MADISON INSURANCE
Zambia

CGAP Working Group on Microinsurance
Good and Bad Practices
Case Study No. 10

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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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Acronyms

ADB	African Development Bank
AIDS	Acquired Immunodeficiency Syndrome
AMIZ	Association of Microfinance Institutions in Zambia
BOZ	Bank of Zambia
BPF	Borrowers Protection Fund
CBOH	Central Board of Health
CETZAM	Christian Enterprise Trust of Zambia
CLAS	Credit Life Assurance Scheme
COMESA	Common Market for East and Southern Africa
CSO	Central Statistical Office
DFID	Department for International Development (United Kingdom)
DHS	Demographic and Health Survey
FGD	Focus group discussion
FINCA	Foundation for International Community Assistance
GDP	Gross Domestic Product
GPA	Global Programme on AIDS
GTZ	German Technical Assistance
HIV	Human Immunodeficiency Virus
IBNR	Claims incurred-but-not-reported
ILO	International Labour Organisation
K	Kwacha
LIF	Loan insurance fund
MFI	Microfinance Institution
NGO	Non-governmental organisation
NICO	National Insurance Company
NTULA	“Lift off my burden.” Name of CETZAM’s Insurance policy
OI	Opportunity International
PIA	Pensions and Insurance Authority
PRIDE	Promotion of Rural Initiatives and Development Enterprises
PULSE	Peri-Urban Lusaka Small Enterprise (now PULSE Holdings Limited)
Sida	Swedish International Development Cooperation Agency
Thandizo	“Help” Name of PULSE’s Funeral insurance policy
UN	United Nations
UNDP	United Nations Development Programme
US$	United States Dollar
USAID	United States Agency for International Development
VAT	Value added tax
WHO	World Health Organisation
ZMK	Zambian Kwacha
ZNIB	Zambia National Insurance Brokers Limited
ZSIC	Zambia State Insurance Corporation Limited
ZVCF	Zambian Venture Capital Fund

Executive Summary

The microinsurance provision in Zambia is new, but steadily expanding. The size and number of microinsurance transactions have grown dramatically since 2001. The range of microinsurance products, however, has remained narrow with most of the products being closely linked to microcredit. Microinsurance in Zambia largely consists of credit life and funeral coverage for microfinance borrowers and their family members.

Much of the interest in providing insurance to low-income households comes from microfinance institutions (MFIs) that want to protect their loan portfolios from default caused by death and illness. All MFIs affirm that these two problems are the primary risks confronting their clients. While both senior management and field staff in MFIs acknowledge that HIV/AIDS is a contributing factor, it is not possible to track the impact of HIV/AIDS on portfolio quality. HIV/AIDS is treated with confidentiality and sensitivity.

There are currently seven regulated private insurers in Zambia. Only two of these, Madison Insurance Zambia Limited and NICO Insurance, have reached the low-income market through partnerships with MFIs. This case study documents Madison's experience in providing insurance to MFI clients through a partner-agent model. Madison's involvement in microinsurance began in October 2000 through a partnership with PULSE Holdings Limited. Besides PULSE, Madison now works with three other prominent MFIs: FINCA Zambia, PRIDE Zambia and CETZAM Opportunity Microfinance Limited. They all offer similar insurance products—credit life and funeral cover—with minor variations.

Madison operates in an environment without a specific regulatory framework for microinsurance. In this context, Madison treats the MFIs as policyholders under a group credit life scheme. In practice, the MFIs perform the functions of agents in return for either a profit share or a commission to cover administrative costs.

Through these four MFIs, Madison is currently reaching over 100,000 low-income persons, including MFI borrowers and their family members. Madison is certainly benefiting from this arrangement. The MFIs allow the insurer to reach a market that it could not serve on its own with a product that has been quite profitable. For instance in 2004, the estimated gross profit from these four policies was US$82,587.[1] The MFIs are benefiting in three ways: insurance lowers their credit risk, enhances profitability through commissions, and enables the MFIs to provide their customers with a valuable service. The clients are also benefiting through this risk management tool, although there is significant room for improvement.

[1] This is actually just premiums less claims for the period. It was not possible to get expense information for just the four policies, but this figure suggests that they are indeed profitable. Madison does not separate out the data from these four policies from the rest of its Credit Life business, so this figure was estimated by the author.

Lessons Learned

This case study focuses on Madison Insurance's efforts to reach the low-income market through MFIs, with an emphasis on PULSE Holding Limited since it has the oldest partnership. The study presents a number of lessons for the provision of microinsurance through partner-agent model, such as:

- **Role of insurer**: An insurance company should consider embracing more roles in the delivery of insurance through MFIs. Although, Madison's client is the MFI, there is scope for the insurer to be more interested in the needs and preferences of the end-user. Dropouts of MFI clients stemming from dissatisfaction with insurance presents a business loss for both partners. The insurer could contribute to client education, marketing, and assessing client satisfaction.
- **Mode of premium collection**: Two of Madison's partners, CETZAM and PULSE, deduct premiums from the loan amounts along with other loan fees. As result, clients perceive insurance as a cost for acquiring a loan—in fact, a much higher cost than it actually is. This mechanism for premium collection might be feasible if the organisations had a greater commitment to client education and ensured that clients understood exactly how much they were actually paying for insurance.
- **Limited understanding**: Focus group discussions showed that most clients had a shallow understanding of insurance features and benefits. Client education is certainly weak for all the MFIs, and this is largely due staff limitations. Staff responsible for servicing insurance products should receive adequate training to enable them to effectively educate clients on insurance and indeed promote microinsurance products.
- **Marketing**: Similarly, there is a lack of insurance marketing by the MFIs. They do not pay attention to marketing since the insurance products are largely mandatory. However, MFIs have to treat insurance as a complementary service and persuade clients of its utility. Product information provided to clients should be standardised and simplified to avoid claim rejections resulting from misinformation. A simple brochure for each client showing the breakdown of fees and benefits, and describing the claim settlement process, would be a worthwhile consideration.
- **Mandatory and voluntary provision**: As suggested in the microinsurance literature, credit life insurance is plausibly provided as a mandatory product, but there is scope for funeral insurance to be voluntary, especially if it is covering other family members. Interestingly, two of the MFIs have voluntary coverage for funeral expenses, however uptake seems to be very low and largely dependant on the marketing efforts of individual branch managers and credit officers.
- **No link between insurance benefits and loan repayments**: CETZAM requires its borrower groups to all be up-to-date with their loan repayments in order for individual members to receive insurance benefits. While the logic of using insurance benefits as a carrot to maintain timely loan repayments makes sense for the MFI, this link has caused significant dissatisfaction from clients, adversely affecting their perception of insurance.
- **Product negotiation and insurance knowledge**: There seems to be a dearth of insurance knowledge among MFI senior managers. Consequently, they are not able to participate effectively in microinsurance product design, nor are they particularly effective in

negotiating with insurers. As a result, the end-user clients are not yet receiving sufficient insurance value for their money.

- **Capacity to act as an agent**? Although acting as an agent for an insurance company (or buying group policies on behalf of clients) is the easiest way for an MFI to provide microinsurance, it still requires some work and expertise. Many of the MFIs that partner with Madison are experiencing problems with their core credit services, and consequently are not able to pay sufficient attention to insurance. Unfortunately, neglect of the insurance service presents its own product dissatisfaction among clients, which also contributes to delinquency and dropouts. It is even plausible, though hard to confirm, that one reason why the MFIs are experiencing difficulty with their loan products is because the introduction of insurance has created extra work and distractions for staff at all levels.
- **Commission vs**. **profit sharing**: While 3 of the MFIs receive a 10 percent commission from the insurer for their efforts, PULSE has negotiated a profit-sharing arrangement in which Madison deducts 30% of the premiums to cover its administrative costs, and then the balance after paying out claims is shared evenly between the insurer and the MFI. Any losses are the sole responsibility of Madison. More experience is needed to assess which of these compensation arrangement best benefits the end-user clients, but thus far PULSE is earning more money than the other MFIs even though it has higher loss ratios.
- **Insurance and HIV/AIDS**: Before introducing insurance, the group lending methodology screened out potential borrowers suspected of being HIV positive. The mutual guarantee required group members to be responsible for outstanding loan balances if a member died, and for late loan instalments due to sickness. Insurance has changed the picture. Since group members are no longer responsible for the loan in the event of death or prolonged illness, they are less concerned about excluding members who might be HIV positive as long as they appear physically healthy.

1. The Context

Zambia is a landlocked sub-Saharan country sharing boundaries with Malawi, Mozambique, Zimbabwe, Botswana, Namibia, Angola, Democratic Republic of the Congo and Tanzania. It has a total surface area of about 752,614 square km, thus ranking among the smaller countries in South Central Africa. The population of Zambia at the end of 2003 was estimated at 10.4 million. The 1980, 1990 and 2000 censuses estimated the population of Zambia to be at 5.7, 7.8 and 9.9 million respectively. Although the population is growing, the annual population growth rate has declined from 3.1 for the period 1969-80, to 2.7 percent from 1980-90, and most recently 2.4 percent from 1990-2000.

On the economic front, Zambia was largely dominated by socialist features until the early 1990s when the country began the transition to an open, private sector-led economy with minimal government control. The Zambian economy is based largely on copper mining and agriculture. Copper accounts for approximately 80 percent of the country's export earnings. However, due to unfavourable copper prices since 1975, export earnings have been declining. This decline has partly been responsible for the poor performance of economic sectors that rely on imported inputs.

Regarding some crucial socio-economic indicators, Zambia is not doing well. The 2000 census showed that overall poverty is at 73% while extreme poverty is at 58%. Formal employment only absorbs 18.3% of Zambia's working population. Forty percent of the working population is engaged in the informal economy, with the balance either unemployed (primarily in urban areas) or involved with subsistence agriculture (CSO 2000 Census).

The quality of health care in public hospitals is generally poor. In 1991, the government recommitted itself to improving health care. Following the implementation of health reforms, Zambia has experienced improvements in the general health indicators—for example, infant mortality dropped from 123 per 1000 live births in 1990 to 95 in 2002. However, maternal mortality has worsened from 649 deaths per 100,000 women in 1996 to 729 per 100,000 women in 2002 (CSO 2002). Life expectancy at birth has continued to deteriorate. According to UNDP human development reports, in 1998 life expectancy was 40 years, but it fell to 32.7 years in 2002 (UNDP 2000, 2004). Most studies suggest that falling life expectancy in Zambia is largely attributable to the increasing poverty levels and prevalence of HIV/AIDS.

HIV/AIDS remains a crucial problem for Zambia. The 2001–2002 Demographic and Health Survey (DHS) shows that 15.6% of the adult population are HIV+. Initially, HIV/AIDS cases were concentrated in urban areas, but it soon became clear that all parts of the country were affected. There are a number of responses to address the problems from the government, non-governmental organizations (NGOs), UN agencies and other international organizations. For instance a national response began with the establishment of the National AIDS Surveillance Committee in 1986 with assistance from the World Health Organization's (WHO) Global Programme on AIDS (GPA).

Table 1. Macro Data

	Figure	Year	Source
GDP (US$ Billions)	4.2	2003	BOZ
Population (millions)	9.9	2000	CSO
Population density per km2	13.1	2000	CSO
Percentage urban / rural population	Urban : 35% Rural: 65%	2000	CSO
GDP/Capita (US$)	53	2003	BOZ
GDP Growth Rate	5.1	2003	BOZ
Inflation	24.3	2003	BOZ
Exchange Rate (Kwacha per US$1)	4650	2004	BOZ
Infant Mortality (per 1000 live births)	95	2002	CSO
Under Five Mortality (per thousand)	168	2002	CSO
Maternal Mortality (per 100,000 live births)	729	2002	CSO
Access to safe water (% of population)	53	2003	CSO
Health Expenditure as % of GDP (public/private/total)	Overall 6% Pubic 2% Private 4%	2002	CBOH
Health Expenditure per capita (US$)	18	2002	CBOH
Doctors per thousand people	0.7	2002	CBOH
Hospital beds per thousand people (urban/rural)	Rural 8.6 Urban 1.9	2002	CBOH
Adult Literacy rate (15years +)	67.2	2000	CSO

1.1 Role of the State in Insurance

Legislation

To appreciate the insurance legal landscape in Zambia, it is important to consider the historical background. Britain was Zambia's colonial power until independence in October 1964. Consequently British insurance law was, more or less, applied in the colonial territory and the insurance industry was dominated by British and South African firms. This scenario continued until the enactment of the Insurance Act of 1968.

The government of Zambia became rather concerned over the escalating problem of externalisation of capital in the mid 1960s. The 1968 Insurance Act was passed to rein in and monitor the activities of the insurance industry. Toward the end of 1968, sweeping economic reforms were introduced and virtually all industries and major businesses were taken over by the state. It was not until 1971, however, that the insurance industry was nationalised. At that time the twenty-six insurance companies in operation were reduced, by promulgation of law, to one insurance company, the Zambia State Insurance Corporation Limited (ZSIC), and one brokering company, Zambia National Insurance Brokers Limited (ZNIB).

The two state-owned companies dominated the insurance industry until the economic reforms that followed the return to democratic governance in Zambia. In 1992, the Zambian economy was liberalised, which has led to an increase in local and foreign private participation in the insurance sector.

The Insurance Act of 1997 is the basis for insurance regulation in Zambia today. The Insurance Act is read together with the Pension Schemes Regulations Act (1996), the Companies Act, the Investment Act and the Road Traffic Act (third-party auto insurance cover is compulsory). Foreign ownership in insurance companies is not limited and some insurers are 100% foreign owned. Insurers are expected to observe the minimum compulsory reinsurance ceding limits of 5% to AfricaRe and 10% to ZepRe, which are regionally-owned reinsurance companies under the African Union and Common Market for East and Southern Africa (COMESA), respectively.

By 2003 the insurance industry consisted of:
- Four composite insurance companies – Zambia State Insurance Corporation Limited, Madison Insurance Company Limited, Professional Insurance Corporation Limited, and ZIGI Insurance Company Limited
- One life insurance company – African Life Assurance Limited
- Three general (non-life) insurance companies – NICO Insurance Company Limited[2], Goldman Insurance Company Limited and Cavmont-Capital Insurance Limited, and
- One reinsurance company – ZimRe (Z) Limited.

Regulation

Regulation of the insurance industry in Zambia spans the following licensed categories:

- **Reinsurers** must be locally incorporated and registered by the Registrar of Companies and Business Names as a company that is limited by shares. Reinsurers must have at least ZMK1 billion (US$215,000) worth of paid-up ordinary shares, which is the same for life and general insurance. Foreign ownership is not restricted. The operating licence is renewable annually and the reinsurers must meet the stipulated solvency requirements.
- **Insurers** must be locally incorporated and registered by the Registrar of Companies and Business Names as a company that is limited by shares. Insurers for general or life insurance must have a minimum of ZMK1 billion worth of paid-up ordinary shares. Foreign ownership is not restricted. The operating licence is renewable annually and the insurers must meet the stipulated solvency requirements.
- **Insurance Brokers** must also be locally incorporated and registered as a company that is limited by shares. Insurance brokers must have at least ZMK50 million worth of paid-up ordinary shares. Their operating licences are also renewable annually.
- **Insurance Agents** may either be registered as a sole trader or as a company that is limited by shares. There is no minimum capital requirement, but each agent must be tied to only one insurer. Their operating licences are also renewable annually.

[2] Although NICO is licensed to only provide non-life insurance, it has received permission by the regulators to offer the funeral insurance policy with CETZAM. Because it is a short-term product, funeral insurance is not regarded as a traditional life insurance product.

The other licensed categories of insurance players are: loss adjusters, assessors and claims agents. Their operating licences are also renewable annually.

Supervision

The Pensions and Insurance Authority (PIA) is the official supervisor of insurance activity in Zambia. Its chief executive officer is known as the Registrar of Pensions and Insurance. There are two deputy registrars, one for the Insurance Department and the other for the Pensions Department. Though the PIA is funded through a government grant, its operations are autonomous.

The Insurance Act provides for the establishment of the Insurance Advisory Council to advise the Registrar on technical conduct and other issues pertaining to the industry.

The PIA's primary function is to protect policyholders' interest. The Registrar must achieve this by ensuring that insurers and reinsurers are technically viable and solvent, and by ensuring that the conduct of insurance players meets the expected minimum standards of engagement. Some of the compliance requirements include:

- Insurers, reinsurers and insurance brokers must submit audited annual financial statements within 3 months of their financial year-end.
- The admitted assets of a general insurer must exceed its admitted liabilities by at least 10%.
- Life insurers must conduct an actuarial evaluation every three years. They cannot pay dividends unless the actuarial valuation reports a sufficient surplus.
- General insurance companies are supposed to maintain technical reserves for unearned premiums, unexpired risks, and for claims incurred-but-not-reported (IBNR).
- The Insurance Act requires insurance brokers to remit premiums to insurers within 60 days of the date of cover.
- The PIA conducts scheduled and impromptu inspection visits on licensees to evaluate their compliance levels.

In an effort to raise revenue, insurance business and services were subject to value-added tax (VAT) from 1994. However, concerns were raised that this would choke the emergent industry as the premiums became prohibitively expensive for households and other smaller consumers. In 2001, insurance services were re-categorised as VAT-exempt as requested by the public and industry.

1.2 Insurance Industry Basics

Table 2. Insurance Industry Basics

Issues	Observations
Name of regulatory body	Pensions & Insurance Authority (PIA)
Key responsibilities of the regulatory authority	• Licensed insurers are free to develop insurance products which are subject to PIA's approval • PIA supervises insurers' solvency position, market conduct and compliance with the provisions of insurance law
Minimum capital requirements	The minimum capital requirement is paid-up share capital of ZMK1 billion (US$215,000) or ZMK2 billion for a composite license
Other key requirements for an insurance license	• Incorporate as a company limited by shares within Zambia • A viable business plan and funds to cover operating shortfalls for at least the first 3 years • Directors and senior managers must be fit and proper persons
On-going capital requirements	• A general insurer's assets must exceed liabilities by at least 10% • A life insurer's actuarial valuation must show that assets exceed liabilities
Other key requirements for regulatory compliance	• Insurers must maintain separate statutory funds for each business segment or business class • Insurers are required to submit their reinsurance programmes to the regulator annually • Insurers are expected to submit annual financial statements and insurance returns to the regulatory authority
Minimum capital requirement for reinsurer	The current minimum capital requirement for either a general or life reinsurer is paid-up share capital of ZMK1 billion (US$215,000); a composite reinsurer would require ZMK2 billion
Regulated private insurers	The seven regulated private insurers in Zambia wrote ZMK202 billion (US$42.7 million) in gross premiums in 2003
Regulated public	One regulated public insurer wrote ZMK68 billion (US$14.4 million) in gross premiums in 2003
Number and type of other insurance organizations (in 2003)	• Insurance Brokers, 36 • Insurance Agents, 43 • Loss Adjusters, 3 • Assessors, 8 • Claims Agents, 3
Re-insurers	One general reinsurer wrote ZMK3 billion (US$634,000) in gross premiums in 2003
Certification requirements for agents	• Agents must be tied to only one insurer • Principal officer must have at least 5 years' insurance experience and acceptable qualifications • Agents are annually licensed by regulatory authority

1.3 The Role of the State in Social Protection

The government of Zambia established a social security system through the National Pension Scheme Authority Act of 1996. The Act transformed the Zambia National Provident Fund into a scheme with benefits linked to inflation. The previous scheme's benefits were meagre due to the effects of run-on inflation. Every person in employment is expected to be a member of this scheme so as to draw benefits in retirement. Self-employed individuals are also encouraged to become members.

The Workers Compensation Fund has been in existence for over 20 years now. It was established to provide restitution to workers that lost their ability to be gainfully employed due to a workplace injury.

There are no deliberate policies or intervention mechanisms to assist disadvantaged groups in terms of risk management, although some NGOs and donor agencies are involved in social protection programmes, such as the Social Cash Transfer scheme by GTZ (see Box 1).

Box 1. GTZ Social Safety Net Project

GTZ financed a social safety net project in Kalomo district to pilot a social cash transfer scheme. The main objective of the scheme was to generate information on the feasibility, costs and benefits of a cash transfer component of a social protection strategy for Zambia. The test phase of the pilot was between November 2003 and April 2004. At the end of this phase, a manual of operations was developed and the scheme was officially launched.

The experience of the scheme has been good. Beneficiaries use the money to purchase a range of items including food, clothes, soap, small livestock, farming inputs, and education and health for children. The project plans to scale up activities through the African Development Bank's "Child Welfare Project," which will provide cash transfers to the neediest 10 percent. Under this project, beginning in 2005, social cash transfers will be extended to 8 more districts in Zambia for 5 years. GTZ will provide technical support and the ADB will fund the transfers.

Similarly, CARE International, supported by DFID, is presently preparing social cash transfers that will benefit 17,000 households in five districts of the Southern Province from 2005.

1.4 Overview of Microinsurance in Zambia

Microfinance institutions in Zambia are still operating in an environment without a specific regulatory framework. The Bank of Zambia (BOZ), the supervisory and regulatory authority for banks and non-bank financial institutions, aided the formulation of the microfinance regulations that was passed into law in 2004, but it has not yet been implemented. Under the current regulatory environment, MFIs are not allowed to take deposits from the public, but it has not prevented them from offering insurance in partnership with commercial insurers.

In Zambia, formal microinsurance began with CETZAM, one of the country's leading MFIs, which introduced a Funeral Benefits Insurance Scheme in partnership with NICO Insurance

Company in 2000. This product was in response to CETZAM's market research, which indicated that death was the number one risk for the MFI's clients. The primary concern that led to the introduction of microinsurance was protection of CETZAM's loan portfolio.

Within the microfinance industry, most MFIs were facing a similar plight, leading to the emergence of some informal, internally managed insurance funds. For example PULSE, then still a microfinance project under CARE International, introduced its Borrowers Protection Fund (BPF) in 2000. However it was not long before MFIs realized that they did not have the capacity to run these schemes and, following CETZAM's lead, began looking for local insurance partners.

Microinsurance transactions have increased dramatically since 2001. However the range of microinsurance products has remained narrow with most products being closely linked to microcredit. Most, if not all, the microinsurance business in the country is conducted through MFIs. The primary reason why most MFIs offer insurance is to protect their loan portfolios from default related to death and illness.

There is no explicit Government policy on microinsurance, though the state has been lending support to microfinance concepts. The BOZ has draft regulations for microfinance institutions. Microinsurance aptly falls under the Pensions and Insurance Authority, which has not taken any steps in the regulation of microinsurance. The state does not provide any form of direct assistance or subsidy to microinsurance. The concept of microinsurance is not widely appreciated in Zambia.

A few examples of informal or unregistered insurance activities, such as include funeral funds, can be found in marketplaces and sometimes among church congregations in which weekly premiums ranging from US$0.13 to $0.33 are made. The premiums rates are not based an actuarial analysis but on what the members can afford (Manje and Churchill 2002). In general, however, risk management and insurance *per se* are not widely understood concepts in Zambia. Insurance penetration, which is between 1.0% and 1.5%, ranks quite low.

2. The Institution

2.1 Brief History

Madison Insurance Zambia Limited was the first private insurance company to commence operations in the re-liberalised insurance market, on April 1, 1992. The company started as a subsidiary of Meridian International Bank based in Nassau, Bahamas.

The collapse of the Meridian Group in 1995 adversely affected the company. At the time, Madison had three years of very good performance with a consistent profit achieved in both non-life and life divisions. Key performance indicators including gross written premiums, investment income, profits and shareholder funds consistently increased over the same period. For example, between April 1992 and December 1994, retained profits had accumulated to ZMK641.6 million (US$916,600) on an average issued capital share of ZMK100.1 million (US$143, 000). At the time of Meridian's collapse, it was deemed necessary to write off various investments that related to the liquidated Meridian Group amounting to ZMK1.7 billion (US$2.5 million), which resulted in net accumulated retained losses of ZMK1.1 billion (US$1.5 million).

One of the measures taken to save Madison Insurance was an offer for a management buy out. Management recruited strategic equity partners and the new shareholding structure included Hannover Reinsurance Group Africa Limited, which is wholly owned by Hannover Reinsurance Mauritius Limited, and Trans Zambezi International Limited, which was based in Harare, Zimbabwe with offices in the Virgin Islands. Representing management, Lawrence Sikutwa and Associates acquired a 10 percent share as shown in Table 3.

Table 3. Ownership Structure of Madison Insurance

	1995	2001	2003
Trans Zambezi International Limited	60%		
Hannover Reinsurance Group Africa Limited	30%	30%	
Lawrence Sikutwa and Associates	10%	26%	37.1%
Zambia Venture Capital Fund		44%	62.9%

The collapse of the Zimbabwean Dollar against major currencies led Trans Zambezi to restructure its investment. It disposed of its interests in Madison to Zambia Venture Capital Fund (ZVCF) and Sikutwa and Associates effective 1st January 2001. Two years later, Hannover Re divested as well, leaving two shareholders: ZVCF and management.

Lawrence Sikutwa, the Managing Director of Madison Insurance Company, began his professional career at the Zambia State Insurance Corporation (ZISC) in 1989 rising to become General Manager. He was actively involved in the studies to privatise the insurance market, and contributed to the drafting of insurance legislation. Following the opening up of the insurance market, Sikutwa was hired by the Meridian Group to set up Madison. In 1995, the collapse of the Meridian Group challenged him to rescue the insurer. Sikutwa's ownership stake in Madison has increased from 10 percent in 1995 to 37.1 percent in 2003. As Zambia Venture Capital Fund is winding up in 2005, Lawrence Sikutwa and Associates have indicated that they shall be exercising their pre-emptive rights over ZVCF's shareholding to make Madison a wholly-owned Zambian company.

Madison's Mission Statement

To be Zambia's leading insurer in Service, Innovation and Profitability with Integrity. To respond to the challenges of tomorrow, today. To perform through a team of enthusiastic, motivated and appreciated people.

Madison's Vision

Attain world class insurance company standards; become a regional player; become an insurer of preferred choice; and be a model for excellence in the market.

After the setback with Meridian, management restructured the company with an emphasis on corporate governance, with new management and monitoring systems to enhance efficiency and transparency in the organisation. Madison put in place technical, audit and finance committees and reorganised the reporting structures. The company is now one of the leading insurance companies in the region. Since 1995, the company has strategically and proactively reached out to new markets, as evidenced by the introduction of a number of new products, including the group credit life under which microinsurance falls.

Madison's interest in microinsurance began with a request from an MFI. At the time, Madison had just developed a credit life policy for commercial banks that was easily adapted for MFIs. Although the insurer approaches microinsurance from a commercial perspective, the organisation has a strong commitment to social responsibility, with an emphasis on supporting the education of underprivileged children, promoting the works of local artists, and sponsoring sporting activities.

Table 4. Insurance Organisation Basics

Issues	Observations
Legal structure	Company limited by shares
Registration status	Registered as company limited by shares
Regulation status	Licensed insurer regulated by PIA
Start of corporate operations (year)	1992
Start of microinsurance operations (year)	2000
Core business	Insurance
Target market – core business	All classes of people; Corporate businesses
Target market – insurance business	All classes of people; Corporate businesses
Geographic area of operation	Zambia
Marketing or servicing policies with other institutions	A number of strategic partners which includes MFIs and banks
Reinsurance	There is no reinsurance for credit life or microinsurance

Table 5. Insurance Organisation Basics – Trends

	2003	2002	2001	2000
Total assets (US$)	10,261,915	9,257,100	7,917,829	8,175,950
Annual budget (US$)	10,576,225	8,273,810	8,078,960	6,622,520
Total capital	2,905,099	2,310,618	1,627,528	1,692,832
Number of branches	7	5	3	3
Total number of microinsurance policyholders	4	2	1	1
Total number of microinsurance insured lives	31,712.00	15,555	10,316.00	10,796.00
Number of microinsurance staff	2	2	2	1
Staff turnover (%)	NA	NA	NA	NA
Number of policyholders / microinsurance staff (%)	2	1	2	1
Marketing costs (including microinsurance) US$	28,259	34,377	41,005	37,954

Figures for Madison's Life Division

2.2 Organisational Development

Organisational Structure

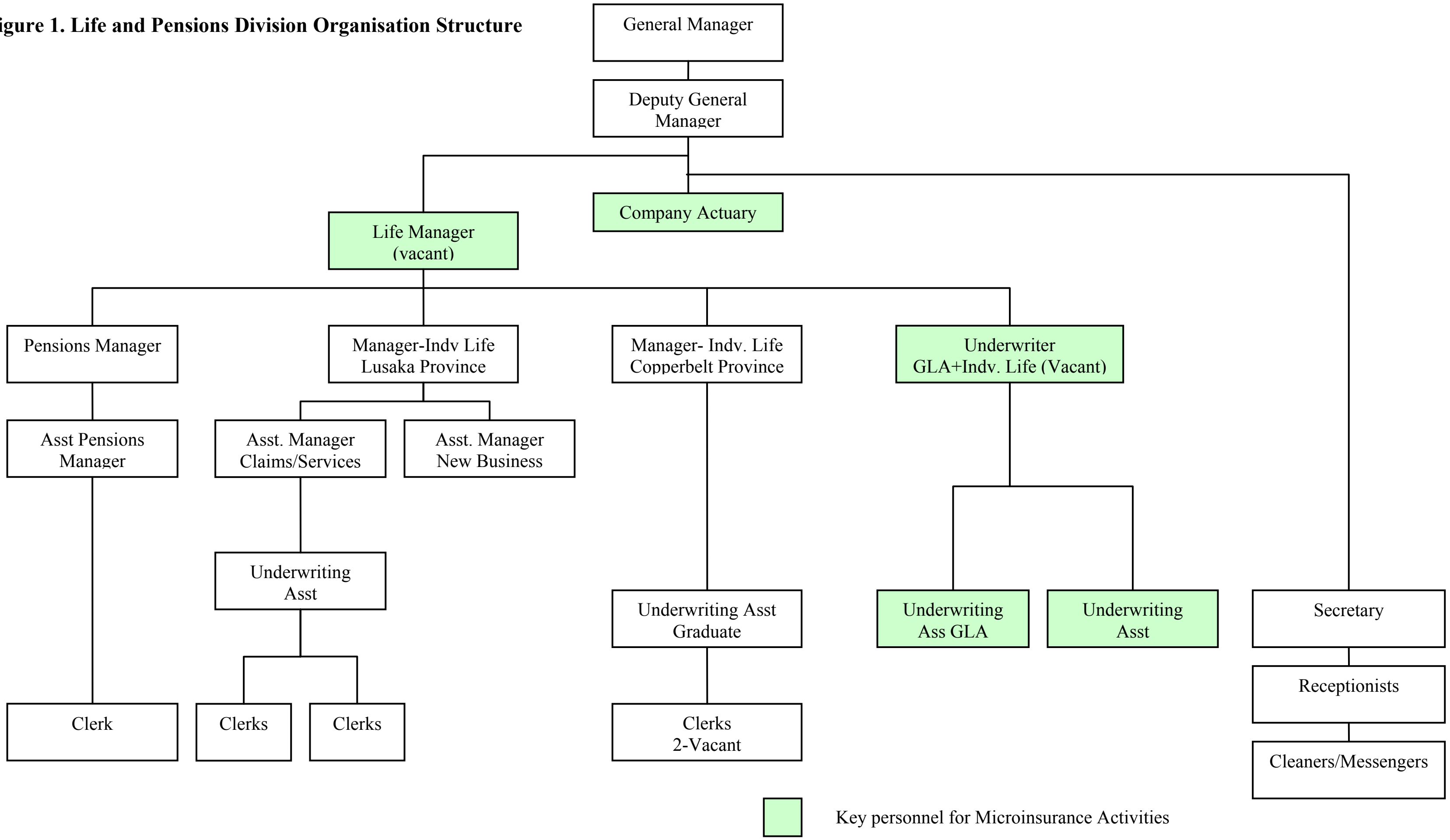
Credit life insurance falls under the Life and Pensions Division of Madison Insurance, as shown in Figure 1. Since the position of Life Manager is vacant, the Deputy General Manager performs some of these responsibilities, including the management of the microinsurance schemes with MFIs. The underwriting task is performed by two underwriting assistants. While it is difficult to clearly say whether the current staffing is adequate, perhaps there is scope for additional staff to enhance efficiency in the claim settlement process and improve interactions between Madison and the MFIs, as described in more detail below.

Expertise

All staff members involved in microinsurance operations have training in insurance and demonstrated a high degree of understanding and skills in insurance business. However, there is a dearth of knowledge and exposure to other potential microinsurance products; the insurers also lack a familiarity with the characteristics and preferences of the low-income market.

Since the MFIs are responsible for selling insurance to their clients, an inquiry was made into the skills of their field staff with regard to insurance. Clearly credit officers were recruited to sell and manage the MFIs' core business, credit. At recruitment, knowledge or experience in insurance is not part of the assessment. However, MFIs provide induction on products to all credit officers, including training on insurance products. Occasionally, not systematically, Madison is invited to provide this training. However the content of the training is limited to the product features and there is significant scope for improvement..

Figure 1. Life and Pensions Division Organisation Structure



Training

Despite the induction training, the MFIs' loan officers have no knowledge of basic insurance concepts. Clearly this affects their ability to satisfactorily answer clients' questions about the relevance of insurance. Most clients look at insurance as being beneficial to the MFI and the insurer, but not to themselves.

No formal training on insurance has been done for the MFIs' senior or middle management. Senior management acknowledged the insurance is not their area of specialisation and they would welcome expert advice or training especially in product design and pricing, so that they could do a better job of negotiating with the insurer.

2.3 Resources

As noted above, Madison is a company limited by shares. No donor funding has been specifically required to extend insurance to the low-income market, although the MFI partners are all still donor-dependent.

2.4 External Assistance and Relationships

In the delivery of insurance products, Madison has a number of relations which includes banks, insurance brokers and agents, microfinance institutions, actuary companies and reinsurers. Group credit life insurance policies are offered through a partner-agent model. The main partners for these products are financial institutions. Premium setting is outsourced to an actuary company.

In the provision of microinsurance, Madison partners with four leading microfinance institutions. Before providing profiles of the four MFIs, it is important to understand the lending methodologies employed by these organisations, as summarised in Table 6.

Table 6. Microfinance Lending Methodologies

Institution	Delivery Models
PRIDE Zambia	Solidarity group and individual lending
PULSE	Solidarity group and individual lending
CETZAM	Trust banks, solidarity group and individual lending
FINCA Zambia	Village bank

Most of the loans are issued through some type of group lending methodology that places an emphasis on mutual guarantees and peer pressure. Collateral requirements are usually replaced by the guarantee of the group members, although this is often supplemented by cash collateral. If a member of the group is ill or dies, the MFI usually expects the group to repay that member's debts—a requirement that can sometimes cause the whole group to default. Consequently, insurance can play a critical role in keeping groups together and helping them continue after the death of a member.
The main difference between the group methodologies is the number of members in the group. For **solidarity group lending**, the group size is usually five persons. **Trust banks** and

village banks typically contain 20 to 30 members. The larger group size makes it possible to offer very small loans, often less than $100. For CETZAM, the target market for trust banks is the poorest microentrepreneurs. Over time, it is expected that their businesses would grow and they would qualify for solidarity group loans and eventually individual loans. The village banking model employed by FINCA Zambia is different from the Latin American version because the groups do not maintain their own savings or issue their own loans.

Individual lending is relatively new to most MFIs. The principles are similar to commercial bank lending, with larger loan amounts and physical collateral required. The initial targets for individual loans in most MFIs are existing borrowers with a good credit track record, allowing them to graduate from the group lending methodology. The introduction of individual loans was a response to client dissatisfaction with the mutual guarantee system and the small loan sizes available through group methodologies.

Most MFIs that use group methodologies in Zambia also require **forced savings** to cushion social collateral. Although this forced savings is called the Loan Insurance Fund (LIF), it does not really have a risk pooling function and instead effectively serves as cash collateral. The use of the term "insurance" in referring to forced savings causes some confusion for borrowers when real insurance is introduced.

PULSE Holdings Limited

PULSE Holdings Limited was the first MFI to partner with Madison. PULSE began lending in 1995 under the name Peri-Urban Lusaka Small Enterprise (PULSE), a project under CARE International to fight increasing urban poverty by improving access to credit by micro and small enterprises.

As a CARE project, PULSE received a £2,780,000 grant from DFID to create a self-sustainable and autonomous financial institution. In 2001, PULSE was incorporated as PULSE Holdings Limited, a company limited by guarantee. PULSE has a five-member Board of Directors drawn from a wide range of backgrounds: two members have microfinance and banking experience, one member is a lawyer, one member has corporate management experience, and the fifth member comes from a development background.

PULSE's loan products have evolved over the years to better serve its clients. PULSE offers two types of business loans: Ntemba, a group loan product for micro traders; and Small Business loans for individuals. It also has two emergency loan products: a household emergency loan to meet financial needs arising from funerals, school fees and medical expenses; and a business liquidity loan to provide quick cash to take advantage of business opportunities. For its group loans PULSE also uses LIF as form of security.

PULSE's experience with insurance began with a self-managed insurance scheme called Borrowers Protection Fund (BPF) introduced in 2000 to provide credit life insurance to its clients. The premium ranged from 1 to 3 percent of the loan depending on the loan size and term. The BPF paid off outstanding loans in the event of death. As the scheme grew, PULSE realised that it would be better managed by an insurance company. In February 2001, PULSE replaced the BPF by partnering with Madison to offer a Credit Life Assurance Scheme (CLAS). This mandatory scheme pays off the disbursed loan amount in the event of the borrowers' death and pays loan instalments when the client is ill. Toward the end of 2002, PULSE added another insurance product, Thandizo (when literally translated means 'assistance'), a funeral insurance product that covers the borrower and selected household members.

PULSE has a network of nine branches all in Lusaka. At the end of October 2004, the MFI was serving only 1,945 clients, down from 3,063 at the end of 2001. A recent study (Musona 2004) revealed a number of challenges that PULSE has faced over time, including high delinquency and default, low client retention, HIV/AIDS, fraud and staff turnover. To improve its situation, PULSE recently underwent a major restructuring that included product refinements, product diversification, policy changes, and institutional and staff changes. The full impact of these changes has yet to be seen, but the preliminary results are positive.

CETZAM Opportunity Microfinance Limited[3]

CETZAM Opportunity Microfinance Limited was founded in February 1995, originally under the name Christian Enterprise Trust of Zambia (CETZAM), by a group of Zambian business leaders on the Copperbelt. CETZAM started as a self-funded volunteer organization to fight poverty through microenterprise development. In 1996 CETZAM initiated a partnership with Opportunity International (OI), a global NGO that provides technical assistance to its MFI partners around the world. In 1997, CETZAM and OI entered into an agreement with DFID to implement a microfinance project in Northern Zambia. In 2002, CETZAM changed its name to CETZAM Opportunity Microfinance Limited.

CETZAM offers group loans through trust banks and solidarity groups, and it offers individual loans as well as. As an agent of NICO, CETZAM has facilitated a pro-poor insurance service called Ntula to cover the death of its clients and their family members. In 2004, CETZAM decided it needed credit life insurance as well. Since NICO did not provide credit life, CETZAM approached two other insurance companies, Madison and African Life. Of the two, Madison offered the best deal. CETZAM has continued to provide Ntula through the partnership with NICO. CETZAM's partnership with Madison is very recent, making it difficult to compare the two insurance companies.

CETZAM's clientele comprises mainly women entrepreneurs. The number of clients has dropped from a high of about 20,000 in 2002 to 4,050 active clients as at June 30, 2004 due to poor growth management, fraud and delinquency problems. To deal with these problems, CETZAM underwent a major restructuring that included policy changes, institutional and staff changes. The positive impacts of these changes are just beginning to be seen. In this study therefore, the perception of the respondents is mainly based on the previous performance and policies.

[3] For more details about CETZAM's experience with microinsurance, and the experiences of other Opportunity International affiliates, see the forthcoming publication: Leftley (2005), "Technical Assistance for the Promotion of Microinsurance: The Experience of Opportunity International," CGAP Working Group on Microinsurance, Good and Bad Case Study No. 11. Geneva: ILO.

PRIDE Zambia

PRIDE Zambia was established in February 2000 with support from the Swedish International Development Agency (Sida). The initial project agreement covered a one-year period with options for extension depending on the outcome of the pilot phase. The project's main goal was the provision of financial services to micro and small entrepreneurs to generate income, create employment, and stimulate business growth. After successful completion of the project phase, PRIDE Zambia was incorporated as a company limited by guarantee. PRIDE Zambia has four loan products:

- **Group Loan Scheme**: this original product is for low-income entrepreneurs, primarily in groups of five, which are then confederated into groups of fifty members. Initial loan size is ZMK350,000 (US$75);
- **Micro-loan**: this product is targeted at the microentrepreneurs with very low incomes in groups of not more than twenty-five members. This product has an initial loan size of ZMK50,000 (US$11);
- **Premium Loan**: this product is for medium income entrepreneurs in groups of not more than five members. This product has an initial loan size of ZMK3 million (US$645); and
- **Salary Guaranteed Loan**: this individual loan product is for salaried employees. This product has a maximum loan size of ZMK15 million (US$3225).

PRIDE Zambia has recently announced the introduction of several new financial products including invoice discounting, payment services for salaries in rural areas, PRIDE network transfers between branches, and individual micro and small enterprise loans.

FINCA Zambia

The Foundation for International Community Assistance (FINCA) opened its first office in Lusaka in 2001. FINCA Zambia is a microfinance organization affiliated to FINCA International, an American NGO with a worldwide network of affiliates. FINCA Zambia provides financial services to poor women using a modified village bank approach.[4] The products include microenterprise loans and insurance with Madison. Like most MFIs, FINCA recognised the need to address the major risks that confronted its clients. At the time, PULSE, CETZAM and PRIDE Zambia were already demonstrating the effectiveness of partnering with insurers, which made it easier for FINICA to find Madison.

FINCA Zambia has approximately 10,000 clients. The management estimated portfolio at risk at 4 percent. FINCA Zambia's Head Office is located in Lusaka and is operating in 14 districts located in 4 Provinces of Zambia.

[4] Unlike the standard village bank approach where mobilized savings constitute an internal account and are used for lending to members, the savings mobilized by FINCA Zambia are not used for lending to members and are kept in a commercial bank as forced savings.

Table 7. Summary of Performance of Microfinance Institutions[5]

Performance Indicator	2001	2002	2003
CETZAM			
Total Assets (US$)	1,435,734	1,606,595	1,600,760
Total Loan Portfolio (US$)	378,116	546,215	585,974
Total Clients	13,511	19,217	15,610
Total Borrowers	10,719	16,131	13,350
Average Loan Size (US$)	35	34	44
PAR (%)	9	12	16
Total Staff	118	132	155
Clients' Dropout Rate (%)	25	50	
PRIDE Zambia			
Total Assets (US$)	455,705	987,170	977,897
Total Loan Portfolio (US$)	272,401	285,352	354,654
Total Clients	4,514	4,698	6,061
Total Borrowers	3,280	3,162	3,830
Average Loan Size (US$)	83	90	93
PAR (%)	8	20	15
Clients' Dropout Rate (%)	44	53	42
PULSE			
Total Assets (US$)	1,251,682	962,477	743,943
Total Loan Portfolio (US$)	151,955	248,108	389,386
Total Clients	3,063	4,091	2,232
Total Borrowers	2,439	2,589	2,232
Average Loan Size (US$)	62	96	174
PAR (%)	19	28	8
Total Staff	45	38	28
Clients' Dropout Rate (%)	-	-	30

Microfinance Trends

Table 7 shows negative trends in the performance of some MFIs.[6] For instance, CETZAM and PULSE have experienced a serious reduction in clients and high delinquency. The general causes of dropouts and delinquency include low staff morale, high staff turnover, inadequate staff training, client dissatisfaction, prevalence of death and illness among clients, and multiple borrowing (Musona 2004).

MFIs also have unique factors that account for their performance. For example, CETZAM reached a very high level of outreach and then experienced a sharp downfall largely because the organisation did not manage growth effectively. The rapid expansion strategy employed by CETZAM was not accompanied by adequate control and monitoring systems, which adversely impacted the institution's performance. CETZAM experienced high levels of delinquency, fraud and staff turnover, which culminated with the closure of several branches.

[5] Figures for FINCA Zambia could not be obtained for this study.
[6] The numbers in Table 7 for some MFIs might even look worse if 2004 was included, but they were unable to provide data for the most recent year.

For PULSE, client research revealed that product dissatisfaction is probably one of the top factors accounting for its predicament. PULSE has attempted to respond to delinquency and dropouts through new products; however it remains unclear whether these products have attributes that aptly address the needs. PULSE has also experienced a high turnover of staff, from senior management to loan officers, which has induced its own negative impact of delinquency, especially when field staff are fired due to fraud.

When MFIs are unsuccessful with their core products, it distracts them from effectively delivering other services like insurance. Unfortunately, neglect of the insurance service presents its own product dissatisfaction among clients, which also contributes to delinquency and dropouts. Clearly since MFIs would be worse off without insurance, insurance needs to contribute to the overall strategy to enhance performance. Currently, insurance seems to be treated as a 'by-the-way product' especially since it is mandatory. There is no realisation that a mandatory product 'insurance', attached to a voluntary product 'credit', can be marketed as a voluntary product as well: one chooses a package of a loan with insurance voluntarily.

2.5 Risk Management Products

Madison's core business is insurance. Through the MFI partners, Madison is able to offer credit life and funeral insurance to the low-income market. Of the MFIs covered in this study, only PULSE was offering emergency loans designed to address the risks or economic stresses not covered by insurance (see Box 2).

Box 2. Emergency Loans offered by PULSE

PULSE started providing emergency loans after realising that some of the economic stresses faced by its clients were not taken care of by the business loans and insurance products. The main economic stresses were education, medical, and funeral expenses not covered in the insurance scheme. Additionally PULSE realised that small enterprises occasionally have business opportunities that they cannot take up using existing working capital. Consequently PULSE designed two types of emergency loans, for household and business purposes.

Household emergency loans are for three (3) month terms with weekly, bi-weekly or monthly repayments. Collateral can be one or a combination of salary, savings, employer guarantee, guarantor, or the borrower's repayment record. The amounts are linked to the loan purpose, as follows:

- Funeral expenses up to ZMK500,000 (US$108)
- School fees up to ZMK3 million (US$645)
- Medical expenses up to ZMK1 million (US$216)

The interest rate is 5.5% per month on flat rate basis, and there is a loan processing fee ranging from ZMK30,000 (US$6.50) to ZMK200,000 (US$43) depending on the loan amount.

Business emergency loans provide clients with cash to take advantage of business opportunities. Applicants may apply for any amount up to ZMK10 million. Loan term is up to three (3) months and repayment frequency can be lump sum or monthly instalments. Loan collateral can be one or a combination of a bank reference, immovable fixed assets, a guarantor, or proof of business urgency (e.g., a purchase order). The interest rate is 6.5% per month on flat rate basis and there is a 7% loan processing fee.

2.6 Profit Allocation and Distribution

In the partnership with Madison Insurance, MFIs are compensated for their sales and service functions in two different ways: administration fee or profit sharing. The profit sharing formula is as follows:

Institution's share of profit = 50% (0.70 x premiums paid – claims)

Madison deducts 30% of the premiums to cover its administrative costs, and then the balance after paying out claims is shared evenly between the insurer and the MFI. Profit sharing is calculated at the end of each financial year. Any losses are the sole responsibility of Madison; MFIs are not required to participate in losses. Of the four MFIs, only PULSE participates in the profit sharing arrangement; the others receive a fixed fee of 10 percent of the premiums collected. Madison prefers the fee approach because it is slightly easier to administer.

2.7 Investment Policy

The resource base of the company includes investments in other financial instruments, such as money markets. The company's investment policy is reviewed periodically to ensure that opportunities presented in the economy are taken into consideration and exploited. The primary goal pertaining to resources and investment is the maximisation of returns without endangering solvency and liquidity. As a result, diversification of the investment portfolio is one of the key objectives of the investment policy and ensures the following:

- Spread of investment between different asset categories
- Investments are with a variety of maturity dates, and
- Concentration in any corporate group or property development is avoided.

For a number of years, the accounts department has been responsible for all investments. Madison has recently incorporated a subsidiary called Madison Investments, which might also take care of investments for the insurer.

2.8 Reinsurance

Given the nature and size of the insured values in the microinsurance portfolio, Madison has opted to retain the entire risk portfolio. Madison attempted to reinsure part of its credit life products, particularly the higher loans with commercial banks. However the reinsurer considered these to be too risky. The reinsurer offered to reinsure the entire credit life portfolio, including the microinsurance products, to spread the risk over a large volume of policies, but Madison declined.

3. The Members

3.1 Conditions

For Madison, the market for the group credit life products are the financial and lending institutions. For MFIs, most of their clients live in densely populated peri-urban areas. Most of the clients are self-employed, running micro and small enterprises, or in low-paying, full- or part-time employment.

Table 8. Client Description

Issues	Observations
Intended target groups/clients	MFI clients
Actual clients and reasons if deviation from intended market	There is no deviation
Exclusions of specific groups	Varies according to financial institutions
General economic situation of clients	Low-income persons ranging from very poor to not-so-poor
Key economic activities of clients	Majority run microenterprises such as simple manufacturing and general trading
% of clients working in the informal economy	80%
Social characteristics of clients	Low-income, informal sector, men and women
Geographic characteristics	Medium to high density peri-urban areas
Nature of membership	Tied to access to loans
Methods of recruitment of clients	Insurance products mandatory; no recruitment drive

3.2 Major Risks and Vulnerabilities

Risks and Vulnerabilities

The first tier of risks faced by majority of MFI clients in Zambia are death and illness. Besides these primary concerns, clients also have a second tier of concerns regarding various economic stresses that cannot be met out of regular household cash flow, including educational and medical expenses. Client research through focus group discussions (FGDs) with PULSE clients revealed the following sentiments about risks and vulnerabilities:

1) **Illness** emerged as the top risk in all FGDs. Due to poor services in government clinics, there are additional costs required for one to seek quality health care.
2) **Education**: The second concern involved education expenses as respondents struggle to raise funds to pay for school fees, uniforms and books. This problem is particularly acute in households with many children.
3) **Funerals (Deaths)**: Although the occurrence of death is infrequent, when it does occur the financial requirements are huge. Additionally households have to help finance the funerals of distant relatives as well, which increases the burden.

4) **Food**: This problem is usually associated with the size of households. The average household is about seven in most peri-urban areas. Food often becomes a problem if the household has to cope with an illness or death, or pay school fees, as resources to meet basic food requirements are depleted.

5) **Accommodation**: Respondents who do not own their homes have significant difficulty in paying rent every month. In some instances, landlords usually ask for 3-6 months advance payments for rent.

6) **Theft**: This risk was identified by only a few respondents. Although the occurrence is infrequent, the severity is very high. The risk leads to losses of both business and household goods.

Coping Strategies

Focus group discussions revealed that most clients draw money from their enterprises to cope with risks, causing a compounding problem of lowering income that inevitably affects loan repayment. For clients who opt to borrow money from moneylenders, the problem deepens. They explained that, "you dig a ditch to cover another ditch; you certainly are not solving anything, but adding on to the problems." On the other hand, clients who benefit from donations from friends and relatives say that the donations are sufficient to offset the expenses incurred during funerals. However, these donations are not guaranteed, and the poorer households tend to receive less significant assistance.

Figure 2. Risk Management and Degree of Irreversibility

High Level of Prevalence Low

Most preferred and used mechanisms Most dreaded measures						
Use of Savings	Reduction of household consumption	Borrowing from friends, neighbours (non-interest)	Borrowing (non-interest)/ assistance from relatives	Borrowing from a money lender	Use of business capital	Sale of household assets

Low Degree of Irreversibility High

Adapted from Manje and Churchill 2002; Manje 2003

One way of assessing the coping mechanisms is to look at the degree of irreversibility. Based of the data obtained from PULSE clients in 2002 (Manje and Churchill 2002), Figure 2 shows that some coping mechanisms, such as selling off assets and borrowing from moneylenders, have a high degree of irreversibility—and the higher the degree of irreversibility, the harder it is for households to recover and resume their previous levels of consumption and living standards. During FGDs, most respondents indicated that they would be willing to access effective risk management products to replace irreversible coping mechanisms. Suggestions included insurance, emergency loans and flexible voluntary savings.

FGDs conducted during this study also revealed some indication of which coping strategies are widely used and for which types of risks (see Table 9).

Table 9. Risks and Coping Strategies

Problem	Time of occurrence	Frequency	Coping Mechanisms
Illness	Mainly unpredictable and highly relevant during rainy season	High	• Mainly drawings from business to pay for medication • Sometimes donations from relatives
Education	Pressure high at beginning of year for government schools; every school term for private schools	Periodical	• Mainly drawings from business • Borrowing from moneylenders (interest rate 50 to 100% per month) • Paying the school in instalments
Funerals	Unpredictable	Once in a while	• Mainly drawings from business • Donation of food and money from friends and relatives • Assistance from church or market associations • Borrowing from moneylenders
Food	Daily	High	• Mainly drawings from business • Reduction of number of meals per day
Theft	Though unpredictable, common during rainy seasons	Rare	• No coping mechanism cited; focus on prevention through increased security
Rent	Pressure high at beginning of year when rental hikes are effected, and also monthly	Periodical	• Mainly drawings from business

3.3 Relationship between Risks and Services

The credit life and funeral insurance offered by Madison address the risks faced by the MFIs and their clients. Without insurance, in the event of a client's death, some MFIs had to write off the loans. Other MFIs insisted that the group members pay, which increased their dissatisfaction and could lead the entire group to default. Similarly, if members were ill and unable to pay an instalment, the other members had to pay for her. The insurance schemes are a remedial measure, mitigating against the effects of sickness and funeral expenses for low-income households and the microfinance institutions that serve them.

As an insurance company, Madison would not be able to develop products that address all the risks and economic stresses faced by MFI clients. However, MFIs are already beginning to address these risks on their own (see Box 3).

Box 3. Performance of Emergency Loans at Pulse

In December 2004, emergency loans constituted 23% of PULSE's loan portfolio. The table shows the distribution of loans disbursed by quarter. Eighty percent were for business purposes and 20% for household emergencies. All the household emergency loans were taken to finance school fees.

Distribution of PULSE Loan Portfolio by Quarter 2004

TYPE OF LOAN		Q1	Q 2	Q 3	Q 4	TOTAL
Microenterprise Loans	Business	349	335	386	382	1,452
	Emergency	43	21	26	14	104
Public Servant Loans		240	67	66	907	1,280
Total Loans Disbursed		**632**	**423**	**478**	**1,303**	**2,836**

It was difficult to assess the profitability of emergency loans since PULSE does not track the performance by type of loan. No reasonable comparison in terms client preference could be drawn between insurance and emergency loans since the former is mandatory. It was however interesting to note that clients obtain household emergency loans to deal with risks and economic stresses not covered by the insurance products, that is, school fees and medical bills.

3.4 Familiarity with Insurance

Senior managers of the MFIs indicated that few clients really understand insurance. A study on PULSE (Manje and Churchill 2002) revealed similar findings.[7] Although the MFI has provided insurance for almost five years, discussions with field staff and clients suggest that the problem is still there. In a recent internal client satisfaction survey, one issue that often emerged is the perception of insurance as cost and not a product (see Box 4). Madison is aware of this problem, however the insurer clearly sees client education as a responsibility of the MFIs.

A lack of marketing materials is the primary cause of the problem, according to MFI senior managers. For Madison, these products are supposed to be marketed by the MFIs. For the MFIs, these are mandatory products that do not warrant a lot of investment in marketing. However, some MFIs are beginning to realise that this is a serious problem that can spill over on the performance of their credit products.

[7] Based on data collected in 2001 from 200 PULSE clients and prospective clients, 38 percent had no understanding about insurance and another 30 percent had only a very basic understanding. One would have expected in the intervening years, with increased exposure to insurance, that the level of understanding would have improved.

Box 4. Product Misconceptions: How is Insurance Different from Credit?

Knowledge of the product one intends to purchase is an important demand factor. Information about a product affects the customer's willingness to purchase, particularly if access to the product is voluntary. From the clients' perspective, PULSE only provides one product: credit. Clients do not see compulsory insurance and savings as products, but rather conditions for borrowing. Client research through focus group discussions revealed that clients often fail to recognise the differences between credit, savings and insurance; when they do identify differences, they have the following perceptions:

- Clients borrow from PULSE and pay back with interest
- PULSE borrows from clients through the Loan Insurance Fund (LIF) and does not pay interest
- Clients contribute to insurance, but the money is never paid back
- Insurance and savings protect the MFI.

Clients were confused over LIF and the two insurance products, CLAS and Thandizo. Most clients were familiar with Thandizo, but could not give the product name. They vaguely understood Credit Life Assurance Scheme, but did not know the actual amount they paid in premiums. The researchers' observation is that ignorance of the cost of insurance is worsened by the fact that premium is deducted from loans together with processing fees. For instance clients would say: "I applied for ZMK600,000 (US$129) but I was given ZMK419,000 (US$90). The difference is what I paid for insurance." They have no idea that 7% is deducted as the processing fee, 2% for CLAS, and for Thandizo they pay ZMK3,200 (US$7) for themselves and ZMK1,800 (US$4) for each household member they insure.

4. The Product

Table 10. Product Details

	Credit Life (CLAS)	Funeral Insurance Policy[8]
Group or Individual	Group product; the MFI is the legal policyholder on behalf of its borrowers.	
Term	Borrowers are covered for the length of the loan term (from 3 to 24 months).	The product has a renewable term of one (1) year.
Eligibility	No medical examinations required but applicant must appear physically fit. Must be a borrower of the MFI, aged between 18 & 62 years.	
Renewal Requirement	Group scheme renewable annually. Individuals renew automatically with each loan.	
Rejection rate	None	
Compulsory or Voluntary	Mandatory	Mandatory for principal borrower, Voluntary for additional lives
Product Coverage	• Disbursed loan amount (plus interest for FINCA) • Instalments for the specified period of illness (except for CETZAM)	• Principal borrower – US$108 (or $216 at PRIDE for loans longer than 1 year) • Spouse – US$86 • Biological children and dependants living with the principal borrower (maximum of 6) – US$54
Exclusions	• Self-inflicted death or illness • Death or illness from illegal activity • Death or illness from alcohol or drugs not prescribed by a doctor • The age limit for dependants is 25 (for funeral insurance)	
Pricing – Premiums	See Section 4.4	
Co-payments / Deductibles	None	
Mode of Premium Payment	Either deducted from loan amount or paid upfront in cash; MFIs forward premiums to the insurer at the end of each month	
Commission	Commission paid to MFI to cover administration costs: 10% (for CETZAM, PRIDE and FINCA); Profit-sharing arrangement for PULSE (see Section 2.6)	

Madison offers two products that could be considered microinsurance, credit life coverage and funeral insurance. All four MFIs offer credit life. PRIDE and PULSE offer the funeral insurance as a mandatory product, while FINCA offers it as voluntary product. CETZAM offers funeral insurance as a mandatory product through a partnership with NICO.

4.1 Partners

In Madison's partner-agent delivery model (see Figure 3), the MFIs are the legal policy holders for both credit life and funeral insurance. In practice, however, the MFIs operate as insurance agents in return for an administration fee or a profit share. Madison has similar arrangements with commercial banks. As described in Box 5, CETZAM has a different

[8] PULSE has a local name 'Thandizo' for this policy. CETZAM's funeral policy, Ntula, is in partnership with NICO Insurance, not Madison.

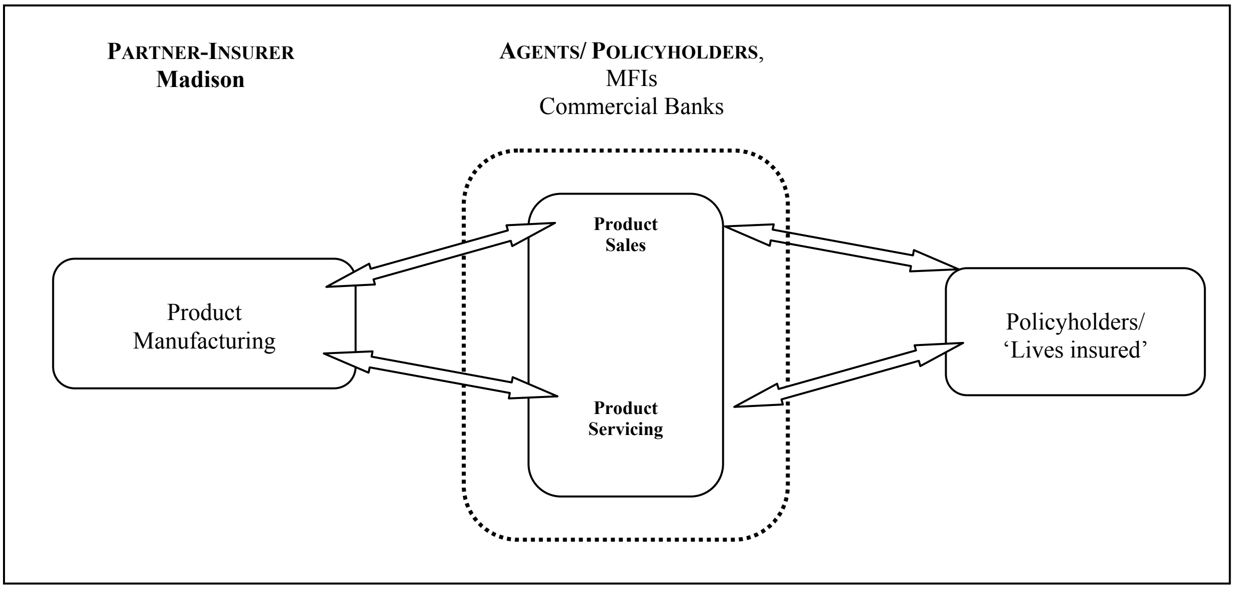
arrangement for its funeral insurance policy 'Ntula'. CETZAM is a licensed agent receiving a commission for insurance sales and servicing, which allows it to pay the claims directly to beneficiaries and then deduct the settlement from the premium payment to the insurer.

Box 5. CETZAM's Funeral Insurance Product

CETZAM's funeral insurance product 'Ntula' provided with NICO Insurance is similar to the funeral insurance policy offered by Madison. Unlike in the arrangement with Madison where the MFIs are 'policyholders', with NICO, CETZAM is a licensed agent providing insurance on behalf of NICO for a commission. CETZAM is empowered not only to calculate and collect premiums, but to thoroughly check claims, pay out, calculate and deduct commission and remit the net on a monthly basis.

The monthly premium of US$1.20 covering 6 people seems to be within the means of the clients. CETZAM's benefit payout of ZMK500,000 (US$108) for an adult and ZMK250,000 (US$56) for dependents is basically the same as Madison. This payout does not cover all funeral costs but it cushions the funeral budget. Despite demands to increase the payout, CETZAM decided not to so knowing that this entails increasing the premium rate.

Figure 3. Partnership Model



(Adapted from Churchill et al 2003)

In the partner-agent model, **product manufacturing** is the responsibility of Madison, with some involvement by the MFIs in the negotiation on premium rates and coverage. The CLAS product was initially developed for commercial banks. Upon request from an MFI, the product was refined to suit its needs. The premium rates may be reviewed once a year by Madison upon request by the policyholder. Such an adjustment in the premium rates would only affect new loans being admitted into the scheme. The adjustment could be upwards or downwards depending on the claims experience.

MFIs are solely responsible for **sales and servicing**. Since the products are largely mandatory, the responsibilities are narrowed down to premium collection and claim settlements. Additionally, MFIs are responsible for client education and measuring client satisfaction. According to PULSE staff, there is greater scope for involvement of Madison, especially with staff training on insurance.

In a standard partnership for both commercial banks and MFIs, the return is an administrative fee or commission to cover the costs of selling and servicing insurance policies. Of the four MFIs, PULSE is the only one receiving a profit share with Madison. Madison indicated that this arrangement was a response to PULSE's proposal, demonstrating Madison's flexibility in such partnerships. "We always endeavour to respond to the customers' needs and always carry out an assessment to ensure it does not compromise our profitability," affirmed Madison's Deputy General Manager, Life Division. Profit sharing does not present administrative difficulties for Madison; in essence it still provides the MFI with funds to meet administrative costs of the insurance scheme.

4.2 Distribution Channels

Madison employs its wide network of preferred brokers and agents to distribute most of its insurance products. However, Madison has opted to use its internal capacity for distributing its microinsurance products and has no plans to use brokers or agents in the near future as the partnerships are working well.

The MFIs have a contrasting view on how well the partnership is working. Their major complaint is the workload. Field staff indicated that the introduction of insurance was accompanied with a great deal of paperwork, especially during client registration and claim processing. This additional work has reduced the time available for the core responsibilities pertaining to credit management.

Madison chose to use a group credit life scheme that positions MFIs as policyholders, as opposed to agents, due to regulatory issues, which include:

1. Agents must be licensed by PIA annually
2. Agents must employ experienced and qualified insurance professionals that have attended an accredited training course
3. Agents must follow some standard reporting requirements

Through its group credit life scheme, such as the policy described in Box 6, Madison has emerged as a leading insurer in the delivery of microinsurance. This arrangement is fraught with hitches. This model places MFIs in the forefront in terms of premium collection and claims processing. Although most of the insurance products are mandatory, client education is crucial, particularly for client retention. The sales persons—the loan officers—have a limited understanding of insurance, which has lead to client dissatisfaction and desertion.

Box 6. Extract from the PULSE Partnership Document for CLAS

The partnership that Madison Insurance cultivates with PULSE includes the following rights and responsibilities:

- PULSE shall enlighten borrowers of the features and benefits of the insurance product.
- PULSE shall collect the required single premium from its client borrowers.
- PULSE shall pay all the collected premiums to Madison Insurance at the end of each month.
- PULSE shall together with the premiums submit: A costing cover schedule (in a prescribed format) bearing basic data about each granted loan, and a statement of account reflecting the names of insured borrowers and their respective single premiums collected.

Madison Insurance shall empower PULSE to calculate and collect premiums on its behalf.

PULSE shall notify Madison Insurance of any death claims within 90 days of the date of the claim. In turn each borrower will be expected, at the time of applying for a loan, to provide relevant particulars of the next of kin who shall provide proof of death documents through PULSE.

Willingness to be insured under the scheme shall be part of the conditions for qualifying for a loan. A single policy document shall be issued to PULSE the legal policyholder. The insured borrowers are the lives assured under the group scheme. Thus **in the event of death** within the cover period, the applicable sum assured at the date of death will be payable by Madison Insurance by a cheque drawn in the name of PULSE.

Whereas **in the case of the sickness benefit**, one must be certified by a qualified medical practitioner or clinical officer as being unfit to carry out their normal duties for a minimum classified period due to illness. The minimum periods are 14 days for weekly instalment repayments, 21 days for bi-weekly instalment repayments and 30 days for monthly instalment repayments.

The maximum period cover for sickness is 8 weeks for weekly instalments, 5 bi-weekly instalments, and 3 months for monthly instalments. After this maximum period, whether the insured borrower is still sick or not, they shall be temporarily off the sickness cover for 4 weeks. The sickness cover shall be automatically reinstated upon the expiry of the 4 weeks.

Madison Insurance shall expeditiously settle claims within a maximum of seven working days.

Cover becomes effective with PULSE’s grant of a loan to the borrower.

4.3 Benefits

The benefits of the microinsurance products are outlined in Table 11. In principle, the insurance products address the critical risks confronting the clients; particularly death and illness. However, insurance only provides partial protection from these risks.

For example, with the funeral insurance, the FGDs revealed that funeral costs range from US$300 to US$500.[9] The largest expenditure is a coffin, which runs from US$100 to US$200. So while the US$108 payout from Madison is a welcome contribution, poor households have to patch together money from different sources to cover the expenses. A key

[9] Manje and Churchill (2002) found that a typical funeral in Zambia costs US$132 to $158, so it appears that funeral prices are increasing.

strategy in this regard is reciprocal gifting. Consequently insurance benefits complement existing informal coping strategies, but does not replace them.

For the illness cover, the actual benefits to low-income households are in form of relief from paying loan instalments during an illness. If the borrower is ill for an extended period of time—and can get a doctor to certify that the client is unable to carry out normal duties—then Madison will pay the borrower's instalments during that period. Where family members of the insured borrower assist in the running of the business during an illness, it is expected that the money meant for loan repayments could be used for medical expenses, though in some cases it is certainly not sufficient for quality medical care. This illness cover is not effective as health insurance as it does not directly pay for any medical expenses.

In addition, since the loan instalments are generally quite small, there is an outstanding question as to whether the transaction costs for the client, MFI and insurer justify the illness benefit. Although FINCA's CLAS policy includes the illness benefit, staff do not market it because it causes complications and is vulnerable to fraud. CETZAM requested that Madison not include the illness benefit in its CLAS policy because many of its clients would not be able to make a claim since they are not treated by qualified medical practitioners.

Table 11. Benefits of the Insurance Products

Product	Insurer	Benefits
CLAS	Madison	• **Death**: Disbursed loan amount (PULSE, PRIDE, CETZAM) or disbursed loan and interest (FINCA) • **Illness**: Maximum instalments per claim as follows (except CETZAM): ▪ Weekly repayments: 8 instalments ▪ Bi-weekly repayments: 5 instalments ▪ Monthly repayments: 3 instalments
Funeral insurance	Madison	**PULSE and FINCA** Principal borrower: US$108 Spouse: US$86 Biological children and dependants (maximum 6) up to 25 years: US$54 **PRIDE Zambia** Principal borrower: US$108 (however for loans over 1 year and above US$645, the payout is US$216) Spouse: US$86 ($108 for large loan and long term) Biological children and dependants up 25 years: US$54 ($108 for large loan and long term)
Ntula	NICO	**CETZAM** Principal borrower: US$108 Spouse: US$108 Biological children and dependants younger than 15 years: US$54 Biological children and dependants 15 years and older: US$108

Regarding the death benefits for CLAS, Madison has two options: cover for the disbursed loan amount or the disbursed amount plus expected interest. The MFIs seemed unaware of the two options; only FINCA insures both principal and interest. Madison opted to link credit life to the disbursed amount rather than the outstanding balance because it is relatively easier to administer, particularly for large numbers of clients.

When there is a claim, all MFIs deduct the deceased borrower's outstanding loan and the interest due[10] from the benefit; after this deduction there is usually a positive balance. Madison lets the MFIs decide what to do with such balances. Of the four, only CETZAM retains the balance, allowing the organisation to create a small pool of funds to cover negative balances and cushion administration costs. PULSE, PRIDE and FINCA pay out positive balances to the deceased client's family, a feature that has benefited a number of low-income households, as illustrated in Box 7.

Box 7. Benefits of Insurance

Catherine Mwanza's late husband was a client with PULSE. When he died, he was on his seventh loan of US$1500. He died leaving a wife and 5 children.

Catherine's husband never involved her in his business affairs. She was not aware that he was borrowing money from PULSE, nor did she know that he had surrendered title for their house as security for the US$1500 loan. The husband opted to confide in his young brother who also helped to run the business. When the husband died, her brother-in-law put in a claim for Thandizo and got the money. However, the primary beneficiary was the wife who did not benefit much from it. The credit officer sympathised with Catherine's position. She visited Catherine a month after the husband's death and explained to her that she was supposed to benefit from the CLAS settlement as well as collect title deeds. She was asked to produce a marriage certificate and proof that the husband died.

In total, Catherine was given US$495. Of this amount, US$108 was a reimbursement from the Loan Insurance Fund (forced savings), while US$387 was the reimbursement of the balance of loan repayments. Catherine was also given the custody of the title deeds to the house. The funds were used to pay for the children's education and to finish building the house. Catherine sees insurance as being beneficial and in future she would like to insure everyone in the house against illness and death. However, she says she needs more education on insurance.

4.4 Premium Calculation

Madison uses a South African company, QED Actuarial Company, for premium setting of the credit life policies. QED works in liaison with Madison's Actuary Manager. The premium set is allocated as follows:

- Risk or pure premium – 70%
- Operations costs –15%
- Commissions –10%
- Reinsurance – 0%
- Reserves (surplus) – 5%

However, this distribution only serves as a guideline. Risk premium could go up to 85%, while commissions range from 10 to15%, reserves from 5 to10%, and operations costs range

[10] The MFIs all charge a flat interest rate on the initial loan balance and then evenly spread the expected repayments (principle and interest) over the loan term.

between 10 and 15%. Madison keeps reserves according to the regulator's requirements; there is always a provision for claims incurred but not reported and future claims.

Notably, the main product differences between the MFIs were premium rates (see Table 12), which also varied depending on the loan type. According to Madison, the initial product is almost standardised, however the insurer does have a provision for negotiation to tailor the products according to needs and affordability of the client, in this case the MFI. Major differences on premium rates also arise from annual product reviews. These product reviews are not automatic; they are done upon request from the clients.

FINCA's clients enjoy lower premium rates than the clients of other MFIs (and they have greater benefits since FINCA's CLAS also covers interest due). To get the best deal from an insurance company, it helps if the MFI's managers understand insurance operations. FINCA's CEO at the time already had exposure to microinsurance through FINCA's international network. During the partnership negotiation, FINCA insisted that, given its clientele and indeed the large risk pool it was going to offer Madison, a lower premium rate than the other MFIs was still going to be profitable. Madison agreed to this proposal and planned to review it after a year. Indeed the loss ratio was very low and this justified a further reduction of the premiums. FINCA also has a simpler pricing structure with fewer options, which makes it easier for staff to understand and explain the details to clients.

Table 12. Premium Rates

	Credit Life Insurance		**Funeral Insurance**
	Loan Term	**Premium**[11]	
PULSE	1 - 6 months 7 - 12 months > 12 months	2.0% 2.5% 3.5%	All loans regardless of loan term: • ZMK3,500 ($0.75) for the borrower • ZMK2,800 ($0.60) for the spouse • ZMK1,750 ($0.38) for each dependant
PRIDE Zambia	**Group loans**		
	1 - 6 months 7 - 12 months > 12 months	1.5% 2.2% 3.0%	1-3 months 0.36% of total sum assured 4-11 months 0.67% 12-18 months 1.27%
	Individual loans		
	1 - 3 months 4 - 6 months 7 - 12 months > 12 months	0.9% 1.5% 2.2% 3.0%	1-12 months 1.27% of total sum assured > 12 months 1.9% (note: the benefit amount for individual loans over one year is higher: $216 for borrower and $108 for spouse and dependents)
FINCA Zambia	1 - 4 months 7 - 12 months	0.8% 1.25%	All loans regardless of loan term: 0.58% of sum assured
CETZAM	1 - 4 months 5 - 8 months 9 -12 months	1.19% 2.11% 2.75%	ZMK1,125 (US $0.25) per week (for borrower, spouse, and 5 dependents)

[11] Premiums for CLAS are based on the loan amount; premiums for funeral insurance typically based on a percentage of the total sum assured (or in the case of CETZAM and PULSE, it is quoted as a flat amount). Few MFI employees actually understood the difference or could explain the pricing structure.

4.5 Premium Collection

Among the four MFIs, premium collection occurs in two ways. CETZAM and PULSE deduct premiums from loan amounts, while FINCA Zambia and PRIDE Zambia require upfront payments. The mode of collection used by CETZAM and PULSE is intended to make insurance affordable for clients since they do not have to find the money to pay upfront. Some PULSE clients expressed contentment with this mode of premium collection because: "Sichi venka kubaba," they explain in the local dialect to mean "we don't feel the pinch."

The problem with the deduction approach, however, is that PULSE also deducts a processing fee from the loan and clients are unaware how much they are paying for insurance and how much for processing. For instance, a client who applied for a 6-month loan of ZMK2 million (US$430), receives ZMK1.8 million (US$387). Clients often believe that the total amount deducted was for insurance. In reality, of the US$43, US$30 is a seven percent loan processing fee; only US$13 is paid for premiums: that is US$8.60 (2%) for credit life and US$4.40 for funeral cover Thandizo (for the borrower, spouse and 6 dependents). During the FGDs, the researchers had to spend considerable time to explain the actual costs of insurance and in the end most clients realized that the premiums are actually very little compared to the payout.

The upfront payment used by PRIDE Zambia and FINCA Zambia enhances understanding of insurance—at least most of their clients knew how much they paid as premiums. Of course, the premium payment mechanism is not a sufficient means to educate clients about insurance, but it is a start.

Box 8. Linking Loan Repayment to Insurance: Dissatisfaction with Ntula

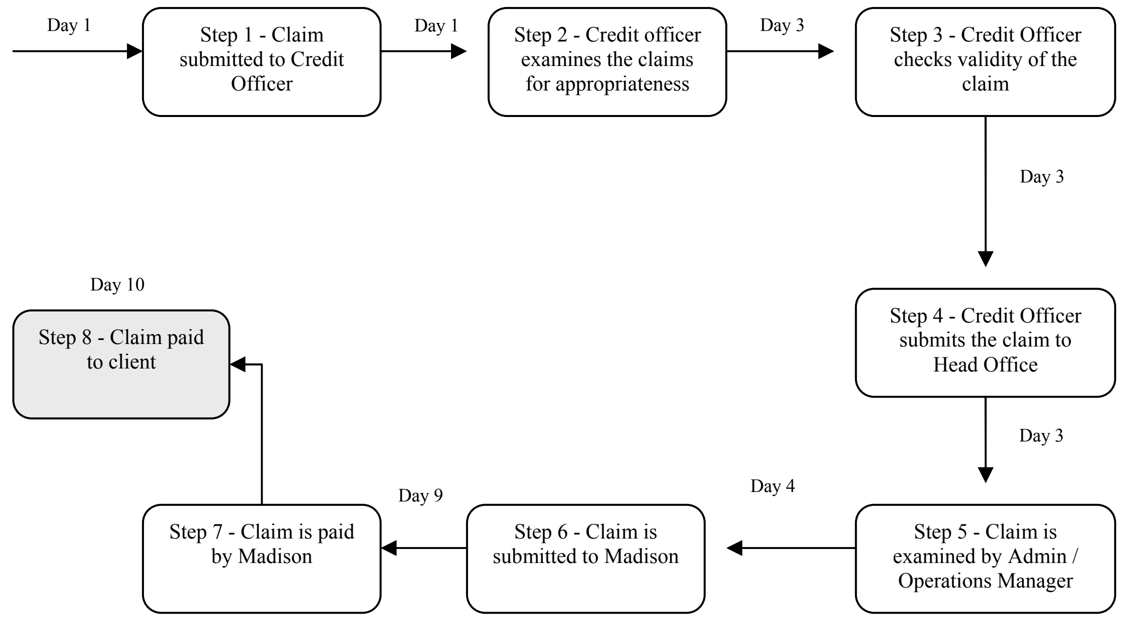
Ntula, CETZAM's funeral insurance product, was identified as one of the major reasons clients exit from the Trust Banks. The respondents alleged that the deduction of the premium from the loan amount reduces the amount of cash that they get. In addition, respondents argued, it is difficult to claim benefits of Ntula because the conditions are unreasonable. For example, the Trust Bank must not have any delinquent loans for a claim to be successful. The respondents argued that since Ntula is an insurance policy an individual takes, why should CETZAM look at the Trust Bank's repayment record and not the individual repayment record to honour claims?

According to one client, "A member of our group had lost a child and she made a claim for Ntula, but CETZAM would not pay because the group was behind in repayment. The situation was bad because at the time, the child's body was still laying in the morgue, waiting to have a coffin bought and she did not have money and had expected that her Ntula would cover the funeral. So being denied her claim defeated the whole purpose of having paid for the insurance."

Adapted from Musona 2003.

4.6 Claims Management

Figure 4. Typical Claims Settlement Process



Note: In a case where documents are not properly filled in (Step 1 or Step 5) the Claim will be returned to CO/client and the process will gain additional days – around 2 -3 more days.

Delays in Claim Settlement

Assuming there are not any hitches, a claim with correctly completed documentation is supposed to be paid within 10 days, as shown in Figure 4. However, clients believe that it takes longer. MFI managers agreed, noting that insufficient, improper or incomplete documentation account for most settlement delays. The documentation problems stem largely from the loan officers, who seem to be too busy chasing down delinquent borrowers to spend time ensuring that the claims documents are correctly completed. Indeed field staff indicated that the paperwork involved in the claims settlement process is quite demanding and they wish that it could be simplified.

MFI managers indicated that some delays are also caused by Madison and its stringent documentation requirements (see Table 13). Because of its experience with late payments from the insurer, PRIDE Zambia has opted to pay out claims for sickness from its own funds before receiving payments from Madison as long as all the documentation is correct.

In general, the documentation requirements are not entirely appropriate given the relatively small size of the claims. Madison has made some accommodation for claims in rural areas, replacing the death certificate with written confirmation from three public officials. Still, the documents were not easy to get and involved travel costs to and from the remote villages.

Table 13. Claims Settlement Details

Issues	Observations
Parties involved	Madison, MFIs, beneficiaries
Documents are required for claims submission	The standard requirements for death claims are: • Medical certificate of the cause of death • Post mortem report with burial permit • Police report with burial permit • Plus proof of identity, i.e., National Registration Card or passport For deaths that occur in remote villages, the requirements three written confirmations of death, such as: • The District Secretary or local police station • The Chief or Village Headman and • Employer of the deceased • Plus proof of identity The standard requirements for sickness claim are: • Certificate of sickness from a qualified medical practitioner • Plus proof of identity
Claims payment method	Cash or cheque depending on amount or whether client has a bank account
Time from insured event to claim submission	2 days; varies widely and depending on how fast the client can organise the documentation; clients are encouraged to make a claim within a month
Time from submission to payment	7 working days; however Madison does take longer than this sometimes
Claims rejection rate	Estimated at 5% ; However, it seems senior management was not aware of some claims rejected particularly those due to misinformation from staff

For example at PRIDE Zambia, rural branches face considerable problems in claim settlement. For sickness, most of the people in rural areas use traditional doctors. Use of traditional healers poses a challenge to claims for both death and sickness as there would be no certified documents from a qualified medical doctor.

Claim Rejection

So far, Madison has not rejected any claims. Field staff estimate that they 5 to 10 percent of the claims. However, senior MFI managers were not aware of some rejected claims, particularly those that involved misinformation from staff. Clients are not informed of any formal appeals process.

The three main causes of rejection are misinformation, fraud and inadequate documentation. Boxes 9 and 10 provide some examples.

Box 9. Claim Rejection: A Case of Misinformation

Christopher Mwengwe is a PULSE client currently on his fifth loan. Christopher paid premiums for funeral insurance to cover four dependents when applying for the loan in July 2004. When one of the registered dependents, his 29 year old nephew, died, Christopher put in a claim for Thandizo. Upon producing the death certificate and a photocopy of the national registration card, he was told that the claim cannot be processed since the nephew was over the age limit for dependants. He explained that the previous credit officer had accepted his premium even after looking at the documents. The new credit officer maintained that the age limit for dependants was 25 years. Christopher explained that no such information was provided to him during registration.

Christopher lamented that he had to use money from his business to cover funeral expenses, thereby affecting his repayment schedule. Christopher believes the MFI is cheating its clients and he is discouraged from paying premiums. Since the clients do not receive any document stipulating product features and coverage, it is the client's word against the credit officer's. PULSE's high staff turnover makes it worse—the credit officer who registered Christopher's nephew was no longer with PULSE.

The problem of inadequate communication was also noted by Musona (2003) among CETZAM clients, who did not to understand why premiums are deducted from the loan and also why CETZAM insists on the Trust Banks having no delinquent loans for claims to be valid.

Box 10. Claim Rejection: A Case of Insufficient Documentation

When Philip Zulu's wife died, he decided to make the claim after the burial. Upon submission of the claim form with a burial and death certificates, the credit officer advised Philip to also produce a Cause of Death Certificate. He went back to the hospital only to be told that it was not possible to produce such a document because some days had passed after the wife's death. He explained that he spent three weeks moving between the PULSE office and the hospital, and in the end he gave up on the insurance claim. This experience has certainly adversely impacted his perception of insurance.

Clients' Understanding of the Settlement Process

Focus group discussions showed that clients were unaware of the required claims documentation. The FGDs also revealed that it is more common for women to inform their spouses of the loan and the insurance than men. "How can you involve yourself in something serious like getting a loan without informing your spouse," was a common refrain among female clients. For men, the scenario is different; their spouses were often not aware that their husbands got a loan and used the house as collateral. Consequently, borrowers' wives were also unlikely to know about the insurance and the claim settlement process.

4.7 Risk Management and Controls

Madison relies on MFIs to implement effective risk controls for adverse selection and moral hazard.

Adverse Selection: Mandatory provision is the main strategy to control adverse selection. Besides not allowing low-risk clients to opt out, mandatory provision enhances outreach and creates a larger risk pool. Since the product is mandatory and the entry point is the loan not insurance, and since the MFIs are providing large volumes of clients with very small sums assured, Madison does not require a medical exam or a declaration of good health.

Adverse selection potentially arises for the additional lives—that is when a client intentionally insures a very sick dependant—especially since there is no verification of the physical state of health for the additional lives insured for the funeral insurance policy. Interestingly, no waiting period applies to the coverage.

Moral hazard: The policies exclude suicide and self-inflicted injuries, death and illnesses stemming from participating in illegal activities, and death and illness due to the consumption of alcohol and drugs not prescribed by a doctor.

Fraud is another problem that Madison Insurance expects the MFIs to deal with. While MFIs are not accountable for any of the losses Madison may occur due to fraudulent claims, MFIs seem to be committed to ensuring that there are adequate controls against fraud. For instance, PULSE field staff affirmed that in most instances they visit clients' homes to verify the death of a household member even after a death certificate has been provided. However, in view of their other responsibilities, this is not always possible.

In all the MFIs, Operations or Portfolio Managers play an important internal control function since fraud can come from clients as well as field staff. The MFIs monitor the amount of claims per loan officer. Whenever there is a sudden increase in claims, senior management carries out investigations to ascertain validity of the claims.

For example, in 2003, PULSE experienced a number of fraud cases that involved forged death certificates. After noting a significant increase in claims, the internal auditor identified collusion between two loan officers and the medical staff at the hospital. More recently a credit officer forged a police report showing a client was dead. The loan was quite delinquent, so the credit officer's intent was to use death as the cause for delinquency, and get the loan written off so he could earn more incentives. The forged police report only came to light after the staff member had been fired for another fraud related case and the new credit officer found out that client was actually alive. Although PULSE has significantly reduced fraud recently, management indicated there is always potential for deception when money is involved, so it is important to have effective controls and regular checks.

4.8 Marketing

In the partnership arrangement, the microfinance institutions are responsible for marketing to their clients. By in large, however, the MFIs do not see the need for marketing since insurance is mostly mandatory. Unfortunately this is a lost opportunity. Even though the products are mandatory, there are several opportunities for insurance marketing, such as:

1. Market the voluntary components of the insurance policies, such as additional lives for the funeral insurance.
2. Highlight the menu of policy cover and prices, which presents an opportunity for MFIs to market mandatory insurance polices as a full package with the financial services. Currently, most clients seem to get the message that insurance is a condition for the getting a loan.

3. Show clients how much they would have to pay for the same coverage if they bought it on their own. Since individual insurance products are often several times more expensive than group policies for the same benefit package, and require medical exams, this is an important selling feature to persuade people that they are getting a great deal from the mandatory group policy.
4. Make the product real. Use testimonials from beneficiaries that have received settlements to communicate the importance of receiving that settlement when the family needs it the most.
5. Promote the solidarity nature of insurance so that people do not feel that they have wasted their money if they do not make claims.

CETZAM is the only MFI with a promotional brochure for its funeral insurance policy with NICO. CETZAM uses the brochure as a marketing tool.

One interesting marketing lesson from CETZAM is in the local name of the product. In one of its branches, Livingstone, in the Southern province, Ntula was rejected by prospective borrowers, and eventually CETZAM decided to offer it as a voluntary product. Besides the fact that CETZAM's staff did not have effective sales techniques, the insurance product was not accepted because the name 'Ntula'—which means "lifting up the burden" in Bemba—does not mean anything to the people in Livingstone who speak a totally different language. CETZAM should have considered repositioning the name of the product to the language spoken in the Southern province to enhance local understanding and acceptability.

4.9 Customer Satisfaction

For Madison, customer satisfaction is mainly measured by renewals. As long as MFIs continue paying premiums, and the premium volume is increasing, everything is fine. However, a more strategic approach would ensure that the performance is sustained based on satisfaction by the end-users, in this case the MFIs' clients. In fact, the significant increase in the volume of premiums stems from new partnerships with MFIs, not from satisfied end-users.

CETZAM seems to be the only MFI actively involved in measuring client satisfaction consistently through an outsourcing arrangement with M&N Associates, a local microfinance consulting firm. CETZAM has already demonstrated the value of incorporating the research findings into product review and development—even the introduction of insurance was based on findings from exit interviews.

However, in some instances, MFIs seem to demonstrate product rigidity. Taking CETZAM as an example, client satisfaction surveys and independent studies all recommend that the organisation reconsider the linkage betweens claims and loan repayment, but CETZAM continues this feature for its funeral insurance coverage for additional lives. This seems to be a case where the MFI is putting its interest (loan repayments) above the clients' product satisfaction (risk management). Clearly this has created serious repercussions for clients' perception of insurance.

To track client satisfaction, the other MFIs seem to rely primarily on feedback from field staff, which is not a systematic and consistent mechanism. Product information flow between senior management and field staff is not formalised, which makes it difficult for managers to understand clients' perspectives. For example, field staff at PULSE indicated that insurance is widely accepted by their clients, but the FGDs with clients showed otherwise. In general, there is a need for a mechanism for tracking clients' needs and preferences.

Both management and field staff are aware that clients do not understand insurance and have some misconceptions, but no in-depth inquiry has been done to address this issue. Misconceptions—such as demanding a refund if the insured event does not occur—stem from deficiencies in client education, which also reflect the limited understanding among field staff. This study revealed a number of product misconceptions based on inadequate communication, such as:

- Some of PRIDE Zambia's clients do not even know they have cover for illness.
- Some clients do not appreciate the compulsory aspect of insurance: "we are forced to pay but only a few benefit."
- PULSE and CETZAM clients do not know how much they pay in premiums—most think they pay more for insurance than they really do.
- Many PULSE clients do not see insurance as a risk management product; they see it as a cost to access loans.
- Some feel a refund of premiums should be considered: "Why can't they give us back the premiums when we haven't experienced death...", "We have been paying for insurance from the first loan…we are tired."
- Some PULSE clients do not understand the requirements for making a claim. Rejection of claims based on misinformation or inadequate product information adversely affects clients' perception of insurance.
- FINCA clients do not know they have cover for illness; FINCA Zambia has taken a deliberate position not to communicate to clients about illness cover to avoid fraud cases.
- PULSE clients cannot clearly distinguish between credit life assurance (compulsory insurance) and the Loan Insurance Fund (compulsory savings).

The study also revealed a number of sentiments indicating appreciation of the insurance (see Box 11). For example, some clients indicated that insurance gives one peace of mind: "We know that if problems arise, there is somewhere to run to." Overall the negative perceptions were more common than the positive ones, but they stem mostly from poor client education and product information, which both MFIs and Madison need to seriously consider addressing to sustain these microinsurance schemes.

A number of misconceptions and negative responses result from communication problems between loan officers and clients, which can partially be attributed to neglect. Given that lending is the MFIs' core business, and loan officers are measured based on their lending performance, they do not pay sufficient attention to insurance. Findings in this study also suggest that loan officers do not have adequate training to effectively communicate to clients about insurance. One of the recommendations from the clients during FGDs was the need for adequate information on the insurance products, including something written down.

Box 11. Insurance is Good: Clients' Perception

Odrina Senka is a long-time PULSE borrower, currently servicing her seventh loan. Odrina is thirty years old, married with two children. She also looks after four dependents. She operates a grocery and take-away shop and has a combined working capital of US$430, average monthly sales of US$150, and average monthly profits of US$107.

Odrina explained that the major risk that confronts her households were deaths and illnesses. These problems occur suddenly and randomly. In 2003, a relative passed away, and she and her husband had to meet almost all the funeral expenses. She also struggles to meet medical bills for her children since she takes them to private clinics to ensure that they receive quality health care. Money to cover medical bills is usually obtained from her businesses. She further explains that during funerals, sometimes there is financial assistance from friends and neighbours; this is not guaranteed and usually not sufficient to cover the bigger funeral costs such as coffins. To me, "Thandizo is one of the best services I have received from PULSE. For the insured members of my house I am assured I will not have to struggle to meet funeral costs and my business income is spared."

Like many PULSE clients, she thinks whatever is deducted from loan constitutes the insurance premium, but she seemed content with PULSE's collection method, "Money is difficult to raise; it is better they cut from the loan." Odrina was not aware of any claim rejection or fraud cases. She further explains that the nature of the claim process inhibits cheating because the documents required are difficult to obtain. She is very happy with the insurance schemes, but suggested that the amount of the payout should be increased. She is willing to pay more if the payout is increased.

5. The Results

Madison uses the loss ratio to measure the performance of its credit life assurance scheme. The overall performance of the microinsurance schemes has been good (see Table 14), although the loss ratio was high for CETZAM in 2003 and PULSE in both 2003 and 2004. FINCA's loss ratio may be particularly low because it does not market the illness benefit; PULSE's may be particularly high due to incidents of fraud. To Madison, the desired loss ratio should be below 25%. It is justifiable for FINCA Zambia to enjoy the lowest premium rates since it has the lowest loss ratios.

Table 14. Performance of the Four Microinsurance Schemes

NAME OF SCHEME/DETAILS	2004	2003	2002
PULSE HOLDINGS LIMITED			
Premium Value US$	25,345	18,603	18,331
Claims US$	12,252	9,803	5634
Loss Ratio (%)	48.3	52.7	30.7
Gross Profit/loss US$	13,092	8,800	12,697
Profit Sharing US$	4,582	3,080	4,444
PRIDE ZAMBIA			
Premium Value US$	28,098	4,010	-
Claims US$	5,034	786	-
Loss Ratio (%)	17.9	19.6	-
Gross Profit/loss US$	23,063	3,224	-
Administration fee to MFI @ 10%	2,810	401	
FINCA ZAMBIA			
Premium Value US$	31,836	9,571	-
Claims US$	3,302	976	-
Loss Ratio (%)	10.4	10.2	-
Gross Profit/loss US$	28,534	8,595	-
Administration fee to MFI @ 10%	3,184	957	
CETZAM			
Premium Value US$	17,507	7,544	120
Claims US$	1,613	3,749	-
Loss Ratio (%)	9.2	49.7	-
Gross Profit/loss US$	15,894	3,794	120
Administration fee to MFI @ 10%	1,751	754	12

Table 14 also shows interesting results for two methods of rewarding MFIs for selling and servicing insurance. Since the profit sharing method does not only depend on the volume of premiums, PULSE enjoyed higher returns for the period under review, despite the low volumes and its relatively high loss ratios. While the other MFIs may be tempted to opt for this method, it is important to note the benefits can reduce significantly when claims are high with a potential zero share, which is not the case with a guaranteed administration fee or commission.

Over the years, the volume of premiums and profits has increased as new MFIs joined the scheme and existing ones expanded. Figure 5 illustrates the upward trend.[12] The overall performance of Madison's Life division is as indicated in Table 15a; Table 15b provides results for the Credit Life performance.

Figure 5. Trend in Performance of Microinsurance Scheme

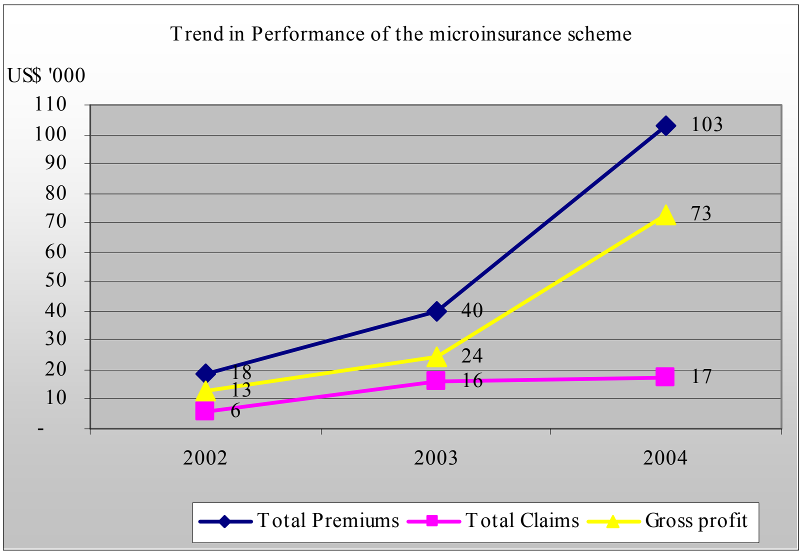


Table 15a. Key Results: Madison Life Division

	2003	2002	2001	2000
Net income (US$)	994,249	1,108,341	614,227	768,455
Total premiums (US$)	3,939,912	3,802,838	2,921,019	3,070,887
Growth in premium value	13.9	55.3	10.4	
Claims / total premiums (%)	40.6	38.2	46.0	37.8
Administrative costs / premiums (%)	26.6	19.4	21.3	14.3
Commissions / Premiums (%)	10.5	8.6	8.8	7.0
Reinsurance / Premiums (%)	16.0	21.8	19.4	29.0
Reserves added for the period / Premiums (%)	2.1	6.0	9.3	18.4
Net income added for the period / Premiums (%)	25.2	29.1	21.0	25.0
Investment Income (US$)	661,694	720,189	547,695	312,425
Percentage of profit distributed	42.9	-	-	-

Table 15b. Key Results: Credit Life Only

	2003	2002	2001	2000
Total premiums (US$)	902,710	656,182	534,287	756,965
Claims / total premiums (%)	10.0	15.9	17.7	6.4
Commissions / Premiums (%)	11.3	12.2	12.2	12.5
Reserves added for the period / Premiums (%)	-.02	25.9	27.5	-

[12] Net profits could not be obtained, but Madison affirmed that the scheme has been very profitable.

6. Product Development

Madison is one of the leading insurance companies in Zambia. Its product department is responsible for all market surveys. Before introduction of any new insurance product, the product department undertakes demand research. The development of microinsurance products, however, did not follow a systematic product development cycle. There was no market research or pilot testing.

Using internal expertise, Madison simply refined an existing product—credit life insurance for commercial banks—to suit MFIs. However, the differences between the two are relatively minor. First, the bank's coverage is usually for the outstanding balance of the loan, whereas the MFIs are covering the disbursed amount. The coverage for illness and funeral expenses is not standard for the banks, but it is for the MFIs; whereas CLAS for the banks has coverage for permanent disability. Lastly, Madison requires that all borrowers meet the standard bank requirements such as sufficient collateral. For microinsurance, Madison is willing to accept the MFIs' lending methodologies, which rely heavily on group guarantees instead.

Madison has demonstrated a willingness to adapt products to the requirements of the customers, in this case the MFIs. For example, PULSE wanted a profit sharing arrangement rather than a commission; CETZAM did not want the illness benefit; and FINCA wanted to include the interest due in the benefit amount, for a lower price.

6.1 Concept Development and Product Design

As described below, Madison's MFI partners have varied experience in the introduction of microinsurance.

PULSE's Experience

In developing insurance products, PULSE did not follow a systematic development process. After six years of providing microcredit, PULSE conducted research on the risks that confronted its clients. A number of impact studies revealed factors that were undermining loan repayment and hindering impact, with death and illness emerging as major risks.

In response to this finding, PULSE decided to introduce an internal insurance scheme called the Borrowers Protection Fund (BPF) in 2000. The premium ranged from 1 to 3 percent of the loan size. At the time, PULSE's lending facility was dominated by solidarity group lending. The introduction of the BPF was well received as clients no longer had to worry about paying off loan balances of deceased clients. The BPF only lasted one year as PULSE recognised that it did not have the expertise to manage the fund and decided instead to partner with Madison. The claims were within manageable levels and the fund was growing, but PULSE wanted to add additional coverage, which demanded insurance expertise that was not available in-house.

The collaboration with an insurer facilitated broader benefits for clients as the negotiated credit life assurance policy had coverage for prolonged sickness. Health insurance was one of products discussed by PULSE and Madison; however the two parties agreed that this was not a good starting point given the complexities of health insurance. With time, a mandatory funeral expenses policy 'Thandizo' was added to PULSE's risk-managing financial products.

Experience at CETZAM

When CETZAM introduced 'Ntula' as a mandatory funeral insurance policy in October 2000, it had two main objectives:

1. To help clients with the cost of funerals—this had been identified by clients as a need
2. To act as a "carrot" to ensure that clients repaid their loans

This second function was achieved by stipulating that if the client or group was more than 14 days in arrears, then Ntula was invalidated until the arrears were cleared. For groups, situations arose in which the bereaved client had paid on time, but one of the group members was in arrears and the claim would not be paid. In addition, when clients become ill, they normally fall behind with loan repayments. If they subsequently die, their claim would not be paid. In other words, Ntula failed to pay the claims of those that needed it most.

This arrangement has led to general dissatisfaction among clients as it makes Ntula appear more like a loan condition than a risk management product. In an internal client survey conducted in 2003, 66% of respondents indicated that they would welcome a change whereby the validity of the claim was no longer linked to the loan repayment. In 2004, another study by independent consultants recommended that CETZAM consider de-linking the loan repayment performance from the claim process. However, removing the linkage is not a straight forward decision for CETZAM because it would increase the loss ratio. CETZAM's concern was that the insurer, NICO, would then demand an increase in the premium rate. CETZAM has also refused to remove this conditionality because it cushions loan repayments.

Experience of PRIDE Zambia and FINCA Zambia

Neither PRIDE nor FINCA undertook market research to identify insurance as a product needed by their clients. Both institutions identified death and illness as factors inducing loan default through interactions between credit officers and clients.

For PRIDE Zambia, part of the demand for insurance emerged from former PULSE clients who were now borrowing from PRIDE. Having experienced the benefit of insurance—particularly the aspect of the group not being responsible for loan balances of deceased members—the clients registered their demand for credit life insurance with field staff. Fortunately for PRIDE, its Operations Manager previously worked for PULSE, so she already had experience with Madison and was able to facilitate the negotiations.

By the time FINCA Zambia became concerned about the effect of illness and death on its loan portfolio, a partnership with an insurance company was an obvious option. Not only were several other Zambian MFIs already doing this, but elsewhere in Africa FINCA has pioneered this approach (McCord et al, 2005). However management took time to introduce insurance. The MFI was particularly concerned about over burdening clients with more costs, so it patiently negotiated an insurance package with reasonable premium rates.

6.2 Pilot Testing and Product Review

Madison rolled out the microinsurance products without a pilot test. Senior management at Madison indicated that the demand was already there and product development only required minor adjustments to any exiting product. Further inquiry as to whether the insurer is learning how MFI clients are responding to the insurance product, Madison senior management indicated that this is a responsibility of the MFIs.

None of the MFIs had planned pilot testing for the insurance products. Overtime, some product adjustments have emerged, such as:

- **Reduction of premiums:** The policy review is usually done by Madison once a year based largely on the loss ratio. To date, only FINCA Zambia has managed to achieve a downward adjustment in premium rates.
- **Additional policy:** PULSE added a funeral insurance policy after realising that the credit life policy was not really meeting clients' needs.
- **Additional coverage:** CETZAM and PULSE increased the number of additional lives covered under the funeral insurance policy after some clients indicated that they wanted to insure more household members.
- **Conversion from mandatory to voluntary**: After expressed dissatisfaction from clients on mandatory funeral insurance, FINCA Zambia decided to make the policy voluntary. However FINCA Zambia does not seem to be strong in marketing this product and therefore it is poorly accessed. One of FINCA's branches has managed to achieve approximately 75% of the clients purchasing the insurance product through extensive marketing, but in other branches the volumes are quite small. CETZAM also made Ntula voluntary in one of its branches (see Box 12).
- **Claim reporting time:** CETZAM increased the claims reporting time from 14 to 30 days for the funeral insurance policy after realising that clients struggled to organise the required documentation within 14 days.
- **Mode of premium collection:** Despite studies such as Musona (2003) revealing the problems of deducting premiums from the loan, PULSE started with upfront payment and changed to the deduction method. The rationale was to facilitate easy access to insurance, but it has backfired.

Box 12. Mandatory or Voluntary? CETZAM's Experience

CETZAM has a wide branch network throughout Zambia. In 2002, CETZAM conducted an in-house client satisfaction survey that included assessment of whether clients were positive or negative about the insurance product and whether the product should be voluntary or mandatory. The results varied across its branches as indicated below. Overall the survey showed that 39% of clients were content with product remaining compulsory, 11% were indifferent while 50% of clients wanted the product to be voluntary. However, significant variations can be seen at the branch level.

Branch	Positive about Ntula	Want Ntula voluntary
Buchi	83%	29%
Lusaka	82%	37%
Mufulira	82%	43%
Obote	76%	47%
Ndola South	73%	39%
Livingstone	71%	50%
Chingola	63%	63%
Kalulushi	61%	52%
Ndola North	26%	83%

Livingstone was one branch where prospective clients totally refused to access a mandatory product. Therefore, CETZAM decided to use voluntary provision in this branch. The performance between November 2002 and May 2003 showed a higher loss ratio; while the average for all branches during this period was 71%, for the Livingstone branch alone it was 114%, suggesting possible adverse selection risks with voluntary products.

6.3 HIV/AIDS and Microinsurance

The first HIV/AIDS case was reported in Zambia in 1985. Initially, the epidemic of HIV/AIDS cases was in the urban areas, but it soon became clear that the entire country was affected. According to the Zambia Demographic and Health Survey (ZDHS) 2001-2002, 15.6 percent of the adult population in Zambia is HIV positive, 23 percent in urban areas and 11 percent in rural areas.

The rapid spread of HIV/AIDS is having an increasingly adverse impact on the operations of small and micro enterprises and the livelihoods of low-income households. In communities where HIV/AIDS is most concentrated, enterprises have experienced increased production costs, reduced profits and greater difficulty delivering products and services. Entrepreneurs experience long periods of absenteeism, extensive out-of-pocket expenses for medical care, and the trauma of caring for family and friends who are ill with HIV/AIDS. The risk and cost of HIV/AIDS on small and micro enterprises are particularly chronic given the limited amount of human and financial resources at their disposal. Indeed reviews in Zambia affirm that the issue of HIV/AIDS is not adequately communicated from the business perspective that is, communicating the impact of HIV/AIDS on enterprises.

What role has microinsurance in mitigating the impact of HIV/AIDS, particularly for small and micro enterprises and low-income households? Musona (2003) indicated that, microfinance services slow down the spread of HIV/AIDS by economically strengthening poor communities especially women.

Interviews with MFI senior managers revealed that they are very aware of the impact of HIV/AIDS on their clients, which is evident in the increasing prevalence of death and sickness. However, HIV/AIDS remains a sensitive issue. Before the insurance schemes, the MFIs observed that the group lending methodology eliminated many potential borrowers suspected of HIV/AIDS. The mutual guarantee system required group members to be responsible for outstanding loan balances in terms of death of group member or loan instalments due to default resulting from sickness.

Insurance has changed the picture. Since group members are no longer responsible for the loan in the event of death or prolonged illness, they are less concerned about excluding members who might be HIV positive. Since the terms are short and the coverage mandatory, Madison is only concerned with the physical appearance of wellness.

PRIDE Zambia has taken further steps in dealing HIV/AIDS through the identification and training of peer educators among its clients. Each branch has peer educators, well trained to provide counselling and education on HIV/AIDS to fellow borrowers. Although the impact of this approach has not been assessed, it is entirely possible that this low-cost prevention strategy could over time pay for itself through fewer claims.

7. Conclusions

In conclusion, a number of lessons can be drawn from the partner-agent relationship between Madison and Zambian MFIs.

Microinsurance product development
Effective participation of MFIs in the product development process requires an enhancement of their insurance knowledge and skills
The study showed low participation in product development by the MFIs. With the exception of CETZAM, no detailed survey was conducted to assess the clients' perception of insurance before its introduction. It is envisaged that such as a survey would include an assessment of the level of familiarity or understanding of insurance by MFI clients; information that can be used to develop strategies for staff and client education on insurance. For MFIs to fulfil such a role, their managers need to have a better understanding of how insurance works, and what it can and cannot accomplish.

Product review
MFIs need to understand the product review criteria used by the insurer
The study revealed a general feeling among MFIs that premiums are too high. However, lowering the premium rate is not necessarily justified, especially for the MFIs with high loss ratios. Certainly the insurance companies must make a profit. To lower the premiums, the MFIs and the insurers should work together to identify ways of lowering the administrative costs and reducing claims. For example, HIV/AIDS prevention campaigns could over time lower claims ratios, and therefore could justify some investment by the insurer and the MFIs.

HIV/AIDS and microinsurance
Microinsurance facilitates access to loans by HIV patients who are not yet in a critical condition
Since clients do not have to undergo medical examinations to receive coverage, as long as clients appear healthy, they can access loans and mandatory insurance. For MFIs, the group solidarity lending and mutual guarantee system previously excluded potential borrowers suspected of being HIV positive. With insurance, group members are less restrictive and willing to include group members suspected of being HIV positive.

Customer satisfaction
The evidence in this study shows that customer satisfaction measurement is a crucial but neglected component of the partnership between the insurer and MFIs
For the insurer, the MFI is the customer; while the customers for the MFIs are low-income persons accessing loans. Dissatisfaction of the insurance product by the MFIs' clients can cause desertion, which in turn could lead to reduction in the volume of premiums. The ultimate effect is a reduction in the profitability of the microinsurance and loss of business for both the MFIs and the insurer. Consequently, the insurer should also be interested in, and interested in doing something about, the level of satisfaction among the MFIs' clients.

Premium collection
The method of premium collection has an impact on client perception of an insurance product
The study found that when premiums are collected through a deduction from the loan amount along with other fees, clients are more likely to see insurance as a cost for acquiring a loan rather than a risk management product. Furthermore, clients are less likely to know how much they paid for insurance.

Linking the product to loan repayment
A link between insurance coverage and on-time loan repayment creates serious client satisfaction problems and may contribute to desertion
At CETZAM, late loan payments by one member in a group invalidated insurance claims by other members. According to clients, this defeats the whole purpose of insurance and has soured their perception of it.

Staff and client education
Training for staff involved in the selling and servicing of microinsurance is very important particularly in providing consistent product information and standardising responses to frequently asked questions
This study revealed a number of deficiencies in the information flow to clients; worse still misinformation which invalidated some claims. Many clients still lack an understanding of insurance and, for some, this is the very reason they do not appreciate it. Field staff need basic training on insurance to effectively communicate to clients. Simple manuals or handbooks for field staff could make a big difference, as could a policy brochure for clients. Involvement of the insurer here is valuable to ensure that clients have the correct information about premium payments and benefits.

Internal communication
Effective internal communication on products is very important
Some of the product misconceptions seem to have resulted from an ineffective information flow between management and credit officers. There were considerable variations in the length and content covered in induction of credit officers. Responding to high staff turnover, some MFIs have adopted a rapid credit officer orientation, which appears inadequate, thus creating problems when it come to client product education.

Staff workload
Simplification of registration and processing documentation can reduce the workload for credit officers and speed up the claim settlement process
The study showed that it might be plausible for MFIs to consider strategies to reduce credit officers' time on microinsurance activities. One of the considerations should be on the simplification of claims processing documents and reducing manual work.

Marketing insurance as a product
The success of insurance lies in marketing it as a product
In most MFIs, the drive to market insurance seems to be lacking largely because it is mandatory. A related issue is the fact that the primary reason for providing insurance is to protect the MFI. A key question then is what message should flow to the clients? MFIs should be putting their energies in solving the customers' problems first, which in turn solve

the institution's problems as well. This study shows that the challenge for most MFIs is using a holistic strategy in its product delivery that ensures client satisfaction, customer loyalty and good portfolio quality through effective market research, product development, marketing and client education.

Market or product oriented
The market focus approach is the best in delivering insurance
Most of the MFIs are more focused on product development; introducing a variety of products so that they have a nice menu to offer clients. However, such product development does not stem from comprehensive market analysis. In some instances, it is a response to competition. As result, products do not seem to aptly address the needs of clients. Insurance falls into this category, which perhaps explains why it is not appropriately delivered.

Dealing with myths about client education
Insurers and MFIs need to refrain from perpetuating certain myths about their clients
The first myth is that clients with low literacy cannot understand insurance. MFI managers seem to suggest that: "They will not understand it…so why invest so much time and money?" This myth has impacted negatively on the value attached to client education.

The second myth is that credit officers cannot adequately educate all clients because there are too many. Indeed credit officers deal with large numbers of clients, but this is not a justifiable reason for not educating them about insurance. Rather, staff need education tools and techniques so they can be efficient and effective.

The third myth is that clients are so interested in getting loans that they do not mind the costs they incur to acquire them. There is some evidence that as microfinance facilities increase, MFI clients are becoming more conscious about the costs of acquiring a loan and are critically assessing product attributes for loans offered by different MFIs.

Strategic approach in microfinance expansion
For MFIs pursuing an expansion plan, insurance should be part of the strategy
When an MFI is expanding, managers tend to concentrate on their core services without realising the implications of neglecting complementary products such as insurance. For example, when CETZAM expanded to the Southern province of Zambia, it did not consider that 'Ntula' would not mean anything to the clients there.

Pilot testing
Like any microfinance product, pilot testing is essential for microinsurance products
In this study, neither the insurer nor the MFIs were seriously concerned about pilot testing and most insurance products were simply rolled out. A common response from the insurer and most MFIs is that insurance is addressing the needs of clients and hence it is not necessary to invest in a pilot test. Had the partners given more attention to pilot testing, however, they would have identified and solved many of the problems that emerged over time, including issues around product information, and staff and client education.

Having sufficient capacity to act as an agent
MFIs partnering with insurance companies have to have the capacity to uphold their end of the bargain

Although acting as an agent for an insurance company (or buying group policies on behalf of clients) is the easiest way for an MFI to provide microinsurance, it still requires some work and expertise. Many of the MFIs that partner with Madison are experiencing problems with their core credit services, and consequently are not able to pay sufficient attention to insurance. Unfortunately, neglect of the insurance service presents its own product dissatisfaction among clients, which also contributes to delinquency and dropouts.

Ultimately it plausible to conclude that microinsurance seems to be gaining some acceptability by low-income persons in Zambia. However, some product features and deficiencies in client education and information flow are working against this.

Madison considers penetration of the low-income market as a major breakthrough. Such an achievement has been possible because the insurer has been flexible and willing to tailor products to the needs of the MFIs. For example, Madison has worked with individual MFIs to design appropriate benefit packages, customise the pricing, and adapt the commission arrangements.

Through its experience, Madison has demonstrated the financial viability of microinsurance products. For Madison, although low-income households are not the direct customers, assisting them to cope in times of hardships and economic stress through strategic partnership with MFIs is certainly a great achievement.

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