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Introduction of microinsurance in rural Senegal

FIDES MICROFINANCE SENEGAL (FMS)

1. Development relevance

Economic and poverty context: Senegal is the fourth economy of West Africa after Nigeria, Ivory Coast and Ghana. Given its geographical situation and its relative stability, it has attracted some industries with the presence of a number of multinational firms. Formal labour in industry is at 21,7%, in agriculture at 15,5% and at 62,3% in services. The major part of the population is self-employed and working in the informal sector. The main industries include food processing, mining, cement, fertilizer, chemicals, textiles, refining imported petroleum, and tourism. Exports include fish, chemicals, cotton, fabrics, groundnuts, and calcium phosphate. The principal foreign markets are the EU, India, the USA and the United Kingdom. Senegal has a 12-mile exclusive fishing zone that has been regularly breached in recent years (as at 2014). As a member of the West African Economic and Monetary Union (WAEMU), Senegal is working toward greater regional integration with unified external tariffs. The country is also a member of the Organization for the Harmonization of Business Law in Africa (OHADA). Senegal is a major recipient of international development assistance. Donors include the United States Agency for International Development (USAID), Japan, France and China.

Population and economic indicators	
Population *in million (2013)*	**14,13**
GDP growth (average: *2010 to 2013*)	**2,5%**
Inflation (average: *2010 to 2013*)	**1,7%**
Trade balance (% of GDP) (*2013*)	**-11,5%**
Foreign Direct Investment (net) (% of GDP) (*2013*)	**1,9%**
Net ODA & official aid received (% of GDP) (*2013*)	**7,1%**
Workers' remittances (% of GDP) (*2013*)	**10,6%**
Economic Freedom Index (Rank among 185 countries)	**55,4**
Poverty indicators	
GDP per capita (current USD) (*2013*)	**1'047**
Gini Index (0= equality 100= inequality) (*2011*)	**40,3**
Multidimensional Poverty Index (1=poor 0=not poor) (*2011*)	**0,439**
International (at 1,25 USD/day), **national and rural poverty headcount ratio** (*2011*)	**34%; 47%; 57%**

Senegal has a population of over 13,5 million, about half of whom live in rural areas where density varies from about 77 inhabitants per square kilometre in the west-central region to two per square kilometre in the arid eastern section. Economic growth is largely concentrated in a limited number of urban centres whereas the majority of the population is living in rural areas and/or working in the informal sector.

Financial sector: The financial sector is characterized by a combination of banks and microfinance institutions (MFIs), focussing primarily on households and small and medium entrepreneurs in urban centres. In a growing number of urban locations the density of MFIs is high; a progressive shift of MFIs to consumer lending and growing of indebtedness can be observed. In rural areas with higher transaction costs a larger number of small local savings and credit cooperatives prevail, the bigger MFIs being largely absent. The small rural institutions, most of them founded under projects, have not addressed so far the needs of rural populations, lacking the necessary knowledge, appropriate tools and often financial strength. Insurance companies have only clients in urban areas; rural distribution channels do not exist. Less than 10% of the population is up to now formally insured. At the same time large portions of the population would benefit from access to insurance in small ticket sizes. Given the low population density and the modest economic level of the population, building a specific distribution channel for insurance would be too expensive and not sustainable. At the same time, MFIs have built distribution channels for savings and credit up to village level. Microinsurance products can here be loaded on the existing logistics for microfinance at a marginal cost – in order to provide more crucially needed services to clients and to increase profitability and sustainability of MFIs.

Partner financial institution: FIDES Microfinance Senegal SA (FMS, former St. Louis Finances), with headquarter in St. Louis, is a greenfield MFI created by a group of social investors and development finance institutions including Swiss Microfinance Holding, KfW, IFC, Investisseurs&Partenaires and Oikocredit. It started its activities in 2011 with the objective to build a meaningful contribution to inclusive finance by expanding financial services to rural areas and small towns largely underserved today. FMS is providing savings and credit services to formally unbanked micro-entrepreneurs, and today also microinsurance services. Since its creation, FMS has been on a steady growth path. The number of clients is about twice as high as compared to the initial business plan, whereas the average credit size is half of the amount initially projected. This underlines the pro-poor orientation of the institution. FMS is including to a large extend vulnerable population groups for which insurance coverage is relevant. Furthermore, FMS represents often the first formal financial service people are accessing and using in their life, meaning it targets to a large extend the former unbanked.

Partner Financial Institution*	Y-3	Y0	Y+1	Y+4/5
Total clients	3'450	24'000	32'000	90'000
Total staff	45	124	150	300
Total branches	1	4	5	8
Compound annual growth rate of revenue		56%	50%	
Client retention or renewal ratio	90%	89%	90%	86%

2. Intervention approach and additionality

Initially, the intervention was planned in two institutions, FMS and Caurie Microfinance in Thiès. Due to internal considerations Caurie Microfinance finally did not join the intervention.

FMS had not offered microinsurance products before and had almost no experience within this field. At the same time, it had identified the crucial need for insurance of its clients, which belong exclusively to low-income population segments being in most cases rural, female and poor, thus cumulating different forms of vulnerability. First results of FMS' Social Performance Management-System indicated that the risk profile was broad, including illness, accidents, theft, drought, divorce, death of a family member, etc., and that insured savings products would have the best effect, as confirmed under this initiative.

The aim of the intervention was to enable longer-term asset building strategies in low-income households and micro-enterprises, and to strengthen their shock absorption capacity. Results of the Social Performance Management-System and research with clients (based on life stories[1]) had indicated that financial services enable active poor to create employment and income, but that household related major lifecycle risks often oblige these enterprises to loose their assets and fall back in poverty. Many of these risks are insurable. Since the risk profile is broad, it would not make sense to sell to this client segment a specialized insurance, for example health insurance. The probability is high that the next major event would not be health related and that then the person would be even less armed to face the risk since its limited risk management capacity would already be absorbed by the cost of the health insurance.

Figure below: A typical client of FMS. The lady has a catering business. She is combining a number of formal and informal financial instruments in order to manage the cash flow, to run her business, to finance household expenditures, to decrease vulnerability and to sustain a longer term asset building strategy including investment in child education and real estate.

[1] One of the tools used by FIDES is the life story tool. In several sessions in-depth interviews with clients are conducted and retrace a period of 10 to 30 years, depending on the age of the person. In this period all ups and downs in the life of the person, of its family and its business are registered. Repeated for a larger number of clients this tool enables to complete social performance data by better understanding of asset building strategies and by defining the most relevant forms of vulnerability.

Life stories and focus groups based assessments under this intervention showed that clients wish to have beside the existing short term loans and savings, products enabling longer term asset-building strategies that

- build on securing small and regular savings;
- take into account the cash flow constraints with periods of higher savings capacity and periods with less income or higher expenditure needs;
- secure the longer-term strategy to meet terminal illness, death and funeral expenses, the most important expenditure risks that make asset accumulation efforts fail;
- secure these risks also related to credit mobilized with FMS.

Building on the understanding of demand profiles, the features of the insurance approach were developed; first products have been tested and monitored. Beside the definition of a credit life plus product, the main ambition was the creation of a savings life product with the objective of offering, within an inclusive and responsible finance approach, a package that is meaningful and affordable for the target group. The backbone is an insured long term savings plan over 2, 5, or 10 years that enables poor people to set money aside in order to build considerable assets over time. FMS is working with savings and credit groups that are collecting savings instalments and credit repayments weekly or monthly from their members. This enables FMS to collect small instalments on a sustainable basis. In case of a claim, the life insurance coverage secures the instalments even if the policyholder passes away before the term of the savings plan, the beneficiaries obtain 2 times the amount of the savings already paid in as pay-out.[1] Furthermore, the policyholder can use his insured savings plan as collateral for credit. He/she can obtain easily either a higher amount for the business loan or an emergency loan as an overdraft. The credit has no impact on the level of insurance coverage as long as the client pays the credit instalments.

120 staff members have been trained on the basis of procedures and guidelines developed within the intervention and are now guiding staff when implementing insurance. Furthermore, financial education guidelines for the DEGOs (client groups) have been developed and tested with staff and clients. These guidelines are now part of the basic training program when new groups are formed and prepared for the interaction with the bank. Special effort has been made to involve the entire management team of the MFI. A management seminar on insured savings products was hold in April 2014.

3. Results achieved

3.1. Client level

The following quantitative targets have been achieved:

Outreach	**Y-3**	**Y0**	**Y+1**	**Y+4/5**
Number of policy holders	0	22'140	28'000	80'000
% female policy holders	0	98%	98%	98%
% rural	0	39%	42%	50%
% first time insurance buyer (est.)	0	>95%	>85%	>50%
% longer term contingent savings (x>1yr)	0	35%	40%	60%
% property coverages	0	0	0	0
% health or short-term well-being cover (x<1yr)	0	0	0	0
% retention or renewal	0	91%	90%	80%
Average sum insured / limit of liability	0	USD 128	USD 140	USD 220
Expected total claims frequency (<5%, 5%-10%, >10%)	0	< 5% per year	< 5% per year	< 5% per year
Claim aging data (submitted to paid)	0	Settlement in less than 10 days	Settlement in less than 10 days	Settlement in less than 10 days

9 claims have been paid out in 2013 for a total amount of EUR 21'000, 13 other claims in 2014. Beyond these quantitative data, a high level of satisfaction of clients with the insurance coverage can be detected as soon as a person knows another person in her environment that has posted successfully a claim. The concept remains abstract as long as it is just a contract and a contribution. Trust in the system is generated from the concrete and personal experience. For that reason, the claim payment is organized as often as possible as a small ceremony with a certain publicity effect in its environment. The lesson learned in this

[1] The initial objective to insure the target amount of the savings plan has been abandoned. The clients wished in their majority that the insurance coverage would be paid from interests earned on savings. This would have been impossible, at least in the initial phase of a savings plan if the insured amount would have been the target amount. The fact that the double amount of the savings is insured leads nevertheless rapidly to substantial coverage. After one year in a two-year savings plan the target amount is insured, during the second year the insurance coverage is even increasing beyond.

context is that insurance requires an important financial education effort and FMS is in the process of integrating a substantial chapter on insurance on its initial capacity building process for the savings and credit groups in order to make clients understand the product as well as their rights and responsibilities.

Clients particularly appreciate the flexibility of being able to mobilize temporarily long term savings in case of need, since beyond insurance for life risks, it enables to mobilize a part of the savings for other risks like health and for managing cash flow constraints, often related to school related expenditures. Client satisfaction will be more precisely assessed in a study implemented in 2015.

Feedback from clients shows that they would like to have specific savings products for education and housing. Especially women clients are proud to run an education savings plan for each child and for them this means a specific contract each time. The initial “universal product” has its limits here. Housing is equally an important challenge, even in rural areas. The house is in general at the same time the work place and investment in housing is multi-purpose: it is an important asset, stabilizing the situation of the family, better housing creates a better workplace and is also a question of social prestige. The major demand is not for building an entire house from the scratch, but for enlarging existing buildings, for example for creating a shop or a storage facility as an add-on to an existing house. FMS is now planning to experiment these products. Housing and education finance could open up the institution to new client segments, for example salaried people. This is also an indirect effect of the insurance initiative.

3.2. Partner financial institution’s level

There was no practical experience in rural microinsurance and in savings life products in Senegal at project start. The intervention has introduced within FMS and Allianz Senegal a first concrete example of product development building on the assessment of demand and the development of a delivery mechanism based on a maximum of cost efficiency. This approach has created a real enthusiasm for microinsurance on both sides and a strong motivation to get ahead. The intervention has enhanced the practical and methodological knowledge of the management and staff in the field of microinsurance and its responsible marketing. For FMS the intervention has opened up new perspectives of interaction with its clients. It has understood that decreasing vulnerability and securing income is often more important for clients than increasing income.

Furthermore, an efficient repartition of tasks between a licensed insurer and an MFI has been developed. A functional distribution channel up to village level has been built which enables access to formal insurance for large population groups excluded from such services before, and to provide a combination of insurance, savings and credit products that can make the difference. It is based on a client registration and claim settlement process that is completely delegated by Allianz to FMS. FMS is registering insurance policies alongside the underwriting of credit and insurance. The insurance policy is simple and understandable. The insurance contract is signed on the same form as the savings or credit contract. As long as the claim level remains between a floor and a ceiling, the claim settlement is also entirely delegated to the MFI. The client adviser and his supervisor (four eyes principle) decide immediately on the acceptability of a claim and pay out can be organized in the next FMS branch within 48 hours. On a monthly basis FMS is reporting to Allianz and transferring the premiums collected, after deduction of the claims paid out. This model can now be scaled up and expanded to a larger number of clients.

After the product development effort, the next challenge is now to transform the new products into more business for the company. Up to now the premium is paid from a part of the interest rate. There is no top up by FMS for the insurance cost. The benefit for the institution is thus for instance indirect, through higher levels of savings mobilization, and savings being a cheap resource for lending. Furthermore, higher client satisfaction and lower vulnerability of clients lead to decreasing client drop out and credit risk. These latter points are felt by FMS staff, they still need to be proven and documented in the 2015 study. A hypothesis is that the range of insurance offered would increase during the coming years and that FMS would receive for its broker role a part of the insurance premium paid. Allianz is fully available for such a solution; the profit sharing principles have now to be implemented in contractual arrangements. The insurance premium being soon above 100’000 USD there is now room for such an arrangement.

Key performance indicators	Y0	Y+1	Y+4/5
% of clients that have deposits	41%	50%	65%
% of clients that have insurance cover	90%	95%	100%
% of clients that have specialized savings products	0%	20%	60%
Clients out of the low-income segment (Income less than 2x the poverty line)	66%	70%	75%
Clients having electricity at home	41%	43%	50%

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3.3. Financial sector level

The initiative has led to high attention in Senegal and in the region. Allianz has requested from FMS and FIDES the authorization to propose the developed savings life product to the Egyptian Postal Bank as an entrance product in life insurance. Furthermore, the trust relation built with Allianz in Senegal has enabled a new project in Ghana, where both partners together with a Swiss chocolate producer consider the creation of a microinsurance broker providing insurance coverage to more than 100'000 cocoa farmers and their families. In Senegal Allianz has experienced with this project that microinsurance can be a business and that a large number of small tickets can be profitable if the approach is well organized. The insurer starts now to replicate the approach with other MFIs.

4. Lessons learned and further challenges

- Up to now, claim pay out is lower than expected. The micro-entrepreneurs clients are a positive selection with lower mortality than the overall population. As a consequence, increase of coverage is now discussed with Allianz. Introduction of a basic accident insurance without increase of the premium is envisaged.
- The appetite for insurance of clients is more important than initially foreseen. Staff is proud to be able to offer insurance products. Clients would like to see specialized products for education and housing. The high demand will probably lead to a new substantial activity of the MFI beside credit and savings. The new challenge is now to be able to follow demand and to prepare other interesting insurance products.
- A condition for success has been in this context the good cooperation between FIDES, FMS and Allianz. It has enabled to streamline procedures and to envisage the further expansion of the insurance offer.
- The first results show that providing insurance will be a profitable business. Furthermore, the risk coverage is improving the risk profile of the credit clients of the bank tremendously. Nevertheless, the business model needs still to be optimized in order to create appropriate income levels.
- Project implementation speed has been slower than initially envisaged, mainly due to rapid growth path of the MFI and limited staff availability for the insurance initiative.
- The SCBF contribution was crucial for the achievement of the results. The budget was appropriate and allocated resources enabled achieving all expected results.
- The biggest cultural problem was not with the MFI, but with the insurer. The alignment of procedures of the MFI and of Allianz in an efficient manner while respecting the legal and regulatory requirements has been more complicated than initially foreseen. First the staff of the insurance company tried to implement microinsurance with the same procedures as classical insurance. This has in a first step led to time consuming form filling for client registration and claim settlement, making the product costly to implement for both the MFI and the insurance company. In a second step important progress has been made, involving a completely revised set of procedures. The staff of the insurer has been introduced in a concrete example of down market product development and management. The support of Allianz head office was crucial in this context. The adopted learning by doing approach seconded by methodological expert input revealed efficient and has enabled the progressive acquisition of experience while obstacles were progressively removed. At the same time this approach caused delays in the project execution, but enabled a solid achievement of results.
- Since almost all clients have never contracted a formal insurance product before, the necessary financial literacy effort is important in order to sell the product in a responsible manner. The establishment and test of a financial literacy approach that is reliable and at reasonable cost at the same time is now the next step after having accomplished the product development cycle.