




# Credit unions and cooperative insurers

***ZAHID QURESHI***

*Senior Vice-President Development,  
International Cooperative and Mutual Insurance Federation  
(ICMIF)  
United Kingdom*



## *The foundation*

- Insurance operation starts with a fundamental step: its legal set-up
- Look ahead when you put it together
- What form will meet the insurer's need to keep growing after it is well-established?
- Choice need not be based on what can be done now

## *Basic forms*

- Two basic forms when registering an insurer as a legal entity: **stock** and **mutual**
- A **stock company** has its capital in small units allowing investors to contribute varying amounts and get dividends out of profits in proportion
- A **mutual company** has no issued capital stock but is owned by its member/users, with profits, after reserves, held collectively for them (no dividends, but there may be premium rebates)

## *Cooperative insurers*

- In some countries an insurer can be incorporated as a **cooperative society**
- A majority of cooperative insurers are established as stock companies, with capital owned by cooperatives, credit unions and other popularly based organizations
- These sponsors exercise control on behalf of their members, while operating the insurer for the benefit of policyholders (rather than their own benefit as shareholders)



## *Is a mutual the same as a cooperative?*

- A **mutual insurer** must be owned by its policyholders, whereas a **cooperative insurer** can be owned by other organizations not required to be its policyholders (though they should patronize it as corporate policyholders)
- In other aspects (community involvement, staff welfare, etc) a mutual true to the spirit of mutuality *should* have the same ethos as a cooperative insurer

## *The appropriate form*

- For serving the poor the most appropriate form of insurance operation depends on local circumstances
- If there is a group of MFIs wanting to set up a microinsurance operation, the cooperative insurance model may be the way to go
- A number of case studies by the CGAP Microinsurance Working Group demonstrate its advantages and challenges

## *La Equidad (Colombia)*

- This insurer, created 35 years ago as a cooperative to serve other cooperatives and their members, exemplifies the main difference between the partner-agent and cooperative insurance models
- La Equidad offers two group-based life products through two partners: an MFI Women's World Foundation (WWF), and a group of affiliated cooperatives
- More than 10,000 of WWF's microcredit customers have so far bought the voluntary life insurance, as have 18,000 members of cooperatives

## *The big little difference*

- Though WWF is essentially a partner-agent, La Equidad has worked with it as if it were an affiliated cooperative, designing a product that responds to the real needs and paying capacity of the insured rather than maximizing returns for shareholders
- Cooperative insurance differs from the partner-agent model in a seemingly small way: the agent has a stake in the insurer
- In practice, this ownership has made a big difference in complying with the spirit of microinsurance



## *COLUMNNA (Guatemala)*

- COLUMNNA, which became a formal insurer a decade ago, spent its early years as the insurance department of the country's federation of credit cooperatives, FENACOAC
- It inherited the federation's informal insurance scheme and, more importantly, a solid and broad base of sponsoring credit cooperatives with 120 service points
- With it came a firm commitment of support from the cooperatives' managements and boards of directors

## *COLUMNNA (Guatemala)*

- The insurer's first move was to refine the informal funeral insurance scheme into an actuarially sound and authorized insurance plan
- This Special Life Plan has turned out to be a popular product, which has even been copied by a bancassurance competitor
- Lesson: promote and distribute insurance through organizations that group large numbers of people

## *TUW-SKOK (Poland)*

- Owned and controlled by credit unions that form a cost-effective distribution network for a million persons
- A solid footing on captive market of credit unions that must buy deposit insurance from it
- Challenge: how to influence performance of a sales force when TUW-SKOK does not directly manage or control its agents
- Compares well with insurer TUW-TUW which as a mutual has difficulty with capital requirements

## *Serviperú (Peru)*

- Affiliation with a movement can be a double-edged sword. This insurer lived by this sword for some 30 years, but almost died by it in early '90s when sponsoring cooperatives along with country's economy took a nose-dive
- It restructured as a provider of mainly funeral services, and created a subsidiary brokerage to use its insurance portfolio
- Its microinsurance healthcare product has little support from cooperatives, with their members accounting for only 10% of insured



## *MUSCCO (Malawi)*

An overseas well of support, too, can dry up. CUNA Mutual's withdrawal of cover in 1999 has put the insurance program of this union of savings and credit cooperatives – if not the union itself – in jeopardy

But the insurance scheme has laid a golden egg: a substantial reserve fund intended as security for the insureds

Would the union keep it that way?

## *Looking ahead*

- Many such loans and savings insurance schemes were started and supported by CUNA Mutual. A reason for its withdrawal is that, with stricter industry supervision, only licensed direct insurers (not informal schemes) could be formally reinsured.
- Jean-Bernard and Klaus will have more to say about this and other advantages and disadvantages of the cooperative model, as well as strategies to overcome challenges