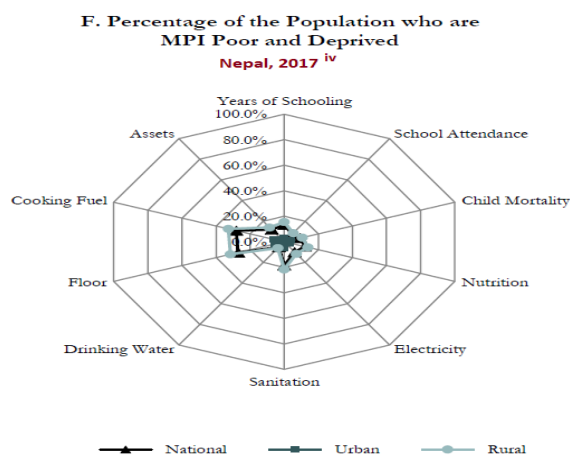


## Up-scaling of innovative microinsurance products distribution through Manushi MFI in Nepal

### 1. DEVELOPMENT RELEVANCE

#### Economic and poverty context

Nepal is heavily dependent on remittances, which amount to 30% of GDP. Agriculture is the livelihood of two-thirds of the population but comprises less than 30% of GDP. Industry makes up another 13% of GDP (consisting mainly of agricultural processing) while services account for about half of GDP. Recent challenges include the massive 2015 earthquakes, which destroyed much infrastructure and retarded economic development. Secondly, political gridlock and public protest, especially in the southern Tarai region hindered recovery, has deterred foreign investment and prevented much-needed economic reform since 2015. Additional challenges to growth include Nepal's landlocked geographic location, persistent power shortages, and underdeveloped transportation infrastructure. <sup>v</sup>

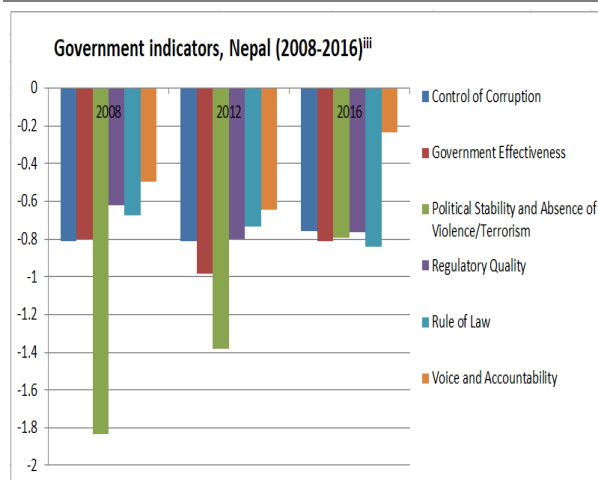


Multidimensional poverty index chart <sup>iv</sup> (Nepal, 2017)

#### Financial sector context <sup>vi, vii, viii</sup>

The financial sector is fragmented. According to World Bank's Global Financial Inclusion Database, 34% of adults had formal bank accounts in 2014 with market penetration levels of formal savings and loans at just 16% and 12% respectively. A study by Nepal's Central Bank (Nepal Rasta Bank, NRB) nevertheless indicated that 61% of adults are banked while 21% use informal channels and 18% are financially excluded. These services are provided by 28 commercial banks, 57 development banks and 36 finance companies competing in urban markets while more than 70 MFIs and NGOs, along with thousands of (mostly) unregulated co-operatives vie for savings, credit and insurance services among the poor. Low-income Nepalese have access to formal financial services in much of the Terai region and along the country's main highways but there is limited or no access in remote and mountainous regions. Recent NRB directives aim at broader financial inclusion such as "at least one bank account for each household". For example, financial institutions (FIs) need not get prior NRB approval to operate in 22 of the remotest districts; this has led to more FI branches in those areas. The NRB's Financial Sector Development Strategy also includes focus areas on financial inclusion. Insurance is in a nascent stage with just 12% of the population covered by some type of formal insurance. The industry is growing quite rapidly, however, with a 26% increase in premium income in the 2016/17 financial year. Moreover, a recent spate of new licenses will increase supply and better choices for Nepalese

Table 1 : Population and economic indicators	
Population in million (2016)	29.0
Gross Domestic Product growth (2016)	0.56%
Inflation (2016)	8.79%
Trade balance (% of GDP) (2016)	-28.7%
Foreign direct investment (net) (% of GDP) (2016)	0.5%
Net ODA received (% of GNI) (2015)	5.6%
Remittances received (% of GDP) (2016)	31.2%
Economic Freedom Index <sup>ii</sup> (Rank among 186 countries) (2017)	125
Poverty indicators	
Gross Domestic Product per capita (USD) (2016)	\$730
Gini Index (0= equality 100= inequality) (2010)	32.8
International poverty rate (2013; at 1.90 USD/day)	10.7%
National poverty rate (2010)	25.2%
National rural poverty headcount rate (2010)	27.4%



consumers. Most FINGOs and cooperatives, however, continue to operate unregistered insurance programs that offer limited protection to client-members and their families. The Insurance Board of Nepal has made recent moves to make microinsurance more freely available; for example, insurers can now sell through agents and local organizations.

Challenges of achieving universal financial inclusion include lack of mobile phone coverage in most remote areas, hindering the push to widen access through branchless banking and e-banking services, and lack of formal protection against consumer discrimination (religion, ethnicity, race, caste, etc.) in providing services.

**Partner financial institutions**

**Manushi** works for economic empowerment and socio-economic development of poor Nepalese women, providing them with loans (group lending methodology) and access to savings as they operate their micro-enterprises. Its activities also include livelihood / entrepreneurship training and community development. Legally, Manushi is a not-for-profit NRB-regulated Financial Intermediary NGO (FINGO), operating in four rural “hilly” districts (Kathmandu, Nuwakot, Sindhupalchowk and Dolakha) where it reaches 23’400 women through 14 branches. More than half of clients live in rural areas and about 80% subsist below the national poverty line. Aside from its in-house informal Social Protection Fund (SPF) providing modest benefits for maternity and health-related risks, it now also distributes formal credit life (mandatory), term life covering client and spouse (mandatory) and individual life endowment (voluntary). Manushi aims to raise its capital to CHF 1 million and become an MFI bank; this will allow it to operate in all districts of Nepal.<sup>1</sup>

	2014/15	2015/16	2016/17
Customers	1’357’000	1’819’000	2’725’000
Premium collected (CHF)	81 million	103 million	122 million
Net profit (CHF)	5’3 million	9’1 million	14’1 million
Net worth	18’54 million	23.50 million	37.20 million
Branches	104	104	104+
No of staff	316	299	300+
No of agents	63’580	73’592	114’000

**VISION:** To uplift economic and social livelihood of people in hills and mountain region through micro finance services.  
**MISSION:** To become every Rural Nepalese’s banking partner by extending all types of micro financial services.  
**GOAL:** To uplift economic condition of deprived people by optimally mobilizing local resources and making participative development process through microfinance services related programs.

Map of Nepal highlighting the 4 districts wherein Manushi’s 14 branches are located.

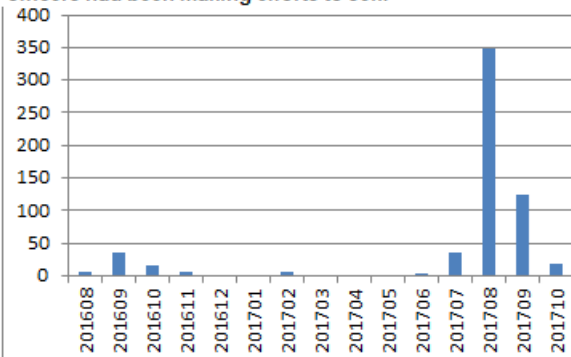


Indicator	2011/12	2014/15	2015/16	2016/17
Number of clients	16’918	18’813	21’398	23’400
-borrowers	11’500	12’612	13’959	14’926
-non-borrowers	5’418	6’201	7’439	8’475
Outstanding loan amount (CHF)	2’235’698	2’800’498	4’618’560	5’486’052
Loan amount disbursed(CHF)	4’163’447	5’215’251	8’323’085	9’406’700
Total Savings(CHF)	1’478’291	1’881’003	2’412’962	3’107’620
No of branches	11	13	13	14
No of personnel	70	72	78	83
Loan recovery rate %	99.9	99.9	99.9	99.9
PAR 90 days or longer %	0.7%	0.8%	0.8%	0.9%
Annual profit/loss(CHF)	58’837	47’956	139’578	196’063
Total assets (CHF)	163’405	159’261	164’447	612’318
Operational self-sufficiency %	121	121	122	123

**Nepal Life Insurance Corporation (NLIC)** is the largest life insurer in Nepal, currently with about 1/3 of market share. Privately owned, the company has authorized capital of CHF50m and paid-up capital of CHF 25m. Operating nationwide, it focuses mainly on individual insurance (whole life, life endowment, etc.) but it does have some group business. Its individual salesforce numbers approximately 114’000 agents (some of them are Manushi clients). Performance wise, its premium income grew by 33% in the past financial year (2016/17), outpacing the industry rate of 26%.

<sup>1</sup> NRB has ordered all FINGOs to undergo this transformation by 2018.

Policy sales from 08.2016 to 10.2017 numbered just 597. About half were sold by one loan officer in Aug-Sep2017 outside of the centre meeting settings, where other loan officers had been making efforts to sell.



## 2. INTERVENTION APPROACH

### Problem statement and basis for SCBF intervention

Manushi collaborated with life insurer PrimeLife in April 2011 to sell a scaled-down commercial life-endowment<sup>2</sup> product to its clients on a voluntary basis. This was a failure because a) the product was too complex and not suited to the needs of its mostly low-income clients and b) the selling and servicing processes did not work, relying on the insurer's agents and personnel to interact directly with clients rather than being integrated with and riding on Manushi's existing microfinance personnel and systems. Thus, the principal objective of the intervention was to build capacity for delivery of an appropriate product through Manushi.

### Main Activity Areas

The main activity areas and planned outputs for phase I were: a) Development of a simplified life-endowment microinsurance product (*Planned result: Target sales of 4'500 policies within three years of project implementation to 100% female clients, of which at least half from rural areas*); b) Up-grading of Manushi's MIS to fully-automation with connectivity to branches; c) Integration of insurance distribution into the accounting system with appropriate internal controls; d) Enhancement of microinsurance knowledge/capacity for effective up-scaling (*target: 30 staff members of Manushi and 4 from the insurer*); and e) Near the conclusion of the project, organization of a dissemination workshop with insurance and microfinance stakeholders to present results and share lessons learnt. A supplementary objective was to conduct an actuarial review of the SPF for its prudential enhancement and improved risk protection.

## 3. RESULTS ACHIEVED AND NOT ACHIEVED

The discussion in this section and onwards covers three stages of the project: a) phase I (01.2012 to 12. 2013); b) an interim / extension phase (01.2014 to 11.2016); and c) phase II (12.2016 to 11.2017). Beginning of project (BoP) refers to 01.2012 while end of project (EoP) means 11.2017.

Statistic	2012 (BoP)	By 2017 (EoP) the SPF had been integrated with formal credit life and term life sourced from Metropolitan Life
Number of client-families covered	15'484 borrowers and non-borrowers	23'400 (65% borrower, 35% non-borrowers)
Client Life benefit	7'000	20'000 non-accidental death, 40'000 accidental death
Client credit life	none	128% of original loan amount
Maternity benefit	1'000	1'000
Spouse death benefit	3'500	10'000
House damage	2'000	3'000 if house damaged by a natural event however earthquakes are explicitly excluded
Health	0	5'000 in case of critical illness
Premium	100 per annum	200 per annum + credit life premium amounting to 0.65% of loan amount per annum
Participants	100% non-borrowers and borrowers	100% non-borrowers and borrowers

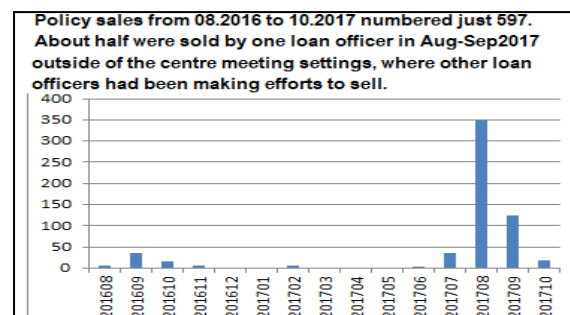
### Client level

Through analysis of sparse SPF data and with supplemental information from external sources, the SPF was improved.

A survey prior to this revealed a very high degree of satisfaction with the SPF and the majority of clients (78%) were willing to pay higher premium for expanded coverage. By EoP the SPF had undergone major improvements and was integrated with formal insurance. An evaluation survey near the end of phase I found that clients had better knowledge of insurance and hoped for continued improvements in the health insurance component of the SPF. Protection from financial shocks due to critical illnesses was one of the biggest benefits.

#### Some performance indicators

Total number of active clients	23'401
Number of sales	597
Coverage ratio (penetration rate)	2.6%
Number of death claims	0
Number of lapses / cancellations	2 policyholders "are in hiding" due to overindebtedness
Ultimate penetration target	50%
% women	100%
Average and most popular:	
...policy duration	14.9 years, 15-16 years (81%) avg. 976, popular are 500 (30%), 1000 (46%)
...sum insured (CHF)	
...monthly premium (CHF)	4.93



<sup>2</sup> Life endowment is a fixed-term plan (e.g. 5, 7, 10, 15, 20 years) that pays a death benefit if the insured dies before maturity and an endowment benefit if the insured survives to plan maturity.

Implementation of the voluntary life-endowment product was much more challenging for reasons discussed in sections 3 and 4. Only about 600 policies were sold during the entire phase II of the project. In spite of this, a survey conducted in mid-2017 showed 100% had a very high degree of trust in Manushi and satisfaction with the product. A full 100% of policy purchasers interviewed understood the benefits, had purchased the product for purposes of savings and/or risk protection, and had not experienced problems with delivery so far. Furthermore, very significantly, nearly all indicated that they would never have bought the product directly from an insurer due to mistrust in and apprehensions with their agents. Non-purchasers also expressed great interest in future enrolment when their disposable incomes will permit them to save.



Jamuna, 38, a new life-endowment policyholder from Jalkeni, Sindhupalchowk, is a goat and vegetable farmer, living with daughters aged 18, 16, 14 and 12, a son aged 10, and parents-in-law. Her husband Nirmal, 39, works as a driver in Kathmandu. Their combined income of CHF 150 per month is just enough to service her loans of CHF 550 from Manushi and put food on the table. She used the loan to repair their earthquake-damaged house. When she heard about the life-endowment proposal by Manushi a year ago, she recognized an attractive way to save and protect her family. She purchased a 15-year CHF 500 policy, hoping to use this money to increase her herd of goats and finance her children’s education. She also received a modest but relief benefit of CHF 8 from Manushi’s SPF immediately after the earthquakes.



Kanchhi, 45, is also a new life-endowment policyholder from Sindhupalchowk district. She has two daughters aged 11 and 15 and a son, 16. Her husband Lok, 42, spends most of his time in Kathmandu where they have a business retailing cooking gas. She has been a Manushi client for 11 years and due to her exemplary repayment record, she now enjoys a CHF 2000 loan that she used to stock her retail store and invest in their small farm. She greatly appreciates Manushi’s SPF since it has helped her several times in the past. Her loans in the past decade have enabled them to grow their businesses from which they now earn a comfortable CHF 900 profit per month. Her trust in Manushi led to a purchase of 15-year CHF 1000 life-endowment policy over a year ago. She plans to use the money for further expansion of their businesses.

**Partner financial institution level**

The initial product and processes were jointly designed and priced in close collaboration with the **PrimeLife** personnel, the Microinsurance Expert, and Manushi. Unfortunately, the insurance regulator Beema Samithi flagged a violation committed by the company’s top management and ordered a change in insurance partner. Nevertheless, the capacities it acquired include a) microinsurance product development; b) system modifications to deliver the product through an MFI like Manushi; c) a set of delivery processes encapsulated in a manual; and d) other microinsurance knowledge. These capacities will be utilized when PrimeLife resumes its strategic objective to become a microinsurance provider.

**NLIC** was selected in the interim phase as the new insurance partner. The company was overconfident, not knowing the perils of venturing into the low-income market. After persistent negotiation and education, a similar product was developed and is now being sold through Manushi. Distribution processes with Manushi and NLIC systems are not yet fully adapted with the company more intent on “learning by doing” at the risk of creating service dissatisfaction among policy purchasers.

A summary of the main capacities acquired or improved on by **Manushi**, the main partner in this project, are: **a) An online banking system capable of insurance transactions** was installed at the Home Office. However, the software, about four years later, has been rolled out to only half of the branches since it is internet-based, making it difficult to deploy to the more remote branches where reliable internet access is still non-existent. **b) Improved SPF** is now more comprehensive and technically sound insurance protection service but with some risks such as maternity still being retained in-house; **c) Acquisition of knowledge, systems, and skills to deliver a voluntary life-endowment product**, notwithstanding the need for further improvements in processes, especially the closing of sales proposals.

### Financial sector level

The industry workshop that had been envisioned at end of phase I could not be delivered because the solutions to successful selling of the life-endowment product have not yet been completely determined. There have been very important major lessons learnt, however; if Manushi will not capitalize on these then other institutions will.

## 4. LESSONS LEARNT

While sales for the life-endowment microinsurance product have not taken off as expected, the lessons learned point to a successful way forward for Manushi and other similar MFIs. In particular:

- **Product development based on market research works very well.** The resulting product was extremely well received by rural clients (where 80% of the Nepali population is) with surveys showing near 100% satisfaction. However, due to better access and generally more affluence, most urban clients prefer a product that is “less micro” (four years with high inflation had passed since the initial market research was conducted). Generalizing, life-endowment products with higher face amounts are needed for the better-off clients.
- **Distribution through an institution like Manushi is an excellent approach** because trust is very high. Trust is crucial since buying a policy is a long-term commitment. On the other hand, individual insurance agents are deeply mistrusted. Surveyed policy-purchasers indicated that they would not have made a purchase due to the notoriety of unscrupulous agents who disappear after a few payments have been made.
- **Selling relatively complex products like life-endowment at centre meetings does not work well.** Introductory briefings may be presented at centre meetings, however, sales proposals must be made outside of this setting and in the presence of other family members. Clients are in a hurry to get home since they need to attend to their daily duties. Moreover, being semi-literate at best, they find it difficult to relay the proposal details to their spouse, even with the help of take-away literature. Spouses must be included in and approve the purchase decision. Other processes, such as premium collection may be integrated into the centre meetings.
- **Relying on Loan Officers (LOs) to sell** relatively complex voluntary products also does not work, especially since it cannot be accomplished at centre meetings. Many LOs are overworked already and under pressure to meet several microfinance performance targets. They cannot be expected to meet with clients after normal working hours to sell insurance. Moreover, even after repeated training, a considerable number of LOs lack the self-confidence needed to become life-endowment “experts” and handle clients’ questions. Some LOs also dislike the role of selling.
- **Dedicated microinsurance officers employed by the MFI must be assigned to sell** at a rate of about one officer in three to five branches (depends on number of clients per branch). The MI officer should be able to present to and revisit all clients at least every four to six months.
- **An optimum commission structure is the key to motivating all MFI staff** involved in the delivery (selling and servicing). Experimentation with the commission structure is necessary.

<sup>i</sup> The World Bank Group 2016. World Development Indicators database. Washington, DC. <http://data.worldbank.org> (Accessed 23-Nov-2017)

<sup>ii</sup> Heritage Foundation, 2016. Index of Economic Freedom, <http://www.heritage.org/index/ranking> (Accessed 23-Nov-2017).

<sup>iii</sup> The World Bank Group 2016. Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org> (Accessed 23-Nov-2017)

<sup>iv</sup> Oxford Poverty and Human Development Initiative (2017). “Nepal Country Briefing”, Multidimensional Poverty Index Data Bank. OPHI, University of Oxford. Available at: [www.ophi.org.uk/multidimensional-poverty-index/mpi-country-briefings/](http://www.ophi.org.uk/multidimensional-poverty-index/mpi-country-briefings/) (Accessed 23-Nov-2017)

<sup>v</sup> Source: CIA Factbook at <https://www.cia.gov/library/publications/the-world-factbook/geos/np.html> (Accessed 23-Nov-2017)

<sup>vi</sup> Source: <http://datatopics.worldbank.org/financialinclusion/> (Accessed 23-Nov-2017)

<sup>vii</sup> Source: <http://www.newbusinessage.com/MagazineArticles/index/974> (Accessed 23-Nov-2017)

<sup>viii</sup> Source: <https://nrb.org.np/index.php> (Accessed 23-Nov-2017)