



## The mutual advantage:

*schemas based on networks of mutual financial intermediaries*



## Agenda

- Models of network organization
- Why mutuals develop networks
- How these network work
- Insurance products offered
- Overall assessment of insurance in CS
- Advantages and problems





# The cases covered

- ServiPeru, Peru (CS 1) –
- TUW SKOK, Poland (CS 2)
- Columna, Guatemala (CS 5)
- MUSCCO, Malawi (CS 8)
- La Equidad, Colombia (CS 12)
- VimoSEWA, India (CS 16)
- Almoa/SANASA, Sri Lanka (CS xx)
- Two cases of health mutual insurance associations (forthcoming):
  - Union Technique de Mali, Mali (CS xx)
  - Union de MS de Thiès, Senegal (CS xx)
- “Company 4” of “Bad Practices” (CS 6)



# Models

- **Insurance as affiliated business to a network (IAB):** Insurance as a secondary product offered through a network of (usually credit and loan) coops
  - ServiPeru, TUW SKOK, Columna, MUSCCO, La Equidad (\*), VimoSEWA, SANASA
  - Most large FC networks in industrialized countries
- **Insurance mutual network (IMN):** the network is composed of insurance mutuals
  - UTMali and Union de Thies
  - Others (ESS, Colombia; SMS,\* Mexico; Promutuel, Quebec;);





# Some Statistics

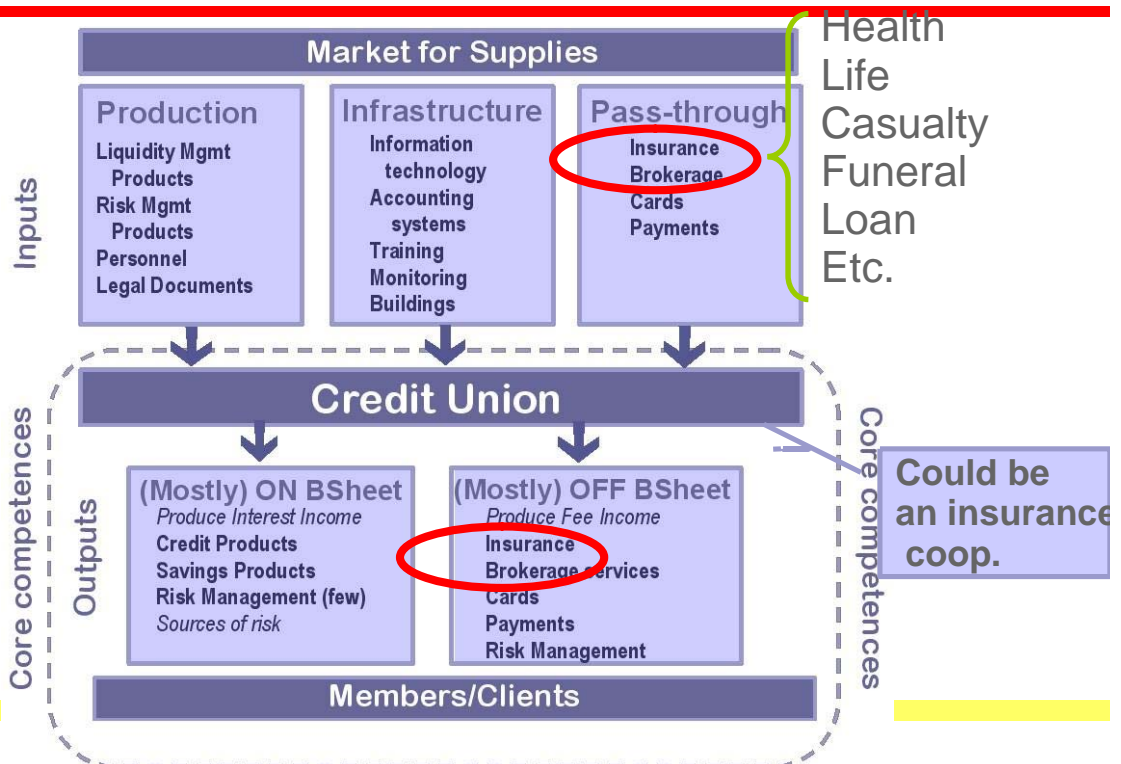
Institution	Type of network	# of aff. mutuals	# of pers. covered
ServiPeru (66/85)	IAB	86 (FC)	33,000
TUW SKOK (93/97)	IAB	1285 (FC)	100,000
Columna (1970)	IAB	87 (FC)	26,600
MUSCCO (1980)*	IAB	57 (FC)	55,000
La Equidad (1970)	IAB	1273 (FC+)	30,000+
VimoSEWA (1992)	IAB	678(#)	110,000
UTMali	IMN	40 (HIMA)	30,000
Union de Thiès	IMN	39 (HIMA)	?
Senegal (6 unions)	IMN	100(HIMA)	?



\* Date insurance business was added  
# Savings and credit groups (SCGs)

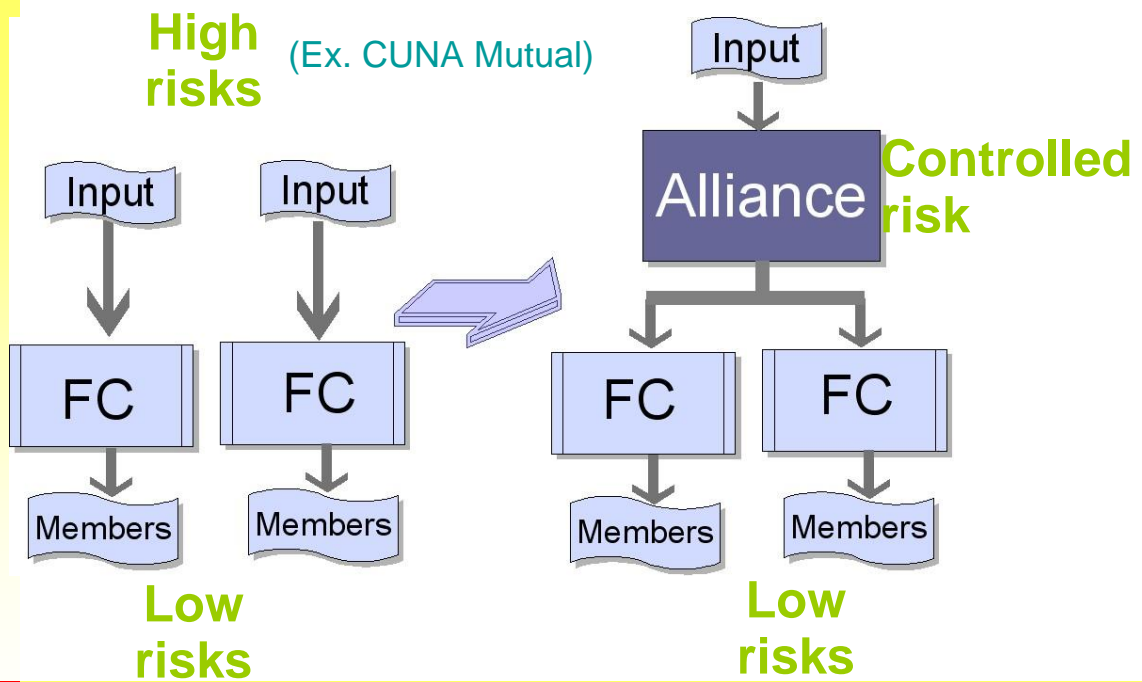


## The FC as an intermediary





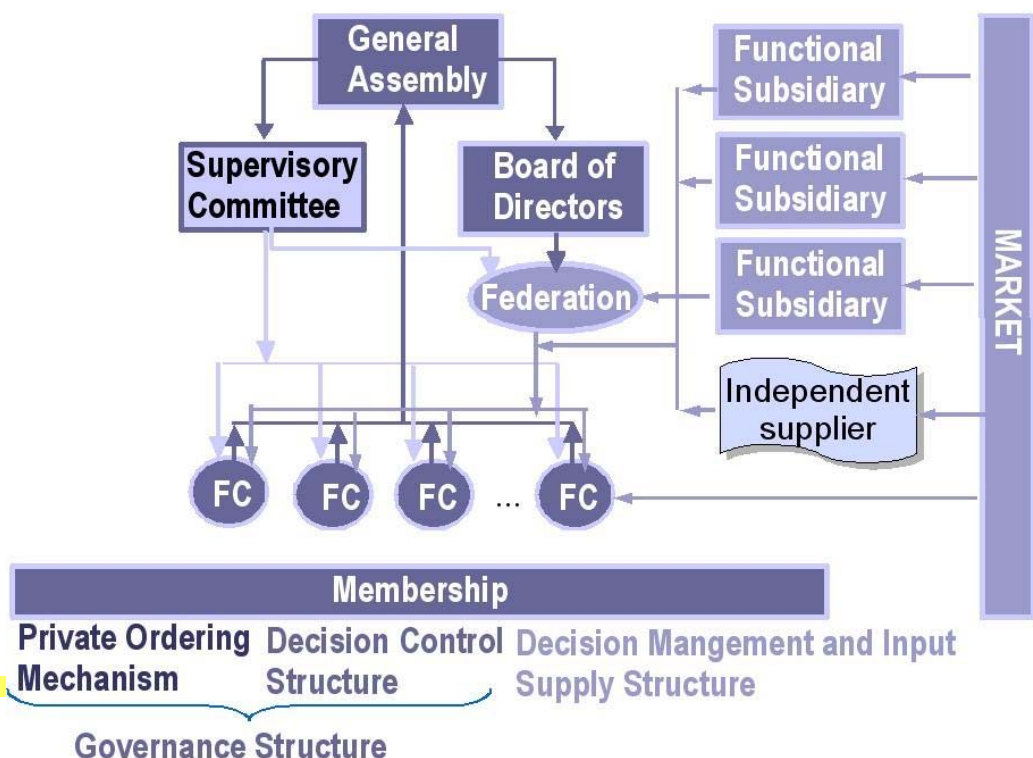
# Mutual and the control of procurement risks



First networks: Raiffeisen, 1869-74

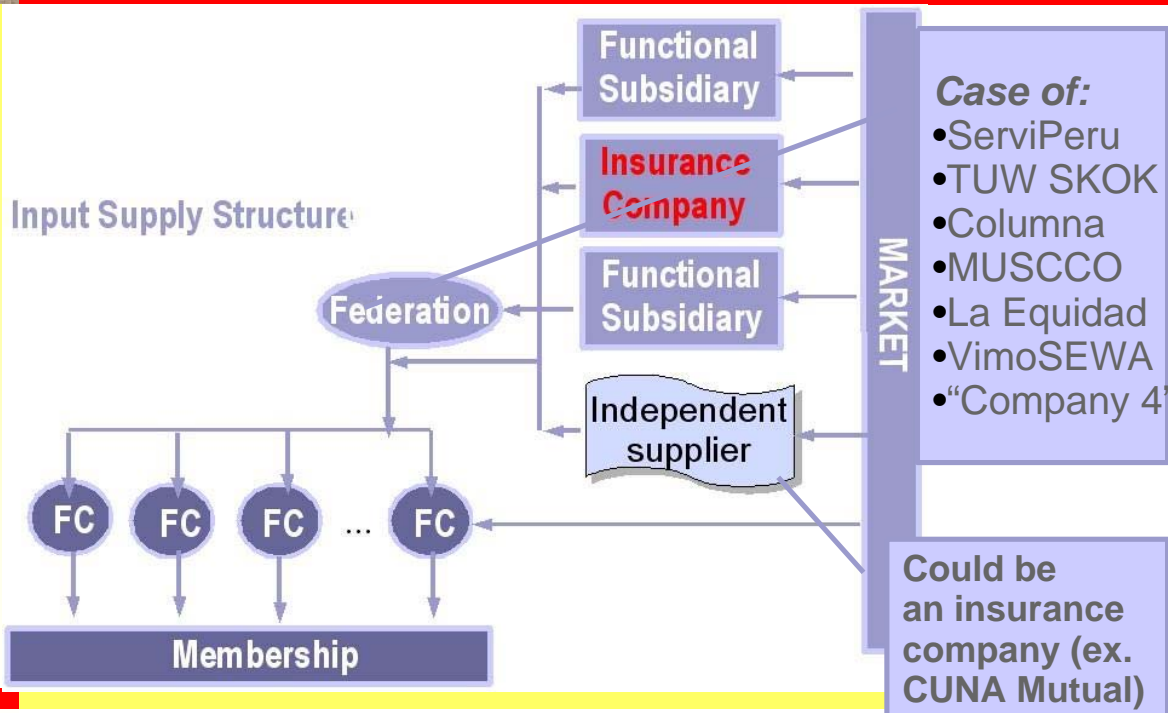


# A typical mutual network





## IAB-Model...with typical input supply structure



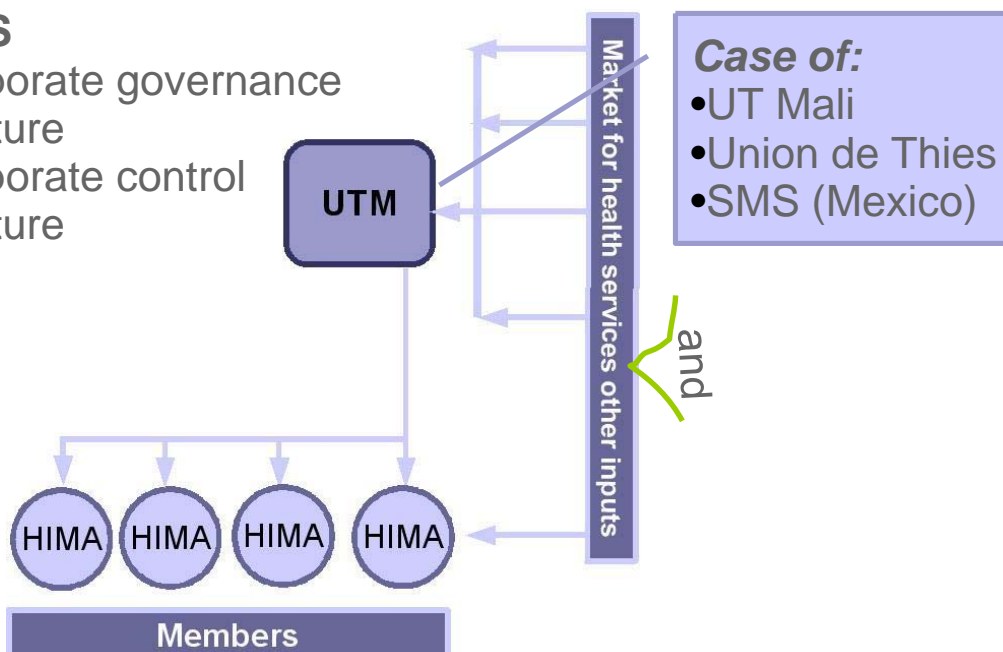
*Added to the Raiffeisen alliance in 1920*



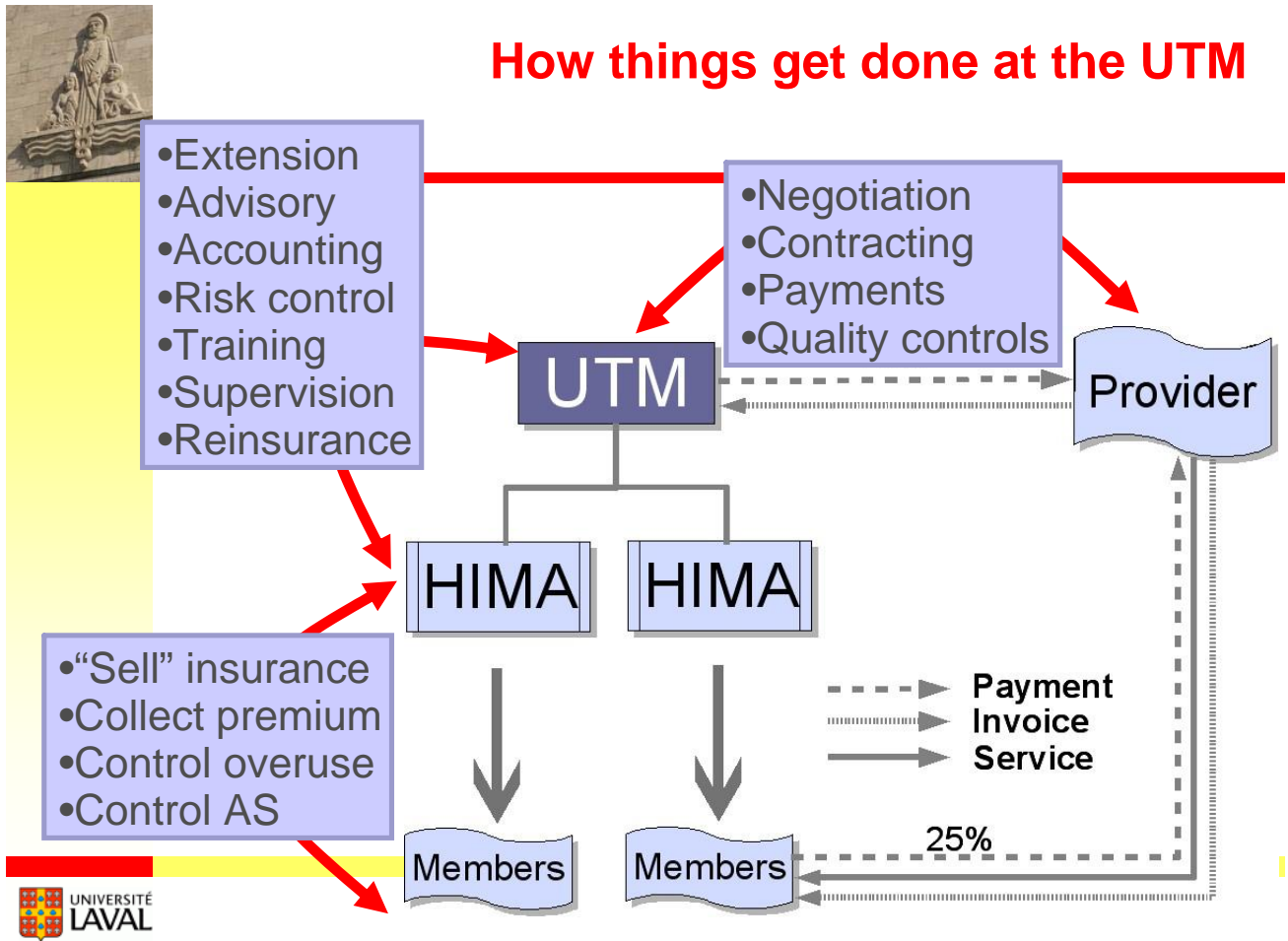
## IMN-Model ...a health insurance network

### PLUS

- Corporate governance structure
- Corporate control structure



## How things get done at the UTM



## Products IAB-Model (in the CS)

Product	Organizations
Loan Protection (Credit life)	ServiPeru, TUW SKOK, Columna, MUSCCO, La Equidad
Life/Life savings	TUW SKOK, Columna, MUSCCO, VimoSEWA
Funeral services insurance	SeviPeru, TUW SKOK, La Equidad
Health Insurance	ServiPeru, VimoSEWA
Disability	TUW SKOK, La Equidad
Other: P&C Coop property	TUW SKOK ServiPeru
Asset protection	VimoSEWA



# Products IMN-Model (CS and others)

Product	Organizations
Health Insurance	UT Mali, Union de Thies, ESS (Colombia)(*)
Agricultural Production Insurance	SMS (Mexico)(*)



# Overall assessment in CS: IAB-Model

- Products tend to (and should) be tied to core business (loan protection, life savings) (TUW SKOK)
  - Not enough creative?
- Success of the business depends upon support of FC network. This can be enhanced through incentives to FC
  - Lack of support of coop network (ServiPeru, La Equidad)
  - Compulsory (Columna, MUSCCO)
- Belonging to the network facilitates premium collection (TUW SKOK)
- Cost effective (Columna)



## Overall assessment in CS: IAB-Model

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- Insurance products should be simple (MUSCCO, La Equidad)
- Marketing and sales should be monitored by insurance company
- Only schema possible in Africa to provide MI (MUSCCO)– questionable conclusion



## Overall assessment in CS: IMN-Model (Health)

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- Viability has not been established (no system has reached sustainability)
  - Subsidies cover administrative costs *not premiums*
- Has a huge growth potential
- Addresses efficiently two key deficiencies of the *Bamako Initiative*
  - Creates mechanisms to finance co-payments
  - Creates mechanisms to make local community participation effective.





## Major advantages

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For insurance attached to **network structures**:

- Potentially reaches large numbers of people
- A large ready market for insurance products
- Availability of risk capital for investment purposes (member share savings)
- Investments have a development effect as rents return to the community



## Major problems

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- The poorest of the poor may not always benefit, but often does.
- Insurance products may be too limited as they tend to be tied up to credit products
- Leaders may be inclined to squander member capital
- The success of the insurance business/ mutual is tied up to the success of the cooperative network
  - La Equidad (Colombia)
  - ServiPeru (Peru)
- Risks may not always be properly separated (firewalls)
- Enter uninformed into dangerous business
  - “Company 4”



# Warning!

- The mutual strength is also its weakness: governance
  - **Strength:** Under control of member/ shareholders/clients –not for profit.
  - **Weakness:** High ownership dilution and prone to management abuse (member-agent conflict)
- Regulatory regimes for mutual institutions is a delicate business:
  - Poorly understood
  - Much disagreement (true “war zone”)



# Main conclusion

- The industrialized-countries **mutuality** experience is transferable to developing countries
  - In a variety of economic, cultural and religious environments!
    - The IAB model has a respectable history of success
    - The IMN model appears to be taking roots
- It is a technology that may serve large numbers of people
- We need to understand better the functioning of those networks
- We need to understand better the R&S framework that makes those networks (IAB and INM models) prosper



AKADEMIE  
SCHLOSS  
HOHENKAMMER

Microinsurance Conference  
Making insurance work for the poor



Jean-Bernard Fournier  
Zahid Qureshi  
Klaus Fischer



Munich Re  
Foundation

CGAP Microinsurance Working Group



Ways to address problem areas .....and  
benefit from the advantages



# Major problems

1. The poorest of the poor may not always benefit, but often does.
2. Insurance products may be too limited as they tend to be tied up to credit products
3. Leaders may be inclined to squander member capital
4. The success of the insurance business/ mutual is tied up to the success of the cooperative network
  1. La Equidad (Colombia)
  2. ServiPeru (Peru)
5. Risks may not always be properly separated (firewalls)
6. Enter uninformed into dangerous business
  1. "Company 4"



## Problem 1

### **The poorest of the poor may not always benefit, but often does.**

- Project to encourage FC creation at the grass-roots levels and affiliation to existing networks (with insurance products):
  - Many successful experiences (WOCCU, Desjardins, etc.)
- *Regulatory framework* must facilitate both:
  - New FC creation
  - Functioning of networks





## Problem 2

### **Insurance products too limited as they tend to be tied up to credit products**

- It's a good and safe start
- New products can be encouraged through technical assistance (Ex. Desjardins FUCEC-Togo)
- *Regulatory framework* must insure:
  - Appropriate supervision of insurance affiliates according to prudential standards.
  - Firewalls are adequate



## Problem 3

### **Leaders may be inclined to squander member capital (member-manager agency conflict, big problem)**

- Unavoidable with the mutual ownership form
- Its better controlled in tightly organized networks
- *Regulatory framework* must:
  - FC must fall under bank authority supervision
  - Adapt to better control this major source of failure risk (very few do!)





## Problem 4

### **The success of the insurance business is tied up to the success of the FC network**

- Integration using successful practices must be encouraged
  - Many successful experiences (WOCCU, Desjardins, etc.)
- *Regulatory framework* must:
  - Provide legal and regulatory support to network functioning (not impede it)
  - This is “chinese” for most supervisory authorities --- major work of extension needed (“*Guidelines for successful FC supervision*”)



## Problems 5 and 6

### **Risks may not always be properly separated (firewalls)**

### **Enter uninformed into dangerous business lines**

- Regulation + Supervision + Regulation + Supervision + Regulation + etc.
  - All the previous points made on regulation and supervision!

