project loans were stopped, although policy loans continued since they were completely secured by the policy and were required by insurance regulations.

In addition, Ahmed and Rahman are trying to change the culture in Delta Life as a whole by bringing in western business attitudes, as evidenced by the recent adoption of the organisation's vision, goals, and values (see Box 2). Discussions about customer service are beginning to take place at all levels in the organisation.

Box 2. Delta's Vision, Goal, and Values

Our Vision

- We will be the premier life insurance company in Bangladesh.
- We will serve our customers with respect and will provide the best solution for their needs. We will be a company with qualified professionals who will work together as a team and serve with dignity and the highest levels of integrity. We believe in excellence and will continuously improve our customer service and will obtain the loyalty of our customers with service beyond their expectations.
- "Adding value" will be the operative words of our organisation.

Our Goal

- Provide financial security to our customers with insurance policies that are most suitable for them
- Make life insurance an easy saving instrument and a profitable one with attractive bonus and improved customer service
- Collect small savings from the people of our country and invest the accumulated savings in profitable nation building enterprises

Values – Truest

- **T**eamwork
- **R**espect for all people
- **U**nquestionable integrity
- **E**xcellence in everything we do
- **S**peed in servicing
- **T**ruthfulness

Essentially, the reengineering that is still taking place at Gono-Grameen Bima is bringing the microinsurance division much closer in style and substance to Delta's traditional insurance activities. As with most reengineering efforts, this one is encountering an expected amount of resistance and inertia. To overcome resistance, management has held numerous meetings with staff at all levels to explain the rationale for the changes. At the end of the day, however, many people lost their jobs or experienced a decrease in authority, and they have tried to undermine the reengineering process.

Many of the policy changes that have been promulgated from the top have not yet been implemented at the bottom. Most of these changes are certainly critical, such as improvements in internal controls and information systems, but it will be interesting to see what effects a more commercial approach will have on Delta's microinsurance operations.

Box 3. Milestones in the History of Delta Life

November 1986	Incorporation and commencement of business
December 1987	Signing of first policy
February 1988	Launching of Grameen Bima
October 1993	Launching of Gono Bima
September 1995	Listed on the Dhaka Stock Exchange
May 1998	Founder, Shafat Ahmed Chaudhuri resigns
October 2001	Began the process of consolidating Grameen and Gono Bima
March 2001	Membership of Global Network for Banking Innovation in Microfinance
July 2001	Monzurur Rahman becomes Chairman
September 2002	Began the reengineering process
December 2002	Launching of Delta Information Technology Ltd.

Table 5. Delta Life Insurance Basics

Issues	Observations
Legal structure	Private company limited by shares[16]
Registration status	Companies Act of 1994
Regulation status	Life insurance company, under the Insurance Act of 1938 as amended from time to time
Start of corporate operations	1986
Start of microinsurance operations	1988
Core business	Life insurance and long term savings
Target market	For Ordinary Life: salaried persons, middle and upper class For microinsurance: low-income persons in the informal economy
Potential microinsurance market	9 million[17]
Geographic area of operation	Nationwide
Development, marketing, or servicing policies with other institutions	None
Reinsurance provider, provider type	Munich Re & Swiss Re, but not applicable to microinsurance
Reinsurance type	Not Applicable (deductibles are higher than the value of the microinsurance settlements).

[16] At 15 February 2004, Delta Life had a market value of 1541 Taka (US$25.44) per share, with 300,000 shares outstanding. There were over 2,200 shareholders at 31/12/2002 (the latest date for which data was available), of which 96% owned fewer than 500 shares, and three shareholders held 8% of the total issued, subscribed, and paid up capital of the company. Maximum shareholding by any one individual is 10% of the total outstanding.

[17] Delta estimates the total potential market for microinsurance to be around nine million customers. Only about 18% of the projected market is currently serviced by Delta and its competitors. Of the total microinsurance endowment policies outstanding in Bangladesh, Delta has a 37 percent market share.

Table 6. Insurance Organisation Basics - Trends

	2003	2002	2001
Total assets (in millions of constant US$)	101	81	65
Annual budget (in millions of constant US$) (includes claims)	-	14.5	13
Total capital (Life fund plus paid up capital of 0.5 million) (in millions of constant US$)	91	72	57
Number of branches	1050		
Number of all insured (thousands)		1,215	1,169
Number of microinsurance policyholders (thousands)		859	795
Number of microinsurance insured lives (thousands)		859	795
Number of microinsurance staff	13,922		
Staff turnover (%) (back-office staff)	14	14.8	7.3
Number of policyholders / microinsurance staff (%)			
Microinsurance marketing budget (% of total budget, including commission)	23	23	23

2.2 Organisational Development

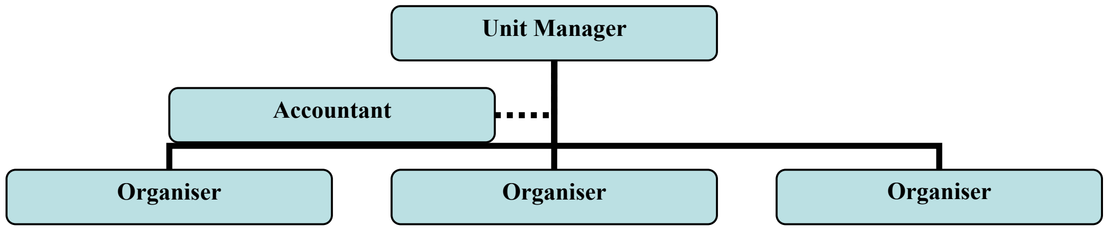
Organisational Structure: Field Offices

To describe the Gono-Grameen Bima's organisational structure, it is simplest to start with the field units. These retail offices typically have three positions:[18]

- **Unit Manager**: To head up its field offices, Delta wants persons with leadership skills, some tertiary education, a financial background and, most of all, honesty. In practice, many unit managers were successful organisers and promoted to a management position without receiving any management training.
- **Organiser**: Called organisers instead of agents to avoid licensing requirements, GGB's frontline personnel are responsible for all contact with policyholders, including sales, premium collection and assistance with claims. Ideally, Delta is looking for organisers with a high school degree, but in practice 70 percent of the frontline staff have not passed their secondary school exam.
- **Accountant**: Offices with a sufficient volume of activity also have accountants. The accountant is shown with a dashed line in the diagram below because he/she works under the unit manager, but reports to the accounts and data processing department of the Zone Operation Centre.

The separation of the accountant from unit's structure is intended as an important internal control. Accountants are hired by the Human Resources Department, not by the unit manager, and they must pass a written exam. The accountants fall under GGB's Operations' Department, which handles administrative responsibilities, while organisers and unit managers are part of the Development Department, which is responsible for sales and service.

[18] Besides unit managers, organisers and accountants, most offices also have peons or office assistants.

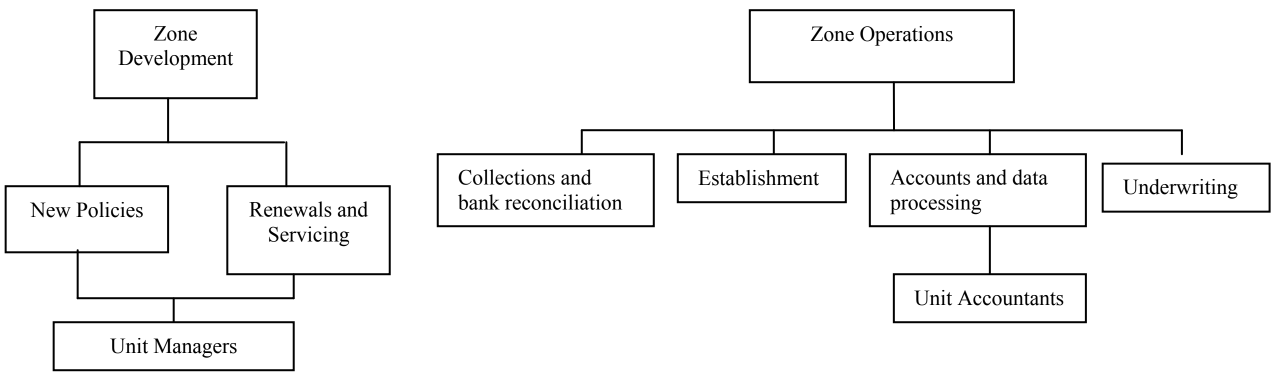


At the end of 2003, Delta's Gono-Grameen Bima division had 852 unit managers, 11,122 organisers and 670 accountants. The size of the unit offices varies significantly. Larger units may have 15 to 40 organisers, whereas smaller units may have only a handful. The current reengineering process is closing or merging the smaller units. All units are expected to pull in at least BDT 50,000 ($825) per month; if they generate more than BDT 150,000 ($2,475), they can have a second accountant. At the end of 2003, 38 units generated premium revenues in excess of BDT 200,000 ($3,300) per month and 50 units had monthly premiums between BDT 100,000 ($1,650) and 200,000 ($3,300); the rest—nearly 800 of them—had monthly premiums below BDT 100,000 ($1,650).

The most productive organisers have more than 500 policyholders, but they are very much the exception. Most organisers have between 50 and 200 clients. While it is difficult to quantify, a large percentage of organisers, and some unit managers, are just dabbling in insurance. This part-time approach helps Delta to keep its fixed overhead costs down, but it creates an obstacle as the organisation attempts to professionalize its services and strengthen internal controls. In addition, part-time field employees tend not to develop a strong identification with or loyalty to their employer.

Organisational Structure: ZOCs and Head Office

The 852 units are overseen by 16 Zone Operation Centres, with each ZOC responsible for 30 to 90 units. The size of the ZOCs varies significantly—the largest collects more than 4 times more premiums than the smallest. The Zone Operating Centres consist of two parallel organisational structures, one for the Operations Department and one for the Development Department. The unit managers report to the Development Manager at the ZOC, whereas the unit accountants fall under the responsibility of the Operations Manager.



The ZOC's Development Department consists of 5 to 7 persons who are paid partly in commissions based on the volume of activity in the Zone. Larger ZOCs have more than one Development Manager and they split up the Zone geographically.

The Operations Department consists of 15 to 20 people who perform the following functions:

- **Collections**: Consisting of 2 to 3 people, the collections department is responsible for reconciling the premium receipts with the bank statements. They may also be involved in collecting money from the units and depositing it in the bank, although collections officers are not allowed to reconcile the receipts of units from which they collect cash.
- **Establishment**: This one to two person department is responsible for office equipment, stationary, renting offices, mail and courier service, etc.
- **Accounts**: An accounts department of 5 to 6 people enters all of the applications and premium receipts into the information system; it also maintains account ledgers and produces salary information.
- **Underwriting**: The 2 to 3 underwriters review all applications. It is estimated that 95 percent of the applications are approved; the most common reasons for rejected proposals include: applicants are outside of the age brackets, discrepancies between the application and the supporting documentation, and unsigned health declarations. Following the decentralisation, polices below BDT 50,000 are underwritten at the ZOC, while the rest must go to the head office (previously all policies were underwritten at the head office).

Gono-Grameen Bima's head office structure mirrors the structure of the ZOCs. In recent years, as Gono and Grameen Bima have been merged, Delta has experienced a significant reduction in office staff.[19] As shown in Table 7, staff at the head office has been cut by almost 50 percent between 2001 and 2003, in part because of the decentralisation of responsibilities to the ZOCs. For the GGB division as a whole, 52 percent of the staff are men; the bulk of the women are employed as organisers. Men constitute 82 percent of the staff at the ZOC level and 73 percent at the head office.

Table 7. Office Staff at Gono-Grameen Bima (1999-2003)

	1999	2000	2001	2002	2003
Head office	298	308	306	253	159
Field offices	2,175	1,984	1,895	1,758	1,710
Total	2,473	2,292	2,201	2,011	1,818
New hires	74	84	70	108	69
Departures	101	265	161	298	262
Turnover (%)	3.9	10.4	6.8	12.9	12.6

[19] Office staff refers to all employees except development managers, unit managers and organisers.

Salary Structure

Many of GGB's field staff work part-time. In October 2003, 537 of the 967 unit managers worked on a commission basis, which means that their units collected less than the BDT 36,000 ($600) per month needed to qualify for a salaried position. Some of these managers lost their posts as units were consolidated down to 852 in December 2003.[20] Of the 11,000 organisers working for Delta Life, less than 2,000 were salaried, which means that they were generating at least BDT 8,000 ($160) in premium income per month.

Historically, one of the distinctions between Delta's Ordinary Life and the microinsurance projects was that the former had a more aggressive, sales-driven culture, whereas the latter was more service oriented. This distinction was most clearly manifested in the compensation for the sales forces; commission for Ordinary Life and a stepped-salary basis for Gono and Grameen Bima depending on achieving premium thresholds.

For the microinsurance projects, new organisers would initially work on an informal basis for a period of time, until they were generating BDT 2500 per month in premiums. Once they reached that milestone, they were given a formal appointment and became salaried employees, with their base salary linked to their monthly premium collections. During the 2001 reorganisation, the threshold for receiving a salaried position was raised to BDT 8,000 per month in premium revenue, for which they earned BDT 975 per month plus commission. Persons who generated less than BDT 8,000 earned 10 percent of their premium collections.

A salary of BDT 975 per month amounts to less than a $1 per day, and this is for the organisers who are generating a reasonable amount of business. Consequently, insurance work is often perceived by the organisers, most of whom are women, as supplementary income. The flexible work hours enable them to engage in other income-generating activities, and to accommodate their domestic responsibilities.

Today, Gono-Grameen Bima is experimenting with a commission-only pay system. Under the pilot project, organisers are paid 30 percent of all first year premiums and 10 percent of all other premiums. The initial results from the pilot showed that the commission pay generated a significant boost in new business, with premiums from new policies growing by 52 percent in 2003 in the pilot units compared to just 17 percent in the non-pilot areas. If this pay scheme is adopted across the board, it would represent a significant change in attitude and approach for Delta's microinsurance division. Besides moving from a semi-fixed to a variable pay system, the organisation would not have to pay into a pension scheme or unemployment insurance, representing a major cost savings for the insurer. Commission payments will also be extended throughout the Development Department, at the ZOC and head office levels, to promote and reward improved performance.

For salaried employees, Delta Life has a very specific pay scale system, common to both GGB and Ordinary Life divisions, with 17 levels in its organisational structure—the 16 listed in Table 8 plus the managing director. This new pay scale, introduced in late 2004, represents a significant increase for the top five levels (including a 100 percent increase for Senior

[20] Between Grameen and Gono Bima, the microinsurance projects had more than 1550 unit offices in 2000. The 852 units at the end of 2003 represent a significant consolidation.

EVPs), but no changes for the other 11. One can surmise that the pay raise was intended to reward managers who survived the reorganisation, to improve their morale as Delta moves forward, and to retain effective personnel in the face of growing competition.

Table 8. Structured Pay Scales for Corporate Management[21]

		Approximate Monthly Gross Salary		Number of Staff
Level	Position	BDT	US$	(01/05)
1	Senior Executive Vice President	80,000	1333	1
2	Executive Vice President	65,000	1083	3
3	Joint Executive Vice President	45,000	750	3
4	Senior Vice President	40,000	667	5
5	Joint Senior Vice President	25,000	417	1
6	Vice President	16,000	264	16
7	Joint Vice President	12,700	210	19
8	Assistant Vice President	10,000	165	42
9	Joint Assistant Vice President	8,100	134	82
10	Senior Executive Officer	7,000	116	55
11	Executive Officer	6,000	99	157
12	Junior Executive Officer	5,000	83	142
13	Officer Grade 1	4100	68	193
14	Officer Grade 2	3400	56	359
15	Assistant/Record keeper	3250	54	654
16	Peon	2500	41	1046

Expertise and Training

Delta Life acknowledges that training for its field staff is one of its major weaknesses. Frontline staff do not receive any formal training or indoctrination, but rather only receive on-the-job training from their immediate supervisor.

In the past, unit managers (then called Block or Thana managers) were responsible for hiring and training organisers. Recent efforts have sought to strengthen the ZOCs so that the Development Managers are more actively involved in hiring and training frontline staff, a policy intended to overcome some of the nepotism and fraud that emerged in the units.

Over the years, the management of the GGB division has evolved considerably. Since Grameen and Gono Bima were initially regarded as development initiatives rather than commercial activities, managers also had a social orientation. But Delta learned the hard way that good intentions and good management are two different things, and is now more concerned about hiring people with management and/or insurance expertise into middle and senior management posts.

Delta Life employs an in-house actuary who oversees the risk management of each product, and fixes the premiums based on actuarial data and calculations. The Chief Controller of Insurance stated that there are only four actuaries active in Bangladesh.

[21] These figures include benefits for senior managers such as a housing, entertainment and travel allowances.

Governance

By law, at least one-third of the board members must be elected by the policyholders. At Delta, these seats are filled by Ordinary Life customers—none of the microinsurance policyholders are on the board. The other two-thirds consist of shareholders and sponsors. Delta's full board has 36 members and it meets quarterly. This group is largely a statutory requirement rather than an effective board. Governance is primarily provided by a 12-member executive committee that holds the real power and meets monthly. None of the board members have any experience in insurance management except for those who also work for Delta (e.g., Mr. Rahman's daughter Adeeba is a Joint Executive Vice President and a board member).

2.3 Resources

All resources that have been used to provide microinsurance at Delta Life have come from the private sector, from persons looking to get a return on their investment. Initial resources came from the sponsors, mostly ex-patriot Bangladeshis who made some money in Kuwait and wanted to invest it at home. Since the company went public in 1995, resources have flowed in from the stock market.

Interestingly, Chaudhuri was invited to submit a proposal to the Ford Foundation in the early 1990s, but chose not to, believing instead that Delta did not require any donor money to accomplish its objectives. The current management team maintains that perspective, although it would be open to donor support for development activities, such as client education, but not to subsidise operations.

2.4 External Relationships

Delta Life has not received any external technical support. Domestically, it is a member of the Bangladesh Chamber of Commerce and the Bangladesh Insurance Association. Internationally, Delta Life was invited to be a founding member of Women's World Banking's Global Network for Banking Innovation (GNBI) in 2001.

2.5 Risk Management Products

Delta's endowment product is extremely well suited to the risk-management needs of its clientele, as long as one is at least two years into the premium payments. The endowment product is essentially a long-term contractual savings account, which allows the poor to gradually build up assets. In the event of the policyholder's death, the beneficiary would receive the sum assured (assuming that the premiums are current) plus the value of the deceased's endowment.

If other risk events occur, policyholders have two ways of using the product to help them manage risks. Either they could take out a loan against the surrender value of the policy (see Box 4), or they could liquidate the policy. One can only surrender a policy after 2 years of premium payments on 15-year policies; after 1 year on 10-year policies.

Box 4: Calculating Surrender Value

The surrender value of the policy is calculated by the following formula:

$$((4n+t) / 5n) \text{ x paid-up value x } (1 / 1.08)^{n-t'}$$

Where n = term (in years), t = premium (number of years of instalments) deposited, and t′ = duration from commencement date (in years); the paid-up value = (t/n) x sum assured.

As an example, an insured member had a sum assured of US$500 for a ten-year term. After paying three years worth of payments over seven years (for a total of $150), the insured decided to cash out the policy. The policyholder would be paid the equivalent of US$101.91.

In this case: n = 10; t = 3; $t^1 = 7$

Thus, the surrender value on this policy would be calculated as follows:

$$= ((4n+t) / 5n) \text{ x paid-up value x } (1 / 1.08)^{n-t'}$$
$$= [((4*10)+3)/(5*10)] * [150] * [(1/1.08)^{10-7}]$$
$$= [0.86] * [150] * [0.79]$$
$$= 101.91$$

Since the surrender value is usually less than paid up value, policyholders are discouraged from surrendering their policies and are rather encouraged to take out a loan instead. The lending activity, as summarised in Table 9, has declined in recent years because Delta was discouraging and later prohibited project loans. Policy loans tend to be for smaller amounts than the project loans; policy loans can be up to 90 percent of the surrender value of the loan, whereas project loans ranged from BDT 2,000 to 10,000 (US$ 33-165). In addition, one has to pay premiums for two years before becoming eligible for a policy loan.

Table 9. Loan Disbursements at Delta (2000-2003)

	2000	2001	2002	2003
Number of loans	7,806	3,935	4,232	3,690
Disbursed amount ($)	1,742,728	285,594	312,416	579,796
Average disbursed loan ($)	223	73	74	157

As discussed in more detail in Section 5.2, Grameen and Gono Bima do not have a good repayment record. One of the main reasons is because field workers actively encourage policyholders to pay their premiums rather than the loans if the client had to choose between them. This prioritisation helps to keep the policy in force, and it benefits the organisers because they are compensated based on premium income not loan repayments.

2.6 Profit Allocation

Based on a Board resolution, dividends are declared based on the performance of Delta Life excluding the microinsurance activities. This policy is intended to defer criticism that shareholders are profiting on the backs of the poor.

2.7 Investment of Reserves

Delta Life maintains an investment committee which makes bi-weekly investment decisions. The committee includes: the Investment Supervisor, Managing Director, Senior Reengineering Consultant, the head of Accounts, the head of Audit, and an Executive Board Member / Senior Vice President. The committee is actively managing their investments with a local broker.

By law[22], 30 percent of investments must be in government securities. The balance can be invested in any other instruments including the capital markets, as prescribed by the Insurance Directorate. Some examples of the investment prescriptions:

- Mortgages are not allowable because they are historically failures in Bangladesh.
- Investments must be readily marketable
- Only domestic investments are allowed without specific permission from the Directorate of Insurance.

The Delta Life board has traditionally preferred investments in banks. The categorisation of investments at 19 February 2003 was:

- Government securities, 33%
- Fixed deposits, 47%
- Shares, 11%
- Others, 9%

At that time, fixed deposits were earning a return of about 10 percent. However, this rate had been consistently declining, and was expected to continue in that direction. The investment manager noted that when the rate goes below 8 percent, Delta will need to shift its investment structure and strategies.

Delta Life has historically included its microinsurance project loan portfolio as an investment. Large loan losses on this portfolio will have a substantial impact on these investments.

Investment of reserves is one important benefit of managing a microinsurance product within a larger insurance company. The investments can be aggregated, and their risks spread throughout a larger portfolio, and one investment executive can manage the fund.

2.8 Reinsurance

Although Delta has reinsurance from Munich Re and Swiss Re, reinsurance coverage does not apply to the microinsurance products because the deductibles are higher than the value of the microinsurance settlements.

[22] The Insurance Act, 1938, Updated to October 2001 – Part II, Section 27, sub-sections 2i and 2ii.

3. The Policyholders

The target population for Delta's microinsurance products are households who earn less than BDT 5000 ($100) per month, although wealthier clients are not excluded. Most of Delta's microinsurance clients are rural women who take out an insurance policy on their husbands, the main breadwinner of the family, and pay the premium by carefully managing the household budget. In fact, in some Zones, Delta discourages women from taking out policies on their own lives to avoid creating an incentive for their husbands to kill them.

For risk reasons, GGB organisers try to avoid fishermen, electricians, and drivers. Persons in these professions can buy insurance if they pay a higher premium rate, but they are not allowed to buy the accidental death and disability rider. Death due to suicide and due to pregnancy in the first year of the policy is also excluded.

Table 10. Client Information Table

Issues	Observations
Intended target groups/clients	Low-income men and women
Actual clients and reasons if deviation from intended market	Same as above
Exclusions of specific groups	Drivers, electricians, fishermen
General economic situation of clients	Households usually earn less than $100 per month
Key economic activities of clients	Agriculture workers, handicrafts
% of clients working in the informal economy	Vast majority
Social characteristics of clients	Between 18 and 45 years old; more men than women, although women often pay the premiums for their husbands' policies
Geographic characteristics	Both rural and urban, throughout the country
Nature of membership	Individual
Methods of recruitment of clients	Door-to-door marketing

Because Delta is and always has been a private, for-profit company, it does not have the volume of client data one might expect to find in an organisation supported by donors. Furthermore, Delta has only recently begun experiencing some competition for its microinsurance clients. Although the organisation would certainly like to know more about its clients, the client records have not been computerised. This is one reason that Delta decided to make the investment in developing its own MIS system.

Most of its clients were not familiar with insurance or with the risk-pooling concept when they bought a policy, and most still do not understand it. The endowment policy is marketed much more as a savings scheme than an insurance policy.

4. The Products

Delta's endowment policies are perceived by the clients and by the staff more as long-term savings products than insurance products. The organisation began by offering one basic endowment product for a 15-year term. Later, a ten-year term was also introduced.

More recently, Delta has expanded its product menu and a relatively new product—the biennial payment plan—has become its biggest seller. The primary attraction of this product is that policyholders do not have to wait until the policy matures before they can access their savings. The biennial plan pays 20 percent of the policy's face value at the end of the 4th, 6th, and 8th year; the remaining 40 percent is paid out when the policy matures. Details of the two most popular products are shown in Table 11.

Table 11. Product Details

Microinsurance Product	Biennial Plan	Endowment (with profits)
First offered	2002	2002[23]
% of GGB policies issued in 2003	60.3%	35.6%
Group or individual product	Individual product	
Term (years)	10	10 and 15
Eligibility requirements	Age 18 to 45	Age 18 to 45 (10 year plan) or 18 to 40 (15 year plan)
Renewal requirements	Lapses cleared and penalty paid if lapsed	
Rejection rate	2% of new proposals 10% of revival cases	1% of new proposals 10% of revival cases
Voluntary or compulsory	Voluntary	
Product coverage (Sum assured US$)	$85 to $1,650	
Policy riders		Additional supplementary accident policy available[24]
Other Benefits	After two years eligible to borrow up to 90% of cash value for one year at 20% per annum	
Method of Benefits receipt on maturity	20% of sum assured paid after years 4, 6, 8, and balance plus bonus at maturity	Payment of sum assured, plus bonus
Method of Benefits receipt on death	Payment of sum assured, plus bonus	Payment of sum assured, plus bonus

[23] Although officially this product started in 2002, this is essentially the same product that Grameen and Gono Bima have been offering for years.

[24] This rider covers accidental death and permanent disability; for a cost of BDT 0.40 per 1000 for monthly payments, it pays 200 percent of the sum assured in case of road/plane/boat accident, lightening, electric shock, burn, or snake bite.

Microinsurance Product	Biennial Plan	Endowment (with profits)
Key exclusions	• Fishermen, electricians, drivers and pregnant women; all may override the exclusion by paying an additional amount to cover the added risk except women with first pregnancy • Any policy where the duration would extend beyond the policy holder's 55th birthday • Suicide is excluded during the first year	
Limitations	Lapse within two years (for 15 year policy), or one year (for a 10 year policy) forfeits total deposit amount. Can be revived after one year with late fee and underwriting review. Can be revived after two years with late fee plus medical report showing acceptable health. No death benefit during lapse (after 30 day grace period).	
Pricing – premiums per payment (per 1000 sum assured, 10 year term)	N/A	Y=97.20 HY=49.6; Q=25.3; M=8.7*
Pricing – premiums per payment (per 1000 sum assured,15 year term)	Y=114.5; HY=58.4; Q=29.8; M=10.3	Y=63.3; HY=32.3; Q=16.5; M=5.7
Pricing Accidental policy option per payment (% sum assured)	N/A	Y=3.5; HY=2.0; Q=1.1; M=0.40

*Y = yearly; HY = biannually; Q = quarterly; M = weekly

Besides these two main microinsurance products, GGB also offers four other endowment schemes that are not (yet) attracting as much attention (or are being marketed less actively):

- The **five payment plan** is essentially the same idea as the biennial plan, except it is for a 15-year term, so that 15% of sum assured, plus any bonus, is paid after each three years, with the balance paid at the end. If the policyholder chooses to leave the sum with Delta after a three year period, it will earn 7 percent interest.
- **Endowment without profits**, designed as an Islamic insurance product, is essentially the same as endowment with profits except that it is cheaper and does not pay a bonus. For example, for the 15-year policy, the pricing is 51.6 per 1000 for annual payments (compared to 63.3) and 4.6 per 1000 for monthly payments (compared to 5.7).
- **Single premium plan**: The unique feature of this plan is that the premium is payable at the commencement of the 12-year policy and the face value is equal to the premium, which can be between BDT 4000 and 50,000. If the policyholder dies during the term, the beneficiary will receive 250 percent of the face value. At maturity, the policyholder receives 200 percent of the face value. Perhaps the weak demand for this product is because the low-income market does not often have a large amount of money to deposit at one time. Delta plans to market this product to clients who have reached maturity with their existing policies.
- **Daughter's marriage endowment**: This new product is designed as a savings scheme to benefit the policyholder's daughter when she turns eighteen; although it is marketed as a marriage product, it could be used for education or other purposes. The term can be

between 5 and 16 years depending on the age of the daughter (who must be between 2 and 13 when the policy commences). If the policyholder dies during the term, then the beneficiary will receive the full sum assured when she turns 18 (assuming that the premiums were up to date).

Special Needs of Women and Children

The daughter's marriage endowment is Delta Life's most direct effort to address the special needs of women and children. The timing of the maturity is an intentional effort to provide an incentive for parents to wait until the girl is at least eighteen to marry, so if it is rolled out on a large scale it has some potential to help reverse the tradition of early marriages.

Besides this particular product, endowment products in general help parents plan and prepare for long term financial needs, including tertiary schooling, wedding costs, or other major expenditures. These plans also assist children because when their parents are aged, these funds will help reduce the financial burden on the children who traditionally bear such costs.

The door-to-door collection of premium payments by field officers generates access to these products for women who for various reasons cannot leave their homes. The fact that the majority of the organisers are women also means that the distribution channel is more approachable and accessible by women.

As a corporate policy, Delta Life and its field agents encourage women to buy insurance on their husband's lives. Not only does this reduce moral hazard problems, but it also provides protection for women when they need it the most, as illustrated in Box 5.

Perhaps Delta falls short, however, in its exclusion of pregnant women who are perceived as too great a death risk, especially for those in their first pregnancy.

Box 5. Jorina Bibi[25]

In 1998, 29-year old Jorina Bibi was widowed with 3 young children. She had no savings and her only asset was a life insurance policy on her husband's life. When her husband died, her in-laws threw her and the children out of the house. With help of friends and a local NGO, she moved into a home for destitute women.

With part of the benefit received from her husband's life insurance, Jorina set up a poultry business and built a place to live. Jorina's initial monthly earnings from the poultry business were BDT 3,000 ($60). She ploughed some of this money back into the business for expansion. Today she earns BDT 5,000 ($100) per month. With this she supports herself and her three children, and saves for their future.

Jorina appreciates the benefits of life insurance. She is saving for university education for her two oldest children, a son and daughter, through two Delta Life policies—her daughter who wants to be a teacher. She soon plans to take out a third policy for her youngest son.

[25] Adapted from "Delta Life Insurance Company Limited Bangladesh." A PowerPoint presentation by Mosleh Uddin Ahmed. World Bank, March 2001.

Lapses

If policyholders fail to complete two years worth of payments for 15-year policy, or one year for a 10-year policy, the policy is considered lapsed and the client forfeits the total deposit amount. These policies can be revived through a late fee and underwriting review, or after two years with payment of a late fee plus medical report showing acceptable health. This revival option seems appropriate for the low-income households because of their irregular and unexpected income (and expense) fluctuations.

Table 12. Premium Lapse Late Fees (Percentage of Sum Assured)

Duration of lapse	Rate of late fee	Duration of lapse	Rate of late fee
Less than 2 months	Nil	13- 24 months	0.09%
02- 06 months	0.03%	25- 36 months	0.12%
07- 09 months	0.05%	37- 48 months	0.15%
10- 12 months	0.08%	49- 60 months	0.20%

As shown in Table 12, the late fees are small and not likely to deter to re-entry. Someone with a $500 sum assured who had lapsed for five years would only pay a $1 penalty. However, the late fees also may not deter lapses—over fifty percent of Gono and Grameen Bima's cumulative policies have lapsed (see Table 13). For comparative purposes, it is useful to note that approximately 80 percent of the Ordinary Life policies are in force.

Policies that have lapsed, but for which the policyholder has paid one or two years of premiums (10 and 15 year policy, respectively) are considered paid up but not in-force; clients can access some or all of their savings, perhaps including a bonus if more than two years of premiums have been paid, but are not eligible for insurance cover. To be eligible for death benefits, their premiums must be up-to-date. Since there is a 30-day grace period, policies are in force when policyholders are no more than one monthly instalment in arrears.

After a policy has lapsed for six months, Delta sends a notice with a certificate of health to be completed if the policyholder is to continue their policy. It was noted anecdotally that most lapses appear to occur in the second year.

Table 13. Policies in Force

	2000	2001	2002
Total Number of Policies	1,491,851	1,582,944	1,684,056
Number of Policies in Force	561,435	704,255	757,869
Percentage of Policies in Force (%)	37.6	44.5	45.0

Delta Life has a fairly ambivalent attitude toward lapses. On the one hand, the organisation is committed to a social objective and it recognises the public relations challenges of not honouring insurance claims because contracts are not paid up. Delta benefits financially from lapsed policies, particularly those where there is no obligation to repay the accumulated savings. Historically, the only incentive for organisers to encourage clients to pay premiums was the fact that their salary steps were linked to premium collection. However, there were not any specific incentives linked to the number of policies that remain in force and staff have not received any training on encouraging timely payments. Delta recognises that lapses have not been a priority and expects that the reengineering efforts will make improvements. For example, in the new organisational structure the Development Department is tasked with tracking and preventing lapses.

There is some evidence that these efforts are having a positive effect; the percentage of policies in force has been increasing in recent years (see Table 13). The number of policies not in force (total policies minus policies in force) has remained rather consistent at about 910,000, which may suggest that newer policyholders may be maintaining their policies more consistently than earlier policyholders.

Product Lessons

The evolution of Delta's product menu over the past decade provides an interesting insight into the demand for long-term savings and insurance products, as well as the cost effectiveness of serving the low-income market directly.

On the latter point, Delta has gradually moved away from weekly premiums to monthly, quarterly and even annual premium plans. This shift, perhaps necessitated by the economic realities of distributing microinsurance directly, could possibly make the product less accessible to the poor, at least the poorest. Although the costs of the organisers are largely variable and linked to the premium income they can generate, they still must cover high fixed costs at the unit, ZOC and head offices. Plus they are more efficient in handling larger portfolios if they have fewer transactions per policyholder.

But the change away from weekly repayments has not been entirely due to the cost structure. Given the option, many policyholders actually prefer less frequent payments to match their lumpy cash flows.

It is also interesting to note that the term has gotten shorter (from 15 to 10) and, perhaps more importantly, Delta has introduced products (most notably the biennial plan) that allow policyholders to access their savings sooner and more regularly. This biennial plan seems to strike the right balance between liquidity, savings discipline and insurance protection for GGB's target market.

4.1 Partners and Distribution Channels

One of the most interesting features of Delta Life is that it is perhaps the only insurance company in the world that extends individual, voluntary insurance to persons in the informal economy on its own, without relying on other organisations as distribution channels. It has not always been that way. When Grameen Bima was launched, it collaborated with a microcredit NGO to deliver Delta's endowment product. After a few years, however, Delta concluded that the NGO was more interested in lending than mobilising savings or selling insurance. This conflict pushed the founder, Mr. Chaudhuri, to consult with Mohammed Yunus of Grameen Bank about how Delta could distribute this product. These discussions led to Delta creating its own MFI-type field structure.

It is ironic that Delta's unilateral approach exists in the one country where one finds several enormous microfinance institutions, with four MFIs serving more than a million clients each. Would Delta not be more efficient and effective if it used BRAC, ASA or Grameen Bank as its distribution channel, instead of replicating their field structures? Based on Delta's experience, it realised that it wanted to control the priorities of its agents instead of insurance being a secondary or tertiary concern. Delta's experience also shows the potential challenges for organisations that wish to have savings, credit and insurance relationships with their clients, especially organisations that have historically been credit driven.

There are two factors that make such a distribution channel possible in Bangladesh, but may be difficult to replicate elsewhere. First, given the high population densities of the target market, even in rural areas, it is possible to serve large numbers of policyholders within an accessible geographic area. Second, the labour market situation is such that there are many un- or under- employed persons with sufficient education to sell and service basic insurance products who are willing to work part-time on a commission basis.

To improve performance, Delta has introduced a few changes to its distribution system. In the past, new policy proposals were drawn up by the organisers in the field, often at the clients' homes. While this arrangement was convenient for applicants, the paperwork too often contained errors and incomplete information, which caused significant delays in issuing policy documents. The GGB division now requires applications to be completed in the unit office and for the accountant to be involved in that process.[26]

In addition, to reduce rejected proposals and improve customer service, Delta has recently created underwriting guidelines to be used by the accountant and countersigned by the unit manager that apply to larger sum assureds and older applicants (see Table 14). For applicants under 35, they only have to sign a declaration of good health; but the requirements become stricter for older applicants. It is interesting to note the additional underwriting requirement for 36 to 40 year old persons with less education.

Underwriters in the ZOC (for policies below BDT 50K) and at the head office (for other applications) use a basic assessment tool called "SOAP" whereby they assess the following criteria:

- **S** = Sex, identify if a female is in first pregnancy – they are excluded;
- **O** = Occupation, people from certain occupations are discouraged from purchasing a policy;
- **A** = Age, must be between 18 and 45, with additional requirements for those over 35; and
- **P** = Physical condition, by observation and sometimes by blood pressure where the limits are: systolic [115+(age*.4)], diastolic [75+(age*.2)].

[26] The historic arrangement had a vulnerability to fraud. Some organisers would create ghost clients, start paying premiums on their behalf, and then take out a project loan that was not repaid. Since the project loans were stopped, such incentives to create ghost clients have also been curtailed, but it is still a good practice to have a second staff person involved in the application process.

Table 14. Underwriting Guidelines

Age at entry	Sum assured ('000 BDT)	Sum assured (US$ rounded)	Educational qualification	Underwriting requirements
18 to 35	5 to 100	83 to 1,650	Literate/ Illiterate	DGH
36 to 40	50 to 100	825 to 1,650	Minimum O-Level (Grade 10) (educational certificate must be given as age-proof)	DGH
36 to 40	50 to 100	825 to 1,650	Below O- Level (Grade 10)	FMR, PUR
41 to 45	50 to 100	825 to 1,650	Literate/ Illiterate	FMR, PUR, ESR
46 to 50	30 to 100	500 to 1,650	Literate/ Illiterate	FMR, PUR, ESR

Note: DGH – Declaration of Good Health; FMR- Full Medical Report; PUR- Pathological Urine Report[27]; ESR-Erythrocytic Sedimentation Rate[28])

4.2 Benefits

For Delta's endowment policies, the sums assured range from BDT 5000 ($83) to BDT 100,000 ($1,650). The maximum was increased in 2002 from BDT 50,000 ($825), but policies above BDT 50,000 require a medical report (for persons over 35) and head office underwriting as described above. Besides responding to market demand, this ceiling shift also represents an effort by the microinsurance division to increase the average policy size in an effort to enhance profitability. Over the years, the average policy has increased from BDT 10,000 ($165) in 1998 to BDT 20,000 ($330) in 2003, suggesting a slight shift upmarket perhaps caused by the fact that the smallest policies are not profitable.

Although the largest policy amount available from the GGB division is BDT 100,000 ($1,650), even larger policies are possible, but can only be sold by someone from the Ordinary Life division. Although management does not yet have clear evidence about this, it suspects that this arrangement unnecessarily suppresses the sum assured of policies sold by GGB organisers.

To determine the appropriate sum assured amount, GGB staff use the rule of thumb that the household should earn on average at least one-tenth of the sum assured per month. Consequently, monthly premium payments should not exceed 30% of the average monthly income.

For the traditional endowment policies, clients can also purchase an accidental death and disability rider that doubles the sum assured if the policyholder experiences a permanent disability from a road, plane or boat accident, and other specified causes—indeed to avoid confusion, Delta is very specific as to what constitutes an accident. Persons in certain professions are not allowed to purchase this rider, including electricians, drivers and fishermen.

[27] Urine testing is a common, rather inexpensive, tool to assess the overall health of the person, as well as indicate the presence of many diseases. http://my.webmd.com/hw/health_guide_atoz/hw6580.asp#hw6653
[28] ESR is a medical screening test that can detect potential problems even before there are biochemical or physical indications. http://www.heartcenteronline.com/myheartdr/common/articles.cfm?ARTID=377

Besides the insurance protection, the benefit of an endowment policy is the return on investment. For 10-year policies that run their full term, the return on maturity is 22 percent of the sum assured. To this a bonus is added each year. The amount of the bonus, which depends on the surplus of the Life Fund based on an actuarial valuation, is declared by management every second year. The bonus declared in 1998, was 5 percent of the sum assured on a 10-year policy.

The 22 percent interest over ten years is about 3.9 percent per year (assuming the 22 percent is applied to the ending balance). With the addition of the 5 percent from the bonus in 1998, the total return for 1998 would be 8.9 percent. Inflation in 1998 was about 7 percent.[29] This left a small real return for the policyholders. In subsequent years, inflation peaked at 8.9 percent in 1999, and then has been within a range of 1.1 to 5.0 percent. Thus, on average inflation has been covered by the interest for the last five years. This said, it is understood that there is a substantial gap between the official inflation rate used here and the actual rate.

Policyholders are provided with a bonus for the time they have been making payments. The policies are considered paid up with two years of payments on a fifteen-year policy and 1 year on a ten-year policy. Thus, if a person dies after the insurance is paid up, Delta Life will pay the full sum assured, plus the bonus, as shown in Table 15. For example, if a policyholder had made consistent contracted premium payments on a 15-year BDT 10,000 ($167) sum assured policy for fourteen years, the beneficiary's claim would be settled for the BDT 10,000 face value plus a bonus of BDT 4385.70 ($72).

Table 15. 2002 Bonus Chart for BDT 1000 Sum Assured for GGB

Years	Policy Term										
Run	10	11	12	13	14	15	16	17	18	19	20
2	15.25	13.86	12.71	11.73	10.89	10.17	9.53	8.97	8.47	8.03	7.63
3	31.01	28.19	25.84	23.86	22.15	20.68	19.38	18.24	17.23	16.31	15.51
4	52.56	47.78	43.80	40.43	37.55	35.04	32.85	30.92	29.20	27.66	26.28
5	80.19	72.90	66.83	61.69	57.28	53.46	50.12	47.17	44.55	42.21	40.10
6	114.20	103.82	95.17	87.85	81.57	76.13	71.38	67.18	63.44	60.11	57.10
7	154.91	140.83	129.09	119.16	110.65	103.27	96.82	91.12	86.06	81.53	77.46
8	202.66	184.23	168.88	155.89	144.75	135.10	126.66	119.21	112.59	106.66	101.33
9	257.79	234.35	214.82	198.30	184.14	171.86	161.12	151.64	143.22	135.68	129.89
10	320.68	291.53	267.23	246.68	229.06	213.79	200.42	188.63	178.15	168.78	160.34
11		356.10	326.43	301.32	279.79	261.14	244.82	230.42	217.62	206.16	195.68
12			392.75	362.54	336.64	314.20	294.56	277.23	261.83	248.05	235.65
13				430.66	399.90	373.24	349.91	329.33	311.04	294.66	279.93
14					469.90	438.57	411.16	386.97	365.46	346.24	328.93
15						510.50	478.59	450.44	425.42	403.03	382.87
16							552.52	520.02	491.13	465.28	442.02
17								596.02	562.91	533.28	506.62
18									641.06	607.32	576.95
19										687.68	653.30
20											735.96

[29] http://www.anz.com/Business/info_centre/economic_commentary/SouthAsiaCountryUpdatesJuly2003.pdf

4.3 Premium Collection

When new policies are issued, the head office sends policy documents to the policyholder via the unit office. This document is in the form of a passbook, which is kept by the policyholder, and it contains the policy details, the client's picture and signature. The passbook has columns for recording the amount and date of premium payments. When a premium is paid, the organiser or the accountant initials the passbook and issues an official receipt.

Historically premiums were paid weekly for Grameen Bima and monthly for Gono Bima. Efforts to merge the two projects into one division, and to rationalise the cost structure, have led Delta to move away from weekly payments. Today, a broader array of premium payment options are allowed, and organisers are encouraged to accommodate clients' seasonal cash flow with quarterly, biannual or annual premiums if appropriate.

One of Delta's most significant innovations is the door-to-door collection of premiums by the field staff, as summarised in Table 16. This arrangement is unique because almost all financial transactions with low-income people in Bangladesh use some sort of group arrangement to enhance efficiencies (and as a credit risk control for loans). Delta's door-to-door approach provides clients with some degree of privacy, while reducing lapses (although they are still a problem) and strengthening the relationship between field staff and the customer. Since women in some households are discouraged or prevented from travelling, the door-to-door collection also provides them with a valuable service.

Table 16. Cash Flow Process from Policyholder to Investment

Step:	Action by:	Action:
1	Policyholder	Pays the premium
2	Organiser	• Goes door to door to collect the premiums • Gives each premium paying policyholder a receipt and updates passbook • Deposits money in the bank (in theory, they cannot keep money for more than 24 hours, and are responsible for the funds if they are stolen)
3	Local Banks	Delta has 60 accounts; deposit slips with Delta's details are provided to the field staff.
4	Accounting	ZOC accounting collects the local bank statements weekly. Field staff must submit their copy of the deposit slip to the ZOC accountant(s) every Sunday.
5	ZOC	Reconciles the deposit slips with the statements; requests transfer from bank to central collection bank.
6	Central Collection Bank	Aggregate the funds monthly for investment by Delta. Several local banks are slow in transferring their funds monthly.
7	Headquarters	HQ manages the funds once they are at the collection banks. GGB expenses are transferred to cover their costs, and the balance, usually around 50% of the total collection amount, is invested at the behest of the Delta Life investment committee.

Although this collection arrangement is extremely convenient for the low-income market, it is an expensive approach that is prone to fraud. To overcome these challenges, Delta has introduced a number of changes in recent years, including:

- Moving from weekly to less frequent premium payments
- Requiring organisers to deposit premiums (and loan repayments) daily where at all possible
- Requesting policyholders to pay their premiums to the accountants at the unit offices
- Encouraging more clients to make their own premium payments directly into Delta's bank accounts

The organisation is currently analysing the effects of these changes to determine if institutional policies need to be developed.

4.4 Claims Management

Claims Categories

Compared to other microinsurance operations, the claims settlement process at Delta can be a complicated and drawn out affair, although management insists that the process is quite simple. The apparent complications stem largely from the wide range of possible scenarios associated with endowment policies. Claims might occur because: a) the policy has matured, or b) because the policyholder is requesting the surrender value of the policy, or c) because the policyholder dies.

When policyholders die, their claims will fall into one of five different categories depending on the status of the premium payments (see Table 17). Mature policies also fall into two categories: full and partial. Many policyholders do not keep their policies in force during the term, but when the term ends claim their savings and, if relevant, a bonus. Further adjustments must be made for any loans that are outstanding. These examples are further illustrated in Box 6.

Table 17. Categories of Death Claims for Delta's Endowment Policies

	Lapsed	Special Paid Off	Paid Off	Full Claim In-force (< 2 years)	Full Claim In-force (< 2 years)
Situation	Policyholder did not complete one year of premium payments or died in the first year but was more than two months behind in paying premiums	Policyholder paid at least 12 months (52 weeks) of premiums but less than 2 years, and then discontinues premium payments (or if policyholder dies in 2nd year, is more than two months behind)	Policyholder paid at least 2 years of premiums but was two months or more behind with payments when he/she died	Premiums are up to date (or within the one month grace period), and the policy is less than two years old	Premiums are up to date (or within the one month grace period), and the policy is more than two years old
Benefit	Beneficiaries do not receive a refund for any of the premiums	Deposit refund (less outstanding loan balance and late fees if applicable)	Deposit refund plus bonus (less loans and late fees)	Sum assured (less loans and late fees)	Sum assured plus bonus (less loans and late fees)

Box 6. Claims Examples

1. On March 19th, 1997, **Mr W**. took out a 10-year policy for BDT 24,000 sum assured with a monthly premium payment of BDT 199 and listed his wife as the nominee. He died on 30 July 2003, six years and four months after starting the policy. He had paid a total of BDT 15,323 in premiums, equivalent to 77 instalments over 76 months. The widow received a benefit of BDT 26,747, the sum assured plus a BDT 2741 bonus.

2. On 23 December 2002, **Mr S** took out a 10-year, BDT 12,000 policy with a monthly premium of BDT 100. When he died in June 2003, 6 months later, he had made seven payments (BDT 700). The claim was investigated by the head office and rejected on the grounds of concealing information and providing false facts. On his application, he said that he was 34 years old, although he was really 48; he also had been suffering from diabetes and high blood pressure for many years, but had signed the declaration of good health. No refund was provided.

3. **Mrs. A** bought a 15-year policy on 11 December 1996 with a sum assured of BDT 10,000; the weekly payment was BDT 11. When she died of anaemia at the age of 37 in April 2003, she had made 232 payments over the 332 weeks amounting to BDT 2552. Delta paid a benefit of BDT 2902 in the name of her 11-year-old son to his maternal grandmother who was designated as his guardian.

4. **Mr I** started a 10-year policy worth BDT 50,000 on 22-04-96; the monthly payments were BDT 415. He died 6 years and 10 months later having made 26 out of a possible 82 payments for BDT 10790. In December 1997, he had taken out a BDT 5000 project loan. Of the BDT 6000 that he owed Delta (20 percent flat interest), he had paid BDT 2500. Besides the outstanding principle and interest of 3500, he also owed BDT 1183 in late fees. His wife received a payout of BDT 6870, which was equal to BDT 10790 plus bonus of BDT 793, less BDT 4683 for the loan and fees.

5. In May 1993, **Mrs. R** took out a 10-year policy worth BDT 3,000 for which she paid BDT 25 per month. When the policy matured in 2003, she had made only 56 of 120 payments. For this maturity claim, she received BDT 1512, which included the BDT 1400 that she had deposited and a bonus of BDT 112.

6. **Mrs P** started a 10-year, BDT 25,000 policy in December 1993, with weekly payments of BDT 42.50. In April 1997, she took out a BDT 5000 project loan, which she repaid on time. In June 2001, she took out a BDT 10,000 policy loan. When the policy matured in January 2004, she had paid all 520 of her premium payments, so she was eligible for a full maturity claim, which was worth the BDT 25,000 that she had deposited plus a bonus of BDT 6250, for a total of BDT 31,250. However, she still owed BDT 6895 on her loan (including BDT 395 late fees), so she was paid BDT 24355.

Claims Process

When a death occurs, the beneficiary is responsible for coming to the office to notify Delta. The accountant first checks to see if the premiums are up-to-date. If the policyholder is more than one month behind, then the claims process is much simpler. Since the nominee is not eligible for the insurance benefit, there is no need for claims underwriting, so Delta can expeditiously refund the savings plus bonus, less any outstanding loan balances. The processing of maturity and surrender claims is currently decentralised to the ZOCs.

If the policy is in force—that is if the premiums are up-to-date (or within the grace period)—then the accountant or unit manager will issue a claims form to the nominee (see Appendix

1). The claim form requires statements from the local union council chairman, a doctor, and the deceased's employer (if applicable). Besides collecting these statements, the beneficiary also has to provide a death certificate and some sort of proof of age, such as an ID or voter card, a school certificate, or a letter from the union council chair.

If the claim is for an accidental death or disability, then Delta also requires a police report and, for death, a post mortem report. For it to be considered an accidental death, the policyholder has to die within 90 days from the date of the accident, otherwise it will be considered a natural death.

The heavy requirements for the claimants are partly due to the underwriting emphasis being placed on the claims side rather than during the application process. Prospective policyholders do not have a medical exam, for example, but merely have to sign a declaration of good health. But if they die, Delta wants to make sure that the statement was signed truthfully and that indeed the policyholder did not have any pre-existing conditions. All death claims that occur in the first year are investigated.

The organiser and the unit manager usually assist the nominee in collecting and preparing the necessary documentation. Once all of this documentation is completed, it is reviewed by the unit manager and forwarded to the servicing department of the ZOC along with the policyholder's ledger position.

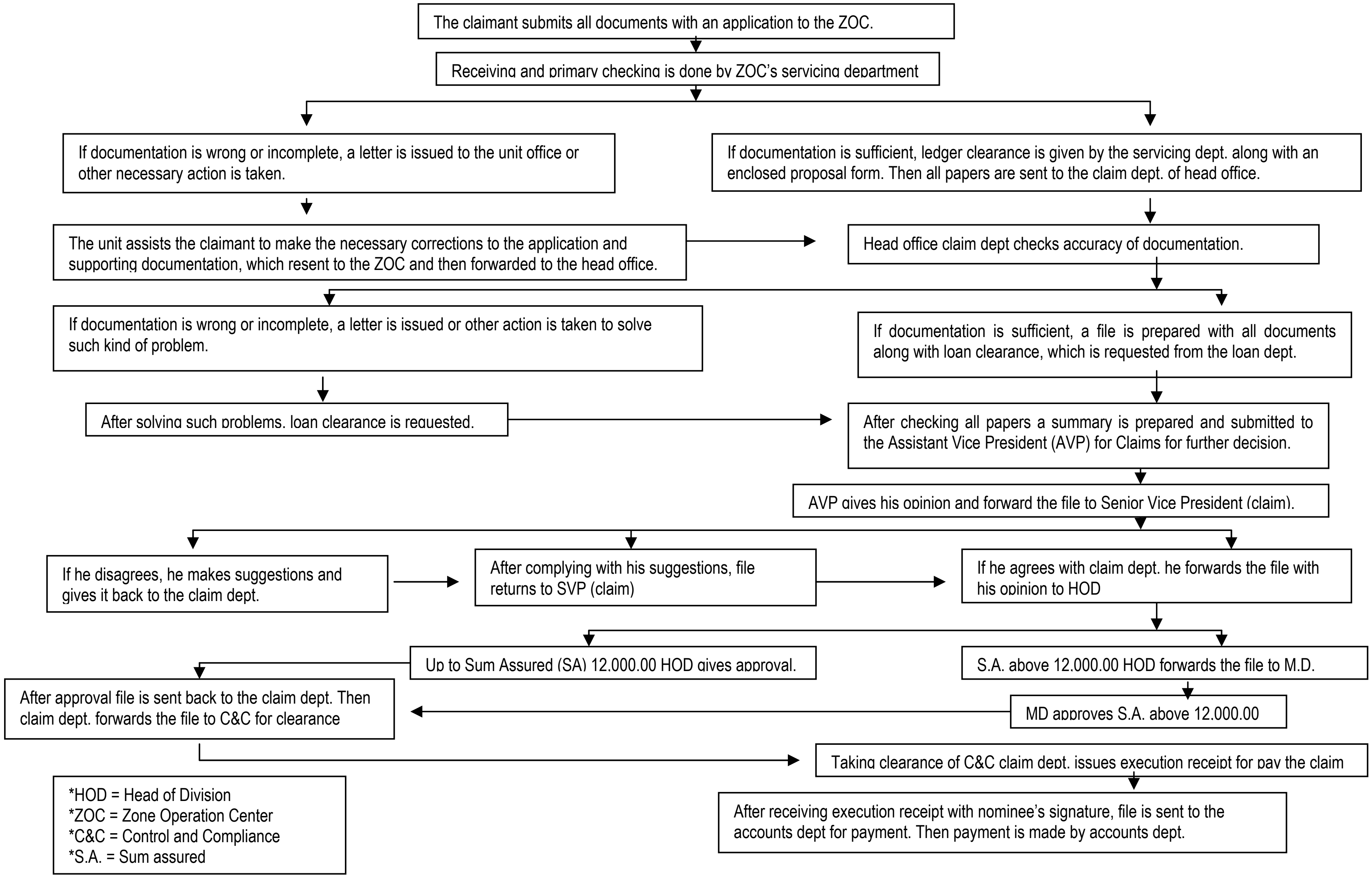
Figure 5 describes the rest of the settlement process. It is interesting to note the volume of personnel involved in checking and approving the claim. Besides the three people in the unit office, there are one or two people from the ZOC's servicing department, and then at least three at the head office (AVD, SVD and HOD)—along with the MD if the claim is above BDT 12,000—not to mention the role played by the control and compliance department which ensures that all of the proper signatures are on the form. It is no wonder then that claims take at least a month and often much more. In the future, Delta hopes to decentralise the entire claims process to the ZOCs, but such a change does not appear imminent.

By insurance law, claims are supposed to be paid by a crossed cheque, which means that the claimant has to have a bank account to cash it. Since many microinsurance policyholders (and their beneficiaries) do not have bank accounts, roughly half of the claims payments are made in cash by the accountant.

Claims Rejection and Delays

Approximately 15 percent of the claims are rejected due to irregularities. Rejections are usually due to discrepancies between the declared and actual ages of the policyholder, and because the client falsely declared his or her good health. Claims are also rejected because premiums were not up-to-date. When claims are rejected, the head office sends a letter to the nominee via the unit manager to explain why. The rejection letter does not mention the possibility of appeal.

Figure 5. Claim Settlement Process



Delta does not track the number of days it takes to process claims, or the number of days from the insured event until the claim. Management estimates that the majority of the death claims are settled within two months. Delta has not made timely claims settlement a priority. An estimated ten percent of death claims take six months or more to be settled because of problems with the mail, manual data systems, insufficient documentation, and the centralisation of claims processing.

Delta recognises that it needs to modify its claims requirements in rural areas, where people are unlikely to have documentation of their actual birthday, for example, or where death certificates and doctors' statements may be difficult to come by. While it does make exceptions under such circumstances, it does not have firm policies to that effect. Instead, it deals with the exceptions on a case-by-case basis, which also adds to claims delays.

Another reason for delays is the fact that at least 8 people have to review or process the claims, and all death claims, at least for now, are processed at the head office. Amazingly, claims for more than BDT 12,000 ($200) have to be signed off by the managing director.

In the past, claims forms had to be requested from the head office, which added further delays. By making claims forms available at the unit level, and by decentralising non-insurance claims, Delta has started the process of streamlining its claims procedures, but it still has a long way to go.

Table 18. Claims Settlement Details

Issues	Observations
Parties involved in claims settlement	• External sources: Union council chair, doctor, employer • Unit level: Organiser, unit manger, unit accountant • ZOC: Servicing department • Head office: AVP (claims), SVP (claims), Head of division and MD (if over BDT 12,000), plus loans department, control and compliance, accounts department
Documents are required for claims submission	4 part claims form, death certificate, proof of age For AD&D claims, also post mortem or proof of disability
Claims payment method	Crossed cheque or cash depending on location
Time from insured event to claim submission	Not available
Time from submission to payment	Most claims are paid within 2-3 months
Claims rejection rate	Estimated at 15 percent

4.5 Risk Management

Client Risks

For its microinsurance products, Delta controls client risks in the following ways:

- **Moral hazard**: Suicide during the first year of the policy is excluded. Also excluded is death due to pregnancy complications during the first year of the policy.
- **Adverse selection**: The endowment policies are sold voluntarily on an individual basis, so the two most common ways of controlling adverse selection in microinsurance—group policies and mandatory cover—are not applicable at Delta. Instead, GGB relies on age restrictions and the client's declaration of good health to control adverse selection. Policies over BDT 50,000 (US$ 826) require a review by the head office underwriter.
- **Client fraud**: Claims investigations are conducted for all death claims that occur in the first year of the policy. Adjusters pay particular attention to confirming the veracity of the policyholder's age and health condition when the policy was started.
- **Covariant risk**: Delta does not have reinsurance for its microinsurance portfolio, but since it has more than one million policyholders spread throughout the country, it is not particularly vulnerable to covariant risks.

Staff Fraud

Delta Life is quite open about the fact that it has historically experienced significant staff fraud, which occurred at different levels throughout the organisation, especially in the mid to late 1990s. The exponential growth during that period, and the heady excitement that accompanied it, masked Delta's serious vulnerability to staff fraud. According to the internal auditor, the most common types of fraud were:

1) Organisers collecting premiums and loan repayments but not depositing them, at least not right away
2) Organisers giving cash to the unit managers who do not deposit the money
3) Loan disbursements and claims payments going to the wrong person (i.e., to the relative of an organiser rather than to the policyholder or beneficiary)
4) Money provided to open up a new office is not spent properly
5) Misappropriated salary and commission payments (i.e., staff leave and the manager keeps their commissions; ghost peons are appointed)[30]
6) Policyholders do not know they have a policy

To address these and other vulnerabilities, Delta beefed up its internal audit department, implemented tighter controls for the handling and depositing of cash and issuing receipts, and strengthened the ZOCs to provide greater oversight over unit operations which historically had a high degree of autonomy.

The 13-person internal audit department, which reports directly to the managing director, is organised into two wings, one for Ordinary Life and one for GGB. They are responsible for conducting routine audits in the all the units once every three to four years (see checklist in Box 7), and in each ZOC once a year. Additional audits are conducted at the units when suspicions of fraud have been raised, or when there is a new manager. The internal auditors may also undertake special assignments, such as assessing if managers are using their authority properly.

[30] Salaries for unit staff are usually paid into the unit's account and then paid to the employees in cash by the accountant.

The main controls that have been implemented include:

- Eliminating project loans
- All premiums and loan repayments must be deposited the following day by the organiser or the accountant (where this is not possible or pragmatic because of geographic constraints, additional controls are put in place)
- Issuing new numbered receipt books in quadruplicate; maintaining an official inventory of them; keeping unused receipt books locked up (new receipt books are only issued after the previous book has been reconciled)
- Immediately reconciling deposits and receipts, and investigating any discrepancies
- Involvement of the ZOC Development Managers in the hiring and training of unit staff
- Photographs of the clients are included with the application to ensure that payouts are given to the right person
- Claims above BDT 50,000 or in the first year must be investigated by an underwriter
- Firm punishments for fraud, including legal prosecution and jail
- Rewards are offered to encourage employees to report irregularities

Additional problems remain however. Because the management information system is still being developed, it is not yet possible to easily assess which loans are late and which policies have lapsed. In addition, internal auditors are not yet focused on comparing the balances in the clients' passbooks with Delta's records.

Box 7. Internal Audit Check List for Unit Office

1. Verify amount of cash, if any.
2. Take stock of premium receipt (PR) books and reconcile the stocks with ZOC records.
3. Check the daily premium collection as per Daily Collection Statement (DCS) & unit PR copy and confirm the bank deposit.
4. Reconcile the unit income with ZOC and head office records.
5. Verify the loan recovery as per PR unit copy with loan ledger balances & reconcile with bank deposits.
6. Check whether the PR books register, DCS, Loan ledger, Policy ledger, Attendance register, Movement register and other necessary documents are properly maintained at unit offices.
7. Check the office rent and space of area of the rented office and payment procedures.
8. Verify the office's fixed assets from the fixed asset register.
9. Verify the staff position and their regular attendance.
10. Test check of PR book stocks with the organiser and confirm the justification of PR issue to the organiser.
11. Verify the disbursement of salary/commission to the office staff, unit manager & organiser.
12. Verify whether other payments such as office expenses etc. are properly done.
13. Confirm the visit/supervision of unit office by the senior development officials.
14. Test check whether the policies are properly serviced.
15. Verify any other records as and when instructed.

4.6 Marketing

Most sales activities taken place through door-to-door sales pitches by the organisers. Although they do not have specific territories, they usually work within a three-mile radius of their homes. Organisers usually begin by selling policies to relatives and friends; more successful organisers have developed techniques for selling to acquaintances and even strangers, but most organisers are not very successful. Contact between an organiser and his or her policyholders is frequent and informal, often at social gatherings.

Besides the sales pitch, the primary marketing tool is a brochure that explains all the product details. Delta also regularly organises events in different locations, sometimes featuring dignitaries and refreshments. These events often stimulate significant sales activity.

Delta has experimented with various incentive schemes to boost sales. When it has offered cash or prize bonuses to organisers who reach certain sales thresholds, it experienced a big spurt of new contracts toward the end of the year as the deadline approaches. Instead, it would like to develop an incentive scheme that encouraged more regular sales throughout the year.

Incentive schemes have also been known to inspire undesirable behaviour. For example, there was a competition in which everyone who sold 20 new policies in a month was rewarded with a set of new dishes. But many organisers teamed and submitted the policies under one person's name and then divided the dishes. Or organisers would encourage a policyholder to take out two BDT 10,000 policies rather than one BDT 20,000 to boost their sales numbers. Organisers are also known to offer clients special rebates out of their own pockets to promote sales.

How does Delta convince customers that it is trustworthy? To some extent, it has built up trust over time, with 15 years of experience in some markets. Delta's astonishing growth in the mid-'90s is at least partly attributable to the fact that it had been in the market long enough to have name recognition and a positive reputation. The challenges that organisers may have faced in the early days in convincing prospective customers that Delta was indeed trustworthy were no longer quite as necessary, especially in areas where there had been a number of death and maturity claims. Delta turns claims payments into marketing opportunities by making public spectacles out of the events.

Delta's tagline, "Delta Life, Prosperous Life," communicates to prospective clients that the organisation is about improving one's life rather than worrying about death. This message helps to overcome some of the resistance that emerges with insurance policies, especially term policies where one only benefits if one dies. Delta's message is also a powerful statement that resonates across all economic strata.

Delta's experience highlights an important lesson about the dangers of using loans as a marketing tool. A key reason for the exponential growth in the mid to late 1990s was the use project loans an enticement to start an insurance policy. This offer was quite attractive because one could get a BDT 5,000 loan after paying a few hundred takas in premiums.

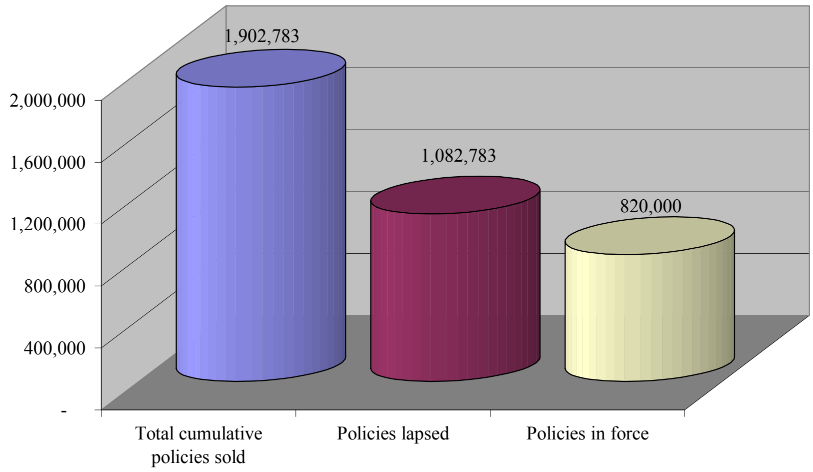
Many of these policies lapsed, and many of the loans were not repaid. It is also quite likely that many of those loans found their way into employees' pockets.

4.7 Customer Satisfaction

From the start, the Gono and Grameen Bima products have been voluntary. The fact that the insurer has sold nearly 2 million policies over the years suggests that there must be some level of customer satisfaction. Yet less than half of those policies are in force, which potentially reflects a disconnect between product design and customer need (although the recently introduced biennial plan may be solving the problem). A reasonable measure of customer satisfaction might be continued voluntary payment of policies. When people become dissatisfied, they may stop contributing. Certainly other factors also cause lapses, but it is still a reasonable proxy for dissatisfaction.

Of the total 1.9 million Gono and Grameen Bima policies sold by Delta Life through September 2004, 57 percent are inactive. Some of these are from maturities and settlements; many of them are from borrowers who did not repay their loans and expect additional deposits to be confiscated for loan payment. Inactive policies could relate to changes in the customers' financial situations, or differences between what they thought they were buying versus what they did buy. Others may relate simply to dissatisfaction with the product. A more detailed study is needed to more accurately assess levels of customer satisfaction.

Figure 6. Policies Sold, Lapsed, and In Force since Inception[31]



According to GGB staff in the units and ZOCs, there are some recurring complaints, especially about delays in claims processing. Some beneficiaries have difficulty with claims being paid by crossed cheque, which means that they have to open an account—but applications are cumbersome, the fees are high, and the banks do not want to open accounts for them anyway. Some policyholders are also comparing the Delta Life's returns unfavourably with those of banks, even though the endowment policies provide life insurance coverage as well as a return.

[31] Aziz Ahmed. PowerPoint presentation

5. The Results

5.1 Management Information Systems

Delta recognises that its current, which relies heavily on manual data processing, is inadequate. It is cumbersome, has limited capabilities for reporting and analysis, and cannot cope with the volumes of policies generated by GGB. For this reason, the insurer has created an independent company to develop a new insurance management package written especially for the needs of Delta Life.

Having an inadequate system has left Delta without the ability to properly analyse the risk profiles and experience of its policyholders. This limitation has created difficulties in pricing, and ultimately resulted in higher costs to many policyholders because of the loadings that were required to compensate for the lack of data. The new system is expected to provide a wide range of reporting and analysis capabilities.

Key targets tracked by management are:

- Yield rate on investments
- Management expense ratio
- Claims ratio
- Business growth
- Growth of Life Fund
- Life fund accumulation

While some basic operational results are tracked at the ZOC and unit levels—such as premiums collected per month—financial reports are only available for the organisation as a whole. Even financial analysis for the two divisions, Ordinary Life and GGB, is not readily available and requires a bit of work to separate the numbers.

5.2 Operational Results

Efficiency

As shown in Table 19, the size of the ZOCs vary significantly—the largest is more than 4 times bigger than the smallest—and size matters a lot. It is quite clear in comparing the expense ratios that the larger ZOCs are able to generate economies of scale. The two largest ZOCs are the only ones with expense ratios below 30 percent, whereas three of the 5 smallest ZOCs have expense ratios over 40 percent.

Table 19. Expense Ratios by ZOC (2003)

ZOC	Annual Premiums (million BDT)	Management Expenses (million BDT)	Expense Ratio
Khulna	15.6	7.1	45.4
Rangpur	20.5	8.6	41.8
Thakurgaon	25.7	8.4	32.5
Jessore	28.3	9.9	35.0
Kustia	29.2	11.7	40.1
Mymensingh	29.4	11.4	38.7
Barisal	29.5	11.2	38.0
Dhaka-2	30.6	10.5	34.4
Sylhet	37.4	11.3	30.3
Faridpur	41.1	12.7	30.8
Chandpur	43.2	13.0	30.3
Rajshahi	44.5	13.7	30.8
Chittagong	49.3	15.3	30.9
Dhaka-1	53.9	16.7	31.0
Comilla	57.3	17.0	29.8
Bogra	65.1	18.5	28.5
Head office	-	49.3	
Total	600.7	246.4	41.0

The overall expense ratio relative to gross premiums was 41 percent in 2003, which may seem quite high but is in fact a significant improvement from previous years, suggesting that the reengineering is yielding positive results. As shown in Table 20, similar improvements are also occurring in Delta's traditional insurance division.

Table 20. Administrative Cost Ratios, Ordinary Life vs. Microinsurance (1999-2002)

	1999	2000	2001	2002
Ordinary Life (%)	41.5	37.2	34.9	33.8
Microinsurance (%)	52.6	50.2	47.5	44.5

These high operating costs are related to GGB's distribution channel—hundreds of field offices and thousands of staff are expensive. In comparison, CARD MBA, which delivers insurance its affiliated bank and microcredit NGO, has administrative costs (inclusive of commissions) of about 12 percent. AIG Uganda, which uses MFIs as distribution channels, has administrative costs of about 34 percent.[32] To be fair, Delta's is a voluntary, stand-alone product, whereas AIG and CARD have mandatory, credit-linked products.

Local comparisons might be more relevant. Table 22 shows administrative expenses for some of the top life insurers in Bangladesh. Of the five, Delta is the second most efficient behind ALICO; only ALICO is in compliance with the insurance requirement that the ratio be less than 38 percent.

[32] This is composed of 15 percent administrative costs, and 19 percent in commissions. The 19 percent is likely to decrease dramatically in 2005.

Table 22. Operating Expense Ratios, Selected Life Insurers in Bangladesh[33]

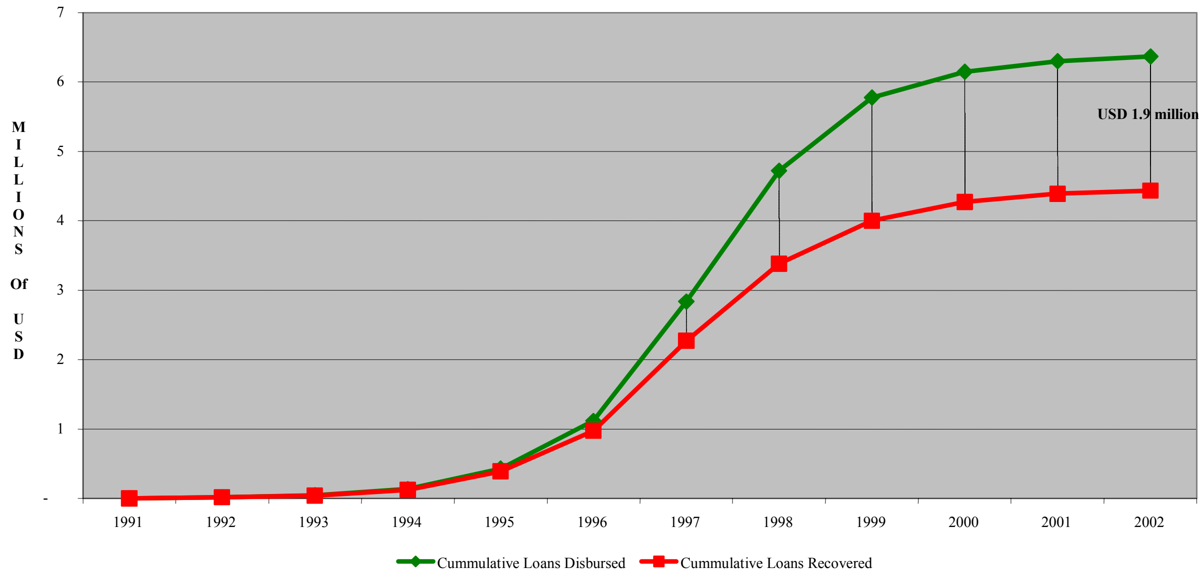
ALICO	37.1%
Delta Life Insurance	47.2%
National Life Insurance	50.9%
Sandhani Life Insurance	55.6%
Homeland Life Insurance	79.4%

Loan Recoveries

Delta does not have a good track record of loan repayments, which is one of the reasons for terminating the project loans (the other main reason being fraud). Over the past few years, the recovery rate has been around 50 percent, which means that when the loan term ends—all loans are 12 months—about half of the principle and interest has been repaid. For the policy loans, this situation is not a major cause for concern since the loans are 100 percent secured by the insurance policy. With the bad debts from the project loans, Delta expects to recoup 80 percent of them by liquidating the loan balances against the savings.

Despite Delta's optimistic loan recovery expectations, the project loan problems have created a serious financial gap in the loan portfolio. In Figure 7, project loans disbursed are graphed against project loan repayments. The gap significantly widened during the period 1994 – 1999, and has remained relatively stagnant since then. However, there remains a repayment gap of US$ 1.9 million. Delta Life suffered from default on about 50% of its loans, and lost nearly one-third of the total amount disbursed.

Figure 7: Cumulative Project Loans Disbursed and Recovered



[33] Source: Chief Controller of Insurance (2002)

As of the 2002 Annual Report, Delta Life had an accumulated provision for project loans of BDT 16.2 million (US$270,000), an increase of BDT 10.7 million (US$180,000 million) from 2001. If Delta management is correct that 80% of the outstanding balance can be covered by liquidating the policies, and the provision can cover US$ 270,000, that leaves about US$ 110,000 still required to cover these outstanding loans (assuming no additional collections).

5.3 Financial Results

During the early days, pricing for microinsurance was lower per unit of coverage than the Ordinary Life products, reflecting the social priority—GGB was initially more concerned about development objectives than viability. In the late 1990s the board became less willing to absorb losses from Gono and Grameen Bima. In 2002, finally, the actuarial valuation showed these programmes actually contributing to the profits of the company. Before this valuation, management and the Board had been considering separating GGB from Delta Life through the creation of an NGO that would house the microinsurance activities.

The visiting team was not availed of the actuarial report that proved the profits and could only rely on discussions and anecdotes that suggested profitability. This is unfortunate since it is not possible to clearly illustrate the profitability of these activities. Although premiums and claims relating to the Gono-Grameen Bima are accounted for, and presented separately from the OL, some of the operations costs are combined with those of OL. Even investments are commingled so it is not easy to identify the value of transactions that relate to GGB as opposed to the OL. Presumably this was done in the biennial actuarial assessment.

Cost Structure

Today the **risk premium** per unit for the microinsurance products is equivalent to the OL products. This is done because Delta does not have sufficient data to properly assess the risks of this market. Management recognises the significant differences between the risks of these groups and plans to make appropriate adjustments when the information is available based on actual risk instead of social concerns.

To simplify the work for the field officer and improve the ability of policyholders to understand product pricing, Gono-Grameen Bima is priced based on the average age of their policyholders. Thus, premiums are set at the 35-year old level. OL products have premiums calculated for each individual based on age, profession and gender. The actuary notes that there are "no exclusions" for GGB based on profession, although some professions are strongly discouraged. The actuary offered that he is concerned with the single age pricing, and may introduce variable pricing based on risk in the future.

One mechanism that the actuary uses to buffer the potential problems with the single age based premiums is in the calculation of estimated return on invested funds. His actuarial calculations use a return of 3.5 percent (which was close to the inflation rate in mid-2002), but he notes that the actual return has been around 8 percent (with inflation at the time of the visit between five and six percent).

The actual claims ratio (claims over premiums) for GGB in 2002 was 7.7 percent.[34] For this same period, Delta Life's Ordinary Life division experienced a claims ratio of about 23 percent. The difference is largely attributable to the low percentage of GGB policies that are in force therefore eligible for death benefits.

The **operational cost** component of the gross premium is derived based on projected direct costs of Gono-Grameen Bima. These direct costs are accessible because a substantial amount of the GGB work is through separate office and staff, and thus accounting is differentiated. Indirect and amalgamated costs are more difficult to obtain. The operations costs ratio for GGB in 2003 was 41.0 which, although high, is an improvement over recent years.

Regarding **commissions**, under the payment pilot (which is likely to be rolled out), organisers are paid 30 percent of the premiums collected for first year policies, and their managers receive 3 percent for a total first year commission of 33 percent. For renewals, the agent receives 10 percent and their managers again receive 3 percent. This new scheme, intended to increase sales, is an interesting strategy given the severe problem with policy lapses. Rather than trying to pile on more policyholders, it might be appropriate to try to reduce lapses.

Delta does not purchase **reinsurance** for the GGB portfolio because the face values are lower than the deductible. The current deductible of BDT 300,000 (US$ 5,000) is substantially higher than the average sum assured of BDT 20,000 (US$ 330). The cost for a lower deductible is unappealing.

There has been no **donor funding** to support Delta's microinsurance activities, however for at least fourteen years Grameen Bima and then Gono Bima were subsidised by the Ordinary Life division of Delta Life.

With GGB, policyholders are making a single payment that covers the life insurance and the savings. The life insurance portion is calculated to cover the risk of death, and the savings portion is meant as an investment. The combined amount is posted in the premiums account and ultimately, netted against expenses and included in the Life Fund. The difficulty in determining profits for such a company is that Fund must cover the savings liability of the policyholders. This liability is usually calculated by an actuary; if the liability is covered and there is still a surplus then the insurer is profitable. Delta Life's actuary has determined that the GGB products "were profitable in 2002."

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[34] These figures include the impact of the endowment in both the premiums (insurance premium plus endowment amount) and in the claims, which include those by death, surrender, and maturity.

Table 21. Key Results

Delta Life Insurance Co. Ltd.

Gono-Grameen Bima Division (Merged)

For the period 1988-2003

Particulars	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Net Life Fund change (net of donor contributions) (thousands of US$)	78	121	317	626	3'071	5'182	3'803	3'818	7'254	5'782
Total premiums (value) (thousands of US$)	234	401	851	2'063	5'531	9'252	8'310	8'591	8'761	8'921
Growth in premium value	69%	71%	112%	142%	168%	67%	-10%	3%	2%	2%
Claims / total premiums (%) (due to death)	1%	3%	1%	1%	1%	1%	2%	2%	1%	2%
Claims / total premiums (%) (due to maturity)	0%	0%	0%	0%	0%	0%	1%	4%	5%	6%
Claims / total premiums (%) (due to surrender)	1%	2%	1%	0%	0%	0%	1%	0%	0%	0%
Administrative costs / premiums (%) (includes reserves and commissions)					44.8%	46.0%	52.6%	50.2%	47.5%	44.5%
Commissions / Premiums (%)										
Reinsurance / Premiums (%)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Reserves added for the period / Premiums (%)										
Net Life Fund Change for the Period / Premiums (%)	33%	30%	37%	30%	56%	56%	46%	44%	83%	65%
Claims cost per total number insured	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Growth in number of insured (%)	5%	78%	81%	191%	162%	8%	-69%	-18%	-23%	11%
Income earned from investment of premiums (thousands of US$)	-	-	-	-	591	2'889	4'053	2'311	3'632	4'128
Income Earned from Investment / Total Premiums					*21%*	*62%*	*98%*	*54%*	*83%*	*93%*
Percentage of profit distributed	Nil by Board Agreement									
Renewal rate (%)										38%

5.4 Reserves

Delta Life maintains reserves for unexpired risks. It also maintains the Life Fund that is effectively the reserve for the Delta Life products (including GGB).

5.5 Impact on Social Protection Policy

The GGB products are important additions to the social protection systems in Bangladesh. These products, through local field staff, are available throughout the country. Those policyholders who keep up with their payments are able to provide substantially for their families after death, or for themselves in retirement. Endowment policies help widows, widowers, and orphans to make the financial transition after the loss of a breadwinner.

Additionally, Delta Life's GGB is a major employer of low-income people. This provides cash into poor areas and creates a stable income for many families.

Delta Life lobbies the government for improvements in the insurance systems to benefit all of its current and future policyholders. One particularly important lobbying effort is to get the government to adjust the investment requirements for the Life Fund so that Delta can use its substantial fund balances to invest in rural areas and in businesses that are active in improving the livelihoods of rural people.

6. Product Development

Delta's approach to product development is best characterised as informal. It has not conducted any formal market research, although it does solicit feedback from organisers and unit managers from time to time since they are closest to the market. The product development process is perhaps best illustrated through the organisation's recent experiences.

In 2002, Delta began developing a new product for wedding and dowry savings targeted at families with female children who struggle to raise sufficient cash when they are married off. The families often resort to informal credit markets to pay for the weddings, an arrangement that exacerbates the household's vulnerability.

The idea for developing such a product came from Delta's senior management. Although Delta is beginning to experience competition in the microinsurance market, this was not a significant factor in developing the new product. Instead, the driving force behind the new product appears to be the marketing angle, to make a stronger sales pitch if the endowment product is designed for a specific purpose, particularly one like weddings that resonates so strongly with the low-income market.

A few organisers were asked to test the demand for such a product, and to gather information about the sum assured amounts that would be most appropriate. This informal research indicated that indeed there would be a demand and that the poorer households spend roughly BDT 10,000 on wedding and dowry expenses, the moderate poor spend BDT 30,000 to 40,000, but in Dhaka the wedding expenses can reach BDT 100,000 or more. With this information, Delta's senior management did some draft calculations and designed a scheme that was then reviewed by its actuary and adjusted accordingly. The product was then piloted in the two Dhaka ZOCs, where it was very well received. The demand appeared to be so great that the product was then rolled out to all ZOC after just a few months in the pilot phase, without any changes made during the pilot.

This quick rollout is perhaps understandable in Delta's case because the new product is not significantly different from Delta's existing microinsurance endowment policies. The differences are primarily associated with marketing rather than product design. A key product design difference is that the term is calculated by subtracting the daughter's age when the policy is issued from 18, so it could be anywhere between 5 and 16 years. Besides helping to save for the wedding, this arrangement also discourages marrying off child brides. For this product, premiums can only be paid annually, so it may be difficult for some of the poorer families to afford, a risk that Delta is willing to take in exchange for fewer transactions.

7. Conclusions

As perhaps the oldest and largest microinsurance scheme in the world, Delta Life provides valuable insights and lessons of both good and bad practices. The challenge in interpreting these lessons is trying to ascertain which experiences are unique to the organisation and/or to Bangladesh, and which ones are generally relevant to microinsurance in other countries. This section first highlights some the plans that Delta hopes to pursue in the coming years. Then it summarises the main lessons learned before concluding with challenges and outstanding questions.

7.1 Significant Plans

According to Delta's Chair, Monzurur Rahman, "We want to see the day when there is no more microinsurance, just insurance." Essentially, this comment is about poverty alleviation and it reflects Delta's ongoing social commitment. Delta is trying to achieve an impact at three levels:

a) Protection of low-income households against the death of breadwinner;
b) The opportunity for the poor to accumulate savings which could be used to invest in economic activities that could help break the cycle of poverty; and
c) Delta wants to use its own investments, its Life Fund, to bring about social and economic change.

Management views Delta as an important component of an economic model in which Bangladesh will create and produce for the domestic market, fuelled by investments from domestic savings. Indeed, thousands of GGB policies will be maturing in the coming years and Delta feels an obligation to encourage the funds to be put to productive use, rather than paying for a feast. Management has not yet figured out how to do that, but it is actively discussing the issue.

Besides the local investments that policyholders may make when their contracts mature, Delta is also in a position to influence the country's development through strategic investments of its growing Life Fund. Delta has over $7.3 million in its Life Fund from the microinsurance operations alone (and another almost $60 million from the Ordinary Life operations). It assumes responsibility to use this money not just to generate the greatest returns at the lowest risks, but also to effectively contribute to national economic development. Indeed the organisation is concerned that with current investment policies, as Delta expands, it will be significantly drawing funds from the rural areas to invest in the urban areas. It hopes to avoid this by investing in companies that are contributing to rural development.

Delta's microinsurance division will continue to strive for improved performance in the coming year. The organisation is eagerly awaiting the full implementation of the new information system, which will significantly improve controls and performance monitoring. In fact, it is quite extraordinary that Delta's microinsurance operations have achieved such scale and success with so little information, and the data that is available is quite suspect.

Performance improvements will also continue to be gained through greater efficiencies, such as finalising the rationalisation of Grameen and Gono Bima, closing or merging unsustainable offices, and taking greater advantage of the back office synergies with the Ordinary Life operations. It will remain to be seen whether its commitment to customer service can move beyond slogans into practice.

Total premiums from the GGB division are getting increasingly closer to those from the Ordinary Life division. Management expects that the majority of the business will be in microinsurance in the next three to five years because the potential market is much larger and there is less competition. To manage future growth, it is looking carefully at what went wrong in the past. Besides improved management information and effective internal controls, Delta knows that it has to further decentralise operations to the ZOC or regional level, and wherever possible to integrate the back office operations of the two divisions. It also committed to providing better staff training, hiring more women and promoting them into more senior positions.

Delta Life is also considering the possibility of starting or buying a bank. Management recognises this as a huge step but foresees important benefits, which include:

- Strengthening business operations
- Investing the Life Fund effectively
- Serving the customers quickly and meeting their diverse financial service needs
- Building a strong financial management system

7.2 Lessons Learned

Institutional and Management Lessons

Delta's Chairman, Mr. Rahman, believes that a strong organisation can accomplish whatever it wants to, but a weak organisation cannot accomplish anything. If one wants to help the poor, the first thing is to build a strong organisation, even if it means not necessarily working with the poor right away or not in significant numbers. Delta has built up its Ordinary Life business to a fairly significant scale, which made it possible for the organisation to experiment with microinsurance.

Delta has learned that it needs to treat its microinsurance operations with the same business approach as its traditional insurance activities. With 10- or 15-year policies, the organisation is entrusted with the meagre savings of a low-income household. It has to manage that money wisely. Delta did not manage its microinsurance activities in a business-like way during the early days and it is still struggling to correct historic mistakes.

Because Delta has both micro and traditional insurance, it is possible to illustrate the main differences between the two, as summarised in Table 23. Yet over time, the distinctions between GGB and Ordinary Life are beginning to erode, especially now that Delta is viewing microinsurance from a commercial rather than from a developmental perspective. For example, it is moving toward commission-based pay, less frequent premium payments, and encouraging policyholders to make premium payments at the office or directly in the bank.

Table 23. Comparison between Micro and Traditional Insurance at Delta

Traditional Insurance	Microinsurance
Premium collection: annual or semi-annual	Door-to-door premium collection weekly or monthly
Agents only responsible for sales	Agents responsible for entire customer relationship
Customer contact primarily through correspondence, phone	Customer contact exclusively in person
Agents must be licensed	"Agents" known as organisers, not licensed
Priced based on policyholder's age	Priced based on average age (35 years); generally less expensive than traditional insurance even though delivery costs are higher
Sum assured above $2000	Sum assured below $2000
Medical exam required	Declaration of good health required, no exam
Premiums paid at the bank or Delta office	Premiums collected from policyholders, often at their homes
Claims requests reviewed by high-level claims committee	Claims receive less scrutiny than traditional insurance
Corporate, profit maximising business culture	Socially responsible culture
Agents paid entirely on commission	Agents paid on a stepped-salary basis
Shareholders earn dividends	No dividends go to shareholders from microinsurance profits, but are returned to policyholders in the form of bonuses

Delta has not managed its tremendous growth very effectively. It recognises now that more authority and responsibility needs to be closer to the clients. To that effect, Delta has sought to strengthen the ZOCs so that the Development Managers are more actively involved in hiring and training frontline staff. Delta has also learned the hard way that significant attention must also be given management information and internal controls before launching a major growth campaign.

Like other businesses, insurers have to focus on their core competencies. Delta's project loans were heralded as a tremendous accomplishment in the late 1990s. After a few years of reflection (and mounting bad debts), they are now seen as a major failure. Indeed these project loans have led to the loss of over BDT 120 million (US$ 2 million). Delta's organisers did not know how to use borrower groups or how to control credit risks; they used the prospect of loans as an incentive for selling insurance policies; and they did not recognise that collecting a loan repayment required different culture than collecting a premium payment. Furthermore, they were not supported by appropriate training, performance information, or incentives.

Product Design and Delivery Lessons

Delta's endowment product is extremely well suited to the risk-management needs of its clientele. The endowment product is essentially a long-term contractual savings account that allows the poor to gradually build up assets. In the event of the policyholder's death, the beneficiary receives the sum assured (assuming that the premiums are current). If other perils occur, policyholders can either take out a loan against the surrender value of the policy or they can liquidate the policy. By marrying the advantages of savings, credit and insurance, this product is extremely versatile.

The product changes that have been introduced in recent years—such as less frequent premium payments and a shift away from door-to-door collection— may make GGB less effective in reaching the low-income market, especially women. Yet Delta has also introduced modifications to make insurance more appropriate for the poor. For example, the most common term has gotten shorter, from fifteen years to ten. Perhaps more importantly, Delta has introduced products, such as the biennial plan, that allow policyholders to access their savings sooner and more regularly.

Furthermore, although Delta's shift away from weekly premium payments was driven by economic realities, it has not appeared to affect demand and may even be reducing lapses. Consequently, the assumption that premiums needed to be collected weekly may not be entirely correct. Perhaps the main lesson is that the cash flows of low-income households are not just irregular; they are also heterogeneous. To meet the needs of the market, it is necessary to offer a range of premium payment options and face values.

In a populous poor country like Bangladesh, there is indeed a market for microinsurance, an enormous market. Bangladesh may be one of the few places where an insurance company can provide voluntary insurance products to the low-income market on its own, i.e., without partnering with a microfinance institution or another community-based organisation. However, for direct microinsurance to be possible, it probably needs to be offered by a company that also services the upper market so the organisation can create administrative efficiencies, professionalize the systems, and lower expense ratios.

Yet the operating cost ratio for Delta's microinsurance division is quite high, largely (although not entirely) due to this distribution channel. Numerous field offices and thousands of staff are expensive, especially when compared to insurance that is distributed through the existing infrastructure of microfinance institutions. Such a comparison, however, may be off base since MFIs are delivering mandatory credit-linked insurance, whereas GGB offers voluntary endowment policies. As Delta and others have experienced, if the insurance is not tied to the core business of the distribution agent, then it is not likely to get sufficient attention.

To motivate improved performance, Delta has experimented with various compensation and reward systems. Although it has yet to find the right balance, it has learned that bonuses paid for reaching certain sales thresholds after a long period of accumulated activity leads to mediocre sales throughout the period and a large increase in activity at the end of the period. This incentive method is not effective if the company aims at consistent growth.

7.3 Major Challenges and Outstanding Questions

Indeed, one of the most important outstanding questions is how to pay front line staff. Delta began by using a stepped salary structure for its organisers and unit managers, intentionally trying to avoid aggressive sales behaviour for its microinsurance operations. Because of its development objective, the organisation felt that it needed a different approach for the low-income market. Over time, however, Delta has begun to view microinsurance more as a business opportunity, and therefore it is revisiting some of its assumptions, such as how staff are compensated. Currently it is experimenting with a commission-only pay scheme for organisers in selected units and is likely to extend that approach throughout the GGB division.

A related issue is the expertise of its staff, especially field staff. It is a Catch-22. Delta hardly invests any resources in training field staff, so many lack sales skills to pull in premiums from people that they do not know. To keep operating costs down, it can only afford to hire marginally educated people. However, they tend to only work part-time, there is high turnover, and they make numerous errors in their paperwork. To compensate for the lack of skills in the field, Delta has created layers and layers of administrators to review paperwork.

If one file has to be reviewed by seven or eight people—on top of the half a dozen others who are responsible for processing the paperwork—then that is a sure-fire sign that there are some bureaucratic inefficiencies. Delta needs a stronger commitment to processing claims within days rather than months, and this can only be achieved through a decentralised system in which files pass through the hands of three or four people rather than a dozen.

Management recognises that it also has a problem with lapses. Field staff are not monitored or rewarded based on the number of policies that remain in force, and they have not received training on how to encourage timely payments. The investment in generating new policyholders is not maximised when there is insufficient effort to retain them. In the past lapses have not been a priority, perhaps because the organisation benefits financially when policies lapse. Delta anticipates, however, that the reengineering will improve the situation. For example, in the new organisational structure, the Development is tasked with tracking and preventing lapses. At the moment, Delta does not have sufficient information to make significant improvements, however it is hoped that the new information system will rectify the situation.

The microinsurance operations have moved from two to six products in a short period of time. Yet the organisation is targeting poor, often illiterate clients and it is providing services through field agents that have limited capacities. Rather than increasing its product menu, perhaps Delta should be thinking about simplifying it. Additional simplifications could be achieved in its paper trail and information management.

One of the most significant innovations from Delta is the door-to-door collection of premiums by the field staff. This arrangement is quite unique because almost all financial transactions with low-income people in Bangladesh use some sort of group arrangement to enhance efficiencies. Delta's door-to-door approach provides clients with some degree of privacy while strengthening the relationship between field staff and the customer. But is it really cost-effective, and if it is, could it be replicated elsewhere? Even Delta is moving away from door-to-door collection to reduce costs and vulnerability to fraud.

Finally, Delta's social motivation has evolved into a commercial motivation. Although this shift has not yet affected the organisation's policy on profit distribution, it will be interesting to see if shareholders will lobby for such a change as the GGB division expands, and as cost controls make it more profitable.

Appendix 1. Claim Form

Part I. Claimant's Declaration

(NB) This declaration will be given by nominee/nominees. If nominee is immature, guardian will give declaration.

I/we as a guardian of claimant of this policy hereby declare that every information which is given below is true. I/we don't conceal any necessary information provided here to settle the claim. I/we provided every information in full of my knowledge.

01.
a) Policy holder's name---b) Policy no.------------------
b) Last occupation--
c) Father's/husband's name--
d) Father's/husband's occupation--
02. Nominee's and guardian's name and address--
----
03. Relation with deceased policyholder:
a) Nominee--
b) Guardian--
04. Details description about death:
a) Date of death --------------------- b) Place of death-------------------------------------
c) Age at the time of death---------- d) Cause of death------------------------------------
05. Did the policyholder suffer from any severe disease) Yes/No
06. If the deceased policyholder had been suffered from any severe disease then.
a) Name of disease---
b) How many days he had been suffered? --
07. Did any doctor's treat before death) Yes/No

If yes

a) How long he treated---
b) Doctor's name and address---
08. If he died in hospital:
a) Name of hospital---
b) Address---
c) Ward no--------------------d) Bed no.------------------Date of admission-----------------

09. If he had more policy with this or any other company, please describe------------
----

10. If he had any other supplementary insurance (education). Please describe------
----

a) Nominee's/guardian's signature--

(If nominee is immature guardian gives signature)

b) Place of signature--c) date----------------------------

Part II. Identification

Policy no.----------------Name (policy holder) of deceased----------------------------------

(N.B) Union council chairman of own union council or the ward commissioner of own municipality, Headmaster of high school or well reputed person of own area of union council, chairman of policy holder's committee will sign as a witness (any two).

In front of two witness (mentioned below) hereby, I declare that every information of given statement of claimant/claimants are true. Deceased was inhabitant of my area.

a) Place of signature------------------------- b) Identified by----------------------------

b) Date------------------------------------ d) Full name--

e) Seal----------------------------- f) Designation and address-------------------------

Witnesses:

a) Signature---------------------------------- b) Signature-------------------------------------

Name-- Name---

Designation and address------------------- Designation and address-----------------------

Part III. Doctor's Statement

N.B (This part will be filled up by only the doctor who treated deceased at last days)

01. Date and time of death---

02. a) Primary cause of death--

b) Relevant cause of death--

03. From which date to which date you treated---------------------to-------------------------

04. How many days he had been suffered from this disease-----------------------------

05. Had any operation been done? Yes/No

If yes, (Please describe)---

06. If it was an accidental death, please describe the injury-------------------------------

07. Name of Hospital--

Date of admission-----------------Ward no----------Bed no.---------Regd no.---------------

Hereby, I under signed declare that every information of given statement in full of my knowledge.

Place of signature-- Date---------------------

Doctor's signature---

Name--- Seal

Regd no.--

Address---

Part IV. Employer's Statement

N.B (This part will be filled up by the CEO/Administrative officer of the institution where the deceased policyholder worked)

The person who is mentioned above had been working at the part of till to death in my office/organisation. According his personal file, which is preserved in the office his/her date of birth is---------------------------------- he was on leave----------------days. Last year he enjoyed leave-----------------------days. His last attendance was at office---------------------------

Place of signature-- Date----------------------------------

Name-- Seal

Designation and address---

Appendix 2. Social Security in Bangladesh

http://www.ssa.gov/policy/docs/progdesc/ssptw/2002-2003/asia/bangladesh.pdf

Bangladesh

Exchange rate: U.S.$1.00 equals 58 takas.

Old Age, Disability, and Survivors

Regulatory Framework

First and current law: 1998.

Type of program: Targeted social assistance system.

Special system for public-sector employees.

Note: Unless otherwise noted, this information is more than 8 years old.

Coverage

Low-income citizens aged 57 and older.

Source of Funds

Insured person: None.

Employer: None.

Government: Total cost.

Qualifying Conditions

Aged 57, resident in Bangladesh, and selected for eligibility.

Old-Age Benefits

Old-age pension: A monthly pension of 120 takas (July 2002), equal to 10% of average income.

Administrative Organization

The government is responsible for administering the social assistance program.

Sickness and Maternity

Regulatory Framework

First Law: 1939.

Current Laws: 1950 and 1965.

Type of program: Social insurance system providing cash and medical benefits.

Coverage

Cash sickness benefits: Employees of factories in manufacturing industries employing 10 or more workers and employees of shops and establishments of 5 or more workers.

Exclusion: Clerical staff.

Cash maternity benefits: Employed women.

Medical benefits: Medical facilities provided by some employers in the public and private sectors through dispensaries in their establishments; workers can also use general hospital facilities run by the government.

Source of Funds

Insured person: None.

Employer: Total cost.

Government: Provides hospital facilities.

Qualifying Conditions

Cash maternity benefits: Nine months' service with the employer by the expected date of childbirth.

Sickness and Maternity Benefits

Sickness benefit: 50% of wages for factory workers and 100% of wages for workers in shops, establishments, and large factories, for up to 14 days a year.

Maternity benefit: Cash payment, depending on prior wages, for 6 weeks before and 6 weeks after childbirth.

Workers' Medical Benefits

Where medical facilities are not provided, a medical allowance of 100 takas a month is paid to workers.

Administrative Organization

Ministry of Labor and Manpower.

Public Health Service.

Work Injury

Regulatory Framework

First Law: 1923.

Current laws: 1980 and 1982.

Type of program: Employer-liability system for accidental injuries and 34 listed occupational diseases.

Coverage

Employees of railways, factories with 10 or more workers, and estate and dock employees.

Exclusions: Clerical staff, and workers earning 1,200 takas or more a month.

Source of Funds

Insured person: None.

Employer: Total cost.

Government: None.

Bangladesh

Qualifying Conditions

Work injury benefits: There is a 4-day waiting period.

Temporary Disability Benefits

100% of wages for the first 2 months, 2/3 of wages for the next 2 months, and half of wages for subsequent months of disability or for 1 year, whichever is shorter.

Permanent Disability Benefits

Between 10,000 takas and 30,000 takas a month, depending on the insured's monthly wage, payable for up to a year of disability.

Survivor Benefits

Between 8,000 takas and 21,000 takas depending on the insured's monthly wage.

Administrative Organization

Ministry of Labor and Manpower.

Commissioner of Workmen's Compensation.

Unemployment

Regulatory Framework

First and current law: 1965.

Labor Employment Act (1965) provides a termination benefit, a retrenchment and layoff benefit, and a benefit for discharge from service on the grounds of ill health.

Coverage

Workers in shops and commercial and industrial establishments.

Source of Funds

Insured person: None.

Employer: Total cost.

Government: None.

Unemployment Benefits

Monthly rated permanent employees receive half of the average basic wage for 120 days (plus 1 month's salary for each year of service); casual workers, for 60 days (plus a lump-sum payment of 14 days' wages for each year of service); and temporary workers, for 30 days.

Administrative Organization

Ministry of Labor and Manpower.

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Appendix 3. Safety Net Schemes in Bangladesh[35]

Program	Where	Components	Allocation	Funding agency	Implementing agency		Targeting		Cost-effectiveness	Other effects	Evaluated
					National	Local	Mechanism	Performance			
Emergency operation **1998 and rehab. Period of 1999**	Flood affected areas	Rehab. Activities- repair flood damaged roads & embankments; Food items to flood victims	75000 Tons wheat 49800 T-wheat 3500 T blended food 164 T biscuits 1000 T dates	GOB and donor's community Total wheat distribution by donors (98/99) : EU 67720MT WFP 317434 MT GOB 113645 MT	GOB mechanism and NGOS	Upazila/union & NGOS	-landless - reliant on daily labour - priority to women - displaced by the flood				
Rural Devt. Programme **Food For Work** (long established)	National During lean period	-Rural Infrastructure (Fisheries, Forest,Roads and Water)	229,223 MT of wheat(Fisheries 8%, Forest 4%, Roads 35% & Water 53%) 1998/99 752,000 ton food ('99-2000)	WFP Govt 60% of allocation	GOB- DOF, Forest Dept., LGED & BWDB) and NGOs	Through PIC	RDP-1998/99 380000 people received 30 million work day 40,000 women received devt. Package 500 Fish ponds excat.- 60% managed by women 5 million trees maintained-7500 caretakers-85% women 6500km embakment-650km irr. Cannels rehat. 3250 km GCCR-upgraded	Well-targated:92% beneficiaries are poor, 63% poorest	Less cost effective than other: leakage, underpayment (but improved)		WB 2000(Chowdhury/Sen 97,Ahmed 94, del Ninno 98, del Ninno/ Dorosh 00

Program	Where	Components	Allocation	Funding agency	Implementing agency		Targeting		Cost-effectiveness	Other effects	Evaluated
					National	Local	Mechanism	Performance			
-Rural Maintenance Program since 1983	National RMP-III – running 435 Upazilas in 61 districts	Wages in cash		Canadian Food Aid and GoB	GOB & CARE-B	Through PIC	4100 unions-provide employment to app. 41000 destitute women (year round road maintenance)				Ahmed/Billah 94
-IFS (2000-	Area based gradually will cover national	VGD-combining with NNP, New country programme of WFP will cover about 2.15 hhs in food security and nutrition interventions		WB/UNICEF/WFP/EC							
Food for Education (Stared pilot basis in July **1993**)	National, all 460 Upazilas (reached 25% in 95-96)	Primary school enrolment subsidy: food rations to selected hhs (15 kg of wheat or 12 kg of rice/child), children to attend 85% of classes	350,000 ton food (99-00) 2 million children (95-96) Ta 3.4 bil FY 98	100% Govt.	Prim ary and Mass Edu div.	UNO & UEO through School management Committe	Poor thanas Widows, day-labours, low-income, landless, not covered other programmes , insolvent group (eg,fisherfolk, weaver, blacksmith)-Now 1243 unions of 460 upazilas	Pro-poor, mainly within village, but can be improved 16% poor and 4% non-poor participate		Increases enrollment etc. esp. girls (31%) Effect on quality education?	IFPRI 94, BIDS 97 ravallion/wodon 98, wodon 98, Galasso/ Rav.00, Ifpri01

[35] Arjan de Haan (SDD) & Amita Dey (DFIDB). "Social Protection: Its Role in a Chor Livelihoods Programme". John Snow International, 24 May 2001.

Program	Where	Components	Allocation	Funding agency	Implementing agency		Targeting		Cost-effectiveness	Other effects	Evaluated
					National	Local	Mechanism	Performance			
Vulnerable Group Development (IGVGD, WTC, GLEW) **WTC:** Women's Training Centre **GLEW:** Group Leader Extension Workers	national	Material-food support to most vulnerable women through the involvement of local Union Parishad (UP) committees	181,817 MT of wheat-98/99(WTC 8.5%, IGA 91% and GLEW 0.5%) 184,000 ton food ('99-2000)	WFP/WB/ UNICEF/ UNDP/IFAD/ EC/USAID/ AusAID	Dept. Relief and Rehab/ DWA & C/ DOF/ LGED	Upazila Women Affairs Office/ Union Parisad/PIC/ BRAC	Upazila (food insecurity) Disadvantaged rural women	97% beneficiaries are poor, 83% poorest thana targeting political, **IGA**-450,000 women-461 upazila - Almost 300,000 received skills trainibng and functional edu. - About 170,000 women –micro credit from NGOs. **WTC**- over 4200 women –30kg wheat/month-skills training –12 month period with saving schemes. Over 700 centres running –provide marketable skills-60% of those – access to credit, health nutrition training, & literacy & numeracy edu. & other social awareness. **GLEW**-1000 GLEWs reach out 30000 VGD women-20 thanas-where no NGO partners			See WB 2000 (del Ninno 98)
Program	**Where**	**Components**	**Allocation**	**Funding agency**	**Implementing agency**		**Targeting**		**Cost-effectiveness**	**Other effects**	**Evaluated**
					National	**Local**	**Mechanism**	**Performance**			
IFADEP-3 Earth work maintenance of earthen Growth Centre Connection Roads (GCCRs)Closure-Dec.1999	26 districts in Rajshahi and Khulna Division	Remuneration is in cash-women; 8-12 members group FEM-LCS; Employment for a period of 3years with additional support during the entire period.			LGED-Community Organisers & NGOs	FEM-LCS Community Organisers	Key areas of intervention are awareness raising and empowerment, general education the promotion of income generating activities (IGAs). Participatory approach in facilitating training sessions with FES LCS groups	Average saving per women are slightly more than TK.100 per month: Women were interested in further education: A substantial increase in control over spending and selling of goods/products has taken place	--	A significant increase -in access to various services (sending ahildren to the school access to land,access to banking services and to primary health care	A study was conducted in the period May-September/1999-brief resuts published in the IFADEP journal-Dec/1999
Gratutious Relief	National	Grain distribution Immediately during floods & lean period Oct-Dec & Feb.-April	40,000 ton food ('99-2000)	Mainly Govt.	MDMR		Ministry selects Upazilla, UDC select households	Well-targeted, better than VGF	But negligible ? 98 flood: 31% of hh bottom 40%		WB 2000(del Ninno/Dorosh 99) del Ninno et al 01
Vulnerable Group Feeding	National	Food grain distribution, lean seasons After floods	173,000 ton food (;99-20000	Govt + WFP	MDMR		Disaster-affected Upazilla Needy families	Target the poor well, but not areas	98 flood:30% of hh bottom 40%		See WB 2000(del Ninno and Dorosh 99 del Ninno and Roy 99 del Ninno et al 01

program	Where	Components	Allocation	Funding agency	Implementing agency		Targeting		Cost-effectiveness	Other effects	Evaluated
					National	Local	Mechanism	Performance			
Test Relief	National Lean period July-Nov.	Employment Generation, rainy season (like FFW)	130,000 ton food ('99-2000)	GOB	MDMR		Poor				
Special Programme **Boyoska Vata (Old-Age pension scheme)**	National 4479 unions-461 upazila	Welfare to old men & women	Tk. 500 million-99/00	GOB	Ministry of social welfare	Upazila social service office and Union Parishad	0.4 million(Poor, widow and destitute women) TK. 100/month 10 persons from each union(at least half have to be women)	Target the poor (men & women)well,			
Allowances for distressed women-1998	National 4479 unions-461 upazila	Welfare to distressed women	Tk.81.54 million-1998 Tk. 250 million – 99/00	Prime Minister's Relief Fund	Ministry of social welfare	Ministry of social welfare	0.2 million women – monthly allowances on a regular basis.				