

Expert Group Meeting  
Innovative Finance for Sustainable Development  
19 October 2007

**MICROINSURANCE & HIV/AIDS IN ZAMBIA:  
A Case Study of Madison Insurance Company Zambia Ltd.**

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# 1. National Context of Zambia

- ✔ Zambia is a landlocked country located in South Central Africa.
- ✔ It has a population of about 11.1million people.
- ✔ Zambia's economy was largely dominated by socialist features until the early 1990's when it opened up to the private sector.
- ✔ Zambia's economy is based largely on copper mining .
- ✔ Agriculture and Tourism are some of the sectors that the current Government is committed to developing -- seeing potential in the natural resources Zambia possesses.
- ✔ Efforts by Government to develop other sectors to be prominent in the economy follows the unfavourable prices of copper
- ✔ Socio-economic indicators show that Zambia is not doing well.

# 1. National Context of Zambia (Contd.)

- ✦ The 2000 census showed the overall poverty at 73% and extreme poverty at 58%.
- ✦ Formal employment absorbs 18.3% of the Zambia working population. 40% is engaged in informal economy and the balance either unemployed or involved in agriculture.
- ✦ Currently 73% of Zambians are classified as poor.
- ✦ Poverty is more prevalent in the rural areas than urban areas (83 % and 56% respectively).
- ✦ Poverty in the Zambian context can be defined as lack of access to income, employment opportunities, and entitlements for citizens such things as freely determined consumption of goods and services, shelter and other basic needs of life.
- ✦ The quality of health care in public hospitals is generally poor.

# 1. National Context of Zambia (Contd.)

- ✦ Infant and maternal mortality still remains high due to the ever increasing poverty levels and prevalence of HIV/AIDS.
- ✦ HIV/AIDS remains a crucial problem for Zambia though malaria remains the number one killer “15.6% of the adult population is HIV+”.
- ✦ The falling life expectancy in Zambia is largely attributed to the increasing poverty levels and the prevalence of HIV/AIDS.
- ✦ However since the 4th quarter of 2005, the Zambian economy started showing some positive indicators such as reduced inflation and lending rates and an exchange gain in the local currency.

# 1. National Context of Zambia (Contd.)

- ✔ These continued throughout 2006 though at the start of 2007, there seems to be a reversal in the trend again.
- ✔ The improvement has been attributed to the increases in the national copper production and prices at the international market.
- ✔ However these positives in the economy are yet to be felt by the common man.
- ✔ Therefore the major challenge facing Zambia is poverty eradication and economic growth for national development.
- ✔ Appendix 1 shows a summary of some of the major statistics of the Zambian economy .

## 2. Madison Insurance Company Zambia Ltd.

- ✔ Madison Insurance Company Ltd. was the first private insurance to commence operations in Zambia, on April 1 1992.
- ✔ It started as a subsidiary of Meridian International Bank based in Nassua, Bahamas .The collapse of the meridian group in 1995 adversely affected the company.
- ✔ One the measures taken to save Madison Insurance Company Ltd. was the offer for management buy out. LSA under the leadership of Lawrence Sikutwa – MD (LSA).
- ✔ The share of the management buy out has increased over the years as other shareholders have sold off their shares.
- ✔ Currently Madison Life Insurance Company is a wholly owned Zambian company.

## 2. Madison Insurance Company Zambia Ltd. (Contd.)

- ✔ Madison's interest in microinsurance began with a request from a Microfinance Institution (MFI).
- ✔ At the time, Madison had just developed a credit life policy for commercial banks that was easily adapted for MFIs.
- ✔ The dealings with the MFIs have since increased over the years making Madison the leading Insurance Company in the country not only in microinsurance but in the Life business.
- ✔ Madison Life now has dealings with the Major MFIs (as shown in appendix 2)

### 3. Overview of Microfinance & Microinsurance in Zambia

- ✔ The role of microfinance is to provide finance to low income earners and small scale entrepreneurs.
- ✔ MFIs are operating in an environment without specific regulatory framework.
- ✔ There is no explicit Government policy on microfinance, though the state has been rendering support to microfinance concepts.
- ✔ The state however does not provide any form of direct assistance or subsidy to microfinance.
- ✔ Formal microinsurance began in 2000 and transactions have increased dramatically since 2001.
- ✔ However, the range of microfinance products have remained narrow with most products being closely linked to micro credit.



### 3. Overview of Microfinance & Microinsurance in Zambia (Contd.)

- ✔ The concept of microinsurance is still not widely appreciated in Zambia.
- ✔ A few examples of informal or unregistered insurance activities, such as funeral funds, can be found in market places and sometimes among church congregations in which weekly premiums ranging from US\$0.13 to \$0.33 are made. The premiums rates are not based on an actuarial analysis but on what the members can afford (Manje and Churchill 2002).
- ✔ Madison Zambia Ltd was the first insurance company to provide micro insurance to low income households through the MFIs.
- ✔ MFIs provide insurance to the low income households in order to protect their loan portfolios from default caused by death and illness. These two problems are the primary risks confronting their clients.

### 3. Overview of Microfinance & Microinsurance in Zambia (Contd.)

- ✔ Most MFIs issue loans through some type of group lending method that places an emphasis on mutual guarantees and peer pressure. Collateral requirements are usually replaced by the guarantee of the group members, although this is often supplemented by cash collateral.
- ✔ If a member of the group is ill or dies, the MFI usually expects the group to repay that member's debts—a requirement that sometimes causes the whole group to default.
- ✔ In this respect Insurance plays a vital role of keeping groups intact by paying off the amount owing by the incapacitated member of the group.

# Microfinance Institution-Delivery Models

- ✓ PRIDE Zambia: Solidarity group and individual lending
- ✓ PULSE: Solidarity group and individual lending
- ✓ CETZAM: Trust banks, solidarity group and individual lending
- ✓ FINCA Zambia: Village bank

## 4. Performance of Microinsurance for Credit Business

- ✔ The performance of microinsurance accounts under Madison Life Insurance Company has been very successful. Microinsurance transactions have increased dramatically since 2001 (appendix 2).
- ✔ When the business started Madison Life Insurance Company had a lot of reservations but over time realized that the business is viable and profitable.
- ✔ However this achievement has not been without difficulties on our part, like lack of full client details, late submission of costing data and a lot of data entry being done because data is provided as hard copies, late payment of premiums, late claim intimations , poor documentation of claims and Fraudulent claims.

## 4. Performance of Microinsurance for Credit Business (Contd.)

- ✦ On the other hand the performance has also been impacted with the unique factors affecting the MFIs which results in the serious reduction in numbers of clients.
- ✦ The general causes of dropouts and delinquency include low staff morale, high staff turnover, inadequate staff training, client dissatisfaction, prevalence of death and illness among clients and multiple borrowing (Musona 2004) Failure to manage the growth is another factor which is compounded by the lack of tools like computers and other control measures. These factors affect the MFIs from time to time.
- ✦ Currently Pride Zambia is experiencing such.

## 5. HIV/AIDS & Microinsurance

- ✦ The first HIV/AIDS case was reported in Zambia in 1985.
- ✦ Sub Saharan Africa has an overall prevalence rate of 7.5%, which makes Zambia one of the African Countries with a particularly high prevalence of HIV,(UNAIDS 2004)
- ✦ Initially, the epidemic of HIV/AIDS cases was in urban areas, but it soon became clear that the entire country was affected.
- ✦ The Zambia Demographic and Health survey (ZDHS) 2001-2002, showed that 15.6% of the adult population in Zambia is HIV positive, 23% in urban areas and 11% in rural areas.

## 5. HIV/AIDS & Microinsurance (Contd.)

- ✦ The Zambian government was quite slow in its effort to start the fight against HIV/AIDS as more effort was concentrated on the ailing economy .
- ✦ However from 2000, with the formation of the National AIDS Council, the government took a more deliberate policy to tackle the problem of HIV/AIDS and its impact on the nation.
- ✦ The emphasis is now being placed on the Voluntary Counseling and Testing (VCT).
- ✦ MFIs have also taken up the initiative of educating their members on HIV/AIDS and its impact on enterprises.
- ✦ The rapid spread of HIV/AIDS has had an increasingly adverse impact on the operations of small and micro enterprises and the livelihoods of low-income households.

## 5. HIV/AIDS & Microinsurance (Contd.)

- ✦ In communities where HIV/AIDS is most concentrated, enterprises have experienced increased production costs, reduced profits and greater difficulty delivering products and services. Entrepreneurs experience long periods of absenteeism, extensive out-of-pocket expenses for medical care, and the trauma of caring for family and friends who are ill with HIV/AIDS.
- ✦ The risk and cost of HIV/AIDS on small and micro enterprises are particularly chronic given the limited amount of human and financial resources at their disposal.
- ✦ The negative impact of HIV/AIDS on the low income people can never be over emphasized. This can be confirmed from the number of death claims that are reported and also the cause of death.



## 5. HIV/AIDS & Microinsurance (Contd.)

- ✦ What role has micro insurance in mitigating the impact of HIV/AIDS, particularly for small and micro enterprises and low-income households?
- ✦ Musona (2003) indicated that, microfinance services slow down the spread of HIV/AIDS by economically strengthening poor communities especially women.
- ✦ The credit life and funeral insurance offered by Madison addresses the death and sickness risks faced by the MFIs and their clients. Without insurance, in the event of a client's death, MFIs have to write off the loans or insist that the group members pay, which increased their dissatisfaction and could lead the entire group to default.

## 5. HIV/AIDS & Microinsurance (Contd.)

- ✔ Similarly, if members were ill and unable to pay an installment, the other members had to pay for them. Insurance has a remedial measure, mitigating the effects of sickness and funeral expenses for low income households and MFIs.
- ✔ Group members are no longer responsible for the loan in the event of death or prolonged illness, and are now willing to include members who might be HIV positive as long as they appear to be physically well at point of getting the loan.
- ✔ Insurance cover therefore has helped HIV/AIDS infected members to have access to the loans despite their state as long as they are physically fit to work which also creates a sense of belonging for them.

## 6. Health Insurance

- ✔ Madison Life Insurance has been in the health insurance business since 1994 through its agency called Madison Health Solutions (MHS).
- ✔ This portfolio has always targeted corporate organizations and individuals in the high income earners brackets.
- ✔ The product comprises both in-patient and out patient components with limits of cover.
- ✔ However, since its inception, this line of business has been loss making.
- ✔ Apart from the high administrative expenses, the claims experience has also been very bad.

## 6. Health Insurance (Contd.)

Reasons MHS has made losses over the years despite its targeted market:

- ✔ **Large number of claims.** Health business experiences a lot of claims because of the nature of the product which allows individuals to visit the health centre as often as possible which results in the insured making a number of claims.
- ✔ In addition, the health services are quite costly and the large numbers of claims results in huge amounts being paid out.
- ✔ **HIV/AIDS impact has also led to the losses.** As stated above Zambia's population is highly infected with the virus even though most people have not done the test. Whose impact on the policy performance has been that the policy is paying for the symptoms of the disease and these results into a large number of claims to be bone by the insurer.

## 6. Health Insurance (Contd.)

Reasons MHS has made losses over the years despite its targeted market:

- ✔ **Inadequate Medical Facilities.** The inadequacy of medical facilities in the country has also contributed to huge losses. Most of the insured under this policy will end up at a private clinic because the government facilities are so poor and lack the essentials of a hospitals like nurses, doctors, equipment and medicines. This has resulted in high medical bills from private hospitals that have these facilities as there is no subsidy from the government and its strictly business for them.

In addition, hospitals charge exorbitant prices because they know that the insurance policy will pay. All these accumulates into huge bills to be met by the insurance companies.

- ✔ **Fraud.** The health insurance in Zambia is also open to high levels of fraud where the insured's under an organization will let the members of their family attend hospitals using their cover

## 6. Health Insurance (Contd.)

Reasons MHS has made losses over the years despite its targeted market:

- ✦ **Lack of Reinsurance Support.** We have had difficulties getting reinsurance support. Most reinsurers are not in this line of business and therefore the risk is not being spread and there is no financial or technical support.
- ✦ **Administrative Cost.** The administrative costs of running this business are quite high whether operations are computerized or not. The expenses of non computerized systems include data entry, failure to track limits to avoid cases where insured go beyond their limits, failure to deduct excess etc.
- ✦ On the other hand computerized operations have huge costs of acquisition of the required systems, costly maintenance and subscription fees – making this business very costly to run.

## 7. Application to Micro Health Insurance

- ✦ Therefore MHI in Zambia has not been introduced because of the challenges outlined, that have to be minimized or overcome considering the market we want to work with.
- ✦ The Association of Microfinance Institutions of Zambia (AMIZ) has asked for an extension of product range to include health, which we are unable to provide now until we come up with better mechanisms for implementation and we think the Partner – Agent Model would be ideal.

**The End**

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