

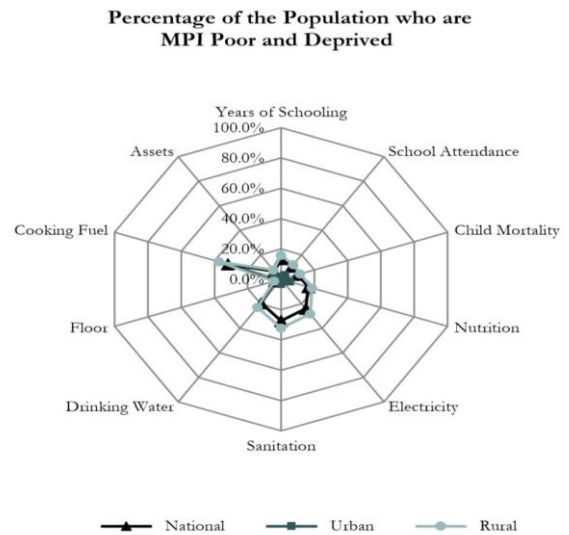
Enhancing client value through microinsurance offerings at AMRET Cambodia

1. DEVELOPMENT RELEVANCE

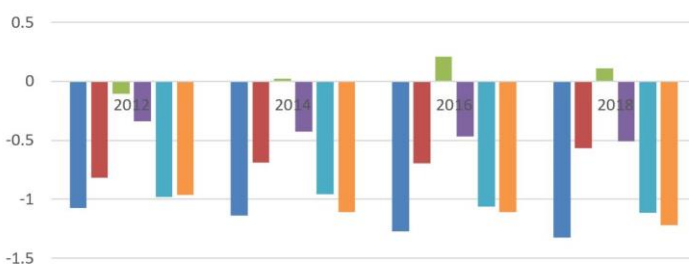
Economic and poverty context

Cambodia experienced strong economic growth with GDP increasing between 7-8% annually since 2000. The tourism, garment, construction and real estate, and agriculture sectors accounted for most of the growth. Around 700'000 are employed in the garment and footwear sector, about 500'000 have tourism-related jobs, 200'000 in construction. Tourism has continued to grow rapidly, reaching 5.6 million foreign visitors in 2017. Mining is attracting investor interest as the government is promoting extraction of bauxite, gold, iron and gems. Textile exports accounted for 68% of total exports in 2017 and drove much of the recent growth. Cambodia's dependence on its low-cost textile production advantage is also a vulnerability with a current account deficit above 9% of GDP since 2014. The country is still one of the poorest in Asia and long-term economic development remains a daunting challenge, troubled by corruption, limited human resources, high income inequality, and poor job prospects. Poverty incidence, however, is decreasing, dropping from 47% in 2007 to 13.5% in 2016. More than 50% of the 16m population is less than 25 years old and the majority lack education and productive skills, especially in rural areas which also lack basic infrastructure. The World Bank's reclassification to a lower middle-income country will reduce its eligibility for foreign assistance and challenge the government to seek new sources of financing. The Government has been working with bilateral and multilateral donors, including the Asian Development Bank, the World Bank and IMF, to address the country's many pressing needs; more than 20% of the government budget will come from donor assistance in 2018. A major challenge over the next decade will be creating economic conditions in which the private sector can create enough employment. ^v

Table 1 ^v : Population and economic indicators	
Population in million (July 2018)	16.45m
GDP growth (2017)	6.815%
Inflation (2017)	2.891%
Trade balance (% of GDP) (year)	-3.427%
Foreign direct investment (net) (% of GDP) (2017)	12.566%
Net ODA received (% of GNI) (2016)	3.882%
Remittances received (% of GDP) (2017)	1.742%
Economic Freedom Index ⁱⁱ (Rank among 186 countries (2018))	101
Poverty indicators	
GDP per capita (USD) (2017)	\$1,384
Gini Index (0= equality 100= inequality) (not available)	n/a
International poverty rate (year; at 1.90 USD/day)	n/a
National poverty rate (2012)	17.7%
National rural poverty headcount rate (2012)	20.8%



Governance Indicators - Cambodia 2017



- Control of Corruption: Estimate
- Government Effectiveness: Estimate
- Political Stability and Absence of Violence/Terrorism: Estimate
- Regulatory Quality: Estimate
- Rule of Law: Estimate
- Voice and Accountability: Estimate

Financial sector context ^{vi}

In 2007, millions of low-income workers earning just \$50/monthly had no other alternative but to physically send money home via taxi/tuk-tuk/moto drivers. It all changed in 2009 when Wing Cambodia introduced electronic low-cost money transfers to anywhere in the country. A second breakthrough was led by rapid microfinance growth when uptake of bank deposit accounts in MFIs and local banks shot up from a few hundred thousand in 2008 to 5.9 million in 2017. Today, Cambodia has one of the most developed inclusive banking sectors in the world. In 2016, the National Bank of Cambodia (NBC) estimated that 71% of the population had access to financial services and 59% were using formal banking systems. The new National Financial Inclusion Strategy together with favourable regulations and infrastructure for digital financial services are expected to be a catalyst for further advances in financial inclusion. While banking regulations are systematic and quite liberal, the interest rate cap imposed on MFI lending in 2017 dampened credit supply for low-income borrowers (it has become unfeasible for many MFIs to offer loans to them) but had the effect of rapidly increasing loan portfolios for higher-income borrowers. This, together with the large number of MFIs and MDIs (Microfinance Deposit Taking Institutions) raises concerns of over-indebtedness. On the other hand, the NBC has adopted a primitive stance in regard to allowing banks/MFIs/MDIs to distribute insurance which together with an incomplete insurance regulatory framework has further stalled the already poorly developed inclusive insurance industry.

Partner financial institution – AMRET ^{viii, ix}

AMRET’s mission is to offer a wide range of financial services to low income people as well as micro, small and medium enterprises while achieving a high level of financial and social performance. It is the second largest Cambodian MFI in terms of outreach (315’413 depositors, 241’164 borrowers) and Balance Sheet (CHF 960 million in assets) with 155 physical branch offices in all 25 provinces. As of September 2018 it boasted the best PAR30 in the industry at 0.29%. The company has launched a major internal program to adjust to the current regulatory and market environment with three main focus areas: i) maintaining responsible credit growth by mainly servicing MSMEs and low-to-medium income families in both rural and urban areas; ii) developing retail deposits and financial services (including insurance) for a large clientele base; and iii) restructuring the organization to improve quality of service and efficiency. The latter includes re-engineering of business processes to gain efficiency and improving service standards towards achieving a competitive advantage in a crowded market. The overall aim remains: provision of excellent value to customers while generating a fair return to investors.

Indicators (CHF)	30-Sep-18	31-Dec-17	31-Dec-16
Total assets	960,300,274	810,888,363	655,735,111
Net Income	17,281,834	27,566,908	25,532,270
Equity	138,055,071	126,286,818	102,549,713
Loan outstanding	775,208,323	562,741,590	415,205,333
Deposits outstanding	419,492,151	285,680,787	202,699,975
Borrowers	241,164	244,274	294,214
Depositors	315,413	271,107	232,144
Staff	4,048	3,979	4,109
% Women clients	70.74%	72.80%	75.50%
Clients in rural areas	-	91.30%	94.40%
Branches	155	149	141
PAR > 30 days	0.29%	0.38%	0.40%



AMRET has 155 branches in all 25 Cambodian provinces (Sep 2018)

2. INTERVENTION APPROACH

Problem statement and basis for SCBF intervention

For some time before 2017 AMRET had recognized that its clients urgently required risk transfer financial products (insurance) as had some of its competitors who were beginning to offer such products. This prompted client research that showed about 5% of AMRET clients had recently transferred to a leading competitor because it offered insurance. Financial impact of health risk events was clients' topmost concern, followed by cost of accidents and untimely deaths. Constrained by a lack of expertise and choice of insurance partners in an underdeveloped insurance market, AMRET decided to build in-house capacity to develop insurance products, insurance management and distribution capability and systems including at least the fundamentals of actuarial pricing. Having such capacity would enable the organization to calculate and negotiate with prospective and contracted insurance partners. AMRET approached SCBF for technical assistance to develop this in-house capacity.

Main activity areas

The main activity areas of the SCBF 10-month intervention and planned outputs were: a) develop a credit life plus (CLP) product for lower income borrowers with loans up to USD 500 (CHF 495) (consisting mostly of AMRET's 160,000 group methodology client segment); and b) develop a voluntary health insurance product for all AMRET clients. The CLP product would be sold either on a voluntary or compulsory basis, depending on the outcomes of pilot testing. Both products would be developed in-house with the help of an SCBF insurance expert, who would work closely with AMRET's business development unit to lay the foundations for development of insurance expertise. Longer term, follow-up support was envisaged to design savings-based microinsurance products that can offer low-income clients risk transfer solutions on a more stable basis than credit-linked products. The SCBF expert would assist with product design, pricing, negotiating with at least two insurance companies, assist with requirements for registering the products with the Ministry of Finance, assist with developing insurance delivery processes, and develop a monitoring system. It was expected that almost 100% CLP penetration for the targeted segment could be achieved in about 15 months as loans matured and renewed. The uptake of the voluntary health product was predicted to be more modest with about 1500 client-families enrolled by 31.10.2017 in ten pilot branches (end of SCBF project). By 31.10.2020, penetration was expected to reach at least 40% of AMRET clientele which then amounted to approximately 125,000 client-families.

3. RESULTS ACHIEVED AND NOT ACHIEVED

The insurance expert visited AMRET in March 2017 to begin work on the planned project activities described above. Prior to this, he had worked for several weeks through Skype with AMRET staff and management, who were very supportive and eager to begin offering insurance services. Within days of the said visit to Cambodia, however, a sudden development brought an abrupt halt to project activities. The banking regulator, National Bank of Cambodia (NBC), issued an order which expressly prohibits MFIs and MDIs from engaging in all insurance distribution activities. Almost immediately, AMRET halted its plans of building an internal insurance unit and lost all interest in the project. Approximately ten months later, when the situation did not improve, SCBF and AMRET mutually agreed to terminate the project.

Client level

The completed work (described in the next section) may eventually result in better-value insurance products for AMRET's clientele since AMRET has learned much about making insurance efficient and valuable. Had the project been able to conclude as planned, clients and their families would have been able to enjoy professionally developed insurance protection in tandem with AMRET's other financial services.

Partner financial institution/s level

During the short life of the project activities, with coaching and demonstration by the expert, AMRET's budding insurance unit had developed the following abilities: a) Analyse operational data captured from recent microfinance activities and develop cost of insuring loans against the risk of death and accidents of the borrower or their family; b) Negotiate competently with an insurance provider; c) Design integrated insurance delivery processes into its existing microfinance activities; d) Forge a mutually equitable agreement with an insurance provider; e) Design a database and monitoring system to track performance.

As such, substantial progress had been made towards providing low-cost insurance protection in a Cambodian environment where the insurance industry is still in its infancy.

AMRET is still hopeful that it may someday and somehow offer credit life (voluntary or perhaps mandatory) and health insurance (voluntary) through BIMA, a locally registered microinsurance company. It is still unclear how this could be achieved, given that it cannot act as an insurance agent or perform any kind of administrative tasks related to insurance. AMRET can merely refer its clients to BIMA; it is not allowed to participate in any activity even remotely related to selling or servicing of any insurance products.

Financial sector level

The overprotective NBC has greatly impaired development of the formal insurance industry in Cambodia. Insurance is a crucial aspect of financial inclusion, allowing transfer of many risks encountered in economic activities to an institution that can handle them. The most successful microinsurance models in the world are those with partnerships between banks/MDIs/MFIs and risk-carrying institutions (insurers, mutual benefit associations, and the like) since these enable/allow distribution of insurance to be integrated with banking activities. The result is a synergy gain which greatly reduces cost, resulting in efficient insurance delivery which keeps it affordable and profitable, even though the average microinsurance policy size is much smaller than those offered to the middle and higher income classes. Without such integration, other technologies not yet imagined will have to be developed which may or may not result in equally effective servicing quality and cost-savings.

BIMA strongly believes that almost everything can be achieved through use of mobile phone technology but it is doubtful that even slightly complex insurance products can be adequately serviced in this way.

4. LESSONS LEARNT

While SCBF was very familiar with the Cambodian environment and banking regulations prior to the project, it could not have anticipated such an unexpected development since it is so uncharacteristic and inconsistent with that of a banking regulator supporting financial inclusion. As such, it is difficult to extract useful learnings from this experience.

One lesson that can be learned is to never take anything for granted. Project funders need to design contracts with organizations and Consultants that mitigate and fairly protect all parties in case of a disruption beyond anyone's control. Such a disruption (war, changes in regulations, natural disasters, contingent events such as accidents, health issues affecting Consultants or key personnel within a partner, etc.) may derail a project at any time. In some cases, there may be leeway to adjust activities and achieve similar quantity and quality of results.

ⁱ The World Bank Group (2017). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (20.12.2018)

ⁱⁱ Heritage Foundation, (2017) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (20.12.2018)

ⁱⁱⁱ The World Bank Group (2017). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed (20.12.2018)

^{iv} Oxford Poverty and Human Development Initiative (2018). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpo/country_briefings Accessed (20.12.2018)

^v Source: CIA Factbook at <https://www.cia.gov/library/publications/the-world-factbook/geos/np.html> Accessed (20.12.2018)

^{vi} <http://sea-globe.com/how-cambodia-can-capitalise-on-strides-in-financial-inclusion/> Accessed (20.12.2018)

^{vii} The Economist Intelligence Unit: Global Microscope 2018. Accessed (20.12.2018)

^{viii} <https://amret.com.kh/index.php/homeen/financialhighlight#> Accessed (20.12.2018)

^{ix} AMRET Annual Report 2017 Accessed (20.12.2018)