

Institutional Assessment of Microinsurance Opportunities in Myanmar

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Institutional assessment of PACT Global Microfinance Fund and PACT Myanmar to determine the feasibility of improving micro-finance embedded programs through capacity building on insurance methods and tools.

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1. Executive Overview

In Myanmar, PACT Inc. operates two operationally separate and distinct enterprises: PACT Myanmar and Pact Global Microfinance Fund (PGMF). PGMF is the largest MFI in Myanmar operating 140 branches in 51 townships, covering 8,664 villages and reaching 613,373 active clients. The program targets group lending to women (99%), with 84% of its women investing in income generating programs (primarily agriculture based). PGMF provides insurance-like covers to all of its members via its Beneficiary Welfare Fund (BWF) and they have a market share of 74% of all active MFI clients nationwide, 90% of all INGO clients, and holds 65.4% of all MFI outstanding loans in Myanmar as of March 2013¹. PACT Myanmar operates multiple programs and in particular one relevant to the insurance / risk pooling / risk reduction focus of this study: a community centric risk-pooling model called Village Health and Development Fund (VHDF) (previously referred to as the Village Resiliency Fund (VRF)). The BWF and VHDF provide risk-pooling benefits to their clients independently through different operating models and drawing on their individual reserves despite potentially covering the same events.

One of the original remits for this study was to explore connecting the PGMF BWF with PACT Myanmar VHDF. While we found interesting opportunities in each, and longer term potential for coordination, all involved local and international stakeholders from PACT Group, PGMF, and PACT Myanmar concluded the immediate priority and focus of the intervention should be a deep-dive into the PGMF BWF program due to operational readiness. The institutional assessment addresses both programs; however, greater focus is given to immediate actions to improve PGMF BWF. This approach was endorsed and encouraged by the PFI at each level of the organization.

PACT's PGMF Beneficiary Welfare Fund provides risk-pooling to more people in Myanmar than does the entire formal insurance sector. It provides tremendous good and has the potential to do even more. Current roll-out of a new transactional IT platform across PGMF provides an excellent lever-point to bring in external best practice at the right time regarding insurance key performance indicators, claims processes, and over time, product design and customer education.

Even small improvements on a program this large will reach a lot of households. PGMF currently serves over 730K customers with its credit products and the BWF reaches more than 615k people. The current BWF offers relief to clients across a broad and ambitious set of perils which include mortality, catastrophe, property (e.g. livestock), and certain life events. PGMF management clearly sees the role of risk-pooling in their clients' lives and sets a high bar for how the program might be improved.

We find that both the country and organizational contexts of PGMF are conducive to the implementation of our recommendations. The current coverage from BWF is expansive in the types of events addressed and provides interesting features such as extended term-lengths for customers whose credit has been repaid.

The operational process is already a focus of the broader IT rollout mentioned above. In terms of financial monitoring, PGMF BWF has historically reported based on the more limited electronically available data and using accounting concepts befitting a fund. We identify short-term opportunity to add insurance methodologies and concepts which can help bring into sharper focus the long-term performance of benefits such as child delivery and catastrophe cover.

The specific work recommended from our research and from discussion with PGMF, PACT Myanmar, and PACT Institute includes the following actionable 2015-16 priorities for PGMF's BWF:

¹ UNCDF, MAP: Myanmar Demand, Supply, Policy and Regulation Synthesis Note, 2014.

- 1. Optimization of the claims process from initial report through to final approval**
- 2. Integrate best practice policy and claims administration in the target system**
- 3. Design best practice KPI reports in the target system and train users on use/interpretation**

Each of these actionable recommendations will require a level of effort by PGMF staff. Through discussion with PGMF's project manager for the IT rollout, combined with our own experience, we see the above claims decisions flow and policy and claims data capture elements coupled with KPIs and training as the most impactful and immediate actions that can be implemented immediately. These will maximize outreach through improved service delivery mechanisms which reduce transaction costs for insurance and savings products and will establish a platform for further innovation.

The immediate actions at PGMF BWF strengthen the existing program, ensuring its good function and continued availability for the large population currently served. Product development within BWF is constrained by sub-par data availability and inconsistent claims processes. Implementing the recommendations will allow the existing program to be optimized. Foreseen product optimizations which are anticipated by these actions include:

- 1. Ability to increase cover on larger events**
- 2. Ability to target benefits to specific populations and loan types (e.g. gender-specific, ag specific)**

Driving the three recommendations are **5 key Observations and Recommendations**. These are summarized below as well as in the conclusion with recommended actions.

Key Observations & Recommendations		
	Observation	Recommendation
1	Child delivery benefit implemented in 2013 has dramatically increased the rate of benefit payments made by the program and thereby increasing the critical need for improved management information to measure its impact.	Design best practice KPI reports in the target system and train users on use/interpretation
2	Historical transactional level data is mainly paper based and does not allow us to efficiently tie client to loan to term.	Ensure best practice policy and claims data capture within Abacus software roll-out as a Day 1 or Day 2 requirement.
3	BWF revenue is made of three parts: direct client contribution, interest income of BWF, and allocations by PGMF. Without a full review of the overall finances of PGMF, we cannot draw conclusions on the rate adequacy and overall sustainability of the Fund.	Review BWF finances after completion of recommendations 1 & 2
4	Claims decisions are potentially not made in a uniform way – settlement amounts vary based on a wide number of variables which are determined via community based judgement calls.	Review and improve claims decision flow to speed and standardize (to the degree possible) the process. This is akin to implementing guideline for credit decisions.
5	Long-tail catastrophe risk and benefits such as Child Delivery are potentially material to the program.	Upon completion of recommendations 1 & 2 review options to modify these covers or to (re) insure them on capital markets.

2. DEVELOPMENT RELEVANCE

2.1 Economic and poverty context

Myanmar, currently a Least Developed Country (LDC), has a high potential for growth considering its rich natural resources, abundant labor force and strategic location between Peoples' Republic of China (PRC), India, and Thailand.

According to UNDP, in 2011, agriculture contributed 36% of total GDP and a majority of the country's employment -- some 70% of the labor force (of approx. 32.5 million) are estimated to be engaged in, or dependent on, agriculture to a significant extent. The abundant availability of water provides a strong edifice for energy, agriculture, and overall industrial growth. Myanmar uses only 5% of its water resources, with agriculture consuming 90% of this usage.

Additionally, Myanmar has a young population with 13 million (or 40%) of the population in the 15-28 age cohort, rendering the available working population young for the next three decades².

Table 1 ¹ : Population and economic indicators	
Population in million (2015)	53.9
GDP growth (2015)	8.5%
Inflation (2015)	10.8%
Economic Freedom Index ⁱⁱ (Rank among 186 countries) (2016)	158
Poverty indicators	
GDP per capita (USD) (2015)	1203.80
Gini Index (0= equality 100= inequality)	N/A
International, national and rural poverty rate (at 1.90 USD/day)	N/A

To achieve its potential, Myanmar is actively pursuing progressive policies for financial inclusion alongside a portfolio of institutionalized efforts for deepening the rural ecosystem.

2.1.1. Poverty is essentially rural and dependent on agriculture, with limited financial access

One in four Myanmar citizens remain poor, comparable with other countries in the region³. However 84% of the poverty is in rural areas, which depend mostly on agriculture for income⁴. Poverty is not uniformly distributed across the rural areas with, for example, Chin State in the West having 73% below the poverty line and Kayah State in the east at 11%. A long period of very high inflation has also exacerbated rural poverty.

A UNDP Assistance Mission to Burma in December 2005 stated '*It is arguable that improvements in the availability and transparency of rural finance would do more than any other single measure to help the rural poor*'⁵.

To some degree the microfinance regulation has begun to address this challenge and respond to the massive opportunity.

² World Bank, 2011.

³ In terms of poverty head count ratios, (in 2010), Myanmar stood at 25.6% (at 1.25 USD per day), compared to PRC's 13.1%, India's 21.9% and Indonesia's 54.3%.

⁴ Study conducted by ADB (2011). *Myanmar in transition: Opportunities and Challenges*, ADB, 2011

⁵ Turnell, Sean, 'Burma Economy 2009: Disaster, Recovery and Reform', 2009.

2.1.2. Financial sector context

Historically the Myanmar governments have chosen an inward looking policy to development, largely controlling the financial sector through public sector provision. As of 2014, only 23% of the Myanmar population had an account with a Financial Institution, 16% any form of borrowing and 13% were using a formal savings product.

Since agriculture remains the main primary economic activity, microfinance institutions are required by law to have at least 50% of their clients in rural areas (PGMF is close to 95% rural). Consequently, the financial sector has been challenged to grow with inadequate infrastructure (<3,000 ATMs in the country), and most remote rural villages remain 100% cash-based. In 2016 there are ~150 licensed MFIs operating in Myanmar with PGMF maintaining top spot in the micro-finance market accounting for ~80% market-share.

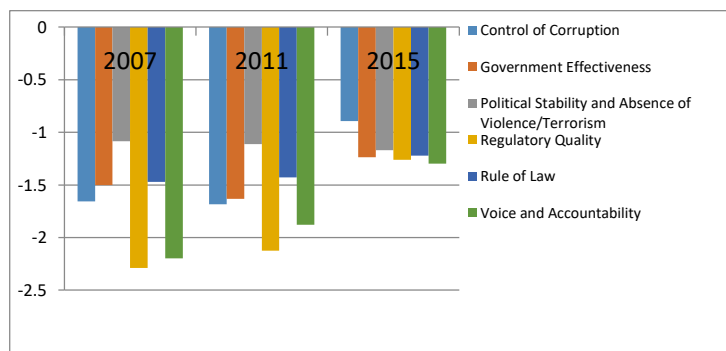


Figure 1 Governance indicators chart (Myanmar, 2007, 2011, 2015)

Although the Myanmar economy is mostly cash-based, mobile money has potential to increase financial inclusion and penetration. Financial institutions are also investing in modern banking software. Sector associations regularly meet in efforts to move toward a more modern regulatory framework. The loosening of US economic sanctions will further help open the market to outside investment and best practices.

The insurance market is nascent and expected to develop over coming years with insurance liberalization expected to open to foreign insurers by 2019. Almost all regulated and unregulated risk protection is compulsory (credit-life, fire, and compulsory third-party liability), in effect making voluntary retail insurance market in Myanmar effectively non-existent.

2.1.3. Microfinance activities in Myanmar, and the context of rural insurance

State capital resources currently reach a limited population although private Myanmar Banks are beginning to grow with a more open-market regulatory environment. Village cooperatives and microfinance institutions remain the main instruments to fill the gap. State funded sources, like the Myanmar Agriculture and Rural Development Bank (MARDB) has lent to this sector and to date has had approximately 1.6 million borrowers and a loan portfolio turnover of Kyat (K)10 billion (1 USD= 1270 Myanmar Kyat).

The growth of microfinance has demonstrated that rural households prioritize reliability and accessibility ahead of cost. Nascent MFIs, which emerged half a decade ago, have grown steadily and a few of them have achieved impressive scale. However, there are multiple challenges to their expansion and regulatory constraints limit forging of financial linkages, the latter helping in the provision of more customized and complex financial solutions.

UNDP initiated the first microfinance schemes in three different locations: (a) in Ayerawaddy Delta (b) in the Dry Zone, and (c) in Shan State. This effort has been merged to form the PACT Global Microfinance Fund (PGMF) in 2012, the largest MFI in the country.

While there are no formal rural insurance solutions available, agriculture credit and rural lending have grown and are a critical precursor to insurance. Of the Micro-finance companies providing unregulated insurance services, 6 INGO's operate 163 branches and 75 COOPs operate 147 branches. There are also 1,469 savings and credit cooperative societies and community-based assistance groups providing some level of unregulated risk protection cover.

2.1.4. Infrastructure conditions in Myanmar are likely to complicate product delivery

There are multiple challenges to the growth of the rural economy – for example, underdeveloped and inadequate infrastructure, telecommunications, and transportation. The missing infrastructure of irrigation, storage, processing and marketing facilities contribute to a farmer's risk, which is compounded by the quality of the road network and internet communication which is poor, especially in rural areas and in small towns. This context may significantly impact the delivery methodology and the efficiency of operations⁶.

2.1.5. Myanmar Insurance Market

The insurance market is expected to develop rapidly over coming years. Currently, the majority of the Myanmar population do not use insurance to mitigate risks, predominantly because insurance is not readily available or they are not aware of its existence. Only 7% of adults in Myanmar have some form of insurance with 3% being regulated insurance, often as indirect, compulsory insurance for certain government employees, vehicle owners, and MFI/INGOs⁷. The remaining 4% of the population utilizing insurance are accessing unregulated risk mechanisms offered by community based assistance groups, Coops, and other NGOs, like PACT. Many of these groups require insurance like cover compulsory with their loans.

It can be concluded that the voluntary retail insurance market in Myanmar is effectively non-existent with health and funeral insurance unavailable despite being two of the most important risks faced by households⁸. In addition, a large proportion of adults interviewed in the 2013 FinScope Study reported agricultural related risks as top priorities along with medical expenses (Figure 1).

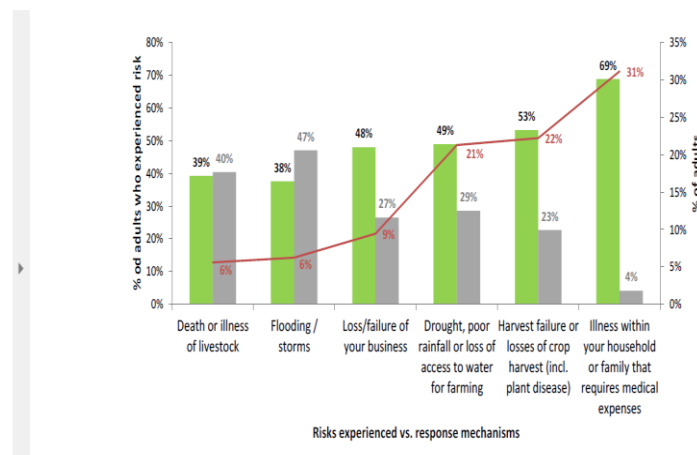


Figure 2: The most common insurable risk vs mitigation strategies

⁶ FIDES FSW-08, Myanmar, Market survey and marketing strategy Product definition and delivery mechanisms, September 2014

⁷ FinScope Myanmar, Survey Highlights, 2013. http://www.finmark.org.za/finscope/wp-content/uploads/pubs/2014/05/BKLT_FSMyanmar_0514.pdf

⁸ IBID

Currently, Myanma Insurance, the state run insurance company, does not offer agriculture or health insurance and private insurers are prohibited by regulation to offer these product lines⁹. That said, the State is currently engaged in supporting a range of risk reduction strategies, focused mostly on the primary economic driver - Agriculture.

The most common risk mitigation strategies provided by the State are subsidies for pesticides, price-risk reduction through guaranteed minimum support prices for specific crops, and investment in infrastructure creation for storage, such as warehouses, and transportation. Since insurance is one part of a larger risk management strategy, the expectation that the State take a larger direct role may increase over the years.

2.1.6. Insurance Regulatory Context

In Myanmar, the Insurance Business Regulatory Board (IBRB) of the Ministry of Finance has been designated as the insurance regulator and is responsible for licensing and overseeing insurance firms activities. Myanma Insurance performs the work of the Supervisory Board on behalf of the IBRB and the Myanmar Economic Bank (MEB) acts as the intermediary for financial transactions between the Government and the licensed insurance firms. In September 2013, local firms were approved to begin providing insurance services in addition to the state run Myanma Insurance (Table 1). Of the new providers, eight provide general insurance and eight provide life insurance. In addition to Myanma Insurance, nine private insurance companies have been granted insurance licenses to operate with five licensed for life insurance and four licensed for general insurance (Table 2). All of the local firms are able to operate within a limited range of classes, whereas Myanma Insurance operates up to 46 classes of insurance (Table 3).

Table 1: Regulated Insurance Providers in Myanmar ¹⁰	
Life Insurance	General Insurance
1. Myanma Insurance	1. Myanma Insurance
2. First National Insurance	2. I.K.B.Z. Insurance Public
3. Young Insurance Global Insurance	3. Global World Insurance
4. Capital Life Insurance	4. Aung Thitsar Insurance
5. Grand Guardian Insurance Public	5. Ayeyar Myanma Insurance
6. Excellent Fortune Insurance	6. United Amara Bank
7. Pillar of Truth Insurance	7. Yadanabon Bank
8. Citizens Business Insurance	8. Yangon City Bank Public
9. Myint Mo Minn Insurance	9. Yoma Bank

Table 2: Licensed insurance Companies in Myanmar	
Life insurance:	General insurance:
1. Myanma Insurance Company (State run)	1. Myanma Insurance Company (State run)
2. First National Insurance	2. I.K.B.Z. Insurance Public
3. Capital Life Insurance	3. Global World Insurance
4. Grand Guardian Insurance Public	4. Aung Thitsar Insurance
5. Citizens Business Insurance Public	5. Ayeyar Myanma Insurance
6. Myint Mo Minn Insurance	

⁹ UNCDF, MAP: Myanmar Demand, Supply, Policy and Regulation Synthesis Note, 2014.

¹⁰ The Banking and Financial Service Sector in Myanmar, KPMG Advisory (Myanmar) Limited, a Myanmar limited liability company, November 2014.

Table 3: Classes of Insurance¹¹

Classes of Insurance offered by Myanma Insurance	Classes of Insurance provided by Private firms
1. Marine cargo insurance	1. Life insurance
2. Marine hull insurance	2. Comprehensive motor insurance
3. Aviation insurance	3. Fire insurance
4. Travel insurance	4. Cash-in-safe insurance
5. Engineering insurance	5. Cash-in-transit insurance
6. Fire insurance	6. Fidelity insurance
7. Third party liability insurance	
8. Comprehensive motor insurance	
9. Oil and gas insurance	
10. Cash-in-transit insurance	
11. Cash-in-safe insurance	
12. Fidelity insurance	
13. Bodily injury insurance	
14. Miscellaneous insurance	

Myanma Insurance operates 39 branches in Myanmar and are the only operating reinsurer. In addition to the approved insurance providers, there are approximately ten local insurance brokers and 600 insurance agents licensed and trained by Myanma Insurance.

Unregulated insurance, such as PGMF and other International NGO's (INGO) also operate in Myanmar. Of the Micro-finance companies providing unregulated insurance services, 6 INGO's operate 163 branches and 75 COOPs operate 147 branches. There are also 1,469 savings and credit cooperative societies and community based assistance groups providing some level of unregulated risk protection cover. Of all of the MFIs, Coops, Community based groups and State run insurance, PGMF has the greatest outreach of any regulated and unregulated insurance provider in Myanmar, reaching 1.3% of the total population. In contrast, the State-run Myanma Insurance reaches only 0.5% of the population (300,000 people). The following section provides details about PACT and PGMF and its various subsidiaries operating in Myanmar.

¹¹ Directorate of Investment and Companies Administration (DICA) (www.dica.gov.mm)

3. PACT INC.

PACT Inc is a US-based International NGO which operates in more than 25 countries in Africa, Asia, Europe, and South America. Through partnership and collaboration with a broad mosaic of cross-domain actors, it is dedicated to eradicating poverty globally. PACT has a world-wide workforce of over 3,500 development professionals in more than 25 countries on over 100 active development projects and active project revenue in excess of \$200M USD annually. PACT was founded in 1970, and subsequently established two 501(c)(3) subsidiaries called PACT Institute (PI) in 1998 and PACT Global Microfinance Fund (PGMF) in 2012. PI leads PACT's innovation and growth strategy to help it diversify its revenue streams¹².

3.1. PACT Institute

PACT Institute manages global cross-cutting initiatives for programmatic innovation, IT best practices, networking analysis, thought leadership, partnerships and productization.

Two areas within the Institute's reporting structure are relevant for this feasibility report:

- PGMF – The market-leading micro-lender in Myanmar which is the main focus of this study; and
- Social enterprise/entrepreneurship – A global effort to link and/or combine business and development goals.

3.2. PACT Myanmar

In Myanmar, PACT Inc. operates two operationally separate and distinct enterprises: PACT Myanmar and PACT Global Microfinance Fund (PGMF).

PACT Myanmar operates multiple programs and in particular one relevant to the insurance / risk pooling / risk reduction focus of this study: a community centric risk-pooling model called Village Health and Development Fund (VHDF) (previously referred to as the Village Resiliency Fund (VRF)). The VHDFs act as a financing mechanism by pooling community's contributions and are owned and managed by the community. The objective of these funds is to provide assistance to community members at times of catastrophic health spending. Over time the funds are also being used for specific development activities at the village level.

3.3. PGMF

PGMF is the largest MFI in Myanmar operating 140 branches in 51 townships, covering 8,664 villages and reaching 613,373 active clients. PGMF disbursed 204.67 billion Kyats (USD 210.11 Millions) over the course of 12-months from 2013-14, attaining loan outstanding of 103.67 billion Kyats (USD 106.43 Millions).

The program targets group lending to women (99%), with 84% of its women investing in income generating programs (primarily agriculture based). PGMF age demographics range from 18 to 65, with a majority of borrowers aged 18-40. Many members are repeat borrowers averaging 5-7 years with PGMF and regularly take multiple loans over the course of a year.

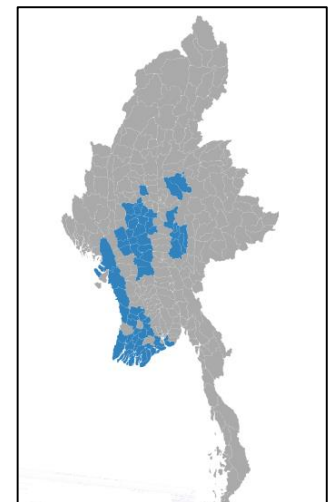


Figure 3 PGMF Branch Network

¹² PACT interviews and concept notes

PGMF provides insurance-like covers to all of its members via its Beneficiary Welfare Fund (BWF) which has a balance equivalent to USD 5.41 million as of June 30, 2014. PGMF has a market share of 74% of all active MFI clients nationwide, 90% of all INGO clients, and holds 65.4% of all MFI outstanding loans in Myanmar as of March 2013¹³.

¹³ UNCDF, MAP: Myanmar Demand, Supply, Policy and Regulation Synthesis Note, 2014.

4. Background on Institutional Assessment of the VHDF and BWF Programs

The following section describes institutional assessments conducted for the VHDF and BWF Programs operated by PACT Myanmar and PGME, respectively. The BWF and VHDF provide risk-pooling benefits to their clients independently through different operating models and drawing on their individual reserves despite potentially covering the same events. Scale and data are both important for successful risk-pooling and as such our original hypothesis was that there could be benefit from aligning and coordinating these programs. However, as noted previously, such coordination was discouraged by the PFI in the immediate term due to operational readiness on both sides.

VRF/VHDF is a village-level emergency and catastrophe lending and grant-making program providing funds for a range of household-level economic shocks. It is seeded with grants and its “revenues” are derived through village contributions. The resulting individual funds are managed entirely by the communities which are trained in the concept.

In contrast, BWF is a mandatory feature of a PGME loan. The BWF is fed by three revenue streams:

- % of each loan,
- % of PGME gross income; and
- net investment income on the existing reserves.

4.1. PACT Myanmar: Summary of the Institutional Assessment of the VHDF Program

The VHDF program is implemented by PACT Myanmar and trains local villages on how to operate local community disaster funds. PACT supports and encourages VHDFs by providing matching grants, with the funds acting as a revolving grant, earning interest by providing loans to its members. The funds are also used to provide grants to needy community members. PACT has so far supported VHDFs in 782 communities across 13 townships reaching a total of 130,000 citizens. The average fund value of VHDFs is CHF 11,200¹⁴ implying a nation-wide aggregate value of nearly CHF8.8M.

With government health expenditures as percent of gross domestic product historically below 1% in Myanmar, high out-of-pocket spending on emergency hospital and transportation costs burden rural, low-income families in Myanmar. Slightly more than half of all PACT beneficiaries earn less than US\$ 100 a month (and virtually all earn below US\$400). Between treatment costs and the expense of travel to health care facilities, an unexpected illness or even routine care during a pregnancy can create untenable expenses for Burmese families.

To help make local communities more resilient in the face of health challenges, PACT began implementing VHDFs in Myanmar in 2003. The VHDF model is an innovative way to harness local resources to meet village health and development needs. This community-owned and managed financing mechanism pools together community resources to help lower the burden of catastrophic health spending. Because they are locally managed, they have also become catalysts for a wide variety of development initiatives in communities across Myanmar.

Communities form VHDFs through a mix of household-level contributions and PACT matching grants. A Fund Management Committee, which consists of at least two female members, stewards the fund and collective decision-making guides the use of VHDF funds for community priorities. As contributions increase and earn interest, the total value of the fund grows quickly, creating new choices for communities.

¹⁴ Shae Thot Third Annual report 2014 prepared by PACT for USAID

VHDFs are primarily used for health-related emergencies, income generation activities, and community projects.

PACT's approach to community managed funds enables communities to sustainably meet their health and development needs, while building resilience to future health-related catastrophes. VHDFs epitomize PACT's commitment to local solutions, equipping communities to decide for themselves how best to allocate funds, creating buy-in and community-ownership in the villages.

While VHDFs are used to manage economic shocks beyond ordinary household budgets, unlike BWF, these otherwise bear little resemblance to insurance. VHDFs are established in a development modality and maintained autonomously by individual villages. While the structures provide great potential for additional risk reduction and resilience interventions, the pathway to linking these with PGMF and BWF was not recommended by the local PFI. The feasibility study originally intended to link BWF and VRF/VHDF, our efforts show that this is not a good near-term goal. In addition to the complexity of the distributed autonomous nature of the funds, coordination between PGMF and PACT Myanmar is only infrequently undertaken and then on an ad hoc basis. Furthermore, PGMF and PACT Myanmar have different visions, social missions, and management priorities.

4.2. PACT Myanmar VHDF Risk Reduction Measures

Although the Feasibility Study did not identify short-term options to connect VHDF with BWF, research identified potential actions which VHDF might elect to implement. These leverage VHDF's community centric integrated development model in its two key areas of intervention (Agriculture and Health). Risk reduction measures include tangible solutions, which help in mitigating respective risks to a certain extent, while risk transfer measures can provide ex-post financial assistance in case of events.

4.2.1. Health Risk Transfer:

Presently, VHDFs pool funds at the village level to address community's needs for catastrophic health expenses. This solution can be further expanded by developing a community managed inter-VHDF pool of funds to which individual members will contribute voluntarily and will be paid back in case they suffer from any of the pre-decided diseases. The bylaws for such a fund i.e. inclusion of diseases, member contribution and payback amounts can be decided by the members of existing VHDFs, who chose to be part of such an initiative.

By interlinking different VHDFs, the pool of available funds can be increased while retaining the element of participatory and community led decision making. As the amount of available funds increase, VHDFs will be able to cover a larger proportion of health expenses.

Feasibility: Presently, the most attractive proposition of VHDFs is the quick availability of funds. It can be maintained by following a two stage process, Stage 1) an immediate short-term (Larger amount), interest free loan from their respective VHDF in case of an emergency, and Stage 2) after review, a larger claim payout, from the inter-VHDF pool. They can also be provided with a small fee collected from the VDFs and maintained by the inter VHDF pool. It has been demonstrated in studies that such funds have high development impact and do grow in scale, even though than have a long gestation period for achieving sustainability, as demonstrated in the Uplift model.

4.2.2. Agriculture Risk transfer:

Erratic rainfall is a major risk faced by farmers in the dry region. In this context, parametric insurance solutions such as an excessive or deficit rainfall index insurance product can be introduced to lessen the hardships faced by farmers. A rainfall index insurance works on a pre-decided index which is the averaged amount of normal rainfall in a geographical unit. In case, the actual rain fall is less or more than this index, the insurance is triggered and farmers are paid back a fixed amount of sum. At times, timely payouts allow farmers to buy a second set of seeds to be able to sow again and not lose the cropping season.

Feasibility: Myanmar government has already recognized weather index insurance as an important requirement and efforts are being made by commercial insurers to provide this product to the farmers. PACT can act as a leader in this scenario by leveraging its network of FEGs and offering this product on a voluntary basis.

These resilience building measures have been recommended based on community needs, existing capabilities of PACT Myanmar's activities and emergence of innovative solutions to development challenges in Myanmar. However, as PACT's integrated development model is community centric; the adoption and implementation of these measures will be modified and adapted based on local context and community's response to these recommendations.

4.3 PGMF: Summary of the Institutional Assessment of the BWF Program

Access to formal insurance is largely absent in the rural geographies of Myanmar. Traditionally, informal mechanisms such as the Buddhist donation culture have acted as a form of safety net for households in which community or relatives donate some assistance during hardships. Recognizing the unmet need of formal insurance services among its clients, the precursor of PGMF (the UNDP PACT Microfinance Project) started the Beneficiary Welfare Fund (BWF) program in May 2000. The program provides benefits in case of named perils against a premium payment and thus is similar to insurance.

The BWF is the largest of its kind in Myanmar in terms of clients and in its present form provides risk protection to more than twice the number of individuals covered by formal insurance in the country (1.3% of the population). However, while it provides risk pooling it is not an insurance structure. Rather, it is based on the CARD Mutual Benefit Association Model in the Philippines¹⁵.

The features it provides are mandatory benefits of the core microcredit program. The form's strengths and occasional weaknesses are known in microinsurance and development finance. Broadly speaking, the best practices of microinsurance are useful to such welfare funds regardless of the legal context within which they operate.

4.3.1.BWF Product

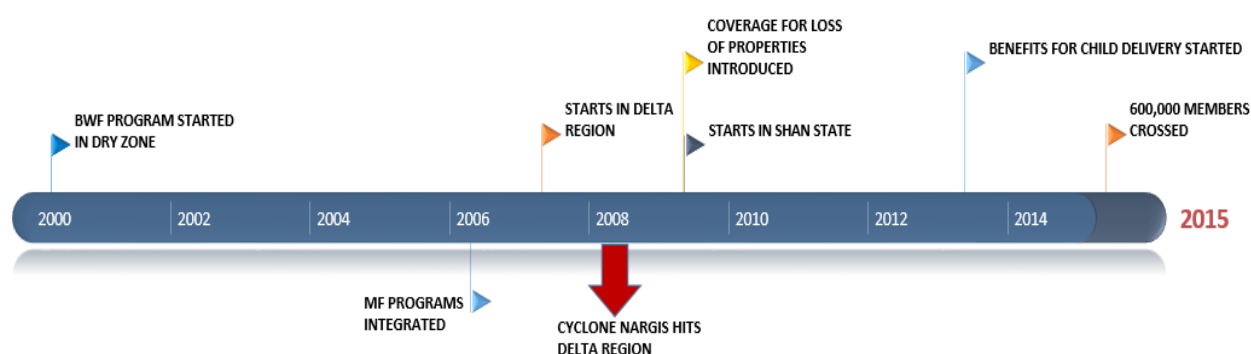
BWF provides benefits against 11 perils ranging from drought to childbirth. Benefits are provided as Cash Assistance, Loan write-off or both.

The BWF program was started in May 2000. The initial coverage was for the death of the client, in which a cash assistance of 25,000 kyats (USD 72) was given to the client's family. This benefit cost 50 kyats

¹⁵ CARD Mutual Benefit Association, <http://www.cardmba.com/>

(USD 0.14) as annual premium¹⁶. In its first year, the program covered 23,025 members in the dry zone region of the country.

In 2008, cyclone *Nargis* struck Myanmar causing massive destruction with huge losses of lives and assets in the Delta region. PGMF microfinance program was affected severely and a loan portfolio worth USD 2.9 million had to be written off. It was also realized that the BWF program would better serve its development purpose by addressing a wider range of risks faced by the clients. As a result, the BWF program was extended to include loss of property in case of disasters such as fire, landslide, flood, localized, storms, erosion and loss of livestock due to transmittable diseases in the village. For these, the fund made available cash assistance up to 50,000 kyats (USD \$40) in case of loss of life or property¹⁷ and introduced the option of writing off outstanding loans in case of death or loss of loan investment.



The next major change to the product came during 2013, when cash assistance for child delivery was included as a benefit. The Child Delivery benefit has had a dramatic effect on BWF claims. It is also reported by PGMF to be a highly popular benefit among borrowers. We will note in later sections our questions and concerns about development of the Child Delivery benefit.

KEY OBSERVATION 1: Child delivery benefit implemented in 2013 has dramatically increased the rate of benefit payments made by the program and thereby increasing the critical need for improved management information.

The covered events and their customary benefit payment amounts are listed below:

Cover	Benefit
Loss of life	Ks200,000 (~USD 155) + loan write-off
Fire	up to Ks50,000 (~USD 40) + loan write-off
Flood	up to Ks50,000 + loan write-off
Erosion	up to Ks50,000 + loan write-off
Localized storm	up to Ks50,000 + loan write-off
Earthquake	up to Ks50,000 + loan write-off
Agriculture drought or flood	up to Ks50,000 + loan write-off (conditional)
Livestock	loan write-off
Boats & nets	Boats & nets; benefits up
Childbirth	up to Ks100,000 (~USD 80)

¹⁶ The actual figures in Kyats and USD are taken from the project documents, which have used exchange rates applicable at that time.

¹⁷ Exchange rate, 1 USD = 1,275 Kyats

4.3.2 Enrollment Process, Term, & Cost

Enrolment in BWF is mandatory for all loans (except for the relatively small “social loans” program). The loan officer informs clients of the BWF program benefits and specifically deducts payment for the fund during credit disbursement to ensure transparency on the contribution amount and its purpose. BWF is documented along within the loan process. Presently, this process remains paper-based from origination at the client level to claim approvals by the CEO of PGMF.

KEY OBSERVATION 2: Historical transactional level data is mainly paper based and does not allow us to efficiently tie client to loan to term.

Once enrolled, the client benefits from the program for the duration of the loan. The client is provided a further 6 months after the loan is fully repaid as risk-pooling continuity until they elect to take another loan. In practice, clients may have overlapping contributions to the BWF or may benefit from up to 18 months of cover from a single contribution.

The contribution due for direct payment by the client is equal to 1% of the loan amount. PGMF then additionally contributes another 1% of the loan amount as it is repaid. It further allocates estimated proceeds from its lending activities toward the BWF fund balance by leveraging cash from BWF to make loans. Without a full review of the overall finances of PGMF, we cannot draw conclusions on the rate adequacy and overall sustainability of the Fund.

KEY OBSERVATION 3: BWF revenue is made of three parts: direct client contribution, interest income of BWF, and allocations by PGMF. Without a full review of the overall finances of PGMF, we cannot draw conclusions on the rate adequacy and overall sustainability of the Fund.

4.3.3 BWF Benefit Payout Process

Benefit payout occurs when the client reports a loss covered by BWF. It includes three steps; intimation, processing and settlement. Any difference to a standard process is highlighted in the following steps:

1. In case of an event (death, disaster or child delivery) the member/beneficiary informs one of the village based center executives (Chief or Secretary who is a PGMF member and not a PGMF staff) who in turn informs the loan officer at the Branch office. Center executive must be informed within 24 hours in case of a disaster claim.
2. The loan officer visits the village and forms a loss assessment team with center executives. In case of large scale damage, the village elders or administrative head may also be a part of this team. The team then visits the client’s house, shop, cattle shed or agricultural land where damage has occurred for loss assessment.
3. Loss assessment depends upon the proposal made by the team which has wide latitude to interpret local context (such as assessed cost of assets/input) and the extent of destruction. The extent of loan write-off also depends upon the amount of investment affected by the disaster



Township Loan Disbursement Meeting

event¹⁸. Therefore, loss assessment depends on the combined inputs of the loan officer, center executives and village elders. The loan officer sometimes also captures pictures of the damage to facilitate PGMF senior management decision-making¹⁹.

4. The loan officer notes the case details i.e. member's identifying information, cause and severity of damage in an Intimation Form and proposes the payout (cash and/or loan write off amount).
5. These details are then forwarded for approval from the authorities depending on the event:
 - a. **In case of death or child delivery**, the approval for cash assistance is made at the Township office²⁰
 - b. **For all cases involving loan write off**, approval is made at the Yangon based Head Office by either the COO or General Manager contributing to a poorer turn-around time, especially in the case of a catastrophic event.
 - c. **In the case of case of cash assistance for disasters**, either the COO or General Manager in Yangon must approve²¹, which leads to an even longer turn-around time.
6. After the relevant authority has approved the payout, communication is transmitted back to the unit and to the loan officer via phone as well as written communication.
7. Since Units receive periodic loan paybacks, the available cash is used to make benefit payouts to members. Also, their close proximity to Township Offices ensures ready access to larger amounts.
8. When approvals are completed, the loan officer returns to the microfinance branch and disburses the cash assistance or/and informs about the loan write off to the affected member.



Figure 4 Cash assistance is handed out to a PGMF client

In catastrophic events, even though, the payout amount are considered widely to be a very small percentage of the actual losses, there is no standardized data of client asset value or pre-identified parameters of severity based differed payouts. Payouts are impacted by the Loan Officer's previous experience of the region. Benefit Payout transaction are presently primarily documented within a paper-based process and summarized. The current level of detail held electronically is insufficient for detailed analysis.

Benefit decision-making is admirably localized and community-based. At the same time, policies which ensure fair and/or uniform as well as quick decision-making can be strengthened.

¹⁸ For example, if a loan of 60,000 Kyats was taken to purchase inputs for 3 acres of farmland and one-third of the investment (i.e. 1 acre) was damaged due to a flood, the loan write off amount recommended would be one-third (i.e. 20,000 Kyats in our example).

¹⁹ In cases of livestock epidemics, a certificate from the local veterinary official is also required to prove the cause of death to reduce fraud.

²⁰ In child delivery cases cash payment has to be made within 72 hours of intimation.

²¹ Since such payouts entail higher amounts of cash PGMF program employs multi-level of oversight to ensure maximum prudence.

KEY OBSERVATION 4: Claims decisions are potentially not made in a uniform way – settlement amounts vary based on a wide number of variables which are determined via community based judgement calls.

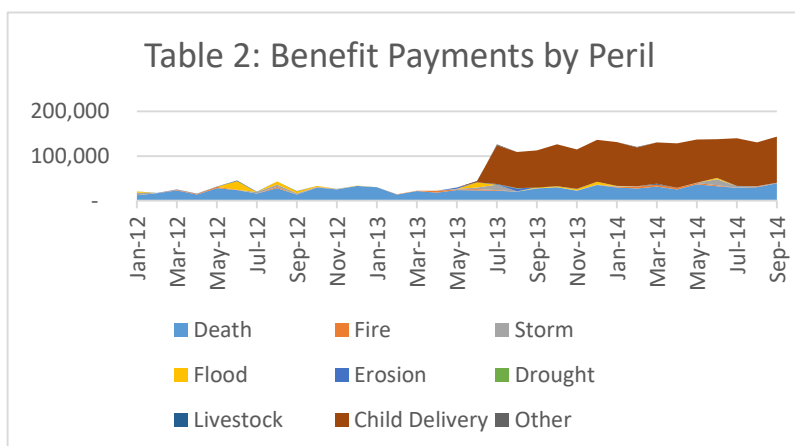
4.3.4 Long-tail Natural Catastrophe Risk

According to the United Nations Risk Model, Myanmar ranks first as the ‘most at-risk’ country in Asia Pacific²². It is highly vulnerable to a wide range of hazards, including floods, cyclones, earthquakes, landslides and tsunamis. The likelihood for medium to large-scale natural disasters is very high. This presents material risk to the BWF portfolio, which covers life and property of its members against disasters. Therefore, it is essential to understand the risk and degree of shock posed by natural disasters by projecting its impact on the program.

KEY OBSERVATION 5: The risk from natural catastrophes are potentially inadequately covered in the BWF program. The BWF portfolio covers life and property of its members; therefore, it is essential to understand the risk and degree of shock posed by natural disasters by projecting its impact on the BWF program

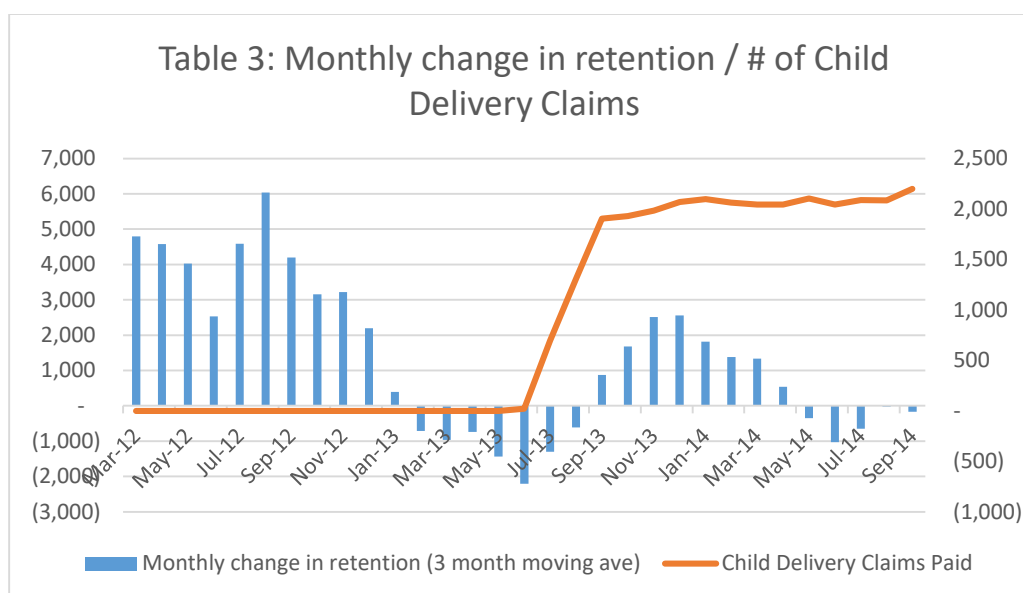
4.3.3 Impact of Child Delivery

The Child Delivery benefit has generated a strong increase in claims paid over a very short period of time. While further analysis is required before a conclusion can be made on the benefit’s sustainability, there is no doubt at all that the change represents a major shift for the program and requires further investigation. Table 2 shows the total amount paid by claim category since January 2012 in three Townships. Child delivery cases are only eligible for Cash Assistance and yet from the time of their introduction, their cost has dwarfed all other benefits (despite these providing loan write-off and cash assistance).



As a marketing concept and product feature, the child delivery benefit is cited as being highly attractive to clients and, indeed, looking at the data of these three townships we can see where its introduction is correlated with a reversing trend of shrinking net gains in client acquisition and retention. As seen in Table 3, however, the benefit appears to have been short-lived while the cost continues.

²² “Myanmar Natural disasters: 2002 to 2012” United Nations Office for the Coordination of Humanitarian Affairs



4.3.4 Financial & Operational Performance Monitoring

As already noted, electronically held current performance information is insufficient for accurate detailed Key Performance Indicator analysis. This is due to data collected, product structure as well as due to sales and claims processes. The main uncertainties around performance of the program are:

- the limited data about client (asset value, coverage period, product true risk price), and
- unassisted, judgement-dependent claims estimation (non-standardized claims assessment and payout) as well as
- lack of a separate BWF monitoring format and expert user and data collection to back it. BWF already has an internal audit team which will be made available to manage the financial monitoring process.

We also repeat the critical challenges identified up to this point before proceeding to look at the inferences we could make with available data:

Observation 1: Child delivery benefit implemented in 2013 has dramatically increased the rate of benefit payments made by the program and thereby increasing the critical need for improved management information.

Observation 2: Historical transactional level data is mainly paper based and does not allow us to efficiently tie client to loan to term.

Observation 3: BWF revenue is made of three parts: direct client contribution, interest income of BWF, and allocations by PGMF. Without a full review of the overall finances of PGMF, we cannot draw conclusions on the rate adequacy and overall sustainability of the Fund.

Observation 4: Claims decisions are potentially not made in a uniform way – settlement amounts vary based on a wide number of variables which are determined via community based judgement calls.

Observation 5: The risk from natural catastrophes are potentially inadequately covered in the BWF program. The BWF portfolio covers life and property of its members; therefore, it is essential to understand the risk and degree of shock posed by natural disasters by projecting its impact on the BWF program.

4.3.5 Overall Performance Proforma

Rather than present this information with each individual caveat, we provide here a blanket caveat that data collection and analysis are challenging as prior to September 2014 the data comes from different sources and in different formats. PGMF management already well understand this priority and have embarked on an ambitious program to improve digitization of transaction processes which is nearing a major milestone in the fall 2015.

To put an insurance lens on the BWF program requires first learning member contributions over the term where cover is available and then attaching policy and claims costs to the correct period. For coverage term length, we've estimated at 12 and 18 months, the outer boundaries of what is possible. We additionally looked at the program using only the member contribution and then with the additional amounts from PGMF. The rationale for the conservative method is that according to the UNCDF MAP study, PGMF's current Financial Self-Sufficiency Ratio is 81% (meaning that it relies on donor funding for its viability) thus to remove all subsidy we look at the member contribution alone. According to these we estimate the claims ratio of the period reviewed to be mid-80's to just at 100%. In an insurance P&L, expenses would then be additionally calculated (in the neighborhood of 15-30%) which indicates that this program is close to if not over 100% combined ratio – at least according to our limited view of the program for the specific period reviewed. A critical element not considered in the above claims ratio is long-tail catastrophe risk, Observation 5.

5. Roadmap to Strengthening and Expanding Coverage

PGMF's BWF program is the largest risk pooling structure available to low-income people in Myanmar. It is run by an experienced local team supported by an engaged leading INGO.

There are compelling future product options for this program:

- Deepen the present coverage such that more than 10% of actual losses are compensated by the insurance;
- Expand the product set to include more health and agriculture risks;
- Tailor products for specific client segments, e.g. women, smallholder farmers; and
- Optimize current benefit levels for greatest customer value.

With PGMF's scale and PACT's engagement, it is possible to create options to expand outside of PGMF distribution. Some immediate interventions will cost-effectively establish the stage for compelling growth opportunities.

5.1. Transactional Processes

This fall, PGMF will roll-out the Abacus Software project, Abacus, to pilot regions with rollout continuing country-wide over the following months. The goal is to digitize the core MFI processes for PGMF. Where microinsurance requirements for the market are quickly assessed and documented, these can fit into the rollout of day one and day two requirements.

5.2. Policy and Claims Data Capture

The policy and claims capture screens must make selection of the correct client and coverage simple and fairly bullet-proof in order to correctly manage the customer moments of truth as well as for performance measurement. Additionally, the correct "premium" for loan type is a feature required in the system in order to enable future product development and rollout.

BWF presently operates as a fund where money flows in and benefit payments flow out. Provided that a client has an appropriate loan-type in force at the time of claim, the benefit can be paid. While this gives a cash view of the risks, it does not earn premiums over time nor does it support products which are tailored for loan types or geographies.

For good-practice performance monitoring, the link between individual policy and claim is critical. Without this link, it is not possible to accurately determine current nor future performance of the program. This makes advisable future considerations (such as linking catastrophe risks to the global market and/or increasing some benefits/reducing others) impossible.

Without the planned Abacus implementation, making these changes would be a massive undertaking. With this digitization of the underlying lending process, we can adjust how policies and, most critically, claims are captured – linking claim to policy and thereby opening up more sophisticated monitoring of the program.

To make the recommended adjustments requires a process starting with analyzing the current state of a cross-section of paid claims. This establishes a pre-intervention baseline as well as provides real-life examples for quality assurance testing, field officer training, and interim statistical analysis. This claims review will be additionally be used for claims decisions flow as well as performance report design.

Simultaneously, the project must review in detail the current system requirements and then design the recommended changes. Once the changes are specified, these will be reviewed with field agents and then provided to the coders. After coding is completed, technical assistance will support checking that the software is working correctly and develop instructions for end users.

5.3. Claims Decision Flow

The system which accepts claims is fed by the claims process which is run within the organizational hierarchy. Where claims approval travels from field agent through various levels to the CEO or COO of PGMF, there are inefficiencies and anecdotes of extreme delay. Additionally, the current process relies strongly on individual judgement through the various layers creating inconsistencies compensation values and approval requirements. The current claims approval process can be compared to making credit decisions without a standardized methodology.

Changing the current process requires identifying and enumerating the benefits of change and then developing the tools to support a changed environment together with training which changes field agent behavior. The measurable outcomes of this work are to accelerate claims approval and payment as well as to strengthen claims approval consistency such that elements of the program might be later (re-)insured to the formal market.

The work begins with the same baseline information as required for the IT system changes described earlier. This feeds into workshops with field staff where the cases identified in the baseline exercise are discussed and solutions brought out organically from the staff which will have to implement them. The workshops will be used to inform and to actually design decision matrices and powers reserved rules for claims escalation. The resulting process will be put into the necessary documents and training presentations for the pilot province. After a successful pilot, the tools and processes which can be automated into Abacus will be put there (with those that are best outside of the system provided in hardcopy) and rolled out nationwide.

By providing an improved claims decision flow, the project aims for increased client satisfaction as well as more predictable claims handling (which contributes to formalization).

5.4. Performance Monitoring

The most urgent and – at the same time most actionable – work is to improve performance monitoring. In the very short term, this includes using available information to analyze the situation in light of heavy flooding – tens of thousands of homes and more than 30,000 acres of farmland have been affected²³. The same process will be used to update analysis of the child delivery benefit described in section 4.3.3 as having experienced dramatic increases in claims. At the same time, the recommended project will design reports for ongoing use within PGMF with these to be implemented in the Abacus rollout.

The main concepts which will be implemented for performance monitoring are earning of premiums and tying claims to the relevant policies. These are basic to insurance accounting and yet can be tricky to implement. With these core concepts, the project will implement the most important indicators recommended by the Microinsurance Network including:

- Incurred expense ratio
- Incurred claims ratio
- Net income ratio

²³ “Myanmar declares emergency as flooding worsens” Al Jazeera August 1, 2015

- Renewal ratio
- Coverage ratio
- Promptness of claims settlement and
- Claims rejection ratio

While the Network additionally recommends Solvency ratio and Liquidity ratio, these are used where benefits are provided through an insurance vehicle. As BWF is not treated as insurance, reserves for the fund are presently held at the PGMF level (Key Observation 2) and thus it is not yet possible to implement these indicators – even with the recommended intervention.

With improved data availability, improved performance monitoring becomes possible and with it improved cost per intended unit of outcome can be identified. These efforts will provide the baseline for assessing the current health of the program and establish a platform for adapting the products of BWF so that they achieve greater social good within a sustainable framework.

5.5. Project risk

As with any project, especially one with operational elements, there are execution and counter-party risks. In this case, these are mitigated by several key assets and engagements:

- Abacus Software rollout and adjacent training. While we did not know it at the outset of our discussions with PGMF, the rollout of Abacus Software’s transactional processing system is the exact right step to help address the most critically important requirements for BWF;
 - Impact on the Abacus rollout will be minimized by prioritization of requirements into Day 1, 2, and 3
 - Day 1 priorities are mission critical to PGMF and / or important and easily integrated without impact to the project
 - Day 2 priorities are important and will be addressed in updates
 - Day 3 priorities are nice to have and will be addressed when funded
- PGMF leadership have met with the research team several times and reviewed and provided feedback on this study and support its immediate recommendations;
- PGMF’s IT project manager is experienced and has engaged directly with the project team. He expresses support for our proposed intervention regarding insurance;
- Social entrepreneurship strategies are global strategy at PACT and its entrepreneur in residence provides daily support to the project; and
- Timing is good as Stonestep has other prospects in the region which it would like to pursue, reducing travel cost to planned efforts.

6. Conclusion & Immediate Next Steps

The Feasibility Study funded by SCBF identified specific opportunities to greatly increase the value of PGMF's BWF program to clients, viability for PGMF, and potential for expansion through a new social enterprise. The study also uncovered challenges which discourage pursuit (in the short-term) of formalized linkages between PACT Myanmar VHDF and BWF. These are primarily the distributed nature of the VHDF development program coupled with different social mission and management priorities does not appear conducive to product upscaling during 2015-16.

BWF's dominant market position for providing resilience benefits in Myanmar and the broader digitization of transaction processes at its parent institution, PGMF, create a highly conducive environment where practical improvements can be accomplished quickly. By implementing the proposed recommendations, PGMF is anticipated to improve the benefit of its core program, better ensuring sustainability while simultaneously preparing the program for further innovation.

Immediate next steps are to apply to SCBF for product upscaling to implement three specific deliverables:

1. Integrate good practice policy and claims administration in the Abacus software rollout
2. Optimize and standardize the claims reporting and approval process
3. Design & implement best practice KPI reports in and train users on use/interpretation

Each of the recommendations is complimentary to the others. It is our goal in the product upscaling to design and implement all three deliverables in concert with PGMF's IT roll-out to maintain momentum and program continuity – potentially accelerating the IT elements ahead of the more operational ones in order to best capture momentum of the ongoing implementation. A discussion of the recommendations are described in further detail below.

6.1. IT

PGMF is in the process of replacing its existing paper-based processes in use for the new IT platform, vastly improving the efficiency, reporting and control of the PGMF microcredit program with plans to launch a pilot province this October 2015 and a nationwide rollout following. While some insurance-like functions are already present in the BWF system, these mainly mirror existing processes, which, to adequately serve the scale of the program, need to be improved.

6.2. CLAIMS

The existing claims process can be strengthened with standard processes implemented to ensure fair and uniform decision-making and claim disbursement as well as more efficient processing times. The current processes are paper-based, time-consuming and non-standardized with decision procedures based on the various event covered from death, child delivery, loan write-off and disaster at the village level, which can differ from claim to claim depending on variable factors such as history of perils in a geographic area. As a consequence, approval processes can be slow impacting both customer experience.



Figure 5 PACT Claims Department at Head Office

Furthermore, under current practices, client assets are not valued according to established, pre-identified parameters, potentially increasing the risk of disproportionate and un-fair payouts. We recommend an integrated and standardized claims and policy administrative process to establish both a more efficient, transparent customer experience and sustainable program which will enable scale using proven insurance industry best practices.

Optimizing the claims and policy admin process by moving to an electronic based system will not only improve the level of data captured, but will improve PGMF staff ability to perform program analysis to understand the accurate performance (or lack thereof) of the BWF program. Both the design and integration of claims/policy admin processes are recommended as key Day 1 and 2 deliverables in the product upscaling proposal.

6.3. KPIs

Following the optimization and integration of claims and admin best practices, we recommend designing and implementing KPIs to track the performance of the new system. Both standardized and program/country specific insurance KPI reporting procedures will be designed using a client-centric and microinsurance best practice approach. The introduction of KPIs will not only increase the value of the program to clients, but also the long-term viability and provide for future improvements to the program.

With that in mind, a program and system are only as good as its people, thus ensuring clear information exchange and buy-in from staff is critical. Once the claims and policy administration are optimized and integrated, we intend to implement training and train-the-trainer for PGMF field staff on process and at the head office for reporting and claims processing. This will strengthen understanding of the insurance product at the channel which in turn creates the cornerstone for financial education to their low-income clients. As products eventually are adjusted financial education will become a priority.

6.4. CHILD DELIVERY & NATURAL CATASTROPHE RISK

Further outcomes of the proposed recommendations include prudential strengthening of the impacts of the Child Delivery Benefit which is popular in its current form yet potentially unsustainable in the medium or long term. In addition, it is critical to better understand the long-tail catastrophe risk from natural disasters to the BWF program. These risks are well suited for connection to formal markets either through insurance / reinsurance or else through insurance linked securities (catastrophe bonds)

Our Feasibility Study identifies three specific actionable projects which benefit from the good timing with a planned IT implementation and adjacent operational rollout. The authors, along with PACT Inc, PGMF, and PACT Myanmar are grateful to SCBF for sponsoring this foundational work.

ⁱ The World Bank Group (2015). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (11/11/2016)

ⁱⁱ Heritage Foundation, (2016) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (11/11/2016)