



FID MoF



Consultation for National Financial Inclusion Strategy for Bangladesh (NFIS-B)

Insights from Insurance Sector Study

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Business Finance
for the Poor
in Bangladesh

Funded by:



Inclusive Finance

Financial inclusion refers to providing access of all individuals and firms to financial services and products of legally licensed and regulated financial institutions with high degree of convenience and efficiency.

Enabling economic environment



Poverty falling
but
vulnerability
increasing



Rapid
Urbanization



Rapid
Industrialization



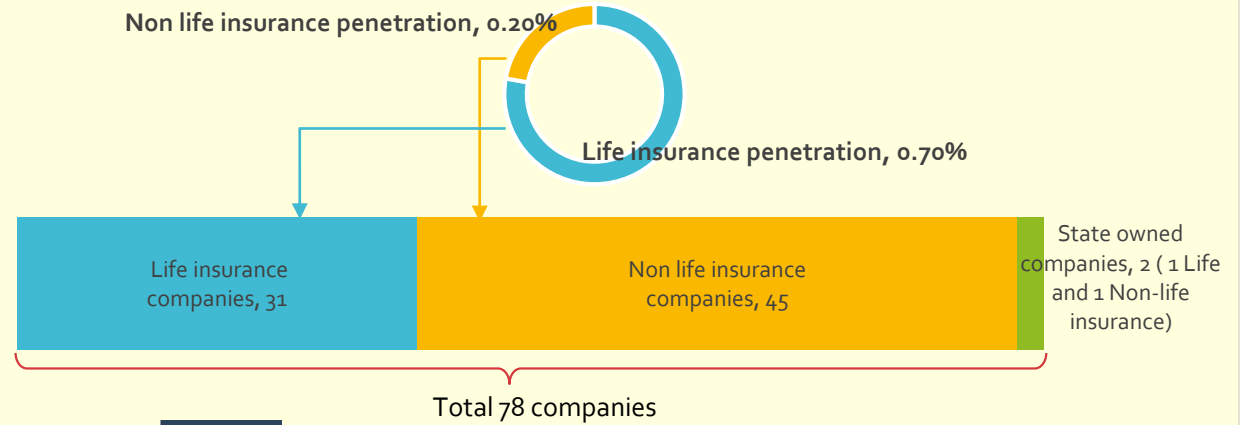
Widespread
access and use of
technology



Opportunities to
reap the
demographic
dividend.

Bangladesh Insurance Sector Overview

Penetration of insurance sector



4 people of 1000 have life insurance in Bangladesh
Lack of trust



Urban based and mostly captive companies
Lack of quality and price



Insufficient capacity of regulators
Inconducive policies and regulations

Insurance Products for Low Income Households

Products

- Products could be tied to the loan or be independent;
- Bundled together or offered individually
- Offer health, livestock, crop, children's education, death, disability, business loss/damage

Microinsurance

- Reinsurance offers insurance coverage to an insurer
- Term life insurance like Credit Shielding or Credit/Life insurance (CSI/CLI)

Micro pensions

- Offer a lump sum payment and a regular monthly payment

Microinsurance: Definition

The two most widely accepted definitions

- (1) A protection of low-income people against specific perils in exchange for regular monetary payments proportionate to the likelihood and cost of the risk involved.
- (2) An insurance that is accessed by the low-income population, provided by a variety of different entities, run in accordance with generally accepted insurance practices, and includes insurance core principles

Microinsurance : Bangladesh Status and Potentials

Status



- **9.4 million people (6.2 %)** are covered by microinsurance
- **12 private life insurers** and **5 non-life insurers** are offering microinsurance



- **No readily available data** on number of microinsurance policyholders in the NGO/MFI sector.
- **No separate Microinsurance Act / Regulation**
- **No clear definition of microinsurance and targets** for insurance companies by IDRA.

Potentials



- Alternative distribution channels (**Partner-Agent Model**)
- Microinsurance by **Mutual and Cooperatives**
- **Bankassurance and digital microinsurance**

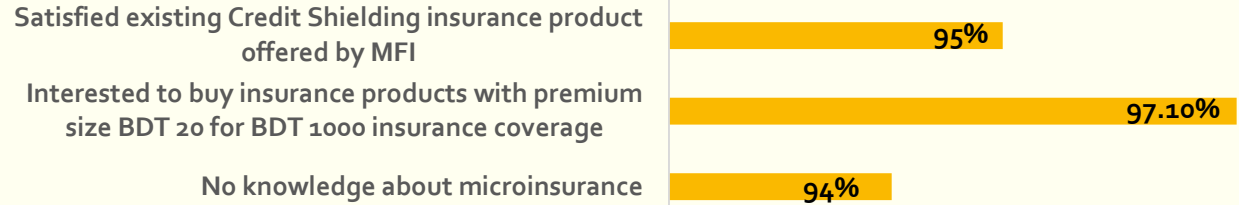
Micro Insurance : Demand Side perspective

INAFI demand side survey overview:

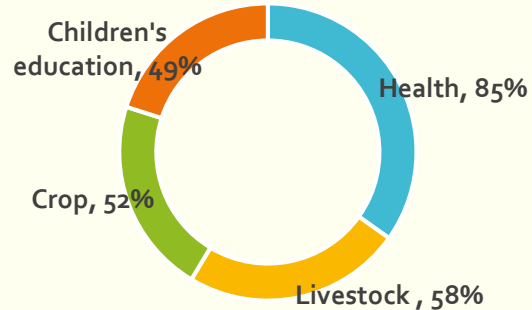
- **650 respondents** of one MFI from 13 Upazilas in 4 Districts in Bangladesh.
- All respondents had **Credit Shielding Insurance** (death related) which is mandatory by their MFI.
- None of them have any health insurance, accident, education, livestock, agriculture crop, asset or pension insurance.
- Respondents prefer to pay premium through monthly installment rather than paying once at a time.

Micro Insurance : Demand Side perspective

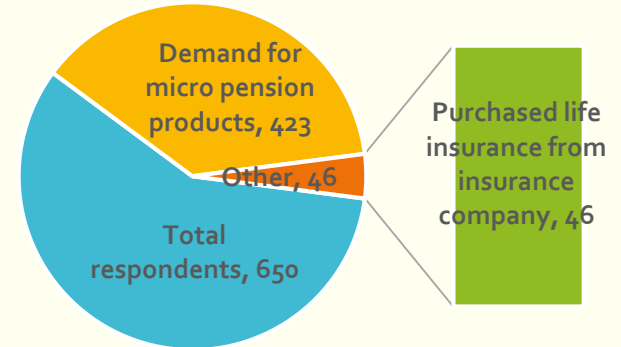
Demand for microinsurance



Interested in other microinsurance products



Products perception



Source : INAFI Demand side survey

Some Popular Microinsurance Products

- Whole-life insurance
- Term-life insurance
- Endowment insurance
- Personal accident insurance
- Funeral insurance
- Indemnity-based Crop Insurance (IBCI)
- Weather Index-based Crop Insurance (WICI)
- Hybrid Weather Index-based Crop Insurance (H-WICI)
- Livestock insurance
- Health Microinsurance (HMI)

Microinsurance Practices in other Countries

Good microinsurance practices	Countries
1. Highest insurance coverage	Ghana, India, Philippines, Thailand and South Africa
2. Highest compounded annual growth rate	China, Fiji, Indonesia, Malaysia and Nepal
3. Highest number of lives covered	China, India, Philippines and South Africa
4. Introduction of microinsurance regulations	India and Philippines
5. Alternative distribution channels	Brazil, Ghana, India, Kenya, Philippines, South Africa and Uganda
6. CAT standards for fair charges, easy access and decent terms	Brazil, Philippines and South Africa
7. Microinsurance Agents	India and Philippines
8. Time limit within which regulator must respond re product design approval	Indonesia and Nepal
9. Definition of microinsurance and microinsurance quota	India
10. Digital microinsurance	Ghana, India, Indonesia, Kenya, Pakistan, Philippines, Tanzania and Uganda
11. Microinsurance by Mutuels and Cooperatives	Colombia, Guatemala, India and Philippines etc.
12. Panel of insurance companies and risk pooling	Indonesia

Low Cost Delivery Channels Of Micro Insurance Products

Delivery Channel Groups	Products	Strength	Challenges
<p>Cash-based retailers</p> <p>(e.g. corner stores, grocery stores and supermarkets)</p>	<p>Simplified personal accident and life insurance policies</p>	<ul style="list-style-type: none"> • Offers easy, low-cost access to existing customer base. • Retailer has good understanding of customer needs. • Motivated to offer higher value products to maintain/strengthen brand 	<ul style="list-style-type: none"> • Cash-based premium collection may suffer from higher initial lapse-rates. • Not oriented toward provision of financial services
<p>Credit-based retailers</p> <p>(e.g. fertilizer supplier, seeds supplier)</p>	<p>Credit shielding, personal accident, life insurance, crop insurance, personal and business assets</p>	<ul style="list-style-type: none"> • High levels of persistency due to account-based premium collection. • Sales point can double as a service and claims desk. • Existing client information helps product design and distribution approach. • Familiar with provision of financial services 	<ul style="list-style-type: none"> • Products, even when voluntary, often deliver low value to clients. • Sales of insurance products besides credit risk may not be viewed as relevant to core business Insurance cover period linked to credit repayment period

Low Cost Delivery Channels Of Micro Insurance Products

Delivery Channel Groups	Products	Strength	Challenges
<p>Utilities</p> <p>(e.g. REB, Gas supplier)</p>	<p>Personal accident, HMI, life, business and personal assets</p>	<ul style="list-style-type: none"> Existing client information assists in product design and targeted insurance sales Efficient payment collection due to presence of account relationship with client 	<ul style="list-style-type: none"> Low claims rates on personal accident products offered through these channels signal low value proposition to clients Extensive involvement by broker/administrator, distribution channel and third-party operators can increase management costs
<p>DFS, MNOs, MTOs</p> <p>(e.g. GrameenPhone, Milvik, bKash, Robi)</p>	<p>Personal accident, HMI, life, business and personal assets</p>	<ul style="list-style-type: none"> Large distribution network with extensive formal and informal out-reach. Facilitates use of e-money for premium payments 	<ul style="list-style-type: none"> Low take-up due to passive sales. Premium collection using airtime as currency very expensive. Absence of trusted brand at sales point Insurance company has little control over informal third-party bill payment providers

Micro pension

- Definition : *Monthly payments made on superannuation to an individual to enable her/him to maintain a decent standard of living post retirement and in old age.*
- NGOs/MFIs are already looking at MPS quite actively but the mainstreaming insurance companies are not offering micro pension in Bangladesh.
- National Social Security Strategy of Bangladesh (NSSS) has planned for Comprehensive Pension System for Elderly, which has four components:
 1. Old Age Allowance (OAA)
 2. National Social Insurance Scheme (NSIS),
 3. Private Voluntary Pension (PVP),
 4. Present Government Service Pension with no change.
- Prerequisite for MPS : Long term membership in NGOs/MFIs
- Features of MPS: Simple Pension Scheme & Pension Scheme with death coverage

Towards Inclusive Insurance

- Policy and regulatory reforms
- Leveraging potential of microinsurance and micro pensions
- Adopt low cost delivery channels of microinsurance products.
- Linking with Social Safety Net Programs
- Capitalise on role of Postal Insurance Department, Insurance companies, NGOs/MFIs/Cooperatives

Pro-poor Provisions in Jatiyo Bima Niti (JBN) 2014

JBN Ref	Brief Details	Responsibility
11	All microinsurance providers, including NGOs, should take steps towards providing microinsurance service	BFID, all connected Ministries, IDRA, MRA
12	Capacity building of IDRA	BFID, IDRA
17	Each insurer should establish a Complaint Center to deal with grievances of policyholders	IDRA, all insurers
34	Raise the insurance awareness of the general public	MOI, IDRA, BIA
35	Increase the insurance literacy of the general public	MOE, IDRA, all insurers
36	Mandatory 'insurance for compensation' in accordance with the Labour Law for workers such ready-made garments industry and migrant workers	All insurers, MOLE, IDRA
37	Provision of pension for the private sector through independent annuity pension scheme by private insurance companies	MOC, BFID, NBR, IDRA, all insurers
43	Develop low-cost insurance products for women such as savings, accident, group policies. All unfair terms and conditions such exclusion of pregnancy should be removed	MOWCA, IDRA, all insurers
49	Development of insurance products by the private sector for the welfare of the rural poor. Authorities and government owned insurers should develop insurance products that meet the financial ability of the poor and the ultra-poor.	MODMR, MOHA, BFID, IDRA, all insurers
50	Develop Social Security Insurance to cover disability, illness, maternity, and unemployment	BFID, MOSW, MOWCA, MOCHTA, MRA, IDRA, BIA, all insurers

Roles And Responsibilities For Inclusive Insurance

Government (Financial Institutions Division, Ministry of Finance)

- Strengthen IDRA for insurance sector development.
- Harmonisation of Insurance Act and MRA Act through mutual discussion between IDRA and MRA
- Round-table Discussion with BB, IDRA, MRA, PKSF, Insurance Association and representatives from life and non-life insurance companies and representative from NGOs/MFIs

IDRA

- Capacity development of IDRA to implement/introduce reforms
- Integrate microinsurance category in the Insurance Act.
- Develop strategies, policies or modalities for social insurance or microinsurance.
- Allow MFIs to offer insurance products either being a corporate agent, partner agent or under a group insurance arrangement with licensed insurance companies.

Roles And Responsibilities For Inclusive Insurance

MRA

- Allow NGOs/MFIs to offer microinsurance to protect loan portfolio.
- Lobby for separate regulatory authority specialized on microinsurance or a separate regulation for microinsurance.
- Allow NGOs/MFIs to be agents or partners of licensed insurance companies.
- Supervise and monitor all social protection products of NGOs/MFIs.

Bangladesh Postal Office (BPO)

- Provide microinsurance for the benefit of the low-income households

Bangladesh Bank

- Supplement the efforts of both the regulators
- Promote bankassurance products to reduce credit risk
- Allow payment of microinsurance premium through airtime

Challenges

- No **pro-active policies and directives** from the Government.
- Need for **risk management and pension scheme** for the Low Income Household (LIH) in SSNPs.
- Lack of microinsurance **awareness and insurance education** amongst LIH, insurance providers, regulators and policy makers.
- Lack of **coordination** among inter government agencies and regulators.
- **Regulatory harmonisation** required : Insurance Act 2010 and Micro Credit Act 2006
- BB's **policy reform** required : payment of insurance premium through air time
- **Capacity building** in microinsurance required : IDRA and MRA
- Low **usage of technology** by Insurance providers
- Need for **Credit Information Bureau**
- Need for **client protection**

Policy Options

Short Term

IDRA & MRA

- Develop capacity building programmes

Mid Term

IDRA &MRA

- Pro-poor regulations in Insurance Act 2010 : Develop Microinsurance Regulatory Framework; adopt CAT standards- Develop suitable microinsurance products
- Policy on awareness building- PKSF, CDF, Insurance Association

FID

- Strengthening of Insurance Act 2010 and MRA Act 2006
- Policy on PPP
- Setting up of CIB
- Include MPS in NSIS or PVP

Long Term

IDRA &MRA

- Policy on financial inclusion data collection, monitoring and evaluation

FID

- Empowering Policy makers to increase access to quality financial services by the poor
- Rules on Insurance Ombudsman



National Financial Inclusion Strategy (NFIS) for Bangladesh

Definition of Financial Inclusion for Bangladesh

Access to the full range of **financial services** provided at **affordable cost** with **quality** and **ease of access** to everyone who can use such **services** with **minimum risk** through a **competitive financial marketplace**.

Vision

An integrated financial system that:

- 1 Supports rapid and inclusive development of the country's real sector.
- 2 Responds to the needs of the country's population and enterprises.
- 3 Provides access to financial products to smooth consumption, invest in opportunities and mitigate shocks.

Strategic Thrusts

- 1 Expand **consumer choice and convenience** with a broader range of **financial products, channels and payment instruments**.
- 2 Strengthen **interconnections between financial services providers and digital eco-systems**
- 3 Build **common industry infrastructure** fit for the future
- 4 **Financial advocacy** to strengthen **customer empowerment and protection**
- 5 Prioritize **women, youth and micro-small enterprises**
- 6 Create **enabling core policies and regulations**

Strategic Thrusts relevant to Insurance sector



Strengthen capacity of regulators and insurance service providers



Promote competition through product diversity



Mandate for consumer protection



Enabling regulatory environment and policies for inclusive insurance



Forge institutional partnerships through partner-agent model



Insurance awareness and education for target groups



Use technology :increase efficiency & reduce transaction cost

Key issues of discussion

1. How can insurance companies cater to need based products and adopt distribution channel to reach the last mile?
2. What should be the role of MFIs to offer social security / insurance products to reduce the risks and vulnerability of the poor people?
3. How to strengthen the role of Bangladesh Post Office to offer insurance products?
4. How to link Government's Social Safety Net programmes with insurance?
5. How to promote insurance education and awareness so that consumers are able rely and make informed decisions?
6. What can be some policy options (harmonization of IDRA and MRA Act, develop Microinsurance Act, Mutual Insurance Act) to create an enabling environment for better access to insurance?

Thank you

Open discussion