SCBF 2016-03 **November 2016**

OPTIMISING CLAIMS UNDER THE PGMF BENEFICIARY WELFARE PROGRAMME IN MYANMAR

1. DEVELOPMENT RELEVANCE

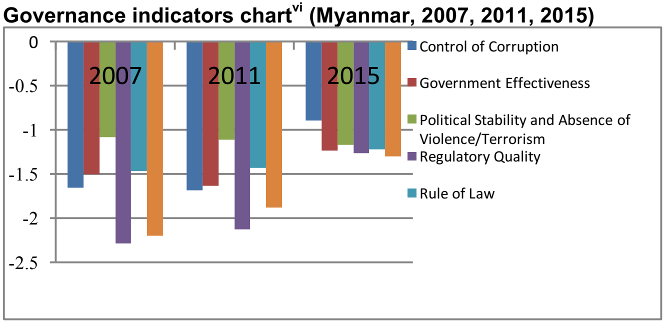
Economic and poverty context

Myanmar, currently a Least Developed Country (LDC), has been undergoing rapid growth since 2012, when the military government began the transition to democracy. In November 2015, the National League for Democracy (NLD), led by Nobel Peace Prize winner Aung San Suu Kyi, won an historic landslide victory against the incumbent military dictatorship. This paved the way for international investment, most recently with the lifting of US economic sanctions in October 2016.

Table 1[i]: Population and economic indicators	
Population in millions (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**

With the country's rich natural resources, nearly 70% of the population live rurally, where poverty levels are twice as high as in urban areas[iii]. Agriculture is the largest sector in the economy, employing 54% of the labour force. Two-thirds of the population is estimated to be engaged in, or dependent on, agriculture to a significant extent[iv]. Myanmar also has a young population, with 13 million (or 40%) in the 15-28 age group, making the available working population young for the next three decades[v]. To achieve its potential, Myanmar is actively pursuing progressive policies for financial inclusion, alongside a portfolio of institutionalised efforts to deepen the rural ecosystem.

Governance indicators chart[vi] (Myanmar, 2007, 2011, 2015)



Financial sector context

Historically, Myanmar governments have chosen an inward-looking policy on 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, only 16% used any form of borrowing, and only 13% were using a formal savings product. Since agriculture remains the 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). With inadequate infrastructure – there are less than 3,000 ATMs in the country – the financial sector has found it difficult to grow. Indeed, most remote rural villages remain 100% cash-based. In 2016 there are ~150 licensed MFIs operating in Myanmar, with PGMF retaining the majority of the microfinance market.

Although the Myanmar economy is mostly cash-based, mobile money is starting to appear in the market (e.g. Telenor's WAVE Money). Many financial institutions, including PGMF, are investing in modern banking software, which will aid in the development of a future credit bureau. Sector associations regularly meet in efforts to move toward a more modern regulatory framework. The loosening of US economic sanctions will further help to open the market to outside investment and best practices.

The insurance market is nascent and expected to develop over the coming years. The government released a statement in September 2016, reporting that regulatory reform is expected in early 2017. It will permit foreign investment in the Myanmar insurance market[vii]. Presently only 7% of adults have some form of insurance, with 3% being regulated insurance – often in the form of indirect, compulsory insurance for certain government employees, vehicle owners, and MFIs/INGOs[viii]. The remaining 4% of the population which has insurance is accessing unregulated risk mechanisms offered by community-based assistance groups, cooperatives, and other NGOs, such as PGMF. Of the microfinance institutions providing unregulated insurance services, six

INGO's operate 163 branches and 75 cooperatives operate 147 branches. There are also 1,469 savings and credit cooperative societies and community-based assistance groups providing some level of unregulated risk cover. Almost all regulated and unregulated risk protection is compulsory (credit-life, compulsory third-party liability cover for vehicles), making the voluntary retail insurance market in Myanmar effectively non-existent.

Partner financial institution

Pact Global Microfinance Fund (PGMF) is the largest microfinance institution in Myanmar, maintaining a dominant market share and serving the majority of MFI clients nationwide. PGMF microfinance has been in operation since 2012, although Pact was started in 1997.

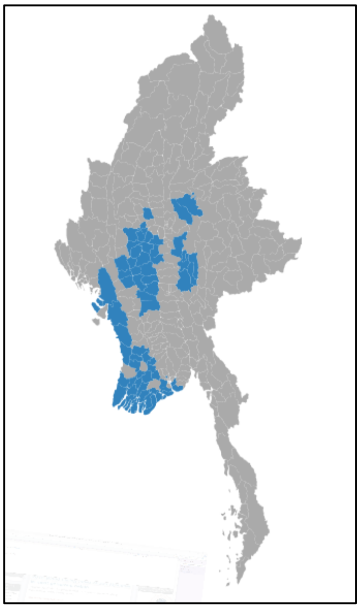


Figure 1: PGMF branch network

PGMF operates 164 units in 64 townships, and has a distribution footprint serving more than 11,000 villages and reaching 780,000 active clients (September 2016). PGMF employs 3,390 staff, with 1,800+ field officers distributed across four geographical regions: Dry, Shan, Delta and Rakhine state. PGMF intends to expand into new territories and serve one million borrowers annually by 2020.

As of September 2016 (FY), PGMF had disbursed 1,171,011 loans totalling MMK 381 billion (USD 317 million). It had outstanding loans of MMK 197 billion (USD 164.43 million), and a savings balance (both compulsory and voluntary) of MMK 60 billion (USD 49.99 million). The programme targets group lending to women (99%), with 84% of its women investing in income-generating schemes (primarily agriculture-based). The PGMF demographic ranges 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 taking out multiple loans over the course of a year.

PGMF (as of Sep)	**2014**	**2015**	**2016**
Gross loan portfolio (USD	92,711,267	115,320,449	164,436,626
Total deposits value (USD)	23,448,806	35,451,661	49,990,733
Total clients	885,672	974,565	1,166,230
Total borrowers	579,676	607,286	724,576
Active female borrowers	578,219	600,394	717,606
Total staff	2,685	3,099	3,390
Total branches	146	157	164

A feature of PGMF, and the subject of this intervention, is the Beneficiary Welfare Programme (BWP). The BWP was established in 2002 to provide informal risk cover to PGMF borrowers, first offering death benefits and disaster risk protection via cash assistance and loan write-offs, and later maternity benefits. BWP is not regulated insurance, but rather a programme explicitly permitted by the Ministry of Finance (MoF) under PGMF's microfinance licence.

2. INTERVENTION APPROACH

Capacity-building needs

The objective of the Myanmar claims optimisation product upscaling grant was to establish an operational baseline at the Pact Global Microfinance Fund (PGMF) country office to improve claims reporting, processes, and settlements under its Beneficiary Welfare Programme (BWP), in line with micro-insurance best practices. The product upscaling follows on from an SCBF-funded micro-insurance feasibility intervention from April–July 2015.

At the beginning of the intervention, BWP was already a massive programme, with ~675,000 persons insured. Owing to a change in policy cover in February 2016, that number more than doubled, increasing the critical importance of this work for more efficient and accurate claims decision-making. As the BWP continues to grow, these best practices will ensure that PGMF clients receive valuable protection against risk, while improving their service experience.

Main activity areas (goals, targets, resources & time frame) and outputs

The intervention first established a claims baseline by reviewing historical data to understand the types of claims reported, their incidence and trends. Having determined the baseline, researchers re-constructed ~650 claims, with a focus on settlement times from claim incident to approval and closure at the field level. Extrapolating this data permitted researchers to evaluate the claims processes and workflow to identify opportunities for improvement. Finally, adjustments to these processes, in line with best practices, were proposed.

The intervention aimed to improve claims settlement periods and increase the uptake of PGMF loans. Specific targeted improvements were:

- 0 claims open after 90 days
- Reduction of the number of open claims between 60-90 days by 50%
- Reduction of the number of open claims between 30-60 days by 25%

The implementation plan originally proposed a limited pilot in three townships. However, natural disasters including cyclones, floods, earthquakes, and localised wind and hail events from April to August 2016 caused delays. Instead, PGMF elected to forego the pilot and implement the proposed recommendations, new processes and standardised reporting in 64 townships in September, training a total of 98 staff and 91 field officers. The courses focused on claim findings, process bottlenecks and areas requiring immediate attention, as identified in an interim report published the previous June. By mid-September, the first digitised claims had been submitted and approved at BWP. Although moving to full implementation instead of a pilot was a deviation from the original plan, in the end the intervention achieved a far greater impact than originally proposed.

PGMF role	Country office # staff trained	Division level # staff trained
Chief Operating Officer	1	
Deputy Director	1	
General managers	2	
Division managers	9	
Township & unit mgr.		64
BWP Manager	1	
BWP officers	2	
Finance officers	9	
Auditors	9	
Total staff trained		**98**

After the intervention, the BWP manager will continue to support the township and unit managers to ensure that there is proper and timely reporting, and that the new policies are understood. Additional staff have been added to the BWP team, and there is regular support from the country office management, as well as the field office teams.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

The aim of the intervention was to improve and standardise claims processes and procedures at the PGMF country office, and to accelerate settlement times and reporting without reducing client focus. The intervention focused on operational processes and measured client-level results indirectly by means of improved claims settlement times. By targeting the above improvements, the economic burden to clients has been reduced, improving their resilience and ability to recover quickly from shocks.

Figure: 2 PGMF branch office training meeting

Partner financial institution level

The outcomes of the intervention significantly exceeded expectations, with 100% of claims settled in thirty days or less. Initially, the intervention sought to reduce open claims from 30-60 days by only 25%.

Targeted impact of the intervention	
# days open claims	**% reduction open claims**
>90 days	100%
60-90 days	50%
30-60 days	25%
Outcome of the intervention	
0-30 days	100%

Average settlement times (before and after the intervention)				
	Before intervention (avg.)		**After intervention**	
	Cash assist.	Loan write-off	Cash assist.	Loan write-off
Borrower death settlement	5 days	65 days	<7 days	15 days
Disaster event	61 days	85 days	7 days	15 days
Next-of-kin death	N/A	N/A	23 days	23 days

The additional following improvements were implemented to accelerate claims handling and improve efficiency at different levels of management.

Digitisation of the document delivery process from proof of incident to document approval

Before the study, the claims process was almost fully manual, with hard copies of documents hand-delivered to the PGMF country office once a month. The intervention proposed standardising claim documents at the unit/township level before sending them to BWP. By digitising the document delivery process at least two or three weeks were saved from incident to approval.

Other recommendations:

1. Set defined sign-off authorities
2. Set clear reporting guidelines up the management tree
3. Produce consistent reporting at all levels
4. Make reporting more punctual
5. Create audit trail

Figure 3: PGMF agriculture borrower affected by hail

After the intervention, PGMF began digitising documents, with claims emailed from the township manager direct to BWP. This reduced a persistent reporting bottleneck in the field. Outcomes included greater efficiency at PGMF, with electronic claim approvals in 30 days or less (often 7 days for cash assistance). Customer satisfaction and resilience also improved.

Consider risk events separately: predictable events, accidents, and natural disasters

Risks can be separated into those that occur predictably (e.g. childbirth and death as a result of disease), those that occur owing to human accident (death from snakebite, fire from a cooking stove) and those that occur owing to natural disasters (country-wide flooding, localised strong winds). Classifying risks into different types of event can accelerate claim approval.

Following the intervention, PGMF now separates fire incidents from natural disasters, with authority given to the BWP manager to approve cash assistance for fire claims. This outcome has reduced the administrative burden on senior management, while also making settlements and benefits to customers more efficient.

Separate classes of benefits for handling cash pay-outs and loan write-offs

Treating cash benefits and loan write-offs separately reduces decision-making complexity. It enables BWP to focus on more complicated loan write-offs, while straightforward cash benefits are paid out swiftly when most needed. This is particularly relevant for disaster claims, which regularly bundle cash assistance with loan write-offs, increasing the time taken to deliver critical cash benefits to borrowers.

After the intervention, PGMF instituted a new process to separate these events. The outcome is greater efficiency in the field, improving the time in which cash is provided to PGMF beneficiaries. This is illustrated by Figure 4, which depicts a borrower impacted by a localised wind event. Before the intervention, PGMF may have waited to provide cash benefits until the entire claim was settled. Now the two events are evaluated separately, delivering cash assistance quickly to a beneficiary within one week.

Figure 4: PGMF borrower impacted by a high-wind event. The loan officer conducted a damage assessment

Authority

The concept of separating the cash pay-out and loan write-off processes is bound up with the delegation of authority. Depending on the complexity of the event, and the value of the claim, senior PGMF management now trusts lower management levels to approve claims.

After the intervention, PGMF management issued authority to the BWP manager to approve cash assistance for fire claims and specific approvals that previously required GM authorisation. The outcome is a reduction in the administrative burden on top management, and faster claim settlement times for PGMF beneficiaries. This is particularly critical after fires affecting insureds' houses. Since September, BWP manager has approved at least two fire claims within days, rapidly delivering cash assistance to clients in need.

Financial sector level

The Myanmar MFI market will continue to grow and mature, with new players and investment reaching more and more customers annually. PGMF is uniquely positioned to lead and shape industry standards as the largest and most dominant MFI in the country. The size of its portfolio, client reach and geographical distribution are laudable. It is also well positioned to shape the market in the future through innovation, including new insurance products and processes. Other MFIs emulate many of PGMF's activities, including features of its BWP. Thus, by optimising PGMF claims processes, the intervention has created the basis for improvements at other players in the industry, while permitting the up-selling and cross-selling of a variety of insurance products in the future.

4. LESSONS LEARNT

As PGMF continues to grow, adding more territories, clients, and product complexity, it is recommended that the true costs and expense of the BWP be separated from the rest of PGMF's activities. Currently, the costs of other savings and loan activities are not captured systematically, so it is impossible to determine the impact of the BWP on expenses. Doing so will become increasingly challenging as product cover and reach continue to evolve.

PGMF has also been undergoing a multi-year process of converting from a paper-based to a digital MIS. Its current system is inadequate for the size of the programme. A planned system upgrade was cancelled during the term of our engagement, and a new vendor was selected in April 2016. Once implemented, the MIS will be a tremendous improvement. However, the planned system is focused on lending and savings and does not offer much in the way of BWP-specific functionality. Therefore, BWP will continue to operate quasi-independently, thereby adding complexity and additional administration work to processes. This makes real-time KPI tracking difficult – which is important as claims increase and product cover becomes more complex. PGMF should consider integrating an IT solution for this in the near future.

Beyond the specific recommendations, we note principles which apply more broadly. PGMF does a commendable job with these already, but it is good practice to note them:

- **Balancing prudential and consumer interests.** "Prudential" refers to the institution, ensuring that it remains available to serve all clients. "Consumer" interests protect each client, ensuring that a fair answer is reached quickly. Overstating prudential risks may result in poor decision-making in individual cases, and vice versa. Balance is critical and "value for money" is a good guideline.
- **Objective periodic performance review**. Processes and procedures, along with the way in which they are implemented by management, are what drive value for money and client value. In all institutions, there is the risk that burocracy flourishes in place of other goals, and that an individual manager's preconceptions subvert institutional intentions. Periodic external reviews of the procedures and their implementation – especially with follow-up – are strongly recommended.
- **Succession planning.** Best practices, technologies, and consumer behaviour evolve over time. Rotating new personnel into key management positions can help institutions to remain fresh. PGMF recently promoted its BWP manager directly from the field, and this has proven especially effective as he brings both credibility, and a fresh look at procedures.

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[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)
[iii] UNDP website, About Myanmar (2016). http://tinyurl.com/jtk5x7b. Accessed (11/14/2016)
[iv] World Bank (2014). Myanmar; Ending poverty and boosting shared prosperity in a time of transition. http://tinyurl.com/gpf8b2e Accessed (11/14/2016)
[v] Asian Development Bank (2012). Myanmar in Transition, Opportunities and Challenges, http://tinyurl.com/h2y8q9s Accessed (11/14/2016)
[vi] The World Bank Group (2016). Worldwide Governance Indicators database. Washington, DC. http://databank.worldbank.org. Accessed (11/11/2016)
[vii] The Myanmar Times (23/9/2016). "Insurance market will be open to Foreign Firms in 2017", http://tinyurl.com/z57pvps Accessed (11/11/2016)
[viii] FinScope Myanmar, Survey Highlights (2013). http://tinyurl.com/zx7huzy/ (Accessed 11/11/2016)