



VIIth Midi de la microfinance

Microfinance : business opportunities
with social impact

February 26th 2008

Programme

- 12.00 Welcome remarks
by Philippe Depoorter, Banque de Luxembourg
- 12.10 Opening statement
by HRH Maria Teresa of Luxembourg
- 12.15 Declaration
by Mr. Jean-Louis Schiltz, Minister of Development,
Cooperation and Humanitarian Aid
- 12.30 Presentation of the UN Advisors Group
by Mr. Marc Bichler Chair of the UN Advisors Group
- 12.40 Presentation of the Private Sector Handbook
by Mrs. Elisabeth Rhyne, senior vice president ACCION
International
- 12.55 Questions & Answers
- 13.10 Closing remarks
by Mr. Marc Bichler, Chair of the UN Advisors Group
- 13.15 Lunch (buffet)
- 14.00 End

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« The Private Sector and the Road to Inclusive Finance”

- 2) Biography of Elisabeth Rhyne
Senior Vice President ACCION International

- 3) Presentation of the United Nations Advisors Group on Inclusive
Financial Sectors

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The Private Sector and the Road to Inclusive Finance

A Project of ACCION International

Introduction

ACCION and the Private Sector

Why would ACCION, a non-profit organization dedicated to fighting global poverty, advocate private involvement in financial inclusion? And why would a company like Visa Inc. turn to a non-profit to write about it?

In the 1970s when ACCION first started working in what has become microfinance, only nonprofits would touch ACCION's clients – the millions of people who came streaming into Latin America's burgeoning cities, looking for a better life for their families. There were no jobs to speak of so to survive they created tiny enterprises. ACCION's partners learned how to offer them credit to support their corner groceries and seamstress shops. By the early 1990s, models of microfinance reached significant scale and were financially viable. This opened the way for the transformation of nonprofits into financial institutions, starting with BancoSol in Bolivia, ACCION's original flagship institution and the first private commercial bank devoted to microfinance.

At that point, Maria Otero at ACCION International and I, working then at the United States Agency for International Development (USAID), began to envision how microfinance could evolve to change the whole financial system. We developed what we call the "financial systems approach," which has guided ACCION's thinking ever since.¹ We saw that moving from the prevailing elite-oriented financial systems to financial systems that serve the majority of the population could only occur with private sector buy-in. In fact, they needed to become the leading actors.

ACCION worked first to demonstrate the potential for scale and profitability of microfinance through BancoSol and its sister organizations such as Mibanco in Peru and Banco Solidario in Ecuador. Their success captured the attention of the private sector, but did not yet provide a way for their entry into microfinance. ACCION then created the first means for the private sector to finance microfinance, such as the Bridge Fund (guarantees) and ACCION Investments (equity), making connections between investors and the poor on the street possible. The next step was to work

¹ Otero and Rhyne, Chapter 1.

with pioneering commercial banks like Sogebank in Haiti and Banco Pichincha in Ecuador that had decided to serve the low income market directly. Both institutions now have thousands of loyal clients.

As this financial systems approach moved to each new stage, we often felt like we were pushing against a reluctant private sector. It was, in fact, discouraging! But there were always a few committed champions in our partner microfinance institutions to keep us going. Today ACCION and other microfinance organizations are finally feeling a strong pull coming from the private sector. Private business interest in financial inclusion has soared, a result of many factors including the demonstrated success of the microfinance movement, demographic and economic trends in developing countries, and the awakening interest in the BOP market. The momentum is growing and gives us confidence that our vision of universal financial inclusion can actually be realized.

The Project: The Private Sector Responds to Inclusive Finance

This book is about encouraging private businesses to engage in financial inclusion. The project was conceived by the private sector members of the UN Advisors Group on Inclusive Financial Sectors, a high-level body formed to continue the work of the United Nations International Year of Microcredit (2005). Visa Inc. and ACCION, each represented in the UN Advisors Group, took up the challenge, with Visa very generously providing financial support, and ACCION doing the legwork.

The UN defines an inclusive financial sector as “a continuum of financial institutions that together offer appropriate financial products and services to all segments of the population.”² The inclusive finance movement heralds a new stage in the effort to bring financial services to the poor. No longer is a single product, such as a microloan for a small enterprise, enough. Poor people need a full array of financial services. The concept of inclusive finance emphasizes participation by a variety of players contributing to universal access to financial services.

The project provides the readers with a road map showing where and how businesses can invest in greater financial inclusion, guided by the stories of companies already leading the way. In the first chapter we survey the landscape of opportunities in financial inclusion, explaining who is serving whom and providing broad insight into how companies can participate. In the subsequent chapters we delve into specific areas where the private sector can powerfully alter the landscape. These include providing large-scale financing to microfinance, meeting client needs with an expanding array of services, finding creative delivery channels to complete the last mile, and using technologies to re-invent the basic business models for delivery of financial services.

² United Nations Capital Development Fund.

At the heart of the project are a series of case studies researched and written by members of ACCION's Inclusive Finance team. We identified 17 examples from across the globe in which private companies are contributing to financial inclusion in significant or innovative ways. The companies in the case studies range from well-known multinationals (Citibank) to local companies (Equity Bank of Kenya). Many are not financial institutions, but rather market-making companies (Visa Inc.), investors (Sequoia Capital) and even surprising new entrants from other sectors (Grupo Elektra of Mexico and its Banco Azteca).

The cases bring the opportunities and challenges of inclusive finance to life. They recount the motivations that led companies into inclusive finance, the opportunities and obstacles they saw, and the results that they have experienced so far. We could have written many more cases (we do mention many more in the chapters), but we limited ourselves to examples that have been tested for a long enough period to show results. We sought out cases demonstrating scale, profitability, replication and impact on clients. Not every company scores well on all of these dimensions, and in such cases we point out the pitfalls. However all cases have at least some important elements of success.

I often think of Xavier, a microfinance borrower I met in Mozambique who sold frozen fish at a dusty intersection just outside the capital. His aspirations to become a part of the middle class were reflected in the crisp white shirt and tie he wore and the tidiness of his kiosk. Yet the big institutions of society had either failed or ignored Xavier, except for the Coca-Cola distributor that brought him cases of soft drinks to sell. A suite of financial services, designed with an eye for his needs, could help him create the better life he so craves for himself and his family.

We hope that this book opens the eyes of private sector leaders to the enormous opportunity represented by a billion Xaviers and helps them accelerate their understanding of how their companies can seize that opportunity.

Elisabeth Rhyne and the ACCION Inclusive Finance Team
February 2008

Elisabeth Rhyne
Senior Vice President
Policy, Research & Development
ACCION International
www.accion.org

As Senior Vice President of Policy, Research & Development, Beth Rhyne directs ACCION's work in research, publication, new product development and policy advocacy. Ms. Rhyne leads the organization's efforts to develop poverty assessment and social scoring tools, and in 2008 is launching a major initiative in Consumer Protection. She also heads the unit dedicated to product and process breakthroughs – ACCION's initiatives to ensure a full range of new financial products for the poor – delivered through innovative, alternative channels. Beth Rhyne also led ACCION's work with the Council of Microfinance Equity Funds (cmef.com) to develop a social scorecard for microfinance institutions with which management and potential investors can judge the social impact of the institution.

Recognized as a leader in the field of microfinance, Ms. Rhyne has published numerous articles and four books on the topic, including *Mainstreaming Microfinance: How Lending to the Poor Began, Grew and Came of Age in Bolivia*, which was published by Kumarian Press in May 2001. She is also co-editor of *The New World of Microenterprise Finance*.

Ms. Rhyne's experience in microfinance is deep and comprehensive. She was Director of the Office of Microenterprise Development at the U.S. Agency for International Development (USAID) from 1994 to 1998, where she developed and managed USAID's then-vibrant microenterprise program. Projects developed under her guidance include Microenterprise Best Practices, the USAID Implementation Grant Program, the PRIME fund, and the AIMS Project.

From 1989 to 1993, she designed and coordinated USAID's GEMINI project, a microfinance research initiative responsible for publishing over 100 titles on microenterprise best practices. Prior to joining ACCION, she worked as an independent microfinance consultant based in Mozambique. Ms. Rhyne's consulting assignments have included advising several government banks on microfinance policy, as well as conducting diagnostic assessments and business planning for more than 10 microfinance institutions.

Ms. Rhyne earned a master's and Ph.D. in public policy from Harvard University. She holds a bachelor's degree in history and humanities from Stanford University.

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February 2008

Despite the broad consensus regarding the importance of microfinance as a poverty alleviation tool, it is estimated that over two billion people are currently excluded from access to financial services. The situation is particularly dire in most Least Developed Countries (LDCs) where often more than 90% of the population is excluded from access to the formal financial system.

Numerous studies have demonstrated that access to financial services like credit, savings and insurance is important for people and businesses to generate income, manage cash-flow and protect against risk. The critical importance of microfinance to achieving the Millennium Development Goals was highlighted at the 2005 World Summit, as well as in the endorsement by the Summit for the Monterrey Consensus of the International Conference on Financing for Development. The Monterrey Consensus underscored the contribution that a range of financial institutions can make in providing financial services to enterprise development and calls for public and private institutions and firms to work collaboratively to provide access to all. The final declaration of the Monterrey Consensus put particular emphasis on strengthening domestic financial sectors to include underserved markets, such as rural areas and women.

Despite the positive developments in the area of financial inclusion during the past ten years, many poor and low-income people and micro and small enterprises still lack access to a broad range of financial products and services on a sustainable basis. Key bottlenecks include a lack of:

- strong institutions providing a broad range of financial services on a sustainable basis to serve large numbers of people and small enterprises;
- enabling legal, regulatory, and supervisory environments to facilitate access; and
- government vision and commitment to the development of inclusive financial sectors.

Key challenges to achieving the vision of inclusive finance for the global community, in both the developed and developing world, are to mobilize the political will and financial support, to engage governments, academia, civil society, and the private sector, and to build human and institutional capacity among governments, regulators, microfinance institutions and other financial services providers to make inclusive finance a reality.

What is the UN Advisors Group on Inclusive Financial Sectors?

At the conclusion of the 2005 International Year of Microcredit, one of the main recommendations of the Advisors Group to the Year was that “the UN should appoint a group of experts, for a limited period not exceeding two years, to see the work we have begun through to completion.” Following this recommendation, the UN Advisors Group on Inclusive Financial Sectors was established in 2006 for a term of two years. The main role of the Advisors Group is to advise

the United Nations system and member states on global issues relating to inclusive finance.

With a strong presence and engagement in financial sector development, access to governments, central banks, bilateral agencies, Bretton Woods institutions, academia, civil society and the private sector, and substantial advocacy and convening power, the United Nations is uniquely positioned to help inspire, support, and coordinate broader efforts toward building inclusive financial sectors in all parts of the world. The Advisors Group will guide, encourage and support the UN in these efforts.

Who are the Advisors?

The Advisors Group consists of 25 individuals representing governments, central banks, regulatory agencies, microfinance institutions and other financial services providers, private sector financial institutions, civil society, development agencies and donors, and academia from all over the world. The Advisors were selected on the basis of their expertise regarding financial services and inclusive finance, their commitment to building inclusive financial sectors, their ability to raise public awareness, and their ability to mobilize wide support in the global effort to increase access to financial services.



What is the overall objective of the Advisors Group?

The Advisors Group seeks to increase sustainable access of poor and low-income households and micro and small entrepreneurs to a broad range of financial products and services through the development of inclusive financial sectors around the world. The Advisors Group will work with governments, regulatory and supervisory bodies, central banks, academia and the private sector to identify and define the key issues constraining access to financial services and will advise the UN regarding strategies and concrete steps that can be taken to remove these constraints. The Advisors Group will also seek new opportunities and approaches for expanding access to financial products and services and is encouraged to explore creative solutions to current industry issues. The work of the Advisors Group will be creative, flexible, broad in scope, and will seek to maximize impact. In addition, it will focus on results.

How will the Advisors Group promote financial inclusion?

The Advisors Group will provide advice and guidance to the United Nations, UN Development Programme (UNDP), UN Department of Economic and Social Affairs (UNDESA), and the UN Capital Development Fund (UNCDF) on the issue of inclusive finance. Using the context and unique comparative advantage of the UN, the Advisors Group will encourage, support, and monitor global progress toward the establishment of inclusive financial sectors. The work of the Advisors Group will be supported and informed by Working Groups focused on the broad issues of advocacy, research and data, regulatory and supervisory issues, and engaging the private sector.

The Advisors Group will draw upon past initiatives, such as the Statement of the Advisors Group to the International Year of Microcredit, which summarizes important issues regarding access to financial services that need to be addressed. In addition, the UN publication on *Building Inclusive Financial Sectors for Development* is the result of a one-year consultative process regarding inclusive finance and provides a reference point for policymakers to collectively discuss strategies, share best practices and improve processes with respect to inclusive finance. Together, these documents establish a preliminary analytical framework for the work of the Group.

The Advisors Group will continue efforts by central bankers, leading economists and statisticians from the UN, the World Bank, the International Monetary Fund (IMF), Britain's Department for International Development (DFID), the Central Bank of West Africa (BCEAO) and the private and non-governmental sectors “to develop common measures of financial sector inclusion and to answer the central question of how many poor people have access to what kinds of financial services and what is the quality and impact of those services.”

UN Advisors Group on Inclusive Financial Sectors

Mr. Sulaiman Arif Arianto	Director, Microbanking, Bank Rakyat Indonesia (BRI)
Mr. Goanpot Asvinvichit	Chairman, Government Savings Bank of Thailand
Dr. Zeti Akhtar Aziz	Governor, Central Bank of Malaysia
Mr. Damo Justin Baro	Governor, BCEAO (Central Bank of West African States)
Mr. Marc Bichler	Director, Cooperation for Development, Ministry of Foreign Affairs, Luxembourg
Mr. Joseph B. Eichenberger	Vice President, Country Operations and Policy, Africa Development Bank
Mr. John Elkins	EVP, Global Brand and Marketing, Visa International
Dr. Stanley Fischer	Governor, Bank of Israel
Mr. Grzegorz Galusek	Executive Director, Microfinance Center for Central and Eastern Europe
Mr. Rijkman Groenink	Chairman of the Managing Board, ABN AMRO
Mr. Bo Jerlström	Ambassador, Ministry for Foreign Affairs, Sweden
Mr. Bob Hormats	Vice Chairman of Goldman Sachs International and Chairman of the Advisory Board of the Global Markets Institute
Ms. Elizabeth Littlefield	Chief Executive Officer, Consultative Group to Assist the Poor (CGAP)
Mr. L.R. McVeigh	First Vice-Chairman and Director, Credit Union Central of Canada (CUCO), and Immediate Past Chairman, World Council of Credit Unions (WOCCU)
Dr. Jonathan Morduch	Professor of Public Policy and Economics, Wagner Graduate School of Public Service and Department of Economics, NYU
Mr. James D. Mwangi	Managing Director and Chief Executive, Equity Bank
HRH Princess Maxima	Princess of the Netherlands
Ms. Maria Otero	CEO, ACCION International
Mr. Henrik Parl	Managing Director, Eurogiro Network A/S
Lady Lynn Forester de Rothschild	Deutsche Bank and EIR Holdings LLC
Mr. Sanjay Sinha	Managing Director, M-CRIL
Ms. Diana L. Taylor	Superintendent of Banks, New York State Banking Department
Mr. Jacques Tourelle	General Manager, Aga Khan Agency for Microfinance
Ms. Roshaneh Zafar	Managing Director, KASHF Foundation
Dr. Luigi Zingales	Robert C. McCormack Professor of Entrepreneurship and Finance, University of Chicago
Ex Officio Agencies	
Mr. François Bourguignon	Vice President and Chief Economist, World Bank
Mr. Jaime Caruana	Counsellor and Director, IMF
Mr. Kemal Dervis	Administrator, UNDP
Mr. Jose Antonio Ocampo	Under Secretary General, UN Department of Economic and Social Affairs (UNDESA)
Mr. Sami Al-Basheer	Director, Telecommunication Development Bureau, International Telecommunication Union (ITU)
Mr. Richard Weingarten	Executive Secretary, UNCDF

Advisors Group Activities

- Developing and implementing a communications and public awareness programme that will assure that access to financial services is on the global development agenda;
- Encouraging and supporting governments and their regulatory institutions to review their regulations to ensure that they encourage prudent and sound provision of financial services to poor and low-income people and to micro and small enterprises while at the same time minimizing or removing regulatory constraints that discourage financial inclusion;
- Assuring that national governments and regulatory agencies adopt common indicators and methodologies for measuring access to financial services and then gather and analyze data and other information using these indicators and methodologies in a systematic and regular way;
- Collecting and disseminating learning and best practices with regard to financial inclusion and the policies related thereto and encouraging and supporting governments and policy makers who seek to adopt policies to develop and strengthen financial infrastructure at regional and local levels;
- Working closely with the private sector (and particularly private financial institutions) to enhance their participation in facilitating infrastructure expansion, product and service design, expanding retail outreach, investment, facilitating access to capital, technology, training and management support, and public-private partnerships; *and*
- Promoting research critical to the ongoing expansion and maturity of the microfinance industry and supporting and further developing a network of academic institutions engaged in issues related to financial inclusion and microfinance.

To find out more about the Advisors Group and how you or your organization can get involved, please visit www.uncdf.org/ag or contact:

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United Nations Advisors Group on Inclusive Financial Sectors

Key Messages for Governments, Regulators, Development Partners and the Private Sector¹

For Governments

- Inclusive financial sectors require building and supporting permanent, local financial institutions and embracing new technologies and systems that deliver a diverse range of financial products and services to the poor.
- Governments' vision for a well-functioning financial system should include access for all citizens to a broad range of financial products and services including savings, credit, insurance, and money transfers.
- The role of government is to create a helpful policy environment: broadening access while protecting consumers. When the government itself provides financial services, politics almost always limits access.
- Governments should refrain from imposing interest rate ceilings, as they may limit credit expansion and shift the cost burden to hidden fees. The best policy of governments to lower interest rates is to promote transparent prices and an open, competitive market.
- Broadening access to financial services is an important policy goal, but will not in and of itself eliminate poverty.

For Regulators

- Financial inclusion should be a major objective of financial regulation. The role of regulators is to establish environments that allow a diverse range of institutions to provide a wide variety of financial products and services.
- Regulators must be flexible in their approach; they must mitigate risks, without limiting access to financial services.
- Regulators must assure appropriate supervision of both financial services providers and their supporting industries, such as telecommunications.
- Regulators must exercise caution that anti-money laundering and related regulations do not block access to financial transfers that are critical for poor people.
- Broad-based access to financial services requires an enabling regulatory environment for telecommunications and technology infrastructures.

For the Private Sector

- Providing financial products and services to poor people represents a large business opportunity for the private sector. Providers of financial products and services should use their strengths to develop a range of products that better serve the needs of the poor.
- The private sector has an important role to play in expanding access to financial services for poor people.
- Private sector participants in inclusive financial sectors should include not only direct providers of financial products and services, such as banks, insurers and money transfer companies, but also telecommunications, technology, credit bureaus, retailers and other companies that support the financial services industry.
- For the private sector to realize the market opportunity of expanding access to financial services, it must be engaged in establishing appropriate enabling environments.
- The private sector can expand access to financial services in many ways. These include providing capital; building infrastructure; developing new products, services and technologies; and improving human and institutional capacity.

For Development Partners

- For development partners, quality of funding for inclusive finance is at least as important as quantity. Good funding requires technical expertise and appropriate funding instruments.
- The key bottleneck for development partners supporting inclusive finance is the shortage of strong institutions and managers.
- Development assistance for inclusive finance should complement private sector activities, not compete with them.
- Better information on the performance of development partner investment portfolios is essential. What is not measured cannot be managed.
- For development partners, both an effective division of labor and coordination of efforts are needed for maximum efficiency and impact of development assistance to inclusive finance.

¹ http://www.unCDF.org/english/microfinance/advisors_group/



IBM, PT Permodalan Nasional Madani and PERBARINDO Collaborate to Enhance Microfinance Capabilities of Rural Credit Banks in Indonesia

JAKARTA, INDONESIA - 14 Feb 2008: IBM (NYSE: IBM), PT Permodalan Nasional Madani (PNM), a unit of the Ministry of Finance, and PERBARINDO, an Indonesian rural banks association, today announced their intent to collaborate on the delivery of a microfinance solution platform aimed at improving the efficiency and reach of rural credit banks in Indonesia to drive innovation and growth.

The development of rural credit banks will be critical to the government's increased focus on fueling the growth of small and medium-sized businesses in Indonesia, which contribute 75 percent to the overall economy. Additionally, with the government's focus on poverty alleviation and empowerment within rural communities, the role of micro enterprise is also seen as crucial for growth to the economy. PNM strongly believes that facilitating access to banking services across rural communities will spark broad economic development in Indonesia.

The strategic collaboration will explore solutions for a shared financial services infrastructure for rural credit banks and institutions totaling more than 1,650 members (as of January 2008) to broaden access to basic financial services across rural communities. The microfinance solution designed by IBM can provide rural credit banks with a scalable technology platform comprising of a core banking processing engine coupled with customer-facing banking services distribution capabilities that requires minimal up-front investment. This solution will enable rural credit banks to derive immediate benefits associated with scalable, cost-effective, robust and flexible solution meeting a variety of business needs.

Dino Bramanto, Country Manager, Finance Service Sector, IBM Indonesia, said, "We will leverage IBM's global best practices and experience in microfinance to aid the transformation of rural banks in Indonesia. IBM is committed to deliver integrated and innovative core banking solutions taking advantage of superior technology and customised banking solutions through this collaboration. With enhanced customer-centric solutions, IBM can deliver greater economies of scale and support critical business functionalities for the rural banks to operate optimally. The solution will help the banks improve customer service which in turn will make it easier for the SMBs to do business with the banks. This will allow the SMBs to focus on the growth of their businesses."

According to Widyaka Nusapati, Director, PNM, "Together with IBM we will bring deep experience in banking transformation through innovative technologies to enable rural credit banks to achieve improved service delivery, enhanced productivity and streamlined banking processes at dramatically lower costs. Today's announcement marks the first step in achieving this important fundamental transformation of the rural banking sector of Indonesia."

Perbarindo as the main association of rural credit banks is committed to delivering innovative and efficient services to the public. Hartono, Chief of DPP PERBARINDO, indicated that rural banks need simpler, more powerful technology solutions that will help them compete successfully in today's environment. "This collaboration will provide world class technologies and services to rural banks in Indonesia who are emerging in the Indonesian marketplace," he said.

For more information on IBM, visit www.ibm.com

RECOMMENDATIONS FOR COMMERCIAL INSURERS

Low-income households could potentially become an exciting and modestly profitable new niche for commercial insurers. However, the poor represent a unique target market that requires a different approach. This note highlights ten key issues that insurers should consider in order to provide viable microinsurance that offers value for the clients.

1. Understand the market's needs

The key to successful entry and survival in any market is a thorough understanding of the demand and needs. But in microinsurance, it is important for insurers to recognize that they most likely do not know a lot about this market segment.

When starting microinsurance, insurers are often reluctant to conduct market research because they find it hard to justify the upfront investment for products with such small premiums. But it does not have to be expensive. If properly facilitated, a series of focus group discussions can provide insurers with invaluable insights into the priority risks facing poor households, their seasonal cash flows, and level of familiarity with insurance.

When engaging in market research, insurers should not simply outsource a study – one cannot get a sufficient appreciation by reading a report. They should also engage with the market to hear first hand what people think. Insurers who have gotten out of their air-conditioned offices and spent time in barrios and rural villages often come away with a greater appreciation for the target market's concerns and preferences, which can lead to better insurance solutions.

2. Involve the target market in designing simple products

Microinsurance is not a scaled down version of existing products. Insurance solutions for the low-income market often do not come from conventional insurance practices. To penetrate this market, insurers need to be innovative and open minded.

The low-income market is not homogeneous – there is no such thing as a “one size fits all” solution. Ideally, the target market should be involved in designing the products to ensure that they meet their needs. This process will also increase their acceptance of insurance, which is something that should not be taken lightly. It is important, however, that the resulting

products are as simple as possible. Exclusions and restrictions should be minimized.

3. Educate the target market

The low-income market is often unfamiliar with insurance – for example, policyholders may want their premiums refunded if they do not experience any claims.

Insurers must educate the market on key issues: How does insurance work? Under what circumstances is insurance an appropriate risk management tool? When are savings or credit better solutions? How are benefits claimed? How is membership retained? Some insurers realize that unconventional ways are required to communicate with a market that may be illiterate, such as street theatre, soap opera-style videos, and illustration-laden brochures.

4. Earn the trust of the market

Commercial insurers have to recognize that low-income persons may not trust their intentions. What can the insurer do to earn the trust of the market? Pay claims quickly and (almost) always; make sure that there is no confusion about what is and is not covered or how to claim; partner with trusted persons and organizations; demonstrate that the microinsurance scheme is different than other conventional insurance schemes (which may have a bad reputation); ensure that servicing the product gets as much attention as sales; and show that the insurer cares about helping its customers manage risk.

In general, to earn the trust of the market insurers need to be transparent in pricing, operations and customer service, and not simply try to gain from the market's ignorance. Indeed, such a strategy might succeed in the short run, but it will certainly be a detrimental in the medium term.

5. Maximize efficiencies

There is no room for inefficiencies in a microinsurance budget. By keeping the product simple, it may be possible to hire less qualified staff members – people from the local communities can be excellent agents as long as they are trained properly. Additionally, technology may be useful to streamline processes, for example through paperless documentation streams, smart-cards to verify the identification and payment status of claimants, and mechanisms to pay premiums through cell phones.

6. Leverage existing relationships

One way to earn the trust of the market and maximize efficiencies is build on existing relationships to deliver insurance products. Insurers can collaborate with microfinance institutions and community-based organizations. If a delivery channel already engages in some sort of financial transaction with the target market, then efficiencies could be generated by “piggy-backing” premium collection onto it. However, particular attention should be paid to choosing the right partner. Just because an organization has a good reputation does not mean that it will be a good “agent”.

When partnering with distribution channels, insurers need to stay engaged if they want to succeed. For example, they should consider being involved in the training and motivating of front line agent staff (in coordination with the institutional agent). They should also monitor the results, such as ensuring that policyholders receive the correct information and that benefits actually reach the beneficiaries.

7. Encourage claims

Insurers are notorious for being quick to take the policyholder’s money, but slow to pay out. This is exactly what should not happen in the low-income market. Indeed, the best marketing opportunity for an insurer, the best way of changing the opinions of a lukewarm and sceptical market, the best way to demonstrate its trustworthiness, is to pay claims!

Consequently, insurers should make Herculean efforts to avoid rejecting claims. This can be done by keeping the product simple, making sure policyholders understand what is and is not covered, and requiring only the most basic claims documentation. Where possible, claims decisions should be clear and not subject to interpretation. In some cases it might even make sense to pay claims that the insurer could legitimately reject in order to gain trust in the market.

8. Create an internal microinsurance culture

Like other double bottom line activities, microinsurance requires a balance of commercial and social objectives. Consequently, microinsurance needs some space to experiment and innovate, to do things differ-

ently than the insurer has done in the past. Different incentives and targets should be considered for microinsurance staff, such as salary steps instead of commission-only remuneration. Overall, the remuneration should motivate sales and customer service, not encourage salespeople to sell products that are not really needed. In addition, non-financial recognition could also be used as an incentive or reward.

9. Reach large numbers and keep them

Economies of scale are essential to minimize operating costs. Even if the per unit profit is miniscule, when it multiplied a cross a huge number of sales, the return could be attractive to insurers. For that to be possible, microinsurers not only need to cover thousands and thousands of lives, but they also must ensure that those policies are regularly renewed. The recommendations mentioned here will help contribute to this objective. Keeping existing customers happy and expanding the customer base is critical to success in microinsurance.

10. Adopt a long-term perspective

If an insurer links up with a few perfect partner organizations, it might be able to reach large numbers of people and generate positive returns fairly quickly. But to provide good value to customers, insurers should take a long-term perspective and assume that real returns will only come several years down the line. The focus should be on maximizing customer loyalty and not on generating quick returns. The latter will inevitably backfire and reinforce the market’s negative perception of insurance.

In sum, the business model for microinsurance depends on several mutually reinforcing elements: a) huge volumes, b) efficiency c) retention, and d) patience. The last element is perhaps the most surprising, but it should not be. Ideally, low-income households will not remain poor forever. Insurers that establish a good reputation and brand awareness in the low-income market today are likely to be rewarded as the purchasing power of these households increases. Indeed, some insurers see their initial foray into the low-income market as a loss leader, but hope that cross-sell opportunities will enable them to generate profits in the future.

The International Labour Organization (ILO) and the Munich Re Foundation recently published *Protecting the Poor: A Microinsurance Compendium* on behalf of the CGAP Working Group for Microinsurance. This authoritative book analyzes the experiences of more than 40 microinsurance providers and is based on the **Good and Bad Practices** project led by the Operation Subgroup and funded by DFID, GTZ, the ILO and SIDA. The translations into French and Spanish are financed by ADA.

The content of this note is based on chapters 4.2, 4.7, 5.4 and 6.2 in Churchill (ed.) 2006. *Protecting the Poor: A Microinsurance Compendium*, (Geneva: ILO) – ISBN 978-92-2-119254-1

Citi sees microfinance growth even in downturn

Fri Dec 21, 2007 7:48am EST

By Peter Apps

LONDON (Reuters) - Microfinance services for the world's very poor will likely continue to grow despite any global downturn, Citigroup says, but said the sector must diversify beyond small loans to saving and insurance schemes.

Citigroup is seen as one of the leaders in the microfinance sector amongst major global banks, working mainly through local institutions ranging from micro-lenders to small banks and other institutions in 35 developing countries.

A survey this week of 3,000 institutions providing microcredit, tiny loans at high interest to the poorest of the poor, showed the number of recipients rising from 13 million nine years ago to 133 million in 2006. Many of the clients were women and in less than a dollar a day.

"I think the microfinance sector will continue to grow rapidly, but that just doesn't mean in terms of lending," global director of Citi Microfinance Bob Annibale said on Thursday.

"I think everyone needs a place to save so if you include savings I think it will certainly continue to grow."

He would not be drawn on how large Citigroup's microfinance division was in terms of cash flow, but said it had grown exponentially.

"It is not a purely philanthropic venture," the former senior treasury risk adviser said. "Over time it will deepen our access and deepen our knowledge of the markets we are present in."

He said the microfinance field looked to be largely immune from global credit liquidity problems following the U.S. subprime mortgage crisis, and that in previous economic crises the very poorest had proved themselves surprisingly bankable.

"When Indonesia had its financial crisis in the 1990s, the microfinance sector did not experience it as strongly as the formal sector," he said.

"They (the poor and underserved) have different risk sensitivities. They're often not part of any sudden boom, such as real estate. They are more resilient to some economic cycles."

But he said the new challenge was to find savings products for the world's poorest.

"It is all very well to focus on microcredit, but micro-saving and micro-insurance are more difficult," he said. "An important challenge is how to develop such products for very low value transactions that can be delivered at much lower cost."

An increasingly popular option was to use mobile phone banking or terminals in shops, petrol stations or phone booths rather than rolling out bank branches in remote settlements, he said.

Governments were also coming to terms with the use of savings clubs or schemes such as Christmas, wedding or funeral clubs as a means of boosting savings.

"Replicating a heavy banking branch model alone as a mechanism for reaching many rural underserved areas is like waiting for the landline to arrive in the village instead of jumping straight to a mobile phone," he said.

"We are skipping whole generations of technology."

Additional Information...

Readings

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A Billion to gain, an update- a study on global financial institutions and microfinance, ING, November 2006

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The role of insurers and reinsurers in supporting insurance for the poor, David M. Dror and Thomas Wiechers, from *Protecting the poor – A microinsurance compendium*, Craig Churchill, ILO and Munich Re Foundation, 2006, pp.524-533

Mobile Phone Banking and Low-Income Customers – Evidence from South Africa, Gautam Ivatury and Mark Pickens, CGAP, UN Foundation and Vodafone Group Foundation, 2006

www.cgap.org/publications/mobilephonebanking.pdf

Improving Microfinance through Telecommunications, Peter Bladin, Grameen Foundation, 2007

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Websites

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http://www.uncdf.org/english/microfinance/advisors_group/

ADA - Appui au Développement Autonome : www.microfinance.lu

The Microfinance Gateway : www.microfinancegateway.com

e-MFP (European Microfinance Platform) : www.microfinance-platform.eu