CO-OPERATIVES IN SOCIAL DEVELOPMENT

Theme 1: Identifying and Promoting Good Practices and Addressing Internal Challenges

"The experience of Co-operative Insurance in Kenya, in particular, and Africa in general"

By

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INTRODUCTION

With almost half of the World's six billion people living on less than two dollars a day, alleviation of poverty has become the biggest challenge to the human society. In response, the global campaign against poverty has gained momentum, with various development actors suggesting the use of different instruments to alleviate poverty. There is an emerging consensus among many actors, including the United Nations (UN), the International Labour Organization (ILO), the International Co-operative Alliance (ICA) and the European Union (EU), that the co-operative enterprise is one of the few forms of organization that can meet all dimensions of poverty.

In 2005, the UN through ILO, in recognition of the important role played by co-operatives in poverty reduction, entered into partnership with ICA in an initiative known as "The Global Co-operative Campaign against Poverty: with the theme; "Co-operating out of poverty". The broad argument is that co-operatives have the advantages of identifying economic opportunities for the poor; empowering the disadvantaged to defend their interests; and providing security to the poor by allowing them to convert individual risks into collective risks. Indeed, co-operatives are well placed to bring about equitable development and justice desperately needed as well as social continuity and cohesion for the disadvantaged. It is for this reason too that the UN Secretary-General decided to dedicate his report on co-operatives in 2005 to the role of co-operatives in poverty eradication.

Among the unique and specific challenges faced by the sector is the issue of managing risks at the individual and collective levels. Insurance contributes significantly in this respect as our Kenyan experience reveals. For the co-operative enterprises, their unique risk profiles could not be met adequately by the commercial insurers as the co-operative business model is different from that of other business concerns. Also, insurance appropriately designed to meet the needs of co-operatives can contribute to the development of the sector. Moreover, it has been established internationally that the co-operative model is more successful in delivering insurance services to the low income population.

The history of CIC proves this risk management role of a co-operative insurer especially in relation to the development of SACCOs (Savings and Credit Co-operatives). I shall first review the co-operative movement in Kenya and secondly, appraise the position of SACCOs, which play a significant role in poverty alleviation and wealth creation.

THE CO-OPERATIVE MOVEMENT IN KENYA

The co-operative movement in Kenya may be traced to the pre-independence times with accelerated development in the period immediately after the country attained independence. The movement has played an important role in wealth creation, food security and employment generation and, hence, contributed significantly to poverty alleviation. To date, there are over 11,200 registered co-operative societies country-wide. The membership is over 8 million and has mobilized domestic savings estimated at over $2.5 billion. The co-operatives have employed over 300,000 people besides providing opportunities for self-employment to many more.

The policy objective of the Kenyan co-operative movement is to spur sustainable economic growth by focusing on achievement of desired outcomes through strengthening of the movement, improving co-operative extension service delivery, corporate governance, access to markets and marketing efficiency. The co-operatives have an immense potential to deliver goods and services in areas where both the public and the private sector have not ventured. In most cases co-operatives are local institutions that address "local needs", employ "local talent" and are lead by "local leaders" either directly or through local branches.

The co-operatives in Kenya are organized into service and producer entities and cut across various sectors. The co-operatives have made remarkable progress in agriculture, banking, credit, agro-processing, storage, marketing, dairy, fishing, housing and transport. Service co-operatives are the closest to communities, are organized on a shareholder basis and are formed by individual members of organizations voluntarily working in a specific geographic area.

THE SIGNIFICANCE OF THE CO-OPERATIVES IN KENYA'S ECONOMY

Kenya has a long history of co-operative development that has been characterized by strong growth, thus making a significant contribution to the overall economy. Co-operatives are recognized by the Government to be a major contributor to national development, as co-operatives are found in almost all sectors of the economy. With the total population of Kenya at approximately 40 million, it is estimated that 63% of Kenya's population participate directly or indirectly in co-operative-based enterprises. Indeed, the Ministry of Co-operative Development and Marketing estimates that 80% of Kenya's population derives their income either directly or indirectly through co-operative activities.

Nevertheless, the greatest contribution of co-operatives to Kenya's social and economic development is in the financial sector where financial co-operatives (savings and credit co-operatives [SACCOs], Co-operative Bank and CIC) hold substantial savings portfolios, accounting for 31% of gross national savings. The combined assets of all SACCOs are worth approximately $2.7 billion, out of which approximately $2 billion are members' deposits, which consist of both shares and savings. Of a total turnover of $323.4 million for the entire co-operative movement in 2007, SACCOs posted a combined turnover of $192 million. Agricultural co-operatives' total turnover was $112 million. The Co-operative Bank is now the fourth largest commercial bank in Kenya out of 44 banks.

CIC has had a remarkable growth over the last decade in particular and in 2010, became the 3rd largest in terms of premium income out of 44 insurers. With the co-operative movement playing such a significant role in economic development, the government has over the years maintained an institutional framework to regulate, supervise and develop the movement.

GOVERNMENT ROLE IN CO-OPERATIVE DEVELOPMENT

The government has enacted the Co-operative Societies Act to regulate and oversee development of co-operatives. The Ministry of Co-operative Development and Marketing is the current Government's official agency for coordinating co-operative development in Kenya. As per the current policy, the main duties of the Ministry include: enforcement of the Co-operative Societies Act; registration and liquidation of all co-operatives registered under the Act; formulation of co-operative policy; supporting development of a conducive environment for co-operative growth; registration of co-operative audits; and carrying out of inquiries, investigations and inspections.

As the statistical overview of SACCOs in Africa shows, Kenya has the largest SACCO movement in the continent. The rapid growth of this co-operative subsector necessitated government enacting a special legislation, the Sacco Societies Act, 2008, under which the Sacco Societies Regulatory Authority (SASRA) was established with the following mandate: license sacco societies to carry out deposit taking business; regulate and supervise deposit taking sacco societies; manage the Deposit Guarantee Fund under the trustees appointed according to the Act; and advise the Minister on national policy on deposit taking sacco societies in Kenya.

Africa Statistics

Sample result of the 2009 survey conducted by WOCCU

Countries	No of Saccos	Membership	Savings (USD M)	Loans (USD M)
Kenya	3,996	3,835,250	2,751	2,517
Senegal	681	1,900,212	296	345
Mali	132	1,356,882	120	150
Uganda	2,021	878,912	64	64
Togo	73	873,615	150	125
Ethiopia	5,975	477,817	88	13
Cameroon	203	302,068	193	123
Ghana	409	281,447	94	76
Mauritius	108	92,000	6	58
South Africa	31	20,012	15	11
Ivory Coast	97	2,288,643	218	
Zimbabwe	53	65,000	0.5	
Burkina Faso	70	1441952	163	

Table 1 : STATISTICS BY SACCO SOCIETIES REGULATORY AUTHORITY (SASRA) - KENYA

THE EXPERIENCE OF CIC INSURANCE AS A CO-OPERATIVE INSURER

Nearly 33 years ago, the establishment of CIC by the co-operative movement was and still remains one of the most important milestones in the long quest for self reliance and empowerment in terms of insurance services for the co-operative movement in particular and to the ordinary men and women in Kenya.

It has been established that the co-operative model is more successful in delivering insurance services to the low income population. This is so because of the co-operative structure and philosophy that is an effective and flexible model idea for channeling insurance products to the disadvantaged. In this respect, the strengths of co-operative insurers include: identifying the needs of the poor; trust; reduction of moral hazard, adverse selection and fraud; member education; and empowerment.

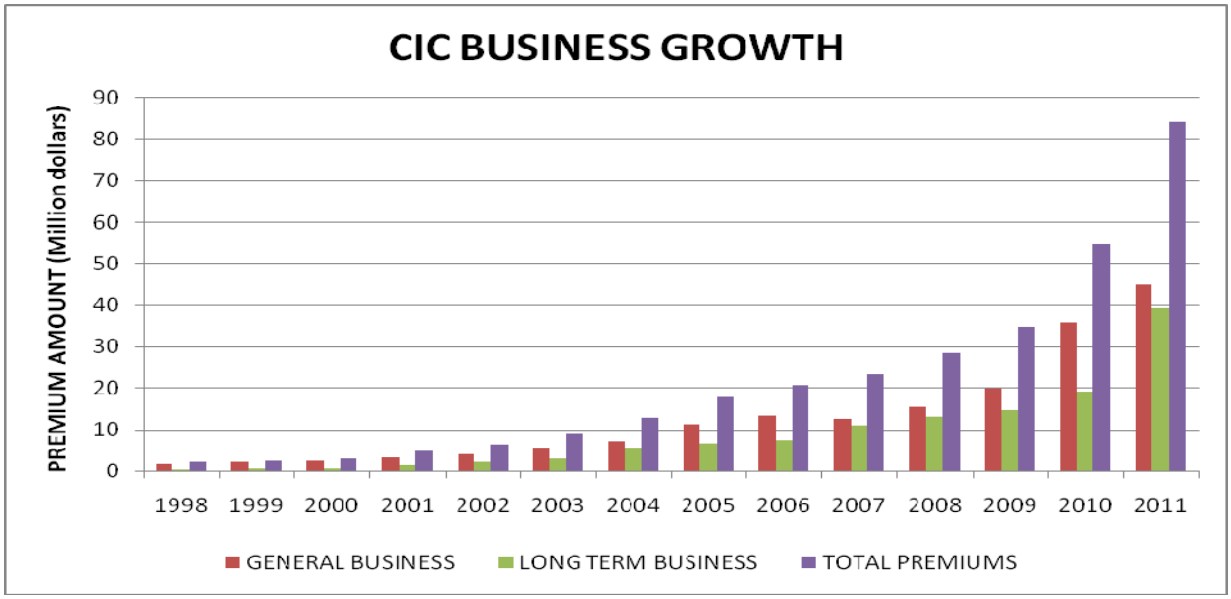
Our unique concern for the ordinary Kenyans including farmers, workers and even those in Jua Kali (informal sector) has given CIC exceptional appeal to many people and organizations and attracted tremendous goodwill for us both locally and internationally.

CIC HISTORICAL PERSPECTIVE

CIC has truly come from far. Indeed, the CIC of today is a complete contrast of the small and captive company which experienced modest growth in the first two decades as attested to by the following statistics:

Premiums grew from $42, 000 in 1979 to $880,000 in 1988 and from $940,000 in 1989 to $2.2 million in 1998

The following graph shows premium growth from 1998 to date in US Dollars.



CIC RESCUE BY INTERNATIONAL CO-OPERATIVE & MUTUAL INSURANCE FEDERATION (ICMIF)

In the second decade, 1989 to 1998, the company's operations were characterized by mixed fortunes and instability. In fact, the situation was so bad that by end of 1995, the company was on the verge of collapsing on account of insolvency and failure to meet the minimum share capital required by the insurance regulator and was almost de-registered by the Commissioner of Insurance.

The company was saved from collapsing by friends in the international co-operative movement who came to the rescue of the company with an injection of $1.1 million in December 1995.

Over and above the capital injection, ICMIF attached two consultants from Canada to CIC to assist in reviving the company between 1996 and early 1998. However, even after the hefty injection of capital and assistance in terms of consultancy by ICMIF, the turn-around of the company was very slow and the consultants started being skeptical about the company's survival. By end of 1998, the consultants recommended that the CIC be sold to a private insurance company so that the ICMIF members could recover the money invested in the company in 1998.

CIC TRANSFORMATION

Despite the dire circumstances, the board and management were convinced of the viability of the company. A new strategic direction could provide the way forward. Since inception, CIC operated without a strategic plan, little wonder then that the company almost perished! In our efforts to salvage the company, we were acutely aware of the urgent need for transformational rather than incremental changes as a means of ensuring our company's survival. We did not have the luxury of much time; it was indeed, a case of "do or die".

The under-pinning of CIC's transformation was in the first and second strategic plans in the period 1999-2003 and 2004-2008 respectively. The current third strategic plan running from 2009 to 2013 and the recent long-term posturing seek to consolidate and entrench the transformation achieved so far.

The transformation of CIC is a shining and classic example of ICMIF's assistance, and a demonstration of the principle of co-operation and value of solidarity which are the tenets of the co-operative movement. In the ensuing turnaround, CIC was not only able to liquidate the international debt but also paid dividends to the external shareholders as well as redeeming their equity.

CIC OWNERSHIP AND BUSINESS STRUCTURE

As mentioned earlier, CIC is wholly owned by the Kenyan co-operative movement with share capital of USD14.5 million. This is the most highly capitalized insurance company in Kenya. The company is in a strategic partnership with Co-operative Bank, the largest shareholder.

CIC is the leading co-operative insurer in Africa. It underwrites all classes of both life and non-life business and is the pioneer and largest provider of microinsurance in Kenya.

Developing partnerships has been a key strategy enabling the company to customize products that meet the needs of the various market segments. For example, the strategic alliance with Co-operative Bank has enabled the company develop insurance packages covering the bank's credit services. The same model is now being applied to SACCOS, other banks and microfinance institutions. CIC places dual emphasis on financial sustainability and operational efficiency by using ICT to enhance productivity and cost reduction, and also by employing innovative risk mitigation techniques.

CIC by applying the co-operative principle of education and training runs various seminars, workshops and gives presentations during co-operative activities to sensitize co-operators on good practices and enhance good corporate governance in the sector. Other issues that are covered during these educational activities include: effective leadership, importance of strategic planning, proper management of scarce resources, enlightening on quality services, HIV/AIDS awareness and better risk management.

In the same line, CIC played a role in making recommendations towards legislation that favors the SACCO subsector. Further, it has set the example of becoming more competitive through better focus, products and service provision, understanding customer needs, and becoming creative. Similarly, there is injection of business culture that facilitates specialization, diversification and networking while fostering interaction with "common bond".

While CIC has been competitive in providing quality insurance products for higher income groups, it has actively pursued the provision of low ticket insurance packages and services to the low income households through microinsurance packages. Being a co-operative enterprise, we believe that the social and economic objectives are not mutually exclusive and that they, indeed, reinforce each other in business. Promotion of social objectives has been a source of tremendous goodwill for CIC and has translated into increased business. This has also been a driver to developing and providing microinsurance to the low income population.

MICROINSURANCE IN KENYA

An estimated 32.6million people in Kenya live on less than $5 per day. Of this group, it is further estimated that 9.6million adults earning between $2 and $5 per day are potential consumers of microinsurance products.

Existing microinsurance initiatives use links with informal savings societies, MFIs, SACCOs and banks as well as the more traditional methods, such as insurance agents, to distribute products in this market. There have also recently been efforts to use mobile phone technology as a distribution channel, the success of which will emerge in the near future.

The current insurance regulatory framework in Kenya is aimed at traditional insurance providers, with little recognition of co-operative/mutual and microinsurance business as distinct from mainstream insurance business. Microinsurance schemes therefore currently have to comply with the onerous

requirements of traditional insurance business. Earlier this year, the Insurance Regulatory Authority commissioned a survey of the country's microinsurance market as a first step towards policy reform within the legislative and regulatory spheres that will ensure a more suitable framework for microinsurance operations and CIC being a member of the task force has played a critical role in this exercise.

Along with the current regulatory challenges, a number of other obstacles to selling microinsurance are evident in the Kenyan market. Kenyans identify their major risks as loss of a breadwinner's income, losses due to drought or famine, and large medical costs following a family member's illness. Despite this recognition of the risks that many people face, insurance appears low on the list of coping strategies employed, with other methods being far more prevalent, such as savings, welfare groups, loans and family support. There is a very low awareness of the existence and meaning of insurance, with only very few people understanding what insurance really is, and further, a general perception that insurance is expensive besides negative perceptions of insurance companies. Insurance penetration in Kenya among low income earners is very low, with the majority of insurance used in this market being the compulsory 3rd party motor insurance, government health and superannuation schemes from the National Health Insurance Fund (NHIF) and National Social Security Fund (NSSF) respectively.

The compatibility of co-operative principles and microinsurance philosophy has imposed on co-operatives and mutual insurers a special obligation to embrace the moral duty of spreading insurance awareness and services to the poor who have no access to insurance protection from traditional insurance providers. It has been established that the co-operative model is most successful in delivering insurance services to the low income population, more so in developing countries, where insurance is still perceived as elitist and the preserve of the rich. CIC as a Co-operative insurer is committed to continuing to play the leading role in provision of microinsurance in Kenya and the region.

CO-OPERATIVE MICROINSURANCE IN AFRICA

There are more examples from across Africa showing other types co-operative microinsurance activities. These are CNMA (Algeria), Unique (Ghana), CIF (Burkina Faso), GMC (Cameron), NCIS & MBA (Nigeria), SAFOBs (S. Africa) and PAMECAS (Senegal).

INTERVENTIONS FOR IMPROVING ACCESS TO MICROINSURANCE

Advocating micro-insurance is still needed in emerging markets where there is a need for it to be recognized and appreciated as an integral tool in fighting poverty. The poor don't need our sympathy or pity; they need empowerment through appropriate solutions. To achieve this, the following issues need to be considered:

- Creating a strong supportive policy framework

- Increasing public awareness and understanding of microinsurance at both regulator and other stakeholders' levels
- Building strong strategic partnerships and alliances
- Extending improved risk protection services to the poor and the disadvantaged as proof of results.
- Mobilizing resources needed to implement strategies for micro insurance.
- External challenges in developing Microinsurance in Kenya
- Consumer awareness and education
- The perception that insurance like other financial services is for the rich. Most low income earners are not aware of the availability of microinsurance solutions that suit their income levels
- Advocacy should be anchored on facts and be sensitive to the emerging developments. Therefore, research is needed to maintain linkage between policy and reality.

Most of the above issues can be addressed by a consolidated consumer awareness and education campaign, with support from the industry, the government and international development partners.

THE PAST AND FUTURE INTERNAL AND EXTERNAL CHALLENGES

Co-operative enterprises, like other many business entities in Africa, are faced with challenges in their quest towards survival and growth. There are varied internal challenges including: deficiency in contemporary skills; leadership and governance problems; inadequacy of resources; insufficient technological development; quality service demand; HIV/Aids pandemic; and ethics and integrity.

The major external challenge is the market served. Co-operative and mutual insurers deal with a market which is usually marginalized by conventional insurers. In particular the micro insurance sector is ignored by most companies. This is because of considerable developmental and marketing expenses besides the low premiums making the building of critical mass challenging for break even.

Other external challenges are: economy; competition; political /government; technological; social; global; and "common bond" (for SACCOs).

CONTRIBUTIONS OF INSURANCE AND OTHER FINANCIAL CO-OPERATIVES TO SOCIO-ECONOMIC DEVELOPMENT

Insurance and other financial co-operatives contribute materially to economic growth by improving the investment climate and promoting a more efficient mix of activities than would be undertaken in the absence of risk management instruments. This contribution is magnified by the complementary development of banking and other financial systems. The indemnification and risk pooling properties of

insurance facilitate commercial transactions and the provision of credit by mitigating losses as well as the measurement and management of non diversifiable risk more generally. Most fundamentally, the availability of insurance enables risk averse individuals and entrepreneurs to undertake higher risk, higher return activities than they would do in the absence of insurance, promoting higher productivity and growth.

Insurance and banking system deepening appear to play complementary roles in the growth process. Although insurance and banking separately each make positive contributions to growth, their individual contributions are greater when both are present. There is also some evidence that the development of insurance markets contributes to the health of securities markets. Further, the financial co-operatives and insurance offer the following contributions:

Financial co-operatives provide an alternative channel to ordinary people to improve their quality of life and to meet their basic needs at affordable cost. Members can get better and more secure return on their savings, and access to loans at more affordable interest rates. The mission of the co-operative is to improve the welfare of its members unlike the commercial enterprises that make excessive profits at the expense of customers.

For co-operatives to remain competitive, they have to invest in cost effective and appropriate technology and use it to reduce operational cost and improved quality of service. Co-operatives have a marketing advantage in the competition for business and loyalty of customers through co-operative philosophy of service to its members and not to make exploitative profits at their expense.

Co-operatives help create more equitable growth. They help make markets work better for poor people by generating economies of scale, increasing access to information, and improving bargaining power.

Co-operatives can provide an opportunity for self determination and empowerment of poor people. They foster a culture of good citizenship and enable their members to have a voice and participate in a democratic process, thus having empowering development effects beyond their economic benefits.

Co-operatives can help with conflict resolution, peace-building and social cohesion. Where co-operatives bring together people of different religious, ethnic and political groups they can build trust and solidarity leading to greater social stability. Co-operatives have been found to contribute to recovery from conflict by fostering positive relations between ethnic groups.

Co-operative and mutual insurance bring about the solidarity principle that enables aggregation ensuring insurance access to people that could otherwise be excluded. Co-operative insurers are able to measure and manage risks thereby increasing entrepreneurial activities as a result of greater efficiency in capital allocation.

Co-operatives contribute in human resource development through school fees loans, training and dissemination of information to its members.

Financial co-operatives can provide services to people far beyond the reach of current formal banks. They enable greater access and availability of vital financial services such as credit, and in some cases

remittances (money transfer) and insurance, by providing outlets closer to where people need them and by allowing people to bank smaller deposits and open an account on a lower minimum salary.

Financial co-operatives can provide low cost services. Financial co-operatives are not just profit maximizing entities and any surplus is used to offer members more affordable loans, higher returns on savings, lower fees or a wider range of products.

At the grassroots, insurance can be provided to the underserved population on a sustainable basis using the cooperative model. The cooperative insurer is in a better position to serve the needs of the poor and has a history of providing necessary services. The benefits of the cooperative structure are at its greatest at the local level, the strong community relationship, good user networks, member involvement and democratic process encourages greater trusts and taps into policyholder's know-how, loyalty and ideas.

As members are owners of the scheme they have greater incentive in making the scheme work and preventing fraudulent behavior. Community involvement also reduces resources required for information collection, education, marketing and monitoring policyholders. The close proximity to the member enables more frequent premium collection and speedier claims settlement.

The cooperative knows its customers better than anyone else, their interests, issues and consumption processes; it can adapt to reflect their changing needs and circumstances. Not only does the cooperative provide insurance products but also additional services such as education, risk management, health advice, community support all with the focus on improving members' livelihoods.

With their common overriding objective, co-operatives have a history of working together not only locally but also globally, sharing experiences and finding innovative ways to better serve their members.

CONCLUSION

To reach large numbers in the low income sector with financial services requires building an inclusive financial sector that has diverse range of providers offering products and services capable of meeting diverse needs of different segments of the population down to the lowest strata of the society.

Partnerships and strategic alliances are very crucial in the development of the micro insurance for low income households, a market that has been largely neglected by commercial insurers.

Promotion of microinsurance should be seen as one way of promoting social and economic justice especially in developing countries which are ravaged by poverty, diseases and hunger. In Africa, microinsurance is certainly the next frontier of insurance development and has enormous potential for growth.

Once again, I emphasize that the cooperative structure and the cooperative philosophy are effective and flexible in satisfying the needs of the poor. This makes the cooperatives model very ideal for channeling insurance products to the masses.