

MICROINSURANCE

PAPER No. 9

March 2011

IMPROVING CREDIT

LIFE MICROINSURANCE

John Wipf, Eamon Kelly, and Michael J. McCord

Copyright © International Labour Organization 2011
First published 2011

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit www.ifrro.org to find the reproduction rights organization in your country.

ILO Cataloguing in Publication Data

Wipf, John; Kelly, Eamon, McCord, Michael J.

Improving Credit Life Microinsurance / John Wipf, Eamon Kelly and Michael J. McCord, International Labour Office. - Geneva: ILO, 2011

35 p. (Microinsurance paper ; no.9)

ISBN: 9789221251194 (web pdf)

International Labour Office

microinsurance / credit life

11.023

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our website: www.ilo.org/publns

PREFACE

The primary goal of the International Labour Organization (ILO) is to contribute with member States to achieve full and productive employment and decent work for all. The Decent Work Agenda comprises four interrelated areas: respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Broadening the employment and social protection opportunities of poor people through financial markets is an urgent undertaking.

Housed at the ILO's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low-income families to help them guard against risk and overcome poverty. The Facility, launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation, supports the Global Employment Agenda implemented by the ILO's Employment Sector.

Research on microinsurance is still at an embryonic stage, with many questions to be asked and options to be tried before solutions on how to protect significant numbers of the world's poor against risk begin to emerge. The Microinsurance Innovation Facility's research programme provides an opportunity to explore the potential and challenges of microinsurance.

The Facility's *Microinsurance Papers* series aims to document and disseminate key learnings from our partners' research activities. More knowledge is definitely needed to tackle key challenges and foster innovation in microinsurance. The *Microinsurance Papers* cover wide range of topics on demand, supply and impact of microinsurance that are relevant for both practitioners and policymakers. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

CONTENTS

Acronyms.....	v
Acknowledgements.....	vi
1 > Introduction.....	1
2 > What is credit life insurance?.....	2
2.1 Types of credit life cover.....	2
2.2 Institutional arrangements for credit life.....	3
3 > Who benefits from credit life?.....	5
3.1 Borrowers.....	5
3.2 Lenders.....	6
3.3 Insurers and intermediaries.....	8
4 > Quantifying the value of credit life.....	9
5 > Existing expanded products.....	14
5.1 Expanded financial benefits.....	14
5.2 Expanded non-financial benefits.....	19
6 > Operational aspects.....	21
6.1 Coverage terms.....	21
6.2 Early loan repayments.....	21
6.3 Premium collection and financing.....	21
6.4 Education and promotion.....	22
6.5 Organisational capacity.....	23
7 > Conclusions and recommendations.....	25
7.1 Client value.....	25
7.2 Operational aspects.....	25
7.3 Recommendations.....	26
References.....	27
Appendix 1: Sample Summary.....	28

ACRONYMS

MBA	Mutual Benefit Association
MENA	Middle East and North Africa
MFI	Microfinance Institution
TPD	Total Permanent Disability

ACKNOWLEDGEMENTS

The authors are grateful to the many people that have provided input into this paper, including:

- Microinsurance program managers (who have requested anonymity) that provided the data with which we were able to gain key insights into their credit life programmes and their management.
- Reviewers including Martin Hintz, Michal Matul, Mathieu Dubreuil, Christine Hougaard, Marc Nabeth, and Mary Yang. Their comments and guidance were very helpful in pulling out additional details and enhancing overall clarity.
- Craig Churchill and Aparna Dalal, who significantly improved the paper with their editing.

The paper was improved by all these contributors however responsibility for any errors or misunderstandings lie with the authors

1 > INTRODUCTION

Credit life cover - insurance that covers the outstanding principal and interest of a loan on the death of a borrower - is the logical starting point for organizations new to microinsurance, because it is generally easy to introduce, simple for borrowers to understand, and seen by financial intermediaries as a support to their core business. Credit life can help create an understanding of microinsurance and expand demand by building an insurance culture. When borrowers see benefits from such products, it makes them more receptive to other insurance products.

Unfortunately, credit life insurance is often designed poorly and provides little value to clients and their beneficiaries. When products provide little value to clients, they reinforce a common negative attitude towards insurance. Thus, improving the value of credit life products may improve clients' attitudes towards insurance, and in turn improve overall demand for microinsurance.

To understand the status of credit life microinsurance, and to formulate ways to improve the overall quality of credit life products, this paper responds to the following questions:

- 1) What is credit life insurance and how is it structured?
- 2) Who benefits from this coverage: borrowers, lenders and insurers?
- 3) How is good value for clients measured, and is it achieved?
- 4) What are examples of credit life products that provide value to clients?
- 5) How might credit life products be expanded or adjusted to offer greater value to clients?
- 6) What operational considerations are necessary to improve credit life products?

This paper addresses these questions primarily using the authors' years of experience in working with numerous credit life products. Additionally, to build a pool of similar data, a survey of credit life products was conducted with thirty selected organizations. Details on the organizations are provided in Appendix 1.

2 > WHAT IS CREDIT LIFE INSURANCE?

Recent landscape studies have shown that credit life insurance is the most common product in the microinsurance market.¹ The primary purpose of credit life insurance is to ensure that the outstanding debt is extinguished if a borrower dies. The product is typically mandatory as a precondition to obtaining a loan from microfinance institutions (MFIs)² and credit cooperatives. It can, however, be designed in different ways and provided through a variety of institutional arrangements.

2.1 TYPES OF CREDIT LIFE COVER

There are several variations beginning with **basic credit life**, which only covers the principal and interest of an outstanding loan on the death of the borrower. This simplest of microinsurance products can be structured in a variety of ways, as illustrated in Table 1.

Table 1: Common design variations in basic credit life insurance

Feature	Description
Who is covered?	Borrower only
What is covered?	<ul style="list-style-type: none"> • Outstanding actual balance of principal and interest • Outstanding scheduled balance of principal and interest
How is premium paid?	<p>By borrowers:</p> <ul style="list-style-type: none"> • Premium deducted from the loan proceeds • Premium added to the loan amount and paid over the life of the loan • Premium factored into a higher interest rate and paid over the life of the loan <p>By lenders:</p> <ul style="list-style-type: none"> • Lender pays periodic premium to an insurer on a 'bulk' basis based on the average total outstanding portfolio during the period. Premium recovered in some manner from the client.
Who pays the premium?	<ul style="list-style-type: none"> • Borrower pays premium directly to the insurer • Lender pays premium and passes the cost on to the borrower (e.g. through a higher interest rate) • Premium is financed by external subsidies (rare) or by other means

Lenders' approach to credit life depends on their objectives. Some organisations use credit life as a benefit to clients, others as an additional source of income, and others as a building block of more comprehensive cover. For lenders interested in the latter objective, they are likely to provide **enhanced credit life** that includes additional benefits or covers additional people:

¹ Of a total 35 million life policies for low-income persons identified in the 100 poorest countries, two-thirds were credit life products (Roth, et al., 2007); from a similar survey in Africa, Matul et al (2009) found that 41 per cent of the 17 million covered lives came via credit life.

² The term 'microfinance institution' (MFI) refers to any institution providing credit and sometimes savings services to low-income markets.

- **Enhanced life cover** provides the same benefits as basic credit life plus additional benefits such as payment for funeral expenses. Banco Compartamos in Mexico, for example, provides credit life cover with about a USD 1,200 term life policy. Alexandria Business Association in Egypt 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.
- **Family cover** expands the basic credit life and sometimes enhanced life cover to include death or disability of family members. VisionFund in Cambodia, for example, provides basic credit life cover plus funeral benefits for its clients, their spouses and children.

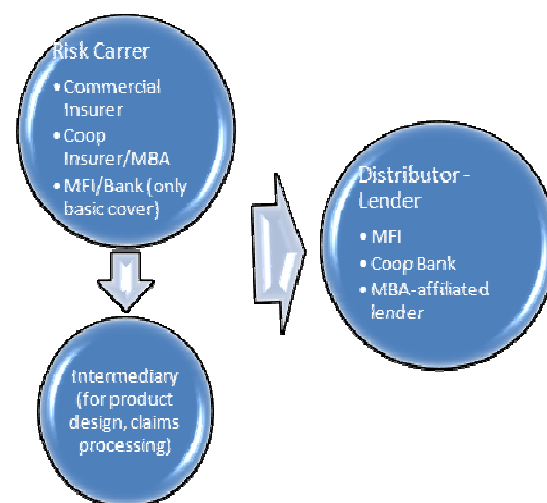
2.2 INSTITUTIONAL ARRANGEMENTS FOR CREDIT LIFE

There are a number of institutional configurations for delivering credit life (Figure 1). While the lender is always present as the distributor, the underwriter is typically either a commercial insurer, a member-owned mutual benefit association (MBA)³ affiliated with the lender, or a co-operative insurer.⁴ Sometimes there is no external insurer at all as the lender retains the basic credit life risk, as in the case of Banco Compartamos.

MFIs and banks traditionally manage default risk (of which default due to death of a client is merely one component) through the prudential use of a “Reserve for Possible Loan Losses”. This method is sufficient to manage MFI losses due to death or even disability, as long as only the loan is covered, and there is no excessive likelihood of catastrophic losses. The reinsurance broker Guy Carpenter is piloting a new approach that will enable MFIs to manage the idiosyncratic risk while having access to reinsurance for disasters.

Where allowed by regulation, this self-insurance for MFIs is certainly an option. The cost of maintaining an internal reserve is minimal versus administrative costs for managing collections, bookkeeping, and transfers on the MFI side, and managing client records and claims on the insurer’s side. Many organizations retain the risk because it results in better value, faster service, and enables them to adapt the product to suit their borrower’s needs. This is possible only up to a prudential amount. For example, the MFIs of the CIF (Confédération des Institutions Financières) in West Africa self-insure the death risk up to a maximum of 10

Figure 1: Institutional Arrangements



³ Typically this is a risk-bearing organization, either formal or informal, which is separate from the lender and owned by the borrowers themselves.

⁴ In some countries, the co-operative institutions own an insurance company that focuses on providing products for their primary member-households. For these, there are sometimes special concessions by the regulator such as reduced capital requirements.

million CFA francs (USD 20,792). The CIF plans to establish a life insurance company in West Africa to cover the excess credit life of several major financial institutions.

Some MFIs charge a fee to clients when the risk is held internally and some even set up a reserve for this specific purpose like a “Reserve for Possible Loan Losses Due to Client Death”. These MFIs may charge clients, but the fee is often allocated directly to income. This is both an unhealthy practice and a sign of how insignificant some MFIs really consider their losses due to client death.

The moment the lender wants to offer more cover to clients, it becomes necessary to cede the risk. As survey respondents noted, besides the legal issue of retaining risk, lenders were concerned with putting their core capital at risk and not having the technical capacity to manage the insurance cover.

If an insurer is the underwriter, there may also be an intermediary involved. Some intermediaries fulfil only the sales and facilitation functions of an agent, while others design products, pre-process and pre-pay claims, and encode or reformat the operations data to the insurer’s specifications. Planet Guarantee performs such a role, working as a broker for MFIs, and linking the insurer with a reinsurer. Planet Guarantee requires some partnering insurers to cede their credit life premiums to Planet Guarantee’s reinsurance panel. Most insurers do not reinsure credit life unless it is legally mandated. Given the rising competition in the various markets, as well as an effort to create value for clients, it would seem that reinsurance for simple products that are already insured by commercial insurers may become inappropriately costly due to the various levels of overhead.

The rationale for intermediaries’ existence is to add value for the lender, insured clients and the underwriter. Intermediaries, however, may find themselves squeezed out of this business as margins reduce, and both lenders and insurers decide that they can manage such simple products on their own. For intermediaries it becomes difficult to support an argument that they really do add value when insurers and / or lenders are willing to manage it themselves.

3 > WHO BENEFITS FROM CREDIT LIFE?

Credit life insurance is often criticised because it is seen to be significantly more valuable for insurers and lenders than for borrowers. In the early nineteenth century, credit life was promoted in the United States using the slogan “the debt shall die with the debtor.” It was considered disgraceful to leave a burden of debt for surviving dependents or relatives. Moreover, banks were more likely to approve a loan if part of their risk was covered by the borrower being insured. Credit life thus evolved with a clear purpose to protect both lender and borrower. In the context of microinsurance, it is useful to assess the value of credit life from the perspectives of the various stakeholders - borrowers, lenders and insurers.

3.1 BORROWERS

For the insured household, credit life must settle the debt of a borrower on death without causing financial strain to the deceased's family. To do so, it is necessary to consider the financial impact of the death. When a microentrepreneur dies, the surviving household members are financially affected in several ways. First, there are the hospital, funeral, and burial costs to settle. Aside from being one of, if not the main breadwinner, the deceased is often also the skilled manager behind the household business. Thus in addition to losing her productivity, the household suffers from loss of her business skills, experience and expertise.⁵ As the business struggles to survive, the household may resort to selling inventory and liquidating productive assets at discounted prices in order to service the unpaid loan. For a household in this situation, having the outstanding loan settled by insurance is valuable as long as the lender halts pressure for loan payment and the insurer pays any additional benefits rapidly.

Insurance protection is also valuable for borrowers that are members of a MFI using the group-lending methodology. When group member dies, the MFI can require the remaining group members to pay the debts of the deceased from their savings. This has negative implications for group morale and the risk of losing savings retards savings growth. Under such circumstances, borrowers often appreciate insurance as an important protection against the death of fellow group members.

Despite these potential benefits, borrowers often express little or no satisfaction with basic credit life products because of a number of issues. One reason, as one respondent noted, “Credit life is only moderately valuable because the majority of covered borrowers are not even aware that they have coverage.” Because there is often no direct charge to clients for basic credit life, or because the premium is perceived as a fee for obtaining the loan, clients may be unaware of their coverage status. In one client satisfaction study in Zambia, MFI clients indicated that they were just learning they had insurance from the research team (Manje, 2007).

Borrowers often perceive credit life as a product that benefits the lender, and not them. To understand why, it is important to look at how MFIs deal with credit default due to death without credit life insurance. Because of the stigma

⁵ This paper uses the feminine pronoun to refer to microentrepreneurs and borrowers since many MFIs primarily serve women.

and extreme bad public relations of collecting debts from a deceased's estate, many MFIs simply write off the debts when a borrower dies. In this case, a transition to insurance would not provide additional value if it only covered the loan.

An improved value proposition would include coverage beyond the basic credit life product so that surviving families receive financial benefit on the client's death, or the client receives some benefit on the death of a family member and/or coverage in the event of another risk. In MFIs that primarily serve women, for example, borrowers tend to be much more concerned about coverage for their spouse's life than their own. Such enhanced and family products are more expensive. But even with the additional cost, enhanced and family cover provides greater value to clients if it responds to needs and is effectively and efficiently delivered.

Value, is eventually context specific, as seen in the case of Allianz Indonesia (Box 1).

Box 1. Impact on clients

In one of the few assessments of credit life products, research assessed the impact of a credit life product offered by Allianz Indonesia. The study found that such a product was not needed because the assumed post-mortem financial crisis did not exist. Community and family support among low-asset Muslim Indonesians was strong enough to largely cover funeral expenses and provide for the bereft family. This support was driven by the perception of death as a collective risk in the light of the moral economy and hinged on principles of balanced reciprocity. Thus in this case, credit life products did not fill a demand gap for clients. The study concluded that it is important to understand demand before offering credit life or any microinsurance product.

Source: Hintz (2010)

Even with enhanced risks and/or family coverage, the level of awareness and experiences of insured borrowers directly affect the *perception* of product value. For borrowers surviving a previous loan cycle, or for those applying for the first time, credit life may not seem valuable even if the purpose of the coverage is clear to them. Paying a premium for an intangible benefit can be viewed as a waste of hard-earned money because borrowers 'know' beforehand that they will survive the term of the loan. Indeed, mortality rates of MFI clientele tend to be significantly lower than those for the average population because the MFI primarily lends to healthy and productive clients. In general, greater appreciation of credit life occurs with increased age, after witnessing a benefit payout, having dependents, or due to consumer education.

3.2 LENDERS

For a lender, it is much easier to be positive about credit life insurance. Unlike the borrower who is limited to her individual experience, the lender can evaluate the financial impact of credit life on its entire portfolio of loans. Eliminating the risk of borrower mortality with the cost passed on to the borrower is prudent risk management and

established business practice. Lending institutions in the survey appreciated credit life as valuable for their organization, because:

- It protects the company, shareholders or member-owners, and their loan portfolio
- It increases fee income
- There is no need to attempt repayment from a deceased borrower's estate
- Offering quality insurance enhances corporate image, increases reputation in their markets, attracts new clients, and improves customer loyalty
- It helps fulfil their social mission in that they assist clients and their families to manage risks
- It enables the provision of a broader set of financial services

For lenders, credit life - and especially enhanced credit life - can prove to be a competitive advantage, as it was for VisionFund (Box 2).

Box 2. Credit life as a competitive advantage in Cambodia

Cambodia has a relatively high microfinance penetration and significant competition among MFIs. One MFI, VisionFund, uses its credit life product as a comparative advantage. It promotes its loan products as superior to competitors' because the outstanding debt is waived if the borrower dies. In addition, there are funeral benefits for the borrower, spouse and children. 'Insurance' is never mentioned in its promotional materials or in interactions with borrowers. The premium is 'invisible' since it is embedded in the interest rate. Credit life is regarded as highly valuable by this successful MFI because it has given it an important competitive edge.

Source: Author's experience

On a corporate level, lenders may promote the fact that they offer credit life as a competitive advantage, however, field staff interacting with clients typically do not use this as a marketing advantage and do not do well at informing clients of this cover. Sometimes, even staff are ill-informed about the cover. The mandatory nature of basic credit life facilitates this apathy towards educating clients about what they are purchasing. Additionally, since basic credit life has proliferated throughout microfinance its status as a market advantage is questionable. In Uganda, after few large MFIs began offering enhanced and family credit life products, this level of cover became a market expectation on the part of clients, who moved from MFIs without cover to those with the product.

In many instances MFIs are focussed on creating value for themselves and not for their clients (Box 3). When MFIs retain the risk of portfolio loss due to borrower death, they often charge significant fees (up to three per cent of the initial loan) for the service while facing much lower claims experience. The presence of insurance should mean that lenders could theoretically lower interest rates. The authors, however, found no examples where the presence of credit life products led to any clear reduction of interest rates on loans.

Box 3. Benefit flows in credit life

Richard Leftley, CEO of the multinational microinsurance broker MicroEnsure, relates his experience with credit life and MFIs. "In 2002, most MFIs that we worked with charged borrowers a flat 1 per cent of the loan value and used the resulting funds to pay off the outstanding loans when borrowers died; no insurer was involved. As we started to implement credit life at these MFIs, we noticed that they continued to charge borrowers 1 per cent even though the insurance company was charging 0.3 to 0.5 per cent of the loan value. In essence, the MFI had outsourced the risk for a lower price but not passed the saving onto their borrowers, rather the delta was being booked as revenue. This practice is widespread today, which is a great shame, as we should all be focussed on delivering good value for our clients."

Source: Leftley, 2010.

3.3 INSURERS AND INTERMEDIARIES

The insurers and intermediaries that were surveyed generally stated an interest in credit life products because they:

- Are straightforward and thus easy to sell and administer
- Tend to be very profitable, and are a good way to leverage interventions with additional products or cover that might not be as profitable
- Represent a good entry-level into microfinance and cooperative markets with a chance to establish trust at both institutional and household level
- Are a good way to create demand and awareness for Takaful insurance
- Provide relatively easy access to a large customer base with a potential growing demand for other insurance services in the future

Insurers usually approach credit life as an anchor of their microinsurance business since it allows them to enter that market with relative ease. Without much risk they can learn about the market, understand mortality rates and test claims controls, while often generating significant profits. However, too often, insurers and lenders venture no further into microinsurance than credit life. This may be because the primary motivations of both insurer and lender are satisfied - profits and protection of the loan portfolio - and neither is particularly focused on addressing the remaining risk protection needs of clients or potential clients.

4 > QUANTIFYING THE VALUE OF CREDIT LIFE

An important aspect of value is the amount and type of credit life coverage one can buy for a given price. An actuary determines this by calculating the average expected claim for each borrower that is then loaded to derive the premium rate. A similar measure, called incurred claims ratio⁶, can be calculated retrospectively based on claims experience. Intuitively, this ratio is the proportion of premium paid back to the collective insured borrowers in the form of insurance benefits. In the absence of adverse selection and fraud, a 'high' ratio signifies good value for money. Related measures are the incurred expense ratio, which indicates how much premium is used to manage and administer the product, while the net income ratio shows how profitable the product is for the insurer. With these ratios, one can apply a set of indicators to quantify value for clients as in Table 2 (Wipf and Garand, 2010).

Table 2: Key performance indicators for credit life

Indicator	Definition	Calculation	Range for good financial value ⁷	Interpretation from client perspective
Incurred claims ratio	Proportion of premium used to manage and administer the product	Incurred claims / earned premium	Above 60%	Measures the client value of a credit life product. A higher ratio, in the absence of fraud and adverse selection, means the amount of premium being paid back to clients as benefits is high.
Incurred expense ratio	Proportion of premium paid to beneficiaries as insurance benefits	Incurred expenses / earned premium ⁸	Below 25%	Measures the efficiency of the credit life product. The more efficient the product is, the more valuable it can be if the lower expenses lead to lower premiums rather than increased profit.
Net income ratio	Profitability of the product for insurer	Net income / earned premium	Not more than 10%	Excess profit can be reduced by lowering the premium to increase value to clients.

This paper assumes the following five characteristics of a 'valuable' credit life microinsurance product are:

- a) **Relevant:** The product protects a borrower's household from relevant risks including having to deal with an outstanding loan following the borrower's death

⁶ The authors prefer to discuss incurred ratios that are based on incurred claims, earned premium, and incurred expenses.

⁷ These proposed limits on the ratios are the collective opinion of the authors. Note that the sum of the ratios may exceed 100% because interest on reserves increases the net income ratio.

⁸ In accrual accounting, premium is earned throughout the term of a loan in a pattern that reflects the risk of the insurance coverage and the expenses of administering it. Premium earning pattern is thus independent of how the premium was paid.

- b) **Timely:** The insurer settles the claim in a timely manner before the outstanding loan has an adverse effect on the household's finances
- c) **Understandable:** The majority of borrowers understand the product even when it is mandatory
- d) **Facilitates access:** The lender's portfolio is protected, which makes it easier for poor households to access credit
- e) **Value for money:** There is good value for money as defined by the three value indicators in Table 2

To assess financial value the authors analysed the financial information provided by seventeen institutions participating in the survey. These institutions were selected based on the authors' identification of credit life programs that in aggregate offer a variety of covers, under a variety of different models, and where management was willing to provide data (a significant challenge). Table 3 provides key financial data for these institutions' credit life operations and relevant characteristics of institutions, but their specific identities are obscured as a requirement of providing the data. Even then, not all requested data was available; for many it was difficult to provide the information because of the accounting methods they used for these products.

Table 3: Financial value of credit life programs (ranked by claims ratio)

	Type of organization	Name	Model ¹	Cover	Commission %	Admin Exp %	Claims Ratio %	Profit % ²	Contingency Reserve % ³	Comment
Unsustainable	MFI	Alpha	PA	Family	n/a	n/a	119	n/a	n/a	Not sustainable
	MFI	Beta	PA	Basic	n/a	n/a	95	< 0	n/a	High rate of HIV+
Value for clients	Broker / intermediary	Gamma	PIA	Life and disability for borrower	15	125	70	25	n/a	Priced for low profit
	MFI	Epsilon	PA	Family	n/a	n/a	65	n/a	n/a	
	MFI	Zeta	PA	Family	n/a	n/a	64	n/a	n/a	
	Takaful intermediary	Theta	PIA	Basic	25	10	60	5	n/a	Pricing, not actual
	Commercial insurer (including Takaful)	Iota	PA, PIA	Mixed portfolio	5-16 varies by account	22	60	approx 16 average	n/a	Profit is returned to MFIs (80% for conventional and 70% for Takaful)
	Self-insured MFI	Kappa	SI-MFI	Family	0	21	57	8	14	Building up reserves

	Type of organization	Name	Model ¹	Cover	Commission %	Admin Exp %	Claims Ratio %	Profit % ²	Contingency Reserve % ³	Comment
Poor value for clients	Cooperative insurer	Lambda	PA, PIA	Mixed portfolio	0-40 (varies)	15	30	25 average	n/a	
	Commercial insurer	Nu	PA, PIA	Mixed portfolio	10	20	28	42	n/a	
	MBA	Omicron	MBA	Basic	25	20	25	20	10	
	Self-insured MFI	Pi	SI-MFI	Basic	12	10	24	54	n/a	
	Self-insured credit union network	Rho	SI-CUN	Basic	10	10	22	58	n/a	
	MBA	Sigma	MBA	Basic	n/a	n/a	18.5	n/a	n/a	
	MBA	Tau	MBA	Basic	0	19	13	68	n/a	
	Self-insured MFI	Upsilon	SI-MFI	Extended life for borrower and spouse	18	89	12	< 0	n/a	Voluntary participation
	Cooperative insurer	Psi	PA	Mixed portfolio	8	8	11	63	n/a	Very uncompetitive

Note 1: PA = Partner agent; PIA = partner-intermediary-agent; SI-MFI = self-insured MFI; MBA=mutual benefit association; SI-CUN = self-insured credit union network

Note 2: for some, profit excludes interest earnings on reserves

Note 3 contingency reserve does not include unearned premium or claims reserves

The findings in the table are particularly remarkable because of the enormous range of the results. While credit life is commonly assumed to be profitable for insurers and lenders, these findings illustrate that this is not universally true. If 'good financial value' is defined to mean that at least 60 per cent of the gross premium is paid out in benefits (Table 2), only six of the 17 in this sample meet that criterion. Those with claims ratios near or exceeding 100 per cent are not sustainable and will likely face an adjustment to the premium rates.

Another striking finding was that member-based delivery models (mutual benefit associations (MBAs), cooperatives, credit unions) ranked lowest in terms of client value. The results suggest that the cooperatives and MBAs in this sample do not face competition, and their products are often priced to generate additional surplus to build equity and reserves. Some organizations have limited technical capacity and prefer to price conservatively, while some mimic other products in the market since they do not have the ability to price correctly. Nevertheless, as organizations directly or indirectly owned by the insured households, excess surplus generated by member-based organizations should ideally flow back to members by way of expanded services and other benefits. For example, CIC in Kenya uses surplus from credit life to finance other services for their members and clients (Lacey, et al 2011).

Members of MBAs are typically required to buy a primary life and accident product as a condition of membership, in addition to the basic credit life required of borrowers. However, for many, in addition to basic credit life as a condition of accessing credit through the MBA's affiliated MFI, this insurance cover is all that they can afford to buy. This reduction in purchasing power illustrates a crucial point about MBAs in the sample providing products with very low claims ratios. The surpluses that client-members are funding to the MBAs (Table 3) are crowding out the client's ability to acquire other, potentially more valuable cover in addition to the credit life.

The Takaful providers (Theta and Iota in Table 3) return a portion of the profit back to the frontline organization and some of this money may find its way back to insured borrowers. This is in line with one of the main principles of Takaful.

Looking at the products in terms of basic or enhanced cover within this sample shows that basic cover in five of the six cases falls into either the "Poor value" or "Unsustainable" groups in Table 3. Though there are enhanced products in each value group, five (50%) of the enhanced products fall within the "Value for clients" group, versus only one (17%) of the basic products. Clearly, in this sample, those offering enhanced products have a stronger focus on providing value to their clients.

Providing balanced financial benefits across clients, lenders, and insurers helps to promote value in credit life. Programs that carefully track their financial results and are cognizant of providing good value to the market will realize positive long-term effects on their brand name. A key means of providing better value to clients is by expanding the credit life products to include benefits that have a greater impact on clients.

5 > EXISTING EXPANDED PRODUCTS

The expansion of the basic credit life products can happen in various dimensions including:

- A greater variety of risk events that affect the household (accidents, sickness, fire, etc.) may trigger full or partial repayment of the loan or result in other benefit payments
- Other household members or assets are insured
- Coverage amounts are higher than the loan balance
- Extending coverage beyond the loan term

The strategy of using credit life as a profit driver has been historically successful, but recently, in several countries, the credit life market has become more competitive driving down premium rates and forcing insurers and lenders to rethink their microinsurance strategy. This is good for borrowers who are seeing a greater variety of benefits and covers offered in response to the suppliers' need to retain the business.

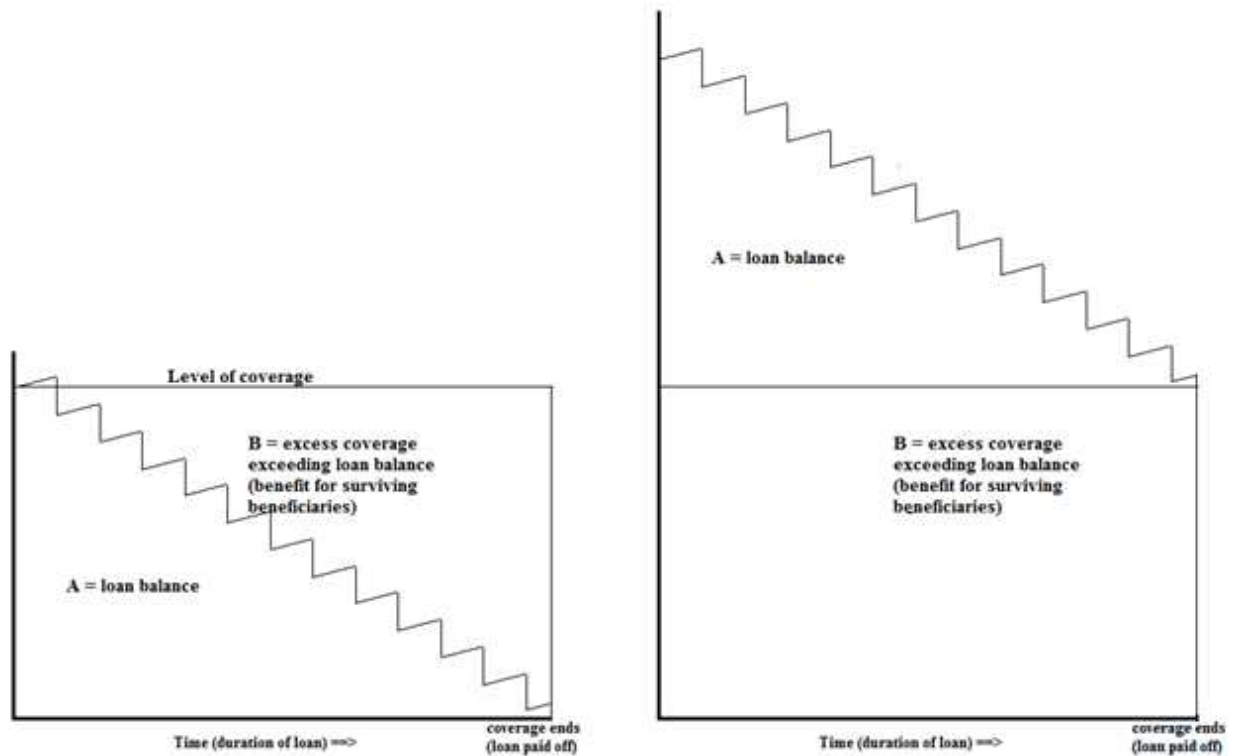
5.1 EXPANDED FINANCIAL BENEFITS

Because of a desire to provide better services to clients or improve competitive positioning, many organisations have expanded their programs beyond basic credit life in terms of enhancing the cover related to the client. From the survey, fewer institutions have moved to family credit life covering spouses or other family members in the borrower's household.

Enhanced life cover

A common way of enhancing the value of credit life is by making the sum assured the original loan amount instead of the outstanding balance at the time of death. This is done for two reasons: a) to ensure that delinquent loans with accrued interest and penalties are better covered, since death is often preceded by a period of illness; and b) to provide some financial benefit to dependents. This cover almost doubles the premium cost, since the fixed sum assured is about twice that of the declining sum assured. The problem is that, while there is almost always some benefit payable to beneficiaries, the amount is uncertain, thus the borrower's preference for a certain fixed benefit for beneficiaries is not met. Some institutions have addressed this problem by combining a declining sum assured with a fixed sum assured term life policy. This provides the benefit of credit life cover with the confidence of a fixed benefit to the family on death. Figure 2 conceptually shows the results of each of the methods.

Figure 2: Declining coverage versus level coverage for surviving beneficiaries



Enhanced risks cover

Enhanced risks cover includes basic cover plus additional risks such as disability cover for the borrower, personal accident rider or fire coverage for business premises.

A common enhancement is the addition of total and permanent disability of the borrower (TPD) resulting from an accident as a condition for repayment of the loan. This cover tends to be very inexpensive since it occurs so rarely and hence it adds little value overall, other than possibly providing the perception of greater value. Accidents are somewhat rare, and it is even rarer for someone to survive an accident and remain permanently unable to pursue a livelihood, which is how accidental TPD is often defined. Usually, disability is assessed by a medical professional 90 to 180 days after the accident. If coverage is for TPD resulting from any cause including sickness, the value and cost of the added coverage increases considerably.

Although found in some commercial credit life programs, temporary or partial disability cover which triggers temporary loan repayments by the insurer on behalf of the borrower, is not a common feature with microinsurance. While this type of cover may help people overcome a short-term financial difficulty, controlling for moral hazard and fraud are too difficult and expensive to manage for the small amounts of the loan payments.

A unique variation on this approach comes from a South Asian microinsurer, whose product covers only the borrower, but has the following additional features:

- The basic benefit amount is the sum assured (disbursed loan) and is paid in the event of natural death, accidental death, or total permanent disability due to accident
- An *additional* benefit equal to the sum assured is paid in case of accidental death
- In case of permanent partial disability due to accident, the benefit is 50 per cent of the sum assured
- An educational cash grant amounting to a maximum of 10 per cent of the sum assured is paid in case of death by any covered event
- In case of hospitalisation for at least 3 days, hospital cash amounts to 0.5 per cent of sum assured per day (with a cap) up to a maximum of ten days during the term (first 3 days of hospitalisation are not covered)

For the medical portion, pre-existing conditions, maternity and circumcision are excluded on top of the standard exclusions such as attempted suicide and participation in a criminal activity. In case of death or total permanent disability, the outstanding loan amount is deducted by the MFI from the benefits due.

Another example comes from Opportunity Uganda Ltd. Opportunity provides short-term loans to a large number of market vendors for purchasing stock. The small shops are located in wet and dry market areas that are prone to many risks, especially fire. Opportunity's credit life insurance protects not only from death of the borrower but also from fire - if a fire destroys a vendor's shop the insurer will pay off the outstanding loan. Having experienced 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 stock of the borrower, not just the outstanding loan. Such cover could be easily added to the existing credit life product with the purpose of protecting the vendor's stock-based equity that has been built up over months or years.

Other examples of coverage enhancements include Microfund for Women in Jordan who provides daily cash assistance in case of hospitalisation, Allianz Indonesia who allows borrowers to insure up to three times the value of loan, and Planet Guarantee that provides indemnity in case of death due to road accident in Cambodia.

Enhanced family cover

Because the financial crisis for a borrower occurs when family members experience insurable events, some lenders have pushed for credit life to cover other persons besides the borrower. Most often the spouse is covered, and occasionally children and parents. Sometimes, as with the AIG Uganda's group personal accident policy, benefits are graduated with the spouse and children being covered, for only 50% and 25% respectively, of the borrower's sum assured.

An enhancement for family cover usually involves full or partial repayment of the loan if the spouse, or possibly children, of the principal insured dies. This is valuable coverage for many since the spouse is often an important breadwinner. Sometimes the spouse is the actual user of the loan proceeds, as in the case of a farmer who sends his spouse to attend group meetings since he must tend to his fields. Additionally, many households rely on two incomes and when one of the breadwinners dies this has a dramatic impact on

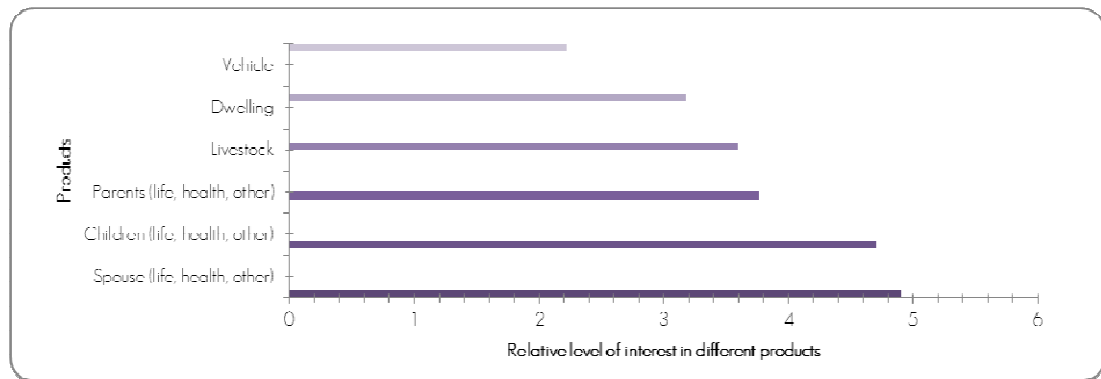
household well-being. Covering the other breadwinner can help stabilize the household finances, or at least mitigate the economic damage. Other benefits offered include funeral covers for spouse and children (VisionFund in Cambodia), and disability for the spouse (MicroEnsure in Philippines).

Once the family cover is added, however, a dramatic shift in information asymmetry occurs because although the client is known to the lender, the risk of insuring the family and especially the spouse is less clear. Microfinance clients are often women. Husbands of low-income women tend to have riskier work as well as riskier lifestyles. Thus, the cost of covering spouses can be significantly higher than covering the client. In two examples, the AIG product in Uganda experienced a mortality ratio of one female client death to four spouse deaths (McCord, Botero, and McCord, 2005), and at CARD MBA experienced one client death to 3.2 spouse deaths (McCord and Buczkowski, 2004). Often, to manage the added risk, the insurer begins with a moderate cover for the spouse and increases it as experience builds up and the true risk is better understood over time. Such cover, though potentially challenging, is a great benefit to the client.

It should be understood that not all product innovation is successful. For example, one Southeast Asian MFI initially designed its credit life product based on market research, from which it concluded that a savings component was important. The product was offered on a voluntary basis and consisted of a death and total permanent disability cover for the borrower amounting to the original loan amount. From this, the outstanding loan at time of death was deducted and the balance paid to dependents. The spouse and children were also covered amounting to 50 per cent and 25 per cent of the borrower's cover respectively. The savings component was 50 per cent of the premium, which was returned with interest when the client left the MFI. The main design problem was that the entire premium was deducted up front from the loan, which made it unattractive to the market, hence uptake was low. Eventually, to reduce the premium deduction, the savings component was dropped as well as the cover for children. Sales of the product still remain too low for sustainability, mainly because market awareness is low, participation is voluntary, and premium remains payable up front.

In the survey sample of thirty credit life programs, their interests in the expansion of credit life varied along several lines. In Figure 3, the intensity of institutional interest is shown based on a five point scale, clearly indicating a very strong preference for additional family covers.

Figure 3: What kinds of coverage enhancements would your customers prefer?



Institutional interest in (institutional demand for) expanding and enhancing credit life is based on perceived demand in their markets and expected business performance of these products. Where there is an institutional demand, it is greatest for life, health, and accident products to cover the spouse and other family members. Livestock protection is also noted for rural markets, closely followed by insurance for the household dwelling (fire, earthquake, and other natural calamities). Clearly, although these are demanded, some of the product options (like livestock) are more appropriate as standalone products not linked to credit life, though certainly linked to specific types of credit.

Provider aspects

Insurers and intermediaries often offer several versions of credit life cover and some have the capacity to develop a specific combination of features that their distribution partners request. Lenders should be aware of this and utilize it to ensure the evolution of products and value for their clients. Offering such a variety of products requires flexible administration systems and actuarial capacity. Other insurers, such as “lota” in Table 3, offer their partners a basket of pre-priced components and allow them to choose a suitable combination.

Some microinsurance providers prefer not to expand credit life beyond its basic form for a number of reasons; some like “Lambda” have very well developed bancassurance distribution systems. Through a large number of MFIs, cooperatives, and bank branches, it retails a range of life and non-life products to these institutions’ customers. In these cases, clients would still have the opportunity to purchase the additional products, but would have more flexibility (at least as a group) to select the most appropriate combination of products. Preference of these providers is for simple credit life that insures only loans, and customers are expected to voluntarily buy extra insurance products to suit their varied needs.

Equity Insurance Agency in Kenya employs such a strategy of offering a variety of products to its clients and limiting its mandatory cover to basic credit life. For Equity, this requires spending a great deal of its resources educating its target market to improve understanding and stimulate demand for microinsurance.

5.2 EXPANDED NON-FINANCIAL BENEFITS

Credit life insurance in its various iterations provides not just financial benefits, but also non-financial benefits for clients. The addition of non-financial benefits typically requires significant extra effort on the part of the lender but can be important to clients. Mass wedding is one example of a non-financial benefit (Box 4).

Box 4: Weddings as an expanded benefit

TSPI, and other MBAs in the Philippines, offer an expanded benefit credit life product that includes the option to participate in mass weddings. In the Philippines the legitimacy of marriage is important for many reasons. However, marriages are expensive and low-income people often cannot afford them. Recognizing this, TSPI holds mass weddings to help low-income clients to legalize their relationships. In addition to providing a joyous benefit to clients (without the need to suffer a loss), TSPI also benefits. Once formally married, the claims process is easier because of the legal bond.

An interesting link with savings and credit life insurance is seen with two cooperative insurers, CLIMBS (Philippines) and CIC (Kenya) who offer a traditional product with a purpose to attract savings from members of primary cooperatives and credit unions. Typically, a cooperative offers free life insurance cover, which matches the amount of a member's savings and share capital. The cooperative cedes the risk to an insurer and pays the premium. One MBA's credit life product is directly linked to the life-savings product in the sense that only the portion of the loan in excess of a member's collateral and savings is covered by credit life insurance. For example, suppose a cooperative member has ₱30,000 collateral and savings for which she receives free life-savings insurance from the cooperative. If she takes out a loan for ₱100,000, she has to buy only ₱70,000 credit life coverage.

Takaful credit life may be regarded as an indirect added benefit since it enables coverage within the boundaries of religious beliefs and because it may result in additional secondary services. Takaful principles require that the surplus from risk-pooling be returned to the insured and while partners have the ability to do this directly they may opt for indirect methods such as adding an additional service or reducing costs of existing services. One insurer, Allianz-Indonesia, offers both conventional and Takaful (i.e. Shariah compliant insurance) versions of credit life. In line with Shariah principles it returns as much as 70% of the profits on completed business to its distribution partners.

Microinsurance in general needs to evolve to meet coverage needs of low-income households. Evolution with credit life has tended to follow one of two paths. The first is to enhance the client's cover followed by an expansion of cover that includes family members. This path has the advantage of bundling products, and since credit life is typically mandatory, it allows for broader coverage for households and results in a lower premium than purchasing individual products separately. However, this approach increases the overall cost of borrowing, for access to insurance products the borrower may not want or need. It may also have the

effect of fulfilling a lender's interest to provide expanded insurance cover; to an extent that it no longer feels compelled to provide cover after the loan is repaid.

The other path is for microinsurance providers to retain a basic credit life cover for borrowers, and expand the range of products offered to all clients on a voluntary basis. This facilitates more appropriate purchase of specific products, and gets away from requiring borrowing in order to access insurance, but it is potentially more expensive.

6 > OPERATIONAL ASPECTS

Basic credit life cover can be simple to administer, especially once the operational details are clearly structured. As innovations are introduced to offer value to clients however, the level of complexity increases and additional operational issues should be considered. This section looks at a number of operational issues that should be addressed before a product is introduced.

6.1 COVERAGE TERMS

Microinsurers need to be careful about the terminal point of basic credit life products. Does the policy terminate at the scheduled loan due date? Not all clients are as punctual as they should be in delivering full payment. Some institutions offer two weeks or more as a grace period in order to retain the cover when the client is late in making the final payment. Some institutions automatically require two extra months of cover beyond the loan maturity date. Others get around this problem by charging a periodic (weekly or monthly) premium rather than a single premium paid up front. This allows for cover regardless of the actual repayment period.

Tying other innovations to credit life can exacerbate this timing problem because there is a lack of parity between risk durations. Risk of credit default due to death has a fixed term, through full repayment of the loan. Yet the risk of financial crises due to breadwinner death, or loss of the business is continual. Thus, fixing the term of coverage to the loan can be problematic especially if people do not continually borrow.

6.2 EARLY LOAN REPAYMENTS

What happens if a loan is repaid early and insurance covers more than the outstanding loan? For some programs, coverage automatically ceases. For others with enhanced benefits, coverage continues to the end of the loan term. Some organizations, for reasons of equity, provide a partial refund of premium. Given the low premium values of even expanded credit life, the administrative costs of refunding a small piece of a tiny premium might be excessive. Thus, most programs do not provide any refund on early loan completion. Some programs have clients make periodic premium payments with loan payments. For these, when the loan is paid they no longer pay premiums so there is nothing to repay.

CLIMBS (Philippines) lets its distribution partner decide if the premium should be partly refunded; if no refund, then coverage continues until the original expiry date. Because CLIMBS has good administration software it is relatively simple to provide the refunds but it must then claw back some reinsurance premium and commissions as well, requiring some administrative effort.

6.3 PREMIUM COLLECTION AND FINANCING

Premium collection can be effectively managed using several methods. For the majority of programs the premium is paid **explicitly** by the client, typically with a single premium at the start of the loan term. Collection from the client is usually in the form of a deduction from loan proceeds or it is added to the loan

amount and amortized. These methods add interest expenses to the cost of the credit life cover for the client. Others methods identified include:

- Periodic withdrawals from a savings account (practiced by some credit cooperatives)
- Premium payable with each loan payment
- Premium embedded in the loan interest rate
- Monthly premium payable based on total value of the loan portfolio (bulk credit life where the institution is the beneficiary and policyholder)
- Term insurance bought for clients by an MFI
- Self-insured through an internal fund sourced from MFI profits

Different methods have an impact on operational efficiency. Depending on the level of automation, multiple premium payments may cause additional operating costs. Payment methods also have an impact on marketing. When the client requests to borrow a certain amount and receives less due to premium deduction, it can cause confusion. Furthermore, if the cost of insurance is fully charged upfront it can drive clients to competitor MFIs, especially if insurance coverage is not highly valued.

The majority of programs base their premium rates on the loan amount or sum insured (with enhanced and family products). This effectively links the premium to the financial risk and capacity to pay. A small number of programs have a single fixed premium for all clients irrespective of the loan amount or term. This is easier to implement and explain but it does raise equity issues. For example, if there is a wide range of loan sizes, those with smaller loans and shorter durations subsidize the larger loans and longer durations. In one example, a self-insured MFI initially started out with a single fixed premium but after a few years its members became more aware of the inequity and many complained. Today it calculates premiums based on the initial loan amount.

An interesting case from an actuarial viewpoint is one with the premium embedded in the interest rate. For example, VisionFund (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 sizes 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). The organization collects very good data to enable accurate actuarial analysis.

6.4 EDUCATION AND PROMOTION

A very important distribution function is to educate the microinsurance applicants about the credit life product that they receive to ensure that the borrowers (and beneficiaries) understand the coverage, terms of cover, and what to do in case of a claim. Most information is provided verbally at the time of borrower enrolment and many institutions, especially those with enhanced and family cover, offer explanatory materials such as brochures. Some, like MicroEnsure in the Philippines, use a formal financial literacy training tool as well as educational comic books.

The focus of insurance managers interviewed for this paper appears to be on promoting their products to their distribution partners. Other than MicroEnsure, it is not clear to what extent they assist their partners with developing education methods. One intermediary complained that with a small commission it is left to do everything on its own without any help from insurers.

One insurer in Ghana said that he did “not want to tell his clients that they were covered because they will make claims.” If credit life is expected to be a benefit to clients, institutions must make sure their clients understand the benefit they have in working with an institution that offers quality credit life cover. Demand for microinsurance can only come if the market understands what it is buying, and that what the market expects really happens.

6.5 ORGANISATIONAL CAPACITY

Many organizations realize the innovations that their borrowers would prefer but they do not have the capacity to change processes or systems to accommodate expanded versions of credit life. Capacity self-assessment is tricky in itself, as institutions often think they have more capacity than they do.

Commonly MFIs have limited technical capacity in microinsurance and have no interest in developing such capacity given that their core competency is in credit or savings. Some have access to expertise through their partners (insurers or intermediaries), while others source expertise from microinsurance technical resource centres and actuarial consultants.

Other capacity constraints include:

- Few if any actuaries that understand microinsurance, such as in a number of African countries which have no actuaries at all, and many others that might have a few actuaries but with no understanding of microinsurance.
- MBAs with a lack of surplus and capital to expand into other products; or like in the Philippines where they are legally restricted to life products.
- Commercial insurers who are reluctant to make technological investments.
- Commercial insurers who are risk averse and restrict themselves to offering only products they are fully confident will generate profits with little effort.

Capacity can be greatly enhanced with systems and software to track activity. Those without capacity should develop these systems rather than simply trudging on as even credit life becomes complicated when it is enhanced with additional covers.

Institutions that have sufficient capacity sometimes face other challenges that prevent them from making changes. One insurer with a successful Takaful product notes that they have sufficient capacity but find it a challenge to convince shareholders and management to prioritize development of new microinsurance products. Other reasons for limited expansion include:

- Desire to focus on achieving much greater outreach before adding additional products.

- SICL in Sri Lanka remains conservative because there are only two actuaries in its country, and none have microinsurance experience. Thus product expansion carries significant additional risk that they are unwilling to take on.
- Some mutuals are still focused on building up a surplus and reserves before venturing into new products.
- Some institutions claim their customers are satisfied with the basic offerings and are not aware that there is demand for anything else.

7 > CONCLUSIONS AND RECOMMENDATIONS

7.1 CLIENT VALUE

Borrowers enrolled in group liability models, those with relatively high value loans (which lenders are not willing to write off), and those in cultures that consider leaving debt after death as taboo, may benefit from credit life insurance. In most cases, however, credit life remains a product seen as benefiting the lending institutions. The financial value is often poor with credit life, *especially for cooperative-based programs*. For cooperatives, the reasons for poor value include limited competition, a policy of building up surplus and contingency reserves without infusing external funds, lack of focus on providing financial value due to complacency, and cautious overpricing due to lack of actuarial expertise.

Credit life with many parties – lender, broker, insurer, reinsurer – can add inefficiencies to simple credit life products. Cases where lenders managed the credit life on their own, have potential to keep costs much lower, but are frequently focused on fee generation rather than value creation.

There is a demand from clients for innovation beyond traditional basic credit life. The value of basic credit life insurance is significantly improved when there is enhanced coverage available and the loss of family members is added. Product expansion is typically through adding coverage of additional risk events (as with total permanent disability), increased coverage amount (such as coverage of three times the loan amount), adding other insured persons (preferably the spouse) or insuring other assets such as the home). Voluntary credit life insurance may also lead to improved products, as they require a positive purchase decision from clients. Such products have proven a challenge to sell.

7.2 OPERATIONAL ASPECTS

There are often constraints on expanding credit life products including technical capacity, financial capacity, management requirements, an unclear business case, and price sensitivity of the market. Frontline organisations may cede or retain the insurance risk depending on their situation, the context of where they operate, and their plans for future microinsurance evolution within their institutions. Some strive to reduce cost and improve value; others lack access to alternative options; and others seek to optimize their profit.

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 a strong impact on operations. Product design can affect aspects of product administration such as continuity of cover, premium calculation and premium collection, among others. These need to be considered before introduction of the product to ensure clarity and to minimize conflicts. For example, an enhanced credit life product with family cover must carefully consider how to manage claims and to price for additional insured lives.

Insurers and lenders may benefit from credit life premiums at first, but the benefits should be utilized to create an array of products that could be subsidized from the funds generated by the credit life product.

However, the evolution commonly stops at credit life and does not continue to include products that clients may value. Where this evolution progresses insurers, lenders, and borrowers often benefit; though such benefits should not be assumed.

7.3 RECOMMENDATIONS

The study has led the authors to several recommendations in the development and implementation of credit life products:

Credit life should be seen as a start and not an end. Clients across the globe could benefit if insurers and lenders learned from the basic credit life products and used that learning to expand options available to clients.

Basic credit life and enhanced family cover should be treated as stand-alone products and priced relative to loan amounts. Other products should be priced based on their specific risk. These risks are often priced together, but because of the different risk characteristics this makes little sense. Providers need to look not at the one product but at the whole microinsurance offering from the institution.

In most cases, basic credit life can be provided efficiently by the lender, as an adjunct to their "Reserve for Possible Loan Losses". There should be no legal issues barring lenders from providing basic credit life as it simply covers default in the case of death. In the case of very large loans, significant potential for catastrophic loss, 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. Otherwise, it is more efficient if the mortality risk of the portfolio is borne by the lender.

Administration of 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 benefits or services (once operational costs are covered and fair profit is generated).

Credit life products can be flexible and responsive to the needs of insurers, lenders and clients. Lenders should endeavour to understand clients' needs and based on this, provide valuable, relevant products. Basic credit life insurance is not sufficient for the needs of low-income clients. Credit life offers insurers and lenders an opportunity to assist clients in managing their risks in an efficient and effective manner. This opportunity should not be overlooked.

REFERENCES

- Ahmed, S, Mbaisi, J, Moko, D, and Ngonzi, A 2005, 'Health is Wealth: How Low-Income People Finance Health Care', *Journal of International Development*, vol. 17, no. 3, pp. 383-396.
- Ahuja, R and Narang, A 2005, Emerging trends in health insurance for low-income groups *Economic and Political Weekly*, vol. 40, no. 38, pp. 4151-4157.
- Arun, TG and Steiner, S 2008, 'Microinsurance in the context of social protection', Brooks World Poverty Institute, working paper #55.
- Hintz, M. (2010): *Micro-Impact: Deconstructing the complex impact process of a simple microinsurance product in Indonesia* (PhD). University of Passau, Passau.
- Lacey, D., 2011. *A business case for microinsurance: Case study analysis of the profitability of microinsurance products*, Quindiem Consulting (Johannesburg, South Africa).
- Manje, L. 2007. *Microinsurance client satisfaction study: Zambia*.
- McCord, M.J. and Buczkowski, G.; 2004. *CARD MBA: The Philippines, Good and Bad Practices Case Study No. 4*, CGAP Working Group on Microinsurance (Geneva, Switzerland).
- Matul, M. et al. 2009. *The landscape of microinsurance in Africa*, ILO Working Paper No. 4 (Geneva, Switzerland).
- McCord, MJ; Botero, F; and McCord, JS; 2005. *AIG: Uganda, Good and Bad Practices Case Study No. 9*, CGAP Working Group on Microinsurance (Geneva, Switzerland).
- Roth, J; McCord, M.J.; and Liber, D.; 2007. *The Landscape of Microinsurance in the World's 100 Poorest Countries*, The MicroInsurance Centre (Appleton, Wisconsin).
- Wipf, J.; Garand, D.; 2010: *Performance Indicators for Microinsurance - A Handbook for Microinsurance Practitioners*, 2nd Edition, Appui Au Développement Autonome (Luxembourg)

APPENDIX 1: SAMPLE SUMMARY

A total of 30 institutions, intentionally selected because of their credit life characteristics, provided information for the study. Table 4 shows the distribution of geography, institutional type and delivery model.

Table 4: Participants by type of institution, delivery model, and region

KEY: PIA = partner-intermediary-agent; PA = partner-agent; MBA = mutual benefit association; SI-MFI = self-insured MFI; SI-CUN = self-insured network of credit unions

Organization Type	Delivery model	Legal risk bearer?	Africa	Asia	Europe	Latin America	MENA	Total
Intermediary	PIA	No	2	3	1			6
Commercial insurer	PA, PIA	Yes	2	2				4
Cooperative Insurer	PA, PIA	Yes	1	1				2
MBA affiliated with an MFI or credit cooperative	MBA	Yes		3				3
MFI (Partner-agent or self insured)	PA & SI-MFI	Some	3	2		4	2	11
Self-insured MFI (temporary permission from regulator)	SI-MFI	temporary permission		3				3
Self insured credit union network	SI-CUN	No	1					1
Total			9	14	1	2	2	30

Sixteen of the 30 organizations surveyed retain at least some of the credit life risk. Nine of these are legal risk-bearing organizations while three are MFIs that had been given permission by the regulator to pilot an in-house programme as microinsurance regulations are developed in their countries. Three MFIs and one credit union network retained risk even though they are not legally permitted to do so.

Some other variations in the sample of respondents include:

- Seven operate solely in urban areas while the remaining are in both urban and rural markets;
- One insurer and one intermediary offer Takaful microinsurance (see section 4);
- Two insurers offer both group and individual policies. Four MFI-based programs indicated that they use individual policies while all others offer group insurance.

MICROINSURANCE INNOVATION FACILITY

Housed at the International Labour Organization's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation.

See more at: www.ilo.org/microinsurance

