

MUTUALS, COOPERATIVES AND COMMUNITY-BASED INSURERS

The mutual model embodies the social and commercial dimensions of microinsurance. Microinsurance institutions are often either mutuals themselves or are linked to a network of cooperatives.

A mutual is a company or association that is **owned and governed by its members**. Policyholders share in the returns and possibly the risks of the scheme. The main difference between a mutual and a cooperative is that a mutual must be owned by its customers, whereas a cooperative may be owned by other cooperatives (second tier organizations) that are not necessarily its customers.

Regardless of the cooperative model, insurers adhering to cooperative principles share the following characteristics:

- **Democratic control**, underpinned by education of the customer base, with policy-owners involved in governance through delegates and working groups;
- **Self-responsibility**, i.e. customers (members) share losses and profits (which are usually not paid out);
- **Limited return on equity**, i.e. patronage dividends;
- **Affiliation of founding members** and most policyholders to social, community or professional associations;
- **Promotion** of health, safety and loss prevention to reduce the costs of insurance; and
- **Influence** on the insurance regulatory and policy environment in the interest of policyholders.

Considering the many variations of mutual-related microinsurance schemes, this note will focus on two approaches: **Insurance services that are linked to a network of cooperatives** and **mutual insurance schemes**.

Distribution through cooperatives

The first variation of the mutual model has two key components:

- A **distribution network**, such as savings and credit cooperatives (SACCOs); and
- A **risk carrier** that creates and underwrites the products.

For example, the Sri Lankan insurer ALMAO reaches poor households through the SANASA savings and credit societies, which are the owners. While this approach often involves SACCO networks, it works just

as well for other types of cooperative networks, such as agricultural and consumer cooperatives.

In contrast to the partner-agent model, which is a contractual arrangement between two independent organizations, the insurer is owned and controlled by the network in the cooperative model. This fact has implications for the quality and cost of services provided to low-income segments.

In fact, cooperative insurers are often able to reduce their costs, and hence offer lower premium rates than other insurers. However, a certain weakness of the governance structure can bring about management entrenchment and ineffective procedures.

Cooperative insurance may involve different institutional and regulatory arrangements. The insurance services offered to the SACCOs and their members often become increasingly formal and complex, as the organizations accumulate human and financial resources.

Two **stages of institutional development** can be described:

- The federation may set up an **insurance department** to provide group insurance to member cooperatives. This step requires competent staff, greater capital, cooperation with reinsurers and acceptance of a degree of risk.
- As the needs of SACCOs and their members evolve, they will require more complex coverage that can only be offered by a **regulated insurance company**. A federation may formalize this department by creating an insurance company that meets all legal requirements of the insurance supervisor.

ALMAO's origins are linked to the insurance department of the SANASA movement and a brokerage set up to serve the needs of the societies and their members. Without donor support, the movement mobilized sufficient funds and expertise to create a life insurance company in 2002 and a general insurance company in 2005.

The intention of SACCO networks for creating insurance affiliates is, at least originally, to complement their financial services, namely savings and loans. The range of insurance products offered to the low-income markets through SACCOs is often limited and includes loan protection products, as well as life savings coverage.

A key distinction exists between cover that is paid for by the SACCOs and member-pay products. Although

SACCO-pay products like loan protection and life savings are an efficient way of providing protection to the poor, some SACCOs come to see the premium as an expense that they would prefer not to pay.

Consequently, it is important for insurers to consider introducing member-pay products that can generate commission income for the SACCOs, which enhances the alignment between the interests of the insurer and the distribution channel. Expanding the line of services is important as a means to address the poor's different needs, and those of the community, but also because it will improve the relationship between the insurer and its distribution network.

Mutual insurance schemes

The members of mutual insurance schemes often join hands for the purpose of providing insurance services; while for SACCOs, insurance is just another product and usually is not a core business.

Mutuals focus primarily on providing health insurance to low-income communities. Health care provision, and access to it, remains a major issue in most countries. The community-based model has been pioneering an approach, especially in West Africa, to address this issue for more than 15 years. **Mutual health organizations** (MHOs) are managed and controlled by members who financially contribute to them. Voluntary managers are elected or designated by the members of the schemes. The MHOs ensure access to healthcare services for their members, often through direct payments to the healthcare provider on the behalf of their members.

To make insurance, especially in the case of health insurance, affordable for the poor, premiums tend to be low, but the benefit packages are usually limited. Despite the low premiums, MHOs often have low premium collection rates and high drop-out rates, and often cover less than 1,000 persons.

Another challenge for MHOs can be the instability and lack of management skills of the voluntary staff. Nevertheless, these organizations show some positive trends towards institutional viability – they constantly try to adapt their management systems to make them more efficient, taking into account their limited resources.

To become viable in the face of these challenges and more efficient, some MHOs form networks, unions or federations. These apex organizations typically have three different roles to play: A political role (representation of interests); a financial support role; and a technical role through management support.

Overall, MHOs are part of the democratization process through their embedded control and participation mechanisms.

Mutuals can also influence the management of health services (management transparency, security of financial resources, etc.) and improve healthcare quality. The power of collective action strongly affects the negotiation of prices for services delivered and empowers members to influence the quality of care. Indeed, it is imperative for MHOs to cooperate and build partnerships with healthcare providers, as well as petition for the appropriate regulatory frameworks.

Conclusions

For the different mutual models to become successful, certain conditions are important:

- There should be either **strong cooperative networks** on which to build on or **strong bonds of solidarity** among the members of a mutual.
- Additionally, the **national regulatory framework** for the operation of mutuals and networks structures should be carefully studied before considering this model.
- On the financial side, networks need to be large enough to **build up a capital base**, but this needs to be prudently managed. The base can be used to expand and provide more and improved services to the end-users as well as guarantee financial stability.
- Institutions should also capitalize on their financial know-how and existing international mutual networks to **access reinsurance services**.
- Lastly, **risk firewalls** must be put into place. Mixing different types of risk, e.g. credit risk with insurance risk, may lead to catastrophic financial problems.
- The effectiveness of insurance services to meet the needs of individual members depends largely on the effectiveness of the federation for both models discussed in this note. Therefore **larger investments in capacity building** at the federation level could generate significant returns.

The International Labour Organization (ILO) and the Munich Re Foundation recently published *Protecting the Poor: A Microinsurance Compendium* on behalf of the CGAP Working Group for Microinsurance. This authoritative book analyzes the experiences of more than 40 microinsurance providers and is based on the "Good and Bad Practices" project led by the Operation Sub-group and funded by DFID, GTZ, the ILO and SIDA. The translations into French and Spanish are financed by ADA.

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