

Insurance Services for borrowers of NGOs-MFIs; Is it helpful for them? Bangladesh perspective

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DOI: 10.29322/IJSRP.8.4.2018.p7657

<http://dx.doi.org/10.29322/IJSRP.8.4.2018.p7657>

Abstract- Micro insurance is a subset of insurance that acts as social security and social safety net to the poor. Its clients and operational methodology are different from formal insurance companies. Non Government Organizations(NGOs)/Microfinance Institutions(MFIs) are developing new financial products and services to meet increasing client demand and micro insurance is one of the products that are gaining wide concentration in the world of micro finance. The micro insurance concept in Bangladesh has been originated from the practice of microcredit programs of Grameen Bank and other NGOs/MFIs. In this paper we tried to see either micro-insurance services helpful or not. We found that micro insurance is beneficial for its clients. Microinsurance is designed generally to address economic exclusion from resources, services, and/or social protection in the cases of death, ill-health, accident, and loss of property or other adversities of life. In fact, it is a kind of institutional risk mitigation service.

Index Terms- MFIs, Micro-insurance, NGO, Insurance coverage, borrowers

I. INTRODUCTION

Aggravated risk and vulnerability is a core element of daily life for poor people. Poor people must often struggle hard to bit by bit generate income and build their assets to get out of poverty. Microfinance makes this course smoother. For this reason micro finance is considered as verified strategy of poverty alleviation. But in the hazardous world of poverty, impulsive shocks such as illness, death within the family, especially primary household earners, and harm of assets affect the process of income and asset building. Sometimes micro finance itself is not sufficient enough to cope with these types of shocks. To cope with the shocks and vulnerabilities, poor people expect some financial as well as non financial services which can mitigate their shocks and vulnerabilities. The demand from the poorest for diversified financial and non-financial products as well as social security products like insurance is increasing day by day. Non Government Organizations(NGOs)/ Microfinance Institutions(MFIs) are developing new financial products and services to meet increasing client demand and micro insurance is one of the products that are gaining wide concentration in the world of micro finance.

According to the ILO Convention 1952 (Convention No.102) on Social Security (Minimum Standard), nine branches of social security and the corresponding contingencies were covered: medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit and survivors' benefit. The Convention No.102, added flexibility clause where it was mentioned that social insurance scheme that could provide minimum level of social security to the people of member states. From this perspective, insurance especially the micro insurance has been considered as a social security product and an additional financial tool to help people living with poverty coping with the risks and vulnerabilities they face in everyday life. Saving is the traditional way to cope with such risks whereas credit comes in with the objective to strengthen income-earning capacity or stabilize family incomes. Insurance extends the coping capacity to a next level of leverage as it increases the scope of risk coverage (Abels, 2005). It is true that not all micro insurance products play a role in extending social protection of the Poor. The products like property or asset, livestock, housing and loan protection insurance do not provide social protection. But on the other hand, some products like health, life, old age pensions and disability insurance policy addresses the nine contingencies specified in ILO's Social Security Convention (No. 102) and therefore play a role in the extension of social protection (Churchill, 2006).

II. OBJECTIVES

The objective of the present study is to evaluate the existing insurance services prevailing in the NGO-MFIs sector and how it influence in mitigating the risk of the borrowers.

III. INSURANCE AND MICRO INSURANCE

Insurance is a mechanism that uses risk pooling to compensate individuals and groups adversely affected by a specified risk or event (Cohen and Sebstad, 2003). Insurance can be defined as such a social and economic security product that pool risk, reduces vulnerability and provides more complete compensation. Micro insurance is a subset of insurance that provides social security and plays role of social safety net to the poor. Its clients and operational methodology are different from the existing formal insurance companies. The clients of micro insurance are

poor and they depend on low income. Usually this income flows fluctuate considerably throughout the year. The definition of ‘Micro insurance’ can be understood in two parts. First, the ‘micro’ portion of the definition refers to the subset of a product that is designed to be beneficial and affordable for low-income individuals or groups. Second, the ‘insurance’ component refers to a financial service that uses risk-pooling to provide compensation to individuals or groups that are adversely affected by a specified risk or event (Brown, 2000).

IV. EVOLUTION OF MICRO INSURANCE IN BANGLADESH

The micro insurance concept in Bangladesh has been originated from the practice of Microcredit programs of Grameen Bank and other NGOs/MFIs. The micro-insurance market of Bangladesh has been expanding over the last decade. But the products usually come from the supply side other than considering the demand and affordability of the clients. So far very little market research on micro-insurance has been conducted by the researchers, academics and practitioner organizations. Micro-insurance products offered by NGOs/MFIs and mainstream insurance companies are critically analyzed, very little product diversification and innovation will be observed. The NGOs/MFIs are offering mostly loan protection insurance. Some NGOs/MFIs are offering life, health, livestock and asset / property insurance. But the outreach of these products is very insignificant. Micro-insurance is an emerging sector, strongly linked to the microcredit movement in Bangladesh. In Bangladesh, micro-insurance is primarily provided by Non Governmental Organizations (NGOs) and Microfinance Institutes (MFIs). Most micro-insurance programs are linked to microloans, entrepreneur loans and are reliant on the group dynamics of microcredit. Micro-insurance is designed generally to address economic exclusion from resources, services, and/or social protection in the cases of death, ill-health, accident, and loss of property or other adversities of life. It is a kind of institutional risk mitigation service. Bangladesh has a long and outstanding history in the delivery and management of microcredit. Micro insurance or inclusive insurance service for the poor is a relatively new

concept. NGOs-MFIs appeared in the micro insurance scene in the late 1990s and early 2000s with the exception of Gonoshashtho Kendro, which developed health micro insurance product in 1978. Grameen Bank and BRAC, as well as other MFIs/NGOs also provide health micro insurance. Most of the large NGOs-MFIs in Bangladesh offer a variety of micro insurance products to their clients. These MFIs/NGOs had several hundred thousand clients, strong information tracking capabilities through their large network of branches all over the country, and a stable saving and credit portfolio before they developed micro insurance product in their possession. Micro insurance products offered by MFIs/NGOs in Bangladesh cover the outstanding loan balance, health, disability and provide in some cases, an additional one-time monetary benefit to the client’s designated beneficiary. In Bangladesh to operate microcredit programs every NGOs-MFIs have to get license from a government organization. Here the public organization who gives license is Microcredit Regulatory Authority (MRA). It is a public statutory organization. MRA follows a Microcredit Regulatory Authority Act, 2006 and Microcredit Regulatory Authority Rules, 2010 to regulate microcredit activities operated by NGOs-MFIs. To date, MRA has given licenses to 758 NGOs4 MFIs to operate series of microcredit events. According to the Rules No. 25(1) and 25(2) of the Microcredit Regulatory Authority Rules, 2010, NGOs-MFIs can give insurance services to their members. Above discussion and evolution of micro insurance has indicated to the benefits of micro insurance. So, it has created a research question “*Insurance Service for borrowers of NGOs-MFIs; Does it helpful for them?*”

To verify this research question, insurance services by a number of NGOs-MFIs had been tested. Let the matter be cleared. Every year, licensed NGOs-MFIs cut a certain percentage of the total loan given to the members. The condition of cutting money as insurance is to excuse the borrower from paying loan and return his/her savings to his/her nominees. The table, mentioned below, depicts the end-balance of insurance for five consecutive financial years.

Year	Amount received	Amount expended	Ending balance
2010	2122519941	1355775357	6975462505
2011	2560911600	1912334899	8380817131
2012	2612435841	1857415217	9785019412
2013	2681973753	1990071514	12272278468
2014	1542984633	1028004314	7993195125

Source: MIS Section; Microcredit Regulatory Authority (MRA)

V. METHODOLOGY

The data were collected through analyzing of insurance policy of different NGOs-MFIs, field survey, discussion with different stakeholders. The licensed NGOs-MFIs of MRA were asked to give necessary information to test the consequences of micro-insurance services. Moreover, some data were collected from MIS section and website of Microcredit Regulatory Authority (MRA), newspapers. Based on the collecting data, we tried to analyze all kind of information. We explained cases one by one to reach the conclusion. Rules of micro-insurance services, how NGO-MFIs provide insurance services, coverage of micro-insurances-all are analyzed cautiously.

Literature review on micro insurance in Bangladesh:

Hasan (2008) and ILO (2003) studies on micro insurance found the following end results:

- The study found that 16 percent of 61 NGOs/MFIs offered life insurance.
- The dominating scheme is loan risk insurance - around 72 percent.
- Average premium per thousand was Tk. 8. Sum insured was the outstanding loan balance.
- Premium was set not by any scientific method but rather based on assumption.
- Micro insurance products and practices of some 24 institutions have been offering micro insurance schemes in Bangladesh.

Coverage of Micro-Insurance:

Under the schemes of micro-insurance of NGOs-MFIs, the borrowers are provided benefits in two phases. 1) After the death of loan receiver or loan product and 2) when the loan receiver is alive. • NGOs-MFIs cut a certain amount of the total loan in percentage. For example, 1%, 0.5% is common standard of percentage that an NGO-MFI slashes when they give loan to any member. Some mentioning coverage of micro-insurance scheme of different licensed NGOs-MFIs in Bangladesh are found as follows:

- The common benefits under micro-insurance are to the emancipation of remaining loan and pay back the savings of the clients.
- Say, a member got BDT 10,000 as micro loan and at the time of dying, the borrower owes BDT 8000(since some installments are paid). As coverage of micro-insurance, NGO-MFIs emancipate this borrower from remaining loan and pay back his/her deposits in that NGO-MFIs.
- Some MFIs also provide insurance-service against loan for animal. They cut BDT 5.00 for per thousand of loan. Say, if a borrower gets an amount of loan to buy a cow, he/she will be freed of paying rest of loan if the animal dies.
- Another service of micro insurance is that NGO-MFIs bear educational, medical cost of family members including the borrower.
- Some NGOs-MFIs also provide health insurance to their clients

Types of insurance	Rates of interest/money charged(Insurance fee)	Services under Insurance Scheme
Health	1%, or 0.5%	Loan immunity after death; Some security benefit for nominee after death of member; Funeral/Cremation management; Loan immunity for member's husband/guardians; Medical services;
Life		
Loans/capital		
Livestock Disaster	BDT 5.00 per thousand	All kinds of savings return to his/her nominee; Cash payment for loss of organ
Micro entrepreneur	1.5%	
Seasonal	2.0%	

Table: Micro insurance, rate of interest and services.

Insurance services, provided by Microfinance Institutes (MFIs), are unlike to each other. Some MFIs have two insurance scheme, some have three etc. The rates of interest vary in response to the kind of insurance. Grameen Bank has two insurance schemes for its members, namely, loan insurance and life insurance. BRAC (license no.65) has one insurance scheme; Shakti Foundation for Disadvantaged Women (license no.18) has two insurance schemes.

Does micro-insurance helpful for borrowers?

The case study analysis of micro-insurance services is conducted as a mechanism to address and verify the research question. To verify the research question, some cases were authenticated. It is found that as per the conditions of the micro-insurance services, NGOs-MFIs excuse borrowers from paying remaining loan balance if any borrower dies. They also pay back the savings to their selected nominees.

- **Name of the MFI : Proyash Manaobik Unnoyan Society**
 License no: 248
 District: Chapainonbabgonj
 Client's name: Anjuara Bibi
 Death Date: 16/06/2015
 Loan balance: BDT 15000
 Savings: BDT 1586

As per policy of the organization, after being died, this borrower was given exemption from the loan of this MFI; her deposit in the MFI BDT 1586 was given to her nominee. Moreover, to maintain the cost of her funeral, the organization donated BDT 5000.

All this kind of benefits was provided to the borrower following the policy of micro insurance.

- **Name of the MFI : Centre for Mass Education in Science(CMES)**
 License no:325
 District: Dhaka
 Client's name: Rebina
 Death Date: 24/11/2014
 Loan balance: BDT 6300
 Savings: BDT 1746

As per policy of the organization, after being died, this borrower was given exemption from the loan of this MFI; her deposit in the MFI BDT 1746 was given to her nominee.

- **Name of the MFI : Bangladesh Health and Education Development Society**
 License no: 739
 District: Chittagong

Client's name:	Death Date	Loan Balance Taka	Saving
Toioba Begum	15/07/2014	6,300/-	1,220/-
Mahabub Alom	01/10/2014	13,150/-	1,150/-
Montosh Boiragi	14/11/2014	5,400/-	1,093/-
Khulni Shordar	05/12/2014	21,680/-	3,730/-

As per policy of the organization, after being died, all the borrowers of the same MFI were given exemption from the loan of this MFIs; their savings in the MFI were given to their nominees.

Box: Some case studies

The above mentioned case studies prove that micro-insurance policy of different MFIs is cooperative and beneficial for members of NGOs-MFIs institutes. Borrowers get much kind of supports from the MFIs under the coverage of micro-insurance policy. In the above mentioned box, we see that when borrower Khulni Shordar of Bangladesh Health and Education Development Society died, her loan balance was BDT 21,680 and savings was BDT 3750 at that time. As coverage of micro-insurance, she and her family members were exempted from loan and her nominee was paid back the savings. Another case study of Proyash Manobik Unnoyan Society showed that when the borrower Anjuara Bibi had died, her loan balance and savings were BDT 15,000 and 1586 respectively. She was freed to pay remaining loan and her deposit was paid to her nominee. Besides that, that MFI gave her family members BDT 5000 to bear the cost of funeral.

Micro-insurance is an emerging sector, strongly linked to the microcredit movement in Bangladesh. Since the case studies and documents, survey etc. recommends the benefits of micro-

insurance; So Stakeholders are provided different kinds of assistance under the coverage of the micro-insurance schemes. They get redemption of paying loan, educational support, health services, medical treatment, and expense for funeral/cremation from the micro-insurance policy.

VI. CONCLUSION

It is worldwide recognized that Bangladesh has been considered as pioneer in microcredit with diversified products. Many NGOs/MFIs in Bangladesh are striving to offer demand driven and diversified financial products and services to the poor people. But still a significant number of poor people are vulnerable to adverse situation in their life cycle and untapped with social security products like insurance that can be a social safety net for them. This informative analysis on the helps of micro-insurance support that it can serve the interests of poor populations with risk-mitigation to manage unpredictable loss,

catastrophic events as well as it gives educational support, health service etc. There are more services can be made under micro insurance scheme. But during examining services of micro insurance, it is found that since death rate of borrowers is not high, so the charge, the NGOs-MFIs cut during paying loan, it aids to create huge capital fund for this organizations. As a consequence, it creates an important question like “How does remaining insurance fund can be utilized alternatively?”

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