

Introduction of Savings-linked Insurance Solutions by National Microfinance Bank Jordan

1. DEVELOPMENT RELEVANCE

Economic and poverty context

The Hashemite Kingdom of Jordan gained its independence from Britain in 1946. Located in the centre of a volatile region, it received 1.3 million Syrian refugees which now comprise 13% of its 10.2 million population. Intensive vaccination and government stimulus led to relatively low 1.6% economic contraction during the pandemic. Overall though, the economy is characterised by low growth, high (and rising) unemployment especially for youth and women, growing debt, severe effects of COVID-19 on services and tourism, high current account balances and declining remittances. While the country enjoys a relatively high GDP per capita vis-à-vis its neighbours, it still has a poverty rate exceeding 15%. Weak economic performance, decline in poverty reduction and rising debt can be traced to the Syrian crisis which began in 2011. Public and private consumption has outpaced decreasing investments in recent years which has led to a deteriorating trade balance.

Financial sector context ^{3,4,5,6,7,8,13}

The financial sector is composed of banks (25) and non-bank financial institutions (NBFIs). The NBFIs are: MFIs (9), payment service providers (5), leasing companies (32), exchange offices (136), and insurers (24) with 933 agents. The Central Bank of Jordan (CBJ) regulates and supervises banks, foreign exchanges, MFIs since June 2015, and the insurance industry since 2017.

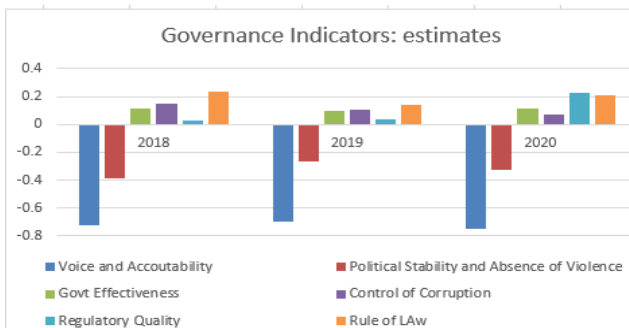
The microfinance industry, now represented by a licensed microfinance association, Tanmeyah, began in 1994 and grew rapidly. Growth decelerated with the advent of formal supervision and establishment of a credit bureau. Total clients stood at 476'000 including overlap between MFIs; approximately 2/3 of clients are women. Market potential based on indicators and past studies was estimated by Tanmeyah in 2019 to be 700'000 to 1 million. MFIs are limited to providing credit and act as agents for other financial services. They are prohibited from taking deposits.

The Jordanian Insurance Federation (JOI) Midyear 2020 Report showed that the underwritten insurance premium declined by 2.9% (year-on-year) to USD 439 million (CHF 412 million). This is composed of motor (33%), medical (35%), third-party liability (TPL) (23%) and life (15%). Insurance density stood at USD 83 (CHF 78) per capita as of 2018 while insurance penetration (i.e., premium % of GDP) hovered near 2%. Profitability for motor and TPL has been very low for years due to restrictive tariffs. Other lines have been adversely affected by regional instability and economic slowdown. Overall, industry ROE has been less than 3% for some time. The majority of insurance is either compulsory (motor, TPL, credit life) or is perceived as "free" due to integration with other types of products.

The Jordanian payments system improved greatly with the introduction of Jordan Mobile Payments System (JoMoPay), Jo-Net, Jordan's mobile network, and eFawateercom, the Electronic Bill Presentment and

Table 1: Population and economic indicators

Population in million (2021)	10.2
GDP growth (2020)	-1.551%
Inflation (2020)	0.333%
Trade balance (% of GDP) (2020)	-17.93%
Foreign direct investment (net) (% of GDP) (2020)	1.643%
Net ODA received (% of GNI) (2020)	6.284%
Remittances received (% of GDP) (2020)	8.93%
Economic Freedom Index ¹ (Rank among 186 countries) (2022)	60.1
Poverty indicators	
GDP per capita (USD) (2020)	\$4'283 (CHF 4'016)
Gini Index (0= equality 100= inequality) (2010)	33.7
International poverty rate (2010; at 1.90 USD/day)	0.1%
National poverty rate (2018)	15.7%
National rural poverty headcount rate (2010)	16.8



Payment System which allows automatic payments for public and private sectors. By January 2019 it was estimated that 459,335 e-wallet accounts had been opened.

A diagnostic study by CBJ and GIZ preceding preparation of the National Financial Inclusion Strategy (NFIS) 2018-2020 showed that only 33.1% of adults (aged 15+) had an account with a formal financial institution (FI). Most of these were either bank or e-wallet accounts. Account ownership is regarded as the most important indicator of financial inclusion. The figures were much lower for vulnerable sectors (women, youth, immigrants, and lower income adults). Moreover, only 9.3% saved money in these accounts (i.e., 28% of account holders) while 13.1% saved money informally (at home, through savings clubs like Jimaya, or with other individuals etc.). Two high-level goals of the NFIS 2018-2020 are: a) Increasing the level of financial inclusion from 33.1% to 41.5% by 2020; and b) Reducing the gender gap of account ownership from 53% to 35%.

The main inhibitors to saving formally are limited access and ill-fitting savings products. A 2017 study by GTZ and CBJ found ATMs to be most accessible with more than 25 per 100'000 adults while mobile banking agents were sparsest with just 0.3 per 100'000. ATMs were found mainly in urban and peri-urban areas. Products in general had very high minimum balance requirements and transaction fees were expensive. Another major inhibitor is that MFIs may not collect savings even though they are one of the main access points for many lower income people.

Partner financial institution

Al Watani National Microfinance Bank Jordan (NMB)

On 26 June, 2018 the CBJ granted NMB a license under Microfinance Decree no. 5 of 2015. NMB is the third largest MFI with approximately 84'000 active clients (61% women), a loan portfolio of CHF 57 million and a PAR>30 of just 0.0734%. The loan portfolio grew by 9% per annum in 2016-2019 before dropping approximately 35% in 2020 due to COVID-19.

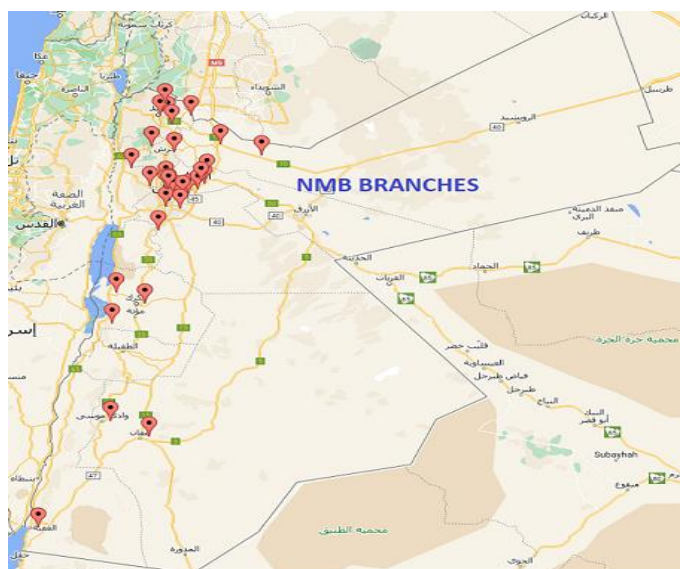
NMB's mission is to provide sustainable lending and other financial services including savings that meet the needs of the underserved population in Jordan. It operates out of 34 branches in all governorates. Besides credit, NMB also provides non-financial marketing services, health benefits and free credit life insurance to protect borrowers' families. King Abdullah II Fund for Development (KAJD) and Arab Gulf Programme for Development (AGFUND) are the majority shareholders; there are two additional private shareholders.

1. Loan amount disbursed (CHF)	579'152'315
2. Number of loans disbursed	556'964
3. Outstanding portfolio (CHF)	57'623'178
4. Number of active clients	84'060
5. Number of branches	34
6. Number of staff	482
7. Percentage of women clients	61%
8. Average outstanding loan size (CHF)	859

2. INTERVENTION APPROACH

Problem statement and basis for SCBF intervention

A major challenge in Jordan is that the government and regulators view microfinance as a social service distinct from banking. As such, MFIs may only provide credit and are prohibited from taking deposits. Although they may also act as agents for other financial services, this restriction constricts their growth potential and natural evolution into full-service financial institutions capable of providing a broader range of financial services. It is also, unfortunately, counter to the goals of the NFIS 2018-2020.



For NMB clients, this translates into being unable to save directly with their MFI. A second-best alternative, with SCBF's assistance, is development of a savings product packaged with insurance to guarantee savings completion. Aside from being beneficial for clients, a product like this would allow NMB to offer a savings

facility. Generally, a broader set of financial services would enhance its competitiveness in an increasingly tight microfinance market. To offer such a product, NMB needs to partner with at least an insurer and possibly with a second institution (bank or e-wallet provider) for investing the savings.

Main activity areas

The overall goal was to develop and launch at least one savings-linked insurance product. The main activities planned were: 1) In-depth client and market research for input towards the product development; 2) Interviewing and selecting appropriate partners (bank, e-wallet provider, insurers); 3) Developing and pricing a product based on the research, actuarial and financial projections, desired profit margins and projected key indicators; 4) Getting regulatory approval for the product; 5) Conducting financial literacy trainings for staff and clients; 6) Preparing systems and processes for efficient distribution, administration, and performance monitoring; 7) Testing the product in select pilot branches for 4-6 months; 8) Finalizing the product and distribution processes based on pilot feedback; 9) Making the final product available to all clients.

Overall, the aim was to build NMB's capacity to develop more valuable savings and insurance products, to effectively monitor performance of its insurance activities, and improve financial literacy of clients. This would be the focus of the product development unit within NMB (one full time staff, and two other staff who would work on insurance related activities on a part-time basis).

3. RESULTS ACHIEVED AND NOT ACHIEVED

An established and sound practice for successful product design includes client and market research. Market research was conducted and some of the findings were discussed in the previous report sections. Client research was undertaken in January 2019 and the results guided the outcome of the project. There were 308 individual client interviews; of these, 244 were NMB clients (79.2%) while the remaining 64 were randomly selected online. NMB clients were evenly distributed across NMB branches in accordance with the branch network as only 7 to 8 clients were interviewed per branch. NMB branches are mainly concentrated in and around Amman and in the north of the country. NMB branch staff conducted the interviews and sent the completed sheets to Head Office for encoding.

The most significant, relevant findings were:

- 75% of interviewees had a stable income;
- 92.2% had a smart phone while 92.9% had an e-wallet account;
- 70.1% had a business (trading 55%, agricultural 9%, industrial 8%, services 13%, crafts 5%, and others 10%);
- 54% had a bank account (higher than the national average since it was a biased sample);
- 39% of interviewees were already saving while another 43% wanted to save but were NOT able to, mainly because they did not have access to relevant savings' schemes. For the remaining 18%, saving was not a priority or they had not given it much consideration.
- Of the savers: 40% saved at home, 36% with Jimaya and/or with a group of friends, 21% with a bank, and 3% with an insurer.
- When asked what method of savings they trusted, 38% thought commercial banks could be trusted; however, only 3% trusted e-wallet providers and another 3% trusted insurers. The majority (52%) thought it was safest to save informally.

The broad conclusion was that there is a market for formal savings products in Jordan.

To make the savings product more attractive, it should be bundled with insurance. Benefit design would be constrained so that insurance cost would not exceed 0.5% - 1% of the savings amount. The main contributors to insurance cost are the type and amount of benefits, contingent events covered, demographic composition of the target market, mortality rates, marketing and operating costs, and underwriting restrictions.

E-wallet as a savings vehicle

Client research showed that e-wallets were not regarded well for saving money. Nevertheless, due to the limited number of options, the project explored the notion of partnering with an e-wallet service provider. Ideally, the e-wallet would give expanded savings access and provide similar features that a bank-based savings account could. Additionally, it should also be able to find a way to channel the savings back to NMB for use in its credit operations. To make it attractive, NMB would have to cover the bulk of the transaction

fees. In addition, the saver would also receive some type of free savings-completion insurance (in the event of the saver’s death or permanent disability).

JoMoPay is the main provider of approved e-wallets in the Hashemite Kingdom of Jordan. In order to open a wallet, users download one of the approved e-wallets that operate within the JoMoPay system. These include Zain Cash, Dinarak, Orange Money, the National Wallet from MEPS, Uwallet, AyaPay and Gadha.¹² NMB already had a partnership with one of these providers for a variety of services including loan repayments. By 2015-18, NMB had opened 2,500 e-wallet accounts and encountered numerous problems including:

- A wide range of technical issues;
- Lack of technical support by the provider;
- Scarcity of agents in rural areas and those agents that could be located usually lacked sufficient cash for client-pay-out types of transactions;
- Often, multiple accounts were opened by businesses on behalf of the client without the client’s knowledge (each client should be limited to one or two accounts);
- Unacceptable service delays (such as when opening accounts); and
- No help or support available on how to use an e-wallet.

Moreover, it was established that a) technically, providers would be unable to credit interest to e-wallet accounts, and b) there was no legal way for e-wallet providers to channel collected savings back to NMB for use in their credit operations.

The project team met with the partnering service provider to determine if the company and the industry were on a technological trajectory that could soon address most of these issues. Based on the meeting outcomes, the numerous challenges listed above, and the negative market sentiment in regard to e-wallets as a savings mechanism, it was concluded that partnering with e-wallet providers for collecting savings would lead to failure.

Saving with an insurance company

To explore the option of developing a savings product exclusively with an insurer, the project team met with four Jordanian insurers. Only one of these companies was open to working with NMB to develop a completely new research-based product; this insurer had already been working with another MFI on a similar initiative and had recently begun piloting the product. The other three insurers were fixated on the idea of scaling down their existing whole life products for the down-market. When microinsurance was first introduced decades ago in other countries, it soon became apparent that scaling down complex insurance products designed for the higher-end market did not work.

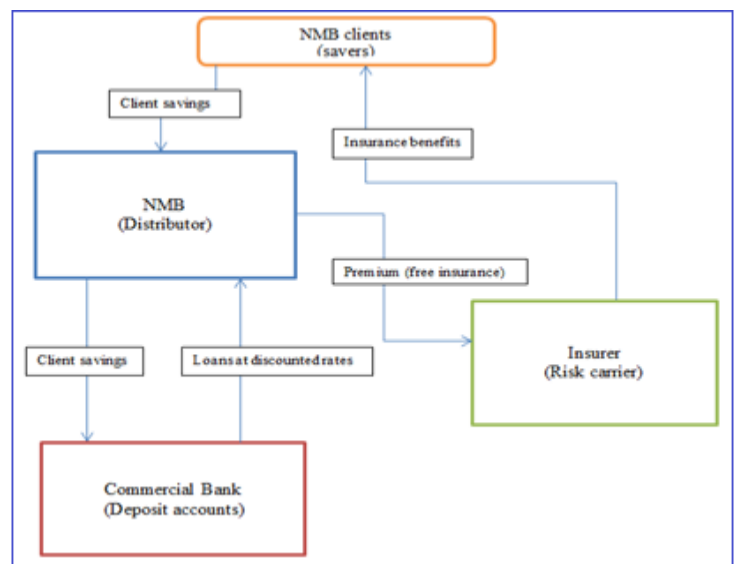
There was little of interest and value that came out of the meetings with the insurers. Considering the discussions and the client research findings, NMB decided that offering life insurance plans as a means for saving was not going to be a success.

Saving in commercial banks

Of the three options available for consideration, the market clearly favoured a commercial bank as being the most trusted institution for saving. The envisioned three-way partnership that could offer a savings product with free insurance is depicted in the diagram.

Here is how it would work:

- NMB, being at the forefront and interacting with low-income Jordanian residents would encourage its clients and their families to open a savings account with the partnering commercial bank. NMB would facilitate the required documentation, collect clients’ periodic savings, and forward these to the bank.



- The bank would credit clients' individual accounts with deposits and monthly interest at an attractive rate (at least par with rates paid to other bank clients). Minimum balances would be lower for these accounts.
- The bank would provide wholesale loans amounting to or exceeding cumulative client savings to NMB at preferred rates (at least 2-3% below the standard lending rate).
- NMB would purchase monthly life insurance cover for client-savers amounting to their account balance. This free cover would be an added attraction for the client-saver. The cost to NMB would be approximately 1% per annum and would be financed by the reduced cost of the wholesale loans.

The design is win-win for all stakeholders. The benefits for the client-saver would be enhanced access, security of savings, convenience, and free insurance. The bank would benefit from facilitated access to the lower-income market whose families will be middle-income customers in the future. The insurer would price the cover profitably and likewise enjoy facilitated access to NMB clientele. NMB would enhance its brand in a competitive microfinance market and gain new clients attracted to the product. The activity would be aligned with CBJ financial inclusion aims.

Unfortunately, to date, all banks approached by NMB chose to take a conservative (if not short-sighted) stance. None could be enticed to participate in this venture by the time the COVID-19 pandemic arrived a few months later. Since then, NMB management has been focused on adapting its core business to the economic realities shaped by the pandemic.

4. CONCLUSIONS AND RECOMMENDATIONS

In summary, the project aimed to develop and launch a savings-insurance product for the lower income market. Such a product would improve access to formal savings and more generally, boost financial inclusion in Jordan. Ideally and practically, as is the case in most other countries, NMB should be legally able to accept the savings deposits and partner with an insurer only for the insurance risk. Unfortunately, regulatory barriers do not permit this. As such, three other savings options were explored and all were found to be unworkable. SCBF and NMB ultimately decided to close the project and wait for more ideal conditions (especially improvements on the regulatory side). NMB could apply for a new project when it is more assured of success.

Recommendation:

- Just because a product did not get implemented does not mean that the project was a complete failure. Much was learned and the main findings should be distilled and used to champion regulatory reform towards enabling MFIs to take deposits. The lead should be taken by NMB and the microfinance network, Tanmeyah. This would likely take considerable time and perhaps require an act of Parliament. The main NMB investor, King Abdullah II Fund for Development (KAJD) would surely be able to wield significant influence towards bringing this to reality.

- 1 The World Bank Group (2022). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed 4/20/2022
- 2 The CIA Factbook (2022) - <https://www.cia.gov/the-world-factbook/countries/jordan/>. Accessed 4/20/2022
- 3 The World Bank Group (2022). <https://www.worldbank.org/en/country/jordan/overview#1>. Accessed 4/20/2022
- 4 Microfinance in JORDAN Developments, Challenges and Future Prospects. <https://www.ifc.org/> (2022) Accessed 4/20/2022
- 5 TANMEYAH Strategy and Roadmap for the Microfinance Sector in Jordan (2019 – 2022)- Davy Denadi and Peter Nzebil
- 6 The National Financial Inclusion Strategy 2018-2020
- 7 Jordan Insurance Federation - www.joif.org/. Accessed 4/20/2022
- 8 Middle East Insurance Review – July-August 201
- 9 International Finance Corporation – www.ifc.org Accessed 4/20/2022
- 10 National Microfinance Bank website <https://www.nmb.com.jo/en/about> Accessed 4/20/2022
- 11 International Finance Corporation website www.ifc.org. Accessed 4/20/2022
- 12 Point checkout website www.pointcheckout.com/en/ Accessed 4/20/2022
- 13 Financial Inclusion Diagnostic Study in Jordan 2017, Synthesis Report © 2017 Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and Central Bank of Jordan