

Introduction of micro-insurance in rural Senegal

Partner institution: FIDES MICROFINANCE SENEGAL (FMS)

1. Development relevance

1.1. Situation of the country

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 a number of industries with the presence of a number of multinational firms. Formal labor is in industry 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 a unified external tariff. Senegal is also a member of the Organization for the Harmonization of Business Law in Africa (OHADA).^[1]

Senegal is a major recipient of international development assistance. Donors include the United States Agency for International Development (USAID), Japan, France and China.

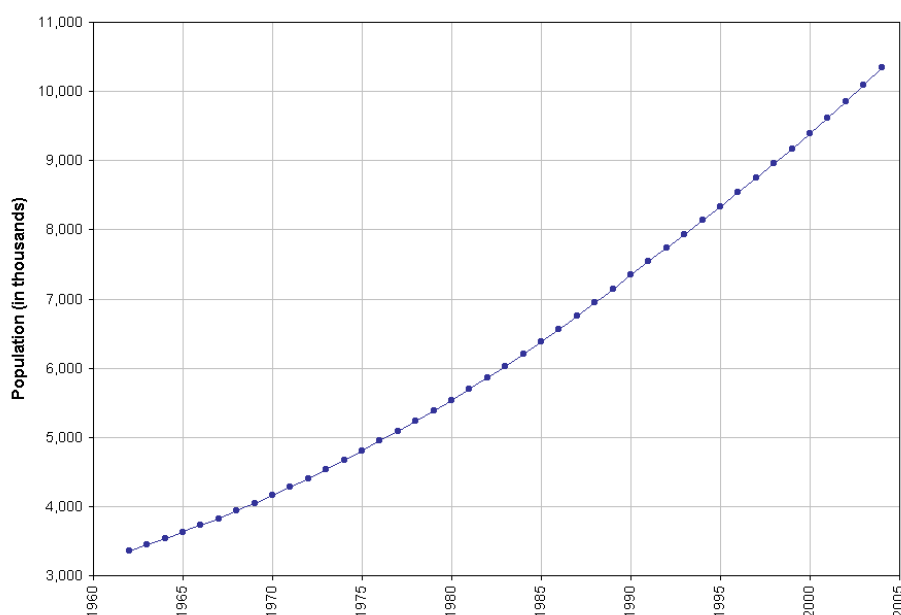


Fig. 1: Senegal's population growth

Senegal has a population of over 13.5 million, about half of whom live in rural areas. Density in these areas varies from about 77 inhabitants per square kilometer in the west-central region to 2 per square kilometer in the arid eastern section.

Population and economic indicators	
Population (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

Economic growth is largely concentrated in a limited number of urban centers whereas the majority of the population is still living in rural areas and/or working in the informal sector

Poverty indicators	
GDP per capita (current USD) (year)	2.100
Gini Index (0= equality 100= inequality) (year)	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)	55.2

1.2. Access to finance

The financial sector of Senegal is characterized by a combination of banks and microfinance institutions (MFI), focussing primarily on households and small and medium entrepreneurs in the urban centers. In a growing number of urban locations the density of MFIs is high a progressive shift of MFIs to consumer lending can be observed, growing over 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 like FMS have built distribution channels for savings and credit up to village level. Micro-insurance products can here be loaded on the existing logistics for microfinance at a marginal cost – in order to provide more crucially needed services to the clients and in order to increase profitability and sustainability of MFIs.

1.3. The partner institution

Initially the project was foreseen to be implemented in two institutions, FIDES Microfinance Senegal SA (FMS, former St. Louis Finances) and and Caurie Microfinance in Thiès. Due to internal considerations Caurie Microfinance finally did not join the implementation of the project whereas FMS, in partnership with Allianz Senegal, was implementing the project with even growing interest over time.

FMS had not offered microinsurance products to its clients before. There was also almost no experience in this field with the staff of the institution. At the same time FMS management had identified the crucial need for insurance of their clients. The clients belong exclusively to low-income population segments being in most cases rural, female and poor, thus cumulating different forms of vulnerability. First results of the SPM-system (Social Performance Management) indicated that the risk profile was broad, including illness, accidents, theft, draught, divorce, death of a family member, etc., and that insured savings products would have the best effect (meanwhile confirmed under this initiative).

FMS, with headquarter in St. Louis is a greenfield microfinance institution created by a group of social investors and DFIs including Swiss Microfinance Holding, KfW, IFC, Investisseurs&Partenaires and Oikocredit. IT started its activities in 2011. The objective of FMS is to build a meaningful contribution to inclusive finance in Senegal by expanding financial services to rural areas and small towns largely underserved today.

Since 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.

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

The aim of the project was to enable longer-term asset building strategies in low-income households and micro enterprises, and to strengthen their shock absorption capacity. FMS was already providing savings and credit services to formally unbanked micro-entrepreneurs. Results of the Social Performance Monitoring System and research with clients ("Life stories¹") had indicated that access to financial services enables active poor to create employment and income, but that household related major lifecycle risks often oblige these enterprises to fall back in poverty and to loose their assets. Many of these risks are insurable.

The challenge: Ensure workable asset building strategies for low-income households and small entrepreneurs

Since the risk profile is broad, it would not make sense to sell to this client segment (that represents the majority of the population) 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.

Life stories and focus groups based assessments under this project showed quickly 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.

¹ One of the tools used by FIDES is the lifestory 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.

² The initial objective to insure the target amount of the savings plan has been abandoned. The clients

Swiss Capacity Building Facility

Building on the understanding of demand profiles the features of the insurance approach has been developed. Beside the definition of a credit life plus product the main ambition was the creation of a savings life product that has been designed with the objective of offering, within an inclusive and responsible finance approach, a package that is meaningful and affordable for the target group. It 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.



Fig. 2: 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 its cash flow, to run its 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.

The developed approach combines the following features:

The backbone is an insured long term savings plan over 2, 5, or 10 years that enables poor people to set money aside in an affordable way in order to build considerable assets over time. The payment of installments is weekly or monthly, like the credit repayments. FMS is working with savings and credit groups that are collecting the savings installments as the credit installments from their members and enable the institution to collect small installments on a sustainable basis. In case of a claim the life insurance coverage secures the installments 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-out².

Furthermore the policy holder 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

² 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.

impact on the level of insurance coverage as long as the credit installments are paid by the client. This flexibility, to be able to mobilize temporarily long term savings should the need arise is particularly appreciated by clients 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.

3. Results achieved

The project has achieved several objectives:

1. **A capacity building objective:** The project has enhanced the practical and methodological knowledge of the management and the staff the MFIs in the field of micro insurance. The whole staff of the MFI was introduced in micro insurance and in responsible marketing of insurance products for the first time. The staff of FMS, knowing well its clientele, was not difficult to convince, the relation with the insurer took more time to construct. 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 the MFI and the insurance company as well. 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.
2. **An innovation objective:** There was no practical experience in rural micro-insurance and in savings life products in Senegal at project start. The project has introduced with the MFI and Allianz Senegal as well 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.
3. **An institution building objective:** an efficient repartition of tasks between a licensed insurer and an MFI having been developed. Whereas initially the initiative was slowed down by cumbersome procedures, substantial progress has been made by a combined effort of all stakeholders. A functional distribution channel up to village level has been built and integrated in the procedures of FMS. It 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. The 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.

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

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 paid out, as often as possible, is organized as a small ceremony that has a certain publicity effect in its environment.

The lesson learned in this 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 the clients understand the product as well as their rights and responsibilities.

Furthermore feedback from clients shows that the clients 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 here its limits. 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 it 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

For FMS the project has opened up completely new perspectives of interaction with its clients. It has understood that often decreasing vulnerability and securing income is more important for the clients than increasing income. The SCBF support has enabled intensive staff and management capacity building in the new field. Based on efforts to understand the demand side, first products have been tested and monitored. Client satisfaction is high and will be more precisely assessed in a study implemented in 2015. New product ideas are upcoming.

Key performance indicators	Y0	Y+1	Y+4/5
Trend of financial and social performance indicators between Y0, 1, 4/5. Selection of a few indicators (see Manual)			
% 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%

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, as 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 last points are felt by the 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.

3.3. Financial sector level *(might be applicable for financial inclusion leaders)*

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 micro-insurance broker providing insurance coverage to more than 100 000 cocoa farmers and their families. In Senegal Allianz has experienced with this project that micro-insurance 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

The project has achieved results that are considered as highly satisfactory by all stakeholders (low-income clients, MFI, Insurer). A basic model has been created by which insurance services can be rolled out through the savings and credit groups in rural areas. All milestones have been achieved.

The project has developed procedures and guidelines that have been the basis for the training of 120 staff of the institution and that are now guiding staff when implementing insurance. Furthermore FE 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.

The roll out of insurance is entirely driven by client demand. Up to now the client advisors have the same incentives for insured savings and credit products as for uninsured ones. FIDES Senegal did not wish to introduce a bias by pushing staff to roll out insurance through an incentive system.

Special effort has been made to involve the entire management team of the MFI. A management seminar on insured savings products has been held in April 2014.

The following lessons can be learned:

- Claim pay out is low up to now. 9 claims have been paid out in 2013 for a total amount of EUR 21 000, 13 other claims in 2014. The claim rate is lower than expected initially; the micro-entrepreneurs clients of the bank 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 the clients remains important, 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.
- 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 now 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 in the MFI.
- 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, but all steps are achieved with positive results and demand for the products is even much better than expected.
- 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 in 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. Allianz Munich has provided strong support in this regard.
- The new challenge is now to be able to follow demand and to prepare other interesting insurance products.
- 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.

Solid progress has been made and the project is concluded with major results achieved, Client demand is above expectations and will probably lead to a new substantial activity of the MFI beside credit and savings. With Allianz a likeminded insurance partner is on board and providing important efforts to adjust its approaches and procedures.

For the **Final Report +3** after 3 years of completion, please **amend the spreadsheets** (in report and excel) **and paragraph 3** on results achieved

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As Competence Centre we hereby affirm that all information provided in this final report is correct and that **resources have been spent according to and within the budget and time approved by the SCBF.**

Name Konrad Ellsäßer
FIDES AG
December 10th, 2014

Signature:



In my role as the SCBF Monitor for this support, I hereby affirm that this final report has been formally approved according to SCBF policies & procedures and that final payment can be issued accordingly:

First name / Name
Organisation
Date

Signature: