

AIG Uganda

**A Member of the American International
Group of Companies**

**CGAP Working Group on Microinsurance
Good and Bad Practices
*Case Study No. 9***

Michael J. McCord, Felipe Botero, and Janet S. McCord – April 2005

Good and Bad Practices in Microinsurance

This paper was commissioned by the “Good and Bad Practices in Microinsurance” project. Managed by the ILO’s Social Finance Programme for the CGAP Working Group on Microinsurance, this project is jointly funded by SIDA, DFID, GTZ and the ILO. The major outputs of this project are:

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

Table of Contents

Abbreviations and Acronyms	iv
Acknowledgements	v
Executive Summary	vi
1. The Context	1
1.1 Role of the State in Insurance	1
1.2 Insurance Industry Basics	3
1.3 The Role of the State in Social Protection	7
1.4 Microinsurance in Uganda	9
2. The Institution	11
2.1 Brief History of the Institution	11
2.2 Organisational Development	13
2.3 External Relationships and Resources	15
2.4 Profit Allocation, Investment and Reinsurance	15
3. The Insured.....	16
3.1 Social, Economic, and Geographic Conditions.....	16
3.2 Risks and Vulnerabilities	16
3.3 Familiarity with Offered Microinsurance	17
4. The Product	20
4.1 Partners	20
4.2 Distribution Channels	21
4.3 Benefits	24
4.4 Premium Calculation	26
4.5 Premium Collection	28
4.6 Claims Management	29
4.7 Risk Management and Controls.....	33
4.8 Marketing.....	34
4.9 Customer Satisfaction	35
5. The Results	36
5.1 Operational and Financial Results	36
5.2 Reserves	38
5.3 Impact on Social Protection Policy.....	38
6. Product Development	39
6.1 Concept Development.....	39
6.2 Product Design.....	40
6.3 Pilot Testing.....	40
6.4 Rollout	42
6.5 The Product Development Cost.....	43
7. Conclusions.....	44
7.1 Planned Adjustments	44
7.2 Breakthroughs and Challenges.....	45
7.3 Key Lessons Learned.....	45
7.4 Outstanding Questions	48

Selected References	50
Appendix 1: Loan Officer Perceptions	51
Appendix 2: Client Perceptions	53

Table of Figures

Table 1.1 Macro Data	1
Table 1.2 Insurance Companies' Gross Premiums & Loss Ratios: Non-Life	3
Table 1.3 Insurance Companies' Gross Premiums & Loss Ratios: Life.....	4
Table 1.4 Insurance Brokers' Gross Income.....	5
Table 1.5 Insurance Industry Basics	6
Table 1.6 Insurance Penetration and Insurance Density	7
Table 1.7 Improving Performance in the Health Sector	8
Table 2.1 Insurance Organisation Basics	11
Table 2.2 Insurance Organisation Basics - Trends.....	11
Table 2.3 Changes in Group Personal Accident Product Features, June 1999	12
Table 3.1 Insured Information Table	16
Table 3.2 Coverage versus Concerns.....	17
Table 4.1 Product Details: Life Insurance	20
Table 4.2 Participating MFIs and Corresponding Benefits.....	21
Table 4.3 Structure of Relationships in the AIG Uganda Model	22
Table 4.4 Benefits Summary.....	24
Table 4.5 Processes by Premium Collection Option.....	28
Table 4.6 Claims Documentation Requirements	30
Table 4.7 AIG Uganda: Claims by Type (2000 to May 2004)	30
Table 4.8 MFI vs. AIG Uganda Claims Records	31
Table 5.1 Key Results	37
Table 5.2 AIG Uganda MFI Product: Premium and Claims Growth	38
Table 6.1 Elements of the Concept Generated by the MFI.....	40
Table 6.2 Additional Pilot Testing Issues	42
Table 6.3 AIG Uganda: Microfinance Product Growth in Lives Covered	43

Abbreviations and Acronyms

AAR	Africa Air Rescue Health Services
ADB	Accidental Death Benefit
AIG	American International Group
AMFIU	Association of Microfinance Institutions of Uganda
APR	Association for Pension Reform
CERUDEB	Centenary Rural Development Bank
CIDR	International Centre for Development and Research
CGAP	Consultative Group to Assist the Poorest
CMS	Commercial Marketing Strategies (a project of USAID)
DFID	Department for International Development (UK)
FASERT	Foundation for the Advancement of Small Enterprises and Rural Technologies
FINCA	Foundation for International Community Assistance
FTC	Feed the Children
FU	FINCA Uganda
GDP	Gross Domestic Product
GoU	Government of Uganda
GPA	Group Personal Accident
HFC	Housing Finance Corporation
HMO	Health Maintenance Organization
IAA	International Air Ambulance
IBNR	Incurred But Not Reported (used with claims)
ILO	International Labour Organization
K	Thousands
m	Millions
MFI	Microfinance Institution
MIRT	Minority International Research Training
MoH	Ministry of Health
n	Number of units or actions
N/A	Not Available
NGO	Non-governmental organisation
NIC	National Insurance Corporation
NSSF	National Social Security Fund
P&I	Principle and interest
PPP	Purchasing Power Parity
PSDU	Private Sector Development Programme Uganda (a DFID programme)
STEP	Strategies and Tools against social Exclusion and Poverty
STG	Social Security and Pensions Sector Stakeholder Transition Group
UCBHFA	Uganda Community Based Health Financing Association
UIA	Uganda Insurers Association
UIBA	Uganda Insurance Brokers Association
UMU	Uganda Microfinance Union
US\$	United States Dollars
USAID	United States Agency for International Development
Ushs	Uganda shillings
YTD	Year to Date

Acknowledgements

The authors are sincerely grateful to the management and staff of AIG Uganda and especially the Managing Director Mr. Stan Mensah, and the Accident and Health Manager Mr. John Bosco Kalema who facilitated this visit. Gratitude goes to AIG's MFI partners—Faulu, Feed the Children, Uganda Microfinance Union (UMU), and FINCA Uganda—their management and staff who were open in discussions about the product.

Thanks also to team from the Minority International Research Training (MIRT) programme that conducted extensive research on customer satisfaction regarding this product. This programme is generously funded by a grant to Christian Brothers University from the National Institutes of Health through the Fogarty International Centre and the Office of Minority Health Disparities. The MIRT Team was assisted in research planning by Monique Cohen of Microfinance Opportunities.

Appreciation also goes to the donors that are supporting this activity through the CGAP Working Group on Microinsurance: the British Department for International Development (DFID), Swedish International Development Assistance (SIDA), German Technical Assistance (GTZ), and the International Labour Organisation (ILO).

Executive Summary

In 1996, the management of FINCA Uganda (FU), a microfinance institution (MFI), approached the American International Group (AIG) Uganda to develop an insurance product for the MFI's clients. FINCA Uganda had seen the difficulties experienced by clients' families when there is a death in the household and decided to work with an insurer to help clients cope with this risk. At first, AIG Uganda and other insurers rejected this idea. When a new expatriate managing director arrived at AIG Uganda, he agreed to collaborate with FU. A basic product was launched in 1997, and an expanded version of the product, including coverage for the spouse and four children, was introduced in 1999.

Now, eight years after AIG Uganda became involved in microinsurance, this study looks at what has become a success story in several ways. For the microfinance clients, AIG's group personal accident (GPA) product has been useful and affordable in managing traumatic lifecycle events. Ugandan MFIs that participate in the scheme have generated revenues and helped improve loan portfolio quality. AIG Uganda has seen this product become its number one generator of revenue and profits to the extent that it has attracted attention across the region for AIG International. On a macro-level, the success of this programme has benefited both Uganda and the global microfinance community.

AIG Uganda's achievements are certainly impressive:

- **Growth** – The GPA product covers 1.6 million lives through 26 MFIs in three countries (although only 2 are outside Uganda) generating about US\$750,000 in premiums in 2003 with a conservatively projected premiums of US\$800,000 for 2004. Almost all of the major MFIs in Uganda offer the AIG product.
- **Profitability** – With profits of around 20% on the premiums, this product provided nearly 17% of all of AIG Uganda's profits for 2003.
- **Innovation** (initially) – AIG Uganda took a chance on this market when no other insurer would. It has been an example to others internationally, leading to microinsurance products offered by insurers in other countries.

This case study relates a success story, but it also relates a story of a product that has not seen a reasonable amount of evolution. This is partly due to a lack of pressure from the MFIs, and partly because AIG Uganda did not recognise the importance of microinsurance within its product mix. The needs of the clients do not stand still and therefore products, services, and processes must continually evolve to meet these dynamic demands. AIG Uganda's microfinance product has experienced some improvements since its inception, such as added coverage and dedicated resources. However, there are some broad areas that call for significant upgrading, including customer education and service, the claims procedures, and the transactional processes between AIG Uganda and the MFIs.

Besides the importance of actively managing product evolution, several other lessons have been learned since product inception in 1997, including:

- A microinsurance product can be developed and implemented reasonably well without external funding.
- MFIs must represent their clients in negotiations related to the insurance product. Clients are reliant on the MFI for satisfactory products and services. Key representational activities include:
 - Making sure claims processing is efficient, timely, and accurate;
 - Lobbying insurers for better products, and adapting products to the characteristics of the low-income market;
 - Ensuring that clients understand the product; and
 - Having internal systems that track insurance transactions and gather important demographic data.
- Insurers with group policies to MFIs must track claims settlements all the way to the final beneficiaries, which includes:
 - Reviewing claims documentation policies to expedite settlements and minimise the obstacles for beneficiaries (including official and non-receipted expenses); and
 - Following up on claims settlements and rejection notifications.
- Even when a product is compulsory, it still needs marketing. Insurers and MFIs must:
 - Ensure better education for MFI staff and clients; and
 - Design educational tools with product information.
- Separate the coverage of the loan from the coverage of lives. AIG Uganda has found that the two main parts of its coverage need to be priced against different indicators. Credit life should be based on the loan amount; the personal accident cover should be based on the benefit amount.
- Accidental death coverage is insufficient for the low-income market. If regulatory requirements prevent non-life companies from providing short-term coverage for all causes of death, then MFIs should consider partnering with life insurers instead.

There have many lessons learned by AIG Uganda in the provision of this product. The story is laid out here so that others may also learn.

1. The Context

Table 1.1 Macro Data¹

GDP (US\$ Billions) (PPP) *	36
Population (millions) *	26
Population density per km ²	119
Percentage urban / rural population	N/A
GDP/Capita (US\$) (PPP) *	1,400
GDP Growth Rate *	4.4
Inflation*	0.1%
Exchange Rate (current, Ushs per US\$1) ² (June 2004)**	1,800
Infant Mortality (per 1000 live births) *	86
Under Five Mortality (per thousand) 2001	124
Maternal Mortality (per 100,000 live births) 2001	1,100
Access to improved water source (% of population) 2000	52
Health Expenditure as % of GDP (public/private/total) (2001)	1.5/2.4/3.9
Health Expenditure per capita (US\$) 2001	15
Doctors per thousand people	N/A
Hospital beds per thousand people (urban/rural)	N/A
Literacy rate *	70%

1.1 Role of the State in Insurance

Regulation and Supervision

The Ugandan insurance sector is one of the least developed in the region. Before 1996, anyone could start an insurance business as long as the company had a Board of Directors.³ In response to this situation, the government promulgated the Uganda Insurance Statute of 1996 and the Insurance Regulations of 2002.

Today the insurance industry is strongly regulated. To regulate the market and protect consumers, the 1996 Statute created the Insurance Commission which controls and oversees the entire industry. The Statute required insurers to join the Uganda Insurance Association (UIA) and adhere to its Code of Conduct. In so doing, the Statute gave certain powers to the association to issue and revoke licences. The Statute defined the requirements for operating an insurance company, specifying that companies have at least two experienced senior managers, a certified accountant, and appropriate capital: one million US dollars in capital for a foreign insurer, US\$200,000 for a domestic insurer.

¹ Sources: World Development Report 2004, *World Factbook 2004, **<http://www.oanda.com/convert/classic> (rounded from 1834 for ease of calculations)

² This exchange rate will be used in all calculations of current figures in this paper. For historic exchange rates, the following rates are used: Ugandan shillings per US dollar - 1,797.55 (2002), 1,755.66 (2001), 1,644.48 (2000), 1,454.83 (1999), 1,240.31 (1998).

³ Lillian Nsubuga "Uganda Gets Its Own Reinsurance Firm" The East African, July 15, 2002

The Statute also addressed issues of brokers, agents, and reinsurers. It requires 5 percent of reinsurance business to go to Africa-Re, and 10 percent to the preferential trade area reinsurance company. In 2000, 40 percent of all premiums were paid to external reinsurers including the 15 percent mentioned above. This ratio has increased slightly in 2001 through 2003. There is a strong concern among insurers and the Commission that too much money is being sent to international markets while not providing any benefit to the Uganda economy.

The Insurance Regulations of 2002 were an effort to formalise insurance documentation and to bring about consolidation within the market. To accomplish the latter, minimum capital requirements were increased to US\$500,000 for each type of insurance license (down from the one million US dollars for foreign insurers because of exchange rate fluctuations, and up from US\$200,000 for domestic companies). The commission hopes that these requirements will reduce the number of insurers from 20 today to between eight and ten.

Unregulated Insurers

Currently there is no special framework for unregulated “insurers,” but the Commission is seeking suggestions from the industry about how to deal with two significant health maintenance organisations (HMOs)—AAR Health Services and International Air Ambulance. There are incentives for the Commission to look at them because: (1) the Commission is mandated to protect the consumer; (2) the marketing activities by one HMO are illegal (it posts a sign selling its “medical insurance” on the main road in Kampala); and (3) the commission is funded through the receipt of 1.5% of all premiums written, which it currently does not receive from HMOs.

With respect to microfinance institutions (MFIs), the Insurance Statute forbids organisations from conducting insurance business without a license (Insurance Statute 1996, Section 1, item 3). Thus, MFIs cannot legally develop and sell their own insurance products without a license. There appears to be no specific insurance statute that precludes an MFI from operating an insurance business as long as it complies with the licensing requirements, however, there would be other issues with the Central Bank and the banking laws, making such incorporation rather complicated.

State Promotion of Insurance

Technically, the Government of Uganda (GoU) has not formally promoted insurance activities through any of its organs, including the Insurance Commission. The only link to the “promotion” of insurance, interpreted in the broadest sense, is the requirement that all vehicles have third party liability insurance. This requirement, it can be argued, is an extension of state oversight by regulators intended to protect the public from careless drivers and thus might, theoretically at least, generate confidence in the market, which would be promotional. Public experience with mandatory third party liability insurance, however, has had the opposite effect since historically valid claims were rarely paid (depending on the insurance company), resulting in generally poor public confidence in insurance. Although this situation has improved, much of the market still remembers the past performance.

1.2 Insurance Industry Basics

The business activities of the four life insurance companies, eighteen non-life insurers, and the twenty-six insurance brokers help to identify some trends in the insurance business and what products are in demand.

Non-life Insurance Products

Non-life insurance includes all products with short terms. Because of the GoU requires third party motor insurance, this is the largest single category (see Table 1.2). Miscellaneous types include business insurance as well as the group personal accident (GPA) product offered to MFIs and others. The premiums from the GPA policies offered to MFIs amount to 14 percent of the total in the miscellaneous category, or about 6 percent of the total non-life business written in Uganda.

The growth rates of these products have been substantial. The loss ratios (the percentage of premiums expended on claims) in the 15 to 45 percent range are low compared to other countries, which suggests inefficiencies in the industry that would inflate the premiums. A possible cause of this inflation is that there are too many insurance companies and many of them are unable to survive without high margins. This problem should begin to adjust itself given the expected consolidation in 2005.

Table 1.2 Insurance Companies' Gross Premiums & Loss Ratios: Non-Life

<i>Uganda - Insurance Companies' Gross Premiums and Loss Ratios</i>						
Non-Life Insurance						
(thousands of US\$)						
Years	Fire	Marine	Motor	Miscellaneous / Accident	Total	Average total premiums non-life
Premiums (using annual exchange rates)						
2000	4,223	2,091	7,841	7,025	21,180	1,177
2001	4,124	2,705	7,875	9,815	24,519	1,532
2002	4,863	2,525	9,305	11,061	27,754	1,542
Year to Year Changes						
2000/1	(2%)	29 %	<1%	40 %	16 %	30 %
2001/2	18 %	(7%)	18 %	13 %	13 %	1 %
Loss Ratio by Class						
2000	14 %	40 %	44 %	38 %	35 %	
2001	13 %	27 %	49 %	32 %	34 %	
2002	17 %	52 %	42 %	30 %	34 %	
Average	15 %	39 %	45 %	32 %	34 %	

Life Insurance Products

Life insurance performance has been dismal in Uganda (see Table 1.3). Although there are five licensed life insurers, only four have written policies and only one has written more than

US\$500,000 in any given year. AIG let its license lapse and is simply paying out benefits for an old portfolio.

The universal explanation for this extremely limited activity is that in 1987, the currency was devalued to 1 percent.⁴ This left long-term savings and life insurance benefits virtually valueless. Subsequent to this major devaluation, the currency was further devalued by 30 percent. Before these devaluations, there were several additional life insurers, many of whom were said to have been doing significant business. The devaluations, however, completely dried up the demand for life products.

One insurer relates the story of a man who had a well-endowed whole life policy pre-1987. When he came during the 1990's to collect the proceeds, he spent more for the taxi ride to get to the insurance company than he collected as his benefits.

Table 1.3 Insurance Companies' Gross Premiums & Loss Ratios: Life

<i>Uganda - Insurance Companies' Gross Premiums and Loss Ratios</i>					
Life Insurance					
(thousands of US\$)					
Years	Individual Life	Group Life	Long-Term Funds (Investments)	Total	Avg. premiums per insurer
Premiums In Thousands of US\$ (using annual exchange rate)					
2000	101	581	1,939	2,621	1,310
2001	68	690	1,619	2,377	594
2002	43	292	1,727	2,062	515
Year to Year Changes (US\$)					
2000/1	(33%)	19%	(16%)	(9%)	(55%)
2001/2	(37%)	(58%)	7%	(13%)	(13%)
Loss Ratio by Class					
2000	6%	8%	30%	25%	
2001	3%	41%	36%	37%	
2002	23%	12%	36%	32%	
Average	9%	24%	34%	31%	

The trust in and understanding of these products has not improved and little has been done to improve the situation. No real effort to revive the life business has been made. That said, the Commissioner of Insurance has a strong desire to see more life insurance activity, but is not in a position to pressure insurers into this side of the business.

⁴ In mid-1980 the exchange rate was Ushs 7.3 per United States dollar. When the government floated the shilling in 1981, it settled at a rate of Ushs 78 per \$1. A foreign exchange shortage caused a decline in the value to Ushs 600 per US\$1 by June 1985 and Ushs 1,450 in 1986. In May 1987, the government introduced a new shilling, worth 100 old shillings, along with an effective 76 percent devaluation.

It has been fourteen years since the last devaluation and the economy is reasonably stable. Demand for life products from the low-income market is strong (Cohen and Sebstad, 2003; Sebageni, 2003). From the supply side, the loss ratio on life insurance is extremely low, making it potentially profitable. There is some room for premium reductions if volumes could be substantially increased. Therefore, it may be a good time for life products to be reintroduced, at least to the low-income market, if insurers can reduce acquisition costs and improve market acceptance.

Insurance Innovation in Uganda

In general, insurance brokers in Uganda have not been particularly innovative. One broker, Aon, dominates the market generating about 60 percent of the total income of all twenty-six brokers (see Table 1.4). Recognising a gap in the market, Aon developed a health care administration department to assist its premiere business customers to address their responsibilities to their employees. This arrangement, however, has proven awkward for Aon as it lies outside the broker's core business. Thus, Aon sought out proper health care financing alternatives, but found none. To address this, Aon is leading an effort to license Microcare Uganda (an NGO providing innovative health care financing products) as a health insurance company providing health cover for the low-income market. DFID's Financial Deepening Challenge Fund supports this effort.

Table 1.4 Insurance Brokers' Gross Income

Uganda - Insurance Brokers' Gross Income			
	AON	All Others	Total
Broker's Gross Income in Thousands of US\$			
2000	1'057	680	1'737
2001	1'155	828	1'983
2002	1'330	986	2'315
Year to Year Changes (US\$)			
2000/1	9%	22%	14%
2001/2	15%	19%	17%

Two prominent HMOs—AAR Health Services (AAR) and the International Air Ambulance (IAA)—have reached large numbers of covered individuals (over ten thousand in 2004) who pay, or whose employers pay, for managed health care cover. These unregulated enterprises have grown to a size and prominence that the Commissioner of Insurance has become concerned about their status.

Several hospitals and other groups have been offering health cover in a number of populated areas around Uganda. These are grouped into the Uganda Community-Based Health Financing Association (UCBHFA) that was formed through a DFID project in association with Land O'Lakes, and is now supported by the Ministry of Health.⁵ The UCBHFA is part of the broader Land O'Lakes initiative started in 1994, the Uganda Health Cooperative.

⁵ Ted Weihe (2004).

Finally, there are informal mechanisms for funeral and health care assistance. Low-income people frequently use such systems, which often have more social importance than financial benefit. Nevertheless, they have few alternatives. These are often the only services available for workers in the informal economy.

Assessing the Market

In considering insurance in a given context, it is important to gain an understanding of the various stakeholders. Table 1.5 outlines Uganda's current insurance industry.

Table 1.5 Insurance Industry Basics

Issues	Observations
Name of insurance regulatory body	Uganda Insurance Commission
Key responsibilities of the regulatory authority	Policy development, recommendations to Parliament, implementation, enforcement, supervision, and licensing of insurers, brokers, reinsurers, and agents.
Minimum capital requirements for insurance license	Ushs 1 billion (US\$556,000) each for life and non-life licenses
Other key requirements for an insurance license	At least two experienced senior managers, a certified accountant, approved policies and products, reinsurance, membership in the Insurance Association, payment of regular fee to the Commission.
On-going capital requirements for an insurance company	N/A
Other key requirements for regulatory compliance	Regular weekly, monthly, quarterly, and annual reporting; 5% of reinsurance business must go to Africa-Re, and 10% to the preferential trade area reinsurance company.
Number of private insurers	20 Non-life; 4 Life
Annual premiums of private insurers	Non-Life – US\$27.8 million; Life – US\$2.1 million (2003)
Number of public insurers	1 = The National Insurance Corporation (should be privatised by 31/12/2004)
Annual premiums of public insurers	Ushs 7.8 billion (US\$4.3 million) in premiums in 2003 (The Monitor, July 7, 2004)
Other unregulated organizations, that offer insurance	Numerous community-based “insurance” schemes.
Certification requirements for agents	Insurance statute 1996, Section 8, item 72 notes “no person shall carry on the business of an . . . insurance agent . . . unless he is licensed for that business by the Commission.” There is no accommodation for institutional agents such as MFIs, thus technically any individual selling insurance as an employee of an MFI would need to be licensed. None are at this point.

One important way to assess an insurance market is to consider the insurance penetration and insurance density of a given country in comparison with others. Insurance penetration is the ratio of premiums relative to a nation's GDP, which shows how significant insurance is within an economy. Insurance density reflects the premium value per capita. This offers insight into the general use of insurance products and is a sign of the maturity of the insurance industry in a country.

Table 1.6 shows that the Ugandan insurance industry is far below the performance of other country groupings. The insurance penetration in Uganda is about one-tenth of the average for Africa. The comparative insurance density shows that the average premium per capita in Uganda is just a bit over US\$1, which compares poorly to the other country groupings and against Africa as a whole. This table suggests that there is much room for potential expansion in this rather undeveloped insurance market.

Table 1.6 Insurance Penetration and Insurance Density⁶

	Premiums as a % of GDP				Premiums per capita (US\$)			
	1999	2000	2001	2002	1999	2000	2001	2002
EU	7.9		8.4		1,806	1,839	1,763	
Europe	7.5	8.1	7.8		930	945	918	
America	7.4	7.5	7.8		1,087	1,165	1,201	
Asia	7.4	7.7	7.6		174	179	163	
Oceania	9.2	8.8	8.6		1,443	1,316	1,173	
Africa	4.6	4.0	4.5		32	31	30	
WORLD	7.5	7.8	7.8		387	404	393	
China			2.1			15	20	
India			2.0				6	
Uganda		0.39	0.48	0.51		0.97	1.09	1.19

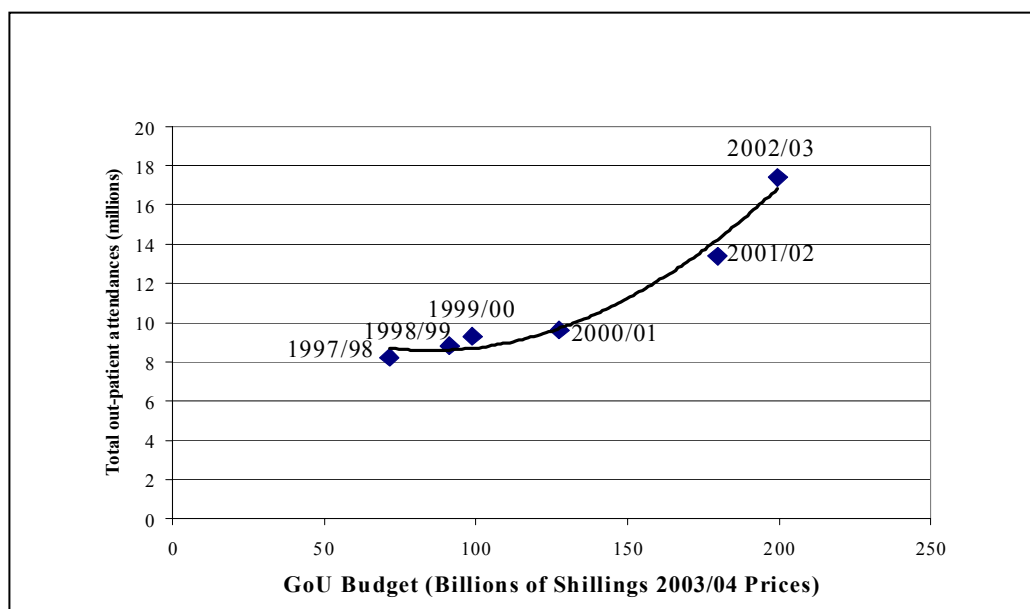
1.3 The Role of the State in Social Protection

The GoU is making significant investments in social protection for low-income households including the abolition of user fees at public hospitals and reforms to the National Social Security Fund (NSSF). These efforts are intended to provide a broader array of social protection such as unemployment insurance, pensions, medical care, funeral benefits, and others as per the ILO list of suggested social protection measures. The ideals are strong, but effective implementation has been difficult with health care reform, and will be even more so with NSSF reform.

In the Health Care Sector

The abolition of user fees has resulted in significant additional utilisation of the public health care facilities. Since 2000/1, when user fees were abolished, outpatient attendance at public facilities increased about 80% while investment from the government in the health sector increased by about 75% (see Table 1.7).

⁶ Swiss Re Sigma and author's calculations

Table 1.7 Improving Performance in the Health Sector⁷

The MoH reports that it has made efforts to improve quality of care as well as access, however users of government health care facilities (in Kampala at least) note anecdotally that quality is limited, queues are long, and there are often non-receipted payment requirements. Even with these efforts, the GoU is still only spending about US\$15 per capita on health care per year, which is less than some of Uganda's neighbours. Though still low, Kenya spends 40% more and Zambia 25% more than Uganda.

In terms of other social protection initiatives in the health care sector, Uganda has long been regarded as a model in the area of HIV/AIDS prevention. Recently, the GoU began to take action in national malaria prevention as well. Plans are in the works to distribute insecticide-treated malaria bed nets to pregnant women and families with small children.

Social Security and Pensions

The NSSF has acted as a provident fund that makes a single payment at retirement to those who participate. About 5 percent of the working age population is enrolled in this scheme. This limited coverage and product range has concerned the government, thus a major effort is underway to restructure the NSSF, led by a government-appointed Social Security and Pensions Sector Stakeholder Transition Group (STG).

The STG's initial proposal calls for dramatic new powers for the NSSF and limits private sector involvement. Additionally, the STG proposal requires the collection of 20% of earnings from the informal sector. Under this proposed programme, workers in the informal economy would be expected to voluntarily report to an office each month to pay their contribution. As an incentive, the group proposes that the GoU match all contributions.

⁷ Rob Yates, "Uganda MoH, Lessons from the Uganda Health Financing Reforms"

The private sector (insurers, brokers, manufacturers, and bankers associations) has formed a team in response to the STG called the Association for Pension Reform (APR). This group has presented a rebuttal to the STG proposal, as have different private sector associations on an individual basis.

The Finance Ministry has not participated in proposal development since the NSSF falls under the Ministry of Gender and Labour. It seems, however, that no one has looked carefully at the costs related to the STG proposal. It is unlikely that this proposal will be implemented in a form anywhere close to the initial draft, and this initiative is not something Ugandans can count on in the short or even medium term.

Additional Social Protection Opportunities

In general, social protection measures in Uganda have been weak. Although the government and its social protection activities in the health care sector do generate some positive impact, social security efforts have been less successful. Of course, private social protection measures are available to households that can afford them. Those with sufficient income can and do purchase health insurance and invest in life insurance, but the rest, particularly those in the informal economy, have been unable to access these products.

Low-income households will continue to cope with risks in traditional ways, such as burial societies and selling assets in a time of crisis, but research has shown that other coping measures are needed. Despite GoU initiatives and best intentions, if low-income households are going to obtain quality health care, microinsurance is an important option. What will be important in the future is for microinsurance initiatives to be complementary to state-provided social protection measures as well as local risk management strategies.

1.4 Microinsurance in Uganda

A number of recent events have influenced microinsurance and represent trends in this important new industry:

- The GoU and the International Air Ambulance are offering “free” anti-retroviral drugs (IAA as a no cost addition to its \$160 per person per year policy). The GoU has recently finalised a national policy to provide free anti-retroviral drugs to needy people living with AIDS.⁸ Details of implementation are still being developed but this will certainly have a major impact on the low-end market.
- AIG Uganda has shown that group personal accident policies sold through MFIs can be profitable, with returns of +/-18% on premiums.
- Health insurance has been less successful but the trend is promising. Microcare Ltd. is one of the most innovative micro health insurance programmes anywhere. It is among

⁸ From a speech by the President of Uganda read by the State Minister for Health Dr. Alex Kamugisha reported by Anne Mugisa, in “Govt finalises plan to offer free AIDS drugs” The New Vision, 21 January 2004.

the first health care financing programmes to convert from an NGO to a fully licensed insurance company with private capital investment and focused on the micro market.

- Property insurance has been untested except for government crop insurance that was a dismal failure (as in so many other places).
- Life insurers are becoming interested in the micro market as they see a gap in AIG's cover that they could fill. Insurers have approached AIG Uganda and one has developed a product to sell in conjunction with AIG's group personal accident policy. Negotiations between the two companies appear to have failed, however, and thus the second insurer, with a composite license,⁹ may move on its own.
- Insurers in Uganda are looking for new markets and as they come to see the low-income market's possibilities, they are becoming interested.

Outside of social protection programmes especially related to health care, the government is providing no assistance to microinsurance. The GoU has so far taken no role in controlling unregistered microinsurance schemes. The Commissioner has been ambivalent about other microinsurance because he notes that these products are "doing good things for Uganda." Recently, however, the Commissioner has questioned the regulatory compliance of AIG's personal accident product.

⁹ A composite license allows an insurer to sell both life and non-life insurance products.

2. The Institution

2.1 Brief History of the Institution

AIG Uganda, a member of the American International Group of Companies, the largest insurance group in the world, has offered high-end insurance products in the Uganda market for more than twenty years. It operated initially with both a life and non-life license, but after the major Ugandan currency devaluations, it moved out of the life business to focus on non-life. For several years, it has held the largest market share in Uganda. Table 2.1 outlines AIG Uganda's key organisational issues and Table 2.2 reviews organisational trends from 2000 to 2003.

Table 2.1 Insurance Organisation Basics

Issues	Observations
Legal structure	Regulated Insurance Company
Registration status	Non-Life Insurance Company
Start of corporate operations (year)	<1980
Start of microinsurance operations (year)	1996
Core business	Non-life insurance products
Target market – core business	Upper end market
Target market – insurance business	Upper end market
Geographic area of operation	Throughout Uganda
Development, marketing, or servicing policies with other institutions	Working with MFIs to deliver microinsurance, working with brokers and other insurers to offer products
Reinsurance provider, provider type	International reinsurers
Reinsurance type	None for microinsurance

Table 2.2 Insurance Organisation Basics - Trends

	2003	2002	2001	2000
Total assets (millions of US\$)	7.6	6.9		
Annual budget (millions of US\$)	2.2	2.6		
Total capital (millions of US\$)	3.3	2.9		
Number of branches	2	2	2	2
Total number of all clients (thousands)	N/A	N/A	N/A	N/A
Total number of group policies (microinsurance)	26	21	13	5
Total number of microinsurance insured lives (millions)	1.6			
Number of full time head office microinsurance staff	1	0	0	0
Number of full time regional office microinsurance staff (full-time equivalents - FTE)	1 agent	1 agent	1 agent	1 agent
Staff turnover (%)	No turnover with the microfinance product			
Number of policyholders / microinsurance staff (FTE)	13	21	13	5
Microinsurance marketing costs	Negligible for microinsurance			

AIG did not get involved in microinsurance intentionally. In 1996, FINCA Uganda, then the largest microfinance institution in Uganda, wanted to develop a financial product that could help low-income households through the financial shock of death. Armed with basic data on client death rates and FU's growth plans, the Country Director visited the various insurance companies in Uganda to try to entice insurers to provide the desired life insurance. The insurers visited, including AIG, rejected FU's proposition.

When a new Managing Director for AIG Uganda arrived, the idea was introduced to him. After a review by his underwriting team, he agreed to provide a Group Personal Accident policy for one percent of loan principle per four month loan. Although there was little hard data to assess the insurance proposal, AIG Uganda decided that the price and terms were reasonable enough to test the product since it fit directly into the insurer's GPA line. AIG could not, however, offer a term life insurance product, as FU had requested, because it did not carry a life insurance license. Thus, the death coverage was limited due to the need to fit within the regulatory environment.

After two years of experience, and tracking premium and claims data, FU management went back to AIG Uganda to renegotiate the product coverage and the premium. The changes resulting from the negotiations are detailed in Table 2.3.¹⁰

Table 2.3 Changes in Group Personal Accident Product Features, June 1999

Feature:	AIG/FU Original Product	AIG/FU Enhanced
Client illness death coverage	Loan P&I	Loan P&I
Client accidental death coverage	Loan P&I plus US\$1100	Loan P&I plus US\$1100
Client permanent disability coverage	Loan P&I	Loan P&I
Client temporary disability coverage	Loan P&I during period of disablement	N/A
Client hospitalization from accident coverage	Up to US\$100	N/A
Husband accidental death coverage	N/A	US\$600
Up to four dependents accidental death coverage	N/A	US\$300 (each)
Insurance term	16 weeks	16 weeks
Method of payment	Cash at start of cycle	In weekly interest payment
Cost to client (client to FINCA)	1% loan principal disbursed	1% loan principal disbursed
Cost to FU (FINCA to AIG)	1% loan principal disbursed	0.5% loan principal disbursed
Voluntary/mandatory Coverage	Voluntary (by group)	Mandatory

In 1999, AIG Uganda also introduced the product to an MFI in Tanzania; in 2000 to other MFIs in Uganda; and in 2003 to an MFI in Malawi. Today, AIG Uganda's microinsurance product covers 1.6 million lives and is delivered through 26 MFIs in three countries.

Most MFIs that partner with AIG Uganda use a village banking methodology in which they form groups of 20 to 25 low-income clients—almost always women. The village banks reduce the screening costs for the MFIs, since the group members should know each other

¹⁰ The logic behind these changes is discussed in Section 6.3.

and only allow people into the group who are trustworthy. The groups also serve as a loan guarantee—if a member is unable to make a loan repayment, the other members are supposed to pay for her. The loans tend to be for small amounts, on average around \$200 to \$300, and for short-terms, usually four or six months. Some of the MFIs have also begun diversifying their loan products, such as offering larger, individual loans over longer terms.

Regarding the design of the insurance product, two new elements were recently introduced. In 2003, AIG added a catastrophic cover to repay the loan principle and interest outstanding if the insured's business and those around it are destroyed by fire. In 2004, AIG Uganda initiated a pilot test with one MFI to include a Last Expenses feature that provides about US\$100 to beneficiaries for non-accidental death. It is unclear whether this feature can be rolled out to other MFIs because it may not comply with AIG's non-life insurance license.

2.2 Organisational Development

AIG Uganda's Staff and Agents

The management and staff of AIG Uganda are insurance professionals, several with formal insurance accreditation and master's degrees. The senior managers have all been involved in insurance for their entire professional lives. The Managing Director has senior management experience with insurance companies in several countries.

Like most insurers, the organisational structure at AIG Uganda is divided into several departments: underwriting, marketing, claims, administration, finance, and two functional areas related to: a) accident and health, and b) other non-life products.

However, the extension of microinsurance does not rely on the insurer alone, and here the expertise is lacking. The insurer does not proactively train personnel within the MFIs, and the MFIs do not sufficiently train their clients. There is also some need for AIG Uganda to train its agents. So far, only four agents have offered the product, with one managing the bulk of these accounts. Yet they are largely unfamiliar with microinsurance. Increased awareness among MFIs and agents may stimulate some new ideas, for example regarding distribution channels or claims processes.

The MFIs' Staff

In the MFIs offering the policy, the loan officers are responsible for interfacing with clients about insurance. Yet in Uganda loan officers often have over four hundred clients each. Their primary function is to manage loans, not insurance. They receive no incentives, monetary or otherwise, to ensure that client understanding is thorough or that they have adequately informed clients how to handle claims. Although loan officers are responsible for submitting insurance claims on behalf of their clients, once the claim is submitted the loan officer becomes disconnected from the claims process until the payment is issued.

For the truly harried loan officers, tasks related to insurance fall off their radar screens and the clients suffer the consequences.

Informal conversations with loan officers and supervisors from four MFIs in Uganda revealed insights about the lack of staff training and the role of staff in guiding clients.¹¹

Staff Training. As the liaison between AIG Uganda and the clients, loan officers have great responsibility, yet research revealed that, in general, loan officers knew little about the policy and admitted that their training about the policy was limited or non-existent. Three of the four MFIs include a brief training about the AIG Uganda policy when loan officers are first hired. When asked why the loan officers of the fourth MFI do not receive formal training on the policy, the organisation said that the terms of the policy are clearly explained in the handout given to all loan officers and therefore no formal training is needed.

Besides the hour of training given to new staff, loan officers are supposed to receive a copy of the policy and memos on policy updates. The research team saw little evidence of information dissemination, however, and of all interviews conducted outside the head offices only one loan officer at one branch was able to produce a copy of the current policy.

Because of the limited training, loan officers have uneven knowledge about the policy. In one MFI, loan officers knew the basics but could not answer more in-depth questions that a client might ask. In another MFI, although the loan officers could not explain the policy, their supervisors demonstrated a good understanding and could correctly list amounts of compensation granted to clients as well as the criteria required for a claim, and corrected loan officers when they denied that the policy covers fire catastrophes.

Guidance to Clients. Considerable confusion seems to revolve around the concept of “beneficiary.” The MFIs did not have a policy about: a) how clients should be assisted in choosing beneficiaries, and b) how to make a claims payout to a juvenile beneficiary. At one MFI, the loan application makes no distinction between persons who receive compensation in the event of the client’s accidental death and the family members covered under the policy.

In another MFI, loan officers suggest that clients list their spouse in the space labelled “spouse/next of kin.” When clients interpret this to mean that they are listing a person to receive compensation if they die by accident, many clients are reluctant to list their spouses. Loan officers expressed frustration that clients persist in listing minor children in this column, and were unsure when this happened if the client’s spouse was still covered under the policy.

The group policies are sold to the MFIs and technically they are the beneficiaries of these plans. However, MFI’s clients are the actual end-users. They have no direct interaction with AIG, and their knowledge of the policy is limited to what they are told by their loan officers. Indeed, the clients usually associate the insurance with their MFI rather than with an outside insurer, and were only vaguely aware of a third party involvement.

¹¹ A student research team investigated client perceptions of the AIG personal accident policy in Uganda and claims payout utilisation. They met with: Faulu, Feed the Children, Uganda Microfinance Union, and FINCA Uganda. A detailed table of Loan Officer Perceptions is provided in Appendix 1.

2.3 External Relationships and Resources

Financial resources for AIG Uganda come from profits generated by its insurance business. AIG Uganda enjoys the benefits of membership in the American International Group of Companies. Besides providing oversight, AIG International provides opportunities for investment of surplus funds, access to actuaries, and professional evaluation of new products.

AIG Uganda has client/provider relationships with twenty-six MFIs within Uganda, Tanzania, and Malawi. These relationships are specifically designed and managed so that AIG Uganda can sell its microinsurance products to the low-end market. These MFIs have made it possible for AIG Uganda to access a market that otherwise would have been impossible to reach.

2.4 Profit Allocation, Investment and Reinsurance

The ultimate holding company for AIG Uganda is American International Underwriters Overseas, which owns 99% of the share capital of the company. No dividends were declared or distributed during the years 2002 and 2003.

Reserves are held in accordance with the Insurance Statute 1996 which requires:

- Section 47(2): An annual transfer to Contingency Reserves equal to 2% of the gross premiums or 15% of the net profit, whichever is greater, until the reserve accumulates to the minimum paid up capital or 90% of the net premium whichever is greater.
- Section 6(5): An annual transfer to Capital Reserves equal to 5% of the net profit.

AIG Uganda holds its reserves in a combination of fixed deposit accounts, Central Bank deposits, and treasury bills.

AIG Uganda has several reinsurance relationships but none are used with the microinsurance product because the deductible on the reinsurance is larger than virtually any microinsurance claim. AIG Uganda believes it can manage any misfortune or catastrophic event with this product, especially since it covers 1.6 million people in three countries so that the risks are widely geographically dispersed.

3. The Insured

3.1 Social, Economic, and Geographic Conditions

Microfinance clients who are receiving the AIG Uganda personal accident policy represent a diverse financial and social spectrum. Of the twenty-six MFI partners, several operate only in the rural areas, others only in the urban areas, and most operate in both settings. Loan sizes range from about US\$25 to US\$6,000, although most loans are between US\$200 and \$300. Table 3.1 summarises general information about these clients.

Table 3.1 Insured Information Table

Issues	Observations
Intended target groups	Borrowers from MFIs
Actual clients	Borrowers from MFIs
Exclusions of specific groups	Individuals are not accepted. Insured must be a part of a recognised group. Most MFIs in Uganda exclude men.
General economic situation	Most of these people live on less than US\$2 per day.
Key economic activities of clients	Most policyholders are involved in the retail trades. Some work in services and a few in small manufacturing. There is no data available on the activities of the policyholders' spouses.
% of clients working in the informal economy	Virtually all work in the informal economy.
Geographic characteristics	Clients covered under these policies are scattered throughout much of Uganda, in both urban and rural areas.
Nature of membership	With all MFIs but one, membership in the insurance programme is mandatory for all borrowers.
Methods of recruitment of clients	Recruitment is done by the MFI using their various strategies to obtain new borrowers. For most MFIs, since the microinsurance product is compulsory and widely available, it has limited marketing value.

3.2 Risks and Vulnerabilities

Focus groups of the participants conducted in 2002 highlighted the perils to which the low-income households were vulnerable and their relative impact on household's finances (Sebageni 2003). In terms of risk priorities, participants' primary concerns were:

1. Health-related risks
2. Death
3. Disability
4. Loss of assets due to idiosyncratic risks (e.g. fire, theft, loss of goods in transit)
5. Loss of assets due to widespread disaster (drought, floods, earthquakes etc.)
6. Crop and animal diseases (perhaps including loss through malicious damage, such as risks to fish traders when fish were being poisoned a few years ago)

Of these risks, the AIG Uganda microinsurance product partially addresses the concerns listed in Table 3.2.

Table 3.2 Coverage versus Concerns

Risk Concern	Coverage Information
Death	Accidental death provides a financial payment to the beneficiary plus payment of the outstanding loan balance. Non-accidental death of the client only covers the loan. This benefit is limited.
Disability	In the event of total and permanent disability, the GPA only covers the loan balance. Initially, temporary disability was also included in the cover, but was not marketed because of the potential moral hazard and fraud problems.
Loss of assets due to idiosyncratic risks	The fact that the loan is covered protects other group members who would otherwise be responsible for payment of the deceased's loan. Additionally, the new catastrophic cover protects against loss by fire under certain conditions.

3.3 Familiarity with Offered Microinsurance

During focus group discussions, participants (in twenty-three focus groups from four MFIs¹²) were asked: “What can you tell us about the insurance policy provided by your MFI?” Their responses show a clear problem in clients’ understanding of the policy. Few acknowledged that they knew anything about insurance¹³ and many admitted having a bad attitude towards it due to hearing some horror story where someone repeatedly tried to get their “rightful” claim, but in the end got nothing. The research team focused on three main areas in assessing client knowledge: 1) education, 2) coverage, and 3) beneficiary allocation.

Client Education. Clients repeatedly stated that they do not have access to information about the policy, are not given anything in writing, and do not feel informed about the benefits. Most clients indicated that they only learn about the policy when the groups are formed, but it is rarely mentioned after that. Interestingly, new clients generally know more about the policy and claims process than clients who have been with an MFI for many loans.

They teach us the first time, but never again.

Knowledge about the policy is especially important when it comes to making claims. Clients said that they had to go to their loan officers (or their group leader) for information when the time came to file a claim. When asked what documentation was needed for a claim, the answers were inconsistent and clients admitted being confused on this issue.

Focus group discussions seemed to generate frustration regarding how little clients actually know about the policy. Their inability to answer questions made them more animated in their

¹² Research included focus groups and individual interviews with clients from FINCA, Faulu, Feed the Children, and UMU. For a detailed review of client perceptions of the policy, please see Appendix 2.

¹³ Although the AIG policy is a group personal accident policy, MFI clients know it as “insurance.” Therefore, in the analysis it is referred to as “insurance,” reflecting the terminology used by the participants.

desire for more education and information. Clients noted that they had never been given written documentation about the policy.

One client thought his MFI was insuring itself. He said the policy allows his MFI to regain its loan but it doesn't help the client: *We are paying for our MFI to be insured!*

Knowledge of Policy Cover. Across MFIs, clients offered inconsistent information about policy components. There was confusion about terminology such as “accident” and “disability,” uncertainty about payouts in the event of an accident, uncertainty about which family members were covered, and whether or not the policy assisted in times of illness. There was a great deal of confusion regarding the disability benefits and catastrophe coverage.

According to one client, when asked whether or not they were covered if their businesses burned down, her credit officer said:
Humans are crazy. They will burn down their own business for money, therefore the policy does not cover fires.
Actually, fires are covered under certain broad cases.

Beneficiary Choice and Understanding. In general, clients did not differentiate between persons in the family who are also covered by the policy, and their “beneficiary.” Clients revealed that they were told by some loan officers to list their spouse as beneficiary, but when told that the beneficiary should be “someone they trust,” many women were reluctant to list their husbands. Not all women believe their husbands would use the cash payout to take care of their children. Thus, despite loan officer advice, women tended to list another family member: a daughter, son, mother, or sibling.

*“We don't trust our husbands”
“Men can even strangle you for money!”*

Listing a minor as a beneficiary is a common practice and a potential problem for MFIs since they do not have a policy about what to do if a child receives a cheque for Ushs 1.2 million. AIG Uganda does not have any policy regarding this situation either. One AIG Uganda agent said that he takes steps to ensure that the payout gets to the child's school or is used in some other appropriate manner. However, research could not verify that AIG Uganda or the MFIs assist beneficiaries in this way.

A factor contributing to the confusion about the beneficiary may be the paperwork used by the MFIs. One MFI's paperwork clearly distinguished family members covered by the policy from the family member listed as a beneficiary, but most MFIs gave clients a single line with confusing instructions.

Another contributing factor is semantics. In Uganda, the word “beneficiary” is associated with one who benefits from a social programme. Thus, clients frequently consider themselves as beneficiaries of their MFIs. Since there has not been adequate training, neither clients nor loan officers have a good sense of what this word really means in the context of insurance.

Perceptions of the Product. When clients understand that the policy covers the outstanding loan balance in the event of death, they appreciate that they do not have to lose their personal or group savings if a fellow member dies. Clients who are in groups that have made a claim are particularly appreciative.

Unfortunately, the general lack of product awareness by the end-use consumer translates into a lack of client loyalty to the MFI or to AIG. Client satisfaction affects client retention, and in a context of fierce competition between MFIs, retention is a critical issue.

To me, the insurance is very good. I have experienced it. I lost somebody and they were able to help me. Maybe the others don't see that point of view. Apart from helping in a sad situation, insurance can cover my loan in case I died and had a loan balance. You don't have to move to other people, disturb other people in the group to pay your loan. The insurance will come up and pay for you the balance of the loan. So I feel it's a very good policy.

Despite the fact that many clients associate the insurance with their MFI rather than an outside company, an awareness of insurance company involvement is generated when things go wrong. For example, if claims take a long time to be processed, clients will ask their loan officers for an update and the loan officers pass the blame on to the insurer.

One client said: I think the insurance is to their (the MFI's) advantage. It's the moneymaking project for the organization. They are trying to get more money out of the public. They are just milking the poor people.

Data from this study shows that most MFI clients do not understand the policy, and thus they can become frustrated and angry because they are unable to describe a product that is forced on them. Many clients perceive this product as something that only benefits the MFI and AIG. This perception reinforces the prevalent negative attitude towards insurance, particularly in the low-income market.

When we are promised something and when we get a problem, the insurance company does not live up to their promise.

Competition will soon become an issue for formal sector insurers seeking to serve the low-income market. A poster in AIG's reception puts this very well: if AIG Uganda does not take care of its customers, someone else will. Insurers serving the

low-income market must recognize that the *end-user is their customer*, not simply the MFIs that provide market access.

4. The Product

Table 4.1 Product Details: Life Insurance

	Product Features and Policies
Microinsurance Type	Group personal accident, permanent disability, death by accident, credit life and disability, and disasters that wipe out the entire business.
Group or individual product	Group policies written to the MFI
Term	Variable depending on the MFI and its products. This cover is attached to loan products and mirrors their durations up to one year. Common durations are four and six months.
Eligibility requirements	Insured must be a borrower from a participating MFI, thus the requirements of the MFI are used for insurance eligibility. There are no specific requirements for the insurance.
Voluntary or compulsory	Mostly compulsory. Only UMU is voluntary, although staff strongly urge clients to purchase it, leading to a perception among clients that the product is compulsory.
Renewal requirements	“Renewed” or purchased with each loan. Those not borrowing cannot be insured.
Rejection rate	None are rejected by AIG Uganda. Approval is automatically granted if the client gets a loan. The voluntary product has no mechanism for rejection.
Product coverage	This is detailed below in Tables 4.2 and 4.4
Key exclusions	Extensive list of common exclusions including: self-inflicted injury, war, death during the perpetration of a crime, and “flying in a rocket propelled aircraft.” The policy document is essentially the same for all GPA policies.
Pricing – premiums	Small adjustments are made to the product for each MFI. The premium by which the product is sold to the MFI is between 0.5% and 1.0% of the loan disbursed. MFIs are generally not paid a commission but they charge the clients an additional fee between 0.5% and 0.75% of the loan principal, which increases the premium cost to the client by 50% to 100%. ¹⁴
Co-payments and deductibles	None
Other fees	MFIs add a charge to the premium to cover their administrative costs

4.1 Partners

AIG Uganda has established this product using the partner-agent model and has sold the policy to virtually all significant MFIs in Uganda. Although the product is essentially the same for each MFI, small adjustments have been made to suit the MFIs’ preferences in

¹⁴ This is a potential problem for the Insurance Commissioner because the premium that the customer pays is the combined premium from AIG and the MFI. Technically, the insurance commission is supposed to receive a commission of 1.5% of the premiums. These policy amounts are being reported without the MFI fee, so the Commission may be receiving less income than is statutorily required.

benefit amount and optional riders as shown in Table 4.2. For example, rural MFIs tend to opt for smaller sums assured.

AIG Uganda does not reinsure the policies, nor does it co-insure the product. There have been discussions, however, about possible co-insurance with a life insurer to enable the product to cover any cause of death.

Table 4.2 Participating MFIs and Corresponding Benefits

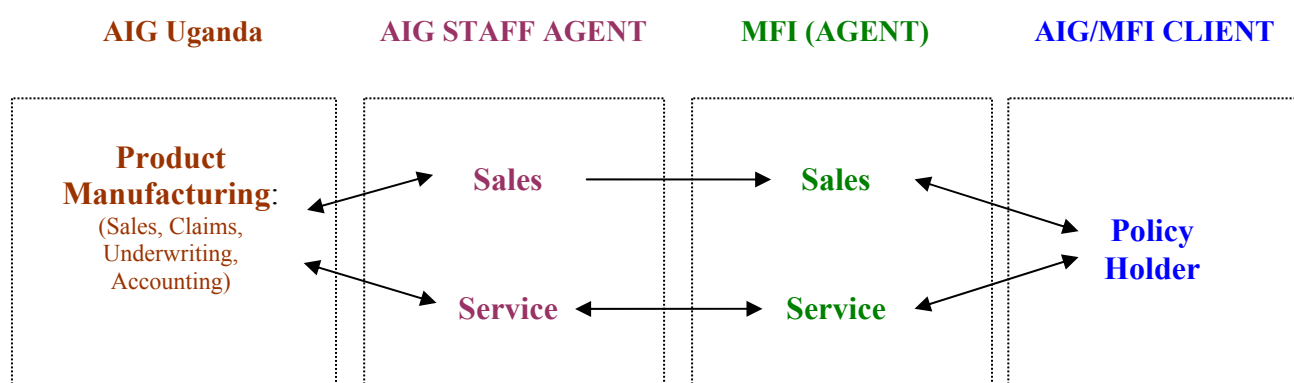
Institution (<i>amounts in rounded USD</i>)	Accidental Death Benefit					Comments
	Policyholder	Spouse	Children	B1	B2 B3	
Pride Uganda	670	330	170		Y	
Finca Tanzania	760	380	190	Y		Benefit in USD
Finca Malawi	600	300	150	Y	Y	Benefit in USD
Faulu Uganda	560	280	140		Y	
Finca Uganda	670	330	170		Y	
Uganda Women's Finance Trust	670	330	170	Y	Y	Y
Masak MF Development Co.	670	330	170	Y	Y	
Feed the Children	670	330	170	Y	Y	
MEDI-Uganda	670	330	170	Y		
Orient Bank Ltd	280	110	80	Y		
Buddukiro Finance	670	330	170	Y		
National Enterprise Dev. Assoc.	280	170	110	Y	Y	
UWESO	670	330	170	Y	Y	
UGAFODE	670	330	170	Y	Y	
Mukono Teachers Cooperative	280	170	110		Y	beyond 6 mo 1%
Kyanuhunga Peoples Savings	670	330	170	Y	Y	
Uganda Microfinance Union	670	330	170	Y	Y	Voluntary
MEDNET	670	330	170	Y		
Rural Credit Finance	280	170	110		Y	beyond 6 mo 1%
Victoria Basin MF	280	170	110		Y	Coop
Mutara Savings and Credit	280	170	110		Y	Coop
Busia Rural MF Cooperative	280	170	110		Y	Coop
The Life in Africa Foundation						Not active
Poverty Alleviation Credit trust						Not active
Support Org. for MF Dev.						Not active
Uganda Micro-Entrepreneurs Assoc.						Not active
Legend:	B1 : Disability coverage					
	B2 : Catastrophe coverage					
	B3 : Last Expense coverage					

4.2 Distribution Channels

Table 4.3 shows the distribution channel from AIG Uganda through its agent to the MFIs and then to their clients. In other partner-agent models, there is usually not a commissioned agent between the insurer and the MFI. In this case, the original policy was placed through the agent, so AIG Uganda decided to continue with such an arrangement. This placed responsibility for the training, reviews, initial claims management, and all MFI queries with

someone who could make sure that internal activities remained as efficient as possible. Through commissions, this agent was encouraged to generate more business and keep the channel operating smoothly.

Table 4.3 Structure of Relationships in the AIG Uganda Model



Effectiveness

This distribution channel is very effective and has allowed AIG Uganda to have a large impact in the low-income market. Without these MFIs, AIG Uganda would not have entered this market. There are, however, several key opportunities for improvement:

1. Customer education and awareness
2. Improving the claims filing and adjudication process
3. Educating MFI staff and management, and
4. Managing the evolution of the microinsurance product

The loan officers are the main channel for delivering information to clients on the value, costs, benefits, and need for insurance. Unfortunately, since insurance is not the loan officer’s primary concern, and since the product is compulsory, the lack of consumer education and product information is a serious shortcoming of the current delivery channel. For AIG, this situation is a hindrance to the growth of customer relationships and the adoption of other risk management products that the company offers, or could offer.

Currently, the average claim takes approximately three months to be paid. In addition, there is a substantial backlog of claims awaiting additional evidence or clarification. The insurer has committed to paying claims within two weeks, as long as the documentation is in order. In general, AIG Uganda is meeting this commitment; however the number of “not in good order” claims is abnormally high. As described in Section 4.6, the real problem seems to lie with the MFIs.

Over time, AIG Uganda has not managed the client volumes in a way that improves efficiency. The process has become labour and paper intensive. Additionally, this inefficiency has affected the financial management of the product; AIG Uganda cannot easily disaggregate accounting information for use in decision-making.

Distribution Channel Changes

Ugandan MFIs and their customers have matured significantly over the past few years. The major players in the industry are becoming regulated deposit-taking institutions. The customers' businesses are growing, as evidenced by the increasing loan limits and average loan sizes. Certainly, AIG's distribution channel has grown dramatically, from one MFI in

This microinsurance product has become a competitive necessity among MFIs.

early 2000 to twenty-six MFIs in three countries in 2004. This growth was actively promoted by AIG Uganda because of its early success. It was also in demand by the MFIs. While this product is no longer a competitive advantage for MFIs, it has become a necessary offering to stay with the competition.

Although the MFIs and their clients have significantly changed, the distribution channels have not. When the procedures were developed, they were based on less than a few hundred insured per month. Providing, receiving, and managing information on clients from one MFI was relatively simple. Now, with twenty-six intermediaries, the number of transactions (renewals and initial purchasers) is over seventy thousand per month. Significant opportunities exist in the automation of premium collection and claims processing.

Expansion to Tanzania and Malawi allowed client acquisition in new markets, but premium collection and claims processing presented important challenges. The MFIs in these countries submit the premiums quarterly. Claims are paid by the MFI and then reimbursed by AIG Uganda. These international transactions are denominated in United States Dollars.

Communication

In general, the distribution system is hampered by a communication problem between AIG Uganda and the MFIs, and between the MFIs and their clients. AIG Uganda recognises that this is a useful product, but has not appreciated the extent of its profitability. The MFIs sell the product to their clients, but see it as a minor aspect of their operations. AIG Uganda expects the MFI to explain the insurance to their clients, but this does not happen sufficiently.

The problem of communication would seem to have been addressed by the designation of an agent to liaise between the MFIs and AIG. The agent managing the bulk of the MFI accounts, plus three additional agents managing some these relationships, is earning commissions of twenty percent on the premiums. Given the volume, this is a very significant wage, especially since virtually all the work is done by the MFI. Unfortunately, however, very little is being invested back into this business—in a sense, it is like milking a cow without giving it food.

When efforts to communicate are made, they work. MFIs came to AIG Uganda seeking coverage for catastrophes such as market fires, and AIG Uganda responded with such a product feature. This makes the overall product more comprehensive for clients and shows AIG's willingness to respond. What is lacking is an effective mechanism for communicating with the MFIs and their clients, and then translating that into action.

4.3 Benefits

Table 4.4 Benefits Summary

Insurable Event	Benefits		
	Client	Spouse	Children
Death – Non-Accidental	Loan principle and interest paid	N/A	N/A
Death - Accidental	Loan principle and interest paid	Payment to beneficiaries = US\$110-380	Payment to beneficiaries = US\$80-190
	Payment to beneficiaries = US\$280-670		
Permanent Disability	Loan principle and interest paid	N/A	N/A
Catastrophic Cover	Loan principle and interest paid	N/A	N/A
Last Expense (in pilot test) (non-accidental death)	US\$100	US\$100	US\$100

Meeting Institutional and Client Needs

For microfinance institutions, this product lowers their credit risk and provides an additional source of revenue. Most MFIs add an additional charge to the insurance premium to cover administrative costs, which they admit are negligible. However, an important reason for the charge is profit. One institution disburses almost Ushs 10 billion (US\$5.6 million) in a year. A 0.5% fee charged to the clients for this product would provide US\$28,000 in revenue for which there is little corresponding cost.

For AIG, the product has helped it profitably enter a new market, one of its prime objectives. The benefits to AIG Uganda are clear, and presented in detail in Section 5.

The benefit to the final client, or their beneficiary, is less clear. Some families have been assisted by the accidental death cover, and many groups have been spared the need to pay their deceased friend's loan balance. However, when claims are significantly delayed, client benefit is limited. When thousands of people have no understanding of what they are buying, or worse, are not even aware that they are purchasing insurance, the value of the product is diminished to the customers.

The product's value to clients is also limited by a regulatory and licensing issue. The death cover only provides a payout to beneficiaries in the case of accidental death. Because AIG Uganda holds a non-life license, which prohibits any sales of life insurance products, beneficiaries of clients who die by illness are provided nothing. AIG Uganda recognises this problem and is actively exploring methods of improving these benefits.

Changes to Benefits

There have been several adjustments and innovations made to the AIG Uganda product since its inception, though primarily during its initial phase.

- *Reducing the premiums* (1999): After two years testing with FU offering a voluntary product, the results showed an extremely low loss ratio of seven percent for both 1997 and 1998, with a profit to premiums ratio of sixty-three percent for both years. With this

information, FU was able to persuade AIG Uganda to reduce the premium from 1 percent to 0.5%. FU might have pushed for an even greater reduction, but instead leveraged other improvements to the product.

- *Expanding product to cover family members (1999)*: As part of the 1999 negotiations, FU explained that its clients do not benefit directly from insurance—what they really need is coverage when someone else in their family dies. Because of the dramatic profits in the first two years, AIG Uganda agreed to try family cover with the caveat that it could re-price or eliminate it after one year if the results were disastrous.
- *Conversion from voluntary to mandatory (1999)*: For the first two years, the product was offered to FU clients on a voluntary basis. Village banking groups that wanted their members to be insured had to buy policies for all members or none. By 1999, about seventy percent of FU clients were voluntarily purchasing the product. With the growth, FU became increasingly concerned about the possibility of staff fraud. To facilitate better controls, FU imposed the product on all clients.
- *Conversion from cash- to interest-based premium payments (1999)*: To facilitate the premium processing and reduce the transaction costs, FU decided to imbed the cost to clients within its interest rate.
- *HIV/AIDS Exclusion (2002)*: Another important change is related to HIV/AIDS. Initially, the cover excluded deaths due to AIDS. Over time, it became increasingly evident that people do not die of AIDS. People die of the opportunistic diseases like tuberculosis or pneumonia that are also prevalent in the non-infected community. HIV/AIDS status in Uganda is highly protected so it is difficult for an insurer to determine the HIV status of their insured. Consequently, AIG Uganda dropped an exclusion that it was unenforceable and difficult to explain to clients.
- *Catastrophic damage (2003)*: The catastrophic damage feature added after a major fire in the large Jinja market destroyed numerous microenterprises. This rider only pays the outstanding principal and interest on the loan, and nothing towards the reclamation of the business. The product is structured so that the catastrophic cover only comes into effect when businesses around the insured's are also destroyed. Consequently, clients have no incentive to reduce the risk to their neighbours. For example, one entrepreneur put out a fire that destroyed his business before it spread to others, but his claim was rejected because only his business was affected. He felt as though he was being punished for putting out the fire before it burnt down the entire market.
- *Last expense cover (2004)*: The last expense coverage is a fixed benefit paid to beneficiaries regardless of the cause of the death. This feature is being tested with one institution in response to the gap in AIG Uganda's coverage. It has been recognised from the start that the GPA product was incomplete and confusing since it provides benefits for those who die by accident, but only covers the loan for those who die through illness. To close that gap, this new cover pays about US\$100 to the beneficiary upon non-accidental death. However, the Insurance Commissioner sees this as a breach of the life / non-life parameters and may require AIG Uganda to withdraw the coverage.

Special Needs of Women and Children

A super-majority of the MFIs' clients are women. Through the beneficiary designation form—if it is applied correctly by the MFI—insurance allows women to leave their benefit to their children either directly or indirectly through a trusted friend or family member. Their priority is focused on caring for their children. Many female customers have noted that this helps them to feel some power, even from the grave.

Summary

Most significant MFIs in Uganda have purchased the AIG Uganda group personal accident policy. Though it protects MFIs from client default due to death or disability, the value to clients is limited. Accidental deaths account for roughly 20 percent of total deaths. Thus, the benefit for most deaths is the loan repayment. More comprehensive protection would require full cover for any death, which AIG Uganda is unable to provide. Its new last expenses rider might help, but is unlikely to pass the Insurance Commissioner as a non-life product.

In addition, since the product is tied to loans, and clients do not always have outstanding loans, there are gaps in coverage for MFI clients. This situation is compounded by the ambiguity of the terminal point of the insurance, as discussed below.

4.4 Premium Calculation

The AIG Uganda microinsurance policy is certainly profitable. It has a combined loss ratio of about 70%, when considering only the premium charged to the MFIs. Currently there is no competition for AIG Uganda in this market. This fact has allowed the margins to remain high, which is important during the gestation period for a market or product. As the market matures, competition is likely to develop, which will force the pace of product evolution and bring down premiums. The main elements of the premium are discussed below.

Operating costs. Operating costs could be improved in the short to medium term through the use of technology. Automating the premium collection process can improve efficiency by allowing for automated eligibility checks and an electronic confirmation of benefits. Currently, premium payment information on individuals is stored in huge binders of paper that must be reviewed to find evidence of individual payments. If the premium payment process were electronic, this information should take mere seconds to retrieve.

In addition, customer education, normally seen as an expense, is actually an investment in improving the operational efficiency of the provider. When customers understand the product, they will require less assistance from the provider and the distribution channels.

Commissions. The agents' commission is 20% of the gross premium (as charged to MFI). This generates substantial income for the sales force and allows room to introduce some variable compensation component to others within the organisation as well as to reinvest in improving the programme. Reinvesting in the product is something that benefits the sales force as much as it does the company. Commissions can also be linked to the profitability of the business, as a means of encouraging the on-going relationship and stewardship of the sales agent. This is especially important as more voluntary products are introduced.

Because AIG Uganda continues to pay its agents the full twenty percent commission that they would receive from sales of individual policies, it is not gaining the efficiency savings that should accrue ultimately to the insured through reduced premiums. In this case, the work of the agent is drastically minimized through a transfer of labour to the MFI. Thus, many efficiency gains actually accrue to the agents, since their work is reduced and their income is consistently twenty percent. Premiums for the product in AIG Uganda were about US\$790,000 and US\$730,000, as projected for 2004 and received in 2003, respectively. This provides a commission primarily to one agent of US\$158,000 and US\$146,000, respectively.

Reinsurance. Reinsurance is not being used with this microinsurance product mainly because the sums assured are small. This subject will need to be revisited, however, as new coverage is added or risk exposure increases through higher face amounts. For example, with the introduction of a catastrophic coverage, there is a potentially greater exposure.

Subsidies. There are no external subsidies or grants funding this product, nor have there been from inception. Internal subsidies on the part of AIG Uganda were minimal during the first year as the systems were set up. The costs for initial training and other preparation of the MFI were also minimal and were mostly borne by the AIG Uganda agent. However, AIG Uganda could not reach the low-income market without the intermediaries, the MFIs, which have all been subsidised to some extent.

Duration. The term of coverage is ambiguous, which has led to confusion and conflict among MFI staff and clients. Currently the duration is defined within the policy as the “cycle”, which refers to the loan cycle. The initial coverage date is clear enough—the date of loan disbursement. The confusion lies with the terminal date. It is not clear if coverage ends when the loan is paid off—which could be before or after the originally scheduled loan payoff date—or on the originally scheduled date of the last loan payment. It appears that AIG Uganda uses a combination of these to its own benefit, terminating the policy at either the loan payoff date or the originally scheduled due date, whichever is earlier.

Today there is not one standard cycle for MFI loans. Increasingly, terms are customised to borrowers’ needs. This has an impact on the insurer because its risk is variable depending on the loan term, but this variability is not addressed in the premium. For example, a borrower with a four-month loan would pay the same premium as one borrowing for twelve months (given the same loan size). There is less risk inherent in the shorter loan term, but there is no recognition of that difference in the pricing.

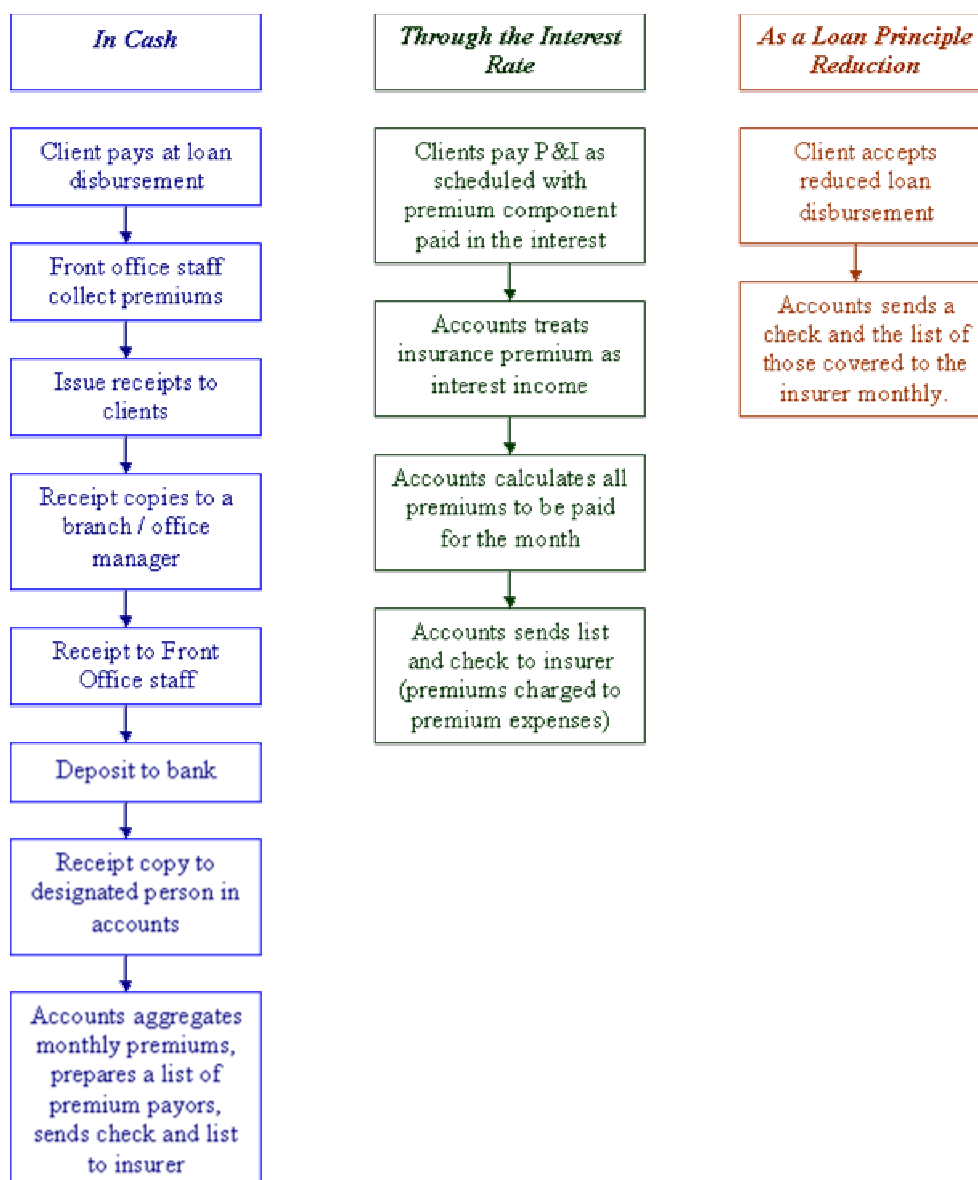
Another issue is that some clients do not borrow continuously. Usually there is a gap of a few days or weeks between the end of one loan and the beginning of the next. If a loss occurs during one of these gaps—and losses have occurred during these times to clients who paid premiums for several years—it is likely to result in a rejected claim and dissatisfied customers. Some consideration should be given to selling standard coverage periods, such as one month, and allowing the customer to manage the gaps.

4.5 Premium Collection

Currently the premium is collected by the MFIs using three different mechanisms (see Table 4.5), each of which has advantages and disadvantages.

- In cash:** The advantage of the cash payment is that it ensures that the clients know how much they are paying and what they are paying for. This issue is particularly important for mandatory products where clients may not even realise that they are covered. The disadvantage of this approach is the transaction costs involved, which become cumbersome with large volumes of clients and short term loans. Cash payments may also be difficult for clients to afford and are vulnerable to security and fraud risks.

Table 4.5 Processes by Premium Collection Option



- **Through the interest rate:** An alternative is for the MFI to pay the premium to the insurer at the start of the loan, and then for the client to pay the premium to the MFI bit-by-bit through the interest rate. This arrangement, which is the most common approach by Ugandan MFIs, has fewer transactions than the cash payment and does not require the client to have a chunk of money at the beginning of the loan term. On the other hand, the client may not realise that she has insurance—she may just think that she is paying a high interest rate. And if the loan is in arrears, the MFI has to figure out whether it will honour the claim since the client’s “premium” payment to the MFI would have lapsed (although the premium would be paid up in the insurer’s books).
- **As a reduction in loan principle:** In the third approach, the premium is financed through the loan by deducting it from the loan amount disbursed. This approach has the fewest transactions and the clients are more likely to be aware that they have insurance than if it is built into the interest rate. It also makes larger premiums more affordable. However, clients do not like receiving smaller loans than they requested and they have to pay interest on the premium. As with the interest rate option, the MFI assumes the additional credit risk that clients will not repay their “premium loan” as well as the microenterprise loan.

The experience in Uganda shows that the payment mechanism has important implications for client awareness about the coverage, customer satisfaction, staff fraud, and transaction costs. There are even regulatory implications, since most MFIs are tacking on a commission for themselves, although clients are not usually aware of this, and regulators would probably not be too happy about it either.

Once a month the Ugandan MFIs send their premium to the insurer along with a printed list of all loan disbursements. This process could be improved if the insured list was sent electronically and uploaded by AIG Uganda to a system that could facilitate reconciliation. In discussions with various MFIs, they stated that an electronic submission is far preferable to the current arrangement. An additional, an electronic interface would also have the advantage of capturing demographic data that could be used to improve customer service and pricing.

4.6 Claims Management

Claims Settlement Process

When an insured event occurs, the beneficiary is responsible for initiating the claims process (although the MFI actually files the claim). To do this, the necessary documentation must be procured from local officials and police (in the case of accidents). The documentation, summarised in Table 4.6, is then submitted to the loan officer, who adds the payment history as well as the loan document. This claims package is sent to the MFI’s head office where it is reviewed to ensure all documents are included.¹⁵ Next the package is logged by a designated person and then collected by the AIG Uganda agent who signs the log and takes the package for processing.

¹⁵ Some of the MFIs submit claims to the AIG agent directly from their branch offices, however this has caused confusion in some instances where the branch submits the claim, and the head office receives the settlement.

The insurance company then adjudicates the claim and if all is in good order, submits a requisition for payment to their treasury area. Cheques are issued once per week and all payments for a particular MFI are paid together. A company representative delivers the cheque to the MFI. The MFI is then responsible for cancelling any remaining loan balance, paying back the group for loan payments that it may have made after the death of the group member, and finally distributing any cash payout to the beneficiaries.

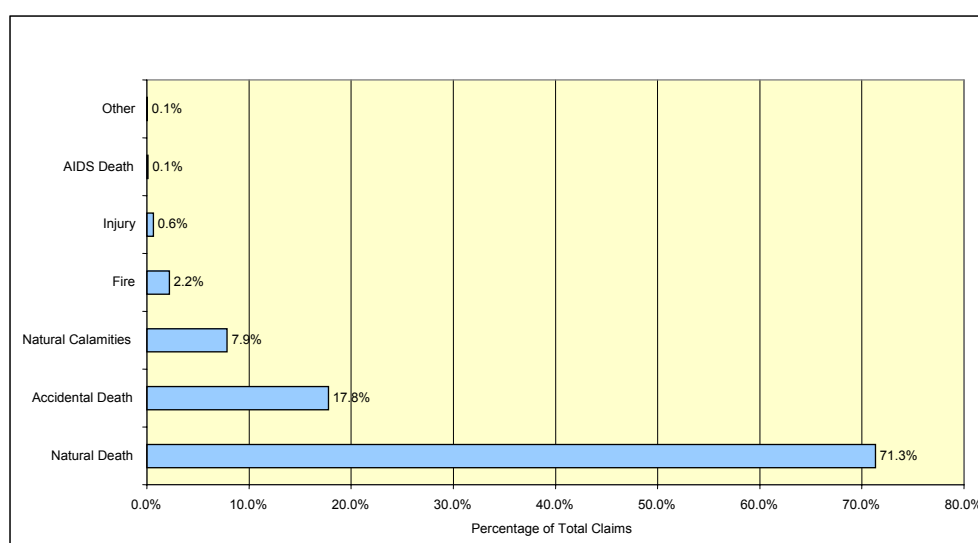
Table 4.6 Claims Documentation Requirements

Documentation Requirement	Provided by
Death Certificate – where applicable/available	Beneficiary
Burial permit – where applicable	Beneficiary
Copy of client’s cash book	Loan officer
“Dependants/spouse schedule” (2 AIG Uganda forms)	Loan officer
A letter from the group	Group leader
A letter from the loan officer to Manager	Loan officer
A copy of the loan agreement form	Loan officer
A police report in case of road traffic accidents	Beneficiary
A letter from the L.C. 1 (local government leader) ¹⁶	Beneficiary
Letter from the deceased’s family	Beneficiary

Types of Claims

Based on data from AIG Uganda, Table 4.7 shows that twenty percent of death claims are related to accidental death. This ratio is actually very high compared to the general unintentional injury mortality through Africa of almost five percent, and a bit over six percent internationally. This significant difference may be because MFIs have few natural deaths due to old age since these are selected out in group formation. However, this high occurrence should be reviewed by AIG Uganda as a potential reflection of a control breach.

Table 4.7 AIG Uganda: Claims by Type (2000 to May 2004)



¹⁶ When a death certificate is not available, AIG Uganda may substitute that requirement for two LC letters.

Common Reasons for Delay

As mentioned above, the delay in paying claims is one of the major flaws in this microinsurance scheme. An analysis of a small sample of claims provides some understanding of the delays (see Table 4.8).

Table 4.8 MFI vs. AIG Uganda Claims Records

	Days death to claim at AIG	Days claim to AIG Uganda and payment to MFI	Days MFI receipt to client receipt
Case 1	91	38	280
Case 2	60	26	101
Case 3	46	21	101
Case 4	75	33	221
Case 5	77	31	Loan only
Case 6	86	30	Rejected ¹⁷
AVERAGE	72.5	29.8	175.8

The Clients. From the clients' side, the main reason for delay is the heavy documentation requirements. Clients explained that obtaining police reports and police post-mortems can be expensive. Some clients had to pay Ushs 50,000 (US\$28) for a copy of a police report; the charge for a post-mortem at Kilembe Mines Hospital in Kasese is Ushs 45,000 (US\$25), an amount that is difficult for a family to procure, especially while paying for the burial expenses. Then there are costs associated with having the hospital release the body and issue a death certificate, and sometimes there are un-receipted costs associated with obtaining letters from the local government. The process can take weeks and can be expensive.

Sometimes the documentation required is just not possible to obtain, such as when someone dies of drowning and there is no body, or there was a body but it made no sense to take it to hospital for an official death certificate. An additional burden is the time limit, sometimes set by the MFI, for claims applications—this is especially a problem for Muslim women since *sharia* requires widows to mourn within the household for forty days.

The Insurer. AIG Uganda shows relative consistency with an average payment period of thirty days (even though it agreed to pay within fourteen days). While not a significant difference, the delay at AIG Uganda is difficult to understand. The claims process stipulates that all claims that arrive before Thursday of any week will be paid on that Friday. Given this sort of process and timing, there would seem no reason for a claim to take more than one week. Certainly some claims will require additional checking, but by the time they arrive at the claims department they should have been completely vetted.

The MFIs. Table 4.8 shows that the real problem of getting claims settled is with the MFIs! Based on a review of claims applications, it seems that MFIs are holding many applications

¹⁷ This claim was rejected because AIG determined that the loss occurred outside the loan period. However, the beneficiary told the research team that she is still waiting for the settlement since the loan officer keeps insisting that she is waiting for AIG Uganda to settle the claim. AIG Uganda sent notice of the rejection in November 2003, and the beneficiary is still being told to wait, more than seven months later.

and submitting them in a batch. Thus, claims wait for others to be ready for processing and submission. Interestingly, the most perplexing delay comes after the MFI has received the claim settlement from AIG. There seems to be no reason for this delay. A settlement payment should not sit at the MFI for almost six months before being disbursed to the beneficiary.

Delays within the MFIs reflect the organisations' lack of focus on the product. Since insurance is not an MFI's core product, its details are not a priority. Despite the fact that MFIs are charging a hefty fee for administrative services, the clients receive almost no services in this area from the MFI. MFIs should consider having a staff person designated to focus on this product, and the insurer should consider co-hiring this person as the official AIG Uganda representative within the MFI.

Rejections

It is difficult to determine the rate of claims rejection. When a beneficiary submits the claims documents to the MFI, the field officer reviews them and may reject the claim at that time. If the claim passes the field officer, it gets to the MFI's head office and then the AIG Uganda agent, who both review the documentation. Any rejections up to this point are not recorded and are treated as if the claim had not been filed. It is hard to quantify the effect of this process. However, filtering claims applications at different levels can make the process more efficient.

I know of someone who lost her husband and she didn't have any money to process the documents, yet her husband had died of an accident. As a result, she gave up.

An issue with field officers reviewing claims is that they have a limited understanding of the policy and claims processes. There is no checklist for field officers, and they do not possess copies of the policy. Informal conversations revealed inconsistent understanding of what documents are required for claims. In fact, sometimes clients are required to present more documents than are actually needed, leading to greater expense and frustration.

If the claim passes the agent, it goes to AIG's claims department. They generally conduct a basic review and infrequently reject a claim because of forged documents or timing issues in relation to the policy periods. In May 2004, there were 197 cases were pending with the claims department, some for as long as two years, usually awaiting additional documentation. This finding is surprising since several people reviewed the claims before submission. A clause in the contract allows the insurer to reject claims pending longer than 18 months, so it is likely that many of these not-in-good-order claims will be rejected.

Claims Conclusions

Although based on a small sample, anecdotal evidence supports the conclusions that the documentation is onerous and that the MFIs are not pulling their weight. When approached on this issue, AIG Uganda noted that the MFI is the customer, and that the insurer's service to its customer is sufficient. Although technically true, AIG Uganda can potentially suffer public relations problems because of the MFI's poor performance. AIG Uganda should take a stronger approach to ensuring that settlements reach the final beneficiary in a timely manner

and that notification of rejections are relayed to the appropriate individuals. It is also important to consider the role that automation can play in streamlining the claims process.

A suggested approach is for the MFI to cancel the loan repayments at the time of death and to pay the claim when it is satisfied that the documentation is valid. The claim can then be submitted to insurer, which can then reimburse the MFI—AIG Uganda has this arrangement with the two MFIs in Malawi and Tanzania. Since submitted claims are rarely rejected, the risk to the MFI is extremely low. This approach will require that the MFI have a thorough knowledge of the claims process, but it would ensure that beneficiaries receive their funds quickly and it will make the process more efficient. In addition, it will reduce the number of claims waiting for additional documentation because the MFIs will have an incentive to clear these situations and receive their funds.

4.7 Risk Management and Controls

Adverse Selection

The main control for adverse selection is the fact that the coverage is mandatory and secondary. Clients are generally not joining the MFIs to get insurance—they join to get a loan. Since no one can opt in or out, the adverse selection risk for borrowers is very low. However, clients do have some control over which dependents to include on the policy, and there is not any additional screening for spouse or dependent coverage, so there is some adverse selection risk with the borrower's family members that perhaps requires additional consideration.

Only UMU has a voluntary insurance programme. The UMU account should be reviewed regularly to determine how its claims ratio compares to the others. If a higher claims ratio is found, pricing should be adjusted for this group.

As the MFIs mature, they will begin offering individual loans (both with and without collateral), which involve larger amounts and longer terms. This causes pricing complications and introduces the possibility of adverse selection and fraud due to the higher amounts. Individual underwriting might be required under these circumstances.

Fraud

Client fraud had been detected in at least one set of claims. It is not clear how prevalent this is; however, it does exist and controls should be in place to detect it.

As far as staff fraud is concerned, one reason why the product originally moved from voluntary to obligatory was to reduce the incidents of fraud by field officers who took premiums from clients and pocketed the money. By making the product mandatory, the fraud risk was reduced by paying premiums through a cashless transaction in the back office.

The lack of follow-up and insurer involvement in settlement disbursement allows for a lack of accountability on the part of the MFI. Within each MFI, there is a wide window for potential fraud, on the level of the MFI, the loan officers, and group leaders.

Cost Escalation

Cost escalation has not been an issue. In fact, claims were initially less than expected, so the insurance company lowered prices accordingly. These cost reductions were not, however, passed on to the client as the MFIs added a corresponding surcharge. Since the delivery process has not changed since the inception of the programme, it is likely that costs are proportionally higher than they should be and that economies of scale are not being realised.

Covariant Risk

With the introduction of the catastrophe coverage, covariant risk exists in areas of high coverage concentration. For example, in the Owino market, Faulu has approximately 2000 loans; if there was a disaster in that market, AIG Uganda would have a significant exposure. Reinsurance is not used because it is triggered by the exposure amount on a single claim; however there should be an aggregate consideration to cover the catastrophe exposure.

Other Risks

Risk of competition and regulatory changes exist. Currently there is no competition, which has enabled AIG Uganda to grow the market. If competition emerges, there could be a price war, causing the business to become unprofitable.

Another element that has allowed AIG Uganda to build the market has been a liberal regulatory climate. If regulators take a more stringent approach, for example demanding that AIG Uganda have a life license to cover loan balances in the event of a natural death—which is an actual issue at the moment—it could impact the viability of the product and market.

It is suggested that the insurance company audit the insurance process within each MFI at least every two years. This audit should include examining the claims settlement distribution process.

4.8 Marketing

Marketing problems have plagued this product from inception. Loan officers did not understand the product or how to sell it, so the AIG Uganda agent provided initial trainings. FINCA Uganda recognised that its staff had limited sales skills, so marketing training were conducted by professors from the national business school. These sales skills led to significant improvements in growth. After the product was converted to mandatory, however, all selling ceased and even information dissemination became weak.

Even at UMU, where the is product voluntary, marketing seemed to be limited to loan officers strongly urging borrowers to purchase the policy such that most clients thought that the policy was, in fact, compulsory. There was no detectable difference in client product awareness between UMU and the other MFIs.

Marketing is a broad activity that includes promotion as well as service, but there has been very little focus on either of these areas. This limits the value of the product to the clients and

thus reduces the potential for this product to enhance attractiveness to insurance or particular MFIs.

4.9 Customer Satisfaction

So far, AIG Uganda has not seen any lapses, but this is largely due to the structure of the product. These are short-term policies, paid in advance, and compulsory for virtually all customers. The MFIs are fairly satisfied with the programme, although they are looking for improved coverage and would likely show limited loyalty if another insurer came with a broader product range and more efficient processes.

Alas, the same cannot be said for the MFIs' clients. Their profound lack of understanding of the costs and benefits of the scheme has led to dissatisfaction in many cases. The key areas of dissatisfaction among the end-use clients include:

- Lack of understanding of policy components
- Absence of explanation of the policy in writing
- Absence of clear criteria for claims process
- Lack of access to knowledgeable insurance representative
- Long delays with claims settlements
- Lack of coverage between loan cycles
- Lack of coverage for natural death
- Lack of coverage for illness

Many of the client satisfaction issues could be resolved by providing clients with written policy information, training MFI staff, and offering occasional direct contact with AIG Uganda personnel.

5. The Results

AIG Uganda uses all of the traditional performance indicators to manage its business, although the microinsurance personal accident product is not tracked separately. It is bundled with the rest of the personal accident line, by far the largest revenue segment for AIG, which makes it very hard for management to analyse the performance of the microinsurance product. Consequently, AIG Uganda did not appreciate the real success of this product until very recently—when it actually disaggregated the data for this case study.

5.1 Operational and Financial Results

For AIG, the microinsurance product is profitable, operating with a combined ratio of 73% including a loss ratio of 32%. Using the results of the first five months of 2004 to project for the remainder of the year, AIG Uganda will earn just under \$200,000 from the microinsurance product or about 25% of its earnings.

Microinsurance produced almost 17% of the AIG Uganda net income in 2003. This makes it nearly the highest producing product line for the insurer, and likely the highest in 2004. Although financial data specific to this product is not readily available for the years before 2003, it appears that it has steadily provided increasing net income.¹⁸ Evident from Table 5.1, the claims ratio is very low at between 23% and 31%. The profit margin at 18% and 23% is also rather healthy for such a product.

The performance of the insurance product for the MFIs is even harder to assess. The MFIs are typically not conducting detailed costing on their products and see little reason to do so for the insurance product. MFI managers indicated that the cost of doing the costing exercise was greater than the value of the information because the incremental cost of this product was not significant. Yet their credit risk is lower and they are generating fairly substantial fee-based income.

It is important to remember that in terms of the total premium paid by the final client, the numbers noted in Table 5.1 represent only about half of the premium income because most MFIs are charging clients twice as much as the MFI pays to AIG. Thus, of the total premiums paid by clients, the MFI “earns” about 40%¹⁹, and the AIG Uganda agents “earn” 10%. About half of the premium paid by these low-income clients goes to commissions alone!!! At the same time, service quality is extremely poor.

About half of the premium paid by these low-income clients goes to commissions alone!!! Yet, service quality is very poor.

¹⁸ AIG experienced profits from the microinsurance product from the first full year of its offering (McCord and Mutesasira 2001).

¹⁹ Of the 50% the MFI retains, 10% is conservatively assumed to be the cost of these operations, leaving 40% net income.

Table 5.1 Key Results

Results	Projected 2004 ²⁰	Actual 1/1/04 to 31/5/04	12 Months ending 31/12/03 ²¹
Net income (millions Ushs)	307	166	157
Total premiums (millions Ushs)	1,415	708	1,321
Growth in premium value (%)	9	N/A	44
Claims / total premiums (%) (net of IBNR and outstandings)	31	23	28
Administrative costs / premiums (%)	15	8	22
Commissions / Premiums (%)	19	20	20
Reinsurance / Premiums (%)	0	0	0
Reserves added for the period / Premiums (%)	6.5	6.5	In admin costs
Net income added for the period / Premiums (%)	21.7	23.4	18.3
Claims cost per insured (in Ushs)	884	N/A	N/A
Growth in number of insured (%)	N/A	N/A	N/A
Income earned from investment of premiums	0%	0%	0%
Percentage of profit distributed	N/A	N/A	0%
Renewal rate (%)	100	100	93 ²²
AIG Uganda total net income	N/A	N/A	1,454
MFI product as a % of total net income	N/A	N/A	16.6

AIG Uganda has tapped in to one of the best intermediary groups possible, at least in terms of growth. Many of its MFI partners are rapidly expanding and this automatically brings more insurance business to AIG. The growth prospects for AIG's microinsurance product will come in several ways including:

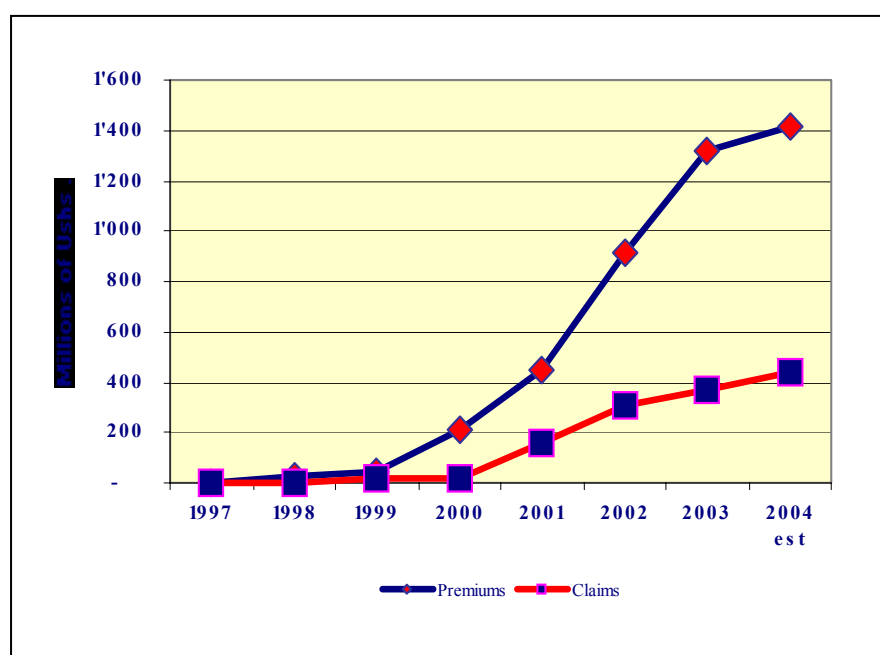
- From the economic improvement in the existing MFI client population, hence larger loan sizes
- Expansion by the MFIs to reach more customers
- Opportunities for cross selling that are starting to become evident, and
- The transition of four MFIs to become deposit-taking institutions, which will enlarge the market for insurance to include savers and thus offer opportunities for new insurance products to a new market.

Given no change in competition, the trend shown in Table 5.2 is likely to continue and the gap between claims and premiums will grow.

²⁰ Projections of the authors based on actual data through May 2004.

²¹ Authors' projections of microinsurance product data based on aggregate personal accident figures. Figures calculated by the authors from various sources within AIG Uganda.

²² Two small MFIs closed. This number reflects the loss of two MFIs of 28, not the loss of individual insureds (which would be relatively very few).

Table 5.2 AIG Uganda MFI Product: Premium and Claims Growth

5.2 Reserves

Reserves are maintained for claims submitted and not yet paid, as well as an estimated amount for claims incurred but not yet reported (IBNR). None of the risk of this portfolio is reinsured, but this has not been a problem for AIG Uganda.

5.3 Impact on Social Protection Policy

This product benefits the MFIs by reducing their default rate, providing revenue, and keeping groups from having to repay loans of deceased members. At the same time, the product provides a benefit to the borrowers as well as their families in the case of accidental death. Thus, there is a positive impact on social protection.

As far as policy is concerned, AIG Uganda has not lobbied government in relation to the microinsurance product. However, it is now being pushed to defend its coverage of outstanding balances regardless of the cause of death and is lobbying to clear up this misunderstanding with the authorities. The Insurance Commissioner sees this coverage as falling under a life license. In fact, it covers the MFI for loan default in the case of certain events, primarily death of a borrower.

6. Product Development²³

The product development process in this case is quite interesting because it was not initially driven by the insurer, but by an MFI, FINCA Uganda, AIG's first microfinance customer. Essentially AIG Uganda was in the right place at the right time. Only after several years of "piloting" the product with FINCA, and after substantially improving it, did AIG Uganda realise that it could expand its market by partnering with other MFIs as well. This section describes FU and AIG's product development process.²⁴

6.1 Concept Development

In preparation for its initial design, no formal market research was conducted. To assess the potential demand for life insurance, a senior manager from FINCA Uganda conducted informal discussions with client groups. The results showed that clients were interested in protecting themselves from the financial burdens related to the death of other group members. They also expressed a desire for their families to benefit so that their children could be cared for in the event of their death. There was virtually no cost to this "research" as these discussions with clients were conducted during regular monitoring and supervisory visits.

AIG accepted this basic market research. No additional market research was conducted in preparation for this product since AIG Uganda deemed the costs to be greater than the potential claims. AIG Uganda did not expect any product development problems because:

- The insurer saw this as one policy (NOT a new product) within its group personal accident portfolio
- The loan terms were only 4-months long and AIG Uganda could cancel the policy after a loan cycle if it wished
- AIG Uganda had sufficient reserves to cover any possible problem without impacting the company

Competition analysis was informally conducted by FINCA Uganda. Discussions were held with most insurers to see what they had available and to gauge their willingness to serve the low-income market. None of the insurers had anything close to a microinsurance product; none were interested in offering one. Even the first approaches to AIG Uganda were met with resistance.

²³ This Section is adapted from McCord et al (2000).

²⁴ One of the authors of this paper, Michael J McCord, was in the senior management team of FINCA Uganda during the product development process and therefore has some inside insights.

6.2 Product Design

The design process was essentially conducted by FU, which solicited insurers for a particular product as highlighted in Table 6.1. Some alterations were introduced to fit AIG's legal requirements as a non-life insurer (i.e., only a payout to the beneficiary in the event of an accidental death); other features were added because they were already part of the insurer's GPA product line, including coverage of the loan for total and temporary disabilities.

There was no formal prototype or concept testing of the group personal accident policy. FU's management discussed the prototype with several client groups who received it favourably. Agreement on the structure of this product came quickly in discussions between the MFI and insurer.

Table 6.1 Elements of the Concept Generated by the MFI

Terms, conditions and coverage	Reasons
Voluntary offering	Wanted clients to understand the product (this occurs best when the product is "sold" to a client). Also wanted the institution to understand the real demand for such a product.
Required all members of a client group to participate	Minimised administrative burden and adverse selection
Covered the death of clients with <ul style="list-style-type: none"> • Loan payment • Payment to family 	Wanted to provide continued benefit to the family for the transition after client's death, and to cover group losses
Claims payment provided within two weeks	So the family and group would realise benefits when they were needed
Four month insurance cycles	To match the loan cycles and provide a marketing benefit (if clients wanted the insurance they would have to borrow)
Collection of premium payments at loan disbursements	Loan disbursements mark the start of the four month cycle Wanted to collect funds from clients so that they recognised insurance as distinct from the loan
One monthly payment from the MFI to the insurer to cover all new and renewal groups	Minimise administrative burden
Provide only pre-existing data forms as documentation for the monthly payment	Minimise administrative burden
Pricing simply calculated by clients and staff	For ease of transaction and understanding

6.3 Pilot Testing

FINCA Uganda essentially pilot tested the product for AIG, beginning in late 1996. It was offered voluntarily to the MFI's groups with the requirement that all members of the group would agree to purchase it for the group to obtain the cover.

After 18 months of experience, the MFI realised that premiums going to the insurer were significant while claims settlements were low. Since the MFI was doing a significant amount of the work for free, the insurer was reaping large profits, at least on a percentage basis. Over the first two years, the insurer had been earning around 70% of the premiums. Simultaneously, the MFI was experiencing problems with its field staff, some of whom thought they could take premiums from their clients but not report their payment. As a result, FU wanted to adjust the product to improve the balance between its clients and the insurer.

In 1999, the MFI approached AIG Uganda for a formal meeting to discuss progress. FINCA Uganda had decided to make the product mandatory (as a means of eliminating the staff fraud problem), but wanted significant improvements to the product, including lower prices and expanded coverage to include fire and theft.

AIG Uganda was interested in the switch to a mandatory product and saw the drop in price as reasonable given its experience. However, because of concerns about the control of moral hazard and fraud, the fire and theft cover was rejected. FU countered with a request to expand the product to cover family members. This was reviewed by AIG Uganda and was ultimately implemented, so that accidental death of the spouse and up to four dependents was added to the product. These adjustments made the product more marketable when AIG Uganda went to sell it to other MFIs.

In the initial product, the temporary disability and hospitalisation were offered by AIG Uganda to match its group accident policies. These features, however, were not marketed to MFI clients because of the high risk of fraud and the additional administrative requirements. In the enhanced version, they were dropped altogether. The main issues that arose during the pilot phase are summarised in Table 6.2.

To switch from voluntary to mandatory, FINCA Uganda adjusted the interest rate from 3% to 4% per month flat. It was explained to clients that the fees remained the same, but were simply rolled into one for transactional ease. Clients who understood the policy continued to believe that they were paying 1% of their loan principle per loan cycle for the insurance. The MFI paid 0.5% of the loan principle per loan cycle to AIG—theoretically the MFI was earning a 50% commission on the premiums clients paid for the insurance.

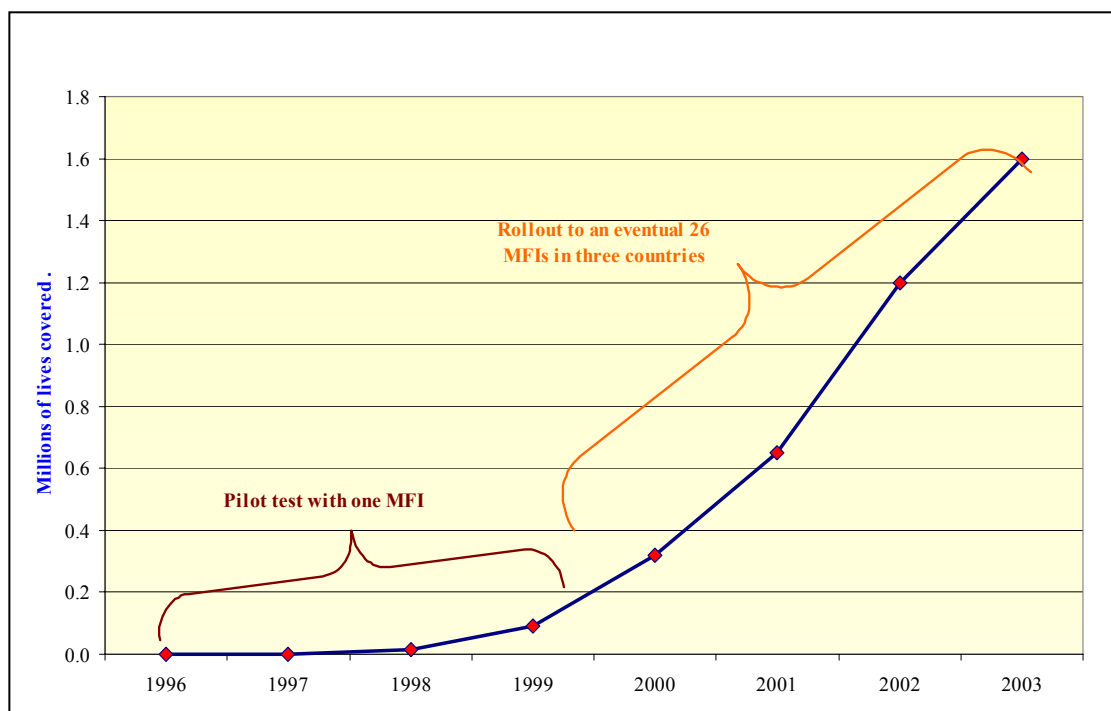
This changeover represented a turning point in clients' understanding of the policy. With a mandatory product, staff no longer felt compelled to explain the terms and conditions in detail or ensure that clients internalised the information. Their lack of familiarity with the product today, as described in Section 3.4, is partly attributable to this factor.

Table 6.2 Additional Pilot Testing Issues

Issues	Corrective action
The requirement that all clients in a group had to purchase the product seriously limited the formation of new client groups.	100% rule was not relaxed because of the administrative burden to track individuals within groups. It was thought that once the “demonstration effect” was experienced this problem would be reduced.
The field staff had seen poor claims payments by state insurers and believed that the AIG Uganda plan was a fraud. At the start of this product offering, insurance products had a poor image.	Many trainings were held to promote understanding, but it really did not improve until several clients died and their claims were paid (i.e., the demonstration effect).
There was significant confusion by the MFI staff because the information from management and the AIG Uganda staff agent was different.	More frequent discussions were held between the agent and management
It was recognised quickly that field workers were not sales oriented. This was not only limiting the insurance programme but the whole of the MFI’s activities.	A sales training team was contracted to train the MFI staff on the range of the MFI’s activities. This four-day course (with adaptations) became an annual event.
No commission was offered to the field staff for selling the product.	During the test FU agreed to take no commission as an incentive to AIG. It was expected that once AIG Uganda saw tangible returns there would be a renegotiation in the commission issue. Thus, the MFI had no product related money to pay staff commissions.
Clients wanted more than life insurance.	The strong demand for additional insurance products helped incite the MFI management’s efforts to identify potential health microinsurers.

6.4 Rollout

In 2000, AIG Uganda agents began rolling out the microinsurance product by selling it to other MFIs. Processes for each institution were similar and each new MFI took on the product as mandatory (except for UMU). Rollout has led to significant growth in lives covered by AIG Uganda under this product, as shown in Table 6.3. The product was voluntary through 1996 – 1998 and only covered the clients of one MFI (not families) thus resulting in rather slow growth. Converting the product to mandatory, and including five family members helped the coverage to grow more rapidly, and then rollout to other MFIs yielded tremendous growth.

Table 6.3 AIG Uganda: Microfinance Product Growth in Lives Covered

6.5 The Product Development Cost

The product development cost was not tracked either with the initial product or the two later add-ons. AIG Uganda management believes these costs are insignificant.

AIG Uganda's product development processes for all of its products are funded completely from its own resources. No additional funding was required in the development and implementation of this product. That said, it is possible that a better funded research and development process might have led to a better initial product.

It was the MFI who outsourced most of the product responsibilities to AIG Uganda. From that point on there has been essentially a mutual outsourcing where the tasks are split between the insurer and the MFIs based on the capabilities of each.

7. Conclusions

AIG Uganda is one of the first large insurance companies to extend coverage to the low-income market by partnering with numerous microfinance institutions. The experience of AIG Uganda and its microfinance partners provides a host of important lessons for practitioners and policymakers that are interested in microinsurance. This section summarises AIG Uganda's next steps, its challenges and breakthroughs, and the main lessons learned.

7.1 Planned Adjustments

Financial Management. AIG Uganda plans to move its microinsurance product to a separate product line so that the insurer can track it individually, rather than burying the data within the GPA line. This will be an important distinction allowing better product management.

Natural Death Cover. All parties—the insurer, the MFIs and the clients—recognise the need to include a cash payout for death by any cause. This is problematic for AIG Uganda since it does not have the legal authority to offer life products. Management is actively working to find a mechanism to address this issue.

The Last Expense Benefit is being tested with one MFI to solve this problem; however, because it is currently considered a life insurance product—protecting the family in case of death—this is likely to exacerbate problems with the Insurance Commission. The segregation of life and non-life insurance is due to the different approach that must be taken in terms of reserves and investments between the two. Even though it covers death risks, the management of the Last Expense Benefit would really fall into the non-life category because the terms are no more than one year, so the investment requirements would be the same as for non-life products. AIG Uganda will be addressing the Insurance Commission on this point.

Anticipating Competition. AIG Uganda recognises the need for a strategic adjustment because it is likely that competition will begin to attack its market. Toward that end, AIG Uganda is working on the following issues:

- Potentially working with (outsourcing to) a regulated life insurer so that this partner can offer products that require a life license, such as a policy for death resulting from illness. AIG Uganda management has already begun a dialogue with another insurer on this issue. Such a relationship would help AIG Uganda make its product more relevant to the low-income market and address regulatory issues.
- Elevate the microinsurance product to a product line, which will enable AIG Uganda to respond better to the market needs. This elevation will ensure that the product is included in the insurer's business and strategic planning processes.
- Developing software systems to facilitate transactions with MFIs. This data will help AIG Uganda to understand this market better and monitor market trends so that the insurer can offer more focused products with appropriate pricing.

In general, AIG Uganda plans to take this product more seriously to improve its quality and to better address the needs of the low-income market.

7.2 Breakthroughs and Challenges

AIG Uganda was one of the first regulated insurance companies to approach this market as a potentially profitable business line. The insurer spent some time making it work and then expanded throughout the MFI market in Uganda, with outreach to Tanzania and Malawi as well. It has drastically minimised the operational input required from itself and the MFIs, offering a product that responds to some of the risk management needs of MFIs, their clients, and the clients' families. AIG Uganda has shown consistently that microinsurance (at least AIG's GPA product) can be profitable when sold through MFIs, and even more so when the MFIs require their clients to purchase it.

Because AIG Uganda only has a non-life insurance license, it is restricted from offering products that are in demand by this market. Addressing the issue will become a growing challenge. The Insurance Commission is pushing the insurer to drop the coverage of the loan balance for an illness death because it says that this falls under a life insurance license. AIG Uganda vigorously argues that because these policies cover short duration loans, they do not fall into the long-term insurance category.

For AIG Uganda, competition is likely to become a problem as more insurers enter the low-income market. Because of the product issues mentioned in this paper, as well as AIG Uganda's lack of investment in this product, the insurer is vulnerable. It will need to improve product service, add life benefits, and develop more efficient transactional and informational systems for use with its MFI partners. These changes are significant and will require a clear focus from management to improve this situation.

Client knowledge of insurance remains low. There is no "insurance culture" among the low-income population in Uganda, except insofar as the vast majority of low-income people are suspicious of the insurance industry. Client awareness has not been helped by the almost total lack of marketing and attention to customer service. AIG Uganda must address this challenge if it is to retain its market share.

7.3 Key Lessons Learned

Product Management

- **Manage the product evolution!** AIG Uganda has not managed the development of its microinsurance product, which has led to inefficiencies, a lack of product and delivery innovations, confusion among clients, and lost opportunities. Products with potential need investment to keep them strong.
- **Insurers must monitor product growth and profitability.** AIG Uganda was surprised that this product adds the most of any line to its income. Because this was not

recognised, the product did not receive the attention and investment that it needs to satisfy its market. The insurer is now shifting to treating it as a separate product line.

- After the first few large MFIs take on the product for their clients, the **product might become a minimum expected offering** (as was seen in Uganda) from MFI clients that might push the other MFIs into also purchasing it just to remain competitive.
- **A microinsurance product can be developed and implemented reasonably well without external funding.** Although certainly there is broad scope for improvement, this product has been developed, tested, and rolled out to cover more than 1.6 million lives without any external subsidies or grants.
- Insurance **premiums should be normalised** to one premium with a commission or fee to the MFI. In Uganda, most MFIs were doubling the premium charged to their clients, a situation that creates a number of problems, including regulatory ones. Such a practise creates an incentive to inflate the premium beyond a reasonable level as a way of generating additional fees, especially when the product is mandatory. It is notable that the one MFI that operates with a straight premium and a commission to the MFI is the only one that offers the product on a voluntary basis.
- **Separate the coverage of the loan from the coverage of lives.** AIG Uganda has found that the two main parts of its coverage need to be priced against different indicators. Credit life should be based on the loan amount. Pricing for personal accident cover should be based on the sum assured. Separating the fixed premium (personal accident) from the variable (credit life) could improve pricing, monitoring, and the overall premium structure.
 - Credit insurance can remain a loan-term limited product, while a life or personal accident product should have a term that extends through the “no-man’s land” period between loan cycles, or continues even when a client skips a cycle.
 - Credit insurance can remain compulsory, while a life or a personal accident product could be voluntary
- Products for this market need to **eliminate the distinction between life and non-life cover** to provide a more equitable and demand-responsive product. The financial impact on a low-income family is similar whether the death is by accident or by natural causes, so a life insurance product is needed and wanted by this market.

Operations

- In partnerships such as described here, there **must be an active focal point person within each institution**—the MFIs and the insurance company—so that information and transactions can flow most effectively. When this was not the case, there was significant confusion in the communication between the insurer and the MFIs. The MFI’s focal point would be responsible for facilitating the claims submission process, assisting loan officers and clients to understand the product, providing clients with a specific contact person, and helping the beneficiaries gather the necessary claim documents. In addition, this person can follow-up on any claims that are returned for further clarification. The insurer should consider cost-sharing such an employee.

- **MFIs must represent their clients** in negotiations and operations related to the insurance product. In Uganda MFI representation of clients has been weak as evidenced by the relative satisfaction of MFI managers and the dissatisfaction of clients. This means, among other things:
 - Make sure claims processing is efficient, timely, and accurate at the insurers' end as well as within the MFI. AIG Uganda had almost two hundred pending claims from as long ago as two years. Often MFIs inexplicably hold claims applications and settlements for months. Sometimes the MFI is informed that a claim was rejected, but the customer is never notified.
 - Pressure insurers to make appropriate adjustments for the characteristics of the low-income market. For example, given the time and costs involved in securing the necessary paperwork, AIG Uganda's claims documentation requirements are inappropriate for the MFIs' clients.
 - Lobby insurers for better products that respond to the demands of the clients. MFI managers noted that they wanted better products, but have not pushed the insurer.
 - Ensure clients understand the product, whether compulsory or voluntary, through verbal or hard copy communications
 - Computerised information systems are necessary to track insurance transactions. This facilitates easy premium payment and claims monitoring, allows for better tracking of data (to help in better pricing), and will help the MFI in negotiations with the insurer(s).
- Periodically **review claims and settlement procedures**. The current procedures have become insufficient for managing this business. Had AIG Uganda and the MFIs been reviewing these, the product and processes would probably have evolved for the better.
- In developing more efficient systems, the **insurer needs to take the initiative for improvement** since this will not come from the MFIs. The insurer cannot expect MFIs to initiate and invest in activities that ultimately serve the insurer.

Marketing

- Even when a product is compulsory, the providers still need to **market the product**. The sale itself is only one part of marketing. Information about the product and how it benefits clients must be provided regularly. Good service when there is a claim or a question is necessary. All this can promote a positive image for insurance and help clients appreciate the product. Without marketing, clients become dissatisfied and sometimes angry, seeing insurance only as an additional fee to access loans.
- **Staff training should include marketing, insurance basics, and details on the particular product**. Without this knowledge, it is difficult for field staff to convey the insurance concept or the product to their clients. Plus the insurer should offer annual workshops to the MFI's front line staff and provide materials to reinforce training points, for example by providing a copy of the policy, step-by-step instructions on filing claims, the contact information for the insurer's focal point person, and answers to Frequently Asked Questions.

- **Make the product customer-friendly** to the end-user, the MFIs' clients. This product may be customer friendly but the message is not getting to the market. Clients clearly do not understand the product and it is incumbent on the insurer to make sure that they do. Some ideas include:
 - Develop a standardised client training flip chart and thoroughly train MFI staff on how to train clients
 - Create step-by-step enrolment paperwork that assists loan officers in the field
 - Create a written explanation of the policy, an educational tool, especially for clients that reflects the key aspects of the policy: coverage, exclusions, definitions of jargon (beneficiary), claims process, benefits
 - Give away calendars to clients with key policy information, including step-by-step guide to the claims process
 - Create stickers for client passbooks with key policy information and a space for clients to note their beneficiaries and other covered family members
 - Create colourful and informative posters for MFIs to post in public areas

7.4 Outstanding Questions

The AIG Uganda microinsurance product has been a major success in terms of:

- **Growth** – It covers 1.6 million lives in three countries, generating about US\$750,000 in premiums in 2003, with projected premiums of almost US\$800,000 for 2004.
- **Profitability** – The product generates a profit of around 20% on the premiums AIG Uganda charges to MFIs. Indeed, this product provided nearly 17% of all of AIG Uganda's profits for 2003. The MFIs are also generating significant incomes from the insurance product.
- **Innovation** (initially) – AIG Uganda took a chance on this market when no other insurer would. It has been an example to others internationally, leading to microinsurance products offered by insurers in other countries.

As with all products, there is an evolution that requires frequent reviews of client satisfaction, improving delivery channels and claims efficiencies, and ensuring clear communications to the market. In short: managing the product is critical to sustained success.

Product evolution has been weak with this product. This weakness arises partly from the fact that AIG Uganda did not realise the value of the product to its bottom line. That aside, because of the pricing structure, AIG Uganda agents, MFIs, and AIG Uganda itself all made substantial profits on this product over time. Yet, while generating these profits, little was reinvested in the product to address the issues that evolution requires, and little was done to ensure adequate customer service or satisfaction.

MFIs seem interested in offering insurance to their clients, but it is a relatively low priority for them. Their loyalty to AIG Uganda appears limited as well. MFIs would like to see a

better product range but generally have not pressed the insurer to develop appropriate products. Many clients do not know they have insurance, even though they pay for it. Those that do know are mostly confused about the product they are required to buy and are hungry for information.

AIG Uganda is now aware of the importance of this product to its business and understands the need to invest in its product. The insurer understands that it is vulnerable and now is the time to act if it wants to retain its market. If it is able to implement its planned changes, they will significantly raise the standards of this product to a higher level.

AIG Uganda has been an important leader in microinsurance. There is still great potential for the insurer in Uganda, but there is much work ahead.

Selected References

- Janet S. McCord, Frith, S., Walsh, M, Moore, S., Daniels, A. *MFI Client Perceptions of the AIG Personal Accident Policy in Uganda* (forthcoming)
- Janet S. McCord, Frith, S., Walsh, M, Moore, S., Daniels, A. *Utilisation of Claims Settlements by MFI Clients in Uganda* (forthcoming)
- Michael J McCord, *The Feedback Loop: A Process for Enhancing Responsiveness to Clients*, Nairobi, MicroSave, (2002).
- Michael J. McCord, *Microinsurance Pre-Feasibility Study: Uganda*. KfW - German Financial Cooperation, 2004. (Not publicly available)
- Michael J. McCord, Mutesasira L., Mukwana P., and Sekiranda A. *MicroInsurance in Uganda: A Case Study of an Example of the Partner-Agent Model of MicroInsurance Provision – AIG/FINCA Uganda: Group Personal Accident Insurance*. Nairobi, Kenya: *MicroSave* (2001).
- Monique Cohen, Sebstad J., *Reducing Vulnerability: The Demand For Microinsurance* Nairobi, Kenya: *MicroSave* (2003).
- Grace Sebageni, “Assessing the Demand for Microinsurance in Uganda.” *MicroSave*, Nairobi (2003) See <http://www.microinsurancecentre.org/index.cfm?fuseaction=resources.detaildoc&showcontributorID=48>
- Rob Yates, “Uganda Ministry of Health, Lessons from the Uganda Health Financing Reforms” Kampala (2003).
- Ted Weihe, “Case Study: Uganda Health Cooperative” Land O’Lakes, Inc., St. Paul, Minnesota (2004).

Appendix 1: Loan Officer Perceptions

	FINCA	Faulu	Feed the Children	Uganda Microfinance Union²⁵
E D U C A T I O N	<ul style="list-style-type: none"> • Loan officers are trained by their supervisors at time of employment • Supervisors are trained by their superiors, who had been trained by AIG • No follow-up or subsequent training on the policy required or offered • One staff person thought that the last AIG Uganda training took place four years ago • Written updates from AIG Uganda are disseminated as memos to branches • Branch managers pass information on to loan officers • Every loan officer receives a copy of the policy (no loan officer could produce one) 	<ul style="list-style-type: none"> • Loan officers trained as new employees. • One loan officer reported that AIG Uganda offered training by an AIG Uganda rep two or three years ago • New loan officers given a copy of the policy (loan officers unable to produce a copy when asked) • Memos on updates are disseminated to branches but loan officers seem not to get them in a timely manner or do not read them carefully 	<ul style="list-style-type: none"> • Staff trained by AIG Uganda at head office in 2001 • Only three trainings by AIG Uganda since 2001, and only at the request of client groups • Training officer at head office has never been trained directly by AIG • AIG Uganda updates are disseminated to branch managers, who are supposed to disseminate information to loan officers • Ten loan officers interviewed had never received a copy of the policy or any written communication about the policy • One branch had a memo posted on the wall dated 2 August 2001, and another had a stack of memos piled in a desk 	<ul style="list-style-type: none"> • No formal training provided to loan officers since the handout on the AIG Uganda policy covers all questions clearly • When asked, a loan officer was able to produce a copy of the policy at a branch office, something loan officers at other MFIs were unable to do • Insurance is voluntary but strongly advised to clients

²⁵ Researchers were able to conduct only one informal interview with UMU staff, an assistant branch manager.

	FINCA	Faulu	Feed the Children	Uganda Microfinance Union²⁵
C O V E R A G E	<ul style="list-style-type: none"> Discrepancy of knowledge about policy between management and loan officers. Supervisors know the basics well, while loan officers knew little Loan officers were not aware of coverage for catastrophic fire Loan officers understood that the insurance premium was paid from loan interest 	<ul style="list-style-type: none"> Loan officers know policy basics such as the amounts of compensation given to clients in event of accidental death None had a copy of the policy Could not answer questions about circumstances that might affect coverage beyond the basic policy information 	<ul style="list-style-type: none"> Loan officers have limited knowledge about the policy All agreed that policy did not cover catastrophic destruction of business One loan officer did not know compensation amounts for accidental death, so turned to a colleague, who offered inaccurate information None aware of disability benefits One branch manager insisted that the policy had no disability coverage, then located a 2001 memo indicating that the policy paid the outstanding loan balance in event of partial or total disability as a result of an accident 	<ul style="list-style-type: none"> Assistant branch manager knew the basics about the policy coverage Could explain benefits received for accidental death and catastrophe Knew that insurance covered outstanding loan balances in case clients died of any cause
B E N E F I C I A R Y	<ul style="list-style-type: none"> Loan officers advise clients to list a trusted person, like their spouse When beneficiary is underage, FINCA asks group members to suggest a responsible person Beneficiary form distinguishes between a beneficiary and spouse /next of kin 	<ul style="list-style-type: none"> Unclear if loan officers assist clients Insurance portion of loan application labelled: “Beneficiaries of insurance policy: (Name of spouse and up to 2 children)” No distinction made in paperwork between covered family members and who is to receive compensation in event of accidental death 	<ul style="list-style-type: none"> Loan officers advise clients to list their spouse under “spouse /next of kin” Loan officers frustrated when clients insist on listing minor children in this column No distinction on paperwork between insured family members and beneficiary; no option to list beneficiary other than spouse /next of kin 	<ul style="list-style-type: none"> No information available

Appendix 2: Client Perceptions

	FINCA	Faulu	Feed the Children	Uganda Microfinance Union
E D U C A T I O N	<ul style="list-style-type: none"> ♦ Policy compulsory for all clients ♦ Clients know policy as “insurance” rather than a “personal accident policy” ♦ Clients “sensitised” by group’s loan officer, often referred to as “teacher,” incorporated into their training as new clients ♦ Newer members had most timely information on policy ♦ Some clients reported receiving most policy information from friends and other clients ♦ Clients report never receiving written documentation or educational materials about the policy ♦ Clients express frustration about lack of information about the policy 	<ul style="list-style-type: none"> ♦ Clients generally uneducated about policy ♦ Clients report receiving information about policy from two sources. Some report being trained directly by the loan officers in the context of learning about the loan programme, and others report that their group leader is trained by the loan officer ♦ No educational materials or written documentation given to clients about the policy ♦ Clients frustrated about the lack of information about the policy 	<ul style="list-style-type: none"> ♦ Clients educated about the insurance by the loan officer, often referred to as “teacher” ♦ Group leaders responsible for training new members ♦ Newer members sometimes knew more about the policy than old members ♦ Client awareness reflects knowledge base of individual loan officers. Clients referred by name to loan officers that had taught them well ♦ Clients receive no written documentation about the policy 	<ul style="list-style-type: none"> ♦ Clients learn about the policy in weekly seminars and from the course they are required to take when they first become clients ♦ Clients are required to attend a weekly seminar at least once per month ♦ Some clients think having the policy is compulsory, others believe it is voluntary

	FINCA	Faulu	Feed the Children	Uganda Microfinance Union
C O V E R A G E	<ul style="list-style-type: none"> ♦ Clients report inconsistent information about the policy ♦ Confusion regarding definition of policy terms, such as “accident,” “beneficiary” and “catastrophe.” ♦ Clients understand that the policy covers “catastrophe” but admit they are unsure what this means ♦ Disability coverage is misunderstood. When asked: what happens when you are in the hospital and you become disabled, several clients said they get nothing, while others said that FINCA will help and pay hospital bills, but only for particular hospitals ♦ Clients confused about benefits if a client dies of natural causes, and some clients did not know that the OLB is paid by the policy ♦ Confusion regarding amounts of cash payouts if a covered person dies by accident 	<ul style="list-style-type: none"> ♦ Clients know some aspects of the policy very well, such as they know the policy guarantees payment of the OLB if the client dies, and knew that families receive a Ushs300,000 condolence fee in case of any family member’s death ♦ Clients know how much they pay for the policy ♦ Clients confused about compensation amounts ♦ Clients did not know that policy covers OLB if business is destroyed by catastrophe, but expressed an interest in receiving this cover ♦ Clients reported being told that the policy covered those that fell ill or had various medical procedures. One woman claimed her loan officer told her the policy covered caesarean sections 	<ul style="list-style-type: none"> ♦ Most clients knew that the policy provided a cash payout when a client, a spouse, or up to four of their listed children died by accident ♦ Clients did not know that the policy covered for catastrophe ♦ Confusion about coverage for natural death of client, and clients could not agree on whether the OLB was paid while a client was in hospital or only after death ♦ Some clients thought policy covered sickness and medical bills ♦ Clients not aware of disability benefits 	<ul style="list-style-type: none"> ♦ Clients were confused about what the policy covered. Most knew that it covered the loan if the client dies, but some clients argued that the loan is not covered by the insurance and that the other group members must pay of the OLB ♦ Some thought that the insurance helped if a client fell sick and was hospitalised, but were not sure specifically how it helped ♦ After his business burned (he was able to put out the fire before it spread to other businesses), a client said his claim was rejected since it was only his business that burned ♦ Some clients think that the policy does not pay a cash payout to survivors if a client is killed by accident ♦ Some argued that the insurance covers a client even when the client does not have a loan ♦ Clients not sure about payout amounts

	FINCA	Faulu	Feed the Children	Uganda Microfinance Union
B E N E C I A R Y	<ul style="list-style-type: none"> ♦ Overall confusion about the term “beneficiary” ♦ Clients generally do not distinguish between family members covered by the policy and the person who is to receive a cash payout if the client dies by accident, and consider all of these as beneficiaries of the insurance ♦ “Next of kin” defined by many as the person who takes care of the business if the client dies, or as the person that benefits if the client dies by accident ♦ Some listed a minor child as beneficiary ♦ Female clients rarely list their husbands as beneficiary ♦ Most list four children as covered by the policy but one client said she was told to list all seven 	<ul style="list-style-type: none"> ♦ Concept of beneficiary defined in various ways, with clients explaining to the researchers that there are beneficiaries for loan, and beneficiaries for insurance. Beneficiaries for loans are those that pay the OLB if the client defaults. ♦ Paperwork directs clients to list “Beneficiaries of insurance policy: (Name of spouse and up to 2 children,” with no distinction between these family members and the person who receives a cash benefit if the client is killed by accident ♦ Insurance beneficiaries usually referred to as “next of kin,” defined as the person that takes care of their business if the client dies. ♦ Female clients rarely list their husbands as beneficiary ♦ A few clients described themselves as beneficiaries of the insurance since they are the ones benefiting from the loan programme and the insurance 	<ul style="list-style-type: none"> ♦ Clients do not differentiate between persons in family also covered by the policy and the person listed as the beneficiary ♦ When asked who is the beneficiary, clients listed their children, spouse, mother, sister ♦ Clients defined “next of kin” as the person who takes care of their business if the client dies ♦ Female clients rarely list their husbands as beneficiary ♦ Most clients reported being told to list four children on the policy, but one woman said she was told to list only two 	<ul style="list-style-type: none"> ♦ Clients defined beneficiary as the person that takes care of their business after they die ♦ Female clients rarely list husbands as beneficiaries ♦ Clients reported that they list their children as beneficiaries but were not aware of their children being covered by the insurance