

Accident, sickness and health insurance for savings groups by VisionFund Malawi

1. DEVELOPMENT RELEVANCE

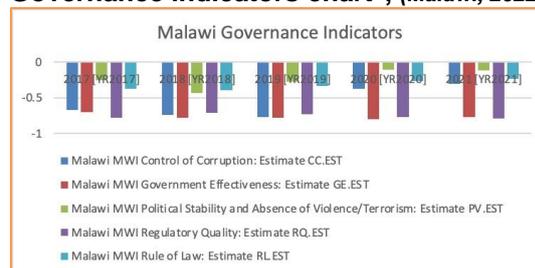
Economic and poverty context

With the poverty rate estimated at 51.5%, Malawi is one of the poorest countries in the world, ranked 174 of 189 countries on the Human Development Index. Over half the population lives in poverty, and one-fifth in extreme poverty, making it essential to provide a wider range of the financial instruments that protect them against external shocks. Health insurance is one of these key instruments.

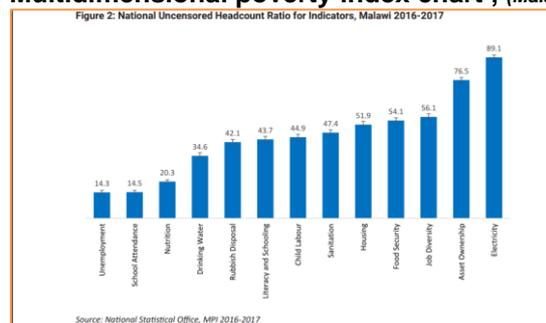
The macroeconomic outlook for Malawi's economic growth is expected to decline further in 2022 due to chronic fiscal and external imbalances, compounded by severe weather events. The war in Ukraine has added to a challenging global economic climate, as fertilizer and fuel prices continue to increase. The latest World Bank economic analysisⁱ for Malawi suggests fragmented, off-budget financing at the local level has led to uncoordinated planning and decision-making over service delivery. There is a consistent decrease of 25%-45% in real, per-capita investment at local level from 2014 to 2021.

Table 1 ⁱⁱ : Population and economic indicators	
Population in million (2021)	19.6m
GDP growth (2021)	2.8%
Inflation (2020)	8.6%
Trade balance (% of GDP)	N/A
Foreign direct investment (net) (% of GDP) (2020)	0.4%
Net ODA received (% of GNI) (2020)	12.1%
Remittances received (% of GDP) (2022)	1.9%
Economic Freedom Index ⁱⁱⁱ (Rank among 186 countries) (2022)	53
Poverty indicators	
GDP per capita (USD) (2021)	642.70
Gini Index (0= equality 100= inequality) (2019)	38.5
International poverty rate (2019; at 1.90 USD/day)	70.1%
National poverty rate (2019)	50.7%
National rural poverty headcount rate	N/A

Governance indicators chart^{iv}, (Malawi, 2022)



Multidimensional poverty index chart^v, (Malawi, 2017)



Financial sector context

In 2010 the Government of Malawi together with key stakeholders developed the “Malawi National Strategy for Financial Inclusion” aimed at enhancing production, creating employment, increasing incomes, smoothing consumption, and thereby making a positive contribution to Sustainable Development Goals. The strategy addresses policy constraints, seeks to establish a shared vision and to coordinate stakeholder activities. The policy prioritizes financial inclusion needs as follows:

- Payment system reach and depth
- Enable villages savings and loans associations (VSLA) for savings to smoothen consumption
- Access to credit and access to insurance
- Consumer education (financial literacy)

This policy framework provides for an enabling environment for financial inclusion programmes in the country.

In Malawi, financial inclusion encompasses formal financial institutions (commercial banks), microfinance institutions and informal financial service providers such as VSLAs. Access to formal financial services is mainly confined to urban areas as most institutions lack infrastructure and reach in rural areas. Finmark Trust^{vi} estimates that poverty and unemployment contribute 54% to financial exclusion, while illiteracy, accessibility and costs contribute 10%, 8% and 3%, respectively. Insurance penetration rate in Malawi is very low and was at 2.01% in 2018 (Reserve Bank of Malawi^{vii}). Clearly there is a need for interventions that will address these constraints. Low literacy levels, accessibility and costs are constraints that can be tackled to become opportunities through innovations in training, digital technology and group approaches.

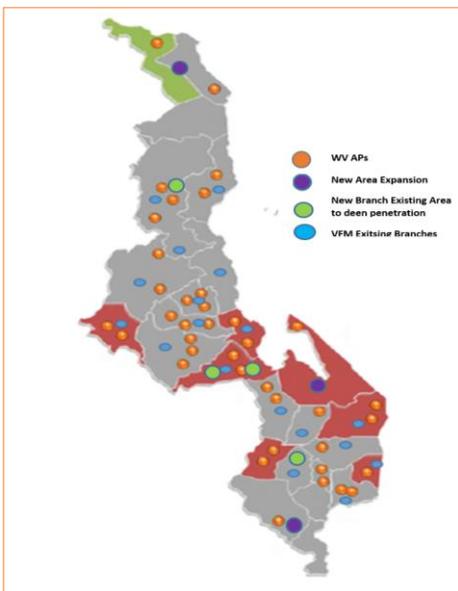
Financial sector partner

VisionFund Malawi (VFM) started its operations on the 1st of July 2013, initially with a non-deposit taking microfinance license. In July 2019, it was awarded a deposit-taking licence to start offering savings products to its customers and has a strategic objective of ensuring holistic and sustainable transformational development in its programming through financial inclusion. VFM lends USD 4.35m to over 28,000 clients from 22 branches, 61% of whom are female and 26% of whom live in rural areas. VFM offers credit life insurance for its borrowers and developed accident and health and livestock and crop insurance products in 2021. The Accident, Sickness & Health Insurance for Savings Groups programme is operating in five branches but will extend to other branches in the scale-up phase.

SCBF supported the piloting of this intervention over two years in 2021-2022 through the provision of technical assistance for a regional technical team leader, country project manager, five field experts (insurance officers) and a global IT expert.

The branch network map for VisionFund Malawi and World Vision

World Vision's (WV) mission and vision are aimed at providing life in its fullness (including health) to children. World Vision Malawi (WVM) operates in all the three administrative regions of Malawi and has 4,607 savings groups with 45,473 members, of which 87% are female. There is scope to grow the numbers in all regions in the country. This intervention specifically targeted members of the World Vision savings groups and their families.



Nkhoma WV Area Program office

Map 1: World Vision and VisionFund Malawi Branch Network November 2022

2. INTERVENTION APPROACH

Capacity building needs

In recent years, World Vision has been mobilising community members into savings groups and providing them with requisite training. Savings group members support each other during illness and bereavement forming a localised safety net. To date, WV has 4,607 savings groups with 45,473 members. It is this large number of savings groups that provides fertile ground to develop and provide health insurance that can protect them from sliding back to poverty or depleting their savings due to health-related shocks. It was necessary to

build the capacity of VFM and WVM to distribute insurance to this target group. By the 21st of December 2022, 23 members of the management team, 184 field staff and 19,921 clients had been trained with their capacity built on insurance. Four educational videos on the concept of insurance, maternal health, diarrhea prevention and management, and childhood immunisation were developed and used to provide additional education to clients.

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

This project was conceived to support testing the operating model for a savings linked insurance programme.

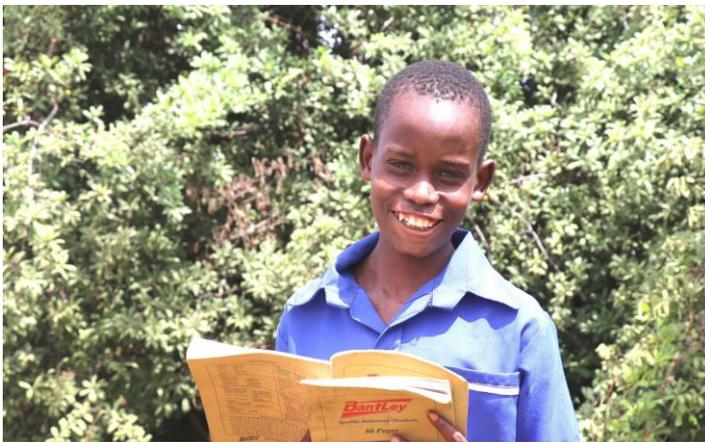
Outreach target:

- It was estimated that 5,740 insurance policies would be sold in the first year of sales and 17,218 in the second year of sales and 35,870 people would receive the educational model on insurance.
- Due to COVID-19 and slow staff recruitment, product sales started two months later than planned. The reality on the ground also resulted in low sales at the beginning as much more training and community engagement were required. After operating for eight months the insurer withdrew the product, citing high claims ratio. Fortunately, an alternative product had been finalised and was launched soon after the termination of the first product. These delays and setbacks made it necessary for VisionFund Malawi to adjust its expected end of project targets to 2,870 policies sold, covering 3,500 and 20,000 people educated on insurance.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

Following the completion of a market research, a tender was shared with insurance providers to propose an insurance product that responds to the identified needs and capacities of the target group. MASM was selected as having the best product in terms of benefits and premium. The product was only made available for individuals at a premium of USD 13 per year with benefits of up to USD 555 on the service obtained at MASM registered health care facilities. MASM has over 400 registered health care facilities across the country. This product was not balanced in terms of premium and benefits and resulted in a high claims ratio of 225%, prompting the insurer to terminate the contract. Fortunately, the project had just finalised a hospicash product with another provider with an intention to offer it as a second option. The hospicash product is available for individuals (premium of USD 6 per year) and for families of up to three people (premium USD 16) with an option to add a beneficiary at a cost of USD 4. Benefits include a cash allowance of USD 18.50 per week for hospitalisation of three nights or more, a death benefit of USD 247 and a disability benefit of up to USD 247 depending on the severity of the disability. An insurance and financial literacy educational module and four educational videos were also developed. Concurrently a mobile phone-based application was developed to enrol clients, manage policies, and process claims.



'I now go to school and play with friends.'

Lucy Bonifasio from Chulu Village in Muchinji, Malawi, values good health for her and the family. "My last born, a 13-year old boy was born with an abnormality in his eyes. This caused discomfort and he stopped going to school and he rarely played with friends. With Ufulu medical insurance, I was able to take him to St. Gabriel Hospital (one of the top hospitals in the area) where he was successfully operated on. I just used my medical scheme to settle all hospital bills and spent K7,000 on transport as we had to travel to the hospital twice. I am happy for him; he is now back to school doing Standard Seven and he now freely plays with his peers. This is an exciting experience. That's why I full encourage other people to buy the medical insurance for themselves and their families."

The intervention has been implemented for just over a year, as the first policies were issued towards the end of September 2021. By 21st of December 2022, 19 out of 39 clients (50%) that had taken MASM policies last

year moved over to hospicash. The challenge was that this was not an automatic renewal and clients had to be migrated to a new product with different features and premium. This shows a high level of client satisfaction.



Following insurance and financial literacy training, 51-year old Alaida Waluzani lamented the death of her husband five years ago where they failed to take him to hospital because they could not raise money for transport and medical bills. She even borrowed money to bury him.

“If this medical insurance scheme had come earlier, my husband would have gone to hospital and maybe we could still be with him.”

This is an example of the impact of insurance literacy training. After training, many clients like Alaida mobilised resourced and enrolled for health insurance.

Key Performance Indicators

KPI	Target	Actual Achieved (21.12.2022)	Variance
# Policies Sold	2,870	2,794	97%
# People/Lives Covered	3,500	3,434	98%
# People educated on Insurance	20,000	19,921	99%
# Educational Videos Developed	4	4	
# of claims submitted		780	
% of claims rejected		0%	
Claims ratio		224%	
Value of claims paid – in MWK		7,042,000	

VisionFund Malawi Typical Branch



VisionFund Malawi Dedza branch



Mchinji branch

4. LESSONS LEARNT

The following section captures lessons learnt reflecting both positive experiences and challenges on the ground.

1. Mindset change

The first learning was mindset change that we could identify at many levels. Among WV staff who now see insurance as a key element in building the resilience of communities. We also saw a shift in the priorities of insurance providers with major players in the insurance industry starting to offer services to the excluded and poor rural communities. At the start of the project, we expected that many people would enrol, but observed that in all areas, enrolment started slowly, but as soon as a few people successfully claimed, the numbers started accelerating. This demonstrates mindset shift based on experience of a tangible value of the product.

2. Sales channels

Our initial plan of using World Vision staff (10% of their time) to cross-sell insurance did not work. In Malawi, we learnt that World Vision does not have extra capacity among full-time staff to cross-sell insurance, but they are able to assist with community entry and monitoring. We then adopted another channel where we used World Vision affiliated volunteers. This approach also did not work well until we engaged VisionFund FAST Field officers. FAST Field officers are employed to sell loans to savings groups and it was easy for them to cross-sell insurance to the same target clients. This is the model that will be used to scale up the programme in Malawi.

3. Product

The intervention was very effective in that the product responded to the needs of the target group as the product was designed based on the results of a needs assessment that identified gaps and priorities. The intervention started off with a health product but halfway through the implementation it was realised that the product was under-priced as the provider experienced a 225% claims ratio. Premium adjustments to align the product with costs made it too expensive and unaffordable for the target group and the project had to design a hospicash product that focused on high impact but less frequent events.

- Learning: The product must be balanced between benefits and premium (not too low) to be sustainable but remain attractive to clients.
- Recommendation: Securing a product and a premium for at least two years should be a strategic point to ensure smooth implementation.
- Recommendation: Going forward, product design must minimise high frequency, low impact events in its benefits to achieve an affordable premium and an acceptable claim ratio.

4. Management commitment

- Learning: The time needed to ensure that middle and top management teams were committed to prioritize this initiative was under-estimated. In the project design, capacity building was targeted at frontline field staff but as we progressed, we identified the need to cascade capacity building from managers, field managers and supervisors to enable them to supervise and support field staff.

5. Marketing and promotion

- Learning: Resources were allocated to educate people on the concept of insurance and on health tips; however, more resources were needed to promote the scheme. Having a proper launch at the right time, providing flyers to the community for them to take that home could have been a good additional option instead of relying on only digital tools alone.
- Learning: Effective time management is crucial, as is the necessity to launch the product at a time when people can focus their attention on the product and have available funds to enrol - harvest season is ideal. Missing this optimum time window could result in a slower uptake at the beginning and a slower growth of the scheme.

Critical success factors

Critical success factors are conducting market research to identify needs, and building knowledge on the concept of insurance. It is important to listen to clients' inputs through periodic surveys and evaluations. Below are some of our key recommendations for similar interventions.

Recommendations and critical success factors

- Start by identifying the target group needs and capacity to pay and then match the product with the needs and the premium with the capacity to pay.
- Balance premium and benefits to keep the product affordable but attractive.
- For the sales channel, it is important to use local structures and personnel that is known and trusted in the community.
- Build in comprehensive training for staff and educational module for clients.



Education session in Matope Area Program

The intervention must avoid the following

1. Using full-time agents to sell the product as this would increase distribution costs and make the product unsustainable.
2. Avoid a policy that covers high-frequency low-impact events.
3. Take care to avoid anti-selection (designing a product that is only attractive to people who already anticipate a shock, e.g. chronic patients) as that will lead to a high claims ratio.

i <https://www.worldbank.org/en/news/feature/2022/06/28/malawi-economic-monitor-improving-malawi-s-fiscal-decentralization-to-strengthen-local-service-delivery>

ii The World Bank Group (2021). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (2021)

iii Heritage Foundation, (2022) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (2022)

iv The World Bank Group (2022). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed (2022)

v Oxford Poverty and Human Development Initiative (2022). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpi/country_briefings Accessed (2021)

vi FinScope, Malawi, 2008

vii <https://times.mw/insurance-penetration-up-to-2-01-in-2018/#:~:text=Malawi's%20insurance%20penetration%20inched%20up,two%20percent%20target%20for%202018.>