

# MOVING BEYOND CREDIT LIFE INSURANCE

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A vast majority of microinsurance programs at microfinance financial institutions (MFIs) start with offering some sort of credit life coverage, which stands as the most common product offered to low-income households. Credit life cover typically pays the balance of an outstanding loan in the case of a client's death. It is a logical starting point as it is easy for MFIs and insurers to introduce. For MFIs' perspective, it is attractive as it reduces the risk of their loan portfolio and generates revenue. For insurers, it allows them to learn about the market, understand mortality rates, and test claims controls without taking significant risk.

As credit life is often the first insurance product that low-income clients are exposed to, it offers a tremendous opportunity to build a culture of insurance. Clients that derive value from their credit life products are likely to become more receptive to other insurance products. Unfortunately, credit life still doesn't bring, from the client value perspective, enough value and there is great scope for improvement.

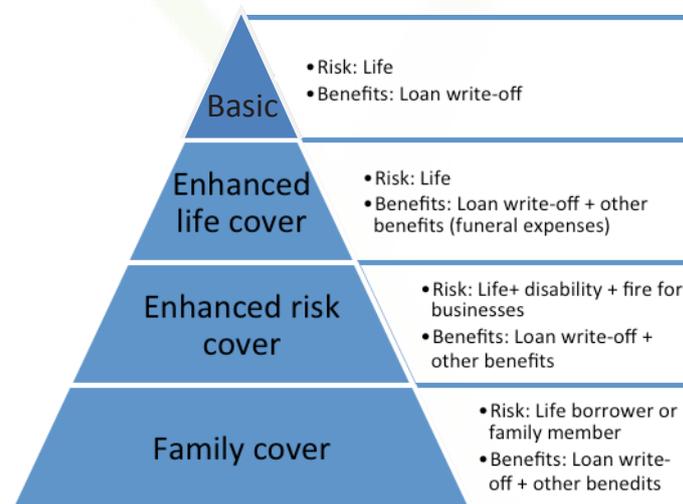
## The basics of credit life

The most common product is basic credit life, which covers only the principal and interest of an outstanding loan when a client dies. While such a cover is useful for the MFI, it often does not adequately cover the risks that clients face.

In most cases, basic credit life can be provided efficiently by MFIs. There should be no legal issues barring lenders from

providing that type of product as it simply covers default in the case of death. However, in the case of very large loans (concentration risk), significant potential for catastrophic loss (contagion risk), or an active plan to expand basic credit life products in ways that enhance value for clients, it can make sense for an insurer partner to assume the risk.

Administration of basic credit life products should be simple with active efforts to contain costs. Lower expenses should enable clients to benefit either directly through lower premiums, or indirectly through expanded coverage (explained below) or services once operational costs are covered and fair profit is generated.



**Figure 1 Basic and enhanced credit life**

<sup>1</sup> For more information, please see [Improving credit life microinsurance](#) - John Wipf, Eamon Kelly, and Michael J. McCord, Microinsurance Paper n°9, ILO, 2011

## Increasing value for your clients

One way to increase credit life value for low-income people is to expand coverage to include additional risks. An improved value proposition or enhanced credit life (see Figure 1) includes coverage beyond the basic credit life product so that beneficiaries receive financial benefit upon the client's death, or the client receives some benefit upon the death of a family member and/or coverage in the event of another risk.

Enhanced credit life could include:

- Enhanced life cover provides the same benefits as basic credit life plus additional benefits such as payment for funeral expenses. Alexandria Business Association in Egypt, for example, provides cover of the full initial loan amount plus a "bail fund" to assist with funeral expenses
- Enhanced risks cover includes the same risks as basic credit life plus additional risks such as disability cover for the borrower, a personal accident rider or fire coverage for business premises. An interesting example comes from Opportunity Uganda Ltd (Box 1)
- Family cover expands the basic credit life and sometimes enhanced life cover to include death or disability of family members. A recent survey of thirty credit life programs<sup>2</sup> highlighted that clients, when proposed variety of benefits, see family cover as one of the most valuable coverage. In the case of institutions that primarily serve women, results showed that borrowers tend to be much more concerned about coverage for their spouse's life than for their own. Covering the spouse can help stabilize the household finances and help the family cope with their loss.

Such enhanced products are more expensive, but they can provide greater value to clients if the products respond to needs and are delivered efficiently.

## Addressing operational complexities

The structure of the products - basic credit life as a standalone versus an aggregated product with basic credit life, enhanced life cover, enhanced risk cover and/or family cover - has an impact on operations. Product design can affect aspects of product administration such as continuity of cover, premium calculation and premium collection, among others.

### Box 1: Enhanced fire protection in Uganda

Opportunity Uganda, a microfinance institution, provides short-term loans to purchase stock to a large number of vendors located in fire-prone market areas. Opportunity's credit life insurance offers protection not only in the event of death of the borrower but also in the event of fire - if a fire destroys a vendor's shop the insurer pays off the outstanding loan. Having observed the devastating economic impact of a market fire on a number of its clients, Opportunity is exploring the possibility of extending fire cover to protect the entire inventory of the borrower, not just that which can be covered by the amount of the outstanding loan. Such cover could be easily added to the existing credit life product to protect the vendor's accumulated assets.



<sup>2</sup> Detailed results from the survey are presented in the Microinsurance Paper No. 9.

Take continuing coverage for example. Tying other covers to credit life creates problems because there is lack of parity between risk durations. Risk of credit default due to death has a fixed term. Yet the risk of financial crisis due to the death of a breadwinner, or loss of the business is continual. Subsequently, fixing the term of coverage to the loan can be problematic especially if people do not continually borrow. As a result, some organizations have transitioned from credit- to savings-linked insurance such as Banco Sol (see Box 2).

Expanded cover that includes additional benefits can present actuarial challenges. VisionFund in Cambodia offers fixed funeral benefits for the family, but a monthly premium is charged on the outstanding balance of the loan (loan payments are made monthly). With inflation and economic improvement of clientele, the average loan size increase over time, thus the base on which the premium is calculated continues to grow while funeral benefits remain fixed. This requires frequent re-pricing and adjustment of the rate (at least every 12-24 months), and the organization must have sufficient data to perform accurate actuarial analysis.

### To conclude

Basic credit life coverage should be seen as a start and not an end, as it is not sufficient to assist low-income clients in managing their risks. MFIs should see their interest to commit to understand clients' needs and preferences, learn from existing credit life products and use that learning to expand options available to borrowers and their family.

### Box 2: Moving beyond credit life in Bolivia

Following several years experience selling credit life insurance, Zurich Bolivia initially expanded its microinsurance services to a group life product, SolSeguro distributed by BancoSol, a commercial bank serving the low-income market. Later, the company designed two additional composite products: SolSalud (life insurance plus basic health coverage) and SolSalud Plus (life, health, and additional coverage in case of accidents). Monthly premiums range from \$0.99 to \$4.48 for a single policyholder. Unlike most insurance products offered through MFIs, which are typically linked to loans, Zurich's products are offered through customers' savings accounts, which enable the poor to have protection regardless of their debt status. Furthermore, the structure of the policy creates an incentive for policyholders to increase their savings, since benefits increase along with their savings balances.



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