

Microinsurance Rollout by Lead Foundation in Egypt

1. DEVELOPMENT RELEVANCE

Economic and poverty context

The Egyptian economy is gradually improving with the annual rates of GDP growth reaching 4.3% in 2015/2016. The overall budget deficit declined in the first half of 2017 to 5.4% of GDP, down from 6.4% in the same period last year. Still, over a quarter of the population lives below the national poverty line. While important fiscal reforms are taking place, record high inflation continues to be a major concern. The Central Bank of Egypt has tightened monetary policy and the Government has increased spending on social protection to mitigate the impact on living conditions.ⁱ

Financial sector context

While 37% of the total adult men report having access to a bank account in Egypt, only 27% of adult women report having access to a bank account, leaving a 10% gender gap between men and women. That leaves nearly 23 million women without access to formal financial services. While the percentage of women with access has increased over the last three years, the absolute number of women without formal financial services has grown.ⁱⁱ

Insurance penetration (ratio of total premium to GDP, an indicator of the maturity of the insurance sector of a country) in Egypt is at 0.64 percent (world average is 6.28 percent), and insurance density (premium per capita, an indicator to understand how much a person spends on insurance) is USD 22.8 (world average is USD 638.3ⁱⁱⁱ). Government social health insurance does not cover the informal sector population, most of which is low income segment women. As a result, Egyptians end up using more expensive private healthcare facilities and pay 90.6% of their health expenses out-of-pocket. Commercial insurers in Egypt have focused on the middle-class segment and have not yet expanded offerings beyond credit-linked life insurance for the low income segment.

The Government of Egypt is pushing key reforms to promote financial inclusion, specifically encouraging bank lending to SMEs (although the definition does not support lending to micro and small businesses) as well as building a stronger digital financial services ecosystem. The Financial Regulatory Authority is also committed to strengthening the regulatory and legal framework for the microfinance sector.

Partner financial institutions

Lead Foundation (“Lead”), a not-for-profit microfinance institution whose mission is to provide poor and low-income entrepreneurs, especially women, with sustainable access to quality microfinance services that address their needs and build their capacity. With 18 branches and two satellite offices, Lead offers group and individual loan products as well as hospital and life microinsurance on every loan. As of December 2017 Lead had an outstanding portfolio of EGP 294 million (CHF 15.44 million) and 191,794 active clients¹, of which 88% are women. 100% of group loan and 53% of individual loan clients are women. The average group loan size was CHF 330, while that for group loans was CHF 146 as of 01.09.2016. Lead has been a member of the Women’s World Banking network since 2003 receiving for the last five years intensive support on credit, insurance, and leadership programmes.

Table 1: Population and economic indicators	
Population in million (2015)	91.51
GDP growth (2016)	4.3%
Inflation (2016)	13.8%
Trade balance (% of GDP) (2012)	-9.3%
Foreign direct investment (net) (% of GDP) (2016)	2.4%
Net ODA received (% of GNI) (2015)	0.8%
Remittances received (% of GDP) (2016)	5%
Economic Freedom Index (Rank among 186 countries) (2017)	144
Poverty indicators	
GDP per capita (USD) (2016)	3,478
Gini Index (0= equality 100= inequality) (2015)	31.8
International poverty rate (2015; at 1.90 USD/day)	1.4%
National poverty rate (2015)	27.8%
National rural poverty headcount rate (2010)	32.3%

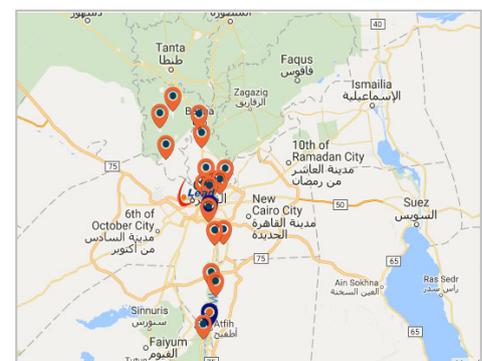


Figure 1. Map of Lead's branch locations

¹ Includes about 3% clients who are in arrears and hence are not covered under the insurance programme

[AXA Egypt](#) is part of the world insurance leader AXA and the second largest insurer in Egypt for their in-force individual life policies with a total 22% market share. This share is achieved through a unique relationship with CIB (Commercial International Bank). AXA's story in Egypt started in 2015 with the acquisition of CIL (Commercial International Life) which was rebranded to AXA Life Insurance. At group level, Egypt has been identified as one of the top 4 priority markets for the emerging consumer strategy launched in 2016. AXA Egypt is committed to reaching 3m new emerging consumers by 2020.

[The Swiss Re Group](#) is a leading wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Swiss Re is committed to helping clients solve problems, including finding ways to optimise capital, manage new areas of risk and improve overall efficiency. They have pioneered agriculture microinsurance in Latin America and continue to provide market insights through their economic publications SIGMA.

2. INTERVENTION APPROACH

Capacity building needs

At the onset of this scale-up initiative in July 2016, Women's World Banking supported Lead in completing a successful insurance pilot (with funding from Agence Française de Développement) that resulted in recommendations for the rollout of a hospital and life insurance product, eventually known as *Hemayet Lead* (meaning "Lead's protection" in Arabic), to all 18 branches. Due to the rapid scaling of the product between June and September 2016, Lead required technical assistance to enhance its technical systems, build its capacity, and monitor performance of the product.

Main activity areas and outputs

With funding support from SCBF, and a concurrent grant from Visa, Inc., Women's World Banking began working with Lead to (1) enhance its IT systems, (2) build its programme management capacity, and (3) assess the profitability of *Hemayet Lead* to develop a three-year roadmap for its continued success. A snapshot of the specific targets and the achievements is presented below:

Targets/Goals till Dec. 2017	Results/Achievements
1. To roll out <i>Hemayet Lead</i> in all 18 branches covering 100% clients (160'000)	185'932 clients covered
2. Over 90% clients should be aware of product key features	Over 80% of the clients aware of key product features (two rounds of phone survey conducted and significant improvement observed over time in the client awareness levels, as measured through awareness scores)
3. Favourable Claims Ratio (between 55% and 75%)	Claims ratio within the target range
4. Set up of data collection framework for a potential outcomes study	Completed
5. Financial sustainability of the product	Comprehensive financial tracker developed which demonstrates that Lead achieved breakeven in 1.5 years of commencing insurance operations
6. Capacity building of Lead to manage the programme independently	Completed and demonstrated through regular key performance indicators dashboard, and phone survey tools (marketing and training trackers) prepared by the project team

3. RESULTS ACHIEVED AND NOT ACHIEVED

Lead enabled more clients to have health support which enhances their ability to cope with medical emergencies while mitigating the associated financial burden and any negative impacts on household well-being. During the outcome study in December 2017, 100% of interviewed clients who benefited from the health claims were found to be satisfied with Lead as an organization and *Hemayet Lead* as a differential service. Clients who benefited from the health claims were also satisfied with the amount, the claims process, and the turnaround time for claims payment. 75% of the clients who spent 4 – 40 nights in hospital used the claims money to pay for their hospital-related expenses, reduce amount of informal borrowing and pay back informal loans. The claim pay-out was also used to buy medicines for themselves. With a very positive word of mouth, client who did not receive a claim payment also report trust in the product and understanding in the pooling concept.

Client profiles – Woman client with multiple claims



Figure 2: Most of the Lead's women clients run home based businesses (e.g. clothes trading). Hemayet Lead has been found to be meaningful by these clients as an income replacement tool in the event of their inability to work during hospitalization.

Ismin* is a young single mother of a 10-month old baby, separated from husband. She started her own small business of selling women's clothes a couple of years ago and now wants to grow her client base. Having liquidity is important for her to buy supplies on a daily basis.

Ismin has been suffering from gall bladder issues (a common problem for women in Egypt) and had to visit the hospital 3-4 times in 2017. She chose a public hospital for her treatment which was free of cost for her. Nonetheless, she ended up spending over EGP 2'500 (140 CHF) on medicines and tests. Altogether she spent 15 nights in the hospital and almost 3 months at home to recuperate, which led to loss of her business income. She had to borrow money from her mother and friends to manage her expenses.

She received EGP 3'750 (208 CHF) in claims from Lead under the *Hemayet Lead* programme. She used the money to repay her outstanding debt.

"It is the first time I have any insurance... When I got the money I started to trust Lead more and also I like Lead so much because I get the impression that they are supportive."

Fatma* is a widow and mother of two adult children who runs her own business selling bed and carpet covers. She has been a group loan client of Lead for 10 years and uses the loans to buy stock for her business. Fatma recently had surgery and was hospitalized for 11 days. She used the benefit from *Hemayet Lead* to replace lost income from orders she was unable to fill while in the hospital.

"I was so happy. When I applied for the loan with Lead they said that there would be a special amount for insurance. I bring the report from the hospital and I received EGP 3,300 (184 CHF) for 11 days. 300 EGP (16 CHF) per day. I was sick. This amount helped me [because] some people ordered things and I could not go to them or get the stuff..."

Fatma is also pleased with the death benefit her *Hemayet Lead* policy provides. She recalls that she and her family suffered when her husband, an auto mechanic died from lung cancer.

"They gave me just 3,400 pounds (185 CHF) ... and he worked for 18 years in the company.... Here, God forbid, if I die they give me three times the loan and even they waive the rest of the loan so of course it is better. Imagine that a woman dies and leaving her children without any support so this might help."

*Not her real name

Partner financial institution/s level

Hemayet Lead has provided tremendous competitive advantage to Lead as a thought leader advancing the agenda of financial inclusion for low-income women in a sustainable manner. Women's World Banking has attracted global players such as AXA and Swiss Re who have partnered with Lead (as insurer and reinsurer, respectively) to learn and share best practices from/with each other, maximize value for the end clients and bring in cutting edge technology to expand the *Hemayet Lead* programme beyond Lead's direct clients (e.g. family cover). This also gives the much-needed demonstration effect that would potentially allow for the replication of similar health insurance programmes in other contexts.

Key performance indicators

Overall *Hemayet Lead* is profitable with an aggregate pure loss ratio of 57%², as envisaged in the beginning of the project. A deeper analysis reveals that the claims ratio of the life insurance component is high at 95%, largely owing to the fact that most of the deceased clients were men (who constitute 50% of the individual loan client base) who tend to have much higher mortality rates compared to women. The Hospital Cash product is profitable with a 49% loss ratio and provided scope for revision in the premium and benefit levels in the favour of the clients. In Q3 2017, Lead selected AXA Egypt as its new insurance partner through a competitive bidding

² 57% is not derived from the table. Loss ratios need to be calculated based on an occurrence month.

process giving Lead the opportunity to negotiate a better pricing. From 1 November 2017, Lead and AXA increased the daily hospital benefit level from EGP 250 to EGP 300, while keeping the same overall premium.

Indicator (monetary values in CHF)	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Number of active loan clients	175'299	180'023	188'538	188'980	191'794
% of women clients	88%	89%	89%	89%	88%
Number of lives covered	114'339	157'225	180'154	182'687	185'932
Total gross premium (earned)	405'140	712'921	1'089'089	1'483'847	1'833'363
Total number of claims paid (Life)	136	258	375	528	688
Total amount of claims paid (Life)	87'365	168'103	244'190	352'556	469'452
Total number of claims paid (Health)	1'580	2'824	4'022	5'574	7'323
Total amount of claims paid (Health)	102'804	187'526	270'688	382'976	521'323
Claims rejection ratio	2%	2%	2%	2%	1%

- Lead has developed a culture of monitoring and evaluation.** Women's World Banking worked with Lead to build its capacity in using data to generate insights and inform business decisions through multiple work streams like the generation and analysis of key performance indicators, including client satisfaction, training, and marketing. For example, the team worked with Lead's marketing team to build a marketing effectiveness tracker - a survey tool that captures clients' insurance awareness levels once every six months. In the second round of survey, it was found that nearly 33% of clients had very limited recall and/or understanding of insurance. Actions were taken to improve awareness, e.g. training of branch managers to drive awareness, claims payment at the time of loan disbursement to create positive word of mouth. This resulted in improvement in client awareness over time, especially in the group loan clients segment (80% of the group loan clients were found to be well versed with the insurance product as measured in the third round of the phone survey). Lead learned that client awareness levels have a direct effect on the claims frequency (usage of product) and ultimately the sustainability of the programme. Lead has expanded the tool to measure employee performance, which links to their incentives and training needs. Similarly, the microinsurance team has been trained to develop performance dashboards to track branch-level programme key performance indicators. The team is adept and disciplined in monitoring claims performance (claims ratio and claims frequency), IBNRs (incurred but not reported) claims, average claims size, turnaround time, fraud ratio etc.
- Financial tracking has demonstrated the business case for health insurance for low-income women.** Women's World Banking worked with Lead Foundation to develop a financial tracker to track profitability of *Hemayet Lead* which captures all direct and indirect expenses incurred under insurance operations and provides profit estimates from its insurance commissions. The tracker established that, despite the fact that Lead has undertaken a bulk of the operational burden of insurance activities, there is still profit for Lead from administration income. This is a powerful finding which breaks pre-conceived notions in the industry that health microinsurance is not sustainable. Lead has demonstrated break-even in just two years of operations, or 3,5 years, if the project time is considered. The surplus generated from the business profits is being actually passed on to the clients in terms of better pricing and higher benefit levels. This is a win for all - end clients, Lead as an intermediary, insurers and reinsurers.
- Lead's microinsurance team has enhanced capacity to manage complex and high-volume insurance operations.** There is currently a team of four diligently managing insurance claims and identifying fraud. Lead has placed a strong emphasis on accuracy and quality which is positive, but adds pressure to decrease turnaround time for claims payment. With support from Visa Inc. Women's World Banking developed a "fraud model" to address this issue and help the team prioritize high-risk cases for fraud investigation. Early results from the testing phase indicate that the model is economically viable. It will be further refined to improve accuracy in the coming years and will be integrated with Lead's system going forward. In addition, most of Lead's reports have been automated, and the team has taken measures to protect data security.

Results not yet achieved include:

- Training effectiveness monitoring.** Training effectiveness monitoring is now being implemented in a more holistic way. Women's World Banking has been working with Lead's training team to collect feedback from the field and update the training modules. There are clear indications that newly hired loan officers, who have undergone a new training programme, fare better in terms of understanding the value proposition of *Hemayet Lead*, as well as handling client objections. The training team has conducted refresher trainings for branch managers, and branch managers are required to provide guidance to their staff on their learning gaps. The insurance team conducted two trainings on key insurance performance indicators, one for area

managers and the other for branch managers to create more awareness and accountability at the branch level to measure and track key performance indicators. The training team also conducted a phone survey with loan officers to understand their training needs on the insurance product. The survey covered all the 140+ loan officers, and for the first time Lead was able to create a full database of loan officers' knowledge levels.

However, due to limited capacity and manpower on the training team, it has been difficult to formalize a structure/system to collect regular feedback from loan officers and track their performance over time. While the training team has taken required steps to improve loan officer knowledge and motivation, it has not been able to develop a separate toolkit dedicated to the training effectiveness monitoring as originally envisaged in the project.

Financial sector level

Women's World Banking's work with Lead Foundation on location, disseminating information through blogs and public talking, the scheme has increased visibility with regulators, other MFIs, and interested insurance carriers. This has helped raise the profile for microinsurance in Egypt. However, according to latest market intelligence there is no replication of the product yet. This is mainly driven by the massive investment of resources and capacity building required. It is expected that with technological development the micro-insurance market will increase growth, however, there are still some regulatory hurdles to be removed for this to take place.

4. LESSONS LEARNT

The six key lessons learnt are as follows:

- 1) Client awareness levels directly impact insurance performance, as demonstrated through the phone surveys.
- 2) A culture of monitoring and evaluation, and data driven decisions improve the quality of insurance, provide better value proposition to the clients and ultimately give competitive advantage to the institution.
- 3) Motivated insurance intermediaries are critical to deliver value to both low-income segments and commercial insurers.
- 4) A properly designed product, sufficient pilot time, dedicated resources and culture of monitoring and evaluation shorten the breakeven for a health insurance scheme.
- 5) MFIs sit on a wealth of data. If harnessed properly, decision quality can be improved and return to clients maximized.
- 6) Team commitment, excellent planning, flexibility, client centricity are critical success factors.

The main challenges were as follows:

- 1) The limited resources and competing priorities that Lead foundation faced, but this challenge had been anticipated and mitigated through flexibility and teamwork.
- 2) Dynamics between the head office (project team) and branch staff required adjustment. The head office had to engage more frequently with the branch staff in person and adjust its communication to requirements on ground.
- 3) There was limited engagement and curiosity from the insurers in terms of building a deeper understanding of the MFI operations and the end clients. Both the insurers (ELTC and AXA) missed the opportunities to join the team for client research activities. While this did not impact Lead's work, it underscores the larger sectoral gap that insurers have limited understanding and willingness to learn about the low-income market. Meanwhile AXA has now demonstrated a real interest in understanding the segment.
- 4) Lead team, while diligent and hardworking, has been very cautious on the innovation side. The team receives new ideas with scepticism which could partly be due to Egyptian culture. However, to be a thought leader and disruptive force, the organization needs to start challenging prevalent market practices (e.g. life insurance benefit is distributed among the legal heirs as per Sharia law based on the market practice, but some women clients want only their children to receive the money). Women's World Banking has been driving the Lead team through change management and leadership coaching.

ⁱ The World Bank Group (2018). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (23.01.2019)

ⁱⁱ Heritage Foundation, (year) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (23.01.2019)

ⁱⁱⁱ Swiss Re Institute (2017). World Insurance n 2016: The China growth engine steams ahead. Retrieved from https://www.tsb.org.tr/images/Documents/Teknik/sigma3_2017_en.pdf