Kore W: Catastrophe insurance for microfinance clients -- Fonkoze [1]

About the Project

Project Name: Kore W: Catastrophe insurance for microfinance clients -- Fonkoze
Type of Facility Project: Microinsurance innovation grantee
Country of Operation: Haiti
Region: Latin America and the Caribbean
Sub Topics: Business viability, Business models, Financial institutions, Country experience, Claims, Product development, Partnerships, Improving value, Demand, Composite products, Savings-linked, Property
Type of Distribution Channel: Microfinance institution

Organizational Overview

Fonkoze is Haiti’s largest microfinance institution and is committed to reach through innovative approaches the poorest and to help them take the first steps out of poverty. With 44 branches covering every part of the country, more than 55,000 borrowers, and more than 251,000 savers, Fonkoze and its sister organization Sèvis Finansye Fonkoze (SFF) aim at maximizing financial inclusion throughout the country and at building the foundations for democracy in Haiti by democratizing the Haitian economy. Fonkoze uses the concept of a ‘staircase out of poverty’ to help shape its programs which consists of four steps that together constitute the core programs through which our clients work with our staff and volunteers to pull themselves out of poverty and into a financially secure future for themselves and their families. All along the way, Fonkoze clients are not only participating in loan programs, but are being “accompanied” with education, training, and other important innovative services, like microinsurance.

Project Description

Since a series of devastating hurricanes struck Haiti in the autumn of 2008, Fonkoze has worked to develop natural disaster coverage at a price affordable to the poorest of their microfinance clients. Their product is called ‘Kore W’. The premise of Kore W’s viability and affordability is that both Fonkoze and involved donors contribute to subsidize the premium paid by clients, so that it is just 3 percent of the loan, whereas it would otherwise be 8 per cent. Kore W is catastrophe insurance...READ MORE [2]

Beneficiaries

The project targets Fonkoze’s approximately 50,000 borrowers. These clients are small-scale traders, all of them women, who are predominantly located in rural areas. Vulnerability to natural disasters remains a major barrier for these micro-entrepreneurs to achieve greater economic resilience.

Learning Agenda

Key questions which Fonkoze will seek to answer during this project include:

- Do clients understand and value the catastrophe insurance enough to pay the premium?
- The assessment of clients’ willingness to pay for this product will help Fonkoze assess the potential viability of other insurance products such as health and life insurance that clients have requested for long to the organization.
- Will the use of credit centers to provide rapid loss assessments after a disaster be an effective and low-cost mechanism? If the system is effective, it will reduce the need for a large permanent staff to do thousands of individual loss assessments after a disaster so reducing the operating costs of the insurance product in the long term.
- Will the assessment and settlement of claims be perceived as fair and equitable by clients, resulting in clients’ continued willingness to pay for the product? How will clients respond when claims are paid to some but not all in a community? Will willingness to pay the premium be maintained in areas where no catastrophic events occur, and therefore no payouts are made?

Project Status

Project Updates
As of December 2011 The launch of the project was scheduled for early January 2011. By the 17th January 2011 all Fonkoze’s branches linked Kore W to their new loan disbursements for Solidarity and Ti Kredi clients. The project was implemented quickly in order to protect all these clients before the hurricane season started in July. This speedy implementation meant that staff in the branches and centre chiefs (a client participating in a solidarity group, elected to lead her credit centre) h...READ MORE [3]
Project Lessons

On pricing and demand The standard pricing approach has been questioned by clients from low-risk areas and larger borrowers. Differential pricing would have made it too difficult to implement a new product but is being considered for the future. A single premium is charged to all clients throughout Haiti, while the risks from natural disasters (according to the parametric model) vary widely between regions. Clients’ perceptions of local risk level ...

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On sales force training, client education and communication On-going training, together with integration of microinsurance components into the regular training programme of the microfinance organization, increases knowledge and allows for better and more efficient implementation of the product. Credit agents in all 46 branches of Fonkoze have received formal training from Fonkoze? s training centre. The training director and other training centre staff ...

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On claims processing For a catastrophe insurance product with an assessment process, the capacity of the team needs to be adjusted during the year in order to cope with increased claims during certain periods. During 2011 it took an average of 46 days to pay claims. For smaller events, this timeframe tended to be shorter. A few ?outlier? events were responsible for some of the longer periods. Some events, like those in Mibale and Pomago, were n...

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On business viability Excessive claims have resulted from the multiple perils covered and Fonkoze?s unlimited liability to cover basis risk. This, coupled with potentially inflated loss assessment, has challenged the commercial viability of Kore W. The combination of parametric and basis risk meant that Fonkoze needed to closely observe the development of its basis risk payouts. MICRO retained 85 per cent of the basis risk, with capped liability on each...

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On planning and project management Adequate planning is needed to pilot products that have seasonal coverage. During the launch in January 2011, there was some disruption to Fonkoze's credit operations due to the rushed implementation of Kore W. Fonkoze decided to halt disbursement to wait for the insurance product to be ready. Because of the shortage of time, communication to Fonkoze staff about this product was not sufficient. The team believes that it ...

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