MUSCCO

Malawi Union of Savings and Credit Cooperatives

CGAP Working Group on Microinsurance
Good and Bad Practices
Case Study No. 8

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Good and Bad Practices in Microinsurance

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1. A **series of case studies** to identify good and bad practices in microinsurance
2. A **synthesis document** of good and bad practices in microinsurance for practitioners based on an analysis of the case studies. The major lessons from the case studies will also be published in a series of **two-page briefing notes** for easy access by practitioners.
3. **Donor guidelines** for funding microinsurance.

The CGAP Working Group on Microinsurance

The CGAP Microinsurance Working Group includes donors, insurers and other interested parties. The Working Group coordinates donor activities as they pertain to the development and proliferation of insurance services to low-income households in developing countries. The main activities of the working group include:

1. Developing donor guidelines for supporting microinsurance
2. Document case studies of insurance products and delivery models
3. Commission research on key issues such as the regulatory environment for microinsurance
4. Supporting innovations that will expand the availability of appropriate microinsurance products
5. Publishing a quarterly newsletter on microinsurance
6. Managing the content of the Microinsurance Focus website: www.microfinancegateway.org/section/resourcecenters/microinsurance

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Abbreviations

AGM	Annual General Meeting
AIDS	Acquired Immunodeficiency Syndrome
CFF	Central Finance Facility
CUNA	Credit Union National Association
DANIDA	Danish Agency for Development Assistance
DFID	Department for International Development (United Kingdom)
FOLKSAM	The Swedish Cooperative Insurance Group
GBP	Great Britain Pound
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ICMIF	International Cooperative and Mutual Insurance Federation
ILO	International Labour Organisation
IT	Information Technology
MFI	Microfinance Institution
MK	Malawi Kwacha[1]
MUSCCO	Malawi Union of Savings and Credit Cooperatives
NASFAM	National Association of Farmers
NICO	National Insurance Company
NORAD	Norwegian Agency for Development Cooperation
OIMB	Opportunity International Microfinance Bank
PPP	Purchasing Power Parity
SACCO	Savings and Credit Cooperative Society
SCC	Swedish Cooperative Centre
SFPP	SACCO Financial Protection Plan
Sida	Swedish International Development Cooperation Agency
UNDP	United Nations Development Programme
US$	United States Dollar
USAID	United States Agency for International Development
WHO	World Health Organisation
WOCCU	World Council of Credit Unions

[1] At the time of the study one US$ was equal to Malawian Kwacha (MK) 107.

Executive Summary

Savings and Credit Cooperatives (SACCOs) were first promoted in Malawi by the Catholic Church and government in the 1970s to offer savings services to people who were not serviced by the commercial banks. Based on good savings records, members of the SACCOs were also offered short-term loans. Donors supported the development of this service and helped establish a national association, MUSCCO, in 1980, through which support to the SACCOs was channelled.

Insurance services were an integrated and mandatory part of the SACCO's activities from the beginning. When members joined the SACCO, they also joined the insurance scheme. Based on initial technical and reinsurance support from CUNA Mutual[2], there were, and still are, two types of insurance: 1) loan protection; and 2) a life savings scheme. Loan protection covers the unpaid balance of a loan if the member dies. Both the SACCO, which receives the repayment, and the family of the deceased, which does not have to repay the loan, benefit from the scheme. In the life savings scheme, which is uncommon in African SACCOs, when a member dies, the appointed beneficiaries get an additional amount equal to the deceased member's balance of shares and savings, up to a maximum of MK 100 000 ($935).[3]

The mandatory insurance is complementary to the SACCO's core services. The organisational cost for providing insurance is carried by the savings and credit activities. As a result, the only employees working specifically for the insurance services are the two people in MUSCCO's insurance department.

MUSCCO's insurance scheme, the SACCO Financial Protection Programme (SFPP) fund, has been growing rapidly in recent years, reaching MK 21 million (almost $200 000) by the end of 2003. For the last two years, the underwriting profits—MK 9.1 million ($85 000) for 2003 and MK 6.5 million ($60 000) for 2002—were transferred to the fund. The very positive yield on the investments in Treasury Bonds has also helped to increase the value of the fund.

During 2002, MUSCCO decided to conduct an actuarial review, yet a lack of data was a major obstacle. Appropriate information regarding claims and premiums was only available as from January 2002. It was therefore not possible to draw firm conclusions regarding trends in the business. One of the recommendations from the review was to increase premium rates, which were raised 60 percent on July 1, 2003. The main reason for the increase was a new estimate of the mortality rate, to a great extent influenced by the spread of HIV/AIDS in Malawi. The lack of appropriate data on claims history, caused by the withdrawal of CUNA Mutual in 1999, increased the uncertainty and called for higher contingency margins. Another

[2] In 1999, CUNA Mutual withdrew its operations in Africa. Since then, MUSCCO has been providing insurance without a legal identity.

[3] This benefit figure is applicable to deposits made by members between 6 months and 54 years of age. As described in Table 5, the benefit starts declining for deposits made after 54 years and for deposits made after the age of 70 there is no benefit.

consequence of CUNA Mutual's withdrawal was that the insurance scheme was no longer reinsured. Higher premiums were required to finance a rapid build up of the SFPP fund. The new rates are still in force today and there is again an urgent need for a new actuarial review.

Lessons Learned

Organisational structures. In rural Africa it is probably impossible for microinsurance to be viable unless it is integrated into other operations, such as savings and credit. The distribution of the insurance service will in most cases have to be done through an existing organisation, preferably one with significant outreach that already handles financial transactions with the working poor. Examples of suitable organisations include labour unions, schools, churches, big employers, cooperatives and farmers' unions.

The role of local organisations is not limited to distribution. Claims verification is an important and costly aspect of insurance. At MUSCCO, verification and claims payment are done at the SACCO level. Since clients are known by SACCO officials and live nearby, the costs of claims underwriting are substantially reduced. Decentralisation of claim preparation and verification to local organisations may be a precondition for viable microinsurance.

Product design. Mandatory insurance policies minimise administrative and processing costs. The MUSCCO arrangement is extremely effective. The insurer deals with 57 customers, the SACCOs, but covers 55 000 people, 3 to 4 times the number covered by the Malawi's entire insurance industry. Since this is a group policy, the SACCO pays a quarterly premium based on the total savings/loan balance of the members. Transaction costs are minimised since one payment covers all the members in the SACCO.

This efficiency is evident in MUSCCO's simple life savings scheme. Exclusions, benefits and limits are straightforward, which greatly enhances the cost-effectiveness of the service. If individuals were offered many choices, the complexity of individual premiums and benefits would drastically increase the costs and make the scheme unviable. In addition, the simple terms make it easier for illiterate clients understand them.

Actuarial reviews. At the initial stage of any microinsurance scheme, and annually thereafter, a thorough actuarial review of the services should be carried out. It is of utmost importance to observe social and other changes that affect insurance. In the case of life insurance, insurers have to adjust to changing death rate patterns. The HIV/AIDS pandemic is a sad example of such changes. The long term effects, particularly in Africa and not least in Malawi, are still difficult to project with certainty but will be overwhelming.

To successfully conduct an actuarial review, organisations must have appropriate and reliable data. Significant investments should be made upfront to ensure that the right information is collected, in a timely manner, in a format that can be easily analysed.

Among other things, actuarial reviews should specify how reserve funds should be amassed. If the market does not allow an appropriate accumulation of reserve funds, the scheme is likely to fail. Reserve funds have to be legally protected against inappropriate uses and must not be integrated into an organisation's other operations, such as a loan portfolio.

Adapt to local conditions. In the preparation of microinsurance services, careful analysis has to be made of the local environment. Rules and regulations, systems and procedures have to be adapted to local conditions. If insurance procedures from the developed world are applied without appropriate adjustments, there is great risk that the service will malfunction. For example, the challenge such as not having official identity numbers in Malawi requires alternative approaches to claims verification.

Claims prevention. In a poor society like Malawi, a lot can be done to increase members' life expectancy, which would effectively prevent claims. The longer people live, the fewer average claims per year. Preventive action will enhance the financial and technical results, and will bolster the brand value of the insurance organisation. Such activities could be carried out in collaboration with other organisations, including the government, churches, humanitarian organisations and donors, which share common objectives. Nutrition and health, not least HIV/AIDS, are examples of joint campaigns from which the insurer would benefit and which can easily attract funding from donors and government.

1. The Context

1.1 Macroeconomic Data

Table 1: Macro Data

Malawi	Data	Year/Period	Source
GDP (US$ billions)	1.9	2002	World Bank
Population (millions)	10.7	2002	World Bank
Population density per km2	105	1998	National Statistical office, Malawi
Percentage urban / rural population	15% / 85%	2001	UNDP
GDP/Capita (US$)	166	2001	UNDP
GDP Growth Rate - annual	1.8 %	1990 – 2000	World Bank
Inflation - annual	33.8 %	1990 – 2000	World Bank
Exchange Rate	MK 107 per US$ MK 77 per US$	2004 2002	Actual rate CIA
PPP GDP per Capita	570	2001	UNDP
Infant Mortality (per 1000 live births)	113	2002	World Bank
Under Five Mortality (per thousand)	182	2002	World Bank
Maternal Mortality (per 100 000 live births)	580	2001	UNDP
Access to safe water (% of population)	57 %	2000	UNDP
Health Expenditure as % of GDP (public/private/)	Public 3.6 Private 4.0	2000	UNDP
Health Expenditure per capita (US$)	38	2000	UNDP
Doctors per thousand people	2	2002	UNDP
Hospital beds per thousand people	1.3	1998	WHO
Literacy rate	61.8	2002	World Bank

1.2 Role of the State in Insurance

The minimum capital requirement for an insurance licence in Malawi is only US$95 000. The Reserve Bank, which issues the licences, also requires that the applicant is "fit and proper" and can present a sound business plan. Furthermore, the Reserve Bank also considers whether the establishment is in the best interest of the financial system of Malawi. There are no restrictions regarding foreign ownership.

There are at present 8 general and 3 life insurers in the Malawian market. The Reserve Bank has no statistics regarding the size of the market. Taking into consideration Malawi's population of 11 million people, there is no doubt that the insurance market is comparatively small. A clear indication of an underdeveloped market is that NICO, the National Insurance Company, which dominates the life insurance market, estimates the total number of commercial life insurance policies to be 15 000, possibly 20 000 in the whole country.

A new insurance act has been developed, to update the Insurance Act of 1957, but has not yet been passed by parliament. The new act does not cover microinsurance.

For some years, a task force has been looking into the development of specific regulations for microfinance institutions, as a complement to the strict regulation of banks and other financial institutions. The progress so far is limited. The task force has not been asked to look into the regulation and supervision of microinsurance. The Supervision Department in the Reserve Bank has declared a certain interest in requesting the task force to consider the need of a separate microinsurance regulation. If this is to be achieved, interested parties need to lobby the government and the Reserve Bank for this purpose.

Besides the supervision of banks, the Bank Supervision Department of the Reserve Bank of Malawi is also charged with the task to regulate and supervise the insurance sector. The Department has limited resources; its main supervisory approach is to scrutinise reports from insurance companies. The Supervision Department is aware of MUSCCO's insurance services but claims that since MUSCCO is registered as a cooperative, the Department does not have jurisdiction to support or control the activity. The Registrar of Cooperatives lacks resources, skills and interest to supervise an insurance activity, even if it is run by a cooperative organisation.

1.3 The Role of the State in Social Protection

Malawi is a poor country and cannot afford to offer general social protection to its inhabitants. Limited budget allocations are made to support the most vulnerable, including the disabled, orphans, and extremely poor people. Over 80 percent of the population lives in rural areas where there is practically speaking no public social protection. The Government is looking into the possibility of supporting the elderly, in particular those who are caring for AIDS orphans.

Schooling is free up to Standard 8 and fully financed by fees thereafter. Health care is free, but not easily available; there are only 2 doctors per 1000 inhabitants. Appropriate medicine is regularly not available. People with employment, at least those with white-collar jobs, normally have basic pension and health schemes arranged by the employer. Almost no social protection is available for persons in the agricultural sector or in the informal economy.

1.4 Microinsurance in Malawi

Besides the credit-life insurance run by some MFIs, and the partnership between NICO and the Opportunity International Microfinance Bank (OIMB), the only microinsurance scheme in Malawi is run by MUSCCO. Discussions between MUSCCO and NICO have stimulated some interest on the part of the insurer to carry the risk while MUSCCO acts as an agent. However, the two partners have not been able to agree on terms and conditions for such cooperation.

Table 2: Insurance Industry Basics

Issues	Observations
Name of insurance regulatory body	Reserve Bank of Malawi
Key responsibilities of the regulatory authority	• Licensing of new insurers, agents and brokers • Supervision through reports and on site inspections • To some extent policy development; the Insurance Act of 1957 is being revised
Minimum capital requirements for insurance license	According to the Insurance Act of 1957 the capital requirement was £50 000. Over the years this has changed and the figure today is MK 10 million (US$95 000)
Other key requirements for an insurance license	• Sound and feasible business plan • The applicant's record for running successful business for a period of at least five years, preferably in the financial sector • Management shall be "fit and proper" • Whether the establishment of the business is in the best interest of the financial system of Malawi
On-going capital requirements for an insurance company	Solvency margin of 20% of net premium
Minimum capital requirement for reinsurer	MK 20 million (US$190 000)
Number of regulated insurers	8 general and 3 life insurers
Value of annual premiums of regulated insurers	No information
Number of re-insurers	One
Value of annual premiums of reinsurers	No information
Other unregulated organisations, if existing, that offer insurance	A number of MFIs and MUSCCO. No information available on actual number of other MFIs and their premium value.
Certification requirements for agents	Agents and brokers are licensed by the Reserve Bank. Agents can only represent one insurer which has to appoint the agent. There is an assessment fee of MK 10000 (US$93) and annual fee of MK 5000 (US$47)

2. The Institution

2.1 Brief History

The Malawi Union of Savings and Credit Cooperatives (MUSCCO) is the national union of Savings and Credit Cooperatives (SACCOs) in Malawi. To understand MUSCCO and its insurance services, one must first understand the SACCOs.

Savings and Credit Cooperatives in Malawi

The savings and credit cooperative movement in Malawi was started in the 1970s by the Catholic Church and the government. It grew slowly until it received financial assistance from USAID in 1980 and technical assistance from the World Council of Credit Unions (WOCCU) and CUNA Mutual, an American insurance group. With extensive experience with emerging credit union movements in Africa, WOCCU developed systems and procedures for the savings and credit services. CUNA Mutual, which at that time had a presence in many Africa countries, developed simple insurance products that were designed as a complementary service to the SACCOs' core business.

Many SACCOs are formed at a work place among employees who work for a common employer. Deductions both for savings and loan repayments are often integrated into the salary/wage preparation. The member decides how much he/she wants to save every month or week and the repayments of loans are requested by the SACCO in accordance with the loan agreement.

In contrast, for community-based SACCOs, where location is the common bond, members normally come to the society themselves to make deposits and loan repayments. This is a more cumbersome procedure with much less discipline. In both types of society, it is a great advantage that the SACCO employees, its elected officials and the members all know each other quite well.

The SACCOs are the backbone of the movement. Located in all districts in Malawi (except 4 newly formed districts), the SACCOs are owned by their members, who contribute shares to finance the societies. At an annual general meeting (AGM) the members elect a board to manage the SACCO, normally for a period of one year. They also elect representatives to the AGM of the national cooperative union. The board may employ staff to carry out the daily business, but the board is responsible to the membership for the SACCO's services.

National Union

Founded in 1980, the current national union, MUSCCO, is owned by the SACCOs, which have paid share capital for the formation of the union. At the MUSCCO AGM, the SACCO representatives elect MUSCCO's board of management. MUSCCO provides the traditional services of a central union to its affiliated credit unions. It represents the SACCO movement by promoting its interests with policymakers and the society at large. It organises education and training for staff and members of the movement. Through its central finance service, it assists SACCOs to get a good return on investments and coordinates liquidity management.

Another important function for MUSCCO is to audit the SACCOs, which it does on behalf of the government's Cooperative Department. Malawi's Cooperative Act governs the cooperative movement. The Act gives substantial powers to the government, but the Cooperative Department has limited resources to carry out monitoring and control. Consequently, the SACCO movement in Malawi is surprisingly independent.

Expansion and Consolidation

The SACCOs reached their peak in 2000 when there were 111 credit unions and 66 000 members. During the last 4 years MUSCCO has had to restructure its membership. It could no longer support unsustainable SACCOs, which were encouraged to grow or merge, or otherwise become profitable. If they did not succeed, they had to terminate their operations and membership. Today MUSCCO has 57 active SACCOs, which have 55 000 members, for an average membership per SACCO of 970 members. The development of the movement during the last 20 years is illustrated by the following basic statistics.

	No of SACCOs	No of members	Value (MK) of Shares/savings	Value (MK) of Loans to members
1985	50	14 000	940 000	940 000
1990	120	19 000	2 500 000	2 700 000
1995	104	34 600	30 415 000	26 259 000
2000	111	66 100	236 741 000	209 276 000
2002	65	55 000	421 500 000	319 100 000
2004	57	55 000	-	-

In 1985, twenty-two percent of the membership was women; in 2002 their share had increased to 25 percent. During the period 1990-2000 the average annual rate of inflation was 34%; since then it has ranged from 15 to 20%. Needless to day, inflation has affected the expansion of shares and loans.

Donor support throughout the development of the SACCO movement in Malawi has been of great importance, both financially and technically. During the last few years, donor support has decreased, which has forced MUSCCO to withdraw support to weak SACCOs. Quite a number of SACCOs have been liquidated.

SACCO Services

The core business of the movement is to provide savings and credit services to members. Most of the members' savings is in form of shares, only 10% is deposited in savings accounts. The terms and conditions of savings and loans are decided by the SACCO, normally based on a policy approved by the AGM.

Interest on savings currently varies between 5 and 10%; for loans, SACCOs charge between 27 and 33%. The interest on savings is comparable to the levels in the commercial banks, but the interest charged on loans is generally lower than the microfinance institutions in Malawi.

Each SACCO has a credit committee that approves loans and follows up on repayments. After being a member for a specified period, normally 3 to 6 months, one can apply for a loan, normally 1.5 times the value of the member's shares and savings. Some SACCOs give up to 3 times the value to members who have repaid earlier loans regularly. The repayment period is generally 12 months although the Cooperative Act allows 24 months. To the extent a loan is based on savings, the savings account is blocked for withdrawals.

A few SACCOs have started to give business loans to long time members with good records. The upper limit is 10 times the value of shares and savings and the repayment period is 18 months. Some type of collateral is required for such loans.

On all SACCO loans, MUSCCO provides loan protection insurance. If the borrower dies while there still is a balance on the loan, the insurance covers the balance plus accrued interest, and the family does not have to pay anything. Overdue loans are also covered. The insurance does not provide any other benefits, such as a contribution to funeral costs.

MUSCCO also provides life savings insurance for the SACCO members, a service that is not common among SACCOs in Africa. Upon the death of a member, this simple insurance product provides a benefit equal to the value of the members' shares and savings up to a maximum of MK 100 000 ($935). For these two insurance products, the SACCOs pay a monthly fee of MK 4 per MK 1000 in savings and in loans.

Initially, MUSCCO offered these two insurance products in partnership with CUNA Mutual. CUNA provided the product design and pricing, and the two parties shared the risks. In 1999, when it had a change in management, CUNA Mutual decided to withdraw from all of its activities in Africa. Since then MUSCCO has been offering insurance on its own, without an appropriate legal identity and without reinsurance.

Results

The latest audited figures for MUSCCO are from 2002. MUSCCO had a turnover of MK66 million ($617 000) and made a profit for the year of MK 9.4 million ($88 000). According to the unaudited annual report for 2003, the turnover was MK 88.7 million ($829 000) and the profit for the year was MK 15.8 million ($148 000).

Table 3: Insurance Organisation Basics

Issues	Observations
Legal structure	Cooperative organisation
Registration status	Registered as a Secondary Cooperative in 1981
Regulation status	Regulated by the Registrar of Cooperatives in accordance with the Cooperative Act
Start of corporate operations (year)	1981
Start of microinsurance operations (year)	1981
Core business	Centralised services to affiliated SACCOs
Target market – core business	Viable groups of individuals, preferably with a common bond. In practice the groups consist of individuals who get poor or no service from banks.

Issues	Observations
Target market – insurance business	All affiliated SACCOs provide mandatory insurance
Geographic area of operation	57 SACCOs all over Malawi, most are in rural areas but only 6 are mainly for farmers, 15 are teacher-based
Development, marketing, or servicing policies with other institutions	Agricultural credit to the National Association of Farmers (NASFAM) is channelled through SACCOs
Reinsurance provider, provider type	Until 1999, CUNA Mutual was the insurer/reinsurer. Since then MUSCCO has run the scheme on its own
Reinsurance type	There is currently no reinsurance

Table 3A: Insurance Organisation Basics - Trends

	2003	2002	2001	2000
Total assets US$	2 270 000	1 506 000	1 166 000	666 000
Annual budget US$	829 000	617 000	546 000	595 000
Total own capital US$	1 332 000	864 000	680 000	319 000
Number of branches	1+2	1+2	1+2	1+2
Total number of all clients (thousands)	56 000	49 000	62 000	66 000
Total number of microinsurance policyholders	57	70	74	111
Total number of microinsurance insured lives	56 000	49 000	62 000	66 000
Number of microinsurance staff	2	2	1	1
Staff turnover (%)	0	0	0	0
Number of policyholders / microinsurance staff	27 500	24 500	62 000	66 000
Microinsurance marketing costs* (US$)	5 140	4 280	-	-

* In addition to the particular marketing costs, the insurance services are also mentioned in radio advertisements, at annual general meetings, and in connection with other meetings, training and monitoring work.

2.2 Organisational Development

Organisational Structure

MUSCCO employs 28 people who work in the head office in Lilongwe and in two branch offices, in Blantyre in the south and in Mzuzu in the north. There are four departments (see Appendix 1). One handles administration, accounting and financial services, including the central finance services for the SACCOs. A second department is responsible for SACCO development and marketing; it also covers information technology (IT) development. The inspection and examination department audits the SACCOs on behalf of the government's Cooperative Department.

The fourth department is a small unit dealing with insurance, the SACCO Financial Protection Plan (SFPP). It is organised directly under the Chief Executive. The department has only two employees, a senior head of the department and an assistant. However, in the execution of its tasks, the other departments in MUSCCO, including the two branch offices and the Chief Executive, assist the department.

The responsibilities of the SFPP include:
- promoting the insurance scheme

- training related to the insurance scheme
- collecting premiums from SACCOs
- processing claims
- paying claims
- participating in the management of the SFPP fund
- developing the scheme further
- interacting with regulators and other insurers

Until 1999, the insurance service was reinsured through the cooperation with CUNA Mutual. MUSCCO realises that until new reinsurance can be arranged, it has to build up the SFFP fund substantially in preparation for future claim demands. The actuarial review in 2002/3 made MUSCCO aware that the fund had to grow faster to match, in particular, the expected consequences of the HIV/AIDS plague. The MUSCCO board decided to increase the fees from 2.50 to 4 MK per 1000 MK insured. Consequently, the fund increased from MK 6.5 million at the end of 2001 to 21.2 million (US$198 000) at the end of 2003.

In Malawi's small economy this constitutes a rather big and attractive fund. The fund is currently integrated into MUSCCO's overall business. There are no formal restrictions to prevent the fund from being used to cover loan losses or operating shortfalls. In the case of a bankruptcy caused by MUSCCO's other activities, creditors would have full access to the insurance fund. Similarly, if the insurance service goes bankrupt, MUSCCO and the SACCOs' core business of providing savings and credit services may be at risk.

MUSCCO's management and board recognise the need to regard insurance as an independent activity and have, so far, succeeded to insulate the fund; however this is based on good will. A new management or board may change the arrangement. There is an urgent need for the insurance activity and its fund become formally independent. In addition, measures should be taken to organise external, independent supervision of the fund.

Expertise

MUSCCO has a skilled and devoted management. There is a good general understanding of the insurance scheme, but the organisation does not have any professional insurance experience. The general capacity of the 28 staff members is good overall.

The SFPP personnel have not worked elsewhere in the insurance industry, but they are well conversant with both the insurance and the financial aspects of the SFPP activities. The two staff members are mainly occupied with the major tasks of collecting premiums and processing claims. Promotion, training and other tasks receive considerably less attention.

Training

Training in insurance is very important but currently insufficient. Most of the people in the SACCOs and at MUSCCO know little about insurance. There is need for training at all levels. Currently MUSCCO organises insurance training for 100 to 150 people per year, mostly for SACCO staff and SACCO treasurers. A training plan needs to be adopted by MUSCCO's board to cover all people involved in the process, from the individual members to the management and board at MUSCCO. Of particular importance, the staff of the insurance department should receive professional insurance education.

Governance

MUSCCO board is elected by representatives of the SACCOs. The main qualification of the board members is that they are well conversant with the savings and credit services to members. The insurance service is complementary to the core business of the SACCOs and professional insurance expertise is not an important factor in the selection of board members. The Chief Executive Officer of MUSCCO and the Head of the SFPP provide the board with information and knowledge, but in fact nobody on the MUSCCO board has professional experience from the insurance industry.

2.3 Resources

For a national organisation for SACCOs in a poor country, MUSCCO has reasonable resources. It has its own building in the centre of Lilongwe. The offices are modern with up-to-date telecommunications and computers. It could use more office space, computers and other equipment, but the situation is not critical. The status with regard to transport is similar; like most organisations with field operations, MUSCCO needs more vehicles.

The SFPP department shares resources with the other departments of MUSCCO. This means that certain resources are not always available to the extent preferred by the department. Problem areas are transport and computer capacity. Given the need to separate the SFPP fund from the core activities of MUSCCO, the department strives for a more independent position.

Overall, the running of an insurance service for 55 000 members is accomplished with very limited resources. The greatest asset is the structure—with members, societies and the national union—which constitutes a unique distribution network and effective machinery for premium collection and claims processing.

2.4 External Assistance

From 1980, the core activity of savings and credit services and the insurance services were supported by USAID. MUSCCO's cooperation with USAID came to a close in 2002. WOCCU also worked with MUSCCO for a long period and later DANIDA provided support, specifically to develop SACCOs in rural areas. This support ended abruptly in 2002 when DANIDA withdrew from Malawi. Currently, DFID, NORAD, the Canadian Cooperative Association and the Swedish Cooperative Centre are supporting different activities within MUSCCO. MUSCCO also has a close collaboration with the National Farmers Association of Malawi (NASFAM) for the provision of agricultural credit, which is supported by a credit line from NORAD.

At an early stage, the international insurance company, CUNA Mutual, was instrumental in the development of the life savings and loan protection services to SACCO members. After CUNA Mutual's withdrawal in 1999, the SFPP department has received no particular external support except for the 2002/3 actuarial review, which was financed by DFID.

Overall, donor support has been critical to the development of the savings and credit cooperative movement in Malawi. It is unlikely that the movement would have developed without the financial and technical support it has received over the years. For the insurance activities, the USAID financed support carried out by CUNA Mutual was a technical precondition to legally provide the insurance service to members. CUNA Mutual was a resourceful insurer and MUSCCO and the SACCOs were seen as the agents for the insurer. Without CUNA's involvement, the current service is provided without formal registration and is, in strict terms, illegal. This circumstance is, however, known and accepted by government authorities.

2.5 Risk Management Products

The objective of the loan protection and life savings services offered by the SACCOs is to assist members to manage risks. The insurance services are complementary to the core business of providing savings and credit services to members. But these core services also assist members to manage risks. Members' savings is easily available and provides security when cash is needed. However, savings is only 10% of the members' deposits with the SACCO; 90% is in the form of shares, which cannot be withdrawn. Still, the shares contribute to members' risk management since they qualify members for loans.

The total value of shares and savings is the basis for loans to members. Most members utilise their lending rights. Seventy-six percent of the SACCO's value of shares and savings is outstanding as loans to members. Emergency loans are common, for example for health services, funerals and school fees. The terms and conditions are basically the same for normal loans and emergency loans. The emergency loans are quickly processed and may be approved although an earlier loan has not been fully repaid.

2.6 Profit Allocation and Distribution

In its Strategic Plan 2004–2006, MUSCCO identifies two critical success areas: 1) to increase return on members' capital; and 2) to implement sound financial practices. In reality, though, this probably means that once sound financial reservations have been made for MUSCCO's commitments and its overall financial standing, priority will be given to good returns.

In the case of the SFPP department, seen as an increasingly independent cost centre, the need to establish a sound financial basis is obvious. The focus is to build up the security fund. In light of CUNA Mutual's withdrawal and the consequent lack of reinsurance, it is important to create substantial reserve funds. This does not mean that rebates and incentives for the customers are out of question. To a limited extent, rewards are being considered for well performing SACCOs. MUSCCO/SFPP is prepared to lower the fees for SACCOs that pay premiums regularly and have few claims.

2.7 Investment Policy

Like many other financial institutions, MUSCCO strives to invest its funds safely with good returns. In most countries, such a goal is rather meaningless since safe investments have low returns, and if one wants good returns then one must accept greater risks. However, in

Malawi currently, the goal of low-risk, high-yield investments is not unrealistic. Treasury Bills give a return of around 34 percent on an annual basis, while the official inflation rate is 11 percent according to the Federal Reserve Bank. Well-informed sources guess that the real inflation rate may be 20 percent,[4] but still the T-Bills are obviously an attractive alternative for investors. As long as this situation prevails, MUSCCO will invest in T-Bills, either directly or through discount houses.

Formally, MUSCCO's investments have to adhere to the Cooperative Act and MUSCCO's own by-laws. The Cooperative Act is restrictive and, for instance, does not allow investments on the stock exchange. In Malawi this restriction is of limited importance since the stock exchange is small and of little interest in the financial market. MUSCCO may, through its by-laws open up its investment field a bit, but has not yet tried to do this.

MUSCCO operates a Central Finance Facility (CFF) which lends funds to qualified SACCOs for on-lending to members. Over the last two years the CFF has financed only 5 to 15 % of the SACCO's lending to members. At the end of 2003 MUSCCO's investments in T-bills (and fixed deposits) was 15 times (MK 163 million) higher than the CFF lending to SACCOs (MK 11 million). There has, so far, been no need to use the SFPP fund for lending to SACCOs. Since the SFPP fund is fully integrated with other assets of MUSCCO, the board and management have the powers to invest them as they find fit. The intention to make the SFPP independent should at least be manifested in strict investment rules for the fund.

2.8 Reinsurance

Until 1999 the insurance schemes were reinsured through the cooperation with CUNA Mutual. MUSCCO and CUNA Mutual had a Quota Share agreement in which the ceding company (MUSCCO) retained a certain share of the premium and an equivalent share of the claims. In the beginning, MUSCCO kept 20% of the premiums and met 20% of the claims, while CUNA Mutual got 80% of the premiums and paid 80% of the claims, which is called a 20–80 share. Later the proportions changed to 40–60.

Since 1999, there has been no reinsurance and the insurance schemes are consequently vulnerable. During the last two years, the SFPP has increased its security fund substantially, which stabilises the situation. The fund has reached over MK 20 million ($187 000) as compared to the total claims in 2003, which were MK 8.2 ($77 000). Still, MUSCCO is looking for a reinsurance arrangement. One of the complications in its efforts to find reinsurance is that MUSCCO is not actually a licensed insurance provider.

[4] The International Monetary Fund has rated the inflation rate in Malawi to 19.9% at the end of 2004. The inflation rate has been below 20% per year in average since 2001 as compared to the average of 33.8% in the previous decade.

3. The Members

Table 4: Client Information

Issues	Observations
Intended target groups/clients	The target group for the insurance scheme is the same as SACCO membership since all members become clients. Originally SACCOs served: -Low incomer earners -Smallholder farmers -Government employees
Actual clients and reasons if deviation from intended market	The target group is the same, but all groups that can form a viable SACCO are accepted and also become clients in the insurance scheme. Some SACCOs have members who are substantially better off than the original target group.
Exclusions of specific groups	Farmer groups are members of the rural SACCOs, but these groups are excluded from the insurance scheme.[5] Until recently, members who died from AIDS were excluded, but it proved impossible to get proper information of AIDS cases
General economic situation of clients	Varies a lot. Average share holding and savings is MK1700 ($16) in the poorest SACCO and MK 55 000 ($514) in the richest. Over 70% have an average below MK 10 000 (US$93)
Key economic activities of clients	Farming and formal employment
% of clients working in the informal economy	Very few. Some members in urban areas are active in the informal economy.
Social characteristics of clients	Varies a lot. In community-based SACCOs, many members are farmers. Almost all other members are employees; workers, teachers, clerks and better-paid white-collar workers. 25% are women
Geographic characteristics	There are SACCOs in all Districts except in 4 newly established Districts. The whole country is covered.
Nature of membership	Membership in a SACCO is voluntary. The insurance service in a SACCO is mandatory. SACCO by-laws specify the required notice period for a member to terminate her/his membership
Methods of recruitment of clients	Recruitment of SACCO members is also recruitment of insurance clients. Common methods are radio programmes, campaigns with posters, advertisements and special meetings to promote membership.

3.1 Conditions

SACCO members, who constitute the insurance clientele, come from all over the country and from many different segments of the population. Eighty-five percent of the population live in rural areas and a majority of the SACCOs operate outside Malawi's two major cities. There are 6 community-based SACCOs and most of their members are smallholder farmers. Teachers have formed 15 SACCOs and a majority of them are in rural areas. Most of the

[5] These are essentially group savings accounts and group loans, and therefore do not fit into the design of MUSCCO's insurance policies.

remaining SACCOs have been formed with the members' employment as the common bond. Malawi's population is generally poor and although most of the SACCO members are employed and earn more cash than the average farmer, the majority of them represent low-income people.

However, the circumstances for the employment-based SACCOs differ a lot. One SACCO's members are sugar factory workers who live close to each other; another has members spread all over the country as employees of a retail shop chain; a third SACCO is organised by the employees of the Reserve Bank. The common denomination is that they work for the same employer, and their employment means that they are economically better off than the average rural Malawian.

3.2 Major Risks and Vulnerabilities

Interviews were carried out with members from 9 SACCOs, both community- and employment-based, including the SACCO with the highest average amount of shares/savings in Malawi. Although the social and economical situations of the members vary, to a large extent they identify the same major risks for their families. Many of the members in urban, employment-based SACCOs have part of their families in rural areas.

The fear of early death is prevalent among members, not least in relation to the spread of AIDS. Risks related to poverty are also common in the SACCOs. Starvation, unsafe water, unemployment and inability to pay school fees were frequently mentioned. An inadequate and unavailable health service is another risk the families are facing. SACCO members also identified poor communications and the lack of transport as problems in coping with risks. A number of members, in rural as well as in urban areas, also mention the risk of theft as a major threat. Some SACCO members believe that the risks generally are higher for women.

None of the people interviewed could reference any clear coping strategy. The system of basic food reserves on family, clan or community level that exists in parts of rural Africa is no longer practised in Malawi according to the people interviewed. A particular coping strategy for SACCO members is of course that they can withdraw their savings or get loans, including emergency loans from their SACCO, but the members did not, on their own, identify this as a coping strategy. The reason may be that many have very meagre amounts of shares/savings and that members already have fully utilised their borrowing capacity.

3.3 Relationship between Risks and SACCO's Services

Members agree that the risk of early death is the most common and feared risk they face. The two insurance schemes offered by MUSCCO are both related to the death of members. The loan protection scheme relieves the family of the loan repayment and the life savings scheme makes more resources available for the family if the member dies.

There is no doubt that the two insurance schemes are reducing identified risks for the clients. It is also obvious that the members would need better and wider insurance coverage, but it is doubtful if they can afford it or would be willing to pay for it.

The insurance service covers only the SACCO member her/himself. If other family members die, the SACCO can assist the family with emergency loans. It should be noted though that since most SACCO members have small amounts of shares and savings, about US$75 in average, and already have loans, the emergency loan amounts are small. Still, in poor communities they may be of great value.

3.4 Familiarity with Insurance

The knowledge of insurance is generally low among potential SACCO members. Few of the old-time members were fully aware of the insurance schemes when they joined the SACCO. Today, according to the interviews, the clear majority of members are aware of the schemes. The SACCOs insist that claims are forwarded for all members who die. An important circumstance in this respect is of course that the SACCO membership is based either in a community where people know each other or on joint employment.

In all current recruitment campaigns for the SACCOs, the advantage of the insurance schemes is an important promotion issue. This should mean that new members are aware of the insurance they get through their membership.

4. The Product

Table 5: Product Details

	Product Features and Policies
Microinsurance Type	Loan Protection and Life Savings Scheme
Group or individual	Group product
Term	Annual
Eligibility requirements	Members in a SACCO who are healthy and at work are eligible. In practice anybody who is not known to be ill is accepted.
Renewal requirements	Premium payments from SACCO not in arrears
Rejection rate	Less than1%. To qualify for life savings insurance, deposits shall be made while the member is healthy and at work. Deposits made within 12 months after a doctor's examination on a pre-existing medical condition are not covered unless death occurs at least 12 months after the deposit. Deposits made less than 12 months before suicide are not covered.
Voluntary or compulsory	Membership in a SACCO is voluntary but the SACCO's insurance service is a mandatory service for all members
Product coverage	Under the **life savings** plan, MUSCCO pays to the SACCO a defined percentage of a deceased member's deposit/share account. It is the age at the time of the deposit that is relevant, not the age at death. • 0 to 6 months 25 % • 6 months to 54 years 100 % • 55 years to 59 years 75 % • 60 years to 64 years 50 % • 65 years to 69 years 25 % • 70 years and older 0 % Maximum coverage under the plan is MK 100 000 ($935). Under the **loan protection** plan MUSCCO pays to the SACCO the outstanding loan balance and accumulated interest of any member who dies or becomes totally disabled. The death cover comprises members below the age of 70 at death and the disability cover comprises members below the age of 60. Maximum coverage under the plan is MK 225 000 ($2100).
Key exclusions	There are exclusions for pre-existing illnesses and suicide.
Pricing – premiums	From July 2003, the combined monthly premium rate was increased from MK 2.50 per MK 1000 sum assured per month to MK 4.00 per MK 1000 for both products. There are no co-payments or deductibles.

The SACCO Financial Protection Plan is a contract between MUSCCO and each participating SACCO. The SACCO, as the insured, is responsible for paying the premiums and the benefits. The members of the SACCO are covered in case of death or permanent disability.

4.1 Partners

The insurance scheme was set up in cooperation with CUNA Mutual in 1981. At that time MUSCCO was basically acting as an agent for CUNA Mutual, although there was a quota share agreement between the two parties so MUSCCO carried a portion of the risk. CUNA Mutual decided to withdraw from all its activities in Africa in 1999 because new management decided that some of its international activities, including Africa, were not sufficiently profitable.

4.2 Distribution Channels

MUSCCO's insurance department actually only has 57 customers; the SACCOs affiliated to MUSCCO. Through the SACCOs, the insurance coverage is distributed to 55 000 mostly low-income persons. This distribution process, which has been there since 1981, is a very effective way to reach a great number of people. It also means that coverage can be spread to people who otherwise could not obtain insurance protection.

Since insurance is mandatory, clients join the scheme when they join the SACCO. The SACCOS receive membership applications and in this process the member's eligibility for insurance is determined. In practise, this is a simple procedure. The board, or sometimes an appointed Membership Committee, checks if the applicant is a member of the community or an employee in the workplace (depending on the common bond) and that he or she is healthy. If the applicant is known to be sick, this may cause a rejection. A doctor's health certificate is not normally requested. The accepted member appoints two beneficiaries in the application, which is filed by the SACCO. Besides this process, no specific underwriting is done.

Of utmost importance for the legitimacy of the scheme is that members are aware of their participation. The SACCOs take care to explain the insurance scheme to new members and inform members continually about developments in the scheme. Insurance is also a common topic at general members' meetings and training sessions.

4.3 Benefits

The loan protection scheme has two aims. First, it relieves the family from the burden of having to repay the loan. Second, it covers possible losses for the SACCO. Maximum coverage under the plan is MK 225 000 ($2100). The SACCO's average loan outstanding is below $100.

The benefit of the life savings scheme, which is based on the sum of savings and shares, is intended to assist the family when a member, usually a breadwinner, has passed away. Especially valuable for women and children, this scheme is often the only protection available to them. Deposits made by young and adult members up to the age of 54 are insured to 100%. Deposits made by infants and members older than 54 get reduced coverage (see Table 5).

The benefits are paid by MUSCCO to the SACCO where the deceased was a member. The SACCO forwards the payment to the beneficiary. Maximum coverage under the life savings plan is MK 100 000 ($935). Account balances range from MK 1700 ($16) to MK 55 000 ($514) depending on the SACCO. The vast majority of accounts have balances below $100.

Over time, no major changes to the benefits have been made besides continual adjustments of the maximum amounts. MUSCCO's management board decides on the maximum limits. With an average annual inflation during the last decade of over 33% and currently running at 20%, there are ample reasons for the board to make further adjustments.

4.4 Premium Calculation

Since July 2003, the SACCOs have been paying MK 4.00 per MK 1000 of the total savings, shares and loans balances per month for both the life savings and loan protection. The previous rate, decided by the MUSCCO board shortly after CUNA's withdrawal, was MK 2.50 per MK 1000. At the early stages of the insurance scheme, the rate was as low as 0.72 MK per 1000, which was probably was subsidised by donor funding. It was later raised to 1 per 1000 and then to 1.50 per thousand to make the scheme more sustainable. However, at that stage the insurance service was reinsured through CUNA Mutual. Without reinsurance after 1999, it was important for MUSCCO to quickly build up the SFPP fund, which motivated the increase to MK 2.50.

As long as CUNA Mutual was involved, it provided an actuarial service to the scheme. A couple of years after CUNA left, the need for an actuarial review was obvious; in 2002/3, DFID financed a study by an actuarial consultant, B&W Deloitte from South Africa. Influenced by the development of HIV/AIDS and its uncertain consequences, the study recommended a significant increase to the monthly premium rate per MK 1000 insured; the board of MUSCCO essentially followed the recommendations, as shown below:

Proposed by Actuary		Approved by the Board	
Risk premium	2.92	Risk premium	3.00
Expense loading	0.27	Expense loading	0.60
Contingency margin	0.64	Contingency margin	0.20
Profit	0.43	Profit	0.20
Total	**4.25**	**Total**	**4.00**

No commissions are paid to the SACCOs, but the actuarial study recommended MUSCCO to develop a profit-sharing programme. Consequently, MUSCCO is currently considering how to give incentives or premium rebates to good performing SACCOs, those that pay fees regularly and over time make substantial net contributions to the scheme.

The significant increase of the premium level during the last few years has had the intended effect. A necessary build up of the SFPP fund has taken place. Still, annual reviews of the premium level by qualified actuaries are needed. A series of studies based on better data are required to calibrate the fees to the correct level and to adjust them as circumstances change. In Malawi, it is of particular importance to monitor the effects of HIV/AIDS.

Irrespective of the current build up of the SFPP fund, MUSCCO needs to reduce its exposure through a reinsurance contract. An arrangement along the lines of a stop-loss contract would suit MUSCCO if the rate is affordable. A stop-loss contract means that MUSCCO would cover claims up to a maximum of, for instance, 120% of the annual premiums. Any claims above that limit would be covered by the reinsurer. With such a contract MUSCCO would be able to control its maximum risk. The cost for a stop-loss contract may, however, be high. The uncertainties caused by the lack of appropriate data and the threat of HIV/AIDS will constitute valid reasons for potential reinsurers to demand a high price.

4.5 Premium Collection

MUSCCO's system for premium collection is extremely effective. The monthly premium for all eligible savings and loan balances for the 55 000 members are paid by 57 SACCOs, payable quarterly in advance. The fee is based on the volumes from the previous quarter and then adjusted based on projections for the new quarter. The SACCOs are required by MUSCCO to submit a monthly report on the actual balances. As the SFPP department receives the actual monthly balances of the quarter, the fee is corrected. The correction is credited or debited to the fee for the following quarter.

This method overcomes one of the most significant challenges for microinsurance: collecting premiums from low-income people. When clients are paying for the insurance themselves, arrangements must be made to break up the premium into smaller payments to make it affordable, such as monthly or weekly payments, and that creates substantial transaction costs. By getting the premium paid in bulk for the entire clientele, MUSCCO is able to eliminate this problem.

In practice, however, even the collection from 57 customers can be a challenge. Data on delays and lapses was not easily available, but the SFPP considered one third of the SACCOs to be disciplined customers; the others required the SFPP to spend substantial time chasing payments. If a SACCO does not pay the premium on time, MUSCCO has the possibility, according to the insurance contract, to with withhold benefit payments until the premium has been paid.

4.6 Claims Management

The parties involved in the claims process are the beneficiaries, the local SACCO and MUSCCO. Generally, beneficiaries report to the SACCO that a member has died, although there are instances when beneficiaries are not aware of their designation or the insurance coverage. Under such circumstances, the SACCOs inform the beneficiaries and encourage them to initiate the paperwork. The SACCO has a particular motivation to do so if the member dies with an outstanding loan balance—even overdue amounts are covered.

It is the obligation of the SACCO to make proper investigations about the valid basis for payment of benefits. Such investigations are greatly facilitated by the good knowledge the SACCO officers and management have of the membership. They are either workmates in the same organisation or members of the same local community.

The preparation of the claims takes place at the SACCO. The administrative work is normally carried out by employees of the SACCO, but officials who know the members scrutinise the work. The involvement of elected officials is often necessary because some staff, especially in rural SACCOs, lack education and training. Once the necessary documents have been completed (see Table 6), the file is sent to MUSCCO where the insurance manager reviews the claim. If all is in order, payment is authorised and money sent to the SACCO.

Table 6: Claims Settlement Details

Issues	Observations
Parties involved in claims settlement	Beneficiaries, SACCO and MUSCCO
Documents are required for claims submission	Claims form, member application form, death certificate, ledger card and appraisal form
Claims payment method	By cheque and cash
Time from insured event to claim submission	Around 2 months
Time from submission to payment	1 month
Claims rejection rate	Nil

The SACCOs generally do not make prepayments to beneficiaries. In SACCOs where the administrative systems are weak, such procedures may cause confusion. On receipt of the money, the SACCO credits the loan ledger for an existing loan and pays the beneficiaries the life savings benefit. The SACCOs do not actively utilise this opportunity to market the insurance service, but local people are certainly aware of the service.

The time for the settlement process varies considerably. From the day the death is reported to the SACCO to the day the beneficiaries receive compensation, it can take anywhere from 6 weeks to 8 months, although on average it takes 2 to 3 months. One of the main reasons for delays is difficulty in obtaining death certificates. It is rare that people die in hospitals or clinics where official death certificates can be issued. More often death occurs at home and in those cases the Chief, a priest or a government official can issue the certificate. That process alone can take more than a month.

Another reason for delay is if the SACCO is behind with its premium payments. In such cases, MUSCCO can delay the benefit payment to put pressure on the SACCO to bring the premium payments up to date. Since only one third of the SACCOs are disciplined payers, it is likely that delayed premium payments are a major cause of benefit payment delays.

The general view among the SACCOs is that claims processing could be expedited. MUSCCO intends to settle the claim within a week after the file has been forwarded to the office. If the claim has been properly prepared and comes from a SACCO that is a "good premium payer," the one week target seems realistic.

In connection with the claims processing, the issue of HIV/AIDS has been under serious discussion. Earlier there was a specific exclusion in the contract for cases where death was caused by HIV/AIDS, but it was noted that HIV/AIDS was never quoted as the cause of death. This was the case both for certificates issued in hospitals and in the villages. Therefore the exclusion was withdrawn as from April 1, 2004.

4.7 Risk Management and Controls

Risk management is vital to the operation of any insurance scheme. The risk of adverse selection is one of the more serious risks to monitor. For MUSCCO's compulsory insurance, adverse selection risk is less perilous than in other schemes. The rules for eligibility, "healthy and at work," in combination with the waiting period will prevent most cases. The waiting period stipulates that life savings benefits are not payable for deposits if the member's death results from illness or injury for which the member received medical advice or treatment during the twelve months immediately preceding the dates of the deposits, unless the death occurs twelve months or more after the dates of the deposits.

Another factor that reduces the risk of adverse selection is that the vast majority of the SACCOs only are open to employees of the same organisation. Membership is not open to the general public. People who would like to benefit unfairly from the insurance would first have to get employed, which is not easy in Malawi. In addition, one has to accumulate deposits to qualify for any benefit, which generally happens over time.

The SACCOs seem to be aware of the importance of checking the health of new members. Although a doctor's certificate is not required, the communities in which the SACCOs operate have good knowledge of each others' health status. In addition, if an applicant is a new employee, many employers check the health status of people they employ. The HIV/AIDS pandemic makes employers and SACCOs more observant. The careful scrutiny certainly creates awkward situations and contributes to frustration and complications in the Malawian society.

In the review of life insurance schemes in Africa, it is necessary to pay particular attention to the problems with HIV/AIDS. Since excluding AIDS as a cause of death has had no effect, the exclusion has been withdrawn. In practice, the insurance scheme has covered this cause of death for some time. Given the recent actuarial review, the premium level appears sufficient to cover the effects of HIV/AIDS at least in the short term. However, it is of utmost importance to monitor the claims experience over the years to come. If MUSCCO begins to experience an increasing claim trend, it will have to react quickly.

Although the insurance fund currently is increasing, MUSCCO is not financially strong enough to cover catastrophic losses. The search for a reinsurance cover must continue.

Although not prevalent, MUSCCO is exposed to the risk of fraud. There is the risk that beneficiaries could file false claims. There is a risk that SACCO employees might manipulate the data on savings and shares for the deceased. To reduce these risks, MUSCCO needs to provide the SACCOs with claims handling procedures and clear and simple rules for eligibility and claims. Involvement of board members with good knowledge about the local circumstances also makes fraud more difficult. Since board members are up for election every year, it is a continual training task to keep the boards knowledgeable of their role.

The insurance industry all over the world is involved in claims prevention. The SACCO organisational set up, and the insurance service provided by MUSCCO through it, actually constitutes an excellent vehicle for claims prevention. In societies like Malawi, which have predominately rural populations with limited education, it is difficult to disseminate information. Normally, information is easier to receive and accept if it comes from an organisation to which one belongs. Consequently, this insurance scheme would be a suitable means to convey information to 55 000 people who otherwise would be difficult to reach. For MUSCCO, claims prevention means promoting awareness—for example about nutrition, malaria and HIV/AIDS—that can prolong the members' lives. Government and many of its supporting donors are struggling to make their awareness campaigns on these subjects more effective. The participation and contribution of MUSCCO to these campaigns would be highly justified in light of the effects such claim prevention activities would have.

4.8 Marketing

Because insurance is mandatory, marketing has a low profile and a low budget. Marketing material produced in three different languages is used to promote the scheme among new members, and to give old members written information about the scheme. Marketing costs for 2003 were MK 500 000 ($4700), but an increase is expected for 2005.

MUSCCO's major marketing activities are directed at increasing the number of members in the SACCOs. The insurance programme is used as one of the carrots to attract new members and is therefore given time at general meetings and during marketing events. Some SACCOs have set up Education Committees that promote the insurance programme, among other things. Specific member training is organised for the insurance programme, but due to limited resources, it only reaches a fraction of the membership—100 to 150 people get such training annually, most of them SACCO staff or treasurers.

So far there have been no efforts to assess the effectiveness of the marketing. To do so, it will be necessary to set up a marketing plan for the coming year with measurable goals. But the lack of human resources at MUSCCO has made it necessary to make other priorities.

4.9 Customer Satisfaction

As the insurance contract is between MUSCCO and the different SACCOs, and since the service is mandatory, it is not fruitful to analyse customer satisfaction in the way that is usually done in the insurance industry. The renewal rate is 100 percent.

Through discussions with the SACCOs, some complaints regarding the insurance scheme were raised. The most common complaint was that the recent premium increase was too high. MUSCCO made substantial efforts to explain the reasons for the 60 percent increase, but many SACCOs still complain. Further training is necessary to make the SACCOs' management and boards understand the essence of insurance. The current dissatisfaction is another reason why MUSCCO should carry out a new actuarial study.

Some SACCOs are aware that they make fewer claims than others, possibly because of a low average age of members, and that they pay the fees with greater discipline than others. They are aware that they have good reasons to request lower fees and their complaints are under consideration. In addition, some SACCOs complained about the delays in claims processing.

5. The Results

5.1 Management Information

The information that management uses to monitor the SFPP is insufficient. Important data collected by CUNA Mutual until 1999 is no longer available. During the period from 1999 to 2002, no analysis was made to monitor trends in claims or premiums paid. To get a hold of relevant information from that period is complicated, if not impossible.

From 2002, information is gathered monthly in an electronic spreadsheet that contains basic data on the insurance service: claims paid and premiums received and earned. Furthermore, management receives information monthly regarding the development of the SFPP Fund and SACCO membership data is available at least annually.

This information will make it possible for management to get an overview of how the business develops. But there is no base to make in-depth studies of underlying factors that may affect mortality rates over time, or other factors that may impact on the business. The actuarial report recommended MUSCCO to continuously collect the following data:

Monthly Data Collection	**Claims Data Collection**
SACCO name	SACCO to which the deceased belonged
Number of members by sex	Member's name and sex
Total loan sum assured	Date of birth
Total savings sum assured	Cause of death
Average member age	Loan claim submitted
Data on new members	Savings claim submitted
New loans	Loan claim paid
New deposits and shares	Savings claim paid
Withdrawals	Date of death
Loan settlements	Date claim submitted to SACCO
	Date claim paid

5.2 Operational Results

The most impressive result of the SFPP is that it provides 55 000 mainly poor people with term life insurance. There are more than three times as many clients at MUSCCO as there are life policyholders in the whole commercial insurance industry in Malawi.

In addition, the business is generating a substantial surplus after the July 2003 premium increase. The underwriting profit for 2003 was MK 9.14 million ($ 86 000) and for 2002 MK 6.48 million ($61 000).

Since insurance is integrated into MUSCCO's operations, it is cumbersome and perhaps impossible to get a clean picture of the operational result of the scheme. There are only two officers at MUSCCO who work specifically with the insurance programme. It is likely that other departments in MUSCCO and in particular in the SACCOs do work and carry costs that should be debited to the insurance scheme. The SACCOs have not employed any extra staff to do the insurance job; given the infrequent nature of the insurance work, it can be done during slack periods for the savings and credit business. Consequently, there are very limited extra costs for a SACCO to carry out the insurance service. It should also be noted that the loan protection insurance is an integrated part of the credit service.

The effectiveness of MUSCCO's insurance services can be summarised by the following points:

- Distribution, enrolment, fee collection and claim management through an existing mass organisation at no visible cost
- Compulsory, simple and standardised insurance products related to the core financial business of the mass organisation
- Engagement, at no extra cost, of local people (employees and board members) who know the clients and guard the scheme in all possible respects
- Effective management, processing and administration at central level
- Engaged and supporting leadership at central level

In an overall judgment of the operations, it should be remembered though that the insurance scheme is run without an appropriate legal identity and without reinsurance. These are serious shortcomings.

5.3 Financial Results

The SFPP fund that started to be seriously built up in 2002 is an integrated part of MUSCCO's accounts. The annual reports do not contain specific information about the return on insurance capital and how it is used. But since the yield of Treasury Bills, into which the bulk of the fund is invested, is around 34 percent annually and the inflation rate officially is 11% and judged by the insurance industry to be 20% in reality,[6] the financial results of the programme would look favourable if they were specified in an annual report.

MUSCCO should openly account for the development of the SFPP in its audited statements. The SACCOs should be given this opportunity to analyse the justification of the premiums and the true development of the fund. As the owners of MUSCCO they should regularly receive this information.

[6] International Monetary Fund measured the inflation rate at 19.9 % at the end of 2004.

Table 7: Key Results

	2003	2002	2001
Net income (net of donor contributions) US$	86 000	61 000	No info
Total premiums US$	191 000	157 000	--------
Growth in premium value (%)	21	--	
Claims / total premiums (%)	40	46	---------
Administrative costs / premiums (%)	15	15	---------
Commissions / Premiums (%)	N A	N A	---------
Reinsurance / Premiums (%)	N A	N A	---------
Reserves added for the period / Premiums (%)	51	25	---------
Net income added for the period / Premiums (%)	45	38.5	---------
Claims cost per total number insured (US$)	1.4	1.3	---------
Growth in number of insured (%)	14	- 21	---------
Income earned from investment of premiums	See para 5.3	See para 5.3	---------
Percentage of profit distributed	0	0	---------
Renewal rate (%)	100	100	---------

5.4 Reserves

The reserves that have been built up have developed from MK 6.5 million (US$61 000) in 2001, to MK 10 million (US$93 000) in 2002, to MK 21.2 million (US$198 000) by the end of 2003 (unaudited). This may seem like an adequate reserve for the programme, but deterioration in claims experience may develop rapidly due to quick changes in mortality rates. Furthermore there is always a risk that catastrophes may occur. Currently, there are no exclusions for catastrophes, which further highlights the need for a reinsurance arrangement.

5.5 Impact on Social Protection Policy

Malawi is a poor country where limited financial resources are spent on social protection schemes. Although the authorities are aware of MUSCCO’s insurance scheme, it has had no impact on development of social protection in Malawi.

6. Product Development

MUSCCO introduced the life savings and the loan protection schemes more than 20 years ago. The development work, the product design, the testing and introduction were done in cooperation with CUNA Mutual; USAID funded the process.

Since the introduction, there has been very limited development of the insurance products. There has been a gradual adjustment of the fees and of benefit limits. Efforts have been made to improve the fee collection system as well as claims processing.

In terms of life insurance, the life savings scheme is exclusive. There is no competition. In Malawi, no insurer offers ordinary people life insurance. Currently some 15 000 people are insured for life in the formal insurance industry, which corresponds to 1.5 per 1000 of the population.

7. Conclusions

This section summarises the next steps that MUSCCO is planning to undertake as well as lessons that can be extracted from the SACCOs' more than 20 years of experience in offering microinsurance.

7.1 Next Steps

MUSCCO's uncertain status as an unregulated insurance provider is an issue that it would like to address. The organisation is currently discussing with ICMIF to introduce a reinsurance arrangement similar to the one that it had with CUNA Mutual. If the negotiations are successful, MUSCCO may avoid the basic problem with registration and regulation.

For some years MUSCCO has also discussed cooperation with NICO, one of the two insurance market leaders in Malawi. The proposal discussed by the two parties is that NICO would become the insurer and MUSCCO an agent. However, it has not been possible for the two parties, so far, to agree on terms and conditions that, according to MUSCCO's, would be beneficial to the SACCO members.

A third way to overcome the problem of non-registration is for MUSCCO to form an insurance company. This would be technically possible because of the low capital requirement—the requirement is currently MK10 million ($95 000) while the SPFF has over MK 20 million. There are also indications that the minimum capital requirement in the new act, which is expected to be adopted soon, will remain the same.

Even so, the risk of future increases of required capital, coupled with the general risks of running a small and one-sided insurance company, constitute valid threats. MUSCCO recognises that it does not have the skill or experience to run an insurance company and that the scheme cannot afford to carry all the costs that a fully fledged insurance company would require. Based on realistic judgement, MUSCCO has rejected this option.

MUSCCO's core business is credit and savings services to the SACCO members. The insurance service is complementary and specifically adapted to suit this target group. Very few members can afford commercially-based insurance and therefore there is no justification for MUSCCO to start an insurance company with normal, commercial insurance services as its core business. The SACCOs do not constitute a sufficient market for an insurance company. The insurance market in Malawi is extremely small because people cannot afford insurance services on a commercial basis.

MUSCCO is also considering a fourth possibility and is maintaining a dialogue with the Reserve Bank about specific regulations for microinsurance, with requirements that would differ from the ordinary insurance industry. MUSCCO aims for legislation that is designed for membership-based mass organisations, possibly with government facilitation of reinsurance. How this should be done is an open question. Taking into account the long process to introduce a specific regulation for microfinance in Malawi, it is unlikely that these discussions will conclude soon.

Regardless of its legal identity, MUSCCO should separate the SFPP reserve fund from the organisation's other activities. The reserve fund is now of substantial value and MUSCCO has done little to ensure that the fund is restricted for its intended purpose—to be a security fund for the insurance scheme. A change of management is normal in democratic organisations and there is nothing that would prevent a new, less understanding management to invest the SFPP fund in an unacceptable way. The organisation is aware of the potential problem and has had internal discussions but without concrete results so far.

MUSCCO also has plans to adjust the fee structure. Currently the premium is the same for all SACCOs, irrespective of their membership structure or their compliance with insurance procedures. Some societies have a membership with a lower death rate and they complain about the high fees in relation to the low benefits. The insurance department is considering a rebate system for SACCOs that have few claims and regularly pay in time.

Considering the general, low-income levels of the SACCO membership, the potential to develop individual insurance products is limited. Still, the insurance department is looking into the possibility to add a voluntary funeral insurance product to the existing scheme. If cooperation is established with a local commercial insurance company, MUSCCO could become an agent for that insurer and would able to offer SACCOs and their members a wider range of services. Such a product would have the added benefit of enhancing the relationship between the SFPP and the SACCOs. Currently, the SACCOs see insurance as a cost since they are paying the premiums. However, with voluntary funeral insurance, where the members pay the premiums, the SACCOs could actually earn a small commission.

The viability of this insurance scheme depends on the strengths and weaknesses of the SACCOs. A great number of weak SACCOs will threaten its sustainability. MUSCCO's basic strategy is therefore to promote increased membership in existing societies and thereby to make them stronger, rather than to expand into new regions and create new SACCOs.

7.2 Lessons Learned

MUSCCO presents a number of interesting lessons, both from what it has accomplished and from the challenges that it faces.

Institutional structures. It is expensive to set up a separate organisation to deal only with insurance for the low-income market. Poor people can only afford a low level of insurance, which means that they pay small premiums. Small premiums cannot cover the costs to: market insurance, do underwriting, collect payments, follow-up on delayed payments, verify and process claims, comply with regulation and reporting requirements, etc. Premiums that are affordable to the poor cannot cover the operating costs of serving a great number of individual clients. In rural Africa, it is most likely impossible to make insurance services viable unless they are integrated into other, ongoing operations to reduce costs. The distribution of the insurance service will in most cases have to be done through an existing organisation, preferably one that already manages financial transactions with the working poor, such as labour unions, schools, churches, employers, cooperatives and farmers' unions.

Claims verification is a particularly costly aspect of insurance work. Insurance for large numbers of poor people will have a problem in organising a low-cost, effective procedure for claims control and benefits payout. In the MUSCCO scheme, the validation and preparation of claims, as well as the payment of benefits, is done at the SACCO level at no cost to the insurance scheme. The clients are known by the SACCO officials and live nearby, which reduces the risk of fraud. In this respect, decentralisation of claim preparation and verification to existing local units may be a precondition to make microinsurance viable.

Simple, mandatory insurance. When a SACCO is formed, the by-laws are drafted in the initial stages of the formation of the society and approved by a general members' meeting. In Malawi, all SACCOs have decided that their cooperative society will provide savings, credit *and* insurance services. When you join a SACCO, you know that you also receive insurance coverage. It is mandatory.

MUSCCO's life savings scheme is very simple. The beneficiaries selected by the member get an amount equal to the total value of the members' shares and savings. There is an upper limit of MK 100 000 ($935) and a reduction of benefits if shares/savings were accumulated at a high age. There are exclusions for pre-existing illness and suicide. That is it. This simplicity makes it possible for clients, including illiterate people, to understand the benefits of the insurance scheme and makes it easy for staff members to explain.

The combination of simplicity and mandatory coverage keeps operating costs to a minimum. The MUSCCO set up is extremely effective. The insurer deals with 57 customers, the SACCOs, but covers 55 000 people, 3 to 4 times the number covered by Malawi's entire insurance industry. The SACCO pays the premium—one quarterly premium payment covers all members. One follow up of a delayed payment is a follow up of around 1000 clients. Adverse selection risks are avoided because low-risk people cannot opt out of the system and because it is complicated for high-risk people to join a SACCO just to get insurance.

Of course, mandatory coverage also has disadvantages. People may be paying for something that they do not want. Insurance services should be a free choice for each individual. The need of insurance coverage varies from one person to another, as does the ability and willingness to pay for the service.

In reality, however, for the vast majority of people in Africa, there is no market for insurance services. People do not have sufficient resources to pay for insurance on a voluntary, individual basis. As pointed out above, the processing of individual underwriting, premium payments and claims is too costly for microinsurance schemes to be viable.

Still, a scheme with simple terms can include adjustments for the individual's ability to pay and her or his need of coverage. There are many different service options that can be offered between the two extremes of fully individual insurance and mandatory insurance. One way to make microinsurance available and affordable for poor people is to offer a few highly standardised options to all members of an established organisation. The most effective system is if all members join and if the terms are such that their organisation can pay premiums on behalf of the members. A church may for instance introduce three standard life insurance benefits: US$50, US$100 and US$500, and let the members make a choice. Or perhaps a labour union could agree on benefits related to the salary, e.g., that the beneficiary receives 5 times the monthly salary upon death of the member. The fee is calculated as a percentage of the salary and deducted by the employer.

Reinsurance and registration. It is unacceptable to run an insurance operation without reinsurance. MUSCCO faces the risk of a quick deterioration of the claims experience or some catastrophic events, such as flooding or epidemics. Such events could bankrupt not just the SFPP, but also MUSCCO itself.

Besides reducing risks and making costs more predictable, a reinsurance agreement would allow MUSCCO access to skilled actuaries and insurance technicians, and it could make it possible to offer more valuable products to SACCO members. In seeking reinsurance, the following options could be considered:

- A quota share agreement could make it possible for MUSCCO to retain some part of the business itself.
- An agreement for an excess of loss could be useful to limit the exposure for MUSCCO.
- A stop-loss agreement could make it possible for MUSCCO to limit its losses and to prevent insolvency through overwhelming claims.

For MUSCCO, the best option under the prevailing circumstances would be a stop-loss contract. This would secure the SFPP fund. Though the cost for such protection may be high, the MUSCCO board should urgently consider this option.

A reinsurance arrangement is so important for a reliable insurance scheme that if no realistic alternatives are identified at an early stage, further preparations should be put on hold until financially sound options for reinsurance can be negotiated. If MUSCCO cannot access reinsurance, then it should seriously consider serving as a distribution channel for a professional insurance organisation in exchange for a commission.

All insurance schemes should take place within the country's legal framework. As long as the service is provided by or in close cooperation with a regulated insurance company, the microinsurance scheme would be sufficiently controlled by the insurance authorities. However, if this type of cooperation cannot be arranged, the need to reduce risks for the poor calls for new and innovative legislation that would facilitate microinsurance.

A parallel can be drawn with the special legislation for microfinance, which has been needed for many years but so far only adopted in few African countries. Similarly, it will not be an easy task to develop specific laws for microinsurance. Two key factors to consider in legislation for microinsurance are: a) how to facilitate access to reinsurance; and b) how to make sure that reserve funds are kept sufficiently independent.

Reserve funds. MUSCCO has established an insurance fund that has been growing rapidly in recent years. The fund reached MK 21 million (almost $200 000) by the end of 2003. The very positive yield on the investments in Treasury Bonds has helped to increase its value. The main reason for creating the fund, and for increasing its value, is to accomplish long-term stability and security for MUSCCO to fulfil its obligations. There are, however, some problems in relation to the management of the fund:

- The fund is fully integrated in MUSCCO and is therefore at risk should MUSCCO's finances deteriorate.
- Similarly, MUSCCO's other operations are at risk should the insurance scheme collapse.
- As MUSCCO is not licensed to run an insurance business, there is no control by the authorities of the management of the fund. There is great need for external supervision, as the money used to create the fund in principle belongs to the policyholders.

Until MUSCCO transfers the insurance responsibility to a registered insurance company, or possibly gets the operation registered under the Insurance Act, something has to be done with the fund. Reserve funds have to be protected against inappropriate uses, and must not be integrated into the general assets of organisations with substantial non-insurance operations. The 2003 actuarial review had some ideas about how to reduce the risks mentioned above. One option was to start a limited liability company to manage the fund.

Actuarial service. In 2002, MUSCCO wisely decided that it needed an actuarial review of the portfolio and asked DFID to pay for an actuarial consultant. The review was not an easy process and the lack of data was a major obstacle. Since claims and premiums data was only available from January 2002, it was not possible to draw any safe conclusions regarding trends in the business. The actuarial report mainly dealt with the following issues:

- Data
- Premium rating
- Risk and its controls
- Minimum capital adequacy
- Reinsurance.

Based on the actuary's recommendation, the MUSCCO Board raised premiums by 60 percent. These rates have been in force for over a year and a new review should now be conducted. As long as MUSCCO continues to run the insurance service on its own, it is absolutely essential that an actuarial review is conducted at least once a year. The Board needs to be informed about any new trends at an early stage to adjust the terms and conditions accordingly.

A common feature of microinsurance is that schemes will be run with limited business margins to make them as affordable as possible to the poor. It is therefore of utmost importance to observe social and other changes that affect the insurance activity. The need for an early warning necessitates regular actuarial reviews. In the planning and preparations for a microinsurance scheme, such services will have to be built into the budget. Secondly, the provision of data to facilitate the actuarial reviews should be integrated into the microinsurance operations from the beginning.

Adaptation to local circumstances. Malawi suffers from, among other things, shortcomings of public systems and services. For example, the procedure for issuing of death certificates is not strict and just. For the last couple of years, none of the deceased clients in the MUSCCO scheme had officially died of AIDS although HIV is widespread. Another problem affecting the insurance scheme is that Malawi lacks a national identification system, which may cause problems in identifying the beneficiaries. In this respect, it is advantageous that claims are prepared locally where members and their families are known. On the other hand, a shortcoming with the decentralisation of claims preparation, verification and payment to the SACCO is that employees may not have sufficient education to properly control and reconcile the insurance activity.

In the planning for microinsurance services, careful analysis has to be made of the local environment. Rules and regulations, systems and procedures have to be adapted to the local conditions. If insurance rules and procedures from the developed world are applied without appropriate adjustments, there is great risk that the service will malfunction.

Claims prevention. The whole idea of insurance is the spreading of economic risks. To this end, premiums and fees are collected and accumulated capital is managed so that compensation can be paid to the unfortunate few in accordance with the insurance contract. Closely related to this core insurance function is the need to reduce the risks and thereby limit the number and size of claims. Preventive action is justified for all insurance schemes as it improves the financial and technical results and increases the brand value. Prevention also promotes insurance as an important and necessary factor in society.

For life insurance, any action that prolongs people’s lives would have the effect of preventing claims. The longer people live, the fewer average claims per year. However, MUSCCO currently is not running any activity with the specific aim of prolonging the members’ lives.

Still, MUSCCO and the SACCOs together run well-prepared education and training programmes for the members. Typically, these sessions deal with the organisations’ core functions: what is a cooperative, how is a cooperative managed, what are the members’ rights and responsibilities, etc. The organisational set-up between MUSCCO and the SACCOs provides an excellent opportunity to share information with members. This arrangement could be given a much wider use, for example to disseminate information on issues with a close bearing on the insurance services like HIV/AIDS, nutrition and health.

To prevent claims, organisations managing insurance schemes have business reasons to increase the clientele’s knowledge. This goal is shared with the government, churches, humanitarian organisations, donors and others. The common goal of all interested parties should be utilised to achieve synergies. Such cooperation may substantially increase the positive effects on the target group’s quality of life.

Appendix 1: MUSCCO Organisational Chart