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السادة شركات التأمين الأعضاء المحترمين

تحية طيبة وبعد،،،

الموضوع: نشرة ارشادية (رقم ١) صادرة عن اللجنة التنفيذية  
للجنة تأمينات الحياة (التكافل) والصحي

تنفيذاً لقرار السادة مجلس ادارة الاتحاد رقم ٢٦٨٦-٣/٢٠١٦ المتخذ في جلسته  
١٥/الربيع عشر في ٢٠١٦/٢/١١ حول اهمية تفعيل دور اللجان الفنية العاملة تحت اطار  
الاتحاد في تطوير قطاع التأمين من كافة النواحي الفنية المالية والتسويقية من خلال قيام اللجان  
بمتابعة آخر المستجدات المحلية والدولية المتعلقة بأعمال التأمين في كافة فروعها ومنها فرع  
تأمينات الحياة والتأمين الصحي.

يسرنا أن نرفق طياً النشرة رقم (١) الصادرة عن اللجنة التنفيذية للجنة تأمينات الحياة  
(التكافل) والصحي بعنوان (The Jordan Experience on Micro Insurance) آمليين  
الاستفادة من المعلومات الواردة في هذه النشرة.

شاكرين لكم حسن تعاونكم

وتفضلوا بقبول وافر الاحترام والتقدير،،،

نسيم دبابنة  
نائب مدير الاتحاد

المرفقات:

- نشرة توعوية بعنوان (The Jordan Experience on Micro Insurance).

نسخة:

- سعادة الأستاذ فادي سعادة المحترم - عضو مجلس إدارة الاتحاد - منسق اعمال لجنة تأمينات الحياة (التكافل) والصحي.
- السادة رئيس وأعضاء اللجنة التنفيذية للجنة تأمينات الحياة (التكافل) والصحي المحترمين.
- الدوائر المعنية في الاتحاد.

نشرة دورية (رقم ١)

صادرة عن اللجنة التنفيذية للجنة تأمينات الحياة (التكافل) والصحي

بعنوان

(The Jordan Experience on Micro Insurance)

مع تحيات  
اللجنة التنفيذية للجنة تأمينات الحياة (التكافل) والصحي  
الاتحاد الاردني لشركات التأمين

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## **Introduction:**

If you have ever applied for a loan from a bank, you would have experienced the amount of paper work and the many guarantees you need to present in order to gain the trust of your creditor and obtain the loan you need.

Sometimes, you need a guarantor, a minimum salary requirement and perhaps minimum years of employment. The bank could also check the creditworthiness of your employer, and the list goes on and on. These loans are only directed towards people of stable income who can prove they can honor their loan payments over the long run.

By having such high ceilings of requirements, conventional banks were missing out on great opportunities, the lower-income citizens that cannot meet those requirements. Neither party was interested in doing business with the other, each for their own reasons.

However, it has all changed when professor Muhammad Yunus of Bangladesh came up with the concept of Microfinance.

Microfinance provides loans to lower-income borrowers, usually located in areas of low income (cities, towns or provinces). The typical borrower who is very unlikely to be granted a loan from a conventional bank (due to the lack of requirements mentioned above) could apply to a microfinance company to acquire the loan needed to establish his/her small business.

Usually, the amount of the loans are small, and a loan from a microfinance company is short-termed, with settlement periods of up to 36 months; higher amounts may have longer terms.

Branches of the Microfinance Company are not the typical bank branches, with lavish interiors and professional standards. The branches are kept simple in order not to threaten the clients by the huge size of their creditor.

Nevertheless, the Microfinance officers are highly trained professionals who deliver the highest professional standards and are trained to build trust with their clients.

## **Microinsurance and Jordan Insurance Company:**

A new form of life insurance has been introduced in association with Microfinance. This type of insurance is unconventional in this region.

Microinsurance is a term used to refer to low premium, low coverage insurance that services low-income individuals and businesses. Usually, an insurance company unites its operations with a Microfinance company to cover their borrowers.

A typical Microinsurance cover involves the insurance company insuring the lives of those borrowers to settle the loan to the Microfinance Company upon the death of the borrower. Microinsurance coverage could extend to cover aspects other than life

insurance, such as Permanent Total Disability (PTD), medical insurance, property and others.

Jordan Insurance Company (JIC) started its Microinsurance programs in the year ٢٠٠٦. Back then, it was the first insurance company to launch Microinsurance in Jordan. While the entire market focused on traditional types of life insurance, JIC turned its attention to MI and exploited the opportunity to the maximum.

JIC's first experience in this program was in collaboration with one of the leading Microfinance companies in Jordan, Microfund for Women-MFW, which provides loans mainly to women in lower-income areas in order to support them in setting up their own private small businesses. The basic coverage was a life insurance (and/or PTD) sum to settle the loan due to the MFW, as well as an additional sum paid to the beneficiaries upon the death of the borrower (or paid to the borrower in case of PTD).

It was a challenge to come up with the right model for this kind of business, the prices, the procedures (issuance and claims handling), the collection of premiums, and so on. Another challenge was to convince the borrowers to accept the concept. However, to our surprise, and following several focus group meetings that were conducted, they showed acceptance and support; there were no objections to insurance on their part. The idea grew even more popular when JIC honored its part of the deal by paying the beneficiaries a sum insured to replace the lost income of the bread-winner (borrower) upon her death.

Now, and after more than ٦ years of experience, we have reached the highest levels of efficiency in administrating this special type of insurance. We have developed state of the art software solutions to control our procedures effectively and efficiently.

### **Benefits:**

The project started with a simple life and PTD insurance plan that pays the amount of the loan upon the death or disability of the borrower. Then the Microfinance company wanted to stand out and offer something more creative that would give them an edge over their competitors in the market. Hence, the insurance company and the Microfinance Company got together and developed a benefit schedule.

### **Pricing:**

When the project was first launched, having no previous claims experience, it was a challenge to come up with the adequate rate. Thus, there was a risk of mispricing. Nevertheless, both parties, the Microfinance Company and the Insurance Company, coordinated to closely monitor the performance of the scheme; team work, as well as the long-term vision of both parties played a vital role in the success of the entire microinsurance experience.

The table of benefits was amended several times; sometimes the rate increased and at others the benefits decreased. When the right price was reached and the claim record developed positively, we were able to increase the benefits at no additional premiums.

It is very important to incorporate the usual magic ingredients into the rate (overheads, mortality, profits, etc.). As there is little or no underwriting, it is also important for the rate to cater to the undeclared pre-existing medical conditions that leave us with a claim one month after taking the loan.

It was a situation where all three parties benefited: the Microfinancer, the insurance company and the borrower.

Loan Amount	Sum Insured	Monthly Premium	Medical Questionnaire
Less than 000	1000	0.5%0	No
000 - 10000	2000	0.8% 0	No
10000 - 20000	3000	1.2% 0	No
_____	_____	_____	Yes
_____	_____	_____	Yes
+ 100000	_____	_____	Referral to Insurance Co.

The above table allocates the sum insured in accordance with the loan amount. It also depicts the monthly premium that should be collected from the borrower.

It is evident from the above table that the sum insured exceeds the amount borrowed. The excess amount is paid to the beneficiaries of the borrower.

In order for this project to succeed, insurance is obligatory. Accordingly, the law of large numbers is satisfied and the risk is diversified among the large number of borrowers.

Hence, if the sum insured is low, there are no medical requirements. However, as the sum insured increases, more requirements are needed for the insurance company to better assess the medical condition of each borrower. If the sum insured is above a certain limit, then individual medical underwriting is required and a separate application form must be filled.

### **How the System Works:**

#### *Issuance and premium collection:*

The Microfinance company has established branches in areas of low income, where it is not common for an insurance company to be present.

The granting of the insurance is therefore very simple and cost efficient. According to the loan amount, the clerk of the Microfinance company calculates the sum insured and then comes up with the premium for the entire duration of the loan.

For example, a JD 1000 loan amount for 12 month duration is calculated from the table above as follows:

$$\text{Sum Insured JD } 1000 * 0.4\% \text{ (Rate)} * 12 \text{ (months)} = \text{JD } 48$$

The borrower is required to settle this amount (as a single premium for the whole period) to the cashier and enclose the receipt in order to proceed with his/her loan application.

This process eliminates the collection problem, which is one of the major concerns of any insurance company.

At this stage, each borrower is asked to name the beneficiaries in case of death and the names are kept on file and are only released to the insurance company upon the death of the borrower.

As soon as the loan is processed each borrower is entered into a specially designed data form and the details of all new borrowers are sent to the insurance company at the end of every month for processing.

### **Claims:**

Claims handling within this scheme runs as smoothly as the rest of the operation. Since there is little, or no underwriting, all (or most) of the claims are payable under the policy. We do not recall having any claim rejected by the insurance company.

The cost efficiency and speed of payment of claims is also an important factor for the success of the project.

If a borrower dies or is disabled, the microfinance company is informed, and upon receipt of all required documents they are forwarded to the insurance company.

The insurance company is informed of the remaining balance of the loan and is also given the beneficiaries list that was filled in by the borrower at the application stage.

The insurance company calculates the sum insured and pays the microfinance company its share (the outstanding loan amount); the rest of the money is then paid to the beneficiaries (or to the borrower in case of PTD).

For example:

Original Loan amount: JD ٤٠٠

Sum Insured: JD ١٠٠٠

Outstanding Loan Amount at time of death: JD ٧٠٠ (payable to Microfinance Company)

Remaining amount payable to beneficiaries: JD ٧٠٠

It is worth mentioning that this additional amount has had a very positive impact among the borrowers and the social network around them. It has increased the credibility of the Microfinance Company and improved the reputation of the concept of insurance as well.

Although insurance awareness in these areas is at the minimum, the view towards insurance has been well established, with a solid reputation of support and commitment.

### **Enhancements:**

With the passing of time, the insurance company builds its experience and, in coordination with the Microfinance company, can take this experience to new heights.

After coming up with the suitable premium, it was time to increase the benefits.

With the support of actuaries, the benefits were adjusted to include the spouse of the borrower.

Therefore, upon the granting of the loan (and Insurance) the spouse is automatically included in the insurance. (no underwriting, no medical evidence, no separate application form). Nevertheless, the sum insured is a fixed amount and is not related to the loan amount.

Loan Amount	Sum Insured	Monthly Premium	Medical Questionnaire	Spouse Sum Insured
Less than ٥٠٠	١٠٠٠	٠,٤% ٥	No	JD ٤٠٠
٥٠٠ – ١٠٠٠	٢٠٠٠	٠,٨% ٥	No	JD ٤٠٠



١٤٠٠١ - ٢٤٠٠٠	٢٠٠٠	١,٢% ٥	No	JD ٤٠٠
_____	_____	_____	Yes	JD ٤٠٠
_____	_____	_____	Yes	JD ٤٠٠
١٤٠٠٠	_____	_____	Referral to Insurance Co.	JD ٤٠٠

This additional sum insured catered for immediate costs related to the funeral expenses of the spouse.

This enhanced benefit has even increased the loyalty of the borrower and the credibility of insurance.

### **New products:**

(Loss of income)

Upon the success of the above programs, the floor was open to innovation and other creative products.

We have developed the idea of indemnifying the borrower in case of admission to hospital to receive any medical care (surgery, delivery, emergency, etc.)

It does not have to be an accident; any illness that requires the borrower to remain in the hospital overnight is covered under this product.

There are limits to number of nights that can be covered per entry and in aggregate.

The issuance of insurance is very similar to the older product. However, the premium collection is somewhat different.

The premium is the same for all borrowers and is collected on a monthly basis along with each scheduled loan settlement paid by the borrower.

### **Current Standings:**

The insurance portfolio started out with a very modest number of insured members, and has gradually grown to cover more than ٦٠٠٠٠٠ members. This is a substantial figure relative to the population in Jordan.

Today, our client base has grown to include other types of businesses, such as the Asian expats working in Jordan, and includes many benefits other than life insurance, such as repatriation expenses due to medical unfitness and repatriation expenses of mortal remains. Not only did the effect of providing professional Microinsurance operations benefit the reputation of the insurance company, it also had an immediate and direct effect on the reputation of the country.

Key success factors of these programs are: to have an ideal relationship between the Microfinance Company and the Insurance Company, to develop smooth, cost effective operational procedures, and for both parties to commit themselves to providing the highest levels of services.

Finally, the Insurance Company should have faith in the concept of Microinsurance from a humanitarian point of view, as it constitutes a major ingredient in supporting the community and the lower income base of society.

Mazen Nimri , FCII, FLMI

Deputy General Manager

Jordan Insurance Company

[mnimri@jicjo.com](mailto:mnimri@jicjo.com)