

# DELTA LIFE

## Bangladesh

*Making Insurance Work for the Poor  
Current Practices and Lessons Learnt*

**Craig Churchill, ILO  
October 2005 Munich**

The social dimension of finance



## Delta Life Overview

- Founded in 1986 by Shafat Ahmed Chaudhuri, actuary and visionary
- Privately owned (now listed on the stock exchange)
- Got involved in microinsurance in 1988 primarily for socially responsible reasons; set up Grameen Bima as a project
- Delta primarily offers endowment policies
- One of the largest life insurance companies in Bangladesh

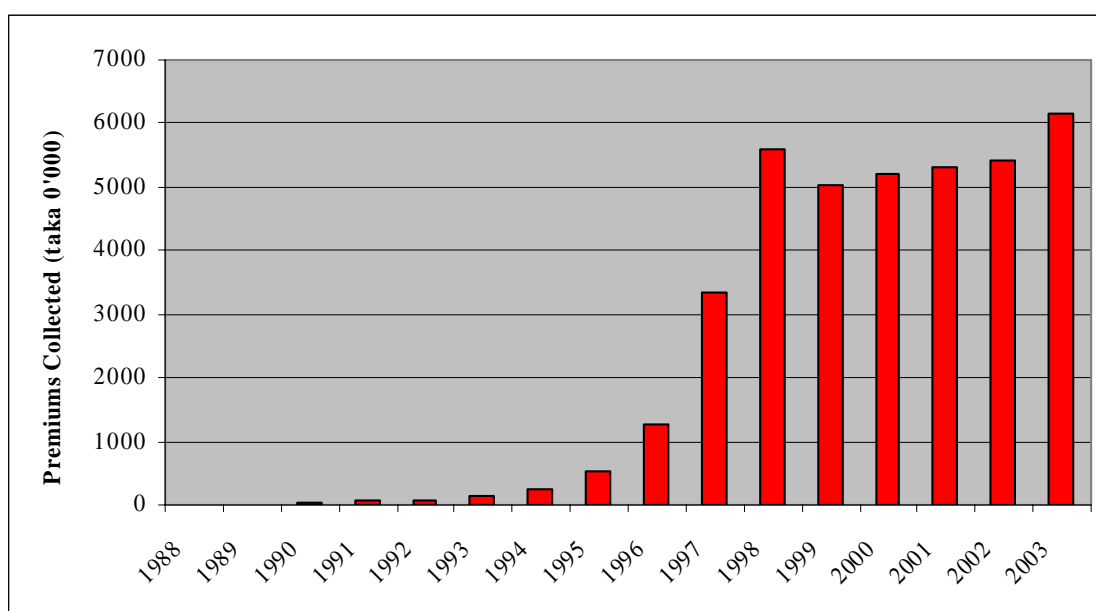
The social dimension of finance



# Gono-Grameen Bima Delta Life's Microinsurance

- Microinsurance pioneer
- Targets workers in the informal economy (same market segment as well-known Bangladeshi MFIs)
- Relies on a direct sales model (not partner-agent) with door-to-door collection of premiums
- Grew dramatically in the mid-1990s (40,000 new policies issued in 1994; 450,000 new policies issued in 1998)

## Microinsurance Growth 1988-2003



# Growth Package

Growth largely attributable to:

- Expansion into urban areas (Gono Bima)
- Internal competition between Grameen and Gono Bima
- Exclusive contract to provide insurance to migrant workers
- Overly aggressive management team (especially at Gono Bima)
- Stimulated by offering “project loans” to policyholders



## Loans from Gono-Grameen Bima

- **Policy Loans:**
  - Required by law for endowment policies
  - After 2 years of premium payments, policyholders can borrow 90% of the surrender value of the policy
  - Fully secured by the policy
- **Project Loans:**
  - Delta’s innovation based on observations of MFIs
  - Intended to stimulate economic activity so that it is easier to pay their premiums
  - Group guarantee, modified Grameen Bank-style
  - Heralded as a great accomplishment...proved to be a great failure



# Problematic Project Loans

- Even though insurance was sold to individuals, tried to use a group guarantee for project loans
- Insurance agents did not know how to manage groups or assess credit risk
- Performance indicators were based on new policies and premiums collected, not loan repayments
- Loan repayment collection requires a different approach than premium collection

# Growing Pains

- Flawed lending methodology resulting in huge loan losses (approx. \$2 million)
- Outgrew its capacity, including administrative systems, MIS and internal control
- Many lapsed policies (in 1999 only 37.6% were in force)
- Fraud allegations led to turnover of senior management (including CEO)

# Fate of the MI Operations

- After eventually filling the leadership vacuum, the board intended to spin off the MI operations into a separate non-profit company...
- Until the actuary's report in 2002 showed that that Gono-Grameen Bima was actually profitable (despite fraud, loan losses and bad management)
- Instead, the board brought in a change-agent to turn things around



## Reengineering (2002-present)

- Tightened up internal controls
- Developed a computerized MIS
- Finalized the consolidation of Gono and Grameen Bima
- Expanded decentralization to regional offices
- Restructured responsibilities separating sales and service from administration
- Strove to develop a more professional, business-like culture
- Stopped all project loans



# Endowment Product Design

Microinsurance Product	Endowment (with profits)
Group or Individual	Voluntary, individual product
Term (years)	10 and 15
Eligibility Requirements	Age 18 to 45 (10 year plan) or 18 to 40 (15 year plan)
Rejection Rate	1% of new proposals, 10% of revival cases
Sum Assured US\$	\$85 to \$1,650
Other Benefits	After two years eligible to borrow up to 90% of cash value for one year at 20% per annum
Key Exclusions	<ul style="list-style-type: none"> <li>• Fishermen, electricians, drivers and pregnant women</li> <li>• Suicide is excluded during the first year</li> </ul>
Limitations	Lapse within two years (for 15 year policy), or one year (for a 10 year policy) forfeits total deposit amount.
Pricing – premiums per payment (per 1000 SA)	10 year term: Y=97.20 HY=49.6; Q=25.3; M=8.7 15 year term: Y=63.3; HY=32.3; Q=16.5; M=5.7



## Major Product Adaptations

- **Biennial Plan** (now the most popular): 20% of sum assured paid after years 4, 6, 8, and balance plus bonus at maturity of ten years
- **Five-payment Plan**: same as biennial except for 15 years with payments every 3 years
- **Daughter's marriage endowment**: Designed as a savings scheme to benefit the policyholder's daughter when she turns eighteen; term can be between 5 and 16 years depending on the age of the daughter
- **Overall**: Terms have gotten shorter, premium payments less frequent, and access to savings more frequent



# Initial Impact of Reengineering

- Percent of policies in force improved from 37.6 percent in 1999 to 45.0 percent in 2003
- Staff at the HO dropped from 308 in 2000 to 159 in 2003
- Administrative cost ratio declined from 52.6 percent in 1999 to 41.0 percent in 2003

## Institutional Lessons

- It is possible for insurers to reach the poor with voluntary, individual products using their own distribution system (at least in Bangladesh)
- Microinsurance is possible within a larger organization (i.e., not MI exclusively)
- Microinsurance must be managed with the same business approach as traditional insurance
- Computerized MIS is critical
- When money is involved, fraud is not far behind

# Product Design and Delivery Lessons

- Endowment policies are extremely appropriate for the low-income market
- Products that allow policyholders to access their savings sooner and more regularly are more popular
- Offer a range of premium payment options and face values, with less scrutiny for smaller policies
- It is difficult for field staff to have savings, credit and insurance relationships with their clients
- Distribution channels depend on the type of insurance



# Organizational Development and Marketing Lessons

- Low-income households want insurance protection, especially if it is coupled with asset building
- Good intentions of personnel do not necessarily translate into good management
- Microinsurance requires a unique sales culture
- Reward systems need to avoid causing undesirable behaviour



# Traditional vs. Micro Insurance

Traditional Insurance	Microinsurance
Premium collection: annual or semi-annual	Door-to-door premium collection weekly or monthly
Agents only responsible for sales	Agents responsible for entire customer relationship
Customer contact primarily through correspondence, phone	Customer contact exclusively in person
Agents must be licensed	“Agents” known as organisers, not licensed
Priced based on policyholder’s age and occupation	Priced based on average age (35 years); initially less expensive than traditional insurance even though delivery costs are higher
Sum assured above \$2000	Sum assured below \$2000



# Traditional vs. Micro Insurance (cont.)

Traditional Insurance	Microinsurance
Medical exam required	Declaration of good health required, no exam
Premiums paid at the bank or Delta office	Premiums collected from policyholders, often at their homes
Claims requests reviewed by high-level claims committee	Claims receive less scrutiny than traditional insurance
Corporate, profit maximising business culture	Socially responsible culture
Agents paid entirely on commission	Agents paid on a stepped-salary basis
Shareholders earn dividends	No dividends go to shareholders from microinsurance profits, but are returned to policyholders in the form of bonuses

