

Poverty Alleviation and Need for Mutual Micro Insurance for the Poor

Kazi Md Mortuza Ali

Introduction

One can never be at peace, unless he has security in his daily life. The question of security is very important for everyone irrespective of rich or poor. When people are insecure, they become a burden on society. Therefore, it is necessary to develop some mechanism to provide security. For most people, a feeling of insecurity arise from worries about daily life and from the dread of cataclysmic events. People feel insecure because there are uncertainties in life. It is rightly said that uncertainty is the only certain thing in life.

The frequency and severity of disasters have increased sharply in the recent decades. In Bangladesh, the major causes of deaths and damages to property from natural disasters are droughts, cyclones and floods. For obvious reasons, poor people are much more exposed to disasters than are rich ones. In Bangladesh, natural disasters as well as man made disasters are an integral part of poverty cycle.

In Bangladesh, NGO's are increasingly involved in the implementation of schemes for reducing poverty. They are providing credit. A few of them are also extending insurance services to their members and credit users. These services are being provided more or less on rule of thumb basis. Since insurance is a scientific way of dealing with risks and providing security to people it is necessary that this is handled professionally.

It has been observed that micro-credit programmes are to some extent effective in fighting poverty. However, it is unlikely that micro-credit alone can be the solution to poverty reduction. The government/donors and micro-credit providers must find ways to extend micro-insurance services to the poor.

Need for Package Cover

Most of the insurance schemes offered by the NGO's and commercial insurers for lower income group of the society are life insurance products in

various forms. For obvious reasons, the micro-credit users require various non-life insurance covers for proper development of micro enterprise along with life insurance cover.

Therefore, it is felt that a Comprehensive Micro-insurance Policy (CMP) in the context of Bangladesh scenario may be introduced. In order to provide this package insurance product the MFI-NGO's need to co-operate with each other and should formulate a long-term strategic planning for meeting the security needs of the poor.

Considering diversified security needs of the poor, it is earnestly felt that a package cover should be offered. This will be easier for sale and renewal. For convenience, insurers can design several non-life packages, which can be combined with life insurance at the option of the borrower. Non-life package may be linked with credit. This means every micro-credit borrower should be insured by the MFI and the premium amount should be added with the loan amount and to be financed by the MFIs.

For this purpose, Mutual Associations of professionals, micro-credit organizations may be formed and its management should be entrusted to insurance professionals. This is necessary not only to achieve efficiency in operational management but also because regulatory segregation exists between social welfare, banking and insurance services. It has to be kept in mind that technical management of insurance services is different from the credit and saving programmes. Therefore, it is prudent that micro-credit providers (banks, non-Govt. organizations, professional bodies.) should arrange insurance cover through a separate institution.

It may be argued that the proposed package insurance can be offered by the commercial insurers. This would have been ideal if the insurers could do it at the least cost. Operational cost of the insurance companies are generally high because of their high establishment and overhead costs. Moreover, under the present

Insurance Law insurance companies cannot offer both life and non-life products together. On the other hand a mutual insurer has the flexibility to offer both types of products. A natural advantage of mutual ownership is the ability to mitigate conflicts between the policyholders and owners of an insurer. Since policyholders are the virtual owners of mutual insurance companies, it eliminates conflicting priorities of stockholders. Mutuals are virtually co-operative ventures and inhibits a community spirit, which resembles with the philosophy and operation of most of the NGOs.

Advantages of Group Cover

It is felt that Mutual insurers should offer group policies for the poor. Group insurance enables a large number of people being covered under one contract. In case of individual insurance, the contract is with the individual policy holder. The decision to take out the policy is voluntary and the amount as well as plan of insurance is decided by the individual. On the other hand, in case of group insurance, the contract is with the group/association. A single master policy is issued covering all the members, as per agreed terms. Therefore, group policy for micro-credit borrowers, can be issued. The premium will be paid by the respective MFI/NGO or the trustee, or whoever represents the group and takes out the master policy.

Group term insurance is renewable every year and is the simplest and cheapest of all the schemes that a life insurance operator can offer. Under this scheme, a fixed sum is paid on the death of a member covered under the scheme. This scheme would be also appropriate to meet the outstanding loans. MFIs, therefore, should take such policies to cover borrowers at least to the extent of outstanding loans.

When a Mutual Insurer offers group-term insurance, the premium will be charged according to the mortality experience of the group. In case of favorable experience, premiums may be brought down or the surplus that emerges can be passed on to the members of the group.

Apart from micro-credit borrowers, "group term insurance" cover can be made available to other poorer sections of society like landless

agricultural labourers, handloom workers, rickshawpullers, artisans, taxi drivers, cooperative milk producers, tailors, barbers, masons, carpenters etc. In this respect, Social Security Fund need to be created by the government with the help of donors in order to meet emergency. Social Security Fund could be utilized in times of need for providing reinsurance cover of Mutual Insurers.

Extent of Cover

Apart from group life term insurance, the comprehensive micro-insurance policy should include various property and personal risks under different classes. First part of the policy will cover different life risks and the second part will consist of several sections comprising different property risks as follows:

- a. Dwelling house/Business premise and contents may be covered against fire and related perils like riot, strike, storm, cyclone, flood, earthquake, explosion of domestic gas etc.
- b. Stocks and contents (not money) may be covered against burglary and house breaking.
- c. Personal Accident risks of micro-credit borrowers and their spouse and children within the age group of 10 to 65 can be entangled with the package.
- d. Business Interruptions risks (consequential loss) arising out of loss caused by the perils under A category can also be covered.

When comprehensive micro-insurance policy is designed for the farmers, part one will cover the life risks on group term basis and the second part will consist of different classes of risks as follows:

- a. Fire & Allied Perils
- b. Burglary/House Breaking
- c. Personal Accident on self and family members
- d. Cattle & Livestock
- e. Agriculture Equipments/Animal Drawn Cart etc

These package schemes can be offered with the maximum flexibility so that the insured must take insurance against either A & B or both, while other classes of risk cover will be optional to him/her. When all the risks under are covered,

the insured may get discount on the total policy premium.

Mutual Insurance and Takaful

It is no denying the fact that the lack of access to insurance is one of the reasons of our inability to achieve any sustainable and substantial increase in living standards for the poor. On the other hand, we must remember that Islamic Shariah prohibits conventional insurance in its present form and methodology. As a result, penetration of insurance in Bangladesh has been very negligible. It is primarily limited to the urban elite sector. However, Muslim Jurists of recent age have concluded that insurance schemes comprising the elements of shared responsibility, joint guarantee and solidarity is permissible. The fundamental philosophy of Islamic Insurance (Takaful) and Mutual Insurance is the same.

Theoretically, Takaful is perceived as cooperative insurance, where members contribute a certain sum of money to a common pool. The purpose of this system is to uphold the Islamic principles of bearing one another's burden. Takaful, from the practical point of view means mutual guarantee provided by a group of people living in the society against defined risks of life & property. A Takaful scheme aims at undertaking a joint responsibility towards financially safeguarding the widows, orphans and helpless ones in the society, and also the one who faces unexpected loss or damage. Therefore, conceptually mutual insurance is in harmony with the central philosophy of Takaful.

The fundamental principles of Takaful may be summarized as follows:

- a. Policyholders cooperate among themselves, for their common good.
- b. Policyholders contribute to help those who need.
- c. Liabilities are spread out according to the community pooling system.
- d. Transparency, fairness, equity and justice is maintained in the operation.
- e. Shariah based investments are made on the basis of profit & loss sharing.

The basic idea of Takaful system has stemmed from the principle of Tabarru (donation), whereby each participant of the scheme contributes to a

fund that is used to support one another. The objective of Takaful is to pay a defined loss from a common fund created by all the members of the scheme.

It is, therefore, submitted that the proposed Mutual Micro Insurance Associations follow the principles of Shariah in their operation. This will enable the poor people to get access to the required insurance cover at the least cost and will also ensure its accessibility as per the provisions of Islamic Shariah.

What should be done

Since the fundamental concept of mutual and cooperative insurance is conceptually in harmony with the Takaful, it is suggested that the micro finance institutes and the proposed mutual micro insurers adopt the operational mechanism of Takaful. In order to do that the mutual insurers should appoint a Shariah Council to have appropriate Shariah guidelines for the operation of micro insurance products. It would be further necessary that all investment vehicles of the Takaful Funds shall be in total recognition by the Shariah Principles. Reinsurance of Takaful shall also be made in line with the Shariah Principles and be endorsed by the Shariah Council.

In Bangladesh, Prime Islami Life Insurance Limited, the youngest player in the market, has successfully launched its Takaful products both for the urban and rural groups. It has designed group insurance schemes, monthly deposit pension scheme and micro insurance scheme for the benefits of urban and rural poors and lower-middle income groups of the society. Islamic Banks, N.GOs, social welfare organizations, trade unions, professionals associations can either avail these opportunities or entrust Prime Islami Life Insurance Limited the professional management of micro insurance schemes on the basis of mutual cooperation and Shariah Principles. This will open a new way of sharing responsibilities to assist each other. This will help to provide an Islamic way of mutual insurance to deal with the uncertainties of the poor people in their day-to-day life.

Kazi Md Mortuza Ali is the Managing Director, Prime Islami Life Insurance Limited.