

**Strengthening self-reliance and asset building strategies of poor households
and micro enterprises in Northern Mozambique
through the introduction of micro insurance by Microbanco FIDES Moçambique**

1. DEVELOPMENT RELEVANCE

Country context: Mozambique counts at present a population of 27,700,000 inhabitants out of which nearly 50% are less than 17 years old. The GDP per capita in Mozambique was 602 US dollars in 2014, falling in the lowest quintal of Sub-Saharan African countries. The economy has developed since the end of the long lasting Mozambican Civil War (1977–1992), but the country is still one of the world's poorest and most underdeveloped. Once peace restored, the government implemented macro-economic reforms designed to stabilize the economy. These steps, combined with donor assistance and with political stability since the first multi-party elections in 1994, have led to improvements in the country's growth rate. In 2014, Mozambique's economy continued to perform strongly with GDP growth of 7.4% and the outlook remains positive. Sustained growth is expected at 7.5% in 2015 and 8.1% in 2016, driven mainly by the energy and transportation sector. Mozambique remains dependent upon foreign aid and a majority of the population remains below the poverty line. Subsistence agriculture continues to employ the vast majority of the country's work force; only 33% of the population is urban.

Population and economic indicators	
Population (2015 estimate)	27,700,000
Rural Population (2010)	14,408,711
GDP growth (average: 2008 to 2014)	6.8%
Inflation (average: 2012 to 2014)	4.0%
Trade balance (% of GDP) (2014)	-10.2%
Foreign Direct Investment (net) (% of GDP) (2009,2014)	8%, 42%
Net ODA & official aid received (% of GDP) (2013)	14.9%
Workers' remittances (% of GDP) (2013)	1.4%
Economic Freedom Index (Rank among 185 countries)	125
Poverty indicators	
GDP per capita (current USD) (2014)	602.1
Gini Index (0= equality 100= inequality) (2013)	45.7%
Multidimensional Poverty Index (2011)	0.389
Poverty headcount at national pov. line (2008)	54.7%

Financial sector context: Mozambique has one of the lowest levels of financial inclusion¹. The FinScope survey (2009) underlines;

- Only 22% of Mozambican adults are financially served (i.e. use a financial product – formal or informal);
- 12% of the adult population is banked and 4% use financial products provided by formal financial

Financial sector (source: Bank of Mozambique)			
	2005	2012	2014
Number of commercial banks	13	18	18
Microbanks and Credit Coop.		8	18
Insurance companies	6	13	17
Bank agencies	228	529	572
ATMs	435	934	1302
POS		8,499	14,461
Districts with at least one agency (out of 158)	27	63	66

institutions which are not banks. In rural areas banks serve less than 5% of the active population.

- While the majority of the Mozambican population is not only poor, but also vulnerable, insurance inclusion is even still lower. Only less than 2% of the rural population has access to formal insurance coverage.

- The financial sector is characterized by a combination of banks and MFIs focusing primarily on salaried people and SMEs. Its outreach is still limited, but steadily progressing.

Partner Financial Institutions: The main partner financial institution of this project is **Microbanco FIDES Moçambique (MBFM)** that received its banking license in August 2014 and the authorization to collect deposits in October 2015. MBFM is cooperating with the Inclusive Finance Academy (INFINA) for research and staff capacity building. This includes another SCBF project on financial education in partnership with

¹ See the FINSKOPE Mozambique Survey 2009. An update based on 2014 figures is under preparation. There has been limited evolution of the financial inclusion landscape during the last 5 years.

MBFM. The greenfield microfinance bank is operating in the Nampula-Nacala Corridor - the second population concentration of the country after the Maputo area - with support of SDC and Swiss Microfinance Holding as initial shareholder. MBFM is the only bank targeting mainly the lowest client segments. Banco Oportunidade and Socremo, the only other two microfinance banks in Mozambique, have recently opened branches in Nampula City, but competition remains limited. Many, if not all, micro credit operators run by international non-governmental organizations have failed in Northern Mozambique.

MBFM offers group and individual loan and savings products with weekly or monthly installments, in line with the business cycles of the clients. A mass approach with a large number of regular transactions, handled by an MIS enabling batch processing, enables to cover costs and to break even.

For the roll out of insurance services sold to its clients MBFM is cooperating with **Hollard Companhia de Seguros SARL**, the Mozambican subsidiary of **The Hollard Insurance Group**, South Africa's largest privately-owned insurance group. In 2015 MBFM has signed a Broker agreement with Hollard.

2. INTERVENTION APPROACH

Most of MBFM's clients pursue asset-building strategies to escape poverty, but they lack adequate risk mitigation instruments to manage lifetime events like death of a family member with high funeral expenses, accidents, invalidity, natural disasters, etc. Therefore, SCBF supported MBFM research on forms of vulnerability, their costs and available traditional coping mechanisms. The approach targets designing financial products covering key lifetime events that are responsible for 80% of their draw backs into poverty: death of a family member with related funeral costs, terminal illness and definitive inability to work. These events have mainly two major impacts on households and micro businesses:



Map of Mozambique: The first branches of MBFM are in Nampula and Nacala, progressive expansion in the Nampula-Nacala Corridor, an area with agricultural potential, is foreseen



A savings, credit and insurance group in Nampula city that was involved in the product development research

1. The micro-entrepreneurs mobilize their working capital to cope with the costs since they are lacking other resources. The poorer families mobilize cash from moneylenders that is difficult to be repaid. The businesses are directly affected.

2. People have medium- and long-term asset-building strategies related to education, housing, investment in business assets and so forth. The most important and frequent ones are related to child education, with school related costs being the first expenditure item in many families. The education related asset-building strategy collapses

when children have to be taken out of school, when money is left for food only and the expenditure levels required to enable the expected social and economic progress become beyond reach.

SCBF supported MBFM and Hollard Mozambique in developing and testing the following two products:

1). A credit life plus product, offered to all borrowers. It is the basic product that introduces for the first time ever MBFM's borrowers and their families to formal insurance. It includes:

- A life coverage at the level of the initial loan amount. In case of death, invalidity or terminal illness of the client, the amount due to the bank is covered and all tranches of repayment already honored by the client are repaid to the family.
- Furthermore, and independently from the loan amount, in case of death of an insured family member a funeral cover equivalent to 450 USD is paid out to the borrower or his family.

2). A savings life plus product ensuring workable medium- and long-term asset-building strategies, mainly for low-income women-led households and women entrepreneurs. It builds on securing small and regular savings, takes into account the cash flow constraints with periods of higher savings capacity and periods with less income or higher expenditure needs, and secures the longer-term strategy to meet death and funeral expenses, the most important expenditure risks that make asset accumulation efforts fail. It combines the following features:

- The backbone is an insured savings plan over 2, 5, or 10 years enabling low-income people to set money aside in an affordable way in order to build considerable assets over time. Deposit installments

are made weekly or monthly, like loan repayments - ranging from an equivalent of 5 to 60 CHF per month for clients operating in the informal economy and with higher amounts possible for those in the formal economy.² The client has a limited number of “jokers” annually when no instalments are required to better manage his cash flow constraints. The broad introduction of mobile payment services by MBFM in 2016 (after the installation of the new banking MIS) will further ease the deposit collection from customers.

- Life insurance coverage secures the instalments even if the policyholder passes away before the term of the savings plan. It covers the lives of the policyholder and of her/his children. Extension of coverage to other family members is an option against a cost-covering additional fee, this option is foreseen to start in 2016.
- The insurance premium is paid by the client by accepting the reduction of the interest rate on of the insured deposits (3% lower than for uninsured deposits)

3. RESULTS ACHIEVED AND NOT ACHIEVED

3.1. Client level

MBFM’s clients are now offered the first financial products that support their asset building strategies by partly hedging their main risks arising from lifetime events thereby preventing them to fall back again into extreme poverty. All borrowers, but only few depositors are insured, as the roll out of these two insurance products has been delayed by the licensing processes. It is thus too early for drawing definitive conclusions on the key insights on client satisfaction, client drop-out, impact on social performance, claim frequency, and financial viability. Monitoring of these aspects is in place.

First client feedback shows high satisfaction with the credit life plus product and strong interest in the savings life plus product now rolled out on a broader level. The coverage, providing for basic funeral costs, is seen by the clients as a major achievement, securing their business and their medium term strategies. It appears that the clients have well understood the product features and procedures. This indicates that the most important investment in order to roll out these products in a responsible manner is financial education. It is an important step for them to take an informed decision to sign an insurance contract, to know their rights and obligations and to be able to post a claim. The number of policyholders is still low at present, but foreseen to grow:

Outreach	11/2015	12/2016	12/2018
Number of policy holders	5,600	20,000	>100,000
% female policy holders	95%	95%	95%
% rural	50%x§	55%	70%
% first time insurance buyer (est.)	99%	70%	50%
% longer term contingent savings (x>1yr)	2%	30%	60%
% property coverages	0	0	?
% health or short-term well-being cover (x<1yr)	0	0	?
% retention or renewal	100%	90%	80%
Average sum insured / limit of liability (USD)	600	800	1,000
Expected total claims frequency (<5%, 5%-10%, >10%)	< 5%	< 5%	< 5%

MBFM will continue to closely follow up on the perception the clients develop about the insurance products and on understanding their integration into household and enterprise strategies by specific studies. Social performance monitoring should indicate significant changes with insured clients versus non-insured households.

CLIENT PROFILES

Fatima Abudo is 25 years old. She was born in the Carupeia neighborhood in Nampula where she is living now. She went to school until she was 10 years old and then helped her mother in her fish business. She got married at the age of 16. She then started her own dry fish selling business and continued to study at the same time, only interrupted by he two pregnancies. She was saving up to 120 USD in a box and then pooled her money with her husband and bought a plot of land for 600 USD. Progressively they could build a house.

² This enables low-cost distribution of insurance. Insurance products are tied to other products (savings and credit) and require almost no additional transaction costs beyond financial education.

In last year's rainy season with its exceptional floods the house collapsed. She and her children are now hosted by a member of the larger family. She has to start everything again. She intended to become a nurse, save in order to pay the school, now she needs to earn money for rebuilding a shelter for her family. "A vida comença poco a poco" she says, an insurance would have helped her a lot not to abandon her plans. She contracted recently credit and life insurance with MBFM, her savings have been withdrawn to rebuild the house.



Julia Riba comes from Cabo Delgado, a poor province in Northern Mozambique. She is the daughter of a widow with 7 children, she has worked since she was a child. She got married when she was 15, sold processed food to earn income. But it was hard even to earn enough to afford the daily meals of the family. She then moved to Nampula with her husband, living first in the house of

her aunt. She started again her small business that went better in town. Her husband found a job. She saved in ROSCAS and finally could build a house. Initially she could only afford a straw roof. Quite soon after they had finished the house thieves entered through the roof and stole all their belongings, including her food processing material and her stocks. She got sustained by friends and family and had to start everything again. She has meanwhile 5 children and 4 are in school. School expenditures are the most important cost item of the family. She has opened a savings account with MBFM and deposits money alongside its credit repayment every week. Since 3 months now she has a life and a funeral insurance.

3.2. Partner financial institution/s level

An important demand segment is insured longer-term savings products, securing asset-building strategies of active poor and providing an element of response to the need for investment in child education and housing. Savings life products are now an entry product, since through their multi-purpose character they enable to cover a broad spectrum of challenges. The product has been priced and rolled out in a validation phase that will include the first 3 000 clients. It is the first such combined savings-cum-insurance product in Mozambique. The initial brand is "Dreamsaver", since the women clients traditionally designate their long term goals as "dreams". MBFM has now a broker license and in its cooperation with Hollard it has the ambition to develop its insurance business beyond the range of its classical banking clients. For that purpose, new distribution channels for insurance like scratch cards are experimented now. MBFM's new MIS under installation will integrate a full telephone banking facility. It will also be used for managing insurance products.



Picture of the first branch of MBFM with its staff

In order to insure proper administration and claim settlement under the cooperation, five back- and front office staff of MBFM (basic MI unit) have been qualified by Hollard. Agreement has been reached on specific modes of collaboration. Client registration and financial management of premium and claims is done by MBFM, enabling quick claim pay-out and simplified procedures. As long as the claim rate remains between a floor and a ceiling, MBFM decides itself on the validity of claims. MBFM pays to Hollard premiums minus the paid out claims on a monthly basis. The simple mechanism allows settling claims within 48 hours. It is expected that the MI-offer, that represents evident customer value, will further strengthen the MBFM market

position and help to maintain client drop out on low levels. The value proposition to clients should also enable MBFM to access relatively cheap resources for its lending business through better deposit collection.

3.3 Financial sector level

The agreement between Hollard and MBFM enables now to roll out the first time ever formal insurance for low-income people in Northern Mozambique. MBFM will be the largest microfinance bank of the region by number of clients with 12'000 clients by the end of 2015. It will also be the most important micro-insurance provider for with about 10'000 insured clients. Although competition levels among the microfinance banks is still very limited, it can be expected that other microfinance banks may also offer similar innovative insurance and combined deposit-cum-insurance product in the medium term, imitating MBFM.

Insights gained on client orientation in developing and rolling out insurance products to low-income people have convinced and motivated Hollard Mozambique to mandate INFINA with staff capacity building and product development. In a first step, INFINA will help Hollard to select up to 100 new client adviser staff to undergo the capacity building programs of INFINA. A specific framework agreement is at present discussed. If it is finalized, Hollard will be the second financial services provider after MBFM that entrusts INFINA with key capacity building functions. A specific program content combining existing modules with insurance specific learning is envisaged.

Hollard sees the agreement with MBFM as a model that could be applied with other retail financial institutions for the distribution of insurance products.

4. RECOMMENDATIONS FOR OTHER SIMILAR INTERVENTIONS

Overall the chosen approach to load insurance services at low additional cost on an existing financial services distribution platform can be replicated. It provides real value added to customers while generating income for the bank. It also enables rapid expansion through an already existing client base.

The subject and the approach have been well designed and are achieving key results in terms of development of MI products and delivery mechanisms, pioneering in this field in Mozambique. It is too early to conclude on critical questions of client satisfaction and social performance at that stage, the time horizon is too short.

The following insights can be confirmed at the present stage:

- Once they have understood the principles of formal insurance, low-income people in Mozambique are highly interested in insurance coverage in order to reduce their vulnerability.
- Major lifetime events that make asset-building strategies of poor, but active people fail, can be insured. The insurance cost (here initially set at 1.5% of the insured amount per year) is affordable for almost all clients.
- A formal insurance company (here Hollard) is interested to take the risk in its books, but is unable to develop products and marketing channels alone. The cooperation between a microfinance provider that is close to its clients and has already a distribution channel in place, and a formal insurer appears as a viable formula to distribute insurance coverage at reasonable costs in small tickets.
- Quick claim settlement is key for the development of a sound image and trust relationship with clients.
- Insurance literacy is inexistent in the market in Mozambique and financial education is the most important cost when distributing micro insurance in a responsible manner to low-income populations.
- It makes sense for MBFM to enter the market with a good scalable MI product to be followed by more complex ones at a later stage, for example for the coverage of agricultural risks.