

2020-19 | Introducing Credit Default Insurance to Rural Kenyan Microfinance Institutions

Partner Financial Institution:	awamo 360 Kenya Ltd.	SCBF Contribution:	CHF 120'180 (60%)
Grantee:	awamo GmbH	Matching Contribution:	40%
Country:	Kenya	Theme:	Resilience
Duration:	December 2020 – January 2022	Product:	Insurance
Potential Outreach:	50'000	Target Group:	Multiple
Thereof Women:	50%		

CONTEXT

In Kenya, approx. 15% (approx. 7.5 million) of the adult population uses microfinance institutions and savings and credit cooperatives (MFI's) as means of finance. MFIs are on the ground in rural areas, highly diversified (often specialized on client groups - farmers, women, MSMEs, etc.) and have a clear understanding of their client's needs. At the same time, they are facing a high degree of fragmentation and of quality of service delivered. Usually, MFIs only offer savings and loan products and no other financial service, like insurance products.

awamo provides a comprehensive banking platform to MFIs in Kenya, enabling 210'000 people to have better and more affordable access to finance. awamo wants to improve access to financial service for the currently excluded population and will enable MFIs, to sell standardized insurance products via awamo's platform.

To improve insurance uptake, especially in rural areas, awamo intends to introduce Credit Life Insurance (CDI) to its Kenyan customers. A CDI is an easily understandable product which makes it great as a first introduction to insurance products and paves the way for additional insurance products in the future. At the moment, many loans in Kenya are secured with assets (land titles, vehicles, etc). In case of a borrower's death or disability, their families are often not in a position to pay off the outstanding loans. This leads to a borrower's family entering into a poverty trap, i.e., they lose their assets and cannot generate income. When a borrower has a CDI, the insurance will pay back the outstanding loan amount, enabling the borrower and their family to receive their assets and prevent them from slipping into poverty.

CURRENT STATUS OF THE MFI

awamo is currently working with 100 MFIs and reaches 210k rural consumers in Kenya. The company offers an easy-to-use, mobile banking platform to MFIs. awamo's banking platform enables previously paper-run MFIs to run all their processes digitally (e.g., handling deposits, withdrawals, loan application process, accounting, monitoring), increasing transparency, lowering loan defaults and therefore driving down interest rates for rural borrowers. By digitizing MFIs in the first step, awamo also enables MFIs to combine insurance products with loan products which further reduces loan default and over indebtedness of their clients and their families.

OBJECTIVES AND MAIN ACTIVITIES

awamo's staff will organize trainings of MFI employees remotely and (if possible) on-site. awamo will be working with multiple MFIs of different sizes, but targets institutions that serve 1'000 to 5'000 clients. awamo currently works with a total of 100 MFIs reaching 21',000 clients (~50% women/50% men) in Kenya and target to insure 50k loans in this project. The training will focus on explaining the CDI product and the benefit they offer. The goal is to equip MFI employees with the knowledge they need to act as financial agents rather than loan officers. By doing so, borrowers will benefit from availability of reliable insurance products and sound advice on individual combination of loan-insurance products.

Once the adaptations for the Kenyan market are done (from an IT perspective) and the training curricula are designed and processes are setup, the trainings will become part of awamo standard operating procedure and will be implemented alongside the trainings for the core business. In addition, awamo projects to generate sufficient free cash-flow from the distribution of insurance products, to continue the trainings without financial support from SCBF at the end of the program.

Upon project completion, MFIs should be in a position to insure >100'000 loans by 2023.

Partnering with:

