POVERTY ALLEVIATION AND THE NEED FOR MICRO-INSURANCE

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Microfinance

Microfinance has evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of financial services to low income clients including the self employed. Financial services generally include savings and credit. However some microfinance organisations also provide insurance services. Microfinance often includes both financial and social intermediation. Microfinance is not simply banking. It is a development tool for the poorer class.

The main objectives of the micro-finance institutions are:

a) To increase the productivity and incomes of vulnerable groups.
b) To create employment and income opportunities through the creation and expansion of microenterprises.
c) To empower women or other disadvantaged population groups.
d) To reduce poverty.

Micro-finance institutions are growing throughout the world as they can support income generation for enterprises operated by low-income households and also can help to build financially selfsufficient subsidy free locally managed institutions. For example, in Bangladesh, Grameen Bank has been successfully providing credit to the rural poor. Unlike traditional commercial bank loans, Grameen Bank loans need not be secured by collateral. This serves the landless in Bangladesh who are left out of the conventional banking system. Grameen Bank has now over two and half million members and 1200 branches all over the country. The Grameen Bank has integrated group organisation with credit delivery to assist the rural poor men and women form separate groups in accordance with the socio-cultural norms of rural Bangladesh. The Grameen Bank, which was chartered in 1983, has attracted worldwide attention for its achievements in reaching over two and half million members of whom 94%

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are women. By 1998, the Grameen Bank served more than 50% of all villages in Bangladesh. It lent about US $ 400 million and mobilised an additional aprox. US $ 350 million as savings and deposit.

The Bangladesh Rural Advancement Committee (BRAC) is the largest non-governmental organisation in Bangladesh. It was established as a relief organisation following the 1971 liberation war. Since then it has experimented with various development strategies and has evolved into a rural development N.G.O., where the credit programme is an important component along with its social programmes.

BRAC's current credit programme is one of the largest in the world. Presently it has approximately US $ 40 million as members' savings and approximately US $ 500 million as loans disbursed. Credit recovery is approximately 98%.

BRDB (Bangladesh Rural Development Board), a semi autonomous government agency under the Ministry of Local Government, Rural Development and Cooperatives was established in 1982. Its programs are organised through two-tier co-operative societies for which credit is the key input. The Rural Development Rd-12 project of the Bangladesh Rural Development Board, was based on the experience of the Grameen Bank and the BRAC. The Rd-12 targets the rural poor and incorporates the smaller solidarity group-based organisation along with credit delivery, savings mobilisation and skills development training. Participants are mobilised into "BITTAHEEN SAMITIES" (societies for assetless) and are formed seperately for men and women. The project started in 1988 and was financed mainly by the Canadian International Development Agency (CIDA).

In the late 1980s the micro credit programme made substantial momentum as an effective instrument for poverty alleviation. To give this programme further support, the Palli Karma Sahyak Foundation was set up in 1990 as an autonomous organisation. The foundation adopted a strategy of organising the rural poor into savings groups and creating greater opportunity for income generation by providing them with collateral free loans through partner organisations (POS) up to the close of 1997-98, the Foundation accepted 168 POS. By 1998-99, its cumulative credit disbursement is likely to be about 5900 million taka (USD 118 million approx). The recovery rate of PKSF has been around 98%.

The innovative approach of micro-finance is that the poor have been historically efficient and, therefore, they have a right to credit on ground of efficiency as well as compensation (for past injustice inflicted on them). The demand, therefore, is for substantial credit. In particular, the demand is for higher amounts of loan as the clientele moves towards greater self reliance and takes initiative for investment in enterprises that need more capital. The pressure on the PKSF is now not only to cover new clientele but also to move to financial assistance to higher level micro enterprises.

In the fifth five year plan, poverty eradication has been given the highest priority in our development effort. This planning document has been termed as a manifesto for pro-poor social change. Some new concepts have been introduced in the development literature in addition to making substantial micro-credit funds available to the poor without collaterals. These are:

a) the poor have the capacity to become entrepreneurs and this is not the monopoly of the rich.

b) women can play a creative role in development along with their conventional role.

c) the poor have a right to credit.

d) there is scope for economic development through self employment in addition to wage employment.

e) micro-finance institutions need not function exclusively as profit seeking entities but can work as socially conscious institutions in helping the poor to contribute creatively to growth.

Considering all these, both the Government & Non-government agencies should go beyond the effort of poverty eradication through micro-credit based micro enterprise and should provide the poor with more ancillary financial and non financial services such as insurance and risk management so that the poor can move forward towards sustainable decent living.

Present Micro Insurance Practices

The micro-finance market in Bangladesh is big and wide, with plenty of room for many players. There are more than 900 NGO micro finance institutions (MFIs). Several banks, government agencies, and cooperatives are also active in the micro finance sector of the country. Apart from credit and savings, insurance is an important product of micro-finance services for both formal and informal financial markets for mobilizing capital funds and ensuring incentive and encouragement for investment. It secures investments and repayment of loans. It prevents an entrepreneur from being ruined by any accident and thus takes care of the total enterprise.

Micro Insurance is a very new concept in the field of Micro-finance. It evolved out of the experiences gained over two decades in micro credit. Financing poor people is sometimes a risk. This risk comes from the nature of investments and the hazards of life (property and liability) which ultimately makes the repayment of loans uncertain. Some MFIs have introduced insurance products for their clients in order to extend benefit to their clients, particularly in case of death. Some MFIs offer insurance benefit for crops and livestock. The mode of operation varies between different MFIs. We will examine few schemes of MFI NGOs in Bangladesh.

BRAC is one of the largest NGOs in the world. It maintains big micro finance programs which includes group formation, savings mobilization, credit support, skill training, technical support and insurance benefit to its organised members. A total of 3.3 million poor people so far have been organised by BRAC through its micro finance who deposit savings regularly with BRAC.

All these members are eligible to receive loans from BRAC. Out of the total mobilized group, 2.6 million group members have loans with BRAC. It has been offering insurance benefit to its VO members in the case of death since 1990. Working with the rural poor over the years BRAC has realised that the poor people are vulnerable to any emergency situations. A sudden death of an earning member of a family under poverty conditions can jeopardize a family. The insurance policy of BRAC intends to minimize the level of such insecurity. The benefits of insurance have been fixed at Tk. 5000. This money is given to the nominees of the insured VO member after her/his death.

The BRAC insurance service cover is only for death of all active members who have the renewed their membership. It is not linked with receiving a loan. Members having no loans with BRAC are equally eligible to receive the benefit of BRAC's insurance service. Members do not have to pay any amount as premium. BRAC's insurance service provides a capital sum of Tk. 5000 to the dependants of the deceased, the money rescuing such dependants from acute financial hardship following the death, and allowing them to continue their economic activities. If the member is a borrower, with a loan from BRAC, the outstanding loan is also written off. As BRAC does not collect insurance premium either by collecting a fee from the members or by deducting an amount from the loan during the disbursement, BRAC manages these insurance funds from the interest earned from the loan made to VO members. It is estimated that 2% of the total service charge earned on a loan is required to cover total expenses of the insurance benefit.

ASA has managed life insurance by itself without any linkage with conventional insurance companies. Before a loan is disbursed, 0.3% of the total credited amount(Tk. 3/1000) has to be paid as premium, in cash, to the Life Insurance fund. The pass book for each loanee need to be stamped as "In case of expiry the insurance premium is non refundable". In case of death of the general loanee, a maximum amount of TK.8,000.00 will be paid and for the borrowers of personal loans or small entrepreneurship developer, a maximum amount of Tk.12,000.00 will be paid. For general members the credited amount will be refunded. If the loanee dies after taking a loan (credit) of Tk. 3000 or 6000, he will be refunded for the same amount only. Similarly for the loanee who dies after taking an amount of Tk.20,000.00 he will be given a maximum of Tk.12,000. If any members of the group dies, then the other members of the group will select his/her successor. If the group fails to select the successor, then the successor will be selected on the basis of succession certificate.

Efforts have to made to get a refund of the credited amount in cash from the successor. Approval for payment of the insured amount will be given by the Unit Managers. The loan can be adjusted from the savings and insurance claims of the borrowers. For an instance, if there is any claim of an outstanding loan from the organisation, no payment will be made at all for an insurance claim.

If payment for a loan amount for the previous term is completed, and the borrower is waiting to receive his next term of credit and at this stage dies, then the claimant will receive an insurance payment claim according to the earlier credited amount. As suicide is a social crime, a member will not receive any insurance compensation if he willfully commits suicide.

Ghashful, a small NGO MFI based in Chittagong City, created a life insurance product for the slum urban people who are direct beneficiaries of Ghashful. This life insurance scheme is the cheapest form of insurance protection available in the area. The basic features of the insurance scheme are described below. The insurer is GHASHFUL, the NGO. The insured persons/policy holders are the direct beneficiaries of the NGO, who are all underprivileged persons in urban slum areas of Chittagong City. Coverage is limited to the members under the savings and credit program of the NGO.

The contract for an insurance policy is for a period of 5 years. If a policyholder dies, his/her family or her nominee will receive between Tk. 5,000 (US $ 100) and Tk. 10,000(US $ 200) from GHASHFUL. The exact amount will depend on the number of years of participation in the life insurance scheme. If death occurs within the first three years, the nominees will receive Tk. 5,000 and if after 3rd year, the nominees will receive Tk.10,000. If the nominee is not an adult and if there is no guardian then the organization will honor the policy by providing a savings certificate which will mature when the nominee reaches the age of majority. If no death occurs during the five-year period of the contract, all premiums paid by the members will be refunded plus 5% interest.

In the formal conventional insurance market, Delta Life Insurance (DLI) initiated Grameen Bima (GRB) in 1988, and Gono Bima (GNB) in 1993 with the aim of making an insurance service available to the low income group (not the poor). Both are endowment insurance, targeted at rural and urban lower middle class of society. Gona Bima (GNB) grew much faster than GRB in the urban areas in terms of premium income as well as number of policies sold each year. For example, in 1994 the number of GRB policies sold was 26500, which rose to 1,60,000 in 1998. On the other hand the number of GNB policies sold in 1998 had risen to 3,05,500 from only 4600 in 1994. The premium income from GNB rose to 380 million taka in 1998 from 1.8 million in 1994. On the other hand premium income for GRB was only 179 million in 1998.

Findings of Field Studies

This study has been designed as three steps for collection of information, monitoring of operation, and obtaining ideas from the following:

a) Micro-Credit providers, mainly NGOs and Government agencies.

b) Leading insurance professionals.

c) Micro-Credit beneficiaries.

For each group, separate questionnaires were designed and personal visits made to interview key officials at various NGOs involved in Micro-Credit operations, leading insurance professionals and beneficiaries. The important features revealed from the analysis of these data of the different group are described in the following paragraphs.

Fifteen leading NGOs in terms of cumulative loan disbursement and two other Micro-Credit operators such as BRDB and Grameen Bank were selected. The data indicated that most of the NGOs, BRDB and Grameen Bank provide credit for small scale trading, livestock and poultry raising, for purchasing of Rickshaws. Babitaxies, crop production and other income generating projects such as micro enterprise development, paddy husking etc. Only two NGOs provide credit for housing, health and sanitation programmes improvement and the development of children's education. Only one NGO provides credit for sericulture and psiculture development schemes. Only 4 have some kind of insurance scheme of their own. These schemes are mainly designed to cover the life of the borrowers. Only Proshikha has some kind of insurance coverage for the loss of livestock.

All the NGO representatives strongly supported the idea for the introduction of any kind of insurance scheme for their borrowers. One suggested that introduction of an insurance scheme, particularly for the partial or full damage to property will bring confidence and revolution in the Micro-Credit operation system. Most of the NGOs suggested that the premium rate should be between 1% and 2% of the total sum borrowed. When asked what type of risks need to be covered, most NGOs recommended that any insurance scheme should cover both life, health and partial or full damage of properties by any natural calamities against which the money has been lent.

Currently, the activities of most insurance companies are focused on the urban areas. The market is quite limited. But most NGOs suggested that some insurance companies should come forward with a NGO coordinated 'Grameen Insurance Scheme' and they should work closely with them to devise a suitable scheme.

All NGOs which provide Micro-Credit in the rural areas should sit together to develop a uniform insurance scheme and fix a uniform premium rate for all the borrowers irrespective of their types of credit. Provision should be made for a single premium payment at the time of disbursement of the credit.

The Government of Bangladesh should not provide any premium subsidy directly to the borrowers, but instead the total annual premium of a particular NGO can be directly paid to the respective NGO as a lump-sum grant. This will help in establishing a good relationship between the NGO and the Government. Moreover, the Government will have some kind of monitoring control over the NGO activities.

Users' Viewpoint

One hundred beneficiaries from 17 locations of BRAC, ASA, PROSHIKA, GRAMEEN BANK, BURO, AND SOCIETY FOR SOCIAL SERVICES (SSS) were personally interviewed through a pre-designed questionnaire written in Bengali to assess the extent and nature of the micro-credit market and to determine the need for insurance services for these micro-credit borrowers. The beneficiaries were either interviewed at the unit office of the respective NGOs in presence of the Branch or Unit managers or at the villages of the respective borrowers accompanied by the NGO representatives. The major findings are described below.

Of the 100 micro-credit borrowers interviewed, 85 were female and housewives. Their ages ranged between 20 and 50 years coming from the low income, landless and economically poor class of society. Some of them were widows with 3-4 children. These women took credit mainly for their husbands and sons. Only a few of them do the trading by themselves. The amount of loan mainly depends on the requirement and repayment capabilities of the borrowers. Of those interviewed, the amount ranged from TK.2100 to TK.70,000

Each NGO has its own system for collection of the credited amount. BRAC and Proshika collect their installment on a bi-monthly or monthly basis. Proshika collects by 11 or 22 installments up to an amount of TK. 10,000 and beyond which they collect by 36 monthly installments. Some NGOs collect their installment on a weekly basis by 46 instalments. When the amount exceeds TK.20,000 the number of installments also increases up to 100. The borrowers usually come to the branch or unit office to pay the instalment but in some special occasions the Credit Officer goes to the houses of the group leaders and collects the installments. Some NGOs have been successfully operating their micro-credit system for a long time. Grameen Bank, for example, provided credit to one of its beneficiaries for the 12th term. But most of the NGOs provided credit to their beneficiaries from 3rd to 8th term.

It appears from the answers that the purpose of borrowing money differs from location to location . For example, irrespective of the micro-credit source, most of the borrowers of Rupganj (Narayangonj) and Madhabdi (Narsigdi) areas took credit for cloth trading or production of cloth items, whereas the borrowers of Tangail, Muradnagar and Belabo areas took credit mainly for trading of rice, fertilizers, and buying of Rickshaw or van etc. and also for production of cane, bamboo items etc. They paid their instalment from previous savings reserved for emergency crisis. In some cases, the other members of the family also helped them to repay their instalment . Some micro-credit providers, particularly ASA and Grameen Bank, rescheduled their instalment by extending the repayment period and also by reducing the amount of instalment.

When asked whether there is a need for insurance coverage of the credited amount in case of emergency resulting from various natural calamities like flood, cyclone, illness or death of the borrower etc. and also whether they are willing to pay a premium for this insurance coverage, 99 out of 100 answered that there is an urgent need for an insurance coverage to meet emergency crises and they are prepared to pay a premium for this insurance coverage.

Insurers' Viewpoint

Most of the insurance companies expressed their willingness to introduce new schemes for personal accident policies, health insurance related to hospitalization, crop insurance etc. One private insurance company indicated that they would like to introduce a new scheme for the poor people if the demand come from the micro-credit users or from the NGOs and details of micro-credit schemes are provided to them. Some companies appreciate that the insurance market is very limited in this country and if the market can be expanded to the poorer section of the community, particularly for the micro-credit users, it would certainly help to achieve stability in the micro-credit system as well as the insurance industry.

When asked if commercial insurance companies can provide a package product for the micro-credit beneficiaries, under the present Insurance Act, and whether Mutual/Co-operative Insurance Companies could be formed, most of them acknowledged their ignorance about the details of the Insurance Act. However, they agreed that they do not see any problem in providing a package product for micro-credit borrowers.

When asked whether they would suggest forming a Mutual Association of NGOs to protect their micro-credit borrower members against specific losses arising out of uncertainties of life or of property losses due to natural calamities, all the representatives answered that such an association would help to bring stability in the credit market.

All the companies agreed that there is an urgent need for consistent product development to meet the emerging need of the poorer class of the society and they suggested that the NGOs should come forward with such request. Because NGOs have a vast network in the rural areas and they also maintain a close monitoring system for their micro-credit borrowers.

All the company representatives agreed with the statement that most of the rural people are not aware with the fact that insurance services can be extended to them also. The representatives accepted the fact that insurance activities are mainly concentrated in the urban areas, particularly in the affluent community. But only recently National, Homeland, Meghna and Delta Life Insurance companies are extending their activities in the rural areas. They expressed their strong opinion that if the NGOs can come forward with an appropriate product for their micro-credit borrowers, the insurance market will greatly expand in the rural areas. All representatives accepted the idea that some sort of social insurance scheme could be introduced for the poor by the Government. All agreed that Insurance Companies of Bangladesh should develop different products for different occupational poor workers and small traders. All the representatives agreed that there is a need for innovation in product development targeting the vast micro-credit beneficiaries of the different NGOs and they also agreed that every micro-credit borrower in Bangladesh can be a potential client for an appropriate insurance cover.

When asked about types of insurance services needed by micro-credit beneficiaries, they all recommended that products should be developed to cover the risk of life and non-life assets.

In Quest of Suitable Products

The growth of the insurance industry in Bangladesh, during the last decade has been considerable. This growth, however, has been largely confined to meeting the requirements of the industrial and organised trade and commercial sectors. But the potential for growth of insurance business in these sectors is linked to the overall growth of the economy. There is, considerable potential for the expansion of insurance business in the rural areas, particularly to the micro-credit borrowers. This is due to the low level or non-existence of insurance services in these areas.

For insurance companies wishing to make an entry into rural areas, ideally the first step would be to extend the existing products already being marketed in urban areas. For example, life insurance, personal accident insurance, insurance of dwellings, shops etc could be marketed in the first instance. Once a foothold has been gained and an adequate insurance infrastructure has been built up, it would be easier to introduce new products more directly related to the rural poor vis-a-vis the micro-credit borrowers. The new products must meet their specific requirements and, more importantly, should be simple. A clear and transparent insurance product will be of great assistance in winning customers.

As the size of each individual risk would be relatively small, negotiating terms individually may not be worthwhile or practical. One practical way to deal with this problem is to aim at group covers or to promote wholesale insurance services. It is to be taken into account that the distribution and servicing costs for the rural poor/micro-credit borrowers would be high. If a sizeable part of the premium is used to finance administration, the case for promoting appropriate low-cost insurance would be weakened. It is, therefore, essential to evolve strategies that would minimise expenses. Apart from group covers, a package approach to insurance design and administration is necessary, keeping in view the paying capacity of the micro-credit borrowers.

In this respect, links and cooperation with micro-credit providers would also help in reducing cost. The organisational infrastrauctuse of micro - finance institutions could be utilised for combining or coordinating certain functions related to servicing the insurance provided. In fact, banks and insurance companies interact and cooperate in urban areas. In rural areas, the micro finance institutions have a much better network among the people, as they are percived as benefactors, and therefore, agreements could be made between insurance service providers and micro-finance institutions for the protection of assets created by credit. Obviously, credit backed by insurance is far better than credit without.

There is considerable scope of developing life insurance products for poor people, both as an instrument of saving and to cover the risk of premature death. The micro-finance institutions and the banks providing micro credit may require life insurance for the person to whom credit is given. It appears that life insurance companies have not so far made determined efforts to formulate relevant products and evolve marketing strategies to penetrate this sector. A few possible approaches may be considered and are discussed below.

Emphasis has to be put on group sales. This is simply because contacting persons individually, explaining the benefits and concluding the contract, would be costly. An attempt could be made to form groups through the help of N.G.Os and/or cooperative societies, social welfare organisations etc. For example, in Malayasia a large number of workers in palm oil plantations are covered through their Union. In India, groups of landless labourers, handloom weavers and members of milk cooperatives have been covered on a group basis.

Premiums would have to be kept low so that the cover would be affordable. A term insurance based package or a policy with a low saving element may be more relevant. A linkage with institutions providing credit can be rewarding. For example, if a member of an NGO who has taken a loan dies or becomes permanently disabled, the outstanding balance will be paid by the insurer. For those who are saving under any scheme, a life insurance policy, covering premature death, for an amount equal to the savings can be provided in addition to the savings accumulated.

Insurance may be difficult for shanty and non-permanent types of structure. The risk is admittedly higher, not only because of the poorer construction but also because the fire fighting facilities are usually far away. However, if these dwellings, shops etc. are insured on a group basis a reasonable bulk discount on premium may be given. It is also difficult to develop personal accident business in rural areas on an individual basis, and a group approach can be very effective. It has been successfully attempted in India. Life insurance in a simplified form also offer ample scope in Bangladesh.

A linkage and close working arrangement with the rural banking sector and micro-credit providers is very significant for developing suitable products for the poor. Marketing of insurance is much easier if it is linked to credit. Furthermore it is also possible to coordinate and integrate part of the administrative work with the NGOs and other social welfare organisations. When a link is established with micro-credit providers or other institutions, usually group insurance will be provided. Group insurance is rewarding in many ways. Delivery & servicing become easier and administration costs can be kept low. If the group is sufficiently large and homogenous, problems of anti-selection, and to a great extent the problem of moral hazard, can be mitigated.

Insurance products for the poor should be simple in design and presentation so that they are easily understood. As far as possible the intention should be expressed in non-legal and direct language. Further, wherever possible a package approach should be adopted so that the various covers do not have to be developed and marketed seperately.

Convergence of Insurance Products & Services

In Bangladesh, composite insurance companies are not allowed by law and therefore, there is little or no scope for convergence of life and non-life insurance products to meet the need of the customers. There is a possible alternative.

The insurers may issue joint policy which combines life and non-life coverage together. Joint products could be produced based on the cooperation of one life insurer and one non-life insurer, each responsible for the obligations in its insurance contract. With regard to diversity and flexibility, joint products could provide an insurance service in a more comprehensive way to poor micro-credit users. This is being done in India, by L.I.C. & G.I.C.

Although insurance companies and all other financial institutions operate on significantly different bases, several of their activities and services present considerable similarities. With respect to life insurance and banking services, both are involved in a range of saving products which are very similar from the customer's viewpoint. It is expected that such similarities in production will be bound to expand. The portfolio investment and lending activities of insurance companies and banks are almost similar. From a practical standpoint, it would be far from easy to achieve a transparent separation between insurance & banking activities in certain cases.

In Japan, Singapore and other countries insurance companies are offering insurance products with financial component in a form of participation of investment or unit trust fund. Universal life insurance is an example of the combination of an insurance product and a financial product. It is a flexible premium, adjustable death-benefit life insurance contract which offers flexible, potential low cost coverage on a basis that permits product transparency. Universal life policies have three main features as follows:

The policy holder can receive traditional life cover, enjoy the benefit of an investment vehicle, and even stop paying premiums without losing the coverage as long as the surrender value is enough to cover the risk premium.

The surrender value is generated by the premiums and a rate of interest varying according to market developments with a minimum guaranteed percentage.

The management of the policy is entirely transparent. The insurance function is completely separate from the saving function. The policy holder is able to see exactly how the policy operates internally.

It is, therefore, evident that micro-credit providers can arrange issuance of combined loan and insurance cover in collaboration with insurance companies. Furthermore, as a means of distribution NGOs can offer insurance companies at least two key advantages:

They have millions of micro-credit borrowers which allows them to posses a great deal of information which can enable particular products to be targeted effectively to potential customers.

They have extensive networks both in urban and rural areas and can be staffed by insurance-selling employees.

Although the principle of segregation is applied to the production level, it is certainly not the case in the distribution level. Traditionally, insurance has been distributed through independent brokers, agents or direct sales forces. But, in order to hold and expand market share, insurance companies should attempt to reduce the marketing and distribution cost. They have to look for alternative distribution systems that are more cost effective.

Generally, the banks and insurance companies are working separately, following the traditional operating concept and offering traditional policies. Micro-credit financial institutions are trying to bring changes for the unprivileged poor. Since the early eighties, micro credit institutions in Bangladesh have increasingly been undertaking programs without any collateral for both agricultural and non-farm activities. The twin objectives of these credit programs are to enhance the productive means of the poor by providing financial and material inputs and thus to reduce poverty and inequality by generating income.

The Banks and the M.F.Is tend to behave in the same manner tgowards borrowers. They calculate the disbursements, liquidity position, number of borrower etc. They emphasise, for obvious reasons, much more on loan recovery than the real social benefits of the targeted micro-credit borrower. Consequently, when a disaster take place, the M.F.Is can do very little or nothing to help the poor about loan repayment.

In order to meet the needs of the poor, a few private insurance companies in Bangladesh have introduced Grameen Bima (Rural Insurance). This is only a rural version of the popular 'endowment' life policy. However, they have now linked a credit scheme with the insurance policy and have created a model of an integrated approach to risk financing and credit provision for the rural poor.

It is obvious that under the present circumstances, if the same institution can provide both micro credit as well as micro insurance for the poor it would be of much help for the beneficiaries. This will ensure efficient use of human resources since the same employees and resources can be used to serve the same clients and will prove to be cost effective.

When a micro-credit borrower finds that the same institution will provide insurance facilities for his life, health, accident, property and liability, he is likely to be a potential buyer of an appropriate policy to meet his/her need. As a result, insurance products' marketing and distribution costs are likely to be reduced. Thus, because of an integrated service, establishment cost, operating cost and overhead costs of these institutions will reduce and this will help to offer services at a much more reasonable price to the benefit of the poor. In order to cut the cost of insurance, group insurance schemes have been practiced widely. M.F.I's provide an ideal opportunity to sell group schemes to various professional groups at a much reduced cost.

Suitability: An Argument for Mutuals

Mutual insurers generally are in the position of not only charging a lower initial rate, but also concluding their business at a generally lower overhead. This together with lower loss ratios could result in a higher net underwriting gain. It has been seen that the main factor accounting for the lower expense of mutuals is the lower distribution cost. Proponents of stock insurance companies, however, claim that services that are rendered by stock insurers are not available from mutuals. These services, it is claimed are more than worth the higher expenses involved in dealing with stock insurers. Such services include professional counsel on all matters relating to insurance, which are supposed to be provided by the insurance agents or brokers. Proponents of mutuals argue that since mutuals are organised by interested groups with loss prevention as a basic part of their program, losses are kept at a minimum. Furthermore, professional service to help the member in reducing his losses is not usually available to the same degree from independent agents and or stock companies' staffs. Mutuals also claim that the independent agents of stock insurance companies are too concerned with large accounts and spreads services too thinly to be of much benefit to the small account.

Both the joint stock ownership and mutual ownership try to provide mechanism for controlling agency conflicts. For example, in an insurance company, owners provide capital, managers decide how the company is organised, financed and run efficiently. Customers pay premium in exchange for stipulated payments in the event of a specified happening. Agency theory suggests that insurance companies are especially prone to two types of conflict:

a) between customers and owners,
b) between owners and managers.

Mutual ownership helps mitigate conflict between owners and customers i.e. policy holders. Since policy holders are the owners of mutual insurance companies, it eliminates conflicting priorities of stock holders.

The management of a mutual insurer has the flexibility to undertake initiatives in the long term interest of policy holders that may not bear fruit initially. This can be a major advantage for mutuals with a clear strategic vision and superior management. Joint stock companies, often lack this flexibility because they are under constant pressure to report financial results that meet investors' expectations. Since mutuals are virtually co-operative ventures, they can engender a community spirit that offers a potential competitive advantage. A policy holder who is aware of the distinction between stocks and mutuals often feels more comfortable doing business with a mutual of which he or she is a part. Mutuals rely principally on retained earnings to expand their capital base, they lack the ability to raise capital by issuing equity. This difficulty in raising large sums of capital restricts the flexibility of mutuals. In particular, mutuals can not enter new lines of business or new geographic areas as easily as can stock companies. Publicly traded stock insurers are supposed to offer a transparent balance sheet for judging performance, which is generally not apparent in mutuals.

It is most interesting to observe that despite several comparative advantages of mutuals over stock companies, there is not a single mutual insurance organisation in Bangladesh. Although, we understand that mutual insurance companies currently have a commanding presence around the globe. Six of the ten largest insurers in the world are mutuals. In the five largest insurance markets in the world (U.S., U.K., Japan, Germany & France) mutual insurers wrote an estimated 42% of all premiums. The substantial market presence of mutual insurers around the world strongly suggests that they posses certain fundamental competitive strengths. Five countries account for 75% of world wide premium volume. Together they account for 77% of life premium and 73% of non-life premiums. Examining the role of mutuals in these markets can offer further insight into their importance. In the three largest European markets, their share ranges from a sixth to a quarter. Mutuals account for a third of the US market and nearly three quarters of the Japanese market and thus mutuals appear to have a global market share of more than two-fifths.

Apparently, the mutual form of ownership offers certain advantage that are specially pertinent to the insurance industry. It is, therefore, logical that the micro-credit providers of Bangladesh must explore the possibility of providing mutual insurance policies to their members and clients instead of offering it individually or only through private/public insurance companies.

Potential for Insurance in Bangladesh

It is obvious that Bangladesh has a vast potential for growth of life and non-life insurance and this potential will definitely increase in the future years. However, the future of the insurance market in Bangladesh will largely depend on how the increasing potential is exploited by future insurance operating system in the country, keeping in view the insurance need of the entire population and security for the insuring masses.

It is obvious that the interaction of demand and supply will determine the consumption of insurance. The shift in demand for insurance will occur due to introduction of innovative products and growth in income in the micro and macro level. However, the major increase in the consumption of insurance will be from the increase in the supply of insurance. The demand already exists. The extent to which it is tapped would depend on the extent to which the supply curve moves to the right.

A person has unlimited insurable interest on his own life. From this viewpoint every individual is a prospect for life insurance. In reality, financial status effectually limits this potential, this is due to prospects capacity to pay insurance premium after meeting other pressing needs. Apart from this it is important to consider the feasibility of reaching all the prospects and its cost effectiveness. The low level of insurance density(premium per capita) and insurance penetration (premium as % of G.D.P.) in Bangladesh could be due to several factors such as low per capita income, low awareness of the benefits of insurance and the lack of suitable products.

There is a fundamental relationship between demography and life insurance business. The population in age group 20 to 59 is usually regarded as the insurable population. However, due to various factors real earning of an individual for salaried persons starts from age 26 or 27 around. For others, particularly, the small entrepreneur traders etc, the starting age is around 30. Only in the affluent sector of society can life insurance can be taken before personal earning starts.

Therefore, demand for life insurance below age 25 is not so significant. On the other hand persons above 50 years of age rarely go for new insurance because of retirement in service and or become uninsurable because of health reasons. Thus in our country actual age range for life insurance is approx 25 to 50.

In order to asses prospects for non-life insurance in the rural sector we need to examine different occupational groups in rural Bangladesh. The following table shows the number of employed persons aged 15 years and over in the rural sector.

(Figure in million)

	Description	**Total**	**Male**	**Female**
1)	Agriculture & livestock	29.0	15.0	14.0
2)	Retail trade	4.0	3.0	1.0
3)	Personal & House hold services	1.5	0.7	0.8
4	Manufacturing of wood/products	1.1	0.6	0.5
5)	Transport & storage	1.2	1.1	0.1
	GRAND TOTALS	**36.8**	**20.4**	**16.4**

Out of the 37 million employed rural population, 78% are engaged in agriculture and livestock. An appropriate insurance package could be designed to cover this huge population group. We also need to have products for other sectors such as small retail traders, household service providers. For all those groups we need to have appropriate property & personal accident insurance policies. Potential market segmentation for non-life rural insurance business may be done basically on three distinctive sectors such as:

a) Primary sector (agriculture, fishing, cattle rearing etc.)
b) Secondary Sector (manufacturing, processing servicing etc.)
c) Tertiary sector (trade, commerce, transport storage etc.).

There may be many other market segmentations. However, for initial analysis we can consider these three sectors for designing appropriate non-life package insurance policies.

Major Observations

Some of the major observations are stated below:

A) The development of insurance business in a society is affected by three major factors:

a) Socio-economic characteristics of the economy.

b) Competencies and technical know how of the insurance operators.

c) Regulatory and legal framework of the insurance industry.

It is obvious that the economic condition of people is the most important factor that affects growth of the insurance. An individual must have the ability to save as a precondition of being a potential policy holder. At the same time, he must have regular income to pay for insurance. Unfortunately most of the people (more than 50%) of Bangladeshi live below the poverty line and can not afford to buy insurance services. Even the small savers do not buy insurance, either because they are unaware of availability of insurance or because the insurance products are not designed/suitable for them. Therefore, the large majority of our population remain uncovered from any insurance protection against risks of day to day life.

B) There is no denying the fact that presently, insurance products are mainly focused on the lives and properties of the richer class or the middle and lower middle class of society. The indigenous insurance schemes of some of the micro-credit operators in Bangladesh are mostly life insurance products in nature. But the poor people need security both for their lives and properties (whatever they have). It has been observed that an individual member of Micro-finance NGOs on average has saved more than nine hundred taka per annum. It is, therefore, envisaged that a reasonable amount out of this saving could be used for paying premiums for insurance policies in order to protect them form accidental loss of their lives and properties.

C) Insurance is not only a scientific method of handling risks, but also plays an important role in mobilizing people savings. Moreover, the funds generated through the insurance mechanism can be deployed to serve the best interests of both the policy holders and the nation. This can be ensured by investing surplus funds of insurance operators in schemes meant for the greatest good of the largest number to meet national priorities like providing pure drinking water, shelter, electricity, health.

D) Insurance services need to be redesigned to meet the needs of different classes of people. We should have consistent product development to meet emerging needs of the poorer class and for the rural sector. Distinctive product innovation relevant to indigenous conditions of the poor, and especially for the borrower of micro-credit, is a dire need of the time. The prime risk of the poor is the possibility that some peril may interrupt their income. There are natural and social perils and also risks of death, sickness, accident, and old age. There is also the peril of unemployment. Insurance cover can be provided for each of these perils.

E) Since micro-credit constitutes the central component of development programmes of most N.G.Os in Bangladesh, and is accorded more priority than any tools for alleviating poverty, it is now envisaged that a Comprehensive Micro-insurance Policy (C.M.P) for micro-credit users will play an important role to achieve the desired goal.

F) Some MFI-NGOs that are now offering insurance services to the micro-credit clients are in a true sense 'self insurance'. These are being provided mainly because of following reasons:

i) Non availability of appropriate product/services
ii) Non confidence in insurers in general.
iii) High cost of commercial insurance.

These schemes of MFI-NGOs have some inherent weaknesses as follows:

i) The basic principle of spreading the risk is defeated.
ii) The fund which is built up may not be sufficient to meet large and unusual losses.
iii) There is no protection from reinsurance, and an absence of pooling arrangements.
iv) There is lack of executive talent needed for underwriting, claim and fund management.
v) If an insurance reserve fund is not set aside and only a book reserve is made the purpose is defeated.

Summary & Recommendation

Unfortunately in the past, the question of economic security of the poor or the weaker sections of society had drawn little attention of the national policy makers. However, in the fifth five year plan of Bangladesh, poverty eradication has been given the highest priority. This planning document has been termed as a manifesto for pro-poor social change. Accordingly it has been rightly observed that there is scope for economic development through self employment in addition to wage employment. It has been further realized that the poor have the capacity to become entrepreneurs and this is not the monopoly of the rich. Further the poor have the right to credit and financial assistance. It has been urged that the poor must participate directly in generating growth, using their skills and assets to improve their livelihoods. This is vital to poverty reduction particularly in a country like Bangladesh where poor people make up a very large proportion of the overall population.

Recurrent natural disasters like flood, cyclones, river erosion, water logging, droughts etc frequently undermine the economic sustainability of the weaker sections of society. Moreover personal disease, health care or other types of emergencies create great loss to them. It is, therefore, very necessary to try to protect the poor from these unforeseen losses. This could be done through appropriate insurance schemes and/or by creating a Disaster Mitigation Fund/Social Security Fund.

In order to design appropriate insurance schemes we have tried to study in depth as to how we could ensure a minimum level of economic security against perils which may interrupt the income of the poor people of Bangladesh considering that in Bangladesh, we do not have any 'social insurance' scheme. The present government has initiated a scheme of gratuitous payments to old aged people on a limited scale. This seems to be a good beginning. But we need to have many more schemes for mitigating and managing risks, such as package insurance products for different occupational groups in the rural sector. It is felt that credit linked insurance needs to be provided for the poor.

Presently more than 20,000 NGOs/PVDOs (Non-govt. organisation/Private Voluntary Development Organisation) are operating in Bangladesh to deal with different socio economic problems of the poor. They innovated an important tool known as micro-credit. Micro-credit was evolved as a development approach intended to benefit the poor, particularly women who comprises approximately half of the population.

Since micro-credit constitutes the central component of development programmes of most N.G.Os in Bangladesh and it is getting more priority than any other tools for alleviating poverty; it is now envisaged that a Comprehensive Micro-insurance Policy (C.M.P) for the micro-credit users will play an important role to achieve the desired goal. Most of the insurance schemes offered by the N.G.Os and commercial insurers for the weaker sections of the society are life insurance products in various forms.

For obvious reasons, the micro credit users require various non-life insurance covers for proper development of micro enterprise along with life insurance cover. Since the poor need security both for their lives and properties, a Social Security Fund could be established by the Government with the help of donors and perhaps this could be managed by a N.G.O or group of NGOs. Necessary subsidies in the form of premium could be obtained from the fund as and when required.

Although the insurers in Bangladesh claim that there are different products available for the poor people, it is apparent that the products such as Grameen Bima, Jana Bima, Polli Bima are not suitable for the micro-credit clients. This is simply because the target groups are different. For example the target groups of Grameen Bima are those lower middle class people whose yearly income do not exceed more than Tk. 60,000. The insured amount ranges between Tk. 5000 to Tk.50,000 and annual premium for a policy of Tk. 5000 is Tk. 468 for ten years period. The micro-credit borrowers can not afford to pay for this type of product. Therefore, it is felt that instead of endowment insurance on individual basis, group term insurance could be offered to the micro-credit borrowers.

Group insurance enables a large number of people to be covered under one contract. Therefore, a group policy for all the micro-credit borrowers of a particular MFI could be issued. The premium would be paid by the respective MFI or the trustee, or whoever represents the group and takes out the master policy. Group term insurance is renewable every year and is the simplest and cheapest of all the schemes that a life insurance operator can offer. Under this scheme, a fixed sum is paid on the death of a member covered under the scheme. This scheme would also be appropriate to meet the outstanding loans. MFIs, therefore, should take out such policies to cover borrowers at least to the extent of outstanding loans. In addition to group life, a comprehensive non-life cover is required.

When a Mutual Insurer offers group-term insurance, the premiums will be charged according to the mortality experience of the group. In case of favorable experience, premiums charged may be reduced. Or the surplus that emerges will be passed on to the members of the group, by way of reduction in the premiums payable in the following year. Apart from micro-credit borrowers, 'group term insurance' and comprehensive property risks cover can be made available to other poorer sections of society like landless agricultural labourers, handloom workers, rickshaw, pullers, artisans, taxi drivers, cooperative milk producers, tailors, barbers, masons carpenters.

It may be noted that the MMA/MMC will be administered by the elected directors from member MFI-NGOs and all policy matters including extent of cover, mode of premium payment investment etc will be decided by the Board according to the need and suitability of the member institutions and micro-credit clients. Therefore, the proposed micro-insurance policy should be invariably a flexible product that can meet the long-term needs.

A natural advantage of mutual ownership is its ability to mitigate potential conflicts between the policy holders and owners of an insurer. Other advantages to mutual ownership include an ability to manage the future changes and community spiritedness. Disadvantages include limited access to capital markets and a relative lack of management accountability. Apparently, the mutual form of ownership offers certain advantages that are specially pertinent to the insurance industry. Therefore, MFIs of Bangladesh should join hands to form a mutual association or club to provide micro-insurance services to micro-credit users.