

TYM's Mutual Assistance Fund Vietnam

CGAP Working Group on Microinsurance
Good and Bad Practices
Case Study No. 3

Good and Bad Practices in Microinsurance

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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/resourcecentres/microinsurance

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Executive Summary

Since the adoption market-based economic reforms in 1986, Vietnam has achieved remarkable economic growth. Vietnam has also done well in reducing poverty. However, economic growth has not reduced the vulnerability of poor households to external shocks or strengthened their ability to deal with different types of risks. Among the most common shocks that the poor confront are episodes of ill health, crop failure, livestock death, adverse movements in commodity prices, unstable employment opportunities, and the occurrence of natural disasters. It is estimated that between 5 and 10 percent of the population of Vietnam is vulnerable to fall back into poverty.

Microinsurance, the provision of insurance to poor households and those working in the informal economy, remains a relatively new and undeveloped concept in Vietnam. Several initiatives have been implemented, but in all instances either the level of outreach was not significant and/or financial viability cannot be achieved without some form of external subsidy. Interestingly, the current microinsurance schemes are not homogeneous and cover a range of risks from life to livestock to non-life health insurance.

The TYM Fund or Compassionate Fund (TYM stands for *Tao Yeu May* which literally translates to “I love you”) is a Grameen replication project that was formally launched in 1993. The fund is managed by the Vietnam Women's Union (VWU), a mass-based national organisation to promote the welfare of Vietnamese women. TYM works predominantly in rural agriculture-based communities in the northern provinces of Vietnam, targeting the poorest districts in these provinces. TYM's members are women living in poor households usually earning less than VND 100,000 (\$6.50) a month.

TYM follows closely the Grameen Bank philosophy and credit delivery system with some adjustments to reflect the Vietnam context. Clients are asked to form groups of five, which are clustered into a centre, the basic organisational unit comprised of six to eight groups (30 to 40 clients). The centre meets every week in the presence of a TYM technical (or loan) officer who chairs the meeting to discuss loan proposals, collect weekly repayments and savings, and discuss social development issues of common interest to the members. Loans require no collateral and are used primarily for income-generation, though a multi-purpose loan product is available for education, medical care, and emergency expenditures.

Besides credit, TYM also offers two types of savings products to its members: obligatory and voluntary savings.

As of March 2004, the organisation had 141 staff persons, 15 branch offices, 18,951 active members, VND 35 billion (\$2.2 million) in outstanding loans, VND 12 billion (\$776,750) in obligatory savings, and VND 924 million (\$59,700) in voluntary savings.¹

¹ All \$figures refer to US dollars.

The Product

In 1996, TYM launched the Mutual Assistance Fund to protect against the death of a client or family member. The premium is a flat rate rather than a rate based on the size of the loan or the number of family members covered. With a weekly contribution of VND 200 (\$1 cent), upon the client's death, her outstanding loan balance would be written off and her family would receive VND 400,000 (\$26) to cover funeral expenses. Likewise, a member would receive a payout upon the death of her spouse or child under 18 years of age. In July 2001, a health benefit of VND 200,000 (\$13) was introduced and the death benefit was also revised upwards to VND 500,000 (\$32).

The target market for the MAF is the same as that for TYM's loan products. The MAF enables the client's family to better cope with expenses incurred from the member's death and also relieves the family from the burden of repaying her outstanding debt. At the institutional level, the MAF enables TYM to have an additional level of reserve for its loan portfolio without having to increase its provision expenses and reduce its net profit.

TYM's Mutual Assistance Fund is not a full-fledged microinsurance product. From the beginning, MAF was touted as community-based financial support rather than a financial product aimed at mitigating key risks faced by poor households. At the end of March 2004, the MAF insured 68,157 lives. This figure includes 18,951 members, 16,372 spouses and 32,834 children. The assistance fund balance stood at VND 469 million (\$30,300).

Breakthroughs

Appropriate product design for low-income rural households. The simple premium structure of the MAF—where everyone pays the same level regardless of age, number of dependents, and marital status—ensures a broad participation by all members. The premium is also set at an affordable level for poor households.

Easy start-up and management. Management of the MAF was fully integrated into TYM's existing operational structure. The simple product design did not necessitate the hiring of staff with insurance expertise and required minimal staff training. The eligibility criteria for joining TYM act as a pre-selection mechanism that eliminates the need for additional screening. Lastly, the payment of the premium at centre meetings, along with loan repayment and savings contributions, provides convenience for the clients and administrative simplicity for technical officers.

Streamlined claims procedures. The benefits are predetermined, which simplifies the processing of claims and facilitating timely payouts. Instances of fraud are rare due to the existence of proper procedures that provide clear guidance as to the kinds of supporting documentation to be submitted. The involvement of the commune-level Women's Union in certifying claim applications also helps TYM staff to minimise false claims.

Customer satisfaction and impact on community. Clients consider the MAF as good value for the money. The MAF helps to support group and community solidarity since members

can rely on the Fund to help defray costs related to death and illness. Participation in the MAF seems to have sensitised members as to the importance of “saving for a rainy day.”

Challenges

Long-term sustainability of current pricing structure. The premium of VND 200 has not changed since the launch of the product and will need to be adjusted to reflect the larger volume of claims being submitted and the higher loan amounts. The key issue for TYM's management is whether uniform pricing should be continued or whether a tiered-pricing structure should be introduced based on risk criteria such as the demographic profile of members (age, marital status, number of dependents), or the loan amount. A tiered pricing would enable TYM to set its premium more accurately but would also imply a substantive change in the operating procedures for the MAF.

Coverage that responds to clients' needs yet remains affordable. TYM's decision in 2001 to offer sickness benefits under the MAF appears to respond to clients' real needs. However, the benefit level of VND 200,000 represents a small percentage of actual medical expenses; clients could only receive the illness benefit one time; and the types of illnesses and medical procedures covered were not defined clearly and were subject to differing interpretation by branch managers. The challenge for TYM management is to decide between breadth and depth of coverage—i.e., a higher payout level for a specified range of health services, or a lower payout level for an expanded range of services.

Staff training and client sensitisation. TYM's technical officers make a general presentation to new members on the different types of products offered, including the MAF, but provide no follow-up discussion to reinforce this training. There was also some confusion among members about the difference between TYM's savings products and the MAF. If the MAF were to transform into a microinsurance product, TYM staff and management would need specific training on insurance concepts so that they in turn could train their clients.

Lessons Learned

Periodic adjustment of premiums and benefits. An insurance product needs to be tweaked periodically to reflect the client's changing risk profile over time. In TYM's case for example, members are growing older which means they would be more susceptible to illness. The increasing number of clients taking on the special loan of VND 15 million (\$1000) means that should they die, the burden on the MAF would be substantial. An institution should review the type of benefits covered, but changes should be made following a systematic process that includes careful market research, actuarial analysis and careful business planning.

Customer service. The MAF is highly appreciated by TYM members primarily because of the personalised service provided by TYM staff. Members do not have to travel far to make their contribution, the technical officers come to them. Likewise, the delivery of claims by the branch head and technical officer adds a personal touch and generates good word of mouth publicity. The staff also make frequent house visits to members, which strengthen client relations and help to prevent potential fraudulent claims.

Clients' willingness to pay. Interviews with TYM members showed that clients are willing to pay higher premiums for additional benefits. Clients view the MAF as a valuable tool not only for their own household but also for the larger community since it strengthens solidarity among the members. This willingness to pay is also related to the fact that TYM is the only programme that provides this type of product for poor households.

1. Country Context

1.1 Vietnam's Socio-Economic Performance

Since the adoption of the *Doi Moi* market-based economic reforms in 1986, Vietnam has achieved remarkable economic growth as well as vast improvements in its social indicators. In the Vietnam Development Report 2004, the World Bank estimates Vietnam's economic growth for 2003 to be around 7 percent, making it the world's fastest growing economy after China. Vietnam's real Gross Domestic Product (GDP) per capita has more than doubled over the past decade.

Table 1: Macro Data—Vietnam

	Data	Year/Period	Source
GDP (\$Billions)	35.1	2002	World Bank
Population (millions)	80.4	2002	WB
Population density per km ²	243.6	2003	UNDP
Percentage urban / rural population	24%/76%	1999	UNDP
GDP/Capita (\$)	485	2003	UNDP
GDP Growth Rate	7%	2002	WB
Inflation	3%	(end 2003; year-on-year)	UNDP
Exchange Rate (current, X Currency per \$1) ²	\$1 = Dong 15,472	2003	Viet Nam State Bank Interbank rate
PPP GDP per Capita	2070	2001	UNDP
Infant Mortality (per 1000 live births)	20.0	2002	WB
Under Five Mortality (per thousand)	40	2002	UNDP
Maternal Mortality (per 100,000 live births)	165	2002	UNDP
Access to safe water (% of population)	65%-70%	2000	UNDP
Health Expenditure as % of GDP (public/private/total)	Public: 1.4 Private: 3.9 Total: 5.3	2000	UNDP
Health Expenditure per capita (PPP \$)	130	2000	UNDP
Doctors per 100,000 people	50	1999	UNDP
Hospital beds per thousand people (urban/rural)	2.5 (urban: n.a; rural: n.a)	2000	UNDP
Literacy rate	92.1	1998	WB

This spectacular growth performance has been made possible by sound macroeconomic management. After a period of economic turbulence following the collapse of the former Soviet Union, Vietnam has managed to keep a low inflation rate, a moderate budget deficit, and a sustainable level of external debt. The growth performance has also been based on a systematic unleashing of market forces. The distribution of land-use rights to households in agricultural areas, the gradual liberalisation of international trade, and the legal regime to

² This exchange rate will be used in all calculations of current figures in this paper.

register new enterprises have been among the most significant milestones in this process.³ Table 1 provides a snapshot of the key socio-economic indicators for Vietnam.

Vietnam has also done well in terms of how much poverty was reduced with each point of economic growth. From 1993 to 1998, GDP per capita increase by 6.9 percent and the poverty rate declined by 9.0 percent per year. Similarly, between 1998 and 2002, GDP per capita grew by 4.9 percent and the poverty rate fell by 6.1 percent per year.

However, disparities in performance can be detected at the sub-national or provincial level. Some provincial governments have been more determined than others in embracing reforms, attracting foreign direct investments (FDI) and promoting private sector development. There are also differences in the extent to which they have improved their planning and budgeting processes, and worked towards a more effective delivery of social services.

In addition, economic growth has not reduced the vulnerability of poor households to external shocks or strengthened their ability to deal with different types of risks. Among the most common shocks that the poor confront are episodes of ill health, failure of a crop or investment (such as death of livestock), adverse movements in the prices of key agricultural commodities, unstable employment opportunities, and the occurrence of natural disasters. It is estimated that between 5 and 10 percent of the population of Vietnam is still vulnerable to fall back into poverty.

1.2 Role of the State in Insurance

The Ministry of Finance (MOF) is the principal regulatory body for insurers in Vietnam. It prepares the development plan for the insurance industry and drafts legal regulations governing the insurance industry, and at the same time supervises the operation of insurance companies.

The MOF is responsible for licensing insurers and acting as the certification body for all standards and conditions. Insurers and brokers must apply to the MOF for a license prior to registering their business. The legal capital required for an insurance enterprise is \$10 million for life insurance business and \$5 million for non-life business. To start an insurance brokerage, the legal capital required is \$300,000. During the course of operation, the insurance company must maintain a paid-up chartered capital at a level not less than the legal capital stated above.

Other key licensing requirements include establishing a competent managerial and executive team, and submitting a 5-year plan indicating the various aspects of its insurance operations like methods of establishing reserves, reinsurance programme and investment strategy.

Foreign insurance companies may be authorised to operate in Vietnam either as a joint venture or wholly foreign owned insurance enterprise. Besides the above requirements, foreign insurers applying to operate in Vietnam must be financially sound and be authorised

³ World Bank, *Vietnam Development Report 2004: Poverty*, Report No. 27130-VN, Washington, DC: 2003.

by the relevant bodies in their home country to conduct business in the same areas that they plan to carry out in Vietnam.

Insurance enterprises operating in Vietnam must submit periodic returns to the MOF, including their financial statements and reports on other technical issues. Financial inspection may also be conducted by the authority, but no more than once a year.

There is no provision in the Vietnamese law that bans informal insurance schemes that are run by international and local non-governmental organisations (NGOs) or mass organisations, nor is there oversight of their operations. While this means that these entities are not operating illegally, they also lack an official legal status which means that: (a) participants have no legal recourse if the schemes run into financial problems; and (b) there is no clear guidance as to how and whether organisations could expand their schemes or become more formalised insurance providers.

1.3 Insurance Industry Basics

Vietnam's insurance sector posted a record growth rate of 44 percent in 2003, with premiums totalling VND 10.1 trillion (\$647 million) and equalling 1.8 percent of the country's gross domestic product (GDP), compared with 1.3 percent in 2002. Life insurance premiums stood at VND 6.3 trillion (\$403 million), a 46 percent rise over 2002, with non-life accounting for \$236.4 million, representing a 41 percent improvement over the previous year.

Four new insurers were licensed during 2003 to take the country's total number to 24, including 18 insurance companies, one re-insurance company, and five insurance brokerages. There are also around 30 representative offices of foreign insurers in the local market. Of the 18 licensed insurance companies, 3 are state-owned insurance companies, 3 are joint stock insurance companies, 4 are wholly foreign owned, and 8 are joint ventures. Vietnam's insurance market ranks fifth in Southeast Asia, after Malaysia, Indonesia, Singapore and Thailand.

The emergence of foreign ownership has made Vietnam's insurance industry more competitive and has forced a change of strategy among insurers. In the coming years, the government's implementation of requirements under the ASEAN Free Trade Agreement, the Bilateral Trade Agreement between Vietnam and the United States, as well as integration requirements under the World Trade Organization, is expected to further open Vietnam's insurance market. With the possibility of fiercer competition from large foreign insurance companies in the coming years, domestic insurance companies will have to find ways to join or merge with other companies to maintain their market share, or to explore new market segments to remain competitive.

Table 2: Insurance Industry Basics

Issues	Observations
Name of insurance regulatory body	Ministry of Finance
Key responsibilities of the regulatory authority	Sets regulations, supervises insurers, issue licenses.
Minimum capital requirements for insurance license	\$10 million (Life insurer) \$5 million (Non-life insurer) \$300,000 (Brokerage)
Other key requirements for an insurance license	<ul style="list-style-type: none"> • Having a chartered capital which is not less than legal capital. • The management has the managerial capability and professional qualification to run an insurance business. • Foreign companies are allowed by the regulatory authorities in their home countries to carry out insurance business in the areas for which they are applying in Vietnam. • Foreign companies are operating for at least 5 years in their home countries and are in a sound financial status. • To establish an insurance joint venture, the Vietnamese participants have to contribute at least 30% of the capital.
On-going capital requirements for an insurance company	The paid-up chartered capital must be maintained at a level not less than the legal capital requirement.
Other key requirements for regulatory compliance	<ul style="list-style-type: none"> • Must meet minimum solvency margin requirement during existence and operation. • Establish adequate technical reserves and reserve funds based on MOF guidelines • Adhere to MOF guidelines on capital investment, incomes and expenses. • Must submit periodic statutory returns.
Minimum capital requirement for reinsurer	N/a
Number of regulated private insurers	15
Value of annual premiums of regulated private insurers	Total life insurance premium in 2003: \$240 million (est'd)
Number of regulated public insurers	3
Value of annual premiums of regulated public insurers	Total life insurance premium in 2003: \$160 million (est'd)
Number and type of other regulated insurance organisations	N/a
Value of annual premiums of other regulated insurance organisations	N/a
Number of re-insurers (if any)	1
Value of annual premiums of reinsurers	N/a
Other unregulated organisations that offer insurance	N/a
Certification requirements for agents	<p>Individuals acting as insurance agent must fulfil the following conditions:</p> <ul style="list-style-type: none"> • be at least 18 year old, Vietnamese citizens and residing permanently in Vietnam. • possess valid insurance certificate.

1.4 Microinsurance in Vietnam

Microinsurance, the provision of insurance to poor households and those working in the informal sector, is relatively new and undeveloped in Vietnam. Several initiatives have been implemented, but in all instances either the level of outreach was not significant and/or financial viability could not be achieved without some form of external subsidy. Interestingly, the current microinsurance schemes are not homogeneous and cover a range of risks from life to livestock to non-life health insurance.

- **Health Insurance.** Health insurance schemes are available through both government-sponsored schemes and through commercial insurance companies.

Commercial schemes. Bao Viet, PJICO, and other commercial insurers offer personal non-life insurance, where the policy holder is covered in case of accidents, hospitalisation due to serious illness, surgical procedures and death. At VND 2,800 (less than \$2) per person per year, the premium is very affordable for low-income people but would require continuous government support to make the plan sustainable.

Government-supported schemes. Vietnam Social Insurance (VSI) implements a voluntary health insurance program, a not-for-profit scheme that is financially supported by the government of Vietnam. All Vietnamese citizens are eligible, except those who receive health insurance from other social policy programs. The premium ranges from VND 60,000 – 140,000 (\$4-9) per person per year. Recipients receive coverage for preventive care as well as medical treatment and hospitalisation. Health care services to participants are done via health care providers with whom VSI has signed an agreement. The provider submits all claims directly to VSI. At the end of 2003, more than 5.1 million participated in this voluntary health insurance programme. While it is not yet possible to evaluate the program's operational and financial results due to its recent implementation, there are issues concerning the quality of care provided to card holders, the appropriateness of the coverage, and the flexibility of premium levels as well as the modalities of payment.

- **Life Insurance.** Commercial insurers in Vietnam offer a wide range of life insurance products however, their customer base is concentrated among middle and upper income customers or salaried workers. Only Bao Viet's Term Life Insurance appears to be affordable for poor households.

Bao Viet's Term Life Insurance. Term life insurance provides protection for a specified term. Bao Viet will pay a benefit if the insured dies during the policy term. All people aged between 18 and 60 can be insured. Premiums start at VND 15,500 (\$1) and go up as high as VND 103,500 (\$7) per year for a five-year term policy of VND 5 million (\$320). To date, Bao Viet's current distribution channel does not extend lower than the provincial level in most areas, thus limiting its ability to reach lower income communities. A partner-agent relationship with a microfinance institution or a mass organisation like the Women's Union could help Bao Viet market its term life product to a broader segment of

the population without incurring significant investment costs. However, it is unclear whether Bao Viet is truly interested in serving this market segment at this point in time.

Credit-life insurance. This insurance product is provided by the TYM Fund of the Vietnam Women's Union and is the subject of this case study.

- **Livestock Insurance.** GRET, a French NGO working to assist poor households in the Red River Delta region of Vietnam, introduced its livestock insurance product in 1999. The purpose of the insurance was to help farmers insure against four types of measles commonly found among pigs. By focusing on prevention, the product provided a complementary link to GRET's ongoing efforts to set up a veterinary service to treat illnesses. Since GRET also provides credit to farmers to buy the pigs, the livestock insurance would help to reduce the risk of non-repayment should the animals die. The initial premium was VND 15,000 (about \$1) per pig; this amount was eventually adjusted to VND 10,000-15,000 (\$0.65-1) for pigs to be fattened and slaughtered for meat, and VND 50,000-60,000 (\$3-4) for female nursing pigs. While GRET's livestock insurance product was effective in improving farmers' capacity to raise pigs and their ability to respond quickly to treat the animals' illnesses, the product required a lot of staff time and efforts to promote, explain, and monitor the programme. In addition, the verification of illnesses demands a level of technical expertise that the staff do not possess. These factors make the programme expensive to run and hard to replicate on a broader scale.

2. The Institution

2.1 History of TYM

The TYM Fund or Compassionate Fund (TYM stands for *Tao Yeu May* which literally translates to “I love you”) is a Grameen replication project that was formally launched in 1993. The project’s principal mission is “to develop a sustainable and financially viable institution committed to creating opportunities for poor women to access continuously the credit and saving services to improve their total well being... based on the spirit of discipline, hard work, savings and mutual respect.”

The fund is managed by the Vietnam Women’s Union (VWU), a mass-based national organisation to promote the welfare of Vietnamese women in all aspects—economic, political, health, education and family. In 1989, the Vietnam Women’s Union took an interest in the Grameen approach to poverty-focused lending and sent a delegation to observe how Grameen Bank of Bangladesh operates. The delegation was so impressed that in 1991 another delegation visited Grameen Bank for additional exposure and to learn more about how and why the Bank works. With the assistance of Dr. Aris Alip, President of the Centre for Agriculture and Rural Development (CARD) in the Philippines, the VWU received a grant from the Asian Community Trust of Japan in 1992 to start a Grameen-style pilot project. The Fund was officially launched in 1993 with a \$55,000 grant from the Grameen Trust and the Asian and Pacific Development Centre. Subsequently, other organisations provided financial support to TYM including CIDSE, Catholic Relief Services, World Relief, Japanese NGOs like RKK and Nissan Lorenze, and Oxfam America.

Table 3: TYM Basics

Issues	Observations
Legal structure	Mass-based organisation
Registration status	Non-profit organisation
Regulation status	Not regulated
Start of operations	1993
Start of microinsurance operations	1996
Core business	Working capital loans for production, trade, and other enterprises
Target market – core business	Poorest households are identified using objective and verifiable criteria such as housing condition, assets, and income. Only women are invited to join.
Target market – insurance business	TYM members, their spouses, and members’ children under 18 years of age or disabled children.
Geographic area of operation	Rural districts and communes in the northern region of Vietnam.
Development, marketing, or servicing policies with other institutions	<ul style="list-style-type: none"> • Technical assistance from CARD Bank and Grameen Trust in initial development of Mutual Assistance Fund • No linkages established with other institutions on marketing or servicing of MAF
Reinsurance provider	None
Reinsurance type	None

While the VWU operates several microfinance schemes in collaboration with other international NGOs, TYM was considered to be such a success that it has evolved from a project to become a separate department within the VWU, with its own dedicated operating structure, staffing, and policies and procedures. Administratively, TYM consists of the head office, area offices, and branch offices (see organisational chart in Annex I).

TYM follows closely the Grameen Bank philosophy and credit delivery system with some adjustments to reflect the Vietnam context. The organisation employs a targeting tool based on housing condition, family income and asset holding to ensure that clients are poor when they join the programme. TYM's services are focused exclusively on poor women, giving priority to poor districts and communes. Clients are asked to form groups of five, which in turn are clustered into a "centre", with the basic organisational unit comprised of six to eight groups (30 to 40 clients).

The centre meets every week in the presence of a TYM technical (or loan) officer who chairs the meeting to discuss loan proposals, collect weekly repayments and savings, and discuss social development and technical issues of common interest to the members (such as agricultural extension, health care, family planning and other gender issues). Loans require no collateral and are used primarily for income-generation, though a multi-purpose loan product is available for such needs as education, medical care and emergencies. The groups and the centre assume responsibility for their individual loans, as well as responsibility for the loans of others within their respective groups and the centres. The loan sizes and key features are described below.

Loan Type	Loan Amount (VND)	Interest Rate	Loan purpose	Loan Term
General Cycle 1 Cycle 2 Cycle 3 Cycle 4 Cycle 5	300.000-2.000.000 (\$20-130) Max: 2.500.000 (\$160) Max: 3.000.000 (\$195) Max: 3.500.000 (\$225) Max: 4.000.000 (\$260)	12%/year	Production, business, trading, and other types of microenterprises	50 weeks
Special	Min: 6.000.000 (\$390) Max: 15.000.000 (\$970)	12%/year	Larger-scale production and enterprises	50 weeks
Medium-Term Cycle 1 Cycle 2 Cycle 3	2.000.000-3.000.000 (\$130-195) Max: 4.000.000 (\$260) Max: 5.000.000 (\$325)	0.2%/week	Income-generating project, purchase of assets/ equipment	70 weeks
Multipurpose	Min: 100.000 (\$6) Max: 1.000.000 (\$65)	0.2%/week	Consumption	10, 15, 20, 25, 30 weeks

As of March 2004, the organisation had 141 employees, 15 branch offices, 18,951 active members, and VND 35 billion (\$2.2 million) in outstanding loans. TYM's loan portfolio has been growing at a steady pace. Between 2000 and 2004, the organisation's outstanding loans increased from \$844,736 to \$2,242,582, at an average annual growth rate of 25 percent. The average loan size also went up from \$74 in 2000 to \$118 in 2004, with members taking on increasingly larger loans after each cycle. As Figure 1 illustrates, the growth in average loan

size was most significant between 2002 and 2003, reflecting the fact that more clients became eligible for the special loan of VND 15 million or US\$ 1,000 during those years. Table 3A shows the outreach and financial performance data for TYM from 2000 to date.

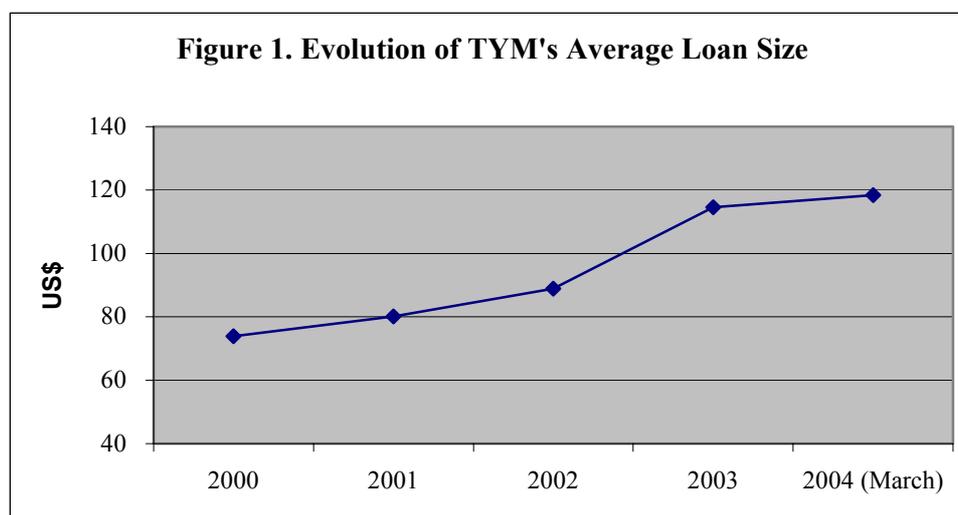


Table 3A: TYM Basics – Trends

	March 2004	2003	2002	2001	2000
Total assets (\$)	2.6 million	2.3 million	2.0 million	1.5 million	1.4 million
Annual budget (\$)	N/a	N/a	N/a	N/a	N/a
Total capital (\$)	242,000	201,000	123,000	63,500	19,500
Number of branches	15	15	13	11	9
Total number of all clients	18,951	18,911	16,326	13,112	11,423
Total number of microinsurance policyholders	18,951	18,911	16,326	13,112	11,423
Total number of microinsurance insured lives	68,157	N/a	N/a	N/a	N/a
Number of staff	141	134	115	102	89
Number of field staff	127	120	104	91	N/a
Staff turnover (%)	N/a	N/a	N/a	N/a	N/a
Number of policyholders/field staff *	149	157	157	144	N/a
Microinsurance marketing costs	N/a	N/a	N/a	N/a	N/a

* TYM does not have dedicated microinsurance staff so the total number of field staff (i.e. branch staff excluding head office) is used.

In 1996, TYM launched the Mutual Assistance Fund, where each member contributed a fixed amount every week in return for a specified benefit in case of death or illness. The primary objective for the MAF was to help TYM members with a small level of protection in the case of premature death or sickness. With a weekly contribution of VND 200 (\$1 cent), upon the client's death, her outstanding loan balance would be written off and her family would

receive a small sum to cover funeral expenses. Likewise, a member would receive a payout upon the death of her spouse or child less than 18 years of age.

The MAF was introduced to TYM members as an additional benefit or service provided by the institution at a minimal cost. Premiums are collected at weekly meetings along with loan repayments and savings collection so there was no additional work involved either on the part of the members or the technical officers. As Table 3 indicates, the target market for the MAF is the same as that for TYM's loan products, but the potential impact on the household is far greater since the MAF enables the client's family to better cope with additional expenses incurred from the member's death and also relieves the family from the burden of repaying her outstanding debt. At the institutional level, the MAF enables TYM to have an additional level of reserve for its loan portfolio without having to increase its provision expenses and reduce its net profit.

2.2 Organisational Development

Roles and Responsibilities. Because of the simple design of the product, TYM did not have to set up a separate staffing structure to implement the MAF. Each TYM branch usually consists of a minimum of 8 staff: a branch manager, an assistant branch manager, an accountant, and five technical/loan officers. The following table describes how the roles and responsibilities related to the MAF are divided among the staff.

Staff Roles and Responsibilities for the MAF

Function	Tasks	Who
Product Marketing	<ul style="list-style-type: none"> ▪ Inform clients about terms and conditions of product ▪ Screen clients for eligibility 	<ul style="list-style-type: none"> ▪ Technical officer ▪ Technical officer
Premium collection	<ul style="list-style-type: none"> ▪ Ensure on-time and full repayment of premium at weekly meetings ▪ Record weekly premium payment in members' passbook 	<ul style="list-style-type: none"> ▪ Technical officer ▪ Technical officer
Claims management	<ul style="list-style-type: none"> ▪ Review and verify member's benefit application ▪ Conduct visit to member and/or member's family ▪ Approve payment of benefits 	<ul style="list-style-type: none"> ▪ Technical officer ▪ Technical officer ▪ Branch manager
Financial management	<ul style="list-style-type: none"> ▪ Submit reports on premium collection ▪ Verify and record premium collection ▪ Disburse and record benefit payouts ▪ Prepare MAF monthly report for head office 	<ul style="list-style-type: none"> ▪ Technical officer ▪ Branch accountant ▪ Branch accountant ▪ Branch accountant

Skills and Training. TYM management recognises the importance of the role that the staff play in operating the scheme, thus much emphasis is placed on staff training. Most staff have an accounting or economics background, and they go through 4 weeks of training when they join the TYM fund. There is also an 8-month apprenticeship before employees are hired as permanent staff. Once on the job, little follow-up training is provided due to a lack of resources.

When the MAF was implemented, no specific training on insurance was provided to senior managers and the staff, and none of the TYM staff had any previous experience with insurance or microinsurance. At the onset, the simple design of the benefit and the integration of the MAF operation into regular credit and savings operations did not necessitate such technical training.

In 2001, the head office decided to add illness benefits to the MAF, whereby a member would receive a one-time payout if she suffers from an illness. The head office issued general guidelines as to what type of illnesses would be covered under the MAF, but did not go into detail as to specific illnesses, type of medical procedures, or hospitalisation rules. As a result, much was left to the interpretation of field staff which resulted in an inconsistent application of the guidelines from one branch to another. For example, one branch approved a case of a member receiving treatment at a hospital in the capital city Ha Noi but another branch rejected a similar claim.

In addition, there appears to be some confusion among the field staff as to the difference between insurance and savings. This is partly due to: (a) the lack of training on the basics of insurance; and (b) the fact that MAF premiums are collected at the same time as members' savings, which blur the distinction between the MAF and the savings products not only in the eyes of the technical officer but of the clients as well. One client interviewed in Y Yen district asked when she could withdraw her funds from the MAF, since she has been contributing for many years but has not been in a situation where she needed to take advantage of the benefits.

Another human resources issue is the relatively high level of staff turnover experienced at TYM. Since the salary level is based on a civil servant scale rather than a private sector/NGO scale, the organisation is not offering a competitive rate in the market to attract and retain staff for the long term.

2.3 Financial Resources

From the beginning, TYM has benefited from the financial assistance of various international donors and NGOs. Since 2002, Oxfam/US has been the sole donor to TYM, granting \$240,000 in 2002 and \$230,000 in 2003. Oxfam's support for TYM is expected to continue until 2007, although the form and type of assistance for 2004 onward is not yet clear as Oxfam is reconsidering its strategy for microfinance intervention in Vietnam.

Besides external funding, TYM has managed to mobilise an adequate level of member savings which could be used to fund its lending activity.⁴ As of March 2004, the level of compulsory and voluntary member savings was nearly VND 13 billion (\$839,000), amounting to nearly 40 percent of its loan portfolio.

⁴ In Vietnam, a legal framework does not yet exist which defines the types of credit and savings activities that a microfinance institution could undertake. At the same time, there is no specific legislation that bans these organisations from mobilising savings and on-lending those public funds.

No financial resources have been received specifically for the MAF; however, since no separate structure was created and no additional staff was hired to manage and run the fund, no additional operational costs were incurred for this product.

2.4 External Assistance/Relationships

CARD Bank in the Philippines and Grameen Bank in Bangladesh provided technical support to TYM in designing the Mutual Assistance Fund. TYM has not approached insurance agents, insurance companies, reinsurers, or health care providers to discuss a potential partnership.

2.5 Risk Management Products Offered by the Institution

Section 3.3 of this study provides a discussion of TYM's product line and the products' ability to respond to clients' risks.

2.6 Profit Allocation and Distribution Policy

TYM is an operating unit within the Vietnam Women's Union, a mass organisation with a not-for-profit status. Thus all profits generated by the microfinance programme are reinvested to build up the organisation's capital rather than distributed.

2.7 Institutional Policy on Investment of Reserves

There is no investment policy for TYM's reserves. All premiums collected under the MAF are kept at the branch level and invested in the loan portfolio. TYM management considers the amount of premiums collected too minimal to be invested in other financial instruments. Since MAF premiums can be considered as "free" sources of funds, the returns earned by TYM on these funds would be equal to the interest rate charged on loans and probably exceed average market rate of returns. However, this is assuming that all loans made by TYM would be recovered in full each and every time.

While TYM does have a cash management policy to ensure an adequate level of liquidity for the overall program, there is no separate reserves policy for the MAF. This means that the organization potentially could face a shortage of funds if a health crisis or economic crisis hits a large segment of its clientele.

2.8 Reinsurance

TYM does not have any reinsurance.

3. TYM's Clients

3.1 Social, Economic, and Geographic Conditions

Vietnam's provinces are organised into different administrative levels – below the provincial (*tin*) level, is the district (*huyen*) level, followed by commune (*xa*), with each commune composed of several villages (*thon*). The VWU has a chapter at each of these levels and works in close collaboration with TYM field staff to identify and recruit new clients.

TYM works predominantly in rural agriculture-based communities in the northern provinces of Vietnam, targeting the poorest districts in these provinces. The infrastructure in these areas is relatively better than those in more mountainous regions in the northwest and central parts of the country. There is usually a paved road from the district level down to the commune level, with a dirt road linking the villages within the commune. The majority of households have electricity and access to potable water.

TYM members are comprised primarily of women living in poor households earning less than VND 100,000 (\$6.50) a month. Clients have to be between the ages of 18-55 and be in good physical condition for carrying out income-generating activities. The average age of TYM clients has been rising steadily over the years for several reasons: (a) clients can stay in the programme indefinitely as long as they continue to repay their loan on time; (b) most young people migrate to the city to attend university or to work rather than stay in their village. TYM does not keep track of the average age of clients but a quick review of the client list at the Y Yen branch showed that the majority of clients are in their late 40s. As will be discussed later, TYM's "greying members" present an adverse selection risk for its Mutual Assistance Fund since the probability of illness and death usually increases with age.

According to a 2002 impact study conducted by the VWU, 97 percent of TYM members are literate, with 85 percent possessing a primary education and 12 percent completing a secondary education level. This education level is higher than the national average where 66 percent complete primary school.⁵

Typically, the households in these communities own a plot of rice paddy and use the loan for short-term economic activities to supplement their income outside of rice planting seasons such as animal husbandry (chickens, pigs, and goats), small commerce (buying and selling goods at the market), and small-scale food production (cakes and snacks). During the past two years, TYM has also provided special loans (VND 15 million or \$1,000) to a small number of clients who (a) have been members for at least 5 years and (b) are involved in larger-scale activities such as construction, clothes manufacturing for export firms, and artisan production (e.g., bronze carvings and limestone sculptures).

⁵ UNDP, *Human Development Report 2002*.

Table 4: Client Information

Issues	Observations
Intended target groups/clients	<ul style="list-style-type: none"> • Women in poor households with existing economic activities • Ages between 18-55
Actual clients	Same as intended target
Exclusions of specific groups	<ul style="list-style-type: none"> • Non-TYM members • Individuals above 55 years when joining TYM • Individuals not officially registered as residents in that particular locality
General economic situation of clients	Monthly income < VND 100,000 (\$6.50)
Key economic activities of clients	Small commerce/trade, animal husbandry, small-scale food production
% of clients working in the informal economy	100%
Social characteristics of clients	100% female; no targeting based on religion or ethnicity
Geographic characteristics	<ul style="list-style-type: none"> • Rural agriculture-based communities • Relatively good infrastructure (electricity, paved road down to commune level)
Nature of membership	Voluntary for participation in TYM but all TYM members must contribute to MAF.
Methods of recruitment of clients	<ul style="list-style-type: none"> • Personal visit by centre head, branch manager, and technical officer. • Referral by local authorities and local Vietnam Women's Union

3.2 Risks, Vulnerabilities, and Coping Strategies

In interviews at two TYM branches, the two major risks cited by clients and TYM staff are illnesses and traffic accidents. Natural disasters such as flood or drought can also have adverse consequences on the households' rice crops but this risk was not considered to be as a pressing concern since the household member could turn to other income-generating activities to compensate for a reduced harvest, whereas in sickness or accident, the income earner is not only incapacitated for an indefinite amount of time but the additional medical expenses that are incurred further reduce the asset level of the household.

A recent ILO-MOLISA (Ministry of Labour, Invalids, and Social Affairs) Study on the demand for risk-managing financial services also found that health was the most pressing concern of poor women from the informal economy, followed by illness and death of livestock. Of the households surveyed for the ILO study, 30 percent spent money regularly on healthcare, with 16 percent finding it difficult to pay these expenses and 41 percent finding it very difficult. The average health care cost is approximately VND 200,000 (\$13) per person per year.

The most common strategies for coping with these risks are through savings and borrowing. Savings can take several forms—in cash at home, savings in a group (through traditional

rotating savings and credit association or ROSCAs), savings in livestock or agriculture products like rice, and savings in-kind like jewellery. Most poor households in rural areas do not keep their deposits in formal financial institutions like banks or post offices since: (a) the minimum deposit (VND 50,000 or \$3) required by these institutions is often too high; (b) these institutions are located at the district level so clients have to travel a long way to deposit a small amount of money; and (c) the clients view the banks' procedures for opening a savings account to be too complicated and time-consuming.

Besides savings, clients also resort to borrowing from friends and family, or from credit programmes like TYM. Most clients prefer to borrow from friends and family since there is no interest to pay, no paperwork to complete, and the funds are available immediately. On the other hand, it is often difficult to find relatives who have enough money to lend in the first place.

3.3 Relationship between Client Risks and the Institution's Services

While TYM's core product is its general business loan, the organisation does try to offer a wider range of financial products to meet the diverse needs of its clientele. TYM offers two types of savings products to its members:

- **Obligatory savings.** Clients are required to save VND 3,000 (\$0.20) every week; the amount is collected at the centre meetings. In addition, a set percentage of the loan amount is deducted at the time of disbursement, 2.5 percent for the first cycle, 5 percent for the second cycle, and 10 percent for the third and subsequent cycles. Members receive interest on these savings at the level determined by TYM for that period. These savings can be withdrawn after the member has been with TYM for five years or when she decides to leave the programme. Members must give a one-week notice for withdrawals. At March 2004, TYM was holding VND 12 billion (\$776,750) in obligatory savings.
- **Voluntary savings.** Under this product, clients have the flexibility to decide on the amount and the frequency in which they would like to contribute. Interest rates are accrued at the same level as obligatory savings. Withdrawals can be made at any time though a one-week notice is still necessary. At March 2004, TYM had a total of VND 924 million (\$59,700) in voluntary savings.

In addition, TYM offers a **multi-purpose loan** to enable clients (a) to cope with emergency situations like illness, unexpected loss of income, and (b) to pay for seasonal expenses like school fees and holiday/New Year expenses. The duration of the loan ranges from 10 to 30 weeks according to a client's choosing, charges an interest rate of 0.2 percent per week, with 2.5 percent of the total loan amount deducted at the onset as a guarantee. The maximum loan amount is VND 1 million (\$65).

Last but not least, TYM offers an insurance product in the form of the **Mutual Assistance Fund**. With a weekly contribution of VND 200 (\$0.01), the member receives a set level of benefit in the case of death of member or her family, or when a member falls ill. In the case of a member's death, her loan is also written off.

3.4 Familiarity with Insurance

Most TYM clients have not had previous exposure to insurance prior to participating in the MAF. A few households qualify for the national health insurance card issued by the Vietnamese Health Ministry but since the card is issued free, it is regarded more as a social benefit than as an insurance product.

The above mentioned ILO-MOLISA study also found that 60 percent of households have bought insurance, generally school insurance for their children, but do not understand the concept of buying insurance as a risk management strategy. In the case of school insurance, for example, most parents buy the policies because they were advised to do so by the school without a thorough understanding of the benefits.

Similarly, this case study found that although all TYM clients participate in the Mutual Assistance Fund, they tend to view it as a form of savings rather than a form of insurance. In general, clients' awareness and understanding of the basic concept of insurance, risk pooling, is low. In addition, some clients who received the death or illness benefits were not aware that they had such benefits coming to them until they were informed of the fact by TYM's technical officer.

4. The Product—TYM's Mutual Assistance Fund

Table 5: Product Details

	Product Features and Policies
Microinsurance Type	Mutual assistance fund (MAF)
Group or individual product	Group
Term	Coverage continues until member leaves the TYM fund
Eligibility requirements	Must be member of the TYM fund
Renewal requirements	Renew upon premium payment
Rejection rate	Low, in the region of 1-2%
Voluntary or compulsory	Compulsory for TYM members
Product coverage (benefits)	<ul style="list-style-type: none"> • Death of client: VND 500,000 (\$32) • Death of spouse: VND 200,000 (\$13) • Death of children below 18 year of age: VND 200,000 • Serious surgery or illness of insured: VND 200,000 (payable once a lifetime only) • Outstanding loan written off upon death of insured
Key exclusions	Suicide
Pricing – premiums	VND 200 per week (\$0.01)
Pricing – co-payments and deductibles	Nil
Pricing – other fees	Nil

4.1 Partners

TYM senior management did not seek external expertise when the MAF was designed and launched in 1996. There is also no reinsurance protection for the fund. The senior management has expressed their intention to work with the state-owned insurer, Bao Viet, to enhance the MAF in the future. The management recognises the need to engage insurance expertise to review the MAF on a regular basis so as to ensure its long term sustainability.

4.2 Distribution Channels

All new TYM members are required to attend three days of training (9 hours total) conducted by TYM's technical officer. The member training consists of 5 modules: (i) group formation; (ii) TYM's organisational structure; (iii) TYM policies and procedures, including products offered; (iv) loan management/development of economic activity; and (v) the centre structure, purpose, roles and responsibilities. Centre heads also receive a follow-up training in January of each year to maximise the effective management of the centre.

Members are briefed about the MAF during the initial orientation training and induction into TYM. Awareness of the MAF is also created by staff and by word of mouth between members during the weekly centre meetings. As claims are submitted and sometimes paid at centre meetings, this generates additional visibility for the MAF.

In the training session, information about the MAF is presented in a general discussion about TYM's product offerings. The discussion covers the features and conditions of the product and the obligations of the client, but does not go into basic concepts of insurance and risk management that would enable better client understanding of the MAF's purpose and objective. Family members and spouses are not involved in the training so are usually not informed about the benefits. In interviews with client households for this case study, family members revealed that they only learned of the death benefits when the TYM staff came to visit them after the client's demise.

Only members of the TYM fund can participate in the MAF. As only economically active women are eligible to join the TYM fund, this criteria acts as a form of underwriting for the MAF. Disabled, seriously ill and older lives are therefore excluded from the coverage. Rejection rate for the MAF is very low given these prior underwriting checks. In addition, there is a 4-week waiting period before TYM members can submit a claim to the MAF so anti-selection is minimised.

4.3 Benefits

The purpose of the MAF is to provide some form of financial support to members in times of crisis. The MAF also aims to foster member loyalty to the TYM fund as no other microfinance fund provides a similar insurance coverage. The MAF is not intended to be a full insurance scheme. Thus, the benefits are not adequate to cover the full costs of funeral or medical treatment. For example, an average funeral costs about VND 5 to 6 million (\$325-390), whereas TYM members received VND 500,000 (\$32) in death benefits from the MAF. Clients usually have to borrow from family and friends to cover the remaining expenses. Nevertheless, members appreciate the benefits and feel that the coverage is adequate for the low premium of VND 200 per week. Members also appreciate the simplicity of the scheme, where everyone pays the same flat rate rather than a rate based on the size of the loan or the number of family members covered.

In July 2001, the health benefit of VND 200,000 was introduced. The death benefit was also revised upwards by VND 100,000 to the current level of VND 500,000. TYM management mentioned that the good results from the first few years prompted them to increase the benefits. TYM did not undertake market research to evaluate the feasibility of these changes nor was there an analysis of the financial impact of the augmented benefits on the programme.

4.4 Premium Calculation

There was no technical computation of the risk premium initially. The premium was determined at a level that the management thought would be affordable to all rather than on criteria such as the likelihood of occurrence, the value of the benefit, and operational costs. The fund is not reinsured. There is no commission paid to staff, however TYM's incentive programme does set recruitment targets for field staff and the staff's ability to reach these targets forms part of their performance appraisal.

4.5 Premium Collection

Premium is collected weekly at centre meetings in each district and attendance is compulsory. This is convenient for members and TYM staff since loan repayments, savings contributions, and MAF premiums are collected at one meeting. Grouping the payment in this way also creates a certain degree of peer pressure to continue participation in the MAF. As the premium amount is small and affordable to all, the lapse rate is kept at a low level. In the unlikely event that a member is unable to pay the premium, the other women in her group will chip in to help for that week. In principle, TYM can deduct a member's savings to cover a late payment but in practice, the shortage is usually covered by other members of the group or the head of the centre.

Members interviewed indicated that the MAF represents good value for the money given the low premium rate of VND 200 per week. They also expressed a willingness to pay a higher rate if the benefits were to be enhanced in the future.

4.6 Claims Management

The claims procedure is outlined clearly and the technical officers interviewed seem to have a good understanding of the process. For death claims, the application form and supporting documents are submitted by members at the centre level and signed by the centre head. For sickness claims, verification and certification by the commune-level President of the Women's Union is also required. These forms are then submitted to the technical officers at the centre meetings and approved by the branch manager before disbursement is made.

The supporting documents needed are as follows:

- Death claim of member: death certificate
- Death claim of spouse: death and marriage certificate
- Death claim of children: death and birth certificate
- Sickness claim: Medical report from hospital

The payment is made in cash and is generally prompt. Claims can be as paid as fast as a week after application if the documents are complete. The payment is often delivered by the branch manager who will make a personal visit to the bereaved household. Rejection rate is low and the claimants interviewed are satisfied with the claims settlement timeframe.

Fraudulent claims are unlikely given that official documents must be produced as proof and these are then verified by the staff. Frequent house calls are also made by the technical officers to forge ties and these visits act as a secondary check on claims validity. The closely knitted nature of the group and the regular meetings also ensure that members are informed of their entitlement if any claim events occur.

The only grey area in the claims process concerns the health insurance component where the claims criteria are not stipulated clearly. TYM management has yet to specify the types of surgical procedures and illnesses that are covered by the MAF. Most of the rejected claims seem to be health related (e.g., illnesses or operations deemed not serious enough).

Table 6: Claims Settlement Details

Issues	Observations
Parties involved in claims settlement	Centre head, commune-level Women's Union, technical officer, branch manager
Documents required for claims submission	Death, birth, and marriage certificate. Medical reports are needed for sickness claims.
Claims payment method	Payment delivered during house calls or at weekly centre meetings.
Time from insured event to claim submission	N/a
Time to pass through any intermediaries	N/a
Time from submission to payment	1 to 4 weeks
Claims rejection rate	Low, 1-2 %.

4.7 Risk Management and Controls

As mentioned above, the closeness of the community, the weekly meetings, and the involvement of the Women's Union all ensure to minimise or even eliminate fraudulent claims. The eligibility requirements for becoming TYM members also help to sieve out the poorer risks (e.g., aged, disabled, poor health) and reduce adverse selection. Adverse selection is also controlled by the fact that coverage is compulsory. However, there is no underwriting in place for the spouse and children who are also covered under the MAF. Moreover, members are not asked to leave the programme when they exceed the age limit and no follow-up is undertaken to evaluate a client's health condition at each loan cycle.

Since the benefits are fixed in nature, there is no concern on the escalation of health costs at the moment. Over usage of the health benefits is controlled by only allowing members to make one health claim, ever.

Though the membership entrance criteria and 4-week waiting period are effective in minimising anti-selection, it may be more prudent to extend the waiting period to 60 or even 90 days, considering that illness is covered and that there is no explicit health underwriting involved. It would also be appropriate to enforce age restrictions and to develop screening mechanisms for spouses. To ensure the long term viability of the fund, it may be worthwhile to consider reinsurance protection against potentially catastrophic events, or if this is not possible to at least exclude disasters from the coverage.

The lack of awareness of the benefits by members and their beneficiaries also exposes TYM to staff fraud. When clients are not aware of their due, money can sometimes find its way into employees' pockets. Management believes that it is extremely unlikely that this has occurred, but recognises the potential vulnerability.

4.8 Marketing

Marketing of the MAF is done primarily through the technical officers. Recruitment targets for new borrowers are set for these technical officers as part of TYM's business plan and are

used as one of the criteria in calculating staff incentives. The membership so far has been within projection of the management.

Product knowledge of the technical officers and branch managers interviewed is good. However, since information about the MAF was initially provided through a general training to clients that covered all the TYM products, the terms and conditions of the MAF could be further reinforced by the technical officers either during centre meetings or periodic household visits. Many of the members interviewed are aware that they are covered by the MAF but are not familiar with the various benefits payable or the required procedures for submitting a claim.

In addition, the distinction between the MAF contribution and savings contribution is not made clear to clients which leads to a certain level of confusion about the usage or aim of these funds. Because all the different payments (loan, savings, MAF) are made at one meeting, clients tend to view their contribution as one lump sum – VND 3,200 each month rather than VND 3,000 in obligatory savings (interest-bearing and accessible) and VND 200 for the MAF (non refundable).

4.9 Customer Satisfaction

Members interviewed (including claimants) are satisfied with the MAF. There is high perceived value for money and the premium is affordable to all. Even though the benefits do not adequately cover the full costs of funeral or medical treatment, they are grateful that there is some form of financial support at such critical times. Members also indicated that they can afford and are willing to pay a higher premium if the benefits are improved in the future. The weekly meetings and regular house calls by staff provide access for members to voice their views on the MAF. The house visits have also generated significant goodwill and projected a caring image of the TYM staff.

Some members have mentioned that the frequency of the meeting can be reduced to monthly instead of weekly, as this may be too time consuming. Also, the MAF can be opened to non-TYM households as well since other poor women have no insurance coverage. While Bao Viet provides an affordable insurance product for poor rural households, the company has a limited presence below the district level and will need to expand its distribution channels to reach this population. Thus, to date, MAF remains the only viable option available to certain rural households.

TYM does not keep track of the retention rate of their clients but the most common reason for non-renewal in the MAF is because members leave the TYM fund. Members usually drop-out from TYM due to migration to another city or because they do not need a loan. Interviews with former members also revealed that serious illness causes members to drop out of the programme as their capacity to generate income decreases and they do not want to incur additional debt. Interestingly, there are a few cases where TYM members continue to make savings contributions even when they are not borrowing and several interviewees indicated their willingness to continue to participate in the MAF without borrowing from TYM since no other insurance option is available in their locality.

5. Results

The branches submit monthly financial statements back to the TYM headquarters in Hanoi, which is checked and then compiled by the accounting department. The accounting staff are scheduled to go to each branch for auditing twice a year. However, this is not carried out due to shortage of manpower. The fund is audited by an external auditor once a year.

At the end of March 2004, the MAF insured 68,157 lives. This figure includes 18,951 members, 16,372 spouses and 32,834 children. The assistance fund balance stood at VND 469 million (\$30,300).

The premium volume has registered a steady growth of about 20 percent per year for the past 2 years. However, the claims have increased at a consistently higher rate than the premium growth, which resulted in the significant increase in claims ratio. The claim ratio increased by 25 percent points in 2001 and 15 more in 2002. In 2003, one of the larger branches (Y Yen), showed a claim ratio of over 100 percent for the first time.

There are many reasons for the worsening experience. The premium rate has been constant at VND 200 per insured per week since inception. However, the benefits underwent some enhancements, with the increase in death benefit and the inclusion of the health coverage starting in 2001. In addition, as the eligible loan amount increases with loan cycle, the outstanding balance to be written off upon a member's death will increase gradually. The average loan size also went up from \$74 in 2000 to \$118 in 2004, which is equivalent to writing increasingly larger sums assured for older lives without any changes to the premiums. Consequently, the claim ratio is likely to continue to experience a worsening trend in the future.

As of March 2004, the cumulative amount of claims paid by the MAF equaled VND 362 million (US\$ 23,400). Of this amount, 26 percent were for illness benefits, 41 percent were for death benefits, and 34 percent were for loan write-offs. Since the scheme has been operating for eight years and the health benefit was only introduced in July 2001, these figures suggest that the big increase in the claims ratio is largely attributable to the health care benefit. Certainly further analysis is required to better understand the trends and risks of the current scheme.

Table 7: Key Results of the MAF

	2003	2002	2001	2000
Total premiums (\$)	11,690	9,750	8,070	7,225
Growth in premium value (%)	20	21	12	N/a
Total claims (\$)	7,320	6,010	3,780	1,590
Increase in claims (%)	22	59	138	N/a
Claims / premiums (%)	63	62	47	22
Growth in number of insured (%)*	16	25	15	N/a

* Includes members only since TYM does not keep track of household members covered until 2004.

6. The Product Development Process

Product conception. Because of the close interaction between TYM field staff and their clients, the organisation was aware of the general risks that these poor households were facing and wanted to find a practical and simple way to assist them. Since both Grameen Bank and CARD Bank had implemented a Mutual Assistance Fund that proved to be quite successful, TYM decided to replicate the same product in Vietnam, albeit with certain modifications to fit the local context.

Market research. In launching the MAF, TYM did not follow a systematic process for new product development. No initial market research was conducted to determine and confirm the types of risks most commonly faced by TYM members, to collect data on the level of household expenses associated with death and illnesses, to gauge households' understanding of insurance and what type of coverage they would like to receive.

Product pricing. The premium level was not based on quantitative information regarding members' willingness or capacity to pay. Rather, the amount of VND 200 was picked because it was deemed to be low enough that clients would not object to making the contribution. It appears that the benefit amounts were also set arbitrarily.

Product rollout. The product was rolled out in all branches without going through a pilot testing phase. Branches that opened during the same year that the MAF was introduced offered the product automatically even before the core credit product was firmly established in that locality.

Product adjustments. In 2001, TYM introduced two changes to the product: (i) the death benefit was increased from VND 400,000 to VND 500,000 for members, and (ii) a one-time illness benefit of VND 200,000 was extended to members. These changes came about through a directive from the TYM head office rather than from market research or informal feedback of clients and TYM field staff.

7. Conclusions

7.1 Future Plans

Nearly ten years after the launch of the MAF, TYM senior management recognises the need to review and make some adjustments to the product. As the organisation grows and its members take on larger size loans, TYM's risk exposure has increased substantially while the premium level has stayed the same. TYM financial reports show that the total amount of claims went up from VND 24 million (\$1,590) in 2000 to VND 113 million (\$7,320) in 2003, an increase of over 300 percent. With more members taking out the special loan of VND 15 million (\$1,000), it would take only a few death claims to de-capitalise the insurance scheme. The MAF has not experienced a deficit on an aggregate level but a few individual branches have.

One of the key strategic objectives for TYM is to transform the MAF into a sustainable microinsurance product that could offer a wider range of benefits to poor households. In this process, TYM has identified three areas of action:

Define coverage priorities for MAF – breadth versus depth. One of the strengths of the MAF is that the product is available to all TYM members at a reasonable price. To continue providing the current scope of coverage (i.e. death and illness benefits), however, the premium level must be increased. The key issue of concern for TYM management is whether the increase in the premium level would result in the exclusion of certain client segments, in other words moving away from the poorer households that the organisation has been serving.

Review the current premium structure and benefits. The current premium level of VND 200 might have been appropriate in 1996 when the product was introduced but the cost of living in Vietnam has increased greatly since that time. In addition, the initial premium was based on TYM's subjective assessment of what clients can afford rather than on quantitative market research. There is also no differentiation in the premium level by age, number of children, or marital status. The benefits, especially for illness, would need to be more narrowly defined for easier and more consistent implementation at the field level.

Seek out a strategic partner. TYM recognises that its management and staff are not insurance experts nor do they want to be since credit and savings is their core line of business. Besides human resource constraints, there are legal constraints for TYM to run its own independent insurance fund, not to mention capital constraints for starting up and managing such a fund. TYM management has expressed its willingness to partner with a formal insurer, such as state-owned insurance company Bao Viet, in the offering of microinsurance to its clients. The advantages of such a partnership are: (i) Bao Viet can provide technical advice to TYM on pricing, reserving, and reinsurance; (ii) Bao Viet is more stable in terms of funds size and better able to address potential catastrophes; and (iii) Bao Viet can help TYM to introduce additional insurance products.

7.2 Key Issues Summary

As the above discussion shows, TYM's Mutual Assistance Fund is not a full-fledged microinsurance product. From the beginning, the objective of the MAF was touted as a form of community-based financial support rather than a structured financial product aimed at mitigating key risks faced by poor households. As such, the MAF is an easily replicable product that does not require extensive insurance expertise to implement. On the other hand, the model's financial sustainability is uncertain and its effectiveness at addressing poor households' vulnerabilities is limited. This section discusses the major breakthroughs, challenges, and lessons learned from TYM's product.

Breakthroughs

Appropriate product design for low-income rural households. The simple premium structure of the MAF, where everyone pays the same level regardless of age, number of dependents, and marital status, ensures a broad participation by all members. The premium is also set at an affordable level for poor households.

Easy startup and management. Management of the MAF was fully integrated into TYM's existing operational structure. First of all, the simple product design did not necessitate the hiring of new staff with insurance expertise and required minimal training for current staff members. Secondly, the eligibility criteria for joining TYM act as a pre-selection mechanism that eliminates the need for additional screening by technical officers. Lastly, the payment of the premium at centre meetings, along with loan repayment and savings contributions, provides convenience for the clients as well as technical officers.

Streamlined claims procedures. The benefits are pre-determined, simplifying the processing of claims and facilitating timely disbursement to clients. Instances of fraud are rare due to the existence of procedures that provide clear guidance about the required supporting documentation. The involvement of the commune-level Women's Union in certifying claim applications also helps TYM staff to minimise false claims.

Customer satisfaction and impact on community. TYM members consider the MAF as good value for the money. The MAF also helps to support group and community solidarity since members can rely on the Fund to help defray costs related to death and illness rather than use their loan capital. Participation in the MAF seems to have sensitised members as to the importance of "saving for a rainy day." This is evidenced by the fact that several TYM members expressed their willingness to continue to save and contribute to the MAF even when they have stopped taking out loans.

Challenges

Long-term sustainability of current pricing structure. The premium of VND 200 has not changed since the launch of the product and will need to be adjusted to reflect the larger volume of claims being submitted, the rising costs of funeral and health services, and the higher loan amounts. The key issue for TYM's management is whether the current uniform pricing should be continued or whether a tiered-pricing structure should be introduced based on risk criteria such as the demographic profile of members (age, marital status, number of

dependents), the amount of outstanding loan, the existing health condition of the client, etc. A tiered pricing would enable TYM to set its premium more accurately but would also imply a substantive change in the operating procedures for the MAF. Field staff will have to be trained on the new screening process, and the administrative and financial management aspects of premium collection will be more complicated. In addition, technical officers will have to spend more time to collect, monitor, and update client information.

Coverage that responds to clients' needs yet remains affordable. Interviews with TYM staff and clients, as well as recent research conducted by the ILO, indicate that illness is the most detrimental risk faced by poor rural women and that health expenses take up a substantial percentage of household income. In that sense, TYM's decision in 2001 to offer sickness benefits under the MAF appears to respond to clients' real needs. However, there are three issues related to this expanded benefit: (i) the premium was not increased to cover the potential increase in claims; (ii) the benefit level of VND 200,000 represents a small percentage of actual medical expenses; (iii) clients could only receive the illness benefit one time; and (iv) the types of illnesses and medical procedures covered were not defined clearly and were subject to differing interpretation by branch managers. Consequently, the expanded coverage did not necessarily mean increased protection to clients in case of sickness. Health insurance is the most complicated among the different types of insurance to administer and should be entered into with caution. The challenge for TYM management is to decide between breadth and depth of coverage—i.e. a higher payout level for a specified range of health services, or a lower payout level for an expanded range of services.

Staff training and client sensitisation. Even though it is compulsory, the success of the product depends partly on the ability of field staff to market it to clients and sensitise them as to its pros and cons. In addition, product differentiation is important to ensure that clients understand each product's terms and conditions, and their rights and obligations under that product. In TYM's case, the technical officers make a general presentation to new members on the different types of products offered, including the MAF, but provide no follow-up discussion to reinforce this training. During interviews for this case study, many members were not aware of MAF's benefits. There was also some confusion among members about the difference between TYM's savings products and the MAF. If the MAF were to transform into a microinsurance product, TYM staff and management would need specific training on insurance concepts so that they could educate their clients. The key challenge would be to communicate clearly and effectively the objectives and the benefits behind the product changes (premium increase, coverage benefits, etc.).

Lessons Learned

Periodic adjustment of premiums and benefits. Every product requires some tweaking, especially insurance products since the clients' risk profile changes over time. In TYM's case for example, members are growing older which means they are more susceptible to illness; and yet the increasing number of clients with a special loan of VND 15 million means that should they become sick or die, the burden on the MAF would be substantial. Environmental factors should also be taken into account. In 1996, when the MAF was launched, most roads to the village were not paved and the majority of clients travelled by bicycle. Now, there are more paved roads and more people are travelling by motorbikes, which means an increasing

number of deaths in traffic accidents. Thus, it is important that an institution periodically review and adjust the premium level accordingly.

An institution should also review the type of benefits covered, but changes should be made following a systematic process that includes careful market research. TYM's case showed that the expansion of coverage to include illness benefits did address a real client need. However, the change was introduced without analysing the implication of such coverage on the MAF's pricing structure, and the benefits were not based on actuarial data. TYM's case also showed that a clear definition of benefits at the beginning would enable consistent application of policies and procedures at the field level.

Customer service. The MAF is highly appreciated by TYM members primarily because of the personalised service by TYM staff. Members do not have to travel far to make their contribution, the technical officers come to them. Likewise, the delivery of claims by the branch head and technical officer adds a personal touch and generates good word-of-mouth publicity and awareness. The staff also make frequent house visits to members, which strengthen client relations and help to prevent fraudulent claims.

Clients' willingness to pay. Interviews with TYM members showed that clients are willing to pay higher premiums for additional benefits. Clients view the MAF as a valuable tool not only for their own household but also for the larger community since it strengthens solidarity among the members. This willingness to pay is also related to the fact that TYM is the only programme that provides insurance services for poor households. The formal insurer Bao Viet has branches as far down as the district level only. In addition, such insurance company does not have the same level of personal interaction with these households as TYM and the Women's Union.

7.3 Outstanding Questions

TYM's success in transforming the MAF into a sustainable microinsurance product will depend on: a) its ability to attract a formal insurer as a strategic partner; and b) its institutional capacity to act as an intermediary or agent. As with most growing microfinance institutions, TYM will need to strengthen its financial management and operational systems to manage a multi-product line effectively. There are two important areas of change:

- **More frequent auditing of branches.** TYM undergoes an external audit every year but there is no internal audit process due to the lack of human resources at the head office (there are currently only 2 full-time staff in the head office's Accounting section). Financial reports received from the branches are reviewed for discrepancies but no real checks are done to ensure that the numbers reported are correct. A regular schedule of branch audits would reduce errors and ensure proper accounting of funds, especially since claims are paid in cash and delivered personally by the field staff. It would also ensure funds adequacy to cover client claims.
- **Improve Information Technology (IT) capability.** Every TYM branch has at least one computer but most reports are still prepared manually. Client data are not kept in one centralised file and generating a client list can take several days. A few branches do keep

client demographic data electronically but not in a standardised format. TYM would have a better bargaining power with a formal insurer if it could deliver a complete database of its clientele that included age, number of children, marital status, etc. This database would enable the insurer in its analysis and pricing.

Another outstanding question relates to the *opening up of the MAF to non-TYM members*. This would allow diversification of risk by having a bigger pool of clients, but might expose MAF to adverse selection risks and distract TYM from building its core credit and savings products.

Annex I: TYM's Organisational Chart

