Microinsurance – The Jordanian Experience

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1. Introduction

This paper describes the experience of Microfund for Women, the biggest and longest established MFI in Jordan, in launching microinsurance products.

2. What is Microinsurance?

Microinsurance typically refers to low premium, low coverage insurance services provided to low-income clients typically excluded from commercial insurance schemes. Protection is provided in exchange for regular premium proportionate to the likelihood of the severity of the risk involved. Microinsurance is typically offered through international insurance company (e.g. Allianz) via intermediary agencies such as Planet Finance or even – in the case of Colombia- supermarkets; microfinance institutions seeking to diversify their product portfolio or through self-managed community risk pooling programs. Typical microinsurance products include whole life (often in combination with a microcredit), funderal, health or weather index certificates.

Overall, demand for microinsurance is growing fast. Current ILO figures show that, in Africa alone, the number of microinsurance policies rose 80% between 2005 and 2009. In India, there are now individual portfolios insuring over a million people.

3. Microfund for Women's Experience with microinsurance

Microfund for Women (MFW), a non profit microfinance institution, set up business in Jordan in1996. MFW is the largest and oldest Jordanian MFI. It has disbursed more than 380,000 loans, mostly to small entrepreneurs. Its clients are 97% female. MFW is financially viable.

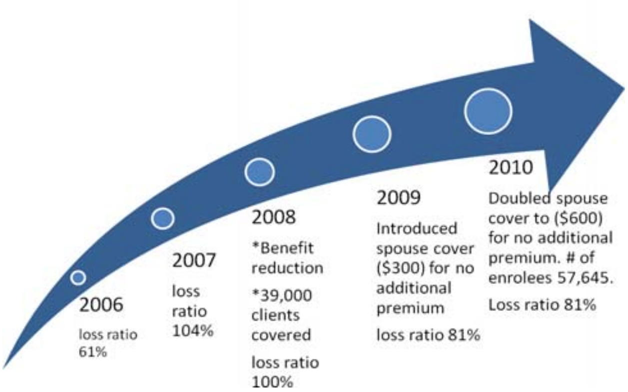
It was not until 10 years later that MFW entered the microinsurance market as the very first institution to do so in Jordan. Its first insurance product credit life insurance was launched in 2006 after a thorough survey amongst MFW customers revealed high demand for death coverage (especially for the bread winners) and illness coverage especially hospitalization. In contrast, health Insurance scored low due to the availability of a publicly administered health program.

3.1. Product Example A : Leveled Credit Life

Microinsurance programme called "Himaya" - meaning protection- was the first product created and marketed. The following was carefully considered while designing the product:

- Basic and simple product: Policy terms and conditions, enrolment process, claim process
- Easy to access: Availability and purchase process, easy premium payment (affordability)
- Client value: Cover fulfils client needs and is fairly priced
- Efficient for insurer and policy holder

The program was designed to pay a fixed amount of death benefit. The benefit amount is a specific multiple of the microloan amount. In the event of insured client's death, the benefit pays off the outstanding loan balance and the remaining amount goes to a beneficiary designated by the client at the time of contract signing. The policy premium is a one time low amount paid upfront with the loan fee. The product is mandatory for microfinance clients. The evolution of the product has been rapid.



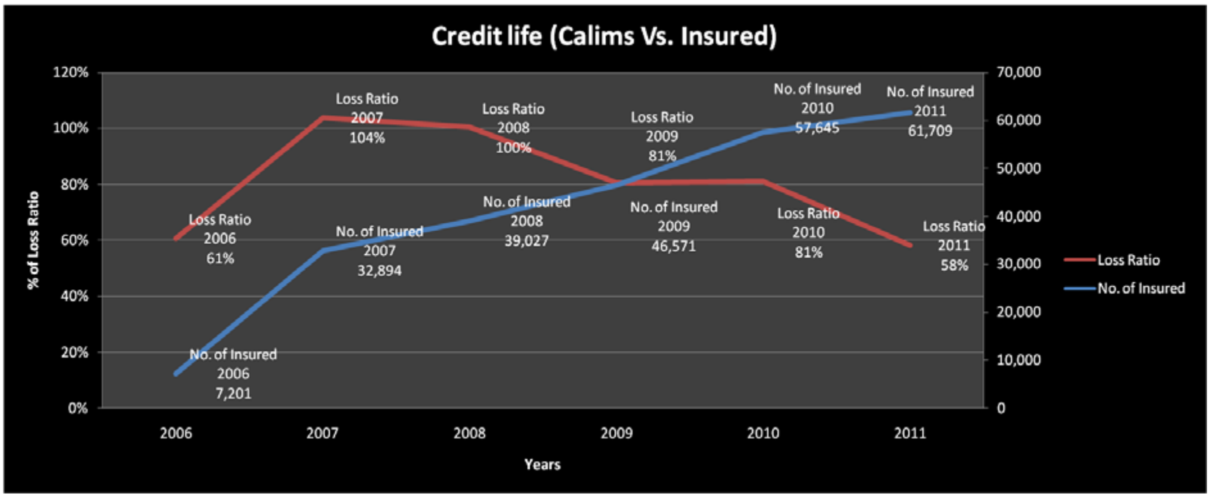
2006: The program lost money in its first two year as the loss ratio exceeded 104%[1].

2008: In the third year the premiums were slightly increased and the pool of insured grew to include more than 39000 insured. The result is a break even.

2009: Starting from the fourth year the program became sustainable and was yielding profit. In the fourth year, the product was developed further to include a USD 300 life insurance coverage for the client's spouse with no additional premium. This decision is primarily philanthropically motivated: As the number of insured increased and the loss ratio stabilized it became clear that the product will be generating profit. So rather than reducing the premium it was decided to increase the benefit to impact the household of the client (and that goes along with MFW's mission). It was decided to extend the coverage to the clients' spouses. The client goes through a period of hardship after the death of their spouse. The coverage amount helps in covering some of the financial expenses incurred after the death of the spouse. Almost 80% of spouses are covered by this option.

2010 A year later the coverage amount was doubled to USD 600 with no additional premium. The program is still running successfully with a current loss ratio around 58%. Looking at the programme's over all benefit breakdown, 20% of the paid claims was used to payoff outstanding loan balances and 80% was paid to the beneficiaries.[2]

Leveled Credit life - Product Life cycle based on MFW's experience[2].



[1] Loss ratio = (Benefits paid out + Adjustment expenses) / Premiums collected
For example, if a company pays out $8,000,000 in benefits and adjustment and collects $10,000,000 in premiums, its loss ratio is 80%.
[2] The spike in 2010 was caused by an unusually long hospitalization period.

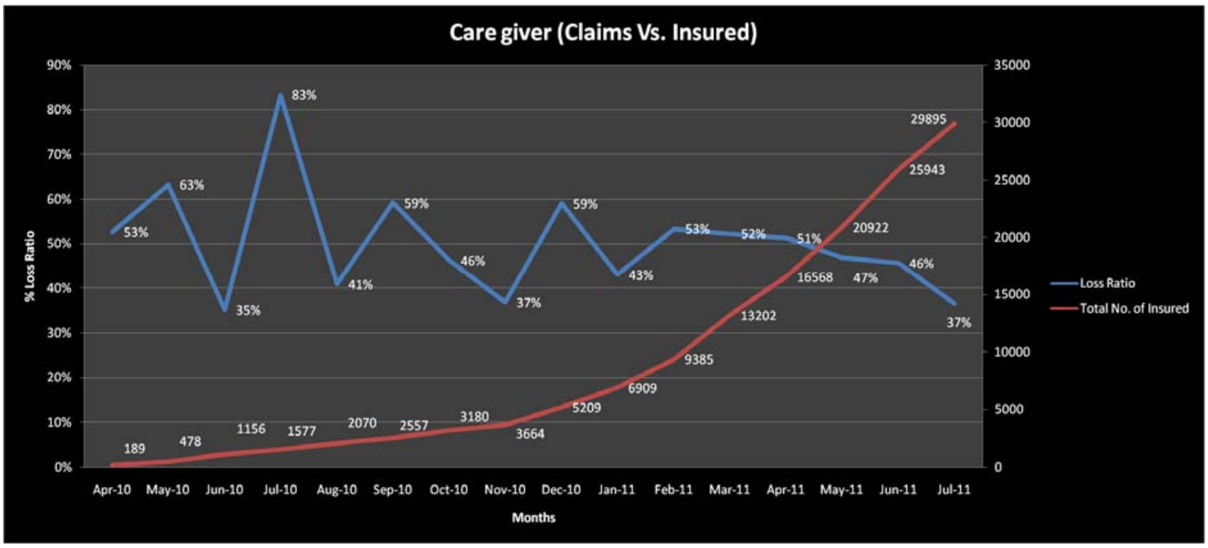
3.2. Product Example B: Hospital Cash Program

"Riaya" – meaning care giver was created by MFW in cooperation with the ILO (Microinsurance facility) and WWB in 2010 in response to the demand previously identified through surveys and market research. Focus groups and data collected from local governmental agencies helped shape the product features. By April 2010 the product was ready to be piloted.

Hospital cash is a simple insurance program that pays the insured a fixed amount for every night the insured stays in the hospital. Exclusions are limited to common exclusions such as suicide, alcohol and drug treatment, natural disasters and acts of war. Admission into the hospital for any other reason than exclusions triggers the benefit. As an added value, this product also covers hospital stays due to natural and complicated maternal deliveries. The two critical factors that needed to be determined in this product were the monthly premium and cover amount per night. The product is compulsory when getting a microloan from MFW.

Making the product compulsory helped bring the premium down and reduced adverse selection risk. In addition, MFW established close relationships with major hospitals in order to easily verify the authenticity of hospital discharge forms (the length of hospital stay must be consistent with the diagnostic). In the beginning, MFW did note a few incidents of fraud – and decided to take a tough stance: those who had made fraudulent claims lost their coverage and were excluded from the program. Once the word was out amongst clients (loss of coverage) fraud cases decreased to an insignificant number

However, MFW had to be very careful not to start losing loan clients due to possibly unwelcomed mandatory insurance product. After going through all product development phases and loan officers training, pilot protocol was set in place and Riaya was piloted in one of the largest branches of the 28 MFW's branch offices. The graph below shows the number of insured as the program was being rolled out to new branches. The graph also shows the loss ratio on monthly bases. The product acceptance and popularity grew as more claims came in and were paid. In the 13th month as the number of insured started to grow rapidly, the loss ratio started to decrease sharply also. MFW is currently working on extending the coverage so it could be offered to the clients' family members[2].



3.3. Other types of Microinsurance

Other microinsurance products such as: Disaster insurance (weather and flood disasters), livestock insurance, crop and weather insurance are not particularly popular in Jordan. Jordan is considered one of the poorest countries on earth in water resources. The majority of Jordan geography consists of desert. Farming areas are very limited - which makes agriculture industry and livestock industry very limited and unattractive. For those few involved in these industries, there are limited government run programs to protect their business against harsh and extreme weather factors that may damage their crops (droughts and freezes).

As microinsurance is evolving it is becoming less dependent on MFIs to extend insurance to low-income households. But MFIs remain an important distribution channel. As both microfinance and microinsurance involve the provision of financial services to the poor, microinsurance will always be associated with microfinance, and therefore any negative perceptions of the lending practices will tarnish insurance as well. Therefore the success of a microinsurance program may be directly related to the success of the MFI distributing it in addition to all factors previously mentioned.

4. Lessons Learnt in introducing microinsurance products

- As a rule of thumb, programs that come straight off the drawing board have little chance of succeeding. So, it is important to involve the people concerned in finding the right microinsurance solution for the specific region. Cover has to be in line with the real needs and wishes of those exposed to the risks or people will not accept it and there will be no opportunity to develop it.
- If the relationship between the sum insured and the premium is not right, this reduces the product's acceptability. It is important for the insured to understand that insuring high-frequency events is not an economic proposition for either side. The system can only work if it covers lower frequency extreme events.
- People on low incomes are perfectly willing to pay for a good product. However, if a program is to succeed, it needs to satisfy three conditions:

  People must

  (1) Be able to pay the premium,

  (2) Be willing to purchase cover

  (3) Enter into a contract of insurance.

  Other factors to be kept in mind are not only the annual premium in absolute figures but also the fact that poor people cannot necessarily make regular payments or may only be able to afford small instalments.

Just like developing any insurance product, certain risks must be accounted for in microinsurance product development. Premium calculation must account for adverse selection risk, moral hazard risk, fraud risk and covariant risk (risk that affects a large number of insured at once). Certain controls – such as the establishment of an MIS system that tracks the claim history of clients in order to analyze the claim pattern and flag suspicious claims - are put in place to minimize the risk exposure of the insurer.

5. Outlook for the Microinsurance Industry in Jordan

Currently two MFI out of seven MFIs in Jordan offer microinsurance. Mainly, the products are credit life and health related insurance. As the clients are becoming aware of the benefits of insurance and some are having a first hand experience, the demand is increasing for the different types. For example, MFW clients are demanding that care giver product be expanded to cover clients' family members. In patient coverage, insurance plans with attached savings programs are also in demand as a mean of savings in addition to the risk coverage benefit. Business insurance (fire and theft) also has a good potential as the number of micro business owners is growing in large numbers.