

MICROINSURANCE DEVELOPMENT IN TIMOR-LESTE



Microfinance clients in Timor Leste by their traditional market shop.

Microinsurance products are designed to increase the resilience of low-income households. When effectively developed and implemented, microinsurance helps smooth household cash flows and lessen the impacts of financial shocks that accompany the death or disability of a breadwinner, health and funeral expenses or loss of property.

In Timor-Leste, where over 70% of the population lives on less than \$2 per day,¹ a team of dedicated partners is currently introducing low-cost microinsurance products through the guidance and support of the Inclusive Finance for the Under-served Economy (INFUSE) Programme², jointly launched in 2008 by the Ministry of Economy and Development, the UN Capital Development Fund (UNCDF), and the United Nations Development Programme (UNDP) with funding support from AusAID. These products have been specifically designed to target the poor, who have previously had little or no access to risk-mitigating services.

Conditions in Timor-Leste present several significant challenges for would-be microinsurers: low levels of financial literacy, high distribution costs of reaching a

rural population, limited availability of data for informing product design and pricing are obstacles for bringing sustainable, demand-driven microinsurance products to scale in the country. While still in the early stages of development, these microinsurance products have great potential to improve the financial stability of many Timorese.

Asuransi Ba Futuru

The challenges of developing and implementing microinsurance products are similar to those of offering microloans and savings - challenges that Moris Rasik and Tuba Rai Metin, local microfinance institutions (MFIs) have already worked nearly a decade to overcome.

In 2009, one year before the first insurance company arrived in Timor-Leste, Moris Rasik initiated Asuransi Ba Futuru (Insurance for the Future), a microinsurance product attached to all group loans. Once covered, if a borrower died during the term of a loan, her outstanding balance was cancelled and an additional benefit of \$500 given to her family.

Timor-Leste: At a Glance	
Population	1.1 million ³
% Rural	70% ⁴
Literacy (over 15)	56.1% ⁵
Life Expectancy	62 ⁶
% Living on < \$0.88 / day	41% ⁷
Non-Oil GDP/Capita	\$610 ⁸

¹ World Bank Data, Timor-Leste, 2007: 72.82%

² The Pacific Financial Inclusion Programme (PFIP) helps oversee the implementation of the INFUSE Programme through provision of administrative support and technical expertise.

³ National Statistics Directorate Timor-Leste. 2011. Population and Housing Census 2010: Volume 3-Social and Economic Characteristics, xvi.

⁴ *ibid*, xvi.

⁵ *ibid*, xvii.

⁶ National Statistics Directorate Timor-Leste. 2011. Timor-Leste Demographic and Health Survey 2009-10, 3.

⁷ International Monetary Fund. 2012. IMF Country Report No. 12/24, 13. Note: In the absence of an updated living standards survey, the poverty estimate for 2009 is derived using an econometric model and the 2009/10 demographic and health survey results.

⁸ Government of Timor-Leste. 2011. Strategic Development Plan: 2011-2030, 195.

In the absence of a formal insurer however, the product was conservatively priced and has been managed in-house with little capacity to make adjustments that could improve value to clients.

Learning from the Clients

Moris Rasik consulted their clients covered by Asuransi ba Futuru ("Insurance for the Future") to learn client preferences.

Moris Rasik learned that many clients preferred delayed payment of benefits to ensure that payouts help sustain the families' livelihood instead of being spent to pay funeral costs. Further, many women borrowers, concerned that surviving husbands might use the payout to remarry rather than provide care for children, preferred not to list their husbands as beneficiaries. To improve the value of new products to their clients, Moris Rasik incorporated this feedback into their product pilots.

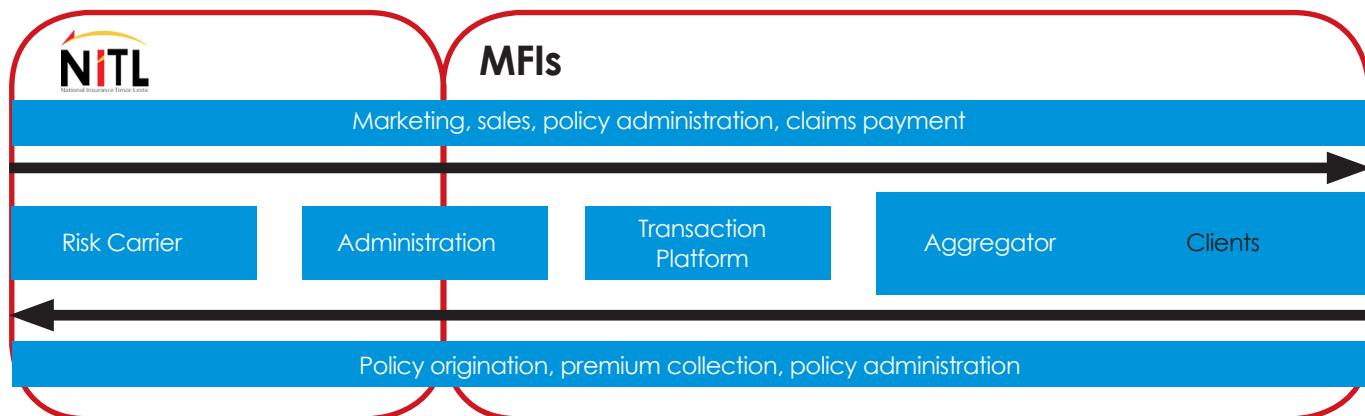
Enabling Partnerships

National Insurance Timor-Leste (NITL), licensed in 2010 as the first locally-incorporated insurance company in the country, chose to partner with Tuba Rai Metin and Moris Rasik in an effort to extend the reach of formal insurance beyond the international community and private sector. NITL elected to work with these MFIs because each has established itself as a trusted institution, providing access to microcredit and savings services in all 13 districts of Timor-Leste.

Successful partnership formation requires identification of common objectives and a shared value proposition between partners. For NITL and the MFIs, that common objective is to provide access to affordable, valuable financial services to peri-urban and rural areas. Through leveraging the MFI client networks, NITL minimizes distribution costs and gains access to a combined portfolio of approximately 17,000 clients, most of whom have previous experience with financial services. Likewise, the MFIs each hope to attract new clients and establish a competitive advantage through tailored, appropriately priced products.

Under the terms of this partnership, NITL applies actuarial expertise to price the products and manages the risk portfolio, while the MFIs will manage the client relationship—explaining product details, assisting in administrative tasks, collecting premiums and paying claims.

Figure I: Partnering across the microinsurance value chain⁹



Market Research

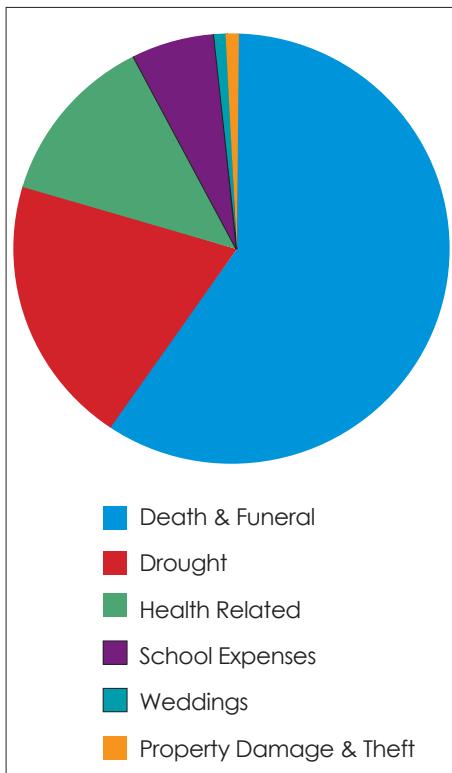
Before the new products were developed, INFUSE, together with NITL and the MFIs, conducted market research among MFI clients to determine the nature of the risks that they face and the extent to which insurance products might be able to mitigate the financial impacts of negative events.



Women listen as the concepts of insurance are explained during a market research focus group.

⁹ Adapted from Chamberlain, Bester, Short, Smith and Walker. 2006. Brokering Change in the Low-income Market – Threats and Opportunities to the Intermediation of Micro-insurance in South Africa. Genesis Analytics project for the FinMark Trust. Available at: www.finmark.org.za

Figure II: Highest causes of financial stress among microfinance clients¹¹



Research results indicated that among the financial risks faced by clients, death of a family member causes the greatest financial stress on a household followed by weather related issues of drought and flooding. Due to a number of operational challenges associated with weather related insurance (see PFIP Focus Note 05)¹⁰, life-related risks emerged as the starting point for new product development.

In Timor-Leste, funerals are both culturally significant and expensive events. Strong family ties and social networks ensure that funeral costs are shared across the extended family of the bereaved. While this kind of social solidarity offers great assistance during a difficult time, obligations to collect between \$2,000-\$5,000 per funeral presents a significant challenge to households that typically struggle to cover basic livelihood expenses, particularly following the death of a breadwinner.

Both Moris Rasik and Tuba Rai Metin serve predominantly women clients, many of whom explained that their husbands play a crucial role in supporting the wellbeing of the household and should therefore be included in any insurance scheme offered. In this way, coverage could be extended to two adults per household, increasing the resilience of families against negative shocks.

Tailored Product Development

As Moris Rasik and Tuba Rai Metin are becoming increasingly competitive and working to grow their client base, NITL allowed each to tailor product features to match client needs and organizational priorities. As indicated in the table below, both MFIs ultimately chose similar coverage with slightly different benefit and pricing packages.

Table I: Microinsurance products being offered by Moris Rasik and Tuba Rai Metin

	Moris Rasik	Tuba Rai Metin	
Applies to:	All Group Loans	Loan size < \$500	Loan size > \$500
Premium Rate	2%	2% + \$1	1.25%
Borrower Death Benefit	Outstanding Loan Covered* + \$500	Outstanding Loan Covered* + \$500	Outstanding Loan Covered* + 1x Loan Amount
Spouse Death Benefit	\$250	\$250	1/2x Loan Amount
Age Limit	17-59		
Exclusions	Suicide, Earthquake, Epidemic		

*Scheduled outstanding loan balance is covered with allowance for up to 4 weeks of arrears

insurance in-house in the past, Moris Rasik elected to transfer their full portfolio to NITL, with the following benefits identified:

- Product pricing is more transparent, as NITL uses actuarial pricing methods and monitors product performance against pricing assumptions.
- NITL is more qualified to manage financial elements, including reserves calculations and investment strategy.
- NITL is able to further expand the risk pool through partnerships with other MFIs, thus increasing the stability of the product.
- NITL is better positioned to access a number of risk management tools, including re-insurance, when needed to address potential catastrophic risks.

Ceding the Risk

Mandatory credit life is among the simplest microinsurance products to offer and it is not uncommon for an MFI to manage such a product in-house. However, even for the simplest products there are a number of advantages associated with ceding the risk to a licensed insurer when mutually agreeable terms can be negotiated. Despite having successfully carried

¹⁰ PFIP Focus Note #5: Weather Index-Based Insurance in Fiji: Brief on Initial Scoping <http://www.pfib.org/publications/focus-notes/>

¹¹ Based on market research conducted by INFUSE together with NITL and the MFIs. Note that respondents were asked to rank unexpected life events that cause the highest levels of financial stress.



- NITL is likely to continue to develop new products, which Moris Rasik can then offer to their clients on a voluntary basis, further expanding access to financial services.
- Moris Rasik is able to reduce portfolio risk by ceding the products to NITL and still earn a commission for their role as an intermediary.
- Insurance supervision by the Central Bank of Timor Leste is simplified by the provision of microinsurance products through a licensed insurer.

Mandatory vs Voluntary

As is typical of credit life insurance, the products being piloted by NITL are mandatory for borrowers of the MFIs. While mandatory insurance often masks true client demand for and satisfaction with the products offered, mandatory products also allow for products to be offered at lower cost. The reduced costs of mandatory products can be attributed to reduced administration and marketing costs, elimination of adverse selection and the ability to achieve greater scale.

NITL's strategy is to develop simple products in direct response to market research and, through mandatory roll-out, reach as many people as possible with low-cost products. As a result, only 3 months after initial launch NITL has underwritten credit life covering nearly 4,000 lives. Once scale out is complete, the program is anticipated to provide coverage to 34,000 lives and nearly 9% of the households in Timor-Leste. In this way, NITL maximizes the opportunity for positive discovery, which it hopes will generate demand for more complex products.

Early Feedback

Early feedback from both Moris Rasik and Tuba Rai Metin clients has been positive during the pilot phase. For many women, this is their first encounter with microinsurance and the first time they are being introduced to the concept. Upon signing up for the product, Tuba Rai Metin clients reported that the price was fair and not too high. A client commented, "We like this product and think it can help us in the future. After all, I don't know my destiny, only God knows."

NITL is also hopeful that these first products mark only the beginning of the development of the microinsurance sector in Timor-Leste. NITL Managing Director, Mr. Collin Yap, expressed, "NITL is committed to develop the insurance and risk management industry in Timor-Leste that will in turn contribute to the positive long-term impact on Timor-Leste's economic future. Microcredit is a rapidly expanding business in Timor-Leste and by offering insurance we are expanding the range of financial services available to families, which previously had been excluded. The provision of microinsurance is thus in line with NITL's social mission."

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