Integrated financial services for better risk management

How savings, credit and insurance can protect the working poor

Craig Churchill, Prashansa Jain and Aparna Dalal

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List of abbreviations

Abbreviation	Definition
ASA	Association for Social Advancement
BRAC	Bangladesh Rural Advancement Committee.
CBU	Capital Build Up
CGAP	Consultative Group to Assist the Poor
DSSP	Dvara Sampoorna Sampath Plan
Dvara KGFS	Dvara Kshetriya Gramin Financial Services Private Limited
FAS	Financial Advisory Services
FSP	Financial Service Provider
ILO	International Labour Organisation
IMAGE	The Intervention with Microfinance for AIDS and Gender Equity
KMBI	Kabalikat para sa Maunlad na Buhay
Komida	Koperasi Mitra Dhuafa
LTSS	Long-Term Saving Scheme
MFI	Micro Finance Institution
NGO	Non-Governmental Organisation
NICO	Nabunturan Integrated Cooperative
OIC	Oro Integrated Cooperatives
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperatives
SEF	Small Enterprise Foundation
SEWA	Self-Employed Women's Association
SfL	Sisters for Life

Executive summary

Low-income households, often working in the informal economy, are more vulnerable to risks than the rest of the population and yet they are the less able to cope when crises occur. Shocks and the destruction wrought by disasters can negatively impact income while creating the additional challenge of increasing expenses. Climate change is exacerbating the situation. With floods, severe rainfalls, heatwaves and droughts becoming more frequent and more intense, the direct and indirect impacts of extreme weather events are a growing concern for these households.

Financial institutions serving the low-income market can play a critical role in assisting their client base to manage these risks. Many banks, credit unions, microfinance institutions (MFIs) and other financial service providers (FSPs) have been testing new approaches and innovative products intended to assist the working poor to manage risks more effectively. While the pathway chosen by the provider depends on its strategic vision and objectives, an overarching principle applies: FSPs, whether commercially or socially motivated, need to take a holistic view of their clients' risk management needs and design a package of financial and non-financial services that can address the needs appropriately.

A truly comprehensive approach requires a combination of insurance with other financial and non-financial services. Effective risk management includes activities that enable risk prevention and preparation, as well as risk transfer. This leads to an improved risk profile over time, which is bound to benefit low-income households and the FSPs that are serving them.

An integrated risk management approach

In the face of competition, offering unique customer propositions can facilitate customer loyalty. Creating a composite platform addressing customer's varied needs that arise in different stress scenarios, providing them convenient, continuous and reliable solutions, would make the FSP a one-stop shop from the clients' perspective, while potentially providing the financial institution another source of revenue.

One way to understand which intervention will best address client needs is by conducting market research. A possible starting point is to determine the savings needs of customers and the risks that are the most important to address. To identify priority risks, a financial institution can start by examining the major causes of delinquency in its loan portfolio.

To validate insights gleaned from the desk research, it is necessary to speak with clients directly. The research could gather responses to gauge the risk vulnerabilities and existing coping mechanisms being deployed by the organization's client base, eventually setting the context for innovation and partnership to offer suitable platforms and product solutions. This research could determine the existing gaps that low-income households face from adverse events and plugging these gaps in the most cost-effective and reliable manner. The responses to a demand assessment not only help to gain direction on client's risk exposures, but also the effectiveness of the current solution being offered by the organization.

Anchoring the solution on savings

The starting point with any effort to provide protection is to ensure clients are enrolled in the relevant social security schemes and the financial services can fill in any gaps around what is provided by the government. To fill those gaps, FSPs could offer the various elements – savings, insurance, emergency loans and financial education – as separate, standalone elements. Alternatively, they could explore ways of integrating them to provide a more comprehensive risk management solution. The latter approach may facilitate marketing and administration for the FSP, while providing solutions that enable low-income households to rely on low and medium stress coping mechanisms.

Building integrated solutions relies on using savings as an anchor, which has three main advantages over credit as the entry point. First, most people need savings and hence savings-linked products can appeal to a wider pool of clients, not just the subset of people who borrow money. Second, savings products typically have a longer duration, providing a platform for FSPs to offer more permanent protection and build customer loyalty. If loans were the anchor, what would happen when the loan term ends if the client is not ready to re-enrol immediately? Third, taking

a loan is risky for borrowers to begin with, so it is incongruent to think that a risk-management solution could be built on a risk-taking activity.

Hence, combination products that allow households to turn assets or equity into cash may be an appealing solution. For example, rather than drawing down on a contractual savings account during a time of need, people may prefer to borrow using their accumulated savings as collateral. Bundling an emergency loan product with a contractual savings account allows clients to cover small expenses and smooth consumption, although these need to be managed carefully to avoid over-indebtedness.

Design considerations for integrated solutions

The process of providing integrated risk management support to low-income households, small businesses and the working poor is not easy. Following are some design considerations that FSPs need to factor when offering such solutions.

Mix and match. Financial institutions should complement what is available from the government and from social service providers, with financial services that manage risks. The starting point is to enrol in whatever government programmes are available and targeted for the population in question.

Savings partnerships. Not all financial institutions are permitted to mobilise deposits. To offer integrated risk management solutions, microcredit NGOs for example will need to partner with organizations that can take savings, like banks or mobile network operators (MNOs). When considering prospective partners, it is essential to assess the levels of service that they are willing and able to provide. If the process of making deposits is not seamless, then it will be difficult for low-income households to amass any significant sums. Plus, if the partnership results in a negative customer experience, the FSP that is the face of the savings solution to the customer will suffer the consequences.

Carrots and sticks. It is quite natural that the preparation for risk management does not always get the most attention in a household's financial planning. To ensure that the preparation activities are given sufficient attention, it is important to offer a heavy dose of incentives to reward good behaviours of making regular deposits and signing up for insurance. Similarly, to prevent the use of funds for purposes other than risk management, early withdrawal penalties are also in order.

Staff implications. The introduction of new services might significantly impact the job descriptions and workload of frontline staff. If staff perceive this as extra work without sufficient compensation, it will be doomed to fail. Similarly, if staff incentives are tied to loans without any key performance indicators for savings and insurance, then the field staff will naturally focus their attention on the lending activities at the expense of effective risk management solutions.

Digital solutions. The business case for small deposits and small-ticket insurance policies can be challenging in an all-cash economy. But the emergence of mobile money and the digitization of back-end processes are creating new opportunities to reach scale in a cost-efficient manner. Digital technology can be leveraged to educate clients about the integrated solutions, enable cross-selling through direct sales to customers, facilitate payments and reduce transaction costs.

Conclusion

The paper showcases several cases of organizations offering solutions that incorporate a broad risk management framework of prevention, preparation and coping. By anchoring risk management solutions on savings FSPs can reach a broad set of low-income households and offer solutions that allow households to reach longer-term goals such as sending children to college by protecting them against the impact of adverse risks. To successfully implement these solutions, FSPs will need to pay special attention to the design considerations listed above.

1. Introduction

Low-income households, often working in the informal economy, are more vulnerable to risks than the rest of the population and yet they are the less able to cope when crises occur because of lack of buffer and little or no access to social safety nets. Many shocks – such as the illness or death of breadwinners, the theft or breakdown of productive assets and the destruction wrought by disasters – can negatively impact income while creating the additional challenge of increasing expenses. Climate change is exacerbating the situation. With floods, severe rainfalls, heatwaves and droughts becoming more frequent and more intense, the direct and indirect impacts of extreme weather events are a growing concern for these households. Under these circumstances, low-income people may have to resort to a range of undesirable actions, such as eating less or putting children to work. These coping strategies have long-term implications, such as malnutrition, stunting and an uneducated work force.

Financial institutions serving the low-income market can play a critical role in assisting their client base to manage these risks. Many banks, credit unions, microfinance institutions (MFIs) and other financial service providers (FSPs) have been testing new approaches and innovative products intended to assist the working poor to manage risks more effectively. This paper draws from literature and a recently concluded action research project on integrated risk management solutions in partnership with the Prudential Foundation. The project included partnerships with FSPs in the Philippines, India and Indonesia (see Table 1). This paper presents the lessons and experiences of these institutions that are making a significant effort to assist low-income households to manage risks.

Table 1. Partners testing integrated risk management solutions

Country	Organization	Type of Organization	Project focus
Indonesia	KOMIDA Cooperative	Cooperative MFI	KOMIDA is a mature cooperative serving 830,000 members, primarily women. The focus of the project was to offer commitment education savings product that would be bundled with insurance.
India	KGFS	Non-bank financial company	KGFS is a non-banking financial company (NBFC) operating in four states in India serving 800,000 customers. The project aimed to create a digital wealth management solution, that used data of customers to understand typical customers segments and offer a portfolio of products that would be suitable for customers to reach their wealth management goals and protect them against relevant risks.
Philippines	KMBI	MFI Non-Government Organisation (NGO)	KMBI is an MFI offering loan, insurance, capital build-up and entrepreneurial development services. It currently serves around 180,000 clients. The project focused on: 1. Aiding KMBI members' enrolment into the government social security schemes 2. Establishing a digital financial ecosystem in partnership with fintechs, by setting up members as digital merchants offering payments services 3. New product solutions like emergency loans, among others
Philippines	CLIMBS w/ OIC and NICO	Cooperative insurance and Savings and Credit Cooperatives (SACCO)	CLIMBS is a cooperative insurer working with SACCOS. The proposed project included developing a portfolio cover against weather risk for members of CLIMBS and to work with two savings and credit cooperatives (Oro Integrated Cooperative and NICO to better manage health and agricultural risks by bundling crop/livestock (for OIC) and health insurance (for NICO) with existing loans and savings accounts.

This paper, written primarily for FSPs, begins by explaining why assisting clients to manage risks is important for clients and FSPs alike. It introduces a risk management framework outlining how FSPs can help clients to prevent and prepare for risks and cope with them when they occur. It then explores how savings, credit and insurance provide valuable protection, on their own and, more importantly, when combined with each other as integrated risk management solutions.

2. Financial institutions need to focus on risk management

The financial inclusion narrative has largely focused on interventions intended to boost incomes, build assets and create employment. This narrative is consistent with the traditional microcredit story. Households, however, have financing requirements that go beyond enterprise growth. They need access to financial tools to cope with emergencies, save for school fees and pay for health care (Collins et al, 2009). A corresponding effort is required to manage risk and reduce vulnerability. Investments in production must be accompanied by a similar emphasis on protection; otherwise, households that are succeeding to improve their lot in life can easily lose the gains if they experience a crisis and end up worse off than they were before.

When microenterprise borrowers are exposed to risks, the lender is equally exposed. If a member's child falls ill, or a spouse dies, not only will the business not get sufficient attention, but its resources will be depleted to cover the ensuing outlay. It may be a while, if ever, for the FSP to be repaid. However, if the FSP can help its clients to manage their risk exposures, it may reap the reward of a healthier loan portfolio.

When one thinks about risk management for households, the most apparent solution involves insurance. Uninsured risk is a cause of persistent poverty (Dercon, 2005). By reducing the financial burden of shocks, insurance can enable low-income people to stay out of extreme poverty. Insurance is a particularly relevant mechanism to manage risks that will result in large losses, which they cannot cope with out of their cash flow or through the informal support of friends and relatives.

But there are limitations to insurance as a solution. Although considerable progress has been made, there remain supply challenges, where an insufficient number of insurers see the low-income market as a business opportunity. There are also demand issues, where prospective clients have a limited understanding of insurance and a lack of trust in insurers. The purchase of insurance also requires households to prioritize long-term uncertainties over short-term needs, which is the opposite of what people tend to do, especially when operating under severe scarcity constraints. Further, insurance is an inflexible tool – if one has life insurance, it does not help if your house burns down or you fall ill.

Therefore, to be more effective, insurance should be embedded in a broader menu of financial services that includes savings, credit and money transfers and which can collectively enable the working poor to manage a diversity of risks. Indeed, insurance is an appropriate financial instrument to protect against large losses that occur infrequently. To provide more comprehensive protection, FSPs can bundle insurance with savings and emergency loans to also help clients to manage small and frequent losses and economic stresses.

A truly comprehensive approach requires other interventions besides financial services. Effective risk management includes activities that enable risk control and risk prevention in addition to risk transfer. This leads to an improved risk profile over time, which is bound to offer business gains for the FSPs. In addition, because insurance will only benefit a minority of the insured population directly (i.e., those who claim), such risk management initiatives also help by providing tangible benefits to the insured population and thereby enhance client value (Churchill et al, 2012).

The risk management framework includes three main categories of activities:

1) **Prevention** to reduce one's exposure to risk, either by lowering the likelihood that it would occur or minimize the impact if it does occur

2) **Preparation** to amass the tools and resources necessary to deal with risks; and

3) **Coping** when the risk does occur by operationalized the tools and resources one amassed during the preparation phase.

2.1 Prevention

The objective of prevention activities is to include measures to reduce the likelihood and severity of risks. It is necessary to first understand what risks the target markets are most vulnerable to and of those, which ones could be prevented. Activities centred on education, advisory services and diversification of production activities are some examples of prevention activities. While such activities may seem to be beyond the scope of a FSP, there may be a business case for the provider to offer these services. Even commercially oriented FSPs might justify such interventions because of their potential to decrease exposure to risk, increase client loyalty, improve portfolio quality and differentiate the financial institution in the market.

To operationalize its prevention activities, KMBI, an MFI-NGO based in the Philippines, has a dedicated team within its organization structure. The team has a broad agenda, focusing on non-financial services, primarily community development, upskilling and wellness-related activities and trainings for its clients. There are multiple programs organized and conducted through the year across the country. To reduce the chances that clients' businesses are interrupted by local officials enforcing business regulations, KMBI assists its client base to obtain necessary business permits. To mitigate health risks, the MFI offers wellness services including screening and diagnostic facilities.

Health risks are a particular concern for many FSPs and they are an area where prevention can have a significant impact. Pro Mujer, a Latin American MFI, adds education sessions on health topics to weekly bank meetings for customers. It also provides pap screens for cervical cancer and other basic health services. Both the clients and their families are provided access to medical consultation services, including family planning guidance and primary health care advice. They also run a few mobile clinics providing dental and sonogram services.

Agriculture risks. Financial institutions that lend for agricultural purposes are often concerned that their borrowers have the right skills and tool to minimize agricultural risks. One Acre Fund, a social enterprise in East Africa, lends to smallholder farmers to purchase farm inputs such as seeds and fertiliser. In addition, it provides effective farming training, testing innovative techniques and bridging market linkages to establish an ecosystem that minimises farmers' exposure to risk. With the objective of optimising yield, the fund offers tailored recommendations to farmers on optimal seed choice and further prompting timely seed planting though weather based advisory services.[1]

Gender differences. When considering risk exposures, it is important to recognize gender differences: women are often more exposed to risks and exposed to different risks, than men. A microfinance NGO in South Africa, Small Enterprise Foundation (SEF), recognized that its women borrowers were particularly vulnerable gender-based violence, so it undertook initiatives to reduce this exposure, as illustrated in Box 1.

Business model. To engage in prevention activities, FSPs can either embed the training or awareness raising into their existing delivery model or partner with a non-financial service provider. The latter makes sense when the training required is technical or time-consuming, but it would probably need to be subsidised. If the embedded approach is adopted, then the intervention needs to be streamlined so that it is not a burden to field staff. Ideally, they should also be compensated for conducting the training, so they do not resent doing it (or avoid doing it).

[1] https://www.dfc.gov/investment-story/supporting-worlds-smallest-farmers, https://www.globalinnovation.fund/one-acre-fund-impact-brief

▶ Box 1. Preventing gender-based violence in South Africa

The Small Enterprise Foundation (SEF) is a solidarity group microfinance institution that successfully reaches some of the poorest and most vulnerable women. The Intervention with Microfinance for AIDS and Gender Equity (IMAGE) combines participatory training and community mobilisation with microfinance. IMAGE seeks to build on the opportunities created by microfinance by utilising group-based structures, strengthening information exchange and facilitating increased learning and personal action.

IMAGE combines microfinance, provided by SEF and education about gender and HIV and AIDS delivered by an NGO called Sisters for Life (SfL). The project evolved from an experimental pilot to successful scale-up. The key results from the risk prevention activities include:

1. Financial performance: Overall, the microfinance component of IMAGE performed as well as other SEF operations, if not better.
2. Synergy: The IMAGE project brought together two specialist organisations with very different skills and ways of working, but each with its own strengths and expertise. Several elements were identified as contributing to the success of the intervention: respect and good relations, separate SEF and SfL staff but integrated at field level.
3. Costs: Relative to other health promotion interventions, IMAGE is seen to be potentially cost effective, with an average cost of USD30–40 per client. Of this figure, 18 per cent represents operational costs; the rest were on capacity development of the training team and developing the training programme itself. But this prevention activity needs to be donor funded; it cannot be covered by interest and fees.
4. Impact: IMAGE achieved impressive results in two key areas that affect HIV transmission: Intimate partner violence and High-risk sexual behaviour. Analysis showed a reduction of 55 per cent in the risk of intimate partner violence in the past year (from 10 per cent to 4.5 per cent). Studies show also significant changes in sexual behaviour among a sub-sample of younger clients: a 60 per cent increase in the proportion of people accessing voluntary counselling and testing for HIV and a 24 per cent reduction in levels of unprotected sex among intervention participants, related to increased confidence in negotiating safer sex.

Adapted from: Simanowitz, Anton (2008)

2.2 Preparation

The second set of activities in the risk management framework entails amassing tools and resources to be better prepared to deal with risks and their impact when they occur. The two specific activities discussed in this paper include leveraging government social schemes and accumulating capital.

Leveraging government social schemes. For managing risks, the first port-of-call would be available government programmes, such as national health insurance schemes or disaster preparedness strategies. For low-income households, government-sponsored social schemes can be a cost-effective baseline protection mechanism. FSPs can facilitate the enrolment of their clients into available schemes and then offer complimentary services to augment these solutions, for example for increased coverage against risk exposures.

In the Philippines, for example, the Government has three pillars of social security covering insurance needs, health expenditures, affordable home financing and savings schemes that target low-income workers. The Social Security System (SSS) is a comprehensive social insurance program offering benefits on death, maternity, retirement, accident amongst others; PhilHealth is a national health insurance scheme; and Pag-Ibig provides affordable homes through financing as well as a national savings program. To facilitate enrolment, many MFIs, such as CARD (Center for Agriculture and Rural Development), ASA, ASHI (Ahon-sa-Hirap) and NWTF (Negros Women for Tomorrow Foundation), offer premium-financing loans to their members to make an annual contribution and then repay the MFI in ways that are more aligned with the household's cashflow. Along with premium financing, MFIs provide administrative support in enrolling and submitting contributions at the government-appointed centres. Traveling

to the government centre to make the regular contribution has been viewed by clients as an arduous task and often poses as a barrier to continued enrolment.

Capital accumulation. The other strategy is to accumulate one's own capital to build reserves and resources that can be drawn upon if the risk event occurs. This is a natural entry point for FSPs to assist with budgeting and financial planning to make it easy to save and buy relevant insurance protection. FSPs can offer existing financial education programs, such as ILO's Global Programme on Financial Education to educate members on money management, including better budget planning, increase savings, promote prudent spending, foster wise borrowing and make appropriate risk management decisions.

Apart from financial capital, FSPs play a critical role in developing other types of capital, including physical, social and human capital, as illustrated in Table 2.

▶ Table 2. Capital accumulation and risk management

Type of capital	Contribution to risk management
Financial Capital	Budgeting and financial planning Build up cash savings Build up goal-oriented savings for lifecycle events Purchase insurance products Maintain credit history and establish access to credit lines
Physical Capital	In-kind savings: Livestock, consumer durables, jewellery
Human Capital	Educate children Learn new skills
Social Capital	Join a rotating savings and credit association, mutual aid society Help friends, relatives in times of need

FSPs can naturally assist their clients to accumulate financial capital, but some also work on the other dimensions. For example, credit unions and FSPs that use group lending methodologies assist in the formation of social capital, by enabling people to work together and build linkages that can be useful in the event of a risk occurrence. Many FSPs offer education savings accounts or school loans to support the development of human capital (see Box 2). They may also provide technical skills training and business development services, intended to either improve the functioning and reliability of their current business, or to diversify into other income-generating activities. Some FSPs have safe deposit boxes to help protect their customers' physical capital; while others offer pawn loans to turn physical capital into financial capital.

In the low-income household's journey of risk preparation, they may need guidance toward suitable solutions. They often save through assets such as livestock and household goods, or they keep cash at home or with designated safeguards in the peer group. In times of stress, these assets may not fetch the value the household is expecting, especially if the stress situation is localized and their social or professional network is experiencing the same stress event. Keeping cash under the mattress, or in a safe place around the house, loses the interest accumulation it could have earned and exposes it to theft and loss.

Since its inception Dvara KGFS has strived to build a unique model to meet the financial needs of rural customers to accumulate financial capital. Dvara KGFS aspires to be a one-stop solution for customers' wealth creation and risk management requirements by providing a combination of credit, savings, investments and insurance solutions.

▶ Box 2. Dvara KGFS's Plan-Grow-Protect-Diversify Framework

As part of a project with the ILO on integrated risk management solutions, Dvara KGFS designed an offering of products that were anchored on savings to help members improve their savings behaviour and accumulate, while protecting them from risks. Dvara KGFS aimed to bring about a fundamental change in the mindset of its customers; which is to move from relying on credit to fulfil their financial goal to relying on savings and creating a financial plan to achieve those goals.

A statistical model was developed in collaboration with the Indian Institutes of Technology (IIT) Madras Centre for data science and machine learning. The idea behind using a statistical tool was to transform product allocation into a more client-centric exercise through digital innovation. The model uses customers' personal and household information, monthly income and expenditures, credit bureau history and stated financial goals to make recommendations on financial products that should be offered to them. On the technology front, a new interface for Dvara KGFS staff to offer credit, savings, insurance and investment services was developed. In the back end, this interface integrated the products offered in partnership with multiple vendors and enabled real-time product enrolment.

The product pilot began in October 2019 in 12 branches of Dvara KGFS as Dvara Sampoorna Sampath Plan (DSSP). The following components are part of the DSSP bundle:

Gold investment plan: The purchase of gold is the primary savings plan for many low-income households. Dvara KGFS developed a mobile solution for households to purchase gold in the most convenient, secure and cost-effective manner and also be able to flexibly use their holdings anytime for any un-planned requirements or emergencies.

Hospicash Insurance: Offering a daily benefit to the customer in the event of hospitalization for 24 hours or longer (up to 30 days).

Personal Accident Insurance: Cover from financial shocks arising due to loss of Human Capital because of an accident.

Group Term Life Insurance: Cover from financial shocks in the event of untimely death of a customer

These products were offered in varying benefit levels to each customer based on their financial goals. As of 31 July 2022, KGFS had enrolled 64,161 customers. Of these, 7,768 customers had successfully completed their 24-month gold systematic investment plan and redeemed their savings.

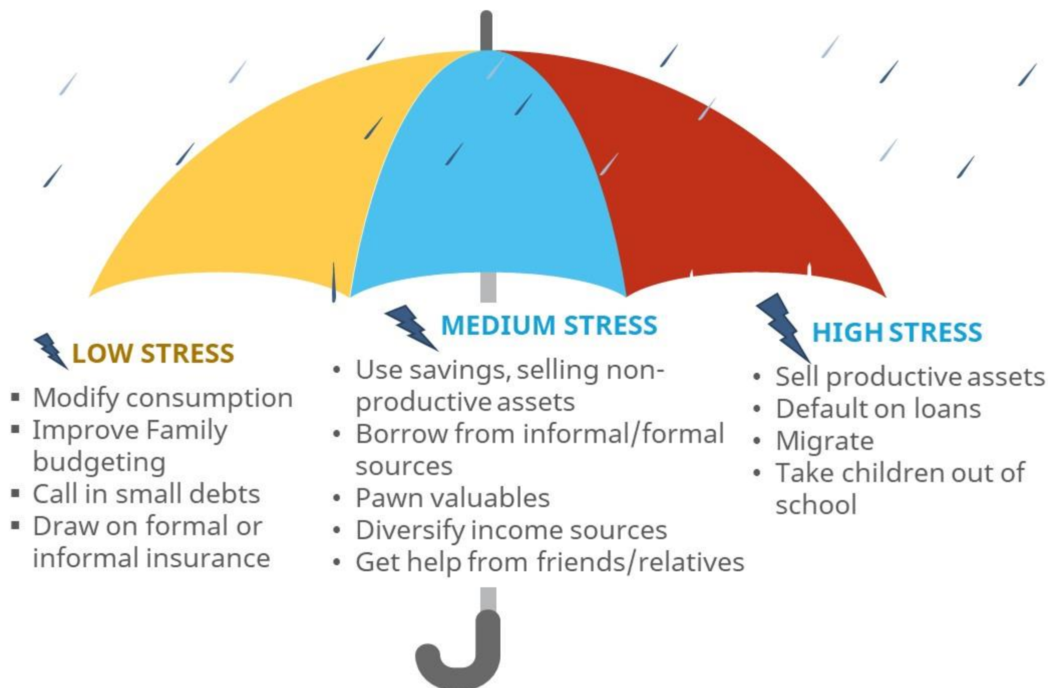
Source: Dalal, 2023

2.3 Coping

The third category in the risk-management framework is coping that includes activities that can be undertaken once the risk occurs. Sebstad and Cohen (2000) identify three categories of coping activities that have different levels of impact on households and enterprises, as summarized in Figure 1.

The low stress tools such as avoiding unnecessary expenses and skipping the occasional meal can work for small risks and economic stresses. However even small risks can escalate to medium and even high stress coping strategies when the accumulate or occur in rapid succession, before the household is able to get back on track. From a risk management perspective, the objective is for FSP to facilitate consumption smoothing by enabling clients to rely on low and possibly medium stress coping mechanisms and to avoid high stress solutions as these have a long-term impact and can create a downward spiral into chronic poverty.

Figure 1. Ways of coping with risk



▶ 3. Understanding clients’ needs and preferences

One way to understand which intervention to choose from this framework is by conducting market research. A possible starting point is to determine the savings needs of customers and the risks that are the most important to address. To assess savings needs, household and/or business budgeting is required, with a specific focus on accumulating a “rainy day” fund for risk management and identifying aspirations for targeted savings purposes. To identify priority risks, a financial institution can start by examining the major causes of delinquency in its loan portfolio.

Considerable data for developing and expanding insurance already exist within most FSPs’ management information systems. Institutions that have undertaken that exercise may find that late payments and loan losses are frequently caused by insurable risks. In other cases, delinquencies could be due to economic stresses that were expected but clients did not prepare for them, perhaps due to lack of appropriate financial instruments. Economic stresses are often seen as “risks” by clients. If you ask clients what keeps you awake at night, it may actually be paying rent or school fees. From a risk management standpoint, it is useful to evaluate the root causes aggravating the economic stress to be able to design an appropriate response.

To validate insights gleaned from the desk research, it is necessary to speak with clients directly. The research could gather responses to gauge the risk vulnerabilities and existing coping mechanisms being deployed by the organization’s client base, eventually setting the context for innovation and partnership to offer suitable platforms and product solutions. This research could determine the existing gaps that low-income households face arising from adverse events and plugging these gaps in the most cost-effective and reliable manner. The responses to a demand assessment not only help to gain direction on client’s risk exposures, but also the effectiveness of current solutions offered by the organization.

Dvara KGFS conducted market research to better understand the savings habits of members. The following key lessons were learnt from customers during the market research:

1. The financial goals of the customers are more closely related to their revenue than their profits, meaning that at times the goals may be aggressive and difficult to reach.
2. A majority of the customers are willing to save 500 to 1,000 Indian rupees (USD7 to USD14) per month for two years or more.
3. Gold is the most favoured tool of investment for majority of the customers.
4. Customers know about chit funds (a form of rotating savings and credit association system), but few participate (15 per cent).
5. Investment in mutual funds is almost unheard of in this customer base.

Dvara KGFS incorporated these insights into the design of a portfolio of products that was anchored on savings to help members improve their savings behaviour and accumulate, while protecting them from risks. The details of the product are described in Box 2.

A mix of qualitative and quantitative tools can be used for market research (see Table 3). A qualitative study leveraging tools such as in-depth interviews and focus group discussions can help set the stage and gain an understanding of why clients make certain decisions.

▶ Table 3: Data collection tools for quantitative and qualitative research

Quantitative	Qualitative
• Face-to-face surveys • Phone surveys • Self-completed surveys • Analysis of performance indicators • Data mining • Experimental designs	• Focus group discussions • Participatory rapid appraisal tools • In-depth interviews • In-context immersion • Self-documentation • Co-creation workshops • Customer consultative groups

These results can then be validated with a broader quantitative market study using perhaps a phone survey. Covering the broad themes outlined in Table 4, a demand research assessment can help shape the product development exercise, such as in the case of KOMIDA, illustrated in Box 3.

▶ Table 4: Risk assessment market research categories[2]

Research theme	Details
Socio-demographic details	Age, household size, number of dependents, education level
Economic characteristics of the household	Occupation, geographical area, exposure to seasonality of income/expenses
Risk events exposure	What risk events have impacted the cashflow stream of the households?
Economic pressures	What expenses require households to build up a large sum of money?
Coping mechanisms	What are the current coping strategies, whether there are multiple strategies being applied, how cost effective are these solutions and do they make the household further vulnerable to future risk events?
Client satisfaction	Suggestions on product concepts best suited to their current and future requirements

▶ Box 3: Demand research at KOMIDA

KOMIDA holds a cooperative license in Indonesia, spanning 324 branches with 830,000 clients. In its collaboration with the ILO, KOMIDA was keen to add products to its current offering that met members needs and sufficiently covered their risk exposures. A demand study was initiated across three regions, gathering information on the socio-demographic profile, risk preference/prioritization, savings behaviour and product concept. The key customer insights were:

1. **Risk Awareness**: Mostly low levels of risk awareness
2. **Adverse Events**: 57 per cent of the respondents faced health related events and income related risks, e.g., accident, thievery, crop failure
3. **Current coping mechanisms**: almost half of the respondents were forced to dip into their daily expense budget to cover a risk event; a majority of members resorted to borrowing from family, selling assets and praying that it solves itself
4. **Future Risks**: Sickness, death, accident and calamity are named as future risk events to cope against. Almost all members wanted to prioritize the protection of their family members over their own
5. **Saving behaviour**: 64 per cent had contractual savings product with institutions like KOMIDA and banks, but 10 out of 14 withdrew their voluntary savings with KOMIDA to make their loan repayment
6. **Product concepts**: 92 per cent were keen on insurance cover for their children towards any sickness event or school fee payment, 64 per cent said a complementary solution to the government scheme would be beneficial and they were unsure of their capacity to pay premiums. Members also keen to have a savings-backed education-focused product, allowing them to withdraw in times of need; they valued liquidity over earning high interest.

The outcome of this demand research was instrumental in the formulation of an education savings solution to address the priority as highlighted by KOMIDA's members of saving for their children's school education.

Source: ILO Social Finance project with KOMIDA

KOMIDA found that members valued liquidity of the savings more than the interest rate. This finding is consistent with other research studies that found that interest on deposits is almost irrelevant for small accounts. Features besides liquidity, such as ease of making deposits, the use of goals and commitments (see Section 4.2) and the availability of peer groups (such as ROSCAs) have a bigger impact on savings behaviours.

[2] USAID: Guidelines_for_Market_Research_on_the_Demand_for_Microinsurance, June 2006.

4. The case for anchoring the integrated risk management solution on savings

To operationalize the financial capital element of this risk management framework, FSPs could offer the various elements – savings, insurance, emergency loans and financial education – as separate, standalone elements. Alternatively, they could explore ways of integrating them to provide a more comprehensive risk management solution. The latter approach may facilitate marketing and administration for the FSP, while providing solutions that enable low-income households to rely on low and medium stress coping mechanisms.

Building integrated solutions relies on using savings as an anchor, which has three main advantages over credit as the entry point. First, most people need savings and hence savings-linked products can appeal to a wider pool of clients, not just the subset of people who borrow money. Second, savings products typically have a longer duration, providing a platform for FSPs to offer more permanent protection and build customer loyalty. If loans were the anchor, what would happen when the loan term ends if the client is not ready to re-enrol immediately. Third, taking a loan is risky for borrowers to begin with, so it is incongruent to think that a risk-management solution could be built on a risk-taking activity.

From an FSP's perspective, increasing savings may provide it with a source of low-cost capital. Furthermore, the promotion of savings helps to diversify the product menu while potentially reducing credit risks. For example, if a borrower also has a savings account, it can serve a buffer against the possible repayment risk. The case study in Box 4 highlights how Grameen Bank of Bangladesh restructured its savings instrument from compulsory to voluntary savings deposits to adapt better to customer feedback whilst also maintaining an adequate capital float for its loan portfolio.

Box 4: Transformation of Grameen to Grameen II

Grameen Bank reinvented itself on the back of internal systemic failures experienced in the late 90s, accelerated by the 1998 floods in Bangladesh that deteriorated the bank's loan portfolio. The two main planks of transformation were:

1. Tackling the rigidity and inflexibility in the lending system, since once borrowers went off track with delinquent payments, it became extremely hard for them to get back on track. Grameen II introduced a range of loan terms, extension of repayment schedule in times of difficulties and a top up if new business opportunities arose.
2. The second set of changes came from the realization that customers were not only interested in borrowing, but also in other financial instruments. Thus, voluntary savings were introduced and compulsory savings were disbanded. Voluntary savings products were of two types – a passbook savings account allowing individuals to withdraw and deposit at any time and a contractual/commitment savings plan called Grameen Pension Savings.

The bank's main objective behind mobilizing savings was to bolster its pool of loan capital. However, offering flexible savings solutions was greatly appreciated by the customer base and helped to reduce client desertion. Despite its initial reservation regarding the departure from compulsory closed savings schemes to voluntary open savings, fearing a dip in savings portfolio – Grameen II ran a successful mobilization drive to the extent that by the end of 2004, bank's deposits exceeded its loan portfolio.

Adapted from: Collins et al (2009).

4.1 Helping clients build savings

What type of savings account makes the most sense? The kind of savings required to meet day-to-day basics needs is different from the kind of saving needed to raise large sums for risk preparation, such as rainy-day accounts. For the first, low-income households tend to keep money in places that can be easily accessed both to maximize the amount and to retrieve the same in times of need, especially at short notice. When the households try to build savings for risk prevention, security and structure in the form of restricted withdrawals and rules defining the term, timing and value of deposit become important (Collins et al, 2009).

In general, there are three main categories of savings accounts: liquid, semi-liquid and illiquid. The first set are transaction accounts; its where people deposit what they have and from which they pay their bills, so it not really a savings account per se. The second category of semi-liquid accounts includes contractual savings. For these, a client would identify a saving goal – how much, by when and then would be advised how much they would need to deposit each week or each month to reach the goal. It is considered semi-liquid because if the need arises before the end of the contract, clients can access their savings for a small penalty. Third, illiquid accounts include term deposits and pension savings, either with a lump sum upfront payment or a series of regular instalments. In reality, clients can also access these funds, if necessary, but the penalties tend to be more severe to discourage such practices.

Convincing someone to make deposits into an account is not an easy task. Prospective depositors need to trust the financial institution to safeguard their money and have it accessible on demand. Macroeconomic conditions of high inflation or financial instability also discourage cash savings. Even when the conditions are conducive, financial institutions still require deep insights into their client base to know how to best design products and encourage savings behaviours. For example, a study by CGAP, Airtel Money Tanzania and Busara Centre for Behavioural Economics set out to investigate the influencing factors driving savings behaviour of low-income individuals in Tanzania (see Box 5).

▶ Box 5: Behavioural economics insights into savings behaviour

Busara, CGAP and Airtel conducted research across Tanzania to understand the trends and influencers in saving behaviour. In the last phase of the three phased study, experiments were conducted on a digital savings platform to understand how interventions influence savings behaviour

It involved roughly 150 participants in a qualitative study and 500 through a quantitative format – existing Airtel money users, an equal gendered proportion, 35 per cent in the age group 26-35 and another 35 per cent in ages 18-25 years, with 55 per cent having completed primary education and 35 per cent completed secondary level and 70 per cent of the participants using their mobile money account more than once a week.

The findings were summarized under four themes:

1. **Mental Accounting**: The preferred savings medium is associated with the reason for saving. For example, in this cohort, savings for medical purpose was preferred to be either through the mobile money account (35 per cent) or a contractual savings account (45 per cent) and less than 15 per cent used their regular bank account for this purpose. Individuals typically use different channels to save depending on whether it is for a specific goal or for keeping excess money for emergencies.

2. **Agency**: Agency refers to whether people feel that a particular product gives them control over a particular aspect of their lives. An individual’s perceptions of the agency and control they have over events seem to be associated with their preferred medium for saving. The perception of control varies by gender.

3. **Trust and Risk**: There was no clear universally trusted medium in the study. Individuals expressed trust in whichever saving medium they use most actively.

4. **Social Influences**: Social norms, networks and trends seems to influence people’s savings behaviour and the channels they use to save. In certain areas, mobile money (as primary savings channel) is largely associated with people with little or no formal education, whereas saving through formal banking channels is associated with higher education.

Examples of SMS messaging.

The study concluded:

- Participants nudged with SMS messages emphasizing saving balances of strong savers within their group saved at a higher rate compared to the control.
- Participants nudged with SMS messages emphasizing a sense of agency saved at a lower rate
- The wrong message can be worse than no message
- Highlighting specific differences between different peer products helped the participants to make a better choice

Emphasizing differences between a higher number of features may engage customers but may not support their ability to choose a product that reflects their preferences due to cognitive overload and disengagement over time.

Adapted from: https://www.cgap.org/blog/can-digital-savings-reduce-risks-digital-credit

https://www.cgap.org/blog/want-your-customers-save-more-use-behavioral-economics

The Sajida Foundation in Bangladesh takes the positive nudge approach a step further by building an in-house advisory sales application to assist their field staff in identifying the "super-savers" and tailoring financial advice according to the categorization, as illustrated in Box 6.

▶ Box 6: Cross-selling balancing the human and digital touch – Sajida Foundation

The SAJIDA Foundation in Bangladesh worked with BFA Global consulting to find a way for field officers to put their knowledge and intuition about clients to better use and to increase their efficiency. The solution is an Android-based Financial Advisory Services (FAS) app for field officers that identifies "super-savers" and provides officers with useful simulation tools. The FAS app was piloted in two branches and is now being deployed to other branches.

The decision to develop the FAS app was aimed at:

1. Identifying "Super-savers": individuals who save diligently while servicing a microcredit loan
2. Product Simulations: to assist field officers with imparting the correct product information regarding the expected income given the variables of term, deposit instalments and accruing interest rates

The app categorizes clients into 1, 2, or 3 stars. Clients with three stars are the "super-saver" category and the prime target for term accounts. Two stars clients are secondary targets, who are engaged in conversation about long term goals and term deposits. The one-star clients are savers but haven't managed to reach the minimum balance of term deposits. Field officers coach them and encourage them to save the minimum level.

The FAS app offers two simulation tools: (1) one based on more general income generation and (2) a target-based one. These allow officers to work with their clients and show them possible future scenarios, telling them either how much they would save after a certain amount of time, or how long it would take them to save up for something specific.

Target-oriented savings pitches are more tangible for users and Sajida used focus groups to develop nine goal categories: education, home improvement, children, marriage, business, migration, livestock, emergencies and other. When considering target-based savings, the officer inputs how much the client would like to withdraw at the end of the period and the simulator calculates how much has to be deposited and in what frequency, to generate that amount.

Adapted from: https://nextbillion.net/cross-sell-done-well-how-one-finance-app-found-a-balance-between-digital-and-human-touch/

4.2 Integrating other financial services with savings

For many low-income households, savings is the most cost-effective solution to manage small risks. It is your own money, you do not (usually) have to pay anyone to get it and you can use it for whatever you want. However, the poor often prefer to borrow when faced with an economic shock rather than deplete their savings even though loan comes at a cost and the savings are essentially free (Sebstad and Cohen, 2000). Further, a member's savings pool may not be enough to cope with larger risk.

Hence, combination products that allow households to turn assets or equity into cash may be an appealing solution. For example, rather than drawing down on a contractual savings account during a time of need, people may prefer to borrow using their accumulated savings as collateral. Bundling an emergency loan product with a contractual savings account allows clients to cover small expenses and smooth consumption, although these need to be managed carefully to avoid over-indebtedness, as discussed later.

A few examples of integrated risk management solutions based on a savings platform are described below. The type of solution depends on factors such as the regulatory framework, the availability of insurer as a partner and the strategy and philosophy of the FSP itself. The MFIs that cannot directly offer savings due to regulatory reasons may consider endowment products or partnerships with banking institutions that can offer savings, although both these options pose challenges and may not be suitable for all FSPs.

Payment platform. At its most basic level, a liquid savings account, or a transaction account, serves as a platform to pay for other services, such as insurance premiums and loan repayment. As long as there is a sufficient balance in the account to cover these deductions, it becomes a seamless transaction for the financial institution and the account holder.

Life savings cover. In this product, life insurance cover is an added benefit to a savings product. This is a common approach among credit unions that offer "free" **life savings cover**, which pays an insurance benefit that is a multiple

of the average account balance when the insured member dies. The product is intended to give depositors an incentive to increase their savings as the coverage increases with the savings balance. As with credit life, because it is a member benefit, it can provide an initial step towards creating an insurance culture within the customer base as long as they have a positive impression. CLIMBS, a cooperative insurer in the Philippines, offers CLIMBS Life Savings Plan. On the death of a member, the benefit paid to the beneficiary aims to protect not only the members' accumulated savings but also pays out a life insurance benefit equating to this amount. The premium contribution, paid by the credit union, is equivalent to 1 per cent of the total savings of the cooperative per year.

Savings as collateral for loans. Some FSPs mandate their clients to contribute small sums as saving deposits as a precondition for the loan issuance. The savings amount might be collected along with the loan repayments. This contribution is usually a small proportion of client's loan amount and is available to the client on maturity of the loan. Savings collected in this way act as a capital buffer for the FSPs as a type of cash collateral.

In fact, Philippine regulations require MFI-NGOs to collect compulsory savings or CBU (capital build-up) from its clients for the purpose of maintaining compensating balance against the clients' loan balances, whilst ensuring that it remains a net lender at the portfolio level. This regulatory intervention (albeit forced) has managed to instil a savings behaviour amongst the clients of MFI-NGOs and is often their only savings avenue. One MFI, ASA has designed two types of CBUs for their clients namely – CBU and locked-in CBU. While the former allows for liquidity at any point without any penalty, the latter is locked-in and made available to the clients only at the time of leaving the group loan or upon reaching a certain savings threshold.

Savings can also be used as collateral for emergency loans, especially if clients would prefer to cover their urgent need for funds by borrowing rather than depleting savings. This model is discussed in more detail in the next section.

Not all FSPs are allowed to mobilize savings directly. Other options, such as partnerships with mobile money programmes, remittance providers, government citizen schemes and banks could be explored to offer savings to their customer base.

Contractual or purpose-driven savings with savings-completion insurance. Targeted savings or defined contribution rates are features that could be key levers towards achieving a savings goal of a larger sum. The insurance is tied to a contractual savings product and provides protection if clients are not able to complete their savings goals because of death or disability. The challenge is for depositors to be disciplined to make those regular deposits. The first step is to make the processes as seamless as possible, such as automatic deductions from the transaction account, so people do not need to make an effort or even remember to make the deposit. Then FSPs need to balance the use of carrots and sticks, incentives and penalties, to encourage discipline. For example, they could introduce penalties on early withdrawals or missed contributions (the stick), while offering higher interest rates or free insurance if persistency is maintained (the carrot).

For example, the Philippines-based Oro Integrated Cooperatives, offers a Health and Disaster Savings product. This 5-year savings product pays 5 per cent per annum interest rate on deposits, with built-in calamity insurance and a health reimbursement of USD10 in case of an illness triggered by a natural calamity. Members can deposit between USD10 and USD50 per month and upon reaching an accumulated saving balance of USD100, they are entitled to a free calamity insurance covering damage to property in the event of earthquake, volcano, typhoon, or flood. Withdrawals are permitted for health and natural calamity losses.

As another example, Box 7 details the deployment of a mobile application and platform in Kenya for Safaricom users. "M-Tiba" functions as a mobile health wallet allowing its users to save, borrow and share money for healthcare goals and expenses.

Box 7: The digital health wallet with access to the national scheme in Kenya, M-TIBA

M-TIBA, (where “M” stands for mobile and “Tiba” means care in Swahili), is a mobile ‘health wallet’ that allows people to save, borrow and share money for healthcare at very low costs directly on a simple mobile phone. Money stored in M-TIBA can only be used to pay for treatment and medication at partner clinics and hospitals. It is described as M-Pesa (Kenya’s mobile money platform), which is locked for healthcare.

M-TIBA operates off a digital platform jointly developed by Safaricom, PharmAccess and CarePay to bring mobile phones and mobile money together to realise inclusive healthcare in Kenya.

With M-TIBA, it is possible to save for relatives, friends, or employees. Funds stored in M-TIBA are managed by the insurance company, UAP Insurance. Donors and insurers can use M-TIBA to offer healthcare financing products, such as vouchers, managed funds and low-cost health insurance, directly to specific segments of the Kenyan population. M-TIBA promises transparency and accountability to all stakeholders involved, from the patient to the government.

M-TIBA started in 2014 with a pilot, giving KSA1,000 (roughly USD10) to low-income women, stating that it was only to be used for healthcare and observing what happened. Findings were that the “health savings” empowered the women and led to a degree of behavioural change around health issues.

The first M-TIBA product, the health wallet, was launched in July 2016 – a year later, almost 1 million Kenyans had signed up to M-TIBA. M-TIBA is widely available, with agents on the street. Given that it is a mobile application, there is also the opportunity for communication and dissemination of health information.

Source: Interview with PharmAccess, 2017.

Long-term savings towards retirement: When Kabalikat para sa Maunlad na Buhay (KMBI), an MFI-NGO in the Philippines, conducted demand study to understand its clients’ risk exposures and possible requirements of products, 39 percent of respondents interviewed highlighted the need for a retirement solution. These were all women, MFI clients across the Philippines, averaging 45 years of age and most of them running grocery stores from their homes or within a close radius of their homes. The clients expressed the need to save and contribute towards a longer tenured vehicle in their old age when they are no longer able to work as hard. However, there is a clear supply side dearth of private pension solutions for low-income households. Various reasons are cited for this: commercial viability challenges, the lack of a common national ID and a weak digital payment infrastructure being some of the key hurdles.

Recognizing the need for retirement savings for the informal market, governments are exploring digital solutions for long-term savings. In 2018, Rwanda launched the first universal digital pension scheme in partnership with pinBox Solutions (see Box 8). The scheme, EjoHeza, Rwanda’s new Long-Term Saving Scheme (LTSS), is a government-sponsored, national-ID linked digital micro-pension and insurance program based on fiscal incentives for informal sector workers. Since launch, the Ejo Heza LTSS has enrolled over 2.9 million voluntary subscribers (roughly 2.4 million of whom are actively saving and around half of whom are women), with assets under management over RWF50 billion (USD45 million).

▶ **Box 8: Digital micro-pension solution**

Pinbox solutions, a digital micro-pension fintech firm provides technology solutions for pension and insurance plan administration, record keeping and delivery. Pinbox partnered with Mastercard and Rwanda's Ministry of Finance in building a technology platform to implement Ejo Heza (translating to "brighter future") – a government sponsored digital micro-pension scheme linked to the national ID.

Ejo Heza, established in December 2018, is meant to cater to the burgeoning senior citizen (aged 60 plus) population, expected to increase by 60 per cent by 2032. The scheme targets salaried and non-salaried workers in Rwanda. The registration process has been greatly simplified, by allowing enrolment by dialling a special code on their mobile phones or registering online through the website. The pension scheme is structured as a defined contribution scheme and monthly pensions are payable from 55 years of age. Contributions are permitted literally any time – on a daily, weekly, monthly, quarterly and annual basis. There are positive nudges built into the scheme. For example, depending on the income of the account holder, the government contributes between 50 and 100 per cent of the accumulated savings up to a maximum of USD19 for eligible members in the first 3 years of the scheme. Life and funeral expense insurance is also built into the scheme.

Source: http://www.pfip.org/wp-content/uploads/2018/02/Saving-the-Next-Billion-from-Old-Age-Poverty-WEB.pdf; https://rba.co.rw/post/EJO-HEZA-Savings-scheme-hits-Rwf700-million

An alternate to option could be to offer an **endowment** insurance scheme. This type of insurance accumulates value, where the insurer keeps and invests the savings for policyholders. Such products could be attractive to FSPs that cannot offer savings themselves due to regulations. By collaborating with a life insurance company, the FSP can offer a saving and insurance service to their clients. These products can be attractive to clients because they have something to show for their premium payments if the risk does not occur.

The Self-Employed Women's Association (SEWA) in India, through its insurance agency VimoSEWA, offers a participating endowment plan called Saving Link Scheme to their members. This plan pays out the chosen sum assured in the event of death due to natural cause and double the sum assured in the event of death due to an accidental cause. At maturity, a policyholder would receive the sum assured and bonuses in return for premium payment during the selected policy duration. Dvara KGFS, in collaboration with India First, offers a similar participating endowment plan.

However, endowment products have historically not provided particularly good client value because a significant portion of premiums go into high administrative costs and commissions and policyholders can lose what little value they have accumulated if they do not regularly pay their premium (Rusconi, 2012). If FSPs are keen to explore this option, they should get technical assistance from insurance experts to negotiate product features that are relevant for their clients and provide sufficient value.

The design of the savings-anchored product is eventually determined by the objective of the FSP, the needs and preferences of its clients and the regulatory framework of the country. The first step is to understand the saving needs of clients and the risks that they face that prevent them from reaching their savings goals. In the case of OIC in the Philippines, its main objective was to reduce the reliance on loans in the case of natural disaster or health emergency and to inculcate a savings culture in its members. The key is to find alignment between the needs of the clients and the strategic objective for the institution.

▶ 5. Emergency loans for quick relief and liquidity management

When savings are not large enough to meet needs during an emergency, or when households prefer keeping savings as collateral, emergency loans can be a possible solution. In case of an economic stress scenario, where the household experiences a sudden increase in expenses, an emergency loan could help to tide over their cashflow volatility. However, when a risk event affects income generation opportunities, emergency loans may not be the best option as they could exacerbate a household's vulnerable situation as they may not be able to generate the income needed to repay the loan. To manage their own risks, FSPs need to ensure clients have the capacity to repay the loans before putting them (further) into debt. Emergency loans are typically much smaller than the regular loans available to clients, hence mitigating the risk of further indebtedness.

Borrowing from a variety of sources is a common way that low-income households face emergencies with informal avenues such as money lenders, family and friends often being the most convenient and accessible in times of stress. The interest rates charged by moneylenders are typically higher than what the FSP would charge. While low-income household are conscious of price, they place a high value on flexibility and convenience and are ready to pay extra for loans with faster turnaround times and greater repayment flexibility.

From the supply side, with repayment rates being prominent in a loan officer's performance indicators, a household that recently experienced a risk event that affects its ability to generate future income (such the death of a breadwinner) would be considered "risky" or unsuitable for a loan. So even though the household might have an urgent need for cash, the loan officer might be reticent to process the application.

From the demand side, households vulnerable to risks may be reluctant to take on additional risks, making it difficult for them to get out of poverty. In Bangladesh, BRAC promised eligible households that they would be able to receive an emergency loan in the event of a flood, to encourage households to make higher investments and it worked (see Box 9).

There are several reasons why financial institutions should consider emergency loans. First, it is a way for them to demonstrate their care for the well-being of their clients. If they can offer a solution that is more affordable and equally accessible than alternative sources, it is greatly appreciated, leading to customer loyalty and positive word-of-mouth messages. Second, by helping clients to manage risks without depleting the resources from their business, it can also be a means to maintain portfolio quality. Third, cross-selling emergency loans to existing clients allows the organization to increase its outstanding balance per client. So, if the FSP can control credit risks, emergency loans can contribute positively to the bottom line.

▶ Box 9: Credit lines as insurance

The credit risk assessment processes used by financial institutions would typically pre-empt and restrict loans to households that recently experienced a hardship, including events based on external factors such as natural disasters. The Bangladeshi financial service provider BRAC wanted to see if it could change that paradigm.

A study was carried out with 300,000 individuals spread across 200 flood prone rural branches to see if the promise of an emergency loan would have an impact on productive investments. Clients in the 100 treatment branches were informed, before the beginning of the planting season that they were pre-approved to take the new loan should a flood occur in their area. The loan was then extended upon request by eligible households after a flood had occurred. The primary findings of this study were:

- Households value access to guaranteed credit. In fact, they value credit access after a shock 1.8 times more than the credit access in the pre-shock period.
- There was a significant increase in investments by the treatment households with pre-approved loans. Thus, guaranteed credit is seen as a liquidity measure to reduce their exposure to flood risk thereby creating avenues for investment in potentially more profitable activities.
- Emergency credit, unlike other microcredit products improves household welfare outcomes. The larger investments made presupposing the access to emergency loans if necessary, translate into larger revenues. If flooding does occur, households can better manage their cashflows and maintain consumption and asset levels.
- MFI profitability was seen to marginally improve, with the emergency loan borrowers improving their overall repayment rates.

It is important to note that emergency loans were made available to 40 per cent of the treatment branches upon assessing their credit scores. This credit score was based on four metrics – past percentage of missed payments, average percentage behind on loan payments, maximum percentage behind on any loan and number of months active with BRAC. The deployment of this score did not result in selection of richer households over poorer ones. The eligible borrowers in general had slightly lesser income, were few years older, fewer years of education and owned more livestock and savings.

A guaranteed credit product requires a different incentive structure from the existing microcredit products for the field staff. If staff are compensated based on their repayment rate, they would likely be overly cautious when disbursing emergency loans.

Adapted from: Gregory Lane, Job Market Paper, Nov 2, 2018

To effectively design and deliver emergency loans, FSPs should consider the following features:

Credit risk control. The primary way that lenders manage credit risk is by limiting the eligibility to existing clients in good standing. Clients with a good credit history have essentially prepared themselves for risk by becoming eligible for an emergency loan if they need it. It is also important to assess if the cash flow of clients to ensure that they avoid over-indebtedness. Other credit control mechanisms could include requiring co-guarantors or asking for collateral, such as pawn loans or corresponding savings balances. Another way of managing the credit risk of emergency loans is by offering in-kind assistance, such as directing funds directly to a pharmacy or a hospital in case of a medical emergency, or by providing food, as illustrated in Box 10.

▶ Box 10. Rice loans in the Philippines

OIC offers rice loans to its existing members. The eligibility criterion requires the member to have an existing share capital/savings balance of USD60 in their accounts with OIC. The rice loan allows the member to avail of a sack of rice (roughly 50 kilograms), not exceeding USD50 in value. To ensure that the loan is used only for the purpose of purchasing rice, on loan approval, a purchase order from an accredited rice supplier is issued. This is a short duration loan of 1 month for non-farmers and 2 months for farmers with the interest rate of 5 per cent p.a. In 2019 alone, a total disbursement of USD109,000 was made and the delinquency rate has been around 5 per cent.

Source: https://orointegrated.coop/products/loans/rice-loan/

Size and term. Typically, emergency loans are most appropriate for small, unexpected expenses and therefore it is appropriate for the loan amounts to be small, to be repaid over short terms of a few weeks to a couple of months.

Interest rate. The underlying interest rates for an emergency loan could well be higher than the other loan offerings from the same FSPs, acting as a deterrent against frivolous use. The higher cost would position the product as a last resort and the first to be repaid. This higher revenue could help to offset the higher operational costs and risks associated with emergency loans. Another key consideration for the FSP is to monitor the portfolio even more closely, to ensure that emergency loans are not being used to bolster repayments of the enterprise loans.

Delivery. Since they are for emergency purposes, loans need to be immediately available, which might require an alteration in the FSP's delivery systems. For FSPs using a group lending methodology, when emergency events impact one individual in the group and not others, the operational process will need to be designed to allow the delivery system to cater to individual assessment and accountability needs. Technological advancements and mobile money create opportunities for emergency loan delivery to maximize accessibility.

Staff arrangements. Normally it would be ideal to organize the structure around the clients, so they have one entry point for all their service requirements. However, because field staff are often rewarded for maintaining excellent portfolio quality, they might have an incentive to encourage clients to take out an emergency loan to repay their business loan. To protect against this risk and to enhance accessibility, it would be better to have a special phone number or SMS to request a disbursal of the pre-approved emergency loan. The FSP can also require a special review if the emergency loan is being requested within a few days of the normal loan instalment.

The emergency loan case of Dvara KGFS has many product design lessons (see Box 11). Its emergency loan product was first piloted in 2012 with some success. However, it faced challenges that resulted in the withdrawal of the product offering and a redesigned offering was introduced in 2019.

▶ Box 11: Dvara KGFS Emergency Loan Case Study

KGFS's purpose of offering emergency loan was two-fold. First, to establish itself as a one-stop solution for the financial needs of the rural customer; and second, to develop the foundation of a deeper relationship with its customer.

The design underwent several iterations during the pilot as the customer learnings and behavioural insights were fed back into the product lifecycle, starting with:

- Loan term – the original two-week term was extended to one month allowing greater flexibility to the borrower and enhance profitability proposition
- Principal amount – the maximum loan amount was increased from USD6.50 to USD26.25 (INR500 to INR2,000) as USD6.50 was viewed as too small to be useful. In the execution, USD26.25 was the eventual loan amount permitted in line with commercial considerations, to cover the cost of disbursal. However, this presented a problem, since borrowers who needed smaller amounts, ended up spending the entire sum or turning to informal money lenders to borrow smaller sums.
- Interest rate – was set at 24 per cent per annum, slightly higher than the 21 per cent for group loan. Having a higher interest rate for the emergency made sense, as customers should not be enticed to apply for the emergency loan instead of the group loan.
- Personal visits – KGFS focused on visits two days before the loan was due. This reminder was later seen as too late as it was not enough time for customers to secure the money. In the future, it considered making the visits earlier and not necessarily in person but via a phone call.

The following innovative design features were also incorporated in the product:

- Customer outreach – Borrowers who had an established relationship with KGFS (i.e., 12 weeks) were deemed fit for the loan. Other eligibility conditions were maintaining a positive balance in a savings account and no overdue credit at the time of application of emergency loan.
- Delivery channel – After-hours disbursement was handled by an existing customer of high repute called disbursement agent; this agent kept a lockbox with a 3-digit code operated through SMS inquiry. This was aimed at keeping the turn-around-time (TAT) within 24 hours.
- After the initial success of the pilot, the journey of emergency loan products became more chequered. Issues came to light that staff were encouraging clients to take the emergency loans if they did not have sufficient funds to pay their group loan.
- Misuse of the product: There were many instances of borrowers taking an emergency loan for non-emergency consumption expenses, which adversely impacted borrower's repayment ability.

Such malpractices, resulted in (i) bad publicity to the institution's brand value, (ii) adverse impact on portfolio quality and (iii) customer attrition. Hence, it was decided to discontinue the product and focus on improving mechanisms of internal control to ensure better customer experience on other loan products.

In 2019, the emergency loan product was relaunched. Before reintroducing it, KGFS focused on two attributes:

- Establishing post-disbursement utility check: Strict adherence to the physical evidence of loan utilization being submitted into the system at a later date.
- Improved internal audit tool: A sophisticated internal audit mechanism has been developed, which is continually improved over time and is capable of red flagging triggers to alert the credit team and the sales heads.

At the same time in India, the use of National ID vastly improved KYC mechanisms ensuring that Credit Information Companies (CICs) have more reliable customer data. All this has led to fewer misuses of the loan proceeds as it is increasingly difficult for borrowers to get away with purposeful default and they too know it.

Source: Kumar, 2021

▶ 6. Insurance for larger losses

There is a limit to how much protection can be provided by savings and emergency loans. For risks that are likely to lead to particularly large losses relative to the household's income, it is important to consider insurance as a solution. The four risks that most commonly fall into the "large loss" category are death of a breadwinner, hospitalization and critical illnesses, a fire at one's house or business premises and natural disasters including typhoons, earthquakes, floods and droughts.

Insurance can provide protection not only for the FSP's customers, but also for the financial institution itself, providing a buffer against adverse events threatening its daily operations and financial wellbeing. FSPs are vulnerable indirectly to the risks of their clients and directly exposed to the natural disaster risks. Furthermore, financial institutions are also vulnerable to a range of operational risks of their own that are also insurable, including exposure to staff fraud, theft, concerns of money in transit, liability and employee protection. It can be useful to consider the broad set of insurance needs – the exposure of the clients and the financial institution – because it may be possible to negotiate for more cost-effective solutions if one considers the aggregate exposures instead of chopping it up into its component parts.

In a previous section we discussed how insurance can be linked to savings products. Often FSPs begin with loan-linked insurance because that is what they are most concerned about – protecting their loan portfolio. But credit life cover often provides limited client value and FSPs would provide more sustainable risk solutions to their clients if insurance was linked to savings. In addition to savings-linked insurance, or if it is not possible for example for regulatory reasons, FSPs can certainly offer loan-linked insurance as well, keeping a close eye on client value indicators such as the claims rate. It is important that, in the aggregate, sufficient claims are being paid to the clients, in a timely manner, relative to the total premiums being paid.

To provide these solutions, it makes sense for FSPs to partner with insurance providers either through brokers or directly with insurance companies. Theoretically FSPs could manage an insurance fund for basic, idiosyncratic risks (if regulations allow), but if the long-term plan is to provide more comprehensive cover, for clients and for themselves, then it makes sense to establish a relationship with an insurer and co-create relevant products together. These relationships can be complex and hence a suitable governance structure is needed and a specific focus on staff training. Our advice is for FSPs to start small but create a pathway to comprehensive cover in order to provide members with most suitable protection.

6.1 Start small with a pathway toward comprehensive coverage

This topic of insurance through and for financial services providers is covered in depth in Churchill et al, 2012. Some of the main messages include:

Start small, with basic covers. It is useful to have a full understanding of clients' (and the FSP's) risk exposure, but do not try to cover everything at once. It is important to start with simple, basic products and then over time - once the FSP develops good systems, collects relevant data and amasses the necessary expertise - to add improvements and move incrementally toward achieving long-term objectives.

Start with mandatory or embedded products. For a target market that is not familiar with insurance and does not really understand it, can be difficult to sell standalone insurance. And the costs of trying to sell the cover significantly increase the costs of the product, lowering the prospective value to customers. It is generally advisable to start with mandatory or embedded products where clients have to buy it or they get it free when they take out a loan or achieve a minimum balance in their savings account.

Build a culture of insurance. FSPs (and their insurance partners) should invest heavily in educating clients about any mandatory or embedded product it offers, reminding them, regularly, that they have it and ensuring that they know how to claim. When there are claims, make a big deal about them and develop client testimonials to illustrate how they benefitted. Once an understanding and receptivity to insurance takes root, then it is possible to upsell or cross-sell, including higher levels of cover, or covering other risks, for additional fees.

Build internal expertise. One of the challenges in the partnership between FSPs and insurers is information asymmetry. Banks and MFIs tend not to be well versed in insurance language or logic and so initially the insurer

may have the upper hand in the negotiation process. To have a more balanced relationship, FSPs need to build internal expertise, especially in claims management, data collection and staff training. For more information on the building effective partnerships with insurance companies, see Rendick (2012).

a cooperative insurer in the Philippines, CLIMBS, developed a property insurance product called PRETI (PRoperty Emergency Tragedy Insurance). It offered the product as member or employee benefit for its own employees and the employees and members of the savings and credit cooperatives that were in the CLIMBS cooperative network. The product insured damage to property caused by natural perils such as earthquake, typhoon flood and volcanic eruption. It also included a small medical reimbursement benefit. The intention behind offering it to its own employees was to build knowledge about the product and give staff direct experience with it.

Staff structure. At least initially, with embedded products, it makes sense to use existing field staff as the insurance interface between the FSP and the clients. But when there is a shift to voluntary covers, it might make sense for the FSP to appoint dedicated insurance agents in the field. For example, in Haiti, the insurance company, AIC, had limited uptake of a voluntary funeral insurance product when it was sold by the employees of a local bank. But when the insurer put its own staff in the bank branches, in one month it had reached 80 per cent of the sales that the banks' staff were able to reach in a year and a half (Guarnaschelli et al, 2012).

6.2 Meso coverage for disasters

The most challenging risks are natural disasters. In many countries, FSPs and their clients are vulnerable to disasters, including floods, hurricanes and earthquakes. Because of climate change, many of these risks are increasing. Not only is this a major danger for low-income households, but because it is a covariant risk, which means that it affects many clients at one time, a catastrophe is a serious threat to the FSP's solvency. For example, floods in Bangladesh have repeatedly damaged the households and livelihoods of the working poor and therefore threatened the loan portfolios of several FSPs. To recoup these losses, the FSPs often must be recapitalized by donors and then reschedule and/or refinance loans and provide relief services to help borrowers get back on their feet and resume their income-generating activities. But would insurance be a more efficient means of managing such a risk? It certainly has the potential to be a more sustainable and responsive solution than for FSPs to ask for disaster donations.

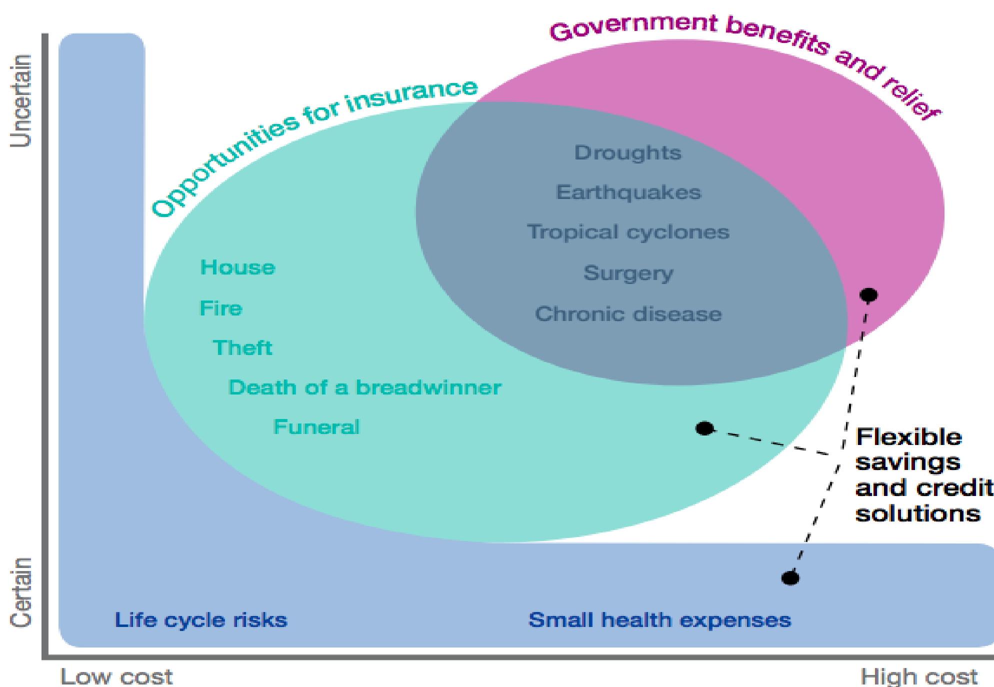
For covariant risks, it is important to have coverage for the financial institution's overall portfolio. Such meso-level schemes are beginning to emerge to deal with catastrophe risks. For example, CLIMBS in the Philippines, is a composite insurance company, so it can offer both life and non-life insurance to its more than 4,000 member cooperatives, many of which are savings and credit cooperatives. In the event of natural disasters, the reinsurer provides an index-based cover to protect CLIMBS' member cooperatives against loan defaults by clients. When the weather event occurs and the related rainfall or wind trigger is reached, CLIMBS makes a pay-out to the cooperatives, based on the index. The pay-out is not based on individual loss adjustments; each cooperative receives a pre-defined percentage of its loan portfolio. The cooperatives use the funds to make emergency loans to the affected borrowers to help them recover from their losses. While others use the funds for loan forgiveness in case of defaults due to disasters, some cooperatives also provide in-kind benefits like organic fertilizers, other farm inputs or cash assistance. CLIMBS' enhanced Weather Protect Insurance product has smart agriculture utilizing digital solutions as a value-added feature that helps cooperatives and farmers in identifying crop suitability and farming practices that will aid in livelihood mapping. Based on temperature, season forecast and data on flood risk, information is made available in the cooperative's dashboard on crop suitability, crop calendar and seasonal agriculture which are decision-making tools for the cooperatives and farmers. Thus, even without claims because there was no catastrophic event, farmers and cooperatives still get the free smart farming advisories to help them in their farming practices.

7. Concluding considerations for integrated solutions

The process of providing holistic risk-management support to low-income households, small businesses and the working poor is not easy. It requires a big vision of what is required, including prevention and preparation and it can involve the coordination and collaboration of many moving parts. This section summarizes some initial insights from FSPs that have aspired to orchestrate these solutions.

Mix and match. Financial institutions should complement what is available from the government and from social service providers, with financial services that manage risks. Intertwining savings, credit, insurance features on a savings base can help to address the multiple needs that arise in varied stress situations as indicated in Figure 2.

Figure 2. Leveraging government programmes with financial services



The starting point is to enrol in whatever government programmes are available and targeted for the population in question. Besides the growing trend in many countries to pursue universal health coverage, some countries are also introducing agriculture insurance for farmers and other protection schemes for low-income households. Building on that foundation, savings and perhaps loans can be used for small expenses here and there, with insurance filling the gap to protect against larger risks that occur infrequently.

Savings partnerships. Not all financial institutions are permitted to mobilise deposits. To offer integrated risk management solutions, microcredit NGOs for example could consider partnering with organizations that can take savings, like banks or mobile network operators (MNOs). When considering prospective partners, it is essential to assess the levels of service that they are willing and able to provide. If the process of making deposits is not seamless, then it will be difficult for low-income households to amass any significant sums. Plus, if the partnership results in a negative customer experience, the FSP that is the face of the savings solution to the customer will suffer the consequences.

Rendering additional solutions on FSP's platform could also entail undertaking back-end or front-end system enhancements. Understanding the implication of such partnerships from strategic, technical and operational aspects will help to establish and redesign the business strategy. A design sprint workshop to assimilate the

different perspective from all internal stakeholders such as operations, IT, legal, products development can help to brainstorm and solution for any challenges foreseen.

A possible customer data protection challenge may emerge, however agreeing to data privacy and protection norms set by the local regulatory body could allay this. Further, there may be revenue upliftment from selling third-party financial solutions for the FSPs, ensuring correct accounting treatment and tax implication would also be factors to consider.

Carrots and sticks. It is quite natural that the preparation for risk management does not always get the most attention in a household's financial planning. Certainly, more urgent items like putting food on the table and keeping a roof over your head will be a higher priority than saving for a rainy day. To ensure that the preparation activities are given sufficient attention, it is important to a heavy dose of incentives to reward good behaviours of making regular deposits and signing up for insurance. For instance, OIC's contractual savings-linked insurance product includes free calamity insurance as an incentive to save. Members receive this benefit once the accumulated balance reaches PHP5,000 (~USD92). The insurance covers damage to property due to a natural disaster. Withdrawals in this plan are permitted in case of a natural calamity or a health emergency. To ensure persistency and commitment by members to save for an unforeseen event, if they are not being regular with their deposits, then organisation relies on a series of nudges to encourage depositors to get back on track and to understand what is inhibiting them from doing so. As a last resort, the account could convert into a regular savings account and attracts a pre-termination penalty.

Staff implications. The introduction of new services might significantly impact the job descriptions and workload of frontline staff. If staff perceive this as extra work without sufficient compensation, it will be doomed to fail. Similarly, if staff incentives are tied to loans without any key performance indicators for savings and insurance, then the field staff will naturally focus their attention on the lending activities at the expense of effective risk management solutions. Dvara KGFS experienced this at the time of the COVID-19 pandemic when ensuring that the performance of the loan portfolio does not suffer was the main focus of the loan officers and as a result there was less attention paid to the DSSP savings product.

Digital solutions. The business case for small deposits and small-ticket insurance policies can be challenging in an all-cash economy. But the emergence of mobile money and the digitization of back-end processes are creating new opportunities to reach scale in a cost-efficient manner. Digital technology can be leveraged to educate clients about the integrated solutions, enable cross-selling through direct sales to customers, facilitate payments and reduce transaction costs. These digital solutions could include growth in partnerships, product solutions, innovative processes and creative technology interfaces. One such solution combining digital savings and credit was piloted in Tanzania (see Box 12).

The experiences highlighted in the paper showcase the possibilities for offering solutions that incorporate a broad risk management framework of prevention, preparation and coping. By anchoring risk management solutions on savings FSPs can reach a broad set of low-income households and offer solutions that allow households to reach longer-term goals such as sending children to college by protecting them against the impact of adverse risks. To successfully implement these solutions, FSPs will need to pay special attention to the design considerations listed above. Advancements in digital technology and proliferation of mobile phones among the emerging consumer market segment will help.

▶ Box 12: Digital saving and credit solution: M-Pawa Tanzania

Vodacom M-Pawa in Tanzania, a partnership between Vodacom and Commercial Bank of Africa, launched an interest-bearing mobile money savings account that provides micro loans conditional on savings performance.

An interactive SMS project targeting smallholder farmers was developed and designed in partnership with CGAP, Techno Serve, Busara Centre, Connected Farmers' Alliance & Arifu (a mobile learning platform) to improve savings and borrowings behaviour. A series of interactive SMS content was developed basis consumer's preferences and responses.

Personalised SMSs were introduced to drive uptake of learning content, on both loan and savings products and their features and costs. Those users more interested in the loan could learn how to check their loan limit and use a cost calculator tool while those interested in the savings product, could read others' savings stories and set their personal saving goals.

Allowing for self-selection bias, an SMS-based financial literacy program proved to increase the financial activity of its users. Study reflected complementary and positive interaction of savings and borrowings on the same platform. Arifu users increased their savings, while also qualifying for larger loans and making larger and earlier repayments. The use of well-built, interactive content about product features – including costs – helped increase the use of the product and contributed to positive financial outcomes. The integration of savings and credit products showed how important it is to offer not only credit, but also a place to store value. Using savings as a starter product, farmers were better able to manage their cashflows and receive larger and more accurate loans.

Source: CGAP Blog 2015 (https://www.cgap.org/blog/m-pawa-1-year-mobile-banking-perceptions-use-tanzania); CGAP Blog 2016 (https://www.cgap.org/blog/interactive-sms-drives-digital-savings-and-borrowing-tanzania)

Regulatory considerations. Enabling regulation can encourage innovation and new product development by allowing for more FSPs to provide integrated solution, creating a sandbox to encourage innovation, encouraging the entry of new players such as fintechs and insurtech and facilitating partnerships between the public and private sector promote financial inclusion.

Regulators will also need to ensure that there are proportional consumer protection clauses to ensure that the advancements are equitable, especially for vulnerable groups such as the elderly and women and that consumers are protected from predatory and fraudulent practices.

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Social Finance

International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

T: +41 22 799 6111
E: socialfinance@ilo.org

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