GUIDEBOOK

Partners and Action

Financial Institutions and Health, HIV & AIDS Risk Management
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This Guide, "Partners and Action: Financial Institutions and Health and AIDS Risk Management" is the outcome of the Working Group on HIV & AIDS Risk management that was established by the AfriCap Microfinance Fund (AfriCap).

AfriCap is a $15 million equity investment fund dedicated to the microfinance industry in Africa. AfriCap integrates a number of elements in each investment package, similar to the venture capital model, providing active governance, management advice and technical assistance in addition to equity and quasi-equity capital.

AfriCap established the Working Group on HIV & AIDS as AfriCap and its investors were concerned with the fund's exposure to HIV & AIDS risks given the fund's African focus, where 60% of HIV infected people live. The working group was established to develop a practical risk management tool, based on a code of conduct, to mitigate the risks of the HIV & AIDS pandemic and to enhance the sustainability of Microfinance Institutions (MFIs). A list with working group members can be found in Annex 3.

AfriCap's Working Group on HIV & AIDS met in November 2005 in Nairobi, where discussions were held to identify key issues in MFI HIV & AIDS risk management, and input was sought on risk controls (including insurance), healthcare linkages and ethics or principles underlying HIV & AIDS risk management. It was agreed that the Guidebook emerging from this initiative should be applicable to all kinds of health risks (including malaria, TB, etc.) to which clients and their MFIs are exposed, although HIV & AIDS has a more explicit mention. This Guidebook builds upon the outcomes of the Working Group meeting held in Nairobi in November 2005.

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1 While it has only 10% of the World Population. Source: UNAIDS, AIDS epidemic, update December 2006
**ACKNOWLEDGEMENTS**

The Guidebook has been developed by Dominic Liber from "Quindiem Consulting (Pty) Ltd" in South Africa (dominic_liber@quindiem.com) and Carolijn Gommans from "Just Good Business" in Zambia (carolijn@gommans.nl).

The authors would like to thank Kiendel Burritt, Mia Sichelkow and Lars Olof Hellgren from Africap for their invaluable feedback and support during the development of the Guide.

Our thanks also to the review group, whose detailed comments on the first draft of the Guide have contributed greatly to improving the product (in alphabetical order): Frances Bundred (ECIAfrica), Craig Churchill (ILO), Gillette Conner (IFC), Sabine Durier (IFC), Colleen Green (DAI), Gerry Noble (Microcare Uganda), Patrick McAlister and Evelyn Stark, (USAID).

We would like to thank Janice Angove from Quindiem Consulting for her contribution to development of the Tool and overall assistance and Annamarie Bindenagel of AICC in South Africa for her initial contributions to Chapter 5.

Our acknowledgements also go to the Africap Working Group on HIV & AIDS and Microfinance, whose deliberations were the seeds that led to this Guide. The working group consisted of three task forces as follows:

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<td>Quindiem SA</td>
</tr>
<tr>
<td>Abenaa Addai</td>
<td>Socremo, Mozambique</td>
</tr>
<tr>
<td>Andrea Kennedy King</td>
<td>IFC SFMF</td>
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<tr>
<td>Carolijn Gommans</td>
<td>Freelance</td>
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<td>Craig Churchill</td>
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<tr>
<td>Edvardas Burnsteinas</td>
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<td>Evelyn Stark</td>
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<tr>
<td>Jozefina Cutura</td>
<td>IFC GEM</td>
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<tr>
<td>Merunisha Ahmad</td>
<td>IFC</td>
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<tr>
<td>Mwajaje Joe Bishota</td>
<td>African Life</td>
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<tr>
<td>Rehema Mutazindwa</td>
<td>Pride Uganda</td>
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<tr>
<td>Wanjane Diouf</td>
<td>Africap Fund</td>
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<td>Wolfgang Heouple</td>
<td>Bankakademie Int</td>
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<td>Dr. Gerry Noble</td>
<td>MicroCare, Uganda</td>
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<tr>
<td>Claudia McKay</td>
<td>Opportunity International, Malawi</td>
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<tr>
<td>Daniel Greymore</td>
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<tr>
<td>Daoudia Sakhro</td>
<td>MFD, Senegal</td>
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<tr>
<td>Dr Julia Kim</td>
<td>The Small Enterprise Foundation</td>
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<tr>
<td>Joseph Geita</td>
<td>EBL, Kenya</td>
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<tr>
<td>Maximilian Muhula</td>
<td>Pride Tanzania</td>
</tr>
<tr>
<td>Noileen Dube</td>
<td>IFC</td>
</tr>
<tr>
<td>Sabine Durier</td>
<td>IFC, USA</td>
</tr>
<tr>
<td>Vincent Tlhon</td>
<td>National Dept of Health, RSA</td>
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<td>Alice Chapple</td>
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<td>Bintou Ka-Niang</td>
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<tr>
<td>Bridget Kazembe</td>
<td>Zambuko Trust, Zimbabwe</td>
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<tr>
<td>Lars Olof Hellgren</td>
<td>Africap Sweden</td>
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<tr>
<td>Patrick McAlister</td>
<td>Facilitator, Consumer Protection, Working Group</td>
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Finally, we must thank the key donors without whose support this project would never have been possible. A brief overview of each is provided in the following two pages.
International Finance Corporation

IFC, the private sector investment arm of the World Bank Group, is a global investor and advisor, committed to building a sustainable private sector in the developing world, thus helping reduce poverty and improve people's lives. As a development bank with the goal of furthering the sustainable economic development of the private sector in emerging markets, it is important to address and try to overcome the obstacles for businesses. In Africa, HIV/AIDS is among the most serious issues affecting business and private sector development. Acknowledging the significant threat to the business enabling environment in Africa, the Sustainable Financial Markets Facility (SFMF), the Gender-Entrepreneurship-Markets (GEM) initiative, and the IFC Against AIDS program supported AfriCap in developing these risk management tools for Microfinance Institutions.

The Sustainable Financial Markets Facility (SFMF) is a capacity building and technical assistance program strategically focusing on the environmental and social aspects of finance and investment in emerging markets. SFMF works with financial institution clients of IFC and non-IFC clients to facilitate the integration of environmental and social considerations into their lending and investment practices in emerging markets. Additionally, SFMF helps them to identify market opportunities related to environmental and social issues.

Recognizing that aspiring businesswomen are often prevented from realizing their economic potential because of gender inequality, IFC launched the Gender-Entrepreneurship-Markets (GEM) initiative in December 2004. The program aims at mainstreaming gender issues into all dimensions of IFC’s work, while helping to leverage the untapped potential of women and men in emerging markets. In addition to internal capacity building and adding a gender dimension to IFC investment projects, GEM interventions include advising governments on the gender dimensions of the business enabling environment, and assisting financial institutions to better reach out to women entrepreneurs in emerging markets.

The mission of IFC Against AIDS is to protect people and profitability by being a risk management partner, HIV/AIDS expert and catalyst for action where HIV/AIDS is threatening sustainable development. This mission statement encapsulates our strategy and role in the area of HIV/AIDS, as a development organization (in all regions), as a risk management partner and an HIV/AIDS expert (particularly in Africa), and as a catalyst for action (in regions where the overall rate of infection is relatively low, but where new infections are increasing rapidly - the "hot spots" for HIV/AIDS today, namely Russia, China, and India). Ultimately the goal of the program is to accelerate the involvement of private enterprises in the fight against HIV/AIDS, with IFC playing a leadership role in demonstrating the role of the private sector in this area.

Global Business Coalition against HIV/AIDS

The Global Business Coalition on HIV/AIDS (GBC) is the pre-eminent organization leading the business community’s fight against HIV/AIDS. It seeks to harness the individual and collective power of the world's top corporations to fight the spread of AIDS at the local, national and international levels. To accelerate the corporate community's involvement in this important global health crisis, the GBC acts as a central hub for businesses that want to make a difference. The global network is active across four continents and includes hundreds of member companies.

Business is doing a fraction of what it can do to address HIV/AIDS. And yet it makes strong business sense for companies to respond to the epidemic. Increased costs, loss of productivity and overall threats to the foundations of the economies in which they operate threaten the bottom line. The workforce is placed at increasing risk, with the epidemic disproportionately affecting people during their most productive years. The GBC's strategy to increase business action in the workplace involves both advocacy with business leaders to convince them to act, and the identification of workplace "best practices" to help them implement proven initiatives. HIV/AIDS is a critical issue for every company in the world today. The disease has no boundaries. It penetrates borders and threatens the world's emerging economies. Global business leaders have a critical question to answer: is it worth the investment of their companies to engage in the global fight against HIV/AIDS?

SIDA

The overall goal of Swedish development cooperation is to contribute to making it possible for poor people to improve their living conditions. By reducing injustices and poverty throughout the world, better opportunities are created for development, peace and security for all people and nations. In an increasingly globalized world we are all-dependent on, and affected by, each other. Sweden is one of many international actors and its engagement is part of global cooperation. In September 2000, the leaders of the world reached agreement on the so-called Millennium Development Goals, a number of goals that are measurable and limited in time for reducing poverty in the world. This is a great challenge and will require considerable effort on the part of governments, organizations and industry if they are to be achieved. Sida's development cooperation is governed by the explicit needs and wishes of the poor themselves. Consequently, Sweden provides its support in close dialogue with organizations and others able to listen
to the poor and give them a voice. It is important that Sida works closely alongside governments and public authorities, since its support complements the beneficiary countries' own development efforts.

**AFMIN**

AFMIN and its members aim to leverage their knowledge, resources and results on the ground to have a major impact on microfinance services for low income populations by:

- Building consensus around performance indicators and standards in microfinance, to ensure that the sector maintains a high standard of performance that will enable MFIs to achieve sustainability and become integrated in the financial systems of their countries, while retaining a main focus on providing services to the poor.
- Leveraging knowledge and best practices. Lateral learning among practitioners is one of the most effective ways to build institutional capacity in microfinance. In addition, networks are able to coordinate the offer of technical services from external agencies or donors, to ensure that capacity building support is channelled to institutions that are able to use this support to expand their operations.
- Creating a strong and unified voice for policy change actions and consensus building around policies that work for the poor majority. Some of the stronger country-level networks in Africa have been deeply involved and consulted in policy decisions affecting microfinance. Networks are formed and spearheaded by practitioners who are the true experts who can speak authoritatively about the changes needed to create an enabling environment for microfinance in their countries.

AFMIN aims to support country-level networks and MFIs to achieve their mission and objectives, and to help improve the microfinance environment in Africa and globally. AFMIN programs include:

- Capacity building,
- Advocacy and policy change,
- Building shared performance standards,
- Research, knowledge building and information dissemination,
- Network management.
USE OF THE GUIDE AND TOOL


Chapter 1 gives an introduction to Health and AIDS risks, the need for risk management, and the influence of different environmental factors on the risk exposure of MFIs. Chapter 2 provides the overall framework of risk management as well as underlying principles for health and AIDS risk management. Chapter 3 goes in detail into the different health and AIDS risks, in the following categories of financial risks: (MFI credit risk, and other financial risks), operational risks (people in the workplace, clients, systems and procedures, partnerships, and external events).

Each risk is described as well as the consequences, general and more specific indicators and potential risk controls. Each risk control has a color code, which can be found in Chapter 4.

In Chapter 4 we describe what each risk control entails; mention important considerations that determine how to implement the risk control and subsequently elaborate on the why of each risk control, i.e. which risks it addresses. The risk controls are divided into the following broad categories: policy, strategy and institutional risk controls, employee focused risk controls, client focused risk controls. Many of the risk controls set out in Chapter 4 involve partnerships, and Chapter 5 deals with partnership definition, selection, maintenance and monitoring.

To help MFIs to deal with the vast risks and risk controls related to health risks in general and HIV & AIDS in particular, the Guide is accompanied by a Tool. The Tool is an electronic questionnaire that gives MFIs a high level assessment of their risk exposure, strategies that are appropriate given the risk exposure, and controls that can be implemented. It is intended to provide initial guidance on the need for health, HIV & AIDS risk management and an overall impression of priorities. However it does not provide a full roadmap. A more tailor-made strategy will be crucial.

Users of the Guide: "Partners and Action: Financial Institutions and Health and AIDS Risk Management", should take the following four considerations into account:

- Every MFI is different and the choice of risk controls depends, among others, on the mission, service delivery model and internal organisation of each MFI. There is no pre-determined solution, and appropriate risk management will have to be determined on a case-by-case basis.
- It is important that institutions are aware of preconditions to be in place and considerations to be made to ensure the success of a risk control. Poorly sequenced or poorly implemented risk controls can have adverse effects, and monitoring of progress made is crucial. Capacity building and technical assistance should be considered to ensure sustainable solutions.
- Although the Guide is written with an explicit MFI focus, almost all aspects of this Guide will prove equally useful to private sector financial institutions of any scale.
- While broadly generic in its treatment of health and HIV & AIDS and risk management, this Guide has been written with Sub-Saharan Africa in mind. Sub-Saharan Africa covers a wide range of countries with different health issues and varying HIV & AIDS prevalence, epidemic maturities and other contextual factors. Though most risks and risk controls will be similar across contexts, their relative importance and the preconditions for success will differ from one area to the next. It is therefore crucial to take country-specific and contextual factors into account. This is even more the case for MFIs outside Africa.
THE GUIDE AT A GLANCE

The technical content of this Guide is divided into five chapters. The first two are relatively high level and of general interest to any MFI or manager. The last three are very detailed and will be most useful in the actual "nitty gritty" process of health and AIDS risk management by financial institutions.

This "Guide at a Glance" summarises some of the key features of the Guide to provide a "big picture" overview before diving into detail.

Chapter 1: Health & AIDS Risk

Chapter 1 provides some background to the HIV & AIDS epidemics, and the particular impacts that these have on the low-income clients of financial institutions. Health issues in general and HIV & AIDS in particular have significant implications for financial institutions' operations, human resources, clients and markets. Anticipating risk can reduce potential losses, build market credibility and create new growth opportunities.

The following fourteen factors vary from one region to the next, and influence the extent of the impact of HIV & AIDS and health issues for different MFIs. The risk management response must take account of the specific local state of affairs vis-à-vis these factors.

Factor 1: Local prevalence of HIV or other diseases
Factor 2: Maturity of the HIV & AIDS epidemics
Factor 3: Demographic profile of MFI clients
Factor 4: General healthcare system
Factor 5: HIV & AIDS specific healthcare
Factor 6: Education and awareness levels
Factor 7: Stigmatisation of HIV & AIDS
Factor 8: Local culture around sexuality
Factor 9: Local culture around death
Factor 10: Gender issues
Factor 11: Population mobility and movements
Factor 12: NGO and private sector activity
Factor 13: Policy and regulatory environments
Factor 14: Insurance Environment
Chapter 2: The Risk Management Framework

Chapter 2 sets out a generic risk management framework, elaborating on the capacity required to identify, assess, control and monitor risk. This is not a basic course in risk management, and readers are referred to other resources for a fuller introduction.

We describe a risk classification framework that is applied to health and AIDS risks in Chapter 3, and which draws on current international practice and regulation. MFIs can adapt our classification into their current framework, or if they have no existing framework, can use it as the basis for developing a risk management framework that will stand them in good stead for considering risks beyond health and AIDS.

We also describe the elements of the overarching risk management framework, and the risk management processes:

Finally, we describe eight principles developed by the Africap Working Group on Microfinance and HIV & AIDS, which should underpin an MFI's approach to health and AIDS risk management:

Principle 1: Governance and Accountability
Principle 2: Non-Discrimination
Principle 3: Confidentiality
Principle 4: Sustainability
Principle 5: Responsibility for Education and Raising Awareness
Principle 6: Promoting Partnerships
Principle 7: Monitoring and Assessment
Principle 8: Market Place: Promoting Appropriate Products

Chapter 3: HIV & AIDS and Health Risks

Chapter 3 sets out the different risks related to health crises in general and HIV & AIDS in particular, classified into seven risk classes. We briefly describe each risk and its consequences, as well as the specific health and HIV&AIDS drivers. We mention general indicators that may reveal signs of stress and give specific key indicators that give more detailed information. These help financial institutions to assess the risk they run. We also suggest "risk controls" that can be used to address each of the risks.

The risk classes are shown in the table right together with the associated risk control classes.
Chapter 4: Risk Controls and the Order of Implementation

Chapter 4 gives more detailed information on different risk controls, divided into twelve categories, with partnerships (discussed in Chapter 5) forming a thirteenth class. Extensive reference is made to tools and resources that can assist financial institutions to implement the various risk controls. We have colour coded the risks and controls for ease of reference, and the colour coding is used throughout the Guide. The strong colours are used for controls and light colours for risks.

The following table summarises the thirteen control categories applicable to the seven risk classes. An expanded version of this table going into each individual risk and control is shown at the end of this section.

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Chapter 4 also gives some guidance around the ordering of risk control implementation, since so many controls depend on other controls having been created in order to be effective. We suggest three main phases (with sub-phases) which would take an MFI through the initial stages of health and AIDS risk management through to the implementation of some of the more advanced options.
Chapter 5: Partnership Management

The final chapter of the Guide describes general partnership considerations as well as specific issues for key potential partners of different types. Partnerships are crucial because health and HIV & AIDS risks concern so many non-core business areas for MFIs.

The Tool

The Guide is accompanied by an HIV & AIDS Risk Assessment Tool. The Tool focuses specifically on HIV & AIDS risk as opposed to more general health risk. The Tool asks around 80 multiple choice questions covering the operations and environment of an MFI, and then provides a high level analysis of the following:

- A score for each of the following contextual factors indicating the extent to which this factor may be affecting the responding MFI's risk profile:
  - Local prevalence rate
  - Demographic profile of clients
  - Local healthcare system
  - HIV & AIDS treatment
  - Education and awareness levels
  - Stigmatisation
  - Policy and the regulatory environment
  - NGOs and other partners
  - The insurance environment

- A score for the following different HIV & AIDS-related risks, where a high score indicates a potential high risk exposure:
  - Client default and dropout
  - Increased staff costs
  - Staff disruption
  - Staff key person risk
  - Poor client treatment
  - Problems with client groups (for group based lenders)
  - Client fraud
  - Data risks
  - Risks around knowledge of the environment
  - Product development risk
  - Partnership risks
  - Reduced market size and demand

- Two scores for each of the following controls, firstly an indication of how useful this control might be in managing the responding MFI's HIV & AIDS risk, and secondly an indication of how far the MFI seems to have progressed in actually implementing the control.
  - Risk management policy and implementation
  - HIV & AIDS and health policy
  - Monitoring of local factors
  - Management information systems
  - Market research
  - Training staff on policies
  - Staff HIV & AIDS education
  - Education and healthcare for PLWHA clients
  - Adjustment to credit product design
  - Credit life assurance
  - Partnerships

The Tool is no substitute for professional risk management experience and expertise, or risk and control assessment. It is primarily intended to help MFIs think through some of the key issues and become aware of risks, factors and controls that are likely to be important.
The Tool starts off with some instructions, and these should be read before attempting to answer the questions or interpreting the outputs of the Tool. All questions must be answered before reviewing the output. On answering the last question, the Tool will check to see that all questions have been appropriately answered.

Your responses can be saved and reloaded at a different time for further additions or amendments.

**Detailed Overview of Risks and Controls**

The table on the following two pages provides a detailed overview of all the key risks and controls outlined in this Guide.
Late Payments or Default due to HIV & AIDS and Health Crises

Insurance and Reinsurance Counterparty Default Risk

Insurance Risk: MFI Insurance Losses due to Mispricing

Insurance Risk: MFI Insurance Losses due to Claims Volatility

Insurance Risk: MFI Insurance Losses due to Fraud and Abuse

Insurance Risk: MFI Insurance Losses due to Adverse Selection

Increased Staff Costs due to Health and HIV & AIDS Issues

Workplace Disruption, Discrimination Against PLWHA Employees

Key Person Risk

Poor or Illegal Treatment of PLWHA Clients or Applicants

Unintended Group Responses to PLWHA Clients / Applicants

Fraud & Abuse Linked to HIV & AIDS and Health Issues

HIV & AIDS Fatigue

Mismanagement of Health and AIDS Risks: Poor Data

Mismanagement of Health and AIDS Risks: Poor Local Knowledge

Product Development Risk

Regulatory Risks

Additional Risk Management Expenses

Partners' Services Poorly Aligned to MFI & Client Needs

Partner Services not Taken up by Clients or Staff

MFI Administration Failure in Relation to Partners and Services

Partners are Damaging to Reputation

Partners Fail to Deliver Required Services or Functions

Partner Forced to Terminate Service or Partnership

Reduced Overall Market Size

Change in Client Loan Resting, Growth and Drop Out Patterns

Change in Client Utilisation of Other MFI Products
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<td>Savings Partners</td>
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<td>Technical Assistance and Expert Analysis</td>
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<td>Advocacy at National or Industry Level</td>
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<tr>
<td>Train Staff on HIV &amp; AIDS and Health Policy</td>
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<tr>
<td>Staff HIV &amp; AIDS Education, Counselling, Wellness and Management Support</td>
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<td>Employee Benefits for Staff</td>
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<tr>
<td>Staff HIV &amp; AIDS Disease Management</td>
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<td>MFI Business Continuity Planning</td>
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<tr>
<td>Client HIV &amp; AIDS Prevention</td>
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<tr>
<td>Education, Prevention and Other Healthcare Services for PLWHA Lives</td>
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<tr>
<td>Business Development, Financial Planning Services</td>
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<td>Client Education on Insurance or Any Other Product</td>
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<td>Adjustments to Existing Credit Products</td>
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<td>New Credit Product Development</td>
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<td>Savings Products for Health Protection</td>
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<td>Credit Products for PLWHA Lives</td>
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<td>Credit Life Insurance</td>
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<td>Credit Disability Insurance</td>
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<td>HIV &amp; AIDS Prevention and Other Education Partners</td>
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<td>Health Related Partners</td>
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<td>Savings Partners</td>
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1 INTRODUCTION

1.1 Purpose of Guide

There are several tools to assist MFIs with risk management, and there is much high quality literature regarding the impact of HIV & AIDS and other health risks on MFIs. However, HIV & AIDS has not yet been situated within the context of a full risk management framework, which turns out to be a powerful tool for identifying the sometimes unexpected impacts of HIV & AIDS on an MFI, and guiding risk mitigation.

Addressing HIV & AIDS and health risk touches on medical, epidemiological, financing and insurance issues; on cultural issues like stigma, workplace issues, and legal, political and policy issues. Given the broadness and diversity, this Guide "Partners and Action" aims to be a Reference Guide, rather than a comprehensive background to each individual area. We refer the reader to existing resources, tools and expertise for a more detailed understanding of each area and the implementation of risk controls that are relevant.

Other relevant pioneering work in this area has been done particularly by those listed in Box 1.1, and this Guide supplements their work.

Box 1.1: Pioneering Work in MFI HIV & AIDS Risk Management
- GTZ's "Risk Management Framework for Microfinance Institutions"
- MicroSave's "Institutional and Product Development Risk Management Toolkit"

The specific objectives of this Guide are to:
- Comprehensively identify risks arising due to health crises in general and HIV & AIDS in particular for financial institutions and their clients;
- Provide a self-assessment tool to assess the vulnerability of financial institutions to risks, and readiness to implement proposed solutions for reducing the magnitude of loss and damage and support recovery from loss;
- Identify existing tools or other guiding materials that assist financial institutions to manage those risks; and
- Give guidance on potential partnerships with other organisations and issues to be considered for different types of partnerships. It will become apparent that partnerships are a critical component of HIV & AIDS and health risk management, given the specialised nature of so many of the solutions.

This Guide is written for financial institutions with basic structures such as staff, management and Board, management information systems, and knowledge regarding clients in place. MFIs with a risk management framework in place will find it relatively easy to incorporate health risk management, including HIV & AIDS. MFIs without an existing risk management function must realise that risk management is an ongoing commitment and investment and requires internal capacity. Equally, however, risk management can be addressed incrementally, and the Guide may be used to identify key areas of impact and begin implementing a framework and risk controls. Chapter 4 starts with a discussion of the possible phasing of health & AIDS risk management implementation.
1.2 Poverty, Health Crises and HIV & AIDS

Sickness and poverty are inextricably linked. Health statistics on infant mortality rate, maternal mortality rate, morbidity rate, life expectancy, and HIV & AIDS prevalence all deteriorate with poverty. Research by the World Bank in India, for instance, showed that one out of four people hospitalised fell into poverty due to the related financial burden\(^2\). Poor health perpetuates the poverty trap and so financial institutions involved in poverty alleviation need to consider a health response, to help clients realise the benefits of access to financial services. Out of the four billion people on earth today who live on less than two dollars a day, fewer than ten million currently have access to insurance\(^3\). Uninsured poor tend to delay treatment, thereby aggravating medical conditions and cost-effective care. This further aggravates income and health differences.

HIV & AIDS is unique among health problems and warrants special attention for a number of reasons.

1. HIV & AIDS is not an isolated event, but triggers a series of crises over a long period, with severe impacts and complex coping strategies.

**Box 1.2 Medical Background to HIV & AIDS**

AIDS is caused by the Human Immunodeficiency Virus (HIV), which is spread through blood, semen, vaginal secretions and breast milk. The most common method of transmission is unprotected sexual intercourse with an HIV positive partner. Other routes include transfusions of HIV infected blood or blood products; tissue or organ transplants; use of contaminated needles, syringes, or other skin piercing equipment; and mother to child transmission during pregnancy, birth or breast feeding.

HIV kills by weakening the body's immune system until it can no longer fight infection. Opportunistic infections are illnesses such as pneumonia, meningitis, some cancers, tuberculosis (TB), or other parasitic, viral and fungal infections that occur when the immune system is weakened. Early HIV-related symptoms include chronic fatigue, diarrhoea, fever, weight loss, persistent cough, skin rashes, herpes and other mental changes. AIDS is almost always fatal without treatment.

Antiretroviral Treatment (ART) slows viral replication in the body, lessening the burden on the immune system, reducing HIV negative related illnesses and allowing patients to live longer, higher quality lives. Other treatment interventions include the prevention or prophylaxis of opportunistic infections, immune system support, and nutrition and psycho-social support. These may maximise the pre-AIDS period of wellness.

Age, biological reasons, urban/rural differences, cultural practices, gender inequality and discrimination, and entrenched poverty put women at a greater risk of acquiring HIV than men at an earlier age. The peak prevalence in Sub-Sahara Africa occurs at a younger age and at a higher rate among women than among men. Women are not only more vulnerable for infection, they are often also more affected as gender relations often determine that they take on caring responsibilities for the sick and orphans.

2. The HIV & AIDS-affected population extends beyond those directly infected, and includes anyone who cares for someone with HIV & AIDS, takes on income-earning tasks within the family, cares for children orphaned as the result of HIV & AIDS, or is otherwise negatively affected by HIV & AIDS (such as a child who is removed from school because the family lacks school fees). Although not infected with HIV, this population is increasingly vulnerable economically, socially, and physically.

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3. HIV & AIDS risk is amenable to risk mitigation. In the absence of intervention, HIV is a degenerative illness resulting in death typically after around eight to eleven years preceded by a period of incapacity and illness. Appropriate intervention may dramatically impact on sickness and mortality, and ART may extend healthy lifespan by ten years or more.

4. In many areas, HIV & AIDS is of truly epidemic proportions. Many PLWHA people living with HIV & AIDS (PLWHA) may not be aware that they carry the virus, remaining healthy for several years before the onset of symptoms. This magnitude and the latent risk - risk which exists but is unknown - have key consequences for financial institutions.

5. HIV compounds the effects of other infectious diseases, such as malaria and TB.

6. HIV & AIDS, unlike many other diseases, makes economically active adults, especially young women the most vulnerable. This seriously affects the client base and has far-reaching socio-economic consequences.

1.3 Why Health and AIDS Risk Management?

For MFIs, long-term social or financial success ultimately depends on creating value for clients, which means taking account of, and even actively addressing, the real needs of clients. These needs are influenced by health crises in general and by the HIV & AIDS pandemic in particular. Clients are the core asset of MFIs, so healthy clients now and in the future are in their interest.

In addition to the client-centered issues, HIV & AIDS has implications for human resources as well as a number of other operational areas.

In today's fast changing environment, it is increasingly important to anticipate risks instead of merely reacting to them. This is particularly true for MFIs who are often fast growing, serving more customers and attracting more mainstream investment capital and funds. A comprehensive approach to risk management reduces the risks of loss, builds credibility in the market place and creates new opportunities for growth.

Arguments for Health and HIV & AIDS risk management are:

- **Early warning system:**
  Systematic processes for risk evaluation and measurement allow early identification of problems and consequences before they escalate. As illustrated in Figure 1, the earlier the response the lower the total long-term costs.

- **Efficient use of scarce capital, cash and time:**
  Systematic risk measurement ensures that management and organisational actions are based on a realistic review of Health & AIDS risk in the context of all pertinent risks. It may conceivably reveal that health and AIDS have little direct impact, or at any rate less impact than other more important factors, avoiding the possibility that resources are inappropriately diverted into a low impact risk. This is important when faced with investor or donor pressure relating to HIV & AIDS.

![Figure 1: MFI Financial costs related to responses to HIV & AIDS](source)

*Figure 1: MFI Financial costs related to responses to HIV & AIDS*

Source: Microfinance and HIV/AIDS: Defining Options for strategic and operational change

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*Box 3.5 in section 3.7.2 shows impacts of health and death related crises on clients in Maputo Region, Mozambique.*
• **Relevance of financial services provided:**
  Health and AIDS related crises influence clients' needs for financial services. Information on these changing needs assists the MFI to improve its financial services, its customers' loyalty, attract new customers, and possibly to reduce credit risks. Furthermore it can enable the MFI with a social mission to achieve its objectives.

• **Credibility and regulatory pressure:**
  International banking supervision regulations and local African banking and MFIs regulations focus increasingly on risk management. An active response builds the MFI's reputation with regulators, investors and donors.

• **Viability:**
  The HIV & AIDS epidemic is in some regions of such a significant scale that the expected impacts are large and ignoring them would threaten MFI viability. See also Box 1.3.

• **Diverse Impacts:**
  The impacts of HIV & AIDS and health issues are incredibly diverse, spanning the entire operation and business of the MFI.

### Box 1.3 Commonality between HIV & AIDS prevalence and characteristics of MFI's clients

In 2003, The Micro Finance Regulatory Council (MFRC) of South Africa looked into MFI's vulnerability to HIV & AIDS in South Africa. It showed the following commonalities between HIV & AIDS prevalence statistics and client characteristics:

- MFIs are concentrated in urban areas throughout the country, with the greatest number of outlets in Gauteng. HIV prevalence rates are high in urban areas and in Gauteng.
- AIDS deaths in South Africa are generally concentrated amongst adults aged between 25 and 55 years, which is the age group served by MFIs.
- Clients of MFIs fall in the partially banked and un-banked market segments. The partially banked segment composes of 50% men and 50% women. More women than men are unbanked. Women in Sub-Saharan Africa are more susceptible to infection than men, with 57% of HIV positive individuals being women (UNAIDS).

Source: Information provided by ECIAfrica, Frances Bundred

### 1.4 Risk as Opportunity

While much of the risk management focus is on risk mitigation and risk control, most risks bring opportunity. So while default due to client AIDS mortality is a real risk to an MFI, there is equally the opportunity of introducing insurance into the client base, bringing greater financial stability to clients and furthering the MFI's development goals while also strengthening its financial position and competitiveness.

Creativity is sometimes required to see the presenting opportunities. As a manager of a large financial institution said, "Risk keeps us awake". Some of the greatest opportunities arise through involving specialised partners whose services synergise with MFI services and client needs, and hence our particular focus on partnerships in Chapter 5.
1.5 Local Contextual Factors

The health and AIDS risks run by a financial institution and its responses are influenced by a number of contextual factors that may vary significantly from one country to the next, and even from one town to the next.

1. Local prevalence of HIV or other diseases: In Sub-Saharan Africa 7.2% of the adult population is living with HIV & AIDS, of which 57% are women. Figures differ considerably per country as can be seen in Box 1.4.

Box 1.4: Figures on HIV & AIDS prevalence

Adult prevalence rates in Mali, Senegal, Angola, Nigeria, Burkina Faso and Togo are below 5% and go up to around 10% in Ivory Coast, 16% in Mozambique and 43% (among pregnant women) in Swaziland. Hardest hit countries include: Botswana, Lesotho, Namibia, South Africa and Swaziland where the prevalence rate amongst pregnant women is exceeding 30%. More information on prevalence rates and trends within your country can be found at www.unaids.org

Within countries, prevalence rates can differ considerably from one area to the next as Box 1.5 illustrates for South Africa and Mozambique. Prevalence rates tend to be higher in poorer regions, peri-urban areas and (border) towns along important transport routes. It is useful to consider information on prevalence rates in the MFIs regions of operation, though such information may be hard to come by.

2. Epidemic Maturity of HIV & AIDS: New HIV & AIDS epidemics typically show rapidly rising prevalence rates but little visible sign of illness. More mature epidemics may show a stable prevalence rate, with annual mortality levels at around one tenth of the prevalence rate. The plateau prevalence rates vary from one region or country to the next, and are influenced by many factors including socio-economic, cultural, healthcare infrastructure and population mobility amongst others. Most African epidemics are fairly mature.

3. Demographic Profile: Within a particular population or region, health status and prevalence rates usually vary with age, education, socio-economic status, sex, urban/rural locations and even culture (e.g. circumcising vs non-circumcising cultures).

4. General Healthcare System: The quality of local healthcare infrastructure influences the impact of HIV & AIDS and other diseases. Considerations include the quality of primary and more advanced healthcare, accessibility in terms of costs, waiting period, distance and transport facilities for clients and staff of the financial institution. The strength of public and low-income private healthcare sectors (including NGO clinics) must be considered. Treatment of other sexually transmitted diseases (STDs) is also important as research shows that some untreated STDs in either partner can increase the risk of HIV transmission as much as tenfold. This is especially significant for women because many STDs go untreated.

5. HIV & AIDS Specific Healthcare: A reliable supply of ART medication, adequately trained healthcare professionals, and laboratory facilities for monitoring factors like CD4+ cell counts are crucial for HIV treatment initiatives to be successful. In the case of free, easily accessible and reliable ART (state or private sector), and good quality supporting healthcare, the impact of HIV & AIDS on clients and staff may be very effectively managed. Where ART is simply not available or irregularly available, introducing ART may be impossible or ill advised. Other supportive and preventive interventions may be possible and advantageous. HIV & AIDS specific healthcare is quickly evolving and options available to the MFI are likely to change as well. It is therefore a good idea to review changes in availability, affordability and quality of HIV treatment regularly.

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6 Source: UNAIDS, AIDS epidemic update, December 2006
7 Source: UNAIDS, Women and AIDS. UNAIDS Point of view (Geneva: UNAIDS, 1997)
6. **Education and Awareness Levels**: Access to information positively influences an individual’s health and the health of children. According to UNAIDS, information on HIV transmission is low in Sub-Sahara Africa. Women and rural inhabitants are less well informed than men and urban dwellers. Behaviour change is a science, and it requires more than just high levels of awareness and education to limit new infections, though at least people may more likely access treatment timeously if they are informed. Government efforts and success in information dissemination play a major role, influencing whether and how people take preventive measures against malaria (treated mosquito nets), cholera, and HIV & AIDS (go for testing) etc.

7. **Stigmatisation of HIV & AIDS**: The extent of stigma will determine the willingness of people to go for testing, to live positively and to access treatment appropriately. Stigma also affects matters like the severity of accidentally disclosing someone’s HIV status in the workplace or the client base, and the functioning of groups (in group based lending methodologies) in relation to PLWHA members.

8. **Local Culture around Sexuality**: Prevailing views about masculinity encourage men to undertake risky sexual behaviours - multiple sexual partners, alcohol consumption prior to intercourse and sexual violence - contribute to the spread of AIDS. (Refer to Box 1.6.) This will be further aggravated in case of taboo on talking about sex, myths and perceptions of condom use, sexual practices (like dry sex).

9. **Local Culture around Death**: Traditions like three days of mourning or family members staying at home after the death of a loved one, result in a high burden in case of epidemics such as HIV & AIDS. Furthermore cultural practices such as wife inheritance and widow cleansing contribute to the spread of HIV & AIDS.

10. **Gender Issues**: Sexual violence and higher poverty levels attributable to gender inequality and discrimination put women at a greater risk of acquiring HIV than men. Furthermore women are often also more affected as gender relations often determine that they take on caring responsibilities for the sick and orphans.

11. **Population Movements**: Large proportions of migrant workers, long separations from spouses or partners, and frequent travel contribute to the spread of HIV & AIDS. In South-Africa, prevalence rates in the mining and trucking sectors are extremely high.

12. **The Policy and Regulatory Environments**: Government policy vis-à-vis HIV & AIDS, healthcare provision and funding, poverty alleviation and financial services may contribute towards or hamper various risks and attempts to manage risk associated with HIV & AIDS and health issues. Regulation governing banks, insurers, financial advisers, healthcare providers and funding, disease notifiability, discrimination, labour relations (the workplace and influence of trade unions) must all be considered if applicable.

13. **NGO, Private Sector and Trade Union Activity**: How active are private businesses, national business coalitions on HIV & AIDS, trade unions and nongovernmental organizations in dealing with HIV & AIDS? Are they working in the same area as the MFI? This will increase possibilities for partnerships to ensure concerted efforts in managing HIV & AIDS risk. NGO AIDS Service Organisations, Business Coalitions on HIV & AIDS and networks of MFIs may offer many services that would enable rapid and cost effective risk management through partnership. This holds for advocacy activities at national and industry level as described in risk control 4.7 as well as for the risk controls related to the workplace (Section 4.8) and for some of the non-financial services discussed in Section 4.9.

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**Box 1.6 Sexual violence and HIV**

A study in South Africa showed that women who experience violence from their partner were 48% more likely to be HIV+ than those who had not.

14. The Insurance Environment: The development of the local insurance industry will affect the ability of MFIs to use insurance as a risk management tool. Considerations include the existence of suitable insurance partners, the competitiveness of the market and the willingness of insurers to enter the low-income market. MFIs writing insurance directly will further be concerned with access to the necessary skills (actuarial, underwriting, systems) and to reinsurance.

**Useful Resources Section 1**

- Data on prevalence rate kept by Ministry of Health and national AIDS organisations
- [http://hivinsite.ucsf.edu/](http://hivinsite.ucsf.edu/) provides information on HIV & AIDS, health data, healthcare data per country.
- Website of the Global Business Coalition on HIV & AIDS: [www.businessfightsaids.org](http://www.businessfightsaids.org)
2 THE RISK MANAGEMENT FRAMEWORK

This Guide focuses on HIV & AIDS and health risks for MFIs. The risk management framework described briefly in this section is generic, although we do not go into great detail. The reader is referred to the additional tools and documents listed at the end of this chapter for a more comprehensive overview of risk management.

2.1 Defining Risk

A risk event can be defined as an uncertain event that may or may not occur in any given time period, resulting in financial consequences for an MFI. The financial consequences of the uncertain event may be fixed or may be unknown in advance. Risk management is about reducing the possibility of losses due to risk events, and optimising the "upside" of risk, since most risks present opportunities of some form.

Common measures of risk include a measure of the frequency of the risk - is the risk event likely to happen once a day, or once every twenty years? - and a measure of the severity of the associated loss - if it happens, will we lose 1% of our profit, or 80%?

Risk can be managed in a number of ways:

- **Control**: risk is controlled by:
  - reducing the likelihood of the risk event occurring, for example by providing clients with information on how to prevent HIV & AIDS;
  - reducing the severity of the loss likely to result e.g. by ensuring that PLWHA clients know how to live positively and possibly access ART; and/or
  - reducing the uncertainty in the event's occurrence or the loss.

- **Retain/accept**: risk is retained when no further action is taken and the possibility of the risk event's occurrence and consequent losses are accepted as a cost of doing business.

- **Avoid**: certain risks can be avoided altogether for example by not entering a particular market, or not offering a certain type of product.

- **Transfer**: risk may be transferred to another party. Insurance transfers mortality risk to an insurer. Outsourcing transfers risk to an external provider.

For each risk, the risk level (likelihood and severity) in the absence of controls is called the **inherent risk**. The risk that remains after controls have been implemented is referred to as **residual risk**. The difference between the two is the **controlled risk**.

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<th>Residual</th>
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<td>Risk</td>
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Box 2.1 Inherent and Residual Risk

Suppose that an MFI loses $1000 per year in bad debts due to client AIDS deaths, before attempting any risk management. This is the inherent risk.

Suppose the MFI partners with a local government antiretroviral programme and local AIDS service organisation providing education and VCT. As people access treatment, the deaths reduce, and the following year the losses are only $400. This is the residual risk.

The $600 that was saved by implementing the risk control is effectively the controlled risk.
### 2.2 Categorising Risk

Many different frameworks for categorising risk exist, and in practice one is often as good as another. To be useful, a categorisation needs to be intuitive and simple yet comprehensive, and in practice some risks may be legitimately placed in more than one category. The categorisation used in this Guide should be readily adaptable to any existing categorisation that an MFI may use, or may form the general basis of risk categorisation for MFIs considering a risk management framework for the first time.

Risks are most broadly divided into financial risks and operational risks. Within each of these two headings additional broad categories are shown in the table below:

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<th>Risk Category</th>
<th>Description</th>
<th>HIV &amp; AIDS or Health Example</th>
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<tr>
<td><strong>Financial Risks</strong></td>
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<tr>
<td>Credit</td>
<td>The risk that a party fails to meet its obligations to the MFI, or fails to meet them in time</td>
<td>Borrower defaults due to financial stresses after a family death</td>
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<tr>
<td>Liquidity</td>
<td>The risk that the MFI although solvent does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost</td>
<td>Savings clients withdraw all funds following a ‘flu outbreak to pay for treatment’. The MFI has on-lent the funds, and has to seek emergency funds at penal interest rates</td>
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<tr>
<td>Market</td>
<td>The risk of economic loss arising from a fluctuation of values of positions and contracts, as a result of investment, position taking or asset and liability management in the interest rate, foreign exchange, equity and property markets and related derivatives instruments and structures</td>
<td>The cost of funds increases faster than the MFI raises lending rates</td>
</tr>
<tr>
<td>Insurance</td>
<td>The risks arising from the inherent uncertainty in occurrence, timing and amount of insurance liabilities. Note that this does not include risks arising from partnership with an insurer, but only the direct taking on of insurance risk</td>
<td>Insurance claims on funeral policies higher than expected because the MFI underestimated the scale of HIV &amp; AIDS in the client base</td>
</tr>
<tr>
<td><strong>Operational Risks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>People in the workplace</td>
<td>Risk that employees fail to perform correctly or as expected as a result of HIV &amp; AIDS and health issues amongst employees</td>
<td>Drop in productivity due to absenteeism</td>
</tr>
<tr>
<td>People in the marketplace</td>
<td>Risk that people (clients or staff) fail to perform correctly or as expected due to AIDS and health issues amongst the client base</td>
<td>Poor treatment of PLWHA clients by MFI employees</td>
</tr>
<tr>
<td>Systems and processes</td>
<td>Risk that systems and processes fail to perform correctly or as expected due to AIDS and health issues</td>
<td>Processes: poor product development processes lead to inappropriate products</td>
</tr>
<tr>
<td>Education partners</td>
<td>The risk that AID and health-related partners fail to perform correctly or as expected</td>
<td>Education partners fail to provide the services that they committed to do</td>
</tr>
<tr>
<td>External events</td>
<td>The risk of losses owing to events occurring outside the MFI over which it has no direct control</td>
<td>Client drop out patterns change with HIV &amp; AIDS</td>
</tr>
</tbody>
</table>
2.3 Key Elements of Risk Management

The key elements of a risk management framework are summarised in the following diagram and are then discussed individually:

- **Risk Policy and Governance**: The framework will contain a policy setting out:
  - the MFI's views or attitudes towards risk, risk management and its risk appetites and tolerances
  - the organisational structures, functions and roles (responsibilities and accountabilities) for designing and implementing risk management - the risk management framework or the risk governance structure

- **The Risk Function**: The risk function within the MFI is responsible for identifying, assessing and monitoring risk within the MFI, and for determining appropriate risk controls as well as the roles and responsibilities required in the business units to implement risk management. The risk function may be delivered by a single person or a substantial department, depending on the MFI's scale, capacity and requirements. Current trends in financial services are towards leaner risk functions, with day to day risk management decentralised to individual business units.

  - Risk identification typically involves the development of an inventory or database of relevant risks, based both on own knowledge, industry experience and available tools, external technical assistance and interviews or facilitated workshops with the board, business unit managers and operational staff - all of whom are concerned about particular and often different risks. In Chapter 3 of this Guide, we provide a fairly comprehensive overview of the risks associated with HIV & AIDS and health issues for MFIs, at all levels of operation. In practice, different MFIs will find that some risks apply and others do not, and may well discover additional risks that we have not considered in this Guide.

  - Risk assessment involves determining the likelihood of occurrence associated with each risk, as well as the scale of the resulting possible loss. Each may be assessed on a simple scale. A three step scale might be: rare, sometimes, frequent for frequency; and small loss, medium loss, high loss for severity, with the currency amounts of each loss band specified. More sophisticated approaches may have higher numbers of bands, or may even develop statistical distributions for frequency of event and severity of loss. Risks can then be prioritised from most urgent (high frequency, high loss) to less urgent (low frequency, low loss). Risk assessment must be revisited on an ongoing basis.

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* See references at end of chapter
Risk control determines whether the risk is accepted, transferred, avoided or controlled, and what risk controls are put in place. Chapter 4 contains a cross-referenced, detailed overview of potential controls for the various HIV & AIDS and health risks identified in Chapter 3. Many controls bring with them their own associated risks, which in turn require consideration. For example, removing mortality risk through purchasing insurance transfers mortality risk to the insurer, but creates risks around partnership management.

Risk monitoring is an ongoing process of monitoring high-level indicators like Portfolio at Risk (PAR) for general indicators, as well as the specific key indicators identified with each risk. The risk function is responsible for determining, gathering, analysing, interpreting and communicating information pertaining to risk management, key risk indicators and data on losses that actually occur. Management has to be informed as well as relevant staff throughout the organisation.

Day to Day Risk Management at Business Unit Level: The implementation of risk management identified by the risk function may typically occur in a business unit. Particular individuals are responsible for undertaking the risk management relating to their activities or areas. This is important to drive the culture of risk management throughout the organisation, ensuring personal awareness, ownership, responsibility and accountability at all levels of the relevant risks and controls. HR will be instrumental in incorporating risk functions into job descriptions throughout the organisation under the guidance of the risk function. Health and AIDS risk management has traditionally been limited to the human resource business unit, but as Chapters 3 and 4 show, it is much broader. Note that "business unit" here includes areas such as HR, finance and operations as well as marketing, credit, different branches and so on.

The Role of Internal Audit: Historically the internal audit function has typically conducted a lot of what is now becoming known as the risk function. Current trends are for risk function to manage risk as set out above, and for internal audit to verify that the risk management is occurring as required. Internal audit might therefore want to ensure that key risk controls are happening as set out by risk, or that the risk reporting data is reliable. Internal audit ensures that risk management is doing what it should be doing, and what it says it is doing.

Risk Information Systems: Effective risk management requires good information and data. Key indicators must be gathered and monitored regularly to determine the occurrence of risk events, or to identify changes in factors affecting their likelihood. Data on losses incurred as a result of each risk event will help the MFI target its risk management more effectively. In sophisticated settings, the risk function may be enabled using risk management software. However, the software never constitutes more than an information management, reporting and analysis tool: it cannot replace the risk function, risk governance or the day to day risk management at business unit level.

Capital Management: In the most sophisticated frameworks, the levels of retained risk and the effectiveness of risk management frameworks feed through into business capital. MFIs retaining higher risk need more capital to withstand the risk. And for two MFIs with the same apparent retained risk, the MFI with a demonstrably more effective risk management framework will require less capital. These principles underlie the evolving regulatory approaches to solvency in the formal financial services sectors (insurance and banking) of many countries.

This Guide focuses principally on the policy structures and the particular risks and the potential controls to be implemented by the business units under the guidance of the risk function. We also mention some of the data requirements around identification and management of HIV & AIDS risk. We do not, however, set out the full requirements of a risk management database.
Box 2.1: Teba Bank's Risk Management Framework

Teba Bank offers microcredit and savings schemes to employees of mines and to other low income clients in South Africa. Teba's risk management framework is modeled on Enterprise Risk Management principles and the requirements of Basel 2. The five key components are risk assessment, risk control, monitoring, information and strategy, and these are set out in the risk management policy.

Risk management is strongly supported by Teba's board, which is essential for success, and is seen not merely as compliance or damage control, but as opportunity to add value to the business.

Teba has articulated risk appetite statements for the various categories of risk.

Three departments report in to the general manager of risk: internal audit, the risk department and the governance and compliance department, though to ensure functional independence, internal audit reports in to audit on an operational basis.

As with many banks, Teba's current focus is on integrating day to day risk management into business units. Two critical success factors identified here are building and maintaining good systems, and ensuring buy in throughout the business. These two come together in the need to provide good and relevant information (from good systems) to the right people: giving the board the correct picture from which to formulate strategy and giving the business units feedback which allows them to appreciate the value of the risk management actions they are required to undertake.

Source: Discussion with Zienzile Musamirapamwe, General Manager, Teba Bank, July 2006

Box 2.2: GTZ's Ten Guidelines for Risk Management

1. Lead the risk management process from the top
2. Incorporate risk management into process and systems design
3. Keep it simple and easy to understand
4. Involve all levels of staff
5. Align risk management goals with goals of individuals
6. Address the most important risks first
7. Assign responsibilities and set monitoring schedule
8. Design informative management reporting to board
9. Develop effective mechanisms to evaluate internal controls
10. Manage risk continuously using a risk management feedback loop

Source: http://www.gtz.de/de/dokumente/en_risk_management_framework_for_MFI.pdf
2.4 Health and AIDS Risk Management in Practice

Risk management occurs through a feedback loop. Policies and risk governance structures are set. Risks are identified and assessed. Controls are determined and implemented. Data is collected. Circumstances change continually, and in light of new information and circumstances, policies, risks and risk controls may all be revised.

Risk management systems and infrastructure usually incrementally implemented, building on existing structures. Nobody could be in business without some risk management, even if they do not call it that. The initial focus is usually on the most threatening risks - those with highest frequency and highest associated loss. Thereafter progressive roll out can consider less frequent and/or less damaging threats.

That said, many of the health and AIDS risk controls described in Chapter 4 require existing capacity to implement successfully. For example an MFI would be ill-advised to implement insurance products without adequate knowledge, and management and administrative capacity, or to introduce an AIDS education programme for clients before educating staff. While there is no hard and fast rule around the ordering of HIV & AIDS risk management steps, the start of Chapter 4 provides some more detailed suggestions around how health and AIDS risk management can be implemented so as to ensure an MFI does not take on something before the preconditions for success are in place.

Buy in throughout the organisation, and strong leadership and support from top management are essential. Without these, risk management efforts will stumble at operational implementation, when policies, risk assessments and control implementations are required in individual business units.

MFI risk management must select the framework elements appropriate for the MFIs size and budget. The above framework can readily be implemented in a simple manner, condensing the tasks and roles into a few key roles, documents and processes and remain effective if these are diligently implemented.

Good risk management requires considerable skills and capacity. Many of the largest banks and insurers in the world rely on consultants and specialists in addition to significant internal resources to assist them in constructing and implementing integrated risk management frameworks. MFIs will need to consider realistically the resources that they require to manage their business, given its particular scale, nature and budget constraints, and to look at supplementing those resources externally as required. This Guide together with some of the other resources is intended to support MFIs in the process of developing their own skills, but it is unlikely that Guides on their own will be sufficient, particularly for an MFI or manager new to the risk management game.
Useful Resources Section 2.1 - 2.4

  Part I, II and III of this toolkit provide a general framework for identifying, assessing, mitigating and monitoring risk in the MFI as a whole. Part V gives more information on the institutionalisation of risk management.

  A framework for internal risk management systems and processes. It presents guidelines to implement the core principles of risk management and targets Board of Directors and managers.

  A tool giving detailed policy-design template for risk management and checklists of key policy components.

  Chapter 1 of this tool provides guidance on the development of an action plan to address HIV & AIDS. Starting point is Board resolution and development of action plan, not risk management per se.

  This facilitator's manual is an elaboration of the previous resource. Part III provides practical guidance to evaluate the capacity for institutional change and also provides more information on the enhanced responsibilities of Board in an HIV & AIDS context.

  This guide provides a series of exercises and references to tools to assist MFIs to plan and implement a disaster management strategy. It helps MFIs assess the risk of a disaster, their clients' needs and their own institutional capacity to respond. Finally it offers guidance for preparation, response and recovery. Chapter 2 and 3 on institutional and client preparedness respectively provide some useful suggestions for health and HIV & AIDS risk management.

  This publication focuses on implementation of internal controls to monitor risks before and after operations. Internal controls are considered to be an integral part of risk management.

  This two-page document briefly describes the need for risk management and key issues for successful risk management.

- MicroSave Briefing Note # 34 Implementing Risk Management at MicroSave's Partner Microfinance Institutions, Champagne and Pikholz http://www.microsave.org/Briefing_notes.asp
  This two-page document describes the processes and experiences with implementing a risk management framework using MicroSave's Institutional and Product Development Risk Management Toolkit.
2.5 Principles for Health and AIDS Risk Management

The AfriCap Working Group developed a set of guiding principles for HIV and AIDS and health risk management to assist MFIs in focussing their efforts. The principles underpin all the risk and control items considered in Chapters 3 and 4 of this Guide, and relate both to workplace and marketplace.

**PRINCIPLE 1 - GOVERNANCE AND ACCOUNTABILITY**

As part of risk management at Board level, MFIs should consider the risk and impact of HIV & AIDS and other significant health issues on staff and clients, and develop an appropriate response. This principle underpins the entire risk management framework, and the need for good information and strategic review for example controls 4.1.1 to 4.2.2.

**PRINCIPLE 2 - NON-DISCRIMINATION**

The MFI should not unfairly discriminate against any staff member or client on the basis of his or her HIV status or health condition. A positive HIV status in itself will not prevent an individual becoming or remaining a client of the MFI. This principle influences responses to risk of discrimination (3.3.2 and 3.4.1), and acts in controls such as policy (4.1.2) and education and support (4.8.2).

**PRINCIPLE 3 - CONFIDENTIALITY**

All information held by an MFI in relation to a client is confidential and should be treated as such. Any information in relation to the health status of a member of staff or a client should be subject to particular duty of care with respect to confidentiality. Clear application of this principle is seen in controls on confidentiality, preventing poor service to clients and staff, partnership with external healthcare providers, loan officer training and sensitisation (such as controls 4.5.2 or the use of partners to provide healthcare services - Chapter 5).

**PRINCIPLE 4 - SUSTAINABILITY**

The health and AIDS policies put in place by the MFI should be sustainable, to guarantee continuity. In the medium to long term, the benefits should outweigh the costs. Partnerships (Chapter 5) are a key element in reducing costs for the MFI and the use of expert technical assistance (control 4.6) assist to ensure the sustainability of new initiatives.

**PRINCIPLE 5 - RESPONSIBILITY FOR EDUCATION & AWARENESS-RAISING**

The MFI is responsible for continuously training its staff to understand what spreads HIV, how to prevent it as well as information on other significant health conditions and their prevention. The MFI also has to ensure that staff members are familiar with these specific policies developed for the workplace and for clients. MFIs may take further responsibility for education and awareness-raising within the wider community, and in particular amongst its clients. See for example controls 4.8.1, 4.8.2 and 4.9.1.

**PRINCIPLE 6 - PROMOTING PARTNERSHIP**

MFIs should proactively seek to connect with local partners to collaborate where appropriate on HIV & AIDS-related risk management activities. See Chapter 5.

**PRINCIPLE 7 - MONITORING AND ASSESSMENT**

MFIs should have systems to monitor and assess the impact of risks in the local environment, including HIV & AIDS. Controls 4.2.1 and 4.3 are based on this principle.

**PRINCIPLE 8 - MARKET PLACE: PROMOTING APPROPRIATE PRODUCTS**

MFIs should seek to promote products appropriate to the local circumstances, which will help to provide increased financial security to clients. Associated risks are 3.5.3 and most of the partnership risks (3.6) while the controls reflecting this principle include 4.10.1, 4.10.2 (credit product development) and 4.11.6, 4.11.8 (insurance product development).
Box 2.3: Health and HIV & AIDS at Standard Bank Group

Standard Bank Group is dedicated to improving staff effectiveness in the workplace, by implementing appropriate health risk management practices. Therefore it has established a corporate health function in SBSA Group and developed a HIV & AIDS strategy, in line with principle 1 of Health and AIDS risk management.

The Corporate Health Department responsibilities include, among others:

- Health Risk Management, i.e. mitigating the impact of ill health on productivity, mitigating the impact of work on an individual's health and ensuring the long term sustainability of the Group's operations;
- Establish protocols, manage and report on all the medical risk management requirements of the Group. Protocols and management include principle 2: non-discrimination and principle 3: confidentiality. Reporting refers to principle 7: monitoring and assessment;
- Develop and implement workplace educational programmes on life threatening diseases such as HIV & AIDS, cancer, asthma, cardiovascular in line with principle 5: responsibility for education & awareness raising; and
- Develop and manage appropriate employee well-being initiatives, which pay attention to HIV/AIDS, abuse cases, trauma due to hijacking, branch hold ups and heists. This is done in collaboration with ICAS (Independent Counselling and Advisory Services). This partnership is in line with principle 6: promoting partnership and assists to principle 3: confidentiality and principle 7: monitoring and assessment. ICAS for instance reports on the HIV & AIDS cases by quarter from inception, which leads to the following graph:

The trend in cases reported relate to level of activity in Standard Bank's internal communication. It illustrates the importance of continuous training.

Source: Presentation Peter Philip on 24 April 2006 at Africap’s: HIV & AIDS risk management conference, Head Corporate Health Standard Bank

Useful resources Section 2.5

- Contributing to the fight against HIV/AIDS within the informal economy: The existing and potential role of decentralized systems of social protection (ILO/AIDS and STEP); http://www.ilo.org/dyn/infoecon/iebrowse.page?p_lang=en&p_ieresource_id=408
- SADC declaration on HIV/AIDS; http://www.safaids.org.zw/viewinfo.cfm?id=203&linkid=4&siteid=1
3 HIV & AIDS AND HEALTH RISKS

In this Section we examine in detail the risks that health issues in general and HIV & AIDS in particular may pose to MFIs.

· We provide a general description of each risk, its consequences and HIV & AIDS and health related causes and considerations.

· We mention commonly used general indicators that may reveal signs of stress including the impacts of HIV & AIDS and other health crises. But unless the impact of the health crisis is large, it may be hard to know whether changes are directly attributable to HIV & AIDS. e.g. a deteriorating portfolio at risk can be due to a wide range of factors. We therefore go on to suggest specific key indicators enabling the identification of the extent of HIV & AIDS and health risks. Monitoring of trends in general indicators and specific key indicators is important to depict changes. Definitions of the indicators used can be found in Annex 2: Glossary of Terms and Definitions.

· Finally, we consider potential risk controls for each risk. These are described in more detail in Section 4. For easy reference to chapter 4, color codes have been used for different groups of risk controls.

The risks are categorised in fairly broad headings to capture the various risks. This chapter deals first with financial risks i.e. MFI credit risk, liquidity risk and insurance risks for MFIs with insurance business. We then examine operational risks, which are people in the workplace, clients, systems and processes, partnerships, and external events. In practice, MFIs may use the described risks in as much or as little detail as they find fit and/or as their risk management capacity allows. Each risk mentioned may have many instances within the operation of an MFI. In particular, the general partnership risks discussed in Section 3.6 should be examined in respect of all major partnerships in which the MFI participates.

The extent of any particular MFI’s exposure to each risk will be influenced by a wide range of contextual factors, discussed in Section 1.4, as well as by the services offered. Each MFI must determine its own vulnerability to health related risks, including HIV & AIDS. Priority should be given to the relevant risks with high frequency and high severity, as discussed in Section 2.3 on risk assessment. MFIs will also need to confirm the relevance of the suggested general and key indicators for their own particular contexts.

There is a vast amount of information in this chapter, much of which will require further thought and consideration, which can be daunting. While the chapter may be read through from start to finish, the Tool provided with this Guide is intended to help each MFI identify important areas to look at first, and to grow its considerations from there. This will break HIV & AIDS and health risk management into manageable chunks - starting with the most important ones first.

A short aside on strategic risk, or the failure to meet strategic objectives: we have elected not to make it an explicit item, but rather to focus on the more fundamental drivers of strategic risk, by asking why the strategic objectives might not be met. For example, development objectives may be hampered because products are not taken up within the target community. Why? If the product is poorly designed, priced or marketed, then we have a product development risk. If the failure is due to bad service, then we have an operational process risk. If it is because an earthquake has destroyed the office or community, then we have external event risk. This approach is consistent with some risk management frameworks, but equally many risk frameworks do include an explicit focus on strategic risk. Either approach is acceptable.
3.1 FINANCIAL RISK - MFI CREDIT RISKS

3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises

Late payment and default are two separate risks, which we have aggregated, as description, consequences, causes, indicators and controls are similar.

**Description**

- Borrower fails to repay the loan on time due to financial stress (See also Box 3.1)
- Late payments become defaults if crises have significant impact and/or if several crises happen before the client has recovered from the previous one
- Death of client leading to default in case of no credit life insurance by the MFI

**HIV & AIDS and Health Drivers**

- Client or family sickness may divert funds into healthcare, and cause loss of income generating labour
- Further financial pressure from family deaths due to funeral costs and possible loss of income generators
- Additional client time away from business for mourning, funerals, care for sick family members or orphans
- Sick clients are less productive; possible temporary or permanent disability
- Clients might lose their jobs if HIV status becomes known in areas with high stigmatisation, affecting repayment
- Absenteeism from group meetings due to inability to make repayment, illness or caring for sick household members

**Consequences**

- Increased PAR, bad debts, expenses
- Reduced profitability, liquidity, loan officer productivity (more time chasing repayments), and potential future clients
- The overall financial viability of the MFI can be threatened if the problem is large
- Missed business opportunities because resources diverted elsewhere
- Group coherence threatened in-group lending methodologies by absenteeism and non-repayment by some group members.
- In the long-term general repayment culture in this community can be compromised.

**General Indicators**

- Deteriorating PAR
- Ageing summary of loans in arrears
- Increasing write-off ratio
- Lower attendance group meetings
- Less borrowers per loan officer
- Less active clients per staff member
- Increased cost per borrower

**Specific Key Indicators**

- Data on standardised cause of late payment, default or absenteeism from group meetings (see 4.3.2)
- Client or loan officer interviews on cause of late payments/defaults
- Deaths in portfolio (by cause)
- Funeral, credit life, health or other insurance claims for clients or dependants

**Related Risk Controls**

Almost every control set out in Chapter 4 will impact on this risk directly or indirectly. Key controls:

- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.2 Data on Client Late Payment, Default, Resting, and Loan
- 4.3.4 Data on Client Insurance Claims
- 4.4.1 Market Research Existing Clients and 4.4.2 Market Research Former Clients
- 4.5.1 Train Staff in MIS and Market Research and 4.5.2 Train Staff on New Products
- 4.6 Technical Assistance and Expert Analysis
- 4.9.1 Client HIV & AIDS Education and Prevention
- 4.9.2 Education, Prevention & Other Healthcare Services for PLWHA clients
- 4.9.3 Business Development and Financial Planning Services
- 4.10 MFI Product Development - Other than Insurance
- 4.11 Insurance Products
- 4.12.1 Fraud Control

* Definitions of the different general indicators and specific key indicators can be found in Annex 2: Glossary of Terms and Definitions.
3.1.2 Insurance and Reinsurance Counterparty Default Risk

**Description**

- Insurers default on or delay payment of credit life or other insurance to MFIs
- Reinsurers default on or delay reinsurance claims payments to MFIs writing insurance

**Consequences**

- Non- or late-payment by the insurer to the MFI for credit life insurance may cause cashflow difficulties and even threaten MFI solvency and viability
- Insurance or reinsurance no longer an effective risk management strategy

**HIV & AIDS and Health Drivers**

- HIV & AIDS or other health issues may increase claims and delays settlement may result in large balances owing to an MFI from insurers or intermediaries with significant attaching credit risk exposure
- Small or inexpert insurers who have mispriced the HIV & AIDS risk may be making significant losses on the business, and hence have difficulty paying claims

**General Indicators**

- Debtors other than clients
- Change in credit rating (if available) of insurer or re-insurer or general news or market information suggesting difficulties

**Specific Key Indicators**

- Actual outstanding balance owing by insurer or reinsurer, by duration since due

**Related Risk Controls**

- 4.3.4 Data on Client Insurance Claims - particularly outstanding claims
- 4.6 Technical Assistance and Expert Analysis - in insurer and reinsurer evaluation & selection
- 5.2 Generic partnership management (credit management)
- 5.3 Insurance Related Partners

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**Box 3.1: The effect of HIV & AIDS on loan repayment**

Clients go a long way to repay their loans. It is considered to be important to keep access to credit as it will help them to bounce back once the crisis has passed. Other coping mechanisms, such as depleting savings, drawing on business income, selling household assets and sometimes even productive assets are often used beforehand. As a result, it is likely that MFIs do not experience the effects of HIV & AIDS on repayment. This is even more the case, given the fact that loan cycles are often relatively short (3 to 4 months) and AIDS related crises draw out over longer periods. An increase in dropout rate is likely to be an earlier sign. Risk 3.7.2 deals in more depth with dropout patterns.

Clients more likely to face repayment problems are those that:

- Did not have much to draw on in the first place. Loans of clients who have exhausted individual coping mechanisms, such as depletion of savings, business income, sale of household assets, sale of productive assets and sale of land will become delinquent;
- If the crisis strikes at the beginning of, and continues throughout a loan cycle diversion of the loan is likely, which will reduce repayment capacity; and/or
- If they experienced another crisis from which they had not yet fully bounced back.

3.2 OTHER FINANCIAL RISKS

3.2.1 Liquidity Risk: Lack of Funds for Loan, Withdrawal or Insurance Demands

**Description**

- Demand for loans may exceed available liquid assets
- High demand for withdrawals reduces MFI reserves below regulatory or financial soundness levels if the underlying assets are not appropriately liquid
- Unexpectedly high levels of insurance claims for MFIs writing insurance themselves could have a similar effect

**Consequences**

- MFI forced to limit loan disbursements and savings withdrawals or to seek expensive emergency funding to ease the cashflow crunch
- Inability to make loans to clients in times of need may alienate clients who lose business
- Inability to give savings clients their money on demand may trigger panic withdrawals and threaten existence of MFI
- Consumer confidence, regulator relations and credit ratings may be adversely affected

**HIV & AIDS and Health Drivers**

- Client loan demand, savings withdrawal demands and all insurance claims may peak during or after major health events such as flu epidemics or other catastrophes with health consequences like floods or earthquakes
- Healthcare funding accounts or health insurance, may be particularly unpredictable

**General Indicators**

Decrease in:

- Debt to Equity Ratio (leverage ratio)
- Liquidity ratio
- Portfolio to assets
- Liquid reserves for insurance business

**Specific Key Indicators**

- Increasing levels of claims, or demand for loans or savings withdrawals related to health issues
- Occurrence of local catastrophic event
- Health or AIDS-related disability or death claims escalating or higher than expected

**Related Risk Controls**

- 4.3.1 MIS: General Indicators Reporting and Monitoring - particularly demand for new loans
- 4.3.3 Data on Client Savings Account Purpose and Utilisation
- 4.11.3 Funeral Insurance
- 4.11.4 Disability Insurance
- 4.11.5 Health Insurance
- 4.12.2 Liquidity Management and Asset Liability Matching
- 4.12.4 Controls for Insurance Products - Reinsurance may assist insurance liquidity requirements
- 5.2 Generic Questions for All Partnerships
- 5.3 Insurance Related Partners
### 3.2.2 Market Risks: Foreign Exchange Exposure

**Description**

- Medical expenses funded or directly insured by an MFI may be set in foreign currency terms for some items (e.g. drugs obtained from outside the country), creating exposure to fluctuations in the exchange rate. Please note that direct clinical interventions are not recommended.

- Donor funding of healthcare, other health and AIDS risk management components including infrastructure and operations funded by donors in foreign currency terms. If it is used to fund expenses in local currency, there is also an exchange rate exposure.

**Consequences**

- MFI’s incur losses purchasing medical or other supplies at higher than expected prices; services may even become unaffordable.

- Donor funding may be insufficient at new exchange rate to meet budgeted expenses.

**HIV & AIDS and Health Drivers**

- Many specialised healthcare items may need to be imported.

- Donor funding may be used to support HIV & AIDS and health interventions.

**General Indicators**

- Exchange rates against major currencies.

**Specific Key Indicators**

- Amount of estimated expenses linked directly or indirectly to foreign currencies.

- Amount of foreign currency denominated donor funding used to back local currency expenses.

**Related Risk Controls**

- Currency matching of expenses and income is indicated. A discussion of currency risk management is beyond the scope of this Guide.
### 3.2.3 Insurance Risk: MFI Insurance Mispricing

Insurance is a way to manage risks as risks are shared across a group of individuals. Apart from mutual models, the insurer will be the one who is carrying the risk. Insurance is complex and easily mismanaged, and MFIs are not recommended to directly offer insurance. Nevertheless, some MFIs do write insurance themselves. In this and the following 3 Sections we describe the risks associated with the carrying of insurance risk. MFIs who are considering developing their own insurance business could use this Section to deepen their understanding of some of the health and HIV & AIDS risk associated with insurance.

Most MFIs will not be carrying insurance risk directly themselves. If insurance is offered to clients, it is typically through a partnership or other arrangement with a professional insurer. The risks of this type of arrangement are covered in Section 3.6 on Partnership Risks.

#### Description

- The actuarial model used to price the insurance risks may be poorly constructed or client characteristics and environmental facts might not be correctly identified and built into the pricing model. Changes in the underlying risk profile of the client base or environment may lead to losses.

#### Consequences

- Insurance losses can threaten the overall viability of the MFI.
- Losses can lead the MFI to default on claims or discontinue insurance products creating ill will and distrust of insurance amongst clients, and losing the risk sharing benefits of insurance.

#### General Indicators

- Claims ratios for insurance business
- Profitability of insurance business

#### HIV & AIDS and Health Drivers

- The actuarial pricing of HIV & AIDS and health related mortality or disability risks is complicated by long term trends over time and interactions with underlying factors like income, culture, mobility, etc.
- Accurate pricing of AIDS and health risks is often hindered by lack of suitable local data.
- Pricing may not account appropriately for healthcare services accessed by insured employees or clients e.g. overestimating mortality reductions due to ART.

#### Specific Key Indicators

- Levels and trends in health or AIDS-related disability or death claims
- Claims ratios by particular risk factors like income bands, sex, age, geographic location and so on

#### Related Risk Controls

- 4.3 MIS: Data Gathering and Analysis
- 4.4.1 Market Research Existing Clients
- 4.6 Technical Assistance and Expert Analysis relating to pricing
- 4.11.6 Adjustments to Existing Insurance Products
- 4.11.8 Insurance Product Features - Own or Partner Insurance
- 4.12.3 Controls for Insurance Products
- 5.2 Generic Questions for All Partnerships
- 5.3 Insurance Related Partners
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships
3.2.4 Insurance Risk: MFI Insurance Claims Volatility

Insurance results are inherently unpredictable, being concerned with risk and uncertain events. Even when models are correct and appropriate, freak events like floods or cholera or flu epidemics, or other accumulations of claims can destroy an MFI’s reserves and solvency.

**Description**

- High claims linked to a single event or a series of unlucky events lead to higher claims than expected. Insurance reserves may be destroyed by these claims.
- Small portfolios of insurance risks are inherently unpredictable and volatile.

**Consequences**

- Insurance losses can threaten the current or future viability of the MFI.
- The MFI may default on insurance claims.
- The MFI may discontinue insurance products creating client ill-will and distrust of insurance, and losing the benefits of insurance for the MFI and clients.

**HIV & AIDS and Health Drivers**

- Any epidemic event could lead to higher death, disability or health claims than expected. Weather events like floods can have ripple effects on health and AIDS related claims. The volatility of claims is increased by these factors.

**General Indicators**

- Local risk and patterns of disease, floods, earthquakes etc for catastrophe indicators.
- Insurance reserves: how are they set? Are they sufficient?
- Reinsurance programme.
- Claims ratio running significantly above expected levels.

**Specific Key Indicators**

- Occurrence of catastrophic events.
- Very variable claims experience.
- Poor loss ratios with no cause other than "a bad year".
- Analysis of cause of claims.
- "Spikes" in claims.

**Related Risk Controls**

- 4.3.1 MIS: General Indicators Reporting and Monitoring.
- 4.3.4 Data on Client Insurance Claims - Monitoring of claims by cause.
- 4.6 Technical Assistance and Expert Analysis - Actuarial assistance in product pricing and risk analysis.
- 4.11.6 Adjustments to Existing Insurance Products to contain catastrophe exposure.
- 4.12.4 Controls for Insurance Products - Reinsurance structured to remove volatility.
- 4.12.5 Controls for Insurance - Insurance Technical Expertise.
- 5.2 Generic Questions for All Partnerships.
- 5.3 Insurance Related Partners.
### 3.2.5 Insurance Risk: Adverse Selection

**Description**

- Clients may seek insurance knowing that they are likely to claim - the phenomenon of adverse selection.
- If cover is linked to a loan, clients may take loans to access the insurance which they could not access otherwise.

**Consequences**

- Inappropriate insurance losses can threaten the overall viability of the MFI
- Discontinuance of insurance products by MFI creating ill-will and distrust of insurance amongst clients
- Loss of the benefits of insurance for non-selecting clients

**General Indicators**

- Claims ratios on insurance business (claims versus premiums)

**HIV & AIDS and Health Drivers**

- HIV positive lives or others with terminal illnesses may have a significant period of knowing their status, and may seek cover when they believe themselves to be getting ill - to obtain the benefit of the insurance for their dependants. This requires a certain financial literacy amongst the clients
- Similar considerations apply to other long term health- or disability-related problems

**Specific Key Indicators**

- High claims levels due to particular illnesses or health conditions
- High claims levels in early durations of policies

**Related Risk Controls**

- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.4 Data on Client Insurance Claims - Monitoring of claims by cause
- 4.6 Technical Assistance and Expert Analysis - Actuarial assistance in product design
- 4.9.4 Client Education on Insurance
- 4.11.6 Adjustments to Existing Insurance Products
- 4.11.7 Insurance Products for PLWHA
- 4.11.8 Insurance Product Features - Own or Partner Insurance
- 4.12.3 Controls for Insurance Products
- 5.2 Generic Questions for All Partnerships
- 5.3.2 Reinsurance
### 3.2.6 Insurance Risk: Insurance Fraud and Abuse

This insurance risk applies for all models used to offer insurance products. However in case the risk is carried by another party, it becomes an operational risk instead of a financial risk and can be linked with risk 3.4.3.

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th><strong>HIV &amp; AIDS and Health Drivers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>· Clients claim fraudulently on death, health or disability policies to relieve debt obligations or obtain cash</td>
<td>· Illness or death in the family may place additional financial strain on clients due to diverted expenditure and loss of labour, making a claim an &quot;easy way out&quot;</td>
</tr>
<tr>
<td>· Loan officers submit false claims for their direct benefit or to improve performance figures; temporary illness or disability insurance are particularly vulnerable to fraud (See Box 3.2).</td>
<td>· Temporary illness or disability insurance are particularly vulnerable to fraud.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Consequences</strong></th>
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<tbody>
<tr>
<td>· Inappropriate insurance losses can threaten the overall viability of the MFI</td>
<td></td>
</tr>
<tr>
<td>· Losses can lead the MFI to default on claims or discontinue insurance products creating ill-will and distrust of insurance amongst clients.</td>
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</tr>
<tr>
<td>· Loss of the benefits of insurance for &quot;good&quot; clients: Clients may grow to distrust corrupt loan officers, damaging MFI reputation</td>
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<table>
<thead>
<tr>
<th><strong>General Indicators</strong></th>
<th><strong>Specific Key Indicators</strong></th>
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<tbody>
<tr>
<td>· Poor claims ratios on insurance business</td>
<td>· Inconsistencies in cause of claim data</td>
</tr>
<tr>
<td>· Comparisons between loan officers within one branch and across branches (See box 3.2)</td>
<td>· Levels of detected fraud amongst insurance clients: Investigations into loan officers with high claim ratios (See Box 3.2)</td>
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<table>
<thead>
<tr>
<th><strong>Related Risk Controls</strong></th>
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<tbody>
<tr>
<td>· 4.3.1 MIS: General Indicators Reporting and Monitoring</td>
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</tr>
<tr>
<td>· 4.3.4 Data on Client Insurance Claims - Monitoring of claims by cause</td>
<td></td>
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<tr>
<td>· 4.9.4 Client Education on Insurance</td>
<td></td>
</tr>
<tr>
<td>· 4.11.6 Adjustments to Existing Insurance Products</td>
<td></td>
</tr>
<tr>
<td>· 4.11.8 Insurance Product Features - Own or Partner Insurance</td>
<td></td>
</tr>
<tr>
<td>4.12.1 Fraud Control</td>
<td></td>
</tr>
<tr>
<td>· 4.12.4 Controls for Insurance Products - Reinsurance providing pricing expertise</td>
<td></td>
</tr>
<tr>
<td>· 4.12.5 Controls for Insurance - Insurance Technical Expertise</td>
<td></td>
</tr>
<tr>
<td>· 5.2 Generic Questions for All Partnerships</td>
<td></td>
</tr>
<tr>
<td>· 5.3.2 Reinsurance</td>
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</tbody>
</table>

**Box 3.2: A case for effective fraud risk controls - PULSE Zambia**

In 2003, PULSE experienced a number of fraud cases that involved forged death certificates. After noting a significant increase in claims, the internal auditor identified collusion between two loan officers and the medical staff at the hospital. In 2004 a credit officer forged a police report showing a client was dead. The loan was quite delinquent, so the credit officer's intent was to use death as the cause for delinquency, and get the loan written off so he could earn more incentives. The forged police report only came to light after the staff member had been fired for another fraud related case and the new credit officer found out that the client was actually alive.

The first case of fraud was detected due to regular monitoring of overall trends. The second fraud case was a learning point for PULSE which led to the re-enforcement of fraud controls for insurance products.

3.3 PEOPLE IN THE WORKPLACE

3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues

Description

- Companies incur "indirect costs" when productivity drops or absenteeism increases, and in recruiting and retraining deceased, disabled or vanished employees
- "Direct costs" encompass employee benefits costs like funeral cover on the death of the employee or family members, health insurance, group life and/or disability cover and other benefits

Consequences

- Higher or unexpected operating costs reduce the profitability or viability of the MFI

HIV & AIDS and Health Drivers

- HIV infected or affected staff may have decreased productivity due to illness, time taken to seek treatment or to care for sick or dying relatives, low morale
- Increased sickness and mortality from HIV & AIDS leads to higher healthcare utilisation, greater incidence of disability and higher mortality, all translating into escalating claims. In case of insured benefits, these costs do not come directly with the MFI but will eventually most likely result in premium increases

General Indicators

- Reducing productivity and efficiency
  - Borrowers per staff member/loan officer
  - Savings accounts per staff member
  - Active clients per staff member
  - Costs per borrower / saver / active client
  - Personnel expense ratio
  - Operating expenses/loan portfolio
- Increasing staff absenteeism
- Increasing cost of employee benefits
- Low employee morale
- High staff turnover

Specific Key Indicators

- Increasing claims on employee benefits
- Increased spend on recruitment
- Increased absenteeism due to illness or compassionate leave to attend to family members or attend funerals
- Increase costs for employing temporary workers

Related Risk Controls

- 4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines
- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.5 Data on Discrimination and Stigmatisation at Workplace
- 4.4.5 Pilot Testing
- 4.6 Technical Assistance and Expert Analysis - actuarial impact analysis to plan for costs and evaluate interventions
- 4.8.1 Train staff on HIV & AIDS and Health Policy
- 4.8.2 Staff HIV & AIDS Preventive Education, Counselling, Wellness Programmes, Management Support
- 4.8.3 Employee Benefits for Staff
- 4.8.4 Staff HIV & AIDS Disease Management
- 4.11.3 Funeral Insurance
- 4.11.4 Disability Insurance
- 4.11.5 Health Insurance
- 5.2 Generic Questions for All Partnerships
- 5.3 Insurance Related Partners
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships
### 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees

**Description**
- Workplace disruption, industrial action

**Consequences**
- Distress to employees, victimisation, workplace disruption
- Loss of productivity and morale
- Legal action with potential penalties
- Management time grappling with issues

**HIV & AIDS and Health Drivers**
- In many areas HIV is highly self-stigmatising and stigmatised by others, and the HIV status of an employee or his/her family members must be treated as highly confidential, if it is discovered
- Fear or ignorance generates unwillingness of managers or employees to work, dine or share facilities with known or suspected PLWHA employees.

**General Indicators**
- High staff turnover
- Poor atmosphere, taboos on talking about HIV & AIDS or other conditions

**Specific Key Indicators**
- Exit interviews with staff leaving the organisation, or staff reports to confidants indicate this to be an issue
- Questionnaire responses
- Strikes, or more minor incidents
- Legal actions

**Related Risk Controls**

- 4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines
- 4.3.5 Data on Discrimination and Stigmatisation at Workplace
- 4.4.5 Pilot Testing
- 4.8.1 Train staff on HIV & AIDS and Health Policy
- 4.8.2 Staff HIV & AIDS Preventive Education, Counselling, Wellness Programmes, Management Support
- 5.4 HIV & AIDS Prevention and Other Education Partners
### 3.3.3 Key Person Risk

**Description**

- Absenteeism or loss of a key individual who cannot be readily replaced e.g. branch manager, key marketing people, etc.

**Consequences**

- Adverse effect on operations, institutional capacity and institutional memory

**HIV & AIDS and Health Drivers**

- Sickness, disability or death of key person
- Absenteeism and productivity loss due to the sickness or death of his/her family members or due to low morale

**General Indicators**

- Staff absenteeism
- Increased deaths amongst staff

**Specific Key Indicators**

- Performance interviews with key staff members indicate unhappiness or difficulties
- Anonymous testing programme gives insight in number of PLWHA staff. In case of a large organisation this can be branch or position specific. It is important to maintain confidentiality

**Related Risk Controls**

- 4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines
- 4.8 Workplace Focused Controls
- 4.11.4 Disability Insurance
- 4.11.5 Health Insurance
- 5.2 Generic Questions for All Partnerships
- 5.3 Insurance Related Partners
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships


3.4 OPERATIONAL RISKS - CLIENTS

3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants

**Description**

- Poor treatment of, or inappropriate discrimination against, sick or HIV positive clients or applicants
- Disclosure within the community of HIV status or other confidential information by loan officers, other staff, partners or related organisations
- Highly inflexible loan products or insensitive loan officers aggravate client hardship resulting from HIV & AIDS related conditions or other family illness events

**HIV & AIDS and Health Drivers**

- High levels of stigma on HIV & AIDS and/or ignorance within a community
- Ignorance or insensitivity on the part of loan officers or other employees or partners
- AIDS-related family deaths may hit clients’ income temporarily, creating a need for more flexible repayment terms, which the lending methodology and incentive programme for loan officers may not support

**Consequences**

- Negative impact on reputation, affecting renewals, future new business, with potential legal action in some countries. Disclosure of HIV status can have very harmful consequences for clients and their families and businesses

**General Indicators**

- High dropout rate
- Reduced new clients
- Poor media coverage

**Specific Key Indicators**

- Complaints to the MFI, or the regulator, network, ombudsman or legal bodies
- Client satisfaction surveys indicate dissatisfaction with treatment by loan officers which is related to suspective HIV status
- Legal action

**Related Risk Controls**

- 4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines
- 4.4.1 Market Research Existing Clients and
- 4.4.2 Market Research Former Clients - focusing on client satisfaction with treatment and quality of service delivery and reasons for dropping-out.
- 4.4.5 Pilot Testing
- 4.5.2 Train Staff on New Products
- 4.8.1 Train staff on HIV & AIDS and Health Policy
- 4.9.1 Client HIV & AIDS Education and Prevention
- 4.9.2 Education, Prevention & Other Healthcare Services for PLWHA clients
- 4.10.1 Adjustments to Existing Credit Products
- 4.11.1 Credit Life Insurance
- 4.11.3 Funeral Insurance
- 4.11.6 Adjustments to Existing Insurance Products
- 4.11.7 Insurance Products for PLWHA
- 4.11.8 Insurance Product Features - Own or Partner Insurance
- 4.12.1 Fraud Control
- 5.2 Generic Questions for All Partnerships
- 5.3 Insurance Related Partners
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships
3.4.2 Unintended Group Responses to PLWHA Clients / Applicants

Description

- Group lending methodologies transfer certain risk management functions to the group. To reduce the group’s risk, members may discriminate against PLWHA members as shown in Box 3.3.
- Group coherence may be threatened by conflict between group members

HIV & AIDS and Health Drivers

- Refusal of groups to allow known or suspected HIV positive clients to obtain loans despite being good potential MFI loan clients and in good health
- Irrational group responses to HIV amongst members, member’s families or applicants
- Unfair discrimination by groups against people with other health conditions

Consequences

- Failure to include PLWHA people in the net may compromise the MFIs development mission, or create unfair discrimination
- Loss of clients which could have been good MFI customers for years to come
- Loss of group coherence will compromise the security and viability of the group lending methodology

General Indicators

- Higher than usual changes in group composition
- Increasing absenteeism at group meetings
- Low retention rate
- Decrease in growth of new business

Specific Key Indicators

- Specific feedback in client interviews or surveys
- Measured illness-related termination of services not related to financial hardship
- Time loan officers spent on dealing with conflicts in groups

Related Risk Controls

- 4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines
- 4.3.1MIS: General Indicators Reporting and Monitoring
- 4.4.1 Market Research Existing Clients and 4.4.2 Market Research Former Clients
- 4.8.1 Train staff on HIV & AIDS and Health Policy
- 4.9.1 Client HIV & AIDS Education and Prevention
- 4.9.2 Education, Prevention & Other Healthcare Services for PLWHA clients
- 4.10.1 Adjustments to Existing Credit Products
- 4.11 Insurance Products as illustrated in Box 3.1
- 4.12.1 Fraud Control
- 5.2 Generic Questions for All Partnerships
- 5.3 Insurance Related Partners
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships

Box 3.3 Impact of credit life insurance on group discrimination of PLWHA clients/applicants

CETZAM, FINCA and PRIDE in Zambia noted increasing prevalence of death and sickness amongst its clients. In addition groups were excluding many potential borrowers suspected of HIV & AIDS as the mutual guarantee system required group members to be responsible for outstanding loan balances in terms of death of a group member or loan instalments due to defaults resulting from sickness. After the MFIs introducing credit life and funeral insurance, group members are less restrictive and willing to include group members suspected of being HIV positive.

3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues

**Description**

- MFI responses to HIV & AIDS and other health risks may lead clients to perceive the MFI "soft" and hence to test the boundaries of financial discipline
- Similarly, if clients think that crying "AIDS" will get them special treatment, there may be an escalation in false claims

**HIV & AIDS and Health Drivers**

- Responding to HIV & AIDS and health crises requires realism: a considered mix of compassion and firmness. There is the risk that the perception or fact of too much softness allows clients to think they can "get away with it"
- The most pressing needs and needs involving family members other than the client (death in the family) are particularly open to abuse

**Consequences**

- Potential increased late payments, defaults, and/or administrative and persuasion burden on loan officers

**General Indicators**

- Portfolio at Risk
- Ageing summary of loans in arrears
- Attendance group meetings
- Numbers of loans being rescheduled or numbers of insurance claims

**Specific Key Indicators**

- Data on cause of late payment, default or absenteeism from group meetings indicating high rates of illness of client, illness or death within family;
- Insurance claims, rescheduled loans or defaults per loan officer
- Focus Group Discussions with loan officers on impressions of client "stories"

**Related Risk Controls**

- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.2 Data on Client Late Payment, Default, Resting, and Loan
- 4.3.4 Data on Client Insurance Claims
- 4.5.1 Train Staff in MIS and Market Research
- 4.6 Technical Assistance and Expert Analysis
- 4.9.1 Client HIV & AIDS Education and Prevention
- 4.9.2 Education, Prevention & Other Healthcare Services for PLWHA clients
- 4.9.3 Business Development and Financial Planning Services
- 4.10.3 Savings Products for Health Protection
- 4.11 Insurance Products
- 4.12.1 Fraud Control
3.4.4 HIV & AIDS Fatigue

**Description**

- "AIDS fatigue" in employees, managers and clients as message has been heard often.

**Consequences**

- Failure or unwillingness to devote ongoing creativity, energy and attention to HIV & AIDS risk management, product development or client or staff problems
- Reduced productivity in staff and managers
- Alienation of fatigued clients who "don't want to hear about it", when HIV & AIDS is part of the MFI's messaging/training

**HIV & AIDS and Health Drivers**

- The long term and changing nature of the HIV & AIDS epidemic
- Constant requirements for monitoring and adaptation
- Helplessness at lack of tangible impact on the situation in the face of sometimes devastating human consequences
- Lack of access to ART makes people fatalistic
- Lack of behaviour change despite ongoing messaging

**General Indicators**

- Reduced productivity
- High staff turnover
- Resentment, boredom or general resistance around anything to do with HIV & AIDS

**Specific Key Indicators**

- Exit interviews with staff leaving the organisation indicating this to be an issue
- Questionnaire responses
- Disruption in meetings or in the general course of business related to this issue
- Poor attendance at voluntary HIV & AIDS meetings and discussions
- AIDS committee / employee consultations points at HIV & AIDS fatigue

**Related Risk Controls**

- 4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines
- 4.2.2 Regular Strategic Review- to be realistic in light of size MFI and local environment
- 4.8.1 Train staff on HIV & AIDS and Health Policy
- 4.8.2 Staff HIV & AIDS Preventive Education, Counselling, Wellness Programmes, Management Support
- 4.9.1 Client HIV & AIDS Education and Prevention
- 4.9.2 Education, Prevention & Other Healthcare Services for PLWHA clients
- 5.2 Generic Questions for All Partnerships
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships
Useful Resources Section 3:

- The Economic Impact of AIDS, Policy Project, Stover and Bollinger, 1999 gives clear and to the point background information on the direct and indirect costs of HIV & AIDS on the workforce, as mentioned under risk 3.3.1.  http://www.policyproject.com/pubs/SEImpact/SEImpact_Africa.pdf
- See useful resources Section 2.5 for other resources on workforce risks mentioned in Section 3.3.

The following five resources look at the operational risks at client level:

### 3.5 OPERATIONAL RISKS - SYSTEMS AND PROCESSES

#### 3.5.1 Mismanagement of Health and AIDS risks: Poor Data

<table>
<thead>
<tr>
<th>Description</th>
<th>HIV &amp; AIDS and Health Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The impacts of health and AIDS may be over- or under-estimated due to inadequate data capture, reporting and monitoring</td>
<td>- The effects of HIV &amp; AIDS related hardship on clients may be swamped or disguised by other causes of late payment, drop out, savings withdrawal, non-renewal or default; systems may be inadequate to detect these specific problems; or insufficient time might be spent on analysing data</td>
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<table>
<thead>
<tr>
<th>Consequences</th>
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<tbody>
<tr>
<td>- Failure to identify nature and scale of impact may lead MFIs to spend too much on AIDS risk management if they overestimate the impact, or too little if they underestimate the impact.</td>
<td>- Management may neglect HIV &amp; AIDS due to lack of information, knowledge or interest</td>
</tr>
<tr>
<td>- Failure to correctly attribute the cause for poor financial performance (HIV &amp; AIDS and other factors)</td>
<td>- Management, donor or other stakeholder concern around HIV &amp; AIDS can divert resources into addressing the issue, without a sound basis for decision making</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General Indicators</th>
<th>Specific Key Indicators</th>
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<tbody>
<tr>
<td>- High spend (money, time) on HIV &amp; AIDS actions if there is a low community level impact</td>
<td>- Discrepancies between the perceived and actual impacts of HIV &amp; AIDS on business.</td>
</tr>
<tr>
<td>- Low spend (money, time) on HIV &amp; AIDS actions in known severely affected areas</td>
<td>- Standardised cause of late payment and default indicate strong influence of illness of client, illness or death within family</td>
</tr>
<tr>
<td>- Management decisions or actions (including inaction) based on little information or data and/or poor analysis of data</td>
<td>- Exit interviews suggest that health related crises and crises related to death in the family or of client are important reason to withdraw savings or not to renew loan</td>
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<td></td>
<td>- HIV specific items in budget/expenses out of line with other risk management relative to impact</td>
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<table>
<thead>
<tr>
<th>Related Risk Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 4.2.2 Regular Strategic Review</td>
</tr>
<tr>
<td>- 4.3 MIS: Data Gathering and Analysis</td>
</tr>
<tr>
<td>- 4.4 Market Research</td>
</tr>
<tr>
<td>- 4.5.1 Train Staff in MIS and Market Research</td>
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</tbody>
</table>
3.5.2 Mismanagement of Health and AIDS Risks: Poor Local Knowledge

**Description**

- Inappropriate strategy or risk management due to poor understanding of the local context and specific situation

**Consequences**

- MFI resources are inefficiently used to solve problems that are not serious, or are not deployed in high impact areas
- MFIs fail to draw on local resources like government or other programmes to efficiently address HIV & AIDS issues
- MFIs create programmes that are unsuitable for the local culture
- MFIs fail to act to reduce risk or expenses in cases where this can be done effectively
- MFI business planning and projections do not take account of likely impact and scale of HIV & AIDS or other health issues

**HIV & AIDS and Health Drivers**

- The extent of the impact of AIDS on the MFI business depends on all the contextual factors set out in Section 1.4, including:
  - Local prevalence rate of HIV or other diseases
  - HIV epidemic maturity
  - Demographic profile
  - General healthcare system
  - HIV & AIDS treatment availability
  - Education and awareness levels
  - Extent of stigmatisation
  - Local culture around sexuality
  - Gender issues
  - Population movements
  - NGO and private sector activity
  - Policy and regulatory environment
  - The insurance environment

- Business planning must account for all these factors, or the market size and nature may change dramatically without the MFI being aware of it

**General Indicators**

- HIV & AIDS programme is implemented in isolation without contacting experienced organisations and studying local situation

**Specific Key Indicators**

- Knowledge levels amongst management of local conditions
- Success or failure of MFI HIV and health initiatives
- Large amounts being spent on HIV & AIDS without sound supporting information.

**Related Risk Controls**

- 4.2 Strategic Processes
- 4.4 Market Research
- 4.6 Technical Assistance and Expert Analysis
- 4.7 Advocacy at National or Industry Level
- 4.11.6 Adjustments to Existing Insurance Products
- 5.7 Partnering for Situational and Actor Analysis
3.5.3 Product Development Risk

This risk can either be a lack of product development or inappropriate product development. This risk is a primary driver of what is frequently referred to as “strategic risk” - the failure of the organisation to meet its strategic objectives, both business and social.

**Description**

- Products mismatched to client needs with regard to affordability, need or demand, logistic and access considerations or assumed client competencies (such as literacy or knowledge levels) See Box 4.6.
- Poor or non-existent responses to client health crises may lead to loss of market share to another more “in touch” MF
- Terms may be too inflexible or too flexible
- Pricing may be inappropriate in comparison to competitors and or exceed client’s ability or willingness to pay
- Product features may render product impractical for clients or demand skills, literacy or capacity that clients do not have.
- Products may unfairly discriminate against classes of potential clients (e.g. PLWHA) or may fail to make necessary discrimination
- Excessively expensive products or unfair terms prompt regulatory intervention, legal action or consumer boycotts

**Consequences**

- Reduced new business or market share
- Inadvertent discrimination of potential clients
- Development/business imperatives not met

**General Indicators**

- High drop out rate
- High lapse rate on insurance products
- Low number of new clients
- Drop in market share
- Low uptake of new products
- Loss on new products introduced

**HIV & AIDS and Health Drivers**

- Hardships experienced by clients in connection with HIV & AIDS and health problems create new demands and constraints in relation to MFI products
- With all the focus on HIV & AIDS, competing MFIs may respond more quickly or more appropriately.
- Donors may place pressure on MFIs to introduce new products and make products more flexible, which may not be in line with client demands
- MFI may focus on one health problem (like AIDS) when the real problem for clients might be malaria or malnutrition
- HIV & AIDS and health issues are often the subject of emotive views in consumers and market players. Products that are perceived (rightly or wrongly) as taking unfair advantage of clients or discriminating against clients may have consequences with regulators, industry bodies, the media, donors, consumer bodies and so on.

**Specific Key Indicators**

- Exit and client satisfaction interviews indicate that clients moved to other MFIs because of products offered by competitors or dissatisfaction with services offered
- Competitor information on (new) products
- Lower than expected sales on product launches or revisions

**Related Risk Controls**

- 4.2.1 Monitoring Local Contextual Factors
- 4.3.1 MIS: General Indicators Reporting and Monitoring, 4.3.2 Data on Client Late Payment, Default, Resting, and Loan, 4.3.3 Data on Client Savings Account Purpose and Utilisation and 4.3.4 Data on Client Insurance Claims
- 4.4 Market Research
- 4.5 MFI Capacity Building
- 4.6 Technical Assistance and Expert Analysis
- 4.9.4 Client Education on Insurance
- 4.10.2 New Credit Products
- 4.10.3 Savings Products for Health Protection
- 4.11.1 Credit Life Insurance and 4.11.2 Credit Disability Insurance
- 4.11.6 Adjustments to Existing Insurance Products
- 4.11.8 Insurance Product Features - Own or Partner Insurance
- 4.12.5 Controls for Insurance - Insurance Technical Expertise
3.5.4 Regulatory Risks

Regulatory intervention in the area of product design have been considered in the previous Section. Additional regulatory interventions in the business of the MFI can arise for reasons ranging from solvency to compliance with insurance regulations or other anti-discrimination legislation.

**Description**

- Government could seek to enforce non-discrimination measures if MFIs are seen to be unfairly discriminating against PLWHA people or others with health issues
- MFIs taking deposits, or developing specific health savings accounts, are subject to solvency and liquidity regulation and intervention
- MFIs writing insurance face a host of potential regulatory interventions if they fail to comply with applicable insurance regulations. Risk increases in case policyholders are not treated appropriately or if solvency is threatened.
- MFIs introducing insurance products with partners may also face regulations around insurance distribution, the legality of compulsory insurance, requiring the use of a particular insurer

**HIV & AIDS and Health Drivers**

- The seriousness with which the government views and prioritises HIV & AIDS will influence the possibility of likely intervention
- Regulations governing different aspects of MFIs business responses to HIV & AIDS and health can change over time, and the changes may require at times significant adaptations by the MFI to products
- Another important factor for financial institutions taking deposit and/or offering insurance products is the view of the local regulator on the “micro” end of the market. In many environments, different regulatory controls apply to micro finance than might apply to full-scale banks or insurers. In some environments this is an informal understanding, with MFIs operating in a grey area underneath the standard regulatory framework. Any actions by the MFI perceived badly by the regulator may open the way to fuller regulatory control.

**Consequences**

- Possible fines or even prosecution
- Increased capital requirements
- Damaged reputation, lower new business
- Damaged relationship with the regulator
- Management time and resources spent implementing regulator’s requirements
- Intervention by regulator in business
- Many possible impacts, on operations, depending on regulators instructions

**General Indicators**

- Rapidly changing regulatory environments
- Introduction of new products that draw MFI into new regulatory areas
- Unhealthy solvency indicators
- Poor results reported in regulatory returns

**Specific Key Indicators**

- Numbers of complaints from any source to regulator around MFI practices
- Notification or queries from the regulator around any potential issue
- Capital for insurance or savings products less than, or close to, regulatory minimum

**Related Risk Controls**

- 4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines
- 4.2 Strategic Processes
- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.4.1 Market Research Existing Clients, 4.4.2 Market Research Former Clients, 4.4.4 Competitor Analysis and 4.4.5 Pilot Testing
- 4.6 Technical Assistance and Expert Analysis
- 4.7 Advocacy at National or Industry Level
3.5.5 Additional Risk Management Expenses

Particularly when first formulating responses to HIV & AIDS and health issues it is natural that more management, IT and other operational time are spent dealing with it. At least someone within the MFI will have to dedicate time to driving the risk function. However the process of responding should itself be managed to ensure that things do not spiral out of control. Some MFIs may make conscious decisions to invest significant resources in responding to HIV & AIDS, but this should not happen unintentionally.

**Description**

- AIDS and health risk management may increase the costs of managing business for the MFI by impacting on the following:
  - Additional management time and resources may be required to understand and respond to the issues
  - Additional IT and MIS developments may be required to provide the necessary information to manage risks
  - Interacting with clients may become more complex and may take longer given need for additional information. This will require additional time and skills

**Consequences**

- Operating expenses will increase
- If not managed, the profitability and viability of the MFI may be challenged

**HIV & AIDS and Health Drivers**

- HIV & AIDS in particular is a very complex matter that requires a lot of expertise to understand and which may impact across the entire spectrum of operations. It leads to long-term trends and changes in many factors affecting operations, and hence the need for additional resources and time.

**General Indicators**

- Increasing management time discussing health and HIV & AIDS related issues
- Productivity and efficiency ratios

**Specific Key Indicators**

- Staff complaints on increased workload due to collection of additional information
- Monitor time spent by management or business on HIV & AIDS (e.g. timesheet)

**Related Risk Controls**

- 4.1 Policies and Procedures
- 4.2.2 Regular Strategic Review
- 4.3 MIS: Data Gathering and Analysis
- 4.4.5 Pilot Testing
- 4.6 Technical Assistance and Expert Analysis
3.6 OPERATIONAL RISKS - PARTNERSHIPS

As may be clear by now, many health and HIV & AIDS-related risks may involve partners in one way or another, be it insurance partners, healthcare partners, education partners, state facilities, linking up with prevention initiatives, consultants or industry initiatives. Partnerships may be introduced to alleviate a financial risk like default, through education or insurance. At the same time another, less complex, partnership risk such as reputational risk is introduced. Because of the importance of partnerships in health and AIDS risk management we have given partnerships a separate heading under operational risk. However, in most risk management frameworks it is considered to be part of external events.

"Partnership" here covers the whole range of relationships from outsourcing a service or function to an external party, to co-operation with external parties, co-branding or even joint venture type arrangements.

In this Section, we briefly highlight the generic partnership risks that must be considered for any type of partner. In assessing different types of partners, the particular issues for consideration under each generic heading will be very different. For example, in 3.7.5 below on the failure of partners to deliver the required services or functions, the severity of the consequences and the issues to consider will be different for partners that are hired to do market research than for partners who are supplying antiretroviral therapy. In particular, the general indicators and key indicators to be monitored will have to be determined separately for each partner. Chapter 5 of this Guide considers the issues pertaining to different types of partners in more detail.
3.6.1 Partners' Services Poorly Aligned to MFI & Client Needs

**Description**

- Conventional operators in brokerage, insurance, healthcare, education etc may fail to understand special requirements of MFI clients and staff
- Services or products inconsistent with culture, knowledge, literacy, affordability, needs and priorities of MFIs and clients
- Private sector partners fail to grasp the blend of sound business principles and development needs that drive MFIs

**HIV & AIDS and Health Drivers**

- Client and staff (as applicable) sophistication, knowledge and attitudes around HIV & AIDS or health issues and the relevant service must be taken into account in any treatment, insurance, education or other HIV & AIDS or health related intervention, initiative or programme.
- AIDS, healthcare or other NGOs with a charity focus who become involved with MFIs may not appreciate the business principles underlying credit provision
- Conversely, partners from traditional business realms may not appreciate the need to think out of the box to accommodate the needs of the low income market, or to be creative in addressing HIV & AIDS-related risks

**Consequences**

- Misalignment renders the service worthless in meeting partnership objectives for risk management, education, cost control etc
- Misalignment with MFI objectives may undermine the operations of the MFI, alienate any or all stakeholders

**General Indicators**

- Slow or low uptake of product or service or conversely take-up of multiple policies with similar benefits
- Lack of reduction in general indicators relating to risks or factors that the partnership was intended to address.
- Observed behaviour change and confusion among applicable partner target group (clients or staff members)

**Specific Key Indicators**

- Market research or discussions with staff indicate problems with partner service or product
- The key indicators that the partnership was intended to consider. Refer also to Chapter 5.

**Related Risk Controls**

- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.2 Data on Client Late Payment, Default, Resting, and Loan
- 4.3.3 Data on Client Savings Account Purpose and Utilisation
- 4.3.4 Data on Client Insurance Claims
- 4.4.1 Market Research Existing Clients
- 4.4.3 Market Research Potential Clients to assess need and interest in service beforehand and after launching client take up and responses to products and services
- 4.4.5 Pilot Testing
- 4.6 Technical Assistance and Expert Analysis - review of partnership and services
- 4.7 Advocacy at National or Industry Level
- 4.11.6 Adjustments to Existing Insurance Products
- All of Chapter 5
### 3.6.2 Partner Services not Taken up by Clients or Staff

**Description**

- A culture of fear or mistrust, or lack of a positive culture towards insurance, healthcare, ART, business services or education may lead to low take up of voluntary services offered by partners.
- Insurance services may not be taken up if insurance industry in some countries has a bad reputation due to low number of payouts due to large number of exceptions, bankruptcy and/or poor administration.
- Loan officers may not inform clients accurately or appropriately about services.
- Clients may simply not understand the services.

**Consequences**

- Reduced effectiveness of the risk management/mitigation for MFI and clients.
- Negative sentiment towards the partner or service provider may spread to the MFI if they are perceived as linked.

**HIV & AIDS and Health Drivers**

- Historic practices of AIDS exclusions in some markets have created significant anti-insurance sentiments.
- AIDS related healthcare and education services may be stigmatised and hence avoided.
- Low income health insurance schemes in particular have had very mixed success in some areas, sometimes being closed due to fraud and abuse, leading to perceptions of unreliability.
- Loan officers may not be well informed around insurance, HIV & AIDS, health or other partner or service issues, and be unable or unwilling to engage with clients around them.

**General Indicators**

- Low take up or access rates for particular products and services.

**Specific Key Indicators**

- Specific reasons that clients give for not taking up cover.
- Market research (focus group discussions, questionnaires, loan officers’ views).

**Related Risk Controls**

- 4.4.1 Market Research Existing Clients
- 4.4.3 Market Research Potential Clients to assess need and interest in service beforehand and after launching client take up and responses to products and services.
- 4.4.3 Market Research Potential Clients.- to assess affordability and needs of prospective clients.
- 4.4.5 Pilot Testing
- 4.5.2 Train Staff on New Products
- 4.6 Technical Assistance and Expert Analysis - review of partnership and services.
- 4.7 Advocacy at National or Industry Level
- 4.8.1 Train staff on HIV & AIDS and Health Policy
- 4.9.4 Client Education on Insurance.
- 4.11.6 Adjustments to Existing Insurance Products
- All of Chapter 5
3.6.3 MFI Administration Failure in Relation to Partners and Services

Description

- Linking into partner’s service (e.g. insurance, healthcare) requires significant administrative and expert capacity
- MFI staff may fail to grasp the products or processes required to ensure they run smoothly, affecting internal functioning, functioning with the partner, and relationships and communication with clients. These processes may include initial application, screening, claims, referral processes, enrolment, monitoring and ongoing interaction processes
- MFI staff may fail to effectively communicate any of the above to clients
- MFI staff may simply make mistakes or lose important information or items (like application forms) connected with the partnership services or products

Consequences

- Administrative foul ups can lead to ill-will amongst clients
- Matters like repudiated claims or denied healthcare access due to poor explanation of terms cause great ill-will and hardship
- Product or service effectiveness in mitigating risk may be compromised
- The insurer or partner may eventually terminate the arrangement with the MFI, losing the benefit of insurance altogether
- The MFI may lose unhappy clients
- Poor reputation may reduce future clients

HIV & AIDS and Health Drivers

- For all insurance products, the MFI may fail to fully understand detailed policy conditions and procedures around exclusions (particular around HIV & AIDS and pre-existing conditions), initial underwriting and other application procedures, claims procedures
- This understanding may not permeate all necessary levels from management to administration down to loan officers, if they are involved
- The staff or clients may not understand the conditions, processes and limitations on accessing healthcare services and healthcare insurance or funding, since these are frequently complex
- Changes in conditions which affect the service or insurance cover may not be identified, for example child dependants who go over age 25 are not covered, but the MFI may fail to stop collecting premiums, and on the death of such a person, the claim will be repudiated leading to unhappiness

General Indicators

- Unsuccessful partner interactions
- Problems in enrolling clients or staff on to healthcare programmes
- Partner unhappiness with the MFI relationship
- Dropout / Lapse rate

Specific Key Indicators

- Repudiated insurance claims
- Delays in insurance applications and claim payments
- Client/staff feedback or market research indicating unhappiness with the service
- Feedback from staff indicates problems around roles, procedures and responsibilities

Related Risk Controls

- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.3 Data on Client Savings Account Purpose and Utilisation
- 4.3.4 Data on Client Insurance Claims
- 4.4.1 Market Research Existing Clients and 4.4.2 Market Research Former Clients
- 4.4.5 Pilot Testing
- 4.5.2 Train Staff on New Products
- 4.6 Technical Assistance and Expert Analysis in partner development
- 4.7 Advocacy at National or Industry Level
- 4.9.4 Client Education on Insurance
- 4.11.6 Adjustments to Existing Insurance Products
- All of Chapter 5
3.6.4 Partners are Damaging to Reputation

**Description**

· Through public statements, treatment of clients or staff, failed or inappropriate delivery or even actions unrelated to one's clients or staff, partners may alienate, offend or otherwise upset clients or staff

**Consequences**

· Association with such partners may damage the MFI's reputation and future business

**HIV & AIDS and Health Drivers**

· HIV & AIDS is a particularly sensitive subject (sex, gender issues, illness and death), and highly politicised in some environments. Poor treatment of clients/staff or inappropriate messaging can have strong reputational consequences
· Perceived poor delivery, whether real or not on healthcare (unreliable treatment), insurance (too many repudiations), education or any other partner service can damage reputations, and new business

**General Indicators**

· Low take up or access rates for particular products and services relating to the partner
· Dropping MFI new business or renewals
· Dropout / Lapse rate

**Specific Key Indicators**

· Complaints received by clients and loan officers
· Market research into client perceptions and experience of partner services
· MFI internal assessment of partner services

**Related Risk Controls**

- 4.4.1 Market Research Existing Clients and 4.4.2 Market Research Former Clients - client and staff evaluation of partner performance
- 4.6 Technical Assistance and Expert Analysis in partner development
- 4.11.6 Adjustments to Existing Insurance Products
- All of Chapter 5
3.6.5 Partners Fail to Deliver Required Services or Functions

**Description**

- Failure of a partner to perform key functions that the MFI is relying on it to do, including to perform them timeously

**Consequences**

- Adverse impact on MFI business to the extent that it affects the sustainable and profitable functioning of the MFI
- Increased burden on MFI to "pick up the pieces" if this is even possible
- Damage control required with clients if they are visibly affected both practically and from a reputational perspective
- Management time on resolving problems with the partner or finding a new partner
- Risks that were supposed to be addressed via partnerships are not, for example late or non-payment of insurance claims to clients renders the insurance useless for the MFI in mitigating default risk

**HIV & AIDS and Health Drivers**

- Many Health and HIV & AIDS risks are best managed in conjunction with partners, creating a dependency by the MFI on the partner's capacity and delivery
- Moreover in many cases the risks themselves can have serious consequences, aggravating the consequences of delivery failure. This is particularly true of something like ART supply, where failure to maintain a steady supply has very adverse consequences for the health of the patient
- Higher frequency of health and HIV & AIDS crises implies increased risk
- This risk is likely to be driven by other factors such as weak management capacity

**General Indicators**

- Lack of impact on the risk (measured through signs of stress and specific key indicators) that the collaboration aims to address.

**Specific Key Indicators**

- These too will refer to the specific key indicators that the partnership was intended to consider. See Chapter 5 for more detail on different types of partners.

**Related Risk Controls**

- 4.3 MIS: Data Gathering and Analysis
- 4.6 Technical Assistance and Expert Analysis in partner development
- 4.11.6 Adjustments to Existing Insurance Products
- All of Chapter 5
3.6.6 Partner Forced to Terminate Service or Partnership

**Description**

- Partners may be forced to terminate a partnership for many reasons including their own poor management, misunderstanding of the MFI market, or changes in contextual factors (like legislation) that force them to move or close.

**Consequences**

- MFI is left without a key service that they require to run efficiently
- Client backlash against withdrawal of service
- Management time and expense in filling gap or finding new partners
- Loss of healthcare delivery services can have particularly dire consequences for clients depending on them for antiretroviral therapy or other long-term medication.

**HIV & AIDS and Health Drivers**

- Credit, funeral and health insurers may underprice cover in heavily affected areas
- Untested healthcare delivery systems may be unable to cope with volumes or be too inexperienced to secure reliable treatment supplies and services
- Untested education programmes may not achieve objectives
- AIDS service organisations may run out of funding and have to close, or be subject to poor management controls and find themselves loss making and out of business

**General Indicators**

- Partner indicates difficulties

**Specific Key Indicators**

- Partner terminates with other MFIs
- Partners terminate with own MFI
- Check conditions of funding or grants, if partner is donor dependent

**Related Risk Controls**

- 4.3 MIS: Data Gathering and Analysis
- 4.6 Technical Assistance and Expert Analysis in partner development
- 4.11.6 Adjustments to Existing Insurance Products
- All of Chapter 5
3.7 OPERATIONAL RISKS - EXTERNAL EVENTS

The HIV & AIDS epidemic and other similar health events are external events over which the MFI has little or no control. The specific ways in which these external events impact on the many aspects of the MFI's business is considered under the relevant risk headings. Some of the impacts, however, are simply direct consequences of the epidemic, and cannot be traced through to other risks, and these are addressed in this Section.

3.7.1 Reduced Overall Market Size

**Description**

- Number of potential clients significantly reduces due to AIDS (gradually over time) or other health epidemic (potentially more rapidly), disaster or occurrence
- HIV & AIDS is especially hitting the economically active people
- An MFI might exclude (suspected) PLWHA clients due to stigma

**HIV & AIDS and Health Drivers**

- Life expectancy decreases making potential target group smaller
- HIV & AIDS has a devastating impact on the number of capable, working age adults who are prime clients for MFIs in some areas. The loss of these clients reduces the potential market for MFIs.
- HIV & AIDS leaves society poorer, reducing potential clients
- Other health epidemics like tuberculosis and malaria can have serious short-term impacts on clients, and fatal diseases can also reduce the overall market size.
- Stigma attached to HIV & AIDS might lead to irrational discrimination

**Consequences**

- It will become more difficult to grow, increasing marketing expenses and less economies of scale
- The MFI will not serve a potentially big group of clients affected by HIV & AIDS and PLWHA clients that can be productive in the first stages (up to 10 years)

**General Indicators**

- Growth of loan portfolio, insurance policies, savings accounts
- Operational self-sufficiency
- Operating expense ratios

**Specific Key Indicators**

- Market research indicating changed needs for financial services related to health or HIV & AIDS issues
- Specific knowledge of impact of health conditions on local market

**Related Risk Controls**

- 4.2 Strategic Processes
- 4.4.3 Market Research Potential Clients
- 4.4.4 Competitor Analysis
- 4.6 Technical Assistance and Expert Analysis in partner development
- 4.7 Advocacy at National or Industry Level
- 4.9.2 Education, Prevention & Other Healthcare Services for PLWHA clients
- 4.9.3 Business Development and Financial Planning Services
### 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns

<table>
<thead>
<tr>
<th>Description</th>
<th>HIV &amp; AIDS and Health Drivers</th>
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<tbody>
<tr>
<td>- HIV &amp; AIDS and other epidemics affect clients' financial services needs and behaviour patterns, reducing or otherwise changing the profile and size of the portfolio.</td>
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<tr>
<td>- Clients do not grow their loans (See box 3.4)</td>
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<tr>
<td>- Clients may rest longer between loans</td>
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<tr>
<td>- Higher drop out of existing clients</td>
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<tr>
<td>- Crises related to client and/or family's health, disability and/or death may affect the client's financial position. They may rest, drop out, take lower subsequent loans</td>
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<tr>
<td>- Strict loan procedures may lead to increased drop-outs due to historic late payments, absence from group meetings or reluctance to increase loan size as required</td>
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<tr>
<td>- The HIV &amp; AIDS epidemic introduces long term trends and ongoing changes into a client base's financial needs and behaviour patterns. These are not once-off changes</td>
<td></td>
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<tr>
<td>- Other health events like flu epidemics may have more pronounced short term effects</td>
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</tr>
</tbody>
</table>

### Consequences

| · Reduced growth in average loan size, increase in costs per loan and operating expense ratio will all affect profitability |
| · Different product portfolio's development and behaviours change unexpectedly |
| · High drop outs cause an increase in operating expenses per loan as costs of dealing with long-term clients are lower, existing business decreases and the MFI incurs extra costs to chase new clients |
| · Loss of loyal clients, which are a source of referrals to friends, family and colleagues |
| · Growth patterns become difficult to predict |
| · Standardised causes for long resting periods and no or limited loan increase indicate strong influence of death and illness in family and illness of client. |
| · Feedback from loan officers |
| · Exit interviews results suggest that health related crises and crises related to death in the family or of client are reasons for changes in product use |

### General Indicators

| · Reduced growth of average loan size |
| · Increased average resting periods |
| · Increased costs per loan |
| · Operating expense ratio |
| · Drop-out rate |
| · Reduced borrowers per loan officer |
| · Larger part of portfolio loan officers composed of new clients |
| · Increased operating expenses |

### Specific Key Indicators

- Standardised causes for long resting periods and no or limited loan increase indicate strong influence of death and illness in family and illness of client.
- Feedback from loan officers
- Exit interviews results suggest that health related crises and crises related to death in the family or of client are reasons for changes in product use

### Related Risk Controls

- 4.2 Strategic Processes
- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.2 Data on Client Late Payment, Default, Resting, and Loan
- 4.4.1 Market Research Existing Clients
- 4.4.2 Market Research Former Clients
- 4.5 MFI Capacity Building
- 4.6 Technical Assistance and Expert Analysis - Actuarial projections of impacts of HIV & AIDS on loan portfolio to facilitate planning
- 4.7 Advocacy at National or Industry Level
- 4.9 Non Financial Services
- 4.10 MFI Product Development
- 4.11.3 Funeral Insurance
- 4.11.4 Disability Insurance
- 4.11.5 Health Insurance
- 4.12.1 Fraud Control
- 5.3 Insurance Related Partners
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships
Box 3.4 Reduced loan size due to HIV & AIDS

A 65-year old male client of a Mozambican MFI with a welding and panel beating business has received loans for stock, welding equipment and recently for setting up a bar. He is employing several people and his son living with AIDS is also working in his business. He recently spent a lot of time to get his son on ARVs and money to ensure a proper diet. Thanks to this, his son has recovered from near death, and is again active in the business. However his business suffered due to this crisis. Though he managed to repay his loan, his subsequent loan amount was 20% lower.


Box 3.5: Crises faced by clients

An impact assessment in Mozambique with three MFIs offering individual credit to clients in Maputo Region was carried out in 2005. The researchers interviewed 120 clients that had been with the MFI for at least 2 years. One quarter of the interviewed clients were no longer active with the MFI. Clients selected were the ones that dropped out voluntarily.

Of the 120 clients interviewed, 57% faced one or more crises in the past year. This percentage was considerably higher for clients that had dropped out (70%) than for clients that were still active (52%). 30% of the dropouts indicated that they stopped borrowing as a result of crises they faced, sometimes linked with perceived unduly harsh and inflexible behaviour of loan officers. The real percentage of clients an MFI loses due to crises is likely to be higher as clients who drop out before being 2 years with the MFI, and clients that were expelled after two years due to late repayments and defaults, were not interviewed.

Most of the crises clients faced (48%) were related to health problems (either of client or within family) and deaths. Illness crises take 38% of the cases and deaths 62%. Though questions were not HIV & AIDS specific, some clients indicated that illnesses were AIDS related.

3.7.3 Change in Client Utilisation of Other MFI Products

Description

- HIV & AIDS and other epidemics affect clients' financial services needs and behaviour patterns, reducing or otherwise changing the product portfolio.
- Savings clients may withdraw their savings
- Insurance clients terminate cover
- Other services such as money transfer and money exchange may be used less due to reduced business
- Conversely, money exchange services might be used more in order for cash to be transferred to sick household members

Consequences

- Operating expenses per affected product line increase due to decrease in existing and slower growth in new business
- Loss of loyal clients, which are a source of referrals to friends, family and colleagues
- Reduced savings may mean less funds for on-lending, limiting the growth of the MFI
- Reduced business and profitability in terms of fees and premiums earned on money transfer, money exchange and insurance
- Growth patterns become difficult to predict.

HIV & AIDS and Health Drivers

- Crises related to client and/or family's health, disability and/or death may affect the client's financial position. They may withdraw savings, cancel insurance cover or reduce use of other MFI services
- The HIV & AIDS epidemic introduces long term trends and ongoing changes into a client base's financial needs and behaviour patterns. These are not once-off changes.
- Other health events like flu epidemics may have more pronounced short term effects.

General Indicators

- Larger proportion of new clients in portfolio or slowdown in growth
- Increased operating expenses
- Reduced active savings accounts
- Reduced savings balance per saver
- Increased lapses of insurance policies
- Reduced income from fees and premiums

Specific Key Indicators

- Data on causes for changes (withdrawals, lapses) indicate influence of death and illness in family or illness of client
- Feedback from loan officers
- Exit interview results suggest that health related crises and crises related to death in the family cause change in product use.

Related Risk Controls

- 4.2 Strategic Processes
- 4.3.1 MIS: General Indicators Reporting and Monitoring
- 4.3.2 Data on Client Late Payment, Default, Resting, and Loan
- 4.3.3 Data on Client Savings Account Purpose and Utilisation
- 4.3.4 Data on Client Insurance Claims
- 4.4.1 Market Research Existing Clients and 4.4.2 Market Research Former Clients
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- 4.11.4 Disability Insurance
- 4.11.5 Health Insurance
- 4.12.1 Fraud Control
- 5.3 Insurance Related Partners
- 5.4 HIV & AIDS Prevention and Other Education Partners
- 5.5 Health Related Partnerships
4 RISK CONTROLS AND THE ORDER OF IMPLEMENTATION

In this Chapter we look at the different risk controls for MFIs to deal with the health and HIV & AIDS risks identified in Chapter 3. We describe what each risk control entails; mention important considerations that determine how to implement the risk control, and subsequently elaborate on the why of each risk control. Each control may bring additional risks with it, whereby the risk it is controlling is effectively exchanged for another (more manageable) risk, and we describe these "risks introduced."

Monitoring and evaluation of the effectiveness of each control comes through the general and key indicators pertaining to each risk that the controls address, and sample indicators have been provided in Chapter 3.

Introducing many of the risk controls can be quite complex. Sometimes a control, such as insurance, could be the subject of an entire manual itself. This Guide is not a comprehensive implementation manual for each risk control, but points users towards controls that they should be considering, and refers readers to other resources for further information and assistance in implementation.

Chapter 4 is ordered in a way that allows each level of risk control to build on the previous. Sections 4.1 and 4.2 start with the most high-level controls relating to policy and strategy, which are the foundation for risk management, and set the organisational tone from the MFI management. Subsequently the institutional nuts and bolts of risk management are considered - data and information systems in Section 4.3, market research in Section 4.4, and staff capacity building in Section 4.5. Section 4.6 highlights the use of experts and Section 4.7 deals with advocacy for nation- and / or industry- wide efforts to address health issues including HIV & AIDS.

Next there are two strands: the employee-focused workplace interventions in section 4.8, and the client-focused interventions in the remaining sections of this Chapter. Workplace interventions focus on staff and their families. It relates to training of staff on health and AIDS policy, preventive education, employee benefits, HIV & AIDS disease management and business continuity planning. They precede successful client interventions. Client interventions include non-financial services in Section 4.9 and product development of existing and new services in Section 4.10. Section 4.11 is devoted to product development related to insurance products. Finally Section 4.12 deals with risks that come along with introduction of new or revised services. Implementation of the risk controls can either be done by the MFI itself or in collaboration with a partner. Managing partners is discussed in Chapter 5.

Typically risk managers focus on the highest risk, highest frequency events first, which is understandable and appropriate: deal with the urgent things first. However for risk management to move beyond "fire fighting", a sound risk management framework benefits from progressive roll-out, building each step on the solid footing of what has been done before. There is no point, for example, in introducing insurance benefits, if the MFI does not have the data systems and other capacity requirements to manage the complexities associated with insurance - even with a partner.

The following provides some suggested phasing of risk controls to help MFIs think through a structured implementation. This is not intended to be used as a hard and fast rule since so much will vary according to each situation and current state.
**Phase 1a - High Level Information Review and Policy Development**

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<td>4.1.2</td>
<td>MFI HIV &amp; AIDS and Health Policies, Procedures, Guidelines</td>
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<tr>
<td>4.2.1</td>
<td>Monitoring Local Contextual Factors</td>
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<tr>
<td>4.3.1</td>
<td>MIS: General Indicators Reporting and Monitoring</td>
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<tr>
<td>4.3.2</td>
<td>Data on Late Payment, Default, Resting period and Static Loan Size</td>
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<tr>
<td>4.4.1</td>
<td>Market Research Existing Clients</td>
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<td>4.6</td>
<td>Technical Assistance and Expert Analysis</td>
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**Phase 1b - Developing the Vision and Starting with Staff**

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<td>Ensure policies and guidelines relating to staff are clear and comprehensive, and that staff are trained and aware.</td>
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<td>4.2.1 Monitoring Local Contextual Factors</td>
<td>Review local NGO or state activity relating to prevention and education as well as VCT. Also review available credit and funeral insurance market.</td>
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<td>4.6 Technical Assistance and Expert Analysis</td>
<td>Experts may assist in assessing the insurance and treatment environments.</td>
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<td>4.8.3 Employee Benefits for Staff</td>
<td>Review any staff employee benefits for AIDS inclusiveness (e.g. does staff health insurance cover for VCT and ART?) Are employees HIV tested before being eligible for benefits?</td>
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<td>5.3.1 Insurance Related Partners</td>
<td>Assess potential insurance partners to determine if credit life can be obtained on reasonable terms (compare premiums against death-related losses).</td>
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<td>5.4 HIV &amp; AIDS Prevention Partners</td>
<td>Assess whether there are local prevention partners (NGOs, state) that you can link in with, and whether they are suitable.</td>
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### Phase 2b - First Steps with Insurance and AIDS Service Partners

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<td>Review local NGO or state activity relating to STD and AIDS treatment for staff.</td>
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<td>4.6 Technical Assistance and Expert Analysis</td>
<td>Experts may assist in insurance or treatment partner selection.</td>
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<tr>
<td>4.8.2 Staff HIV &amp; AIDS Preventative Education, Counselling, Wellness, Management Support</td>
<td>Direct staff to locally available free or low cost services such as HIV &amp; AIDS education and prevention, counselling and VCT.</td>
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<tr>
<td>4.11.1 Credit Life Insurance</td>
<td>If you have the capacity and the market is reasonably priced, credit life insurance for your book is simple, and need have no specific HIV mention. It should have no AIDS exclusions. May be valuable if death-related losses are significant.</td>
</tr>
<tr>
<td>5.5 Health Related Partnerships</td>
<td>Assess whether there are local treatment partners (NGOs, state) that you can link in with, and whether they are suitable.</td>
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### Phase 2c - First Steps with AIDS Disease Management

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<td>4.2.1 Monitoring Local Contextual Factors</td>
<td>Ongoing review of factors.</td>
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<tr>
<td>4.8.4 Staff HIV &amp; AIDS Disease Management</td>
<td>Direct staff to locally available free or low cost treatment services from any suitable public or NGO players, as identified in the previous phase.</td>
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### Phase 3a - Foundations for More Advanced Options

| 4.1.2 | MFI HIV & AIDS and Health Policies, Procedures, Guidelines | Ensure clear guidelines and policies are in place relating to management and interaction with clients and prospective clients. |
| 4.3.2 | Data on Late Payment, Default, Resting period and Static Loan Size | Determine if MIS can incorporate new data on profile of clients and causes of default, late payment and so on |
| 4.4.1 | Market Research Existing Clients | Determine levels of client satisfaction with products, and in particular if there are difficulties relating to health (or AIDS) and product terms |
| 4.5.1 | Train Staff in MIS and Market Research | Train staff on importance of data collection to ensure that data is of good quality |
| 4.5.2 | Train Staff on New Products and HIV Issues | Train client-facing staff on handling sensitive healthcare issues with clients (e.g. when gathering cause of default data) |
| 4.6 | Technical Assistance and Expert Analysis | Undertake actuarial review of any employee benefits (EBs). Undertake workforce projections and costing if large enough (>500 employees) |
| 4.8.5 | MFI Business Continuity Planning | Identify high risk positions in your organisations (not high risk people!) and implement succession planning or multiskilling for unexpected absences or staff losses |
| 5.3.1 | Insurance Related Partners | Review availability of appropriate partners or service providers for employee benefits (EBs) - life, disability and/or health insurance, health savings |

### Phase 3b - Advanced Staff Risk Management with Preliminary Client Work

| 4.2.1 | Monitoring Local Contextual Factors | Review local NGO or state activity relating to prevention and education accessible for clients; also review available credit and funeral insurance market |
| 4.3.2 | Data on Late Payment, Default, Resting period and Static Loan Size | If MIS, forms and processes can be developed to include causes of default etc, then undertake this development |
| 4.4.1 | Market Research Existing Clients | Use questionnaires to determine client openness to HIV messaging and prevention education |
| 4.5.2 | Train Staff on New Products and HIV Issues | Train staff on any product revisions |
| 4.6 | Technical Assistance and Expert Analysis | Consider involving experts (brokers, actuaries) to assist in setting up funeral insurance with clients; also, brokers should provide advice on staff EBs |
| 4.8.1 | Train Staff on HIV & AIDS policy | Train staff on EB revisions |
| 4.8.3 | Employee Benefits for Staff | In light of EB analysis, consider modifying employee benefits or introducing benefits that you don't offer: healthcare, retirement benefits, life insurance; use partners; work with staff to identify priorities; be clear about cost constraints for organization |
| 4.8.4 | Staff HIV & AIDS Disease Management | Ensure any healthcare benefits include suitable or available HIV & AIDS disease management - will vary by country |
| 4.10.1 | Adjustments to Existing Credit Products | In light of market research identify shortcomings in current credit products; consider revisions that are realistic for you to address client health-related difficulties |
| 4.12.1 | Fraud Control | Ensure controls are in place for revised products if they may be more vulnerable |
| 5.3.1 | Insurance Related Partners | Evaluate potential funeral insurance partners and products |
### Phase 3c - Organisation Capacity Building for Client Risk Management

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<th>Activity</th>
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<tbody>
<tr>
<td>4.2.1 Monitoring Local Contextual Factors</td>
<td>Review local NGO or state activity relating to AIDS treatment accessibility for clients</td>
</tr>
<tr>
<td>4.3.2 Data on Late Payment, Default, Resting period and Static Loan Size</td>
<td>Begin collecting data on cause of late payment, default and so on using standardised forms; ensure regular summary reports and review</td>
</tr>
<tr>
<td>4.4.1 Market Research Existing Clients</td>
<td>If insurance market is satisfactory, determine client demand for funeral insurance products as well as cost constraints. Ensure cover includes dependants to be a useful risk management strategy</td>
</tr>
<tr>
<td>4.8.2 Staff HIV &amp; AIDS Preventative Education, Counselling, Wellness, Management Support</td>
<td>Larger MFIs or those with access to such services could consider making psychosocial support (counselling, wellness) available through service providers or link up with health insurance / medical scheme</td>
</tr>
<tr>
<td>4.9.1 Client HIV &amp; AIDS Education and Prevention</td>
<td>Depending on client openness and partners, begin HIV prevention and education measures with clients.</td>
</tr>
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### Phase 3d - Advanced Client Risk Management and Preparation for Insurance

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<thead>
<tr>
<th>Activity</th>
<th>Description</th>
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<tbody>
<tr>
<td>4.5.2 Train Staff on New Products and HIV Issues</td>
<td>Train staff on any new funeral insurance products and dealing with clients in this regard</td>
</tr>
<tr>
<td>4.9.1 Client HIV &amp; AIDS Education and Prevention</td>
<td>If local treatment is available, VCT is available and stigma is not overwhelming consider advising VCT at local partners</td>
</tr>
<tr>
<td>4.9.2 Education and Healthcare Services for PLWHA clients</td>
<td>Provide general information to all on available local access to treatment e.g. at state or NGO facilities, if suitable partners exist. Do not try to identify PLWHA clients!</td>
</tr>
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### Phase 3e - Insurance for Clients

<table>
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<th>Activity</th>
<th>Description</th>
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<tr>
<td>4.11.3 Funeral Insurance</td>
<td>Introduce funeral insurance for clients plus dependants, depending on cost, partners and so on</td>
</tr>
<tr>
<td>4.12.1 Fraud Control</td>
<td>Ensure insurer can control fraud particularly for funeral claims for dependants to keep premiums affordable and sustainable</td>
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Further phases could include some of the following. These steps are likely to be very institution specific, and we have not attempted here to describe them in more detail.

- Introduce other products such as savings products or new credit products targeting health issues (4.10.2 to 4.10.4) with appropriate internal capacity building and education (4.5), market research (4.4), client education (4.9.4) and systems (4.3.3)
- Expand the range of insurance products available to clients (4.11.4 to 4.11.8) also with appropriate internal capacity building (4.5), market research (4.4), client education (4.9.4) and partnership management (5.2, 5.3)
- Very large MFIs may consider alternative insurance delivery systems (4.12.3 to 4.12.5) with partners or on their own
- More sophisticated non-financial services can be offered to clients, and existing services can be extended (4.9.1 to 4.9.3)

Throughout all phases, appropriate monitoring, data gathering, contextual review and strategic review should be ongoing. Policy development and revision may be necessary as experience is gained.


4.1 POLICIES AND PROCEDURES

Policies and procedures establish the basis for all risk management within the MFI. Policies must be clearly worded, comprehensive, easily understood and unambiguous. They must be visibly supported by management and Board to set the "tone from the top" for the organisation, and clearly communicated using workshops, champions and other media to get the message through. Policies must be backed up by explicit and appropriate procedures in the event of policy violation.

The following are some of the key policies pertaining to HIV & AIDS and health risk management that an organisation should consider.

4.1.1 Risk Management Policy and Vision

Description (What?)

Formulate and implement a policy articulating the MFI's approach to risk management:

- the definition of risk and the MFI's appetite for, or tolerance of, risk
- the risk management roles and responsibilities within the organisation
- the risk governance structures
- the nature and lines of reporting

Considerations (How?)

- Chapter 2 of this Guide discusses the risk framework, risk management, and details of particular policies. It refers to other useful tools on introducing risk management. Risk management extends far beyond just health and AIDS risk. It is valuable to situate health and AIDS risk within a broader framework so that it receives an appropriate amount of attention consistent with the threats that it poses to the MFI relative to other risks.
- Section 2.5 provides principles for HIV & AIDS and health risk management, to clarify vision and focus of risk management efforts.
- The Board can extend policies to include explicit statements of risk appetite and tolerance pertaining to the various risk categories.

Risks Addressed (Why?)

- The risk management policy and vision sets out the framework for addressing all risks at all levels and therefore affects all risks.
- Risk 3.5.5 Additional Risk Management Expenses is controlled by having a well-structured and appropriate framework that ensures appropriate dedication of resources to risk management.

Useful Resources Section 4.1 - 4.2

  http://www.microlinks.org/ev_en.php?ID=7280_201&ID2=DO_TOPIC. Part III provides practical guidance to evaluate the capacity for institutional change and also provides more information on the enhanced responsibilities of Board and HIV & AIDS context. Module 5 in Part II deals in some more detail with workplace policies.
  http://www.microlinks.org/ev_en.php?ID=7277_201&ID2=DO_TOPIC Chapter 1 gives guidance on Board resolution underpinning MFIs policy as described under risk control 4.1.1. Chapter 2 elaborates on the staff issues mentioned under risk control 4.1.2
- Microfinance Institutions: An Overview with a Focus on MDGs and HIV/AIDS; NCA; Bondevik; 2003.
  http://www.eldis.org/static/DOC14389.htm. This document provides an overview of the different risk controls MFIs can take to deal with the effects of the HIV & AIDS pandemic. The document illustrates how clients benefited from these improved services.
- See useful Resources Section 2.1 - 2.4 for more resources on risk management policies.
4.1.2 MFI HIV & AIDS and Health Policies, Procedures, Guidelines

Description

Develop HIV & AIDS and health policies setting out MFI's position on all HIV & AIDS and health related matters that pertain to the organisation. Policies govern workplace and staff related matters as well as the impact of HIV & AIDS and other health conditions on clients.

- Staff specific issues include consideration of sick, compassionate and other leave, employee benefits (death, disability, health), workplace programmes, education, workplace procedures like universal precautions and discrimination. It is important these issues are backed by management and further promoted using champions within the organisation.

- Client and business specific issues include guidelines to groups (in group based lending); guidelines around handling HIV positive clients, AIDS sick or otherwise affected clients; need for confidentiality; loan officer guidelines; context appropriate statements on non-discrimination, recognition of the health and AIDS challenges and the MFI's general approach to these challenges; recognition of the need for, and commitment to, information and data collection on local situation and market; and product development considerations.

Considerations

- Development of a staff policy should ideally be an iterative process with staff as opposed to one that is imposed on staff by management.

- Policies, procedures and guidelines have to be context specific and guarantee confidentiality and non-discrimination. Section 2.5 of this Guide discusses the principles MFIs should take into consideration when addressing HIV & AIDS and health issues.

- HIV & AIDS and Health Policy should not duplicate other policies (e.g. the leave policy or the client confidentiality policy), but refer to, integrate and enhance them as appropriate.

- The policy should integrate with risk management policies by recognising HIV & AIDS as one particular risk in the broader risk universe of the MFI, to be treated accordingly.

- A core policy can contain the overarching principles and be supplemented by specific sets of guidelines e.g. to managers, to loan officers, to groups, to clients, to employees and so on, and will set out the principles guiding MFI product development.

- Alternatively health and HIV & AIDS issues can be integrated into all the other policies of the organisation, rather than having a standalone policy. Both approaches are common.

Risks Addressed

- Sets orienting tone for addressing all other HIV & AIDS and health related matters, and hence impacts all other areas by determining appropriate action.

Box 4.1 Developing an HIV & AIDS policy at Zambuko Trust Zimbabwe

Zambuko Trust has developed a HIV & AIDS policy within its organisation. The fact that Board members of Zambuko Trust are also in Boards of HIV & AIDS organisations has been helpful, as there has been a strong commitment from governance level. In addition to this, Zambuko Trust appointed a person to develop a policy. Having such a driver has proven to be beneficial. Zambuko Trust started with getting more information on HIV & AIDS and its effects, demystifying HIV & AIDS, researching to make issues context specific. Subsequently the information has been disseminated to its staff. Afterwards programmes targeting clients, i.e. client HIV & AIDS education and prevention and Credit Products for PLWHA clients have been developed.

Some of the general lessons learned are:

- HIV & AIDS is an issue for everyone. It is not about them or us. Everyone has lost some near family member or close friend to HIV & AIDS.
- Female clients carry a big burden.
- HIV & AIDS is a business issue, not a health issue.

Source: Presentation of Pamela Gara, Zambuko Trust on 24 April 2006 at Africap's HIV & AIDS risk management conference
4.2 STRATEGIC PROCESSES

Strategic processes are essential for mitigating a vast array of risks that some frameworks classify as "strategic risks." While we have not adopted this approach, the effects of strategic processes translate to the more fundamental risks: the financial, product development, market, operational and external event risks that underly strategic risk.

4.2.1 Monitoring Local Contextual Factors

Description

Regular review of contextual factors is essential to ensure that MFI’s HIV & AIDS and health risk management is optimal and appropriate:

- Local prevalence rate of HIV or other diseases
- HIV epidemic maturity
- Demographic profile
- General healthcare system
- HIV & AIDS treatment availability
- Education and awareness levels
- Extent of stigmatisation
- Local culture around sexuality
- Gender issues
- Population movements
- NGO and private sector activity
- Policy and regulatory environment
- The insurance environment

Conduct detailed and region-specific review of the various factors regularly. A concise, clear reporting format allowing comparison with previous periods should be used.

Considerations

- Section 1.6 of this Guide discusses the various contextual factors in detail.
- While some contextual factors change slowly if at all, others can change dramatically - for example the price of ART or a government’s introduction of a roll out programme.
- It is likely that the country level network of MFIs, Ministry of Health, HIV & AIDS organisations or the National Business Coalition on HIV & AIDS have information on contextual factors as illustrated by the example provided in Box 4.2.
- Sections 4.3 and 4.4 deal in more detail with MIS data gathering and market research, which will provide valuable information on the local context.

Risks Addressed

- All risks are potentially affected since appropriate risk management responses may vary as the local context develops.
  - 3.5.2 Mismanagement of Health and AIDS Risks: Poor Local Knowledge is directly addressed by gathering local information
  - 3.5.3 Product Development Risk is mitigated by understanding the local situation better

Box 4.2 Information on AIDS organisations and MFI clients - the case of Zambia

BDS Zambia, International Labour Organisation’s Business Development Services project in collaboration with the Comprehensive HIV & AIDS Programme (CHAMP), developed the HIV & AIDS Basic Handbook for Entrepreneurs. It provides country-wide contact details of VCT services; clinics and hospitals providing ART services; HIV resource centres and libraries; counselling, testing and training organisations; and of the Network of Zambian People Living with HIV & AIDS. The Handbook is written for small and medium entrepreneurs and provides information that entrepreneurs need to know about HIV & AIDS, discusses how it affects their business, provides advice on low cost, simple and easy ways to deal with HIV & AIDS including practical examples from other Zambian entrepreneurs, as well as the contact details of organisations for VCT, counselling and of PLWHA. So besides deriving information for own purposes, the handbook can also be used by MFIs to encourage their clients to deal constructively with HIV & AIDS.

4.2.2 Regular Strategic Review

Description

Analyse contextual information, data from MIS and outcomes from market research. Depending on the findings, develop or adapt strategy, products, operations, partnerships and policies.

Considerations

· The best information in the world is no use unless it is regularly considered and unless action and strategy is influenced by it.
· Directions and decisions from the MFI’s strategic review must find effective implementation. This will be a function of the Board and management of the MFI.
· It is important that the relevant information is collected in risk controls 4.2.1, 4.3 and 4.4 to feed back into the strategic review.

Risks Addressed

- 3.5.2 Mismanagement of Health and AIDS Risks: Poor Local Knowledge is alleviated by reviewing available information and basing decisions on it
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns - Changes in the market and client behaviours will be identified and responded to more readily with regular strategic review.
- 3.7.3 Change in Client Utilisation of Other MFI Products - as for 3.7.2. All other risks are influenced by this control which ensures appropriate management.
4.3 MIS: DATA GATHERING AND ANALYSIS

Ideally all-important risks are monitored, stress signs are tracked, occurrence of risk events and associated losses are recorded, and it is all reported accordingly. Consistent and continuous data monitoring serves as a problem detection instrument. Particular key indicators which we discuss in more detail can be implemented to gather more information and refine risk management once the general indicators have indicated that there are problems, or may help identify problems that would otherwise not be noticed by the high level general indicators.

Reporting on general indicators and specific key indicators should be combined with other regular data reporting by the MFI’s MIS. Data reporting needs to be concise, but with an appropriate level of granularity and detail, to facilitate comparison and analyse trends over time. Producing vast volumes of microscopic detail and schedules does not assist management in analysis or decision-making, although it may be necessary for various administrative functions.

Reports and analysis should be discussed with staff, management and Board as appropriate. It will be useful to discuss the outcomes of these analyses with staff collecting the data, as they are an important source of information and it builds their capacity. They may shed further light on underlying reasons and issues.

A final consideration is the MFI’s MIS capacity. Changing or developing MIS systems is resource intensive and comes with many risks including costs overruns, business interruption and potential data and information loss. It is usually not undertaken lightly. Nonetheless, if MIS can be extended to cover some of the indicators discussed here, the capacity of the MFI to manage its risk and understand its business is greatly increased. Data gathered and entered into an MIS provides a wealth of information on clients’ behaviour patterns and financial needs which is very useful for market research.

Instead of collecting and analysing all data continuously, MFIs can decide to organise on a regular basis (e.g. every two years) market research with existing clients or ex-clients to get more detailed information on financial needs and behaviour patterns and/or to analyse their behaviour in more detail. The advantages of these market research studies are: MIS does not have to be revised (as extensively), less labour-intensive for management, branch managers and loan officers, might find donor money to pay for study. The disadvantages are that additional costs are higher than when it is part and parcel of data gathering, entering and analyses. Depicting of trends might be hindered as studies at different moments in time are likely to be implemented by different persons and differ in set-up, and a missed chance for training and internalisation of lessons learned for loan officers, branch managers and management. More information on risk controls of market research can be found in Section 4.3.5.
4.3.1 MIS: General Indicators Reporting and Monitoring

Description

Monitor signs of stress through concise but appropriately detailed monthly reports on general indicators, with analysis of trends over time. General indicators include:

- Staff: staff absenteeism, staff turnover, staff benefit expenses
- Staff productivity
- PAR, loan loss rate, write off
- Drop-out rate
- Operating expense ratio
- Resting period between loan cycles
- Average loan size and average increase in loan size
- Costs per loan
- Savings portfolio and savings balance per saver

Definitions can be found in the Glossary.

In addition to the general indicators, track income, costs and trends via regular financial overviews.

Considerations

- Larger scale issues might hide HIV & AIDS effects. For example general staff turnover may disguise AIDS-related disability and deaths in staff. In those cases only specific key indicators are likely to detect the risk. Even though AIDS may not be the biggest risk, detection and management is likely to have a significant impact on the MFI’s business.
- Integrate health and AIDS risk monitoring with other regular reporting by the MFIs MIS.
- Look carefully at definitions of signs of stress to ensure comparability over time (see also Glossary).
- Analyse key signs of stress for different client characteristics such as loan size category, sex, age, branch, loan cycles etc. as this can provide a lot of additional insights.
- Ensure that accounts distinguished in financial overview are specific enough to derive relevant information such as spending on staff benefits.
- It may also be useful to collect information on clients with cell phones and their phone numbers, as this can be a valuable and cheap communication method.

Risks Addressed

- Many risks will feed through directly or more often indirectly into the general indicators. This control therefore facilitates the entire risk management framework. It may assist Board and management to identify occurring risks and failing controls at an early stage
- All other risks are thereby managed appropriately, from product to staff to default risks.

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<thead>
<tr>
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<tbody>
<tr>
<td>3.1.1 Late Payments or Default due to HIV &amp; AIDS and Health Crises</td>
</tr>
<tr>
<td>3.2.1 Liquidity Risk: Lack of Funds for Loan, Withdrawal or Insurance Demands</td>
</tr>
<tr>
<td>3.2.2 Insurance Risk: MFI Insurance Mispricing</td>
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<tr>
<td>3.2.4 MFI Insurance Claims Volatility</td>
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<td>3.2.5 Insurance Risk: Adverse Selection</td>
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<td>3.2.6 Insurance Risk: Insurance Fraud and Abuse</td>
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<tr>
<td>3.3.1 Increased Staff Costs due to Health and HIV &amp; AIDS Issues</td>
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<tr>
<td>3.4.2 Unintended Group Responses to PLWHA Clients / Applicants</td>
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<tr>
<td>3.4.3 Fraud &amp; Abuse Linked to HIV &amp; AIDS and Health Issues</td>
</tr>
<tr>
<td>3.5.3 Product Development Risk</td>
</tr>
<tr>
<td>3.5.5 Additional Risk Management Expenses - Risk management is kept appropriate to the context, ensuring efficient use of scarce MFI resources (money, skills, time)</td>
</tr>
<tr>
<td>3.6.1 Partners’ Services Poorly Aligned to MFI &amp; Client Needs</td>
</tr>
<tr>
<td>3.6.3 MFI Administration Failure in Relation to Partners and Services</td>
</tr>
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</table>

Risks Introduced

- 3.5.5 Additional Risk Management Expenses - if implementation goes overboard
4.3.2 Data on Client Late Payment, Default, Resting, and Loan Growth

Description

Identify underlying reasons for late payment, default, resting periods longer than standard, and lack of increase in loan size. Identification can be done as part of standard routine. To allow for proper quantitative and trend analysis, develop standardised categories and tick boxes rather than free text for loan officers collecting data. Causes distinguished should relate to health crises family or client, or death of relatives and friends. This has to be supplemented with other non-health crises such as robbery and business failures, or (seasonal) demands on client’s cashflow such as school fees, buying additional stock or seeds for planting.

Considerations

- Data gathering and capture has to be integrated into existing processes.
- Loan officers should be trained on interviewing and data collection. See also Section 4.5.1.
- Weigh up additional costs versus usefulness of information for product development and health and AIDS risk management.
- As financial needs for men and women tend to differ, data collection and analysis should enable comparison between the two sexes. Given age difference between men and women living with HIV & AIDS this distinction can also be useful.
- HIV & AIDS prevalence rates can differ considerably per region. Will be good to make comparisons between regions.
- The more detailed and specific data, the higher the worth for product development in general and insurance products in particular. E.g. when developing a funeral insurance product for existing loan clients, the percentage of clients that faced one or more deaths in the family in the past year provides relevant information on client’s need for funeral insurance. Furthermore it gives insight in number of claims to be expected and hence on the insurance premium. Box 4.3 provides an example of a short data sample.
- Refer to Section 4.4.1 for collection of this information outside the standard routine.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises is addressed by picking up trends early and enabling MFI responses
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues is mitigated by having good data with which to identify fraudulent transactions or anomalous behaviours
- 3.5.3 Product Development Risk is directly mitigated by having the data necessary for pricing products and understanding the particular needs of clients
- 3.6.1 Partners’ Services Poorly Aligned to MFI & Client Needs is mitigated by understanding exactly what client needs actually are
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns is mitigated by obtaining data on the trends and patterns in client behaviours allowing early identification of trends
- 3.7.3 Change in Client Utilisation of Other MFI Products as for 3.7.2.

Box 4.3: Sample data for analysing health and AIDS-related default or late payment (loan officer to complete with each rescheduling request or default)

a. What was the reason for late payment (tick one or more)?
   - [ ] Illness   - [ ] Accident   - [ ] Childbirth   - [ ] Death   - [ ] Other (give detail)

b. Who was affected?
   - [ ] Borrower   - [ ] Child   - [ ] Spouse   - [ ] Other (give detail)

c. How did this affect your ability to repay?
   - [ ] Had to pay healthcare costs   - [ ] Lost the person’s labour in business
   - [ ] Took time away from business to care for person   - [ ] Other (elaborate)

Analyze monthly summary of number of loans affected in each way. Breakdowns by age band and sex will give even more useful information.
4.3.3 Data on Client Savings Account Purpose and Utilisation

**Description**

Analyse client's patterns (timing, size) of deposits, withdrawals. This will give much insight into the needs of clients. In addition to these analyses, clients can be asked for underlying reasons to open accounts or withdraw money. To allow for proper quantitative and trend analysis use broad categories with standardised codes. This is particularly important for savings accounts with dedicated purposes like health savings accounts.

**Considerations**

- Use standardised categories not text. At opening of account the wish of clients to deal with a health crises (and also other crises) should be included.
- It is easier to gather more detailed information for dedicated savings accounts like health accounts, since the use of the funds must be validated.
- Integrate data gathering and capture into existing processes.
- In contrast to loan clients, savings clients might not want to account for use of money, as it is theirs. On the other hand, clients might become more aware of deviations from own plans encouraging financial discipline. Broad categories with an option not to reply may be offered, together with an explanation that the MFI is trying to refine its services for client needs, and hence is gathering the data.
- Ensure cashiers and staff dealing with opening of saving accounts are trained and aware of importance of appropriate data collection and system.
- Weigh up additional costs versus usefulness of information for product development and health and AIDS risk management.
- Include basic information on sex, branch, and age to enable segmentation of the data during analysis. Refer to Section 4.4.1 for collection of this information outside the standard routine.

**Risks Addressed**

- 3.6.1 Partners' Services Poorly Aligned to MFI & Client Needs if partners are used to provide savings accounts is mitigated by understanding the savings utilisation
- 3.7.3 Change in Client Utilisation of Other MFI Products is mitigated by picking up trends in client behaviours
- 3.5.3 Product Development Risk is mitigated by understanding the specific savings needs of the clients and the uses particularly of dedicated savings accounts
- 3.2.1 Liquidity Risk: Lack of Funds for Loan, Withdrawal or Insurance Demands - is managed through deeper insight into clients needs and utilisation of funds enabling the MFI to structure its cash and capital more efficiently and plan for high demand times.

**Risks Introduced**

- 3.5.1 Mismanagement of Health and AIDS risks: Poor Data
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants is introduced if data is not gathered sensitively and if data is used to discriminate inappropriately against clients
4.3.4 Data on Client Insurance Claims

Here we consider the data that any MFI using an insurance mechanism should be considering on a regular basis, whether the insurance is written by an external insurer or by the MFI itself. Later in Section 4.12 we will consider the specialised requirements of MFIs that write insurance risks themselves.

**Description**

Report regularly (monthly) on numbers and amounts of the following occurring in the month and in the year to date in total:
- claims received
- claims paid
- claims repudiated
- outstanding claims
- claims notified but not completed

In case more information is desired, collect information on age and/or sex of claimant and cause of claim e.g. cause of death or disability or diagnosis underlying health expenditures. Claim reporting patterns could also be considered e.g. numbers and amounts of claims by month reported and month paid (a run off triangle).

**Considerations**

- The detail and depth of reporting will depend both on the capacity and willingness of the insurer to produce information and of the MFI to use and interpret the data.
- Information on causes should always be done at an aggregate level to safeguard client confidentiality.
- At least the basic information on claims received, paid, repudiated and outstanding is crucial to manage insurance provision, pricing, to prevent fraud and to notice changes in the external environment.
- More advanced information will help the MFI to monitor and understand the nature of the risks faced by its clients, and hence to develop and target more efficient client risk mitigation strategies.
- Claims rejected might not give a full picture as some claims might not have been registered as client found it too cumbersome to put in claims or was refused to do so by loan officers as conditions for pay-out were not met.

**Risks Addressed**

- 3.1.1 Client late payments and default: Enables control; early detection of underlying risks causing problems for clients enables timely response
- 3.1.2 Insurer counterparty default: Controls risk; large outstanding balances will be detected and queried with insurer
- 3.2.3 Insurance Risk: MFI Insurance Mispricing: Claims monitoring is essential to identify losses from all potential insurance risks
- 3.2.4 MFI Insurance Claims Volatility
- 3.2.5 Insurance Risk: Adverse Selection
- 3.2.6 Insurance Risk: Insurance Fraud and Abuse
- 3.5.1 Mismanagement of HIV & AIDS and health risks due to poor data: Enables control; data on cause of claim detects problems and facilitates control
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
- 3.5.3 Product Development Risk
- 3.6.1 Partners’ Services Poorly Aligned to MFI & Client Needs
- 3.6.3 MFI Administration Failure in Relation to Partners and Services
4.3.5 Data on Discrimination and Stigmatisation at Workplace

Description

Discrimination and stigmatisation at the workplace might not always be obvious for the management, especially in case of several branches. Management might use the following methods to get more information on discrimination and stigmatisation:

- Exit interviews with staff;
- Monitor cases reported to a confidant at an external organisation that has been appointed;
- Staff KAP studies (knowledge, attitude, perception) around HIV & AIDS, health and other workplace issues gives more insight allowing for appropriate actions.

Considerations

- Collecting and analysing these data should be an ongoing activity.
- Person or approach to collecting the information should be selected carefully to ensure openness of staff.
- Partnerships or external service providers with expertise should be considered.
- Confidentiality of information needs to be guaranteed, and a legal and knowledge "firewall" is often advisable. External providers and partners may therefore be the way to go: staff may be more willing to speak openly to them and they should be skilled in protecting confidentiality.
- Costs versus benefits

Risks Addressed

- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues: knowing the risk of discrimination against PLWHA employees assists to control this risk
- 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees: supports identification of this risk.
- 3.5.1 Mismanagement of Health and AIDS risks: Poor Data

Risks Introduced

- 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees: supports identification of this risk - ironically this risk may be aggravated if the information gathered is used against staff members or in a way that inflames negative sentiments rather than addressing them.
- 3.6 Operational Risks - Partnerships are introduced if a partner is used for the service.

Useful Resources 4.3

  http://www.microlinks.org/ev_en.php?ID=7280_201&ID2=DO_TOPIC. Module 3 in Part II describes different low, middle and high costs means to know your market better.
  http://www.ids.ac.uk/impact/publications/practice_notes/PN1_FBL.pdf. This note assists MFIs to put the feedback loop into practice. The feedback loop offers a framework for assessing a microfinance organisation's information flow, responsiveness to clients and its overall effectiveness.
4.3.6 Data on Staff Wellness and Benefit Utilisation

**Description**

Obtain anonymous, summarised staff data from external service providers or insurers:
- Results of HIV prevalence surveys or VCT
- Utilisation of counselling services or other wellness services
- Amounts of aggregate health insurance claims
- Amounts of funeral insurance or other insurance benefit claims

**Considerations**

- All data should be provided in summarised and anonymous form such that it is never possible to identify down to an individual level who was involved in making claims, going for tests and so on
- This means that data may not be practical for MFIs with very small numbers of employees or for small departments
- As long as anonymity can be thoroughly preserved, data may be subdivided by useful factors to aid management’s understanding of the risk and utilisation profile e.g. by age, sex, job grade, region and so on. It is not good providing data broken down by branch and sex, for example, if there is only one woman in a particular branch!

**Risks Addressed**

- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues: knowing the risk of discrimination against PLWHA employees assists to control this risk
- 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees: supports identification of this risk
- 3.5.1 Mismanagement of Health and AIDS risks: Poor Data

**Risks Introduced**

- 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees: ironically this risk may be aggravated if the information gathered is used against staff members or in a way that inflames negative sentiments rather than addressing them.
- 3.6 Operational Risks - Partnerships: these are introduced if a partner is used for the service, which is the recommended route.
4.4 MARKET RESEARCH

This Section deals with market research into the needs and perceptions of existing, former and potential clients respectively. Understanding the health challenges facing clients and the ways in which HIV & AIDS is impacting helps the MFI develop better products to meet wider markets' needs and hence to maintain or grow its client base in the face of these challenges.

HIV & AIDS gives rise to dynamic situations as the epidemic develops and matures and as factors like access to treatment change. A constant finger on the pulse of client perceptions, needs and wishes is required to stay abreast.

Market research interventions are in addition to the more MIS-related data gathering and analysis controls that are discussed in 4.3, which say something about the form of data to be gathered for easy analysis.

Useful Resources 4.4:


- Learning from Clients: Assessment Tools for Microfinance Practitioners, SEEP and AIMS, Nelson, http://www.microlinks.org/ev_en.php?ID=3029_201&ID2=DO_TOPIC This manual tells how to plan and implement market research / impact assessment, analyse data generated and carry out quantitative and qualitative research tools such as impact survey, client exit, use of loans, savings and profit, client satisfaction and client empowerment.

- Market Research for Microfinance, MicroSave, http://www.microsave.org/relateddownloads.asp?id=14&cat_id=2&title=Market+Research+for+MicroFinance Powerpoint slides provide an overview of the most important issues in qualitative market research (focus group discussions and participatory rural appraisal). The manual is not available online. Can be accessed by participating in MicroSave’s training or via the video compact disks: 'Listening to Clients’ (see first bullet above).

- Building Successful Microfinance Institutions by Assessing Clients’ Needs, SEEP Network, Garry Woller, http://www.seepnetwork.org/content/article/detail/3260 (US$ 10). This publication suggests indicators for client assessment and provides guidance on data analysis, tool selection and lessons learned with client needs assessments.

- Imp-Act Practice Notes no 2 QUIP: Understanding Clients through In-Depth Interviews, 2004 Reference to Imp-Act. This note provides a step-by-step guide to developing and conducting in-depth qualitative interviews of individuals in order to uncover useful information about the impact of products and services provided by the MFI.


- Spotlight Note 11: Client Desertion in Microfinance: How to Diagnose It Successfully? MFC, Pawlak and Matul, April 2004. www.mfc.org.pl/research/. This article gives information on client exits, definition of drop-out rate, resting phenomenon and common tools to explore client desertion. Furthermore it gives guidance on how to institutionalise client loss.

- Planning, Conducting and Monitoring Pilot-Tests for MFIs - Savings/Loans; MicroSave, http://www.microsave.org/relateddownloads.asp?id=14&cat_id=71&title=Pilot+Test+Toolkit+%2D+Loan This toolkit guides MFIs with designing and implementing pilot tests.

4.4.1 Market Research Existing Clients

Description

Carry out quantitative and/or qualitative research to collect information from existing clients on client satisfaction with MFI and its services and with services provided by partners of MFI, reasons for resting periods, reasons for clients not increasing loans, information on frequency and type of health/death crises, reasons for using or not using specific services, features appreciated most and least, recommending MFI to friends and family, group members or other MFI officials perceived as discriminating against HIV & AIDS or illness.

Boxes 4.4 and 4.5 provide more information on different methods and tools for market research, examples of tools for different objectives and criteria for selecting research methods. Methods include:

- Analysis of MFI's own data on loan or resting period statistics, client profiles by product
- Feedback from frontline staff through workshops, systematic information gathering or management client visits.
- Focus group discussions, individual in-depth interviews, semi- or structured interviews, self-completion surveys

Considerations

- Establish research objectives, questions and budget, then select tool and methodology.
- Depending on in-house technical capacity and availability of staff resources and time the market research can be implemented by the MFI, outsourced, or a combination of both.
- Weigh costs versus benefits.
- Analyse by factors such as sex, age, type of business, client's duration with the MFI.
- Probe clients for health and AIDS issues and those health related partners or services like those discussed in Sections 4.9, 4.10 and 4.11.
- The information collected should feed into controls 4.1.1 and 4.1.2. Section 4.3 gives ideas on how to structure data to enable meaningful analysis.
- Clients may respond better to interviews with an external party or a loan officer from a different branch and may be more open about problems with a 'stranger'.
- Be sensitive to client concerns about participating in research. In some cases interviewers are mistakenly taken to be representatives of the taxman or other government authority.
- Avoid 'over-researching' clients. This may lead to demands for 'incentives' to participate in research. Your sample may be contaminated by 'professional interviewees'.
- The response rate for self-completion surveys is often low, and this only works with literate clients and if questions are easily understood.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants
- 3.4.2 Unintended Group Responses to PLWHA Clients / Applicants
- 3.5.1 Mismanagement of Health and AIDS risks: Poor Data
- 3.5.2 Mismanagement of Health and AIDS Risks: Poor Local Knowledge
- 3.5.3 Product Development Risk
- 3.6.1 Partners' Services Poorly Aligned to MFI & Client Needs - if research is about a partner's services
- 3.6.2 Partner Services not Taken up by Clients or Staff (ditto)
- 3.6.3 MFI Administration Failure in Relation to Partners and Services (ditto)
- 3.6.4 Partners are Damaging to Reputation (ditto)
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
- 3.7.3 Change in Client Utilisation of Other MFI Products

Risks Introduced

- 3.6 Operational Risks - Partnerships (if the market research is outsourced)
4.4.2 Market Research Former Clients

**Description**

Gather information from clients that do not return to the MFI within a standard number of days on issues such as frequency and type of health / death related crises, reasons for drop-outs, current behaviour of the financial market, plans to use the MFIs services in the future, features appreciated most and least, use of other services of the MFI, MFI recommended to family and friends, perception of discrimination of HIV & AIDS or illness by group members or MFI officials, problems with HIV & AIDS or health related partners or services. Box 4.4 provides information on different methods that can be used, including:

- Analysis of own MIS data on changes in loan size, resting periods, characteristics of clients using different products, static loans, uptake of new products etc.
- Feedback from frontline staff by developing a system (see risk 4.3.2 and 4.3.3) or by organising periodic workshops, management visiting clients regularly.
- Focus group discussions, individual in-depth interviews, semi- or structured interviews, self-completion surveys.

**Considerations**

- Considerations mentioned under risk control 4.4.1 also hold for market research with former clients. Additional considerations are:
  - Carefully consider definition and time horizon used as they determine the value of the drop-out rate. To prevent differences in time horizon, year to date is best time horizon and allows for seasonal differences. (See annex II with definitions)
  - If the rules permit it, clients may seek to rest. Resting period is business, context and MFI specific e.g. in Mozambique the majority of clients rest less than 30 days; in NIC/NEE 50% of the clients exited came back after no longer than 150 days\(^*\). Allow for permitted resting before assuming exit.
  - It can be time-consuming (and sometimes not possible) to trace drop-outs, especially if their loan officer has left the MFI or moved area. Clients could also have moved or died.

**Risks Addressed**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.1 Late Payments or Default due to HIV &amp; AIDS and Health Crises: more information on underlying causes enables the MFI to control the risk</td>
<td></td>
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<tr>
<td>3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants: though this risk is not addressed directly, market research supports the identification of this risk</td>
<td></td>
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<tr>
<td>3.5.1 Mismangement of Health and AIDS risks: Poor Data</td>
<td></td>
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<tr>
<td>3.5.3 Product Development Risk is controlled as market research helps improving existing products and develops relevant and suited new ones.</td>
<td></td>
</tr>
<tr>
<td>3.6.1 Partners' Services Poorly Aligned to MFI &amp; Client Needs: though this risk is not addressed directly, market research supports the identification of this risk</td>
<td></td>
</tr>
<tr>
<td>3.6.4 Partners are Damaging to Reputation</td>
<td></td>
</tr>
<tr>
<td>3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns: more information on underlying causes of changes enables the MFI to control the risk.</td>
<td></td>
</tr>
</tbody>
</table>

**Risks Introduced**

- In case the market research is outsourced: partners fail to deliver the required services.

\(^*\) Source: The Microfinance Market in Maputo in Mozambique: Supply, Demand and Impact; Athmer; 2006 and MFC Spotlight Note 11: Client Desertion in Microfinance: How to Diagnose It Successfully\(^*\), Pawlak and Matul; April 2004 respectively.
### Box 4.4: Example of Tool Options by Research Task

<table>
<thead>
<tr>
<th>Research Issue</th>
<th>'Listening to Clients’ Tools</th>
<th>Other Research Tools</th>
</tr>
</thead>
</table>
| Poor people’s use of financial services | • Loan use  
• Financial services matrix  
• Life cycle  
• Seasonality  
• Financial sector trend analysis  
• Financial landscape | • Cash mobility mapping (MR4MF)  
• Gendered financial services matrix (MR4MF) |
| Analysis of drop-outs                | • Client satisfaction  
• Product attribute ranking  
• Exit survey  
• Financial landscape  
• Financial sector trend analysis | • Relative preference ranking (MR4MF)  
• Loan and savings use (AIMS/SEEP)  
• AIMS/SEEP Impact survey: selected target groups and modules  
• Risk profile: key risks facing clients and risk management strategies (MFO) |

Source: Summary on Microfinance Gateway (www.microfinancegateway.org) on Listening to Clients, Microfinance Opportunities MicroSave, Cohen

### Box 4.5 Selecting Client Assessment Tools

Selection of client assessment tools is important for appropriate market research. SEEP reviewed sound principles in client assessment tool selection and implementation. They identified the following common mistakes:

- Failure to match tools to the MFI's financial and human resources and its technical capacity;
- Inadequate training;
- Failure to acquire knowledge about potential tools and the different rationales for selecting client assessment tools;
- Implementing tools off the shelf;
- Poor tool implementation; and
- Over reliance on external entities in designing the research resulting in too little attention for MFI's needs.

Source: SEEP, Building successful microfinance institutions by assessing clients' needs.
4.4.3 Market Research Potential Clients

Description

Understand the demand for financial products from potential clients. Different methodologies / tools include:

- Financial landscape analysis providing information on demand side by reviewing resources on income levels, micro-, small and medium enterprise in different regions where MFI works or wants to work, different economic sectors etc.
- Financial sector trend analysis in terms of demand
- Focus group discussions, individual in-depth interviews, semi-structured or structured interviews with potential clients on knowledge of MFI, interest in products or on impact of health and death related crises

Considerations

- Considerations mentioned under risk control 4.4.1 also hold for market research with potential clients. Additional considerations are:
- It might be possible to link with other MFIs or to work via country level networks of MFIs.
- Markets need to be segmented to get a good picture of specific needs. Local situation determines which are the best criteria for segmenting: possibilities include sex, age, income level, size of enterprise, purpose of loan and type of business (e.g. trade, livestock, agriculture, services).
- Also look at informal savings, credit and insurance mechanisms to get a full picture of clients demand.
- For adequate market research it is important to look at both demand and supply side. Section 4.4.4 deals in more detail with supply side.

Risks Addressed

- 3.5.1 Mismanagement of Health and AIDS risks: Poor Data: more information on underlying causes enables the MFI to control the risk.
- 3.5.2 Mismanagement of Health and AIDS Risks: Poor Local Knowledge: more information on effect of HIV & AIDS and other health crises enables the MFI to control the risk.
- 3.5.3 Product Development Risk: enables control as market research helps improving existing products and develop relevant and suited new ones.
- 3.6.1 Partners' Services Poorly Aligned to MFI & Client Needs
- 3.6.2 Partner Services not Taken up by Clients or Staff
- 3.7.1 Reduced Overall Market Size: more information on underlying causes of changes occurring enabling the MFI to control the risk.

Risks Introduced

- In case the market research is outsourced: partners fail to deliver the required services.
4.4.4 Competitor Analysis

Description

Understand the supply of different financial services using one or more of the following tools:

- Financial landscape or sector trend analysis focusing on the supply side.
- Analysis of competitor product information, pamphlets, other published information
- Comparison of product features across all credit, savings, insurance and transactions products as well as supplementary non-financial services
- Detailed examinations of conditions relating to HIV & AIDS or other health conditions
- Formal and informal discussions with competitors at industry forums or other meetings

Considerations

Considerations mentioned under risk control 4.4.1 also hold for market research with former clients. Additional considerations are:

- If HIV & AIDS or health issues are prominent in client's experience, pro-actively addressing them may be a source of competitive advantage. Keeping abreast of what the competition are doing will ensure that an MFI does not lose market share to a competitor who is more successfully or visibly addressing client needs. Being "out of line" with the rest of the market may be good, but should be a conscious choice and not the result of ignorance.
- Consultants might be better placed to access competitor information than MFIs own staff.
- Country level networks of MFIs may facilitate comparisons between MFIs countrywide. The network can either collect data in an agreed format on an annual or bi-annual basis or they can do periodic reviews.
- For adequate market research it is important to look at both demand and supply side. Section 4.4.3 deals in more detail with demand side.
- Also include informal savings, credit, and insurance mechanisms in your analysis.

Risks Addressed

- 3.5.2 Mismanagement of Health and AIDS Risks: Poor Local Knowledge: knowing what the competition are doing (even if it is viewed as wrong) provides important information about local context.
- 3.5.3 Product Development Risk: products are more likely to address client needs if based on the additional information gained. Also there is less chance of being outdone by competitors.

Risks Introduced

- In case the market research is outsourced: partners fail to deliver the required services.
4.4.5 Pilot Testing

**Description**

Test new, revised products or products offered in collaboration with partners. Test should be carried out with a carefully selected, representative and small group of clients or potential clients to ascertain their responses to the product, the appropriateness of the product, and potential problems with the product such as administrative issues, inadequate information systems and/or delivery mechanism or poor client uptake.

Note that pilot testing may also be considered for workplace-based intervention programmes targeting staff e.g. providing health insurance to one branch first.

**Considerations**

- The pilot should, from a client perspective, run as close to the “real thing” as possible
- Client (or staff) feedback must be systematically collected and considered
- Also assists the MFI in getting product administration, marketing and support services going at a reduced level before scaling up

**Risks Addressed**

- 3.5.1 Increased Staff Costs due to Health and HIV & AIDS Issues is managed by piloting staff-based programmes
- 3.5.2 Workplace Disruption, Discrimination against PLWHA Employees is managed by ensuring on a small scale first that AIDS-related programmes do not cause problems
- 3.6.1 Poor or Illegal Treatment of PLWHA Clients or Applicants is directly addressed by using a pilot to identify and iron out any difficulties
- 3.6.1 Partners’ Services Poorly Aligned to MFI & Client Needs is minimised by testing the service first to ensure that clients will actually use it and that it is appropriate.
- 3.6.2 Partner Services not Taken up by Clients or Staff

**Risks Introduced**

- 3.7.4. Increased Risk Management Expenses

**Box 4.6 Importance of market research and pilot testing**

BRAC has piloted various health insurance schemes in remote areas in Bangladesh. The first pilot showed that the scheme did not work too well because of lack of sufficient and convenient access to health facilities. Clients did pay premiums but couldn't find doctors when they needed them. In the next phase BRAC decided to put such health facilities in place itself. That solved the access issue, but created a new one: clients living closer to the medical facilities tended to frequent them more often. Also, more assertive or educated clients tended to make better use of the facilities. This created the risk of the poorest clients in the scheme actually subsidizing health services for the slightly less poor or less remote clients. A third phase is now running to make the scheme more equitable. This experience underscores the need for proper research and testing before as well as after the introduction of new products.

Source: Microinsurance: An overview of client, provider and support perspectives; MIAN and Novib
http://62.251.91.146/miansupport/Microinsurance_brochure.pdf
4.5 MFI CAPACITY BUILDING

4.5.1 Train Staff in MIS and Market Research

Description

Train staff on data collection, data capturing, operating MIS system, and the use of data and market research. It is important not to limit the training to classroom sessions. Training on the job, periodic workshops with staff to discuss outcomes of market research, and involvement of staff or staff conducting market research builds staff capacity.

Considerations

- Discuss MIS reports with staff that collected data. It will increase their understanding of the need for data, builds their capacity and it might shed further light on underlying issues.
- In case staff capacity is insufficient to conduct market research, the study can be outsourced but co-implemented by staff members to build internal capacity, prevent dependency and institutionalise the results.
- It might be more difficult to attract donor funding for internally carried out market research, undermining self-sufficiency.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises is addressed if staff appreciate the importance of good data and diligently capture it.
- 3.5.1 Mismanagement of Health and AIDS risks: Poor Data: controlled by improving the data quality if staff value and understand its importance
- 3.5.3 Product Development Risk is mitigated by having reliable data and market research on which to base products
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns is mitigated by having quality data with which to analyse trends
- 3.7.3 Change in Client Utilisation of Other MFI Products

Risks Introduced

- Partnership risks are introduced if the training is outsourced.
4.5.2 Train Staff on New Products and Client Health & AIDS Issues

**Description**

Train staff that are in direct contact with clients regularly on key features of the product, functioning of the product, administrative system, and skills to explain products to clients. Sensitise staff as to how to deal with clients around delicate issues like health and HIV & AIDS matters, insofar as these relate to MFI products, as well as the fraud potential.

**Considerations**

- Staff and clients often have difficulties understanding insurance products. Therefore introduction of these products needs special attention and education.
- Consider how staff members will explain the use and functioning of new products to clients. Assist staff with information, concrete examples, and possibly also with promotion materials.
- Staff should be adequately trained to communicate any health issues related to the product to clients. This may include HIV & AIDS knowledge of various kinds (prevention, disease progression, local prevalence, treatment). Client training by staff could be supplemented with education experts.
- Staff should also be sensitised to and trained to identify fraud relating to HIV & AIDS or other health issues (e.g. false claims)

**Risks Addressed**

<table>
<thead>
<tr>
<th>Risks Addressed</th>
<th>Controls - MFI capacity building</th>
</tr>
</thead>
<tbody>
<tr>
<td>· 3.1.1 Late Payments or Default due to HIV &amp; AIDS and Health Crises is mitigated by ensuring that any new products are rolled out in an effective way and understood by clients.</td>
<td></td>
</tr>
<tr>
<td>· 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants: controlled by ensuring clients know how to handle sensitive issues with clients.</td>
<td></td>
</tr>
<tr>
<td>· 3.5.3 Product Development Risk: mitigated by ensuring new products function as intended and are fully understood by clients.</td>
<td></td>
</tr>
<tr>
<td>· 3.6.2 Partner Services not Taken up by Clients or Staff: mitigated by ensuring the clients understand the partner's services and are hence more willing to access them</td>
<td></td>
</tr>
<tr>
<td>· 3.6.3 MFI Administration Failure in Relation to Partners and Services: providing staff with adequate training on the partner's product and the administration thereof minimises the risk of administration failure</td>
<td></td>
</tr>
<tr>
<td>· 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns is indirectly mitigated by ensuring the staff tell clients about MFI products and services and ensure that they are appropriately accessed, particularly those services which mitigate HIV &amp; AIDS and health risks.</td>
<td></td>
</tr>
</tbody>
</table>

**Risks Introduced**

- Partnership risks are introduced if the training is outsourced.
4.6 TECHNICAL ASSISTANCE AND EXPERT ANALYSIS

Description

Consultants or other suppliers of technical assistance and expertise can be utilised by the MFI to assist with the assessment of risks and implementation of risk controls. Assistance can entail:

- Risk management expertise to assist in risk policy development, risk governance structuring, risk appetite or tolerance statements, capacity building for the risk function itself, risk identification and control development, implementation at business unit level.
- Actuarial expertise to project the impact of HIV & AIDS on the loan, insurance or savings book and on MFI's workforce / business; do a cost benefit analysis of risk management interventions; design and price insurance products; valuation of loan, savings and insurance liability as well as asset valuation; and to determine adequate reserving.
- Technical Advice on product development, including market research and pilot testing; partnership formation (also refer to Chapter 5); management strategies; insurance accounting; risk management structures, strategies, systems and implementation; and MIS design and implementation.
- Brokers: insurance experts with knowledge of the low-income market could assist in finding appropriate insurance solutions.
- Healthcare and prevention expertise, to implement VCT, ART, Prevention of Mother To Child Transmission (PMTCT) and disease management; non-HIV & AIDS healthcare; prevention activities (HIV & AIDS, malaria etc.) and wellness programmes.
- Legal assistance on regulatory compliance; non-discrimination; and insurance law.

Considerations

- There is a balance between building expertise in-house and drawing on necessary external expert support.
- When venturing into new territory, budget permitting, external technical assistance can be invaluable in forming the MFI's approach.

Risks Addressed

Just about any risk could be addressed, depending on the particular expert considered:

- 3.1.2 Insurance and Reinsurance Counterparty Default Risk
- 3.2.3 Insurance Risk: MFI Insurance Mispricing
- 3.2.4 MFI Insurance Claims Volatility
- 3.2.5 Insurance Risk: Adverse Selection
- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues
- 3.6.1 Partners' Services Poorly Aligned to MFI & Client Needs
- 3.6.2 Partner Services not Taken up by Clients or Staff
- 3.6.3 MFI Administration Failure in Relation to Partners and Services
- 3.6.4 Partners are Damaging to Reputation
- 3.6.5 Partners Fail to Deliver Required Services or Functions
- 3.6.6 Partner Forced to Terminate Service or Partnership
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
- 3.7.3 Change in Client Utilisation of Other MFI Products

Risks Introduced

- 3.6 Operational Risks - Partnerships
4.7 ADVOCACY AT NATIONAL OR INDUSTRY LEVEL

Description

MFIs can lobby through national MFI networks, national business coalitions on HIV & AIDS, AIDS NGOs, or regulators for a nationwide strategy to address HIV & AIDS and health risks.

Ongoing dialogue with other industries such as the insurance, banking, healthcare industries may also be valuable, and best accomplished through participation in MFI networks and business coalitions on HIV & AIDS.

Considerations

- Impact on the unfolding epidemic can only occur through top level, national efforts exceeding the capability of one MFI
- Advocacy and networking with larger groups is one way of raising national awareness and increasing the chances of appropriate policy developments, and large scale public or private sector initiatives
- This may be the only way to influence the overall environment in which the MFI operates

Risks Addressed

- 3.5.4 Regulatory Risks
- 3.9.1 Reduced Overall Market Size
- 3.9.2 Change in Client Loan Resting, Growth and drop-out Patterns
- 3.9.3 Change in Client Utilisation of Other MFI Products
- 3.7.1 Reduced Overall Market Size

Risks Introduced

- 3.7.4. Increased Risk Management Expenses
4.8 WORKPLACE FOCUSED CONTROLS

Employee focused controls are a precondition for successful HIV & AIDS risk management. In a lot of countries HIV & AIDS is still a taboo and rumours and myths surround the disease. Factual information on HIV & AIDS and guidance on how to discuss health issues with clients are required to enable staff to see and understand the influence of HIV & AIDS on clients, the relationship with gender disparities and discrimination of (supposedly) PLWHA people: Be comfortable to talk about HIV & AIDS with clients and to implement risk controls successfully. As this starts with openness within the organisation itself and awareness on the MFIs policy, we start with staff training.

Box 4.7: Workplace Interventions

The aim of a workplace program that addresses HIV/AIDS is to create an environment that allows the employee, irrespective of his or her HIV status, to make the right choice in terms of access to HIV/AIDS (and STI/OI) prevention, treatment, and care services on an ongoing basis. A workplace program requires a serious commitment from board and senior management - since once it has started, it needs to be an ongoing activity (e.g. once someone accesses ARVs these need to be available into the future). The AMAP Microfinance and HIV/AIDS: Tools for Making Institutional Changes in Response to HIV/AIDS draws on "Workplace HIV/AIDS Programs" written by Bill Rau and published by Family Health International. The toolkit makes several recommendations in terms of what an MFI can feasibly do alone, and when a partner is advisable.

The toolkit suggests the following steps toward implementing a workplace program:

1. Decide on whether or not it is appropriate to embark on a workplace activity within the MFI. Carry out a cost benefit analysis to determine whether proposing a workplace program makes sense for the MFI.
2. The MFI's management and Board should make a clear commitment to any new activities that address HIV/AIDS in the workplace.
3. Establish which HIV/AIDS workplace activities the MFI is currently facilitating and which activities the MFI may add to the workplace program.
4. Establish the MFIs limitations in addressing HIV/AIDS in the workplace-the MFI is not a health care organization and should not take on activities outside its core competency areas.
5. Carry out an analysis of the costs of various services to determine what the MFI is able to afford. Where possible, establish partnerships with entities that can cover some of this cost.
6. Draft a document outlining the planned activities with timeframes for each activity. Make sure to assign responsibility for each activity and formally incorporate this into staff performance objectives or job descriptions. A Board member should also be responsible for monitoring the MFIs overall progress on implementing new activities.
7. Identify and form partnerships with organizations that can assist in achieving the plan-locally based HIV/AIDS service providers. This is particularly important for small MFIs. Develop a database for easy referrals. The national MFI association/network organization may be able to instigate this referral database/mapping process. Referring staff to these services may not result in follow through; staff should be encouraged to use the services with assistance of peer support groups or counselling.
8. Provide regular updates on progress to staff and management.
9. Determine how these activities will be carried out on a regular basis by scheduling regular activities and keeping the program alive. Assign responsibility for this.

4.8.1 Train staff on HIV & AIDS and Health Policy

**Description**

Train all staff on company's HIV & AIDS and health policy, i.e. underlying principles of the policy, workplace policy, policy regarding clients, actions taken in case of non-compliance with policies and most important strategies to implement policy.

**Considerations**

- Training is not a once-off activity. Ongoing training is required because staff members come and go. Furthermore, knowledge will have to be refurbished every now and then and possible changes in policy and strategies have to be communicated.
- Peer education can be considered.
- It is important that the senior management of the MFI shows its commitment to the policy.
- An AIDS committee can be established or a person assigned to drive the process of responding to HIV & AIDS within the MFI.
- The staff incentive scheme should not hinder implementation of MFI's HIV & AIDS and health policy.

**Risks Addressed**

- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues is mitigated by ensuring staff know their rights and responsibilities in terms of healthcare issues
- 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees is minimised by ensuring staff understand the non-discrimination policies
- 3.3.3 Key Person Risk
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants: controlled by ensuring that staff are educated and skilled in handling sensitive issues with clients, and aware of company policies in this regard.
- 3.6.2 Partner Services not Taken up by Clients or Staff: controlled by ensuring staff understand that accessing partner services is governed by the confidentiality and non-discrimination policies of the MFI.

**Risks Introduced**

- In case training provision is outsourced: partners fail to deliver required services or functions
- In case training provision is outsourced: Partners’ services poorly aligned to MFI and clients’ needs
### 4.8.2 Staff HIV & AIDS Preventive Education, Counselling, Wellness Programmes, Management Support

#### Description

Implement workplace programmes to reduce effects of health crises, including HIV & AIDS. A workplace programme may include:

- Education or behaviour change programmes on HIV infection prevention;
- Referral information on e.g. clinics for treatment of Sexually Transmitted Diseases (STDs), VCT, counselling and ART is readily and anonymously available to staff;
- Workshops on living positively with HIV or other illnesses;
- Distribution of male and female condoms;
- Peer education and peer counselling programmes;
- Employee assistance programmes composing of broader healthcare and wellness support - may include support for illness and psychological difficulties;
- Train management how to deal with employees in difficult circumstances e.g. if an employee comes and discloses HIV+ status to his manager;
- Appoint confidants where staff can report cases of discrimination or discuss other health related issues;
- Occupational safety and health structures; and
- A prevalence study can be done to get more insight into the risk run by the organisation.

#### Considerations

- Management must support programmes, policy and have company-wide roll out. It is also important to appoint champions who carry the initiative.
- Local labour law, occupational safety, confidentiality, discrimination and healthcare laws must be considered. See also the ILO Code of Conduct referred to under resources in Section 2.5.
- Interventions will have greater impact if they are extended to staff members' families as well. This demonstrates an additional benefit of partnerships with AIDS service organisations.
- The local stigmatisation of HIV & AIDS or other conditions and culture around sexuality and disease must all be taken into account for any intervention to work.
- Consider combining condom distribution with condom education and training in communication skills to enable people, especially women, to negotiate for condom use.
- While well run and appropriate interventions offer many benefits, poorly run or inappropriate interventions may achieve nothing or make matters worse.
- The stresses faced by managers in dealing with PLWHA employees are often neglected, and may cause good managers to leave without appropriate support.
- A confidant should be a person outside the MFI to guarantee independence.
- Prevalence studies should be anonymous and not linked to guarantee confidentiality and to increase participation level.

#### Risks Addressed

- **3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues:** minimised by preventing new infections, improving staff wellness
- **3.3.2 Workplace Disruption, Discrimination against PLWHA Employees:** controlled by ensuring that people's healthcare and wellness needs are met and that managers have the support that they need to deal with staff who are having problems.
- **3.3.3 Key Person Risk** is mitigated by ensuring that key persons with health or HIV-related problems receive the support they need and do not have to leave.

#### Risks Introduced

- **3.6 Operational Risks - Partnerships** are introduced to the extent that partners are used for the training or support services.
4.8.3 Employee Benefits for Staff

Description

Life, disability and health insurance all help staff members to mitigate the impact of HIV & AIDS and other health conditions on their financial well being. Health insurance further assists in ensuring appropriate healthcare can be accessed when required, reducing illness, absenteeism, risk of death etc. In case insurance also covers other family members, it will reduce the financial stress faced by staff. Stressed staff are more likely to lead to stressed customers!

Considerations

- Employee benefits programmes must balance the breadth of benefits to be provided against costs.
- Benefit designs excluding many staff members or key conditions like HIV & AIDS will be less effective than those with wider coverage.
- Interventions will have greater impact if they are extended to staff members’ families as well.
- Consider the balance between subsidising benefits and requiring staff to contribute.
- Ongoing sustainability of the programme should be considered before introduction - it could be a great source of difficulty to have to reduce benefits in future if they become too costly due to poor design.
- To protect both the MFI and staff, the MFI should not be able to get any information on the health status of its staff members. A legal and knowledge firewall should exist around confidential information.
- Even the largest MFIs will probably be ill advised to insure these benefits in-house. Insurance partners should be sought. Aside from the insurance risk, confidentiality and legal issues will pose many problems.
- Education around any benefits provided is important. Some form of employee participation in benefit selection may be important.
- Pay due regard to local labour law requirements when changing conditions of employment.

Risks Addressed

- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues: while the benefits increase the direct costs of employment, sensible benefit design for e.g. health benefits can help minimise indirect costs of absenteeism and sickness.
- 3.3.3 Key Person Risk is minimised by providing a competitive set of benefits

Risks Introduced

- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues: the cost benefits may be a direct addition to bottom line costs, unless costs are shared in some way with staff members for example in a cost to company approach to compensation structuring.
- 3.6 Operational Risks - Partnerships are introduced when partners are brought in to provide benefits to staff.
4.8.4 Staff HIV & AIDS Disease Management

**Description**

An HIV & AIDS disease management programme may include ART, pre-ART disease management (nutrition, wellness), prophylaxis of common opportunistic infections like TB, prevention of mother to child transmission, and ongoing support whilst on ART as well as referral to clinics providing access to ART. Disease management should be offered in conjunction with a private, NGO, donor or public partner.

**Considerations**

- ART should only be introduced if a number of stringent conditions can be met including a regular, sustainable supply, healthcare provider expertise, and ongoing access after employment.
- A lot of support can be provided that does not include ART.
- If ART is provided, adherence to treatment has to be monitored.
- Confidentiality is a key issue here. Services should be provided by a partner organisation and the MFI should have no knowledge on status and access to treatment of individual staff members. A legal and knowledge firewall must be in place to protect both the MFI against any possible discrimination charges and to protect the staff member.

**Risks Addressed**

- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues: good disease management reduces annual medical costs, absenteeism, avoids unnecessary hospitalisation, improves wellness and productivity
- 3.3.3 Key Person Risk is mitigated through a competitive set of benefits and through ensuring key staff remain to access these valuable benefits.

**Risks Introduced**

- 3.6 Operational Risks - Partnerships
- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues: Despite it's many benefits, there is always a risk that costs will escalate. In reality, though, treatment costs for HIV & AIDS have only been reducing in recent years.
- 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees is introduced to the extent that staff member’s status may become known within the organisation or used against him or her. Also, in the long term, there may be problems when treatment options run out and only very expensive treatments remain. A clear policy with defined benefits is required.
4.8.5 MFI Business Continuity Planning

Description

Multiskilling: staff can be trained in two or three different jobs so that they can "cover" an unexpected absence of one of their colleagues due to illness, disability, death or to attend a funeral or care for sick family members. Succession planning ensures that in the event of the loss of a key staff member with specialised or in-depth organisational knowledge, there is an apparent successor to take over. In case the credit decision process relies on one person, credit approval can be detrimentally delayed in case of long-term illness or death. Decentralised credit decisions should be encouraged provided that there is sufficient capacity.

Considerations

- The focus should first be on key persons

Risks Addressed

- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues: reduced by ensuring that operations continue smoothly in the event of staff productivity declines or absenteeism
- 3.3.3 Key Person Risk

Useful resources 4.8

- Paper2Reality: Experiences & Lessons of developing and implementing an HIV/AIDS Workplace Policy, Oxfam and Care, September 2006 www.oxfamkic.org shares the experiences and lessons of CARE and Oxfam in developing and implementing HIV workplace policies, stimulates debate and discussion, and provides practical ideas and suggestions on how to overcome some of the obstacles you might encounter when implementing an HIV workplace policy.
- See also useful resources 2.5 for more relevant documentation on Health and HIV & AIDS workplace policies.
4.9 NON FINANCIAL SERVICES

The core business of MFIs is to provide financial services to its clients. However clients' needs are much broader and linking them with some other services might be a successful strategy to increase the demand for, and optimal use of, financial services. This especially holds with respect to HIV & AIDS given its impact, complexity and hence need for concerted efforts to adequately address it. MFI partners also have expertise and experience where MFIs may not e.g. underwriting insurance, clinical/health services etc.

We stress that the risk controls mentioned here aim to provide clients with access to non-financial services. It will be easiest and probably also most effective to link up with a good quality specialised partner organisation for the provision of the services. More information on partnerships with these organisations can be found in Chapter 5.

Useful Resources Section 4.9 and 4.10

- Microfinance and Business Development Services for the Very Poor, Freedom From Hunger, Kathleen Stack, 2004 http://www.seepnetwork.org/files/1083_SeepPres11_02.ppt discusses the need to combine microfinance and business development services (BDS) and points out challenges and necessary modifications.

- The wealth and health game that can be accessed at http://socialre.free.fr gives insight into the usefulness of insurance products and has been used to educate clients and staff.


- HIV/AIDS and Microinsurance in the microfinance sector in Africa, AFMIN Hivos, Gommans et al., April 2005 http://www.hivos.nl/english/english/themes/financial_services_enterprise_development The Executive Summary gives an overview of issues to take into account when offering non-financial services including client education on insurance. Some concrete examples are provided in Section 3.


- Microleasing: An Alternative Way of Financing Productive Assets MicroSave Briefing Note 35, Sempangi et al. provides more information on lease and hire purchase financial services

- HIV/AIDS and Microinsurance in the microfinance sector in Africa, AFMIN Hivos, Gommans et al., 2005 http://www.hivos.nl/english/english/themes/financial_services_enterprise_development. The executive summary gives an overview of different product developments that are relevant in the light of HIV & AIDS. Section 5 provides information on products developed by a number of MFIs in East and South Africa, while product adjustments made by FINCA Uganda receive attention in Section 4.

- See Box Useful Resources 4.4 for more information on market research and pilot testing.
4.9.1 Client HIV & AIDS Education and Prevention

Description

Organise HIV & AIDS infection education and prevention activities, such as:
- Provision of information on HIV & AIDS (facts and myths) to increase awareness and reduce the stigma through leaflets, theatre plays, and meetings.
- Participatory training aiming at behavioural change. Training has to deal with culture, sexuality, religion, gender disparities, and domestic violence. It may also include skills on communication and conflict resolution.
- Encourage VCT and provide information on clinics and NGOs offering VCT and counselling.
- A prevalence study among clients.
- Distribution of, and education, on the use of male and female condoms.
- Access to PMTCT.
- Access to treatment and management of sexually transmitted diseases (STDs)

Considerations

- Combine training and information provision with group meetings for group lending. In the case of individual credit, separate meetings can be organised.
- Pay attention to the empowerment of women (gender norms, domestic violence, sexuality, HIV & AIDS), as their vulnerability is an important factor in the spread of HIV & AIDS. Refer to Box 4.8 for an example.
- Condom education should go hand in hand with training in communication skills to enable people, especially women, to negotiate for condom use.
- While well-run and appropriate interventions offer many benefits, poorly run or inappropriate interventions may achieve nothing or make matters worse.
- Extension of programme beyond client level to reach families and the community is likely to increase the effectiveness of the intervention.
- A prevalence study should be anonymous and unlinked to guarantee confidentiality. A good communication strategy to increase level of participation will be crucial.
- Delivery through partnership is suggested initially. If capacity of partner organisation and financial resources allow, scaling up of programme should also be done via a partner organisation.
- Use a competent partner organisation to provide clients with access to medical services. To protect both MFI and client, the MFI should not have any information on who is exactly accessing these services.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises - addressed in the long term by preventing new infection
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
- 3.7.3 Change in Client Utilisation of Other MFI Products

Risks Introduced

- 3.6 Operational Risks - Partnerships
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants if the programme is run in a way that offends or discriminates against PLWHA people.
Box 4.8: Prevention activities mitigating risks of late payments and drop-outs

SEF, a South-African microfinance institution, in collaboration with RADAR offers its clients Gender and HIV training during fortnightly group meetings under their joint IMAGE programme. The training comprises of ten one-hour participatory learning and action sessions. Topics include gender roles, gender inequality and cultural beliefs, the body, sexuality and relationships, domestic violence and HIV prevention. Sessions are structured to give participants an opportunity to strengthen confidence and skills relating to communication, critical thinking, and leadership. Furthermore homework activities are assigned and used to reflect on how the sessions relate to ongoing experiences in women’s lives. Subsequently, key women that have been identified as natural leaders during the first phase are brought together and trained in leadership and community mobilization. Leaders are responsible for the development of an Action Plan. Facilitators of RADAR use the one-hour session to provide support and guidance for the Action Plan developed by the loan groups.

At this moment the training sessions are paid for by subsidies from organisations supporting HIV & AIDS prevention activities. For SEF, the programme both assists to achieve its developmental goals and yield financial benefits. One indicator is the client dropout rate. As can be seen in graph 1, the dropout rate in Burgersfort branch where the IMAGE programme is run, has been consistently lower than in other branches. In addition exit interviews with clients showed that none of the clients at Burgersfort left SEF because of the training offered.

Another indicator is the centre vulnerability which is measured by attendance of meetings, repayment/arrears and savings compliance. As can be seen in the graph 2, Burgersfort branch also performs better than the other branches in terms of vulnerability.

4.9.2 Education, Prevention & Other Healthcare Services for PLWHA clients

Description

The MFI can facilitate access of known or tested PLWHA clients to the following services:
- Train PLWHA clients with respect to sexual behaviour, lifestyle, wellness, and nutrition.
- Various healthcare services ranging from pre-ART disease management, prophylaxis of common opportunistic infections like TB, treatment of STDs, PMTCT, and finally ART.
- Distribute and educate clients on use of male and female condoms.

Considerations

- Confidentiality is a key issue here. Services should be provided by a competent partner, with the MFI having no knowledge of who exactly is accessing them.
- Promotion of VCT should only be done if proper support services are offered to clients who have tested positive.
- ART should only be introduced if a number of stringent conditions can be met including a regular, sustainable supply, healthcare provider expertise, ongoing access after employment, and assessment of client readiness for ART.
- Lots of valuable non-ART support can be provided even if ART is not feasible.
- Extension of programme beyond client level to reach families and the community is likely to increase the effectiveness of the interventions.
- As for risk control 4.9.1 best practice training should be participatory and cover cultural, religious, gender, and communication and conflict resolution issues.
- If well implemented, these controls reduce poor treatment of PLWHA clients. Poor implementation may worsen this risk.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises by reducing sickness, preventing new infections, and keeping positive clients on the books for as long as they are well.
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants is mitigated if the services support PLWHA clients in a constructive manner.
- 3.4.2 Unintended Group Responses to PLWHA Clients / Applicants is mitigated if groups know that PLWHA people will be accepted and their risk is reduced by the programmes.
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues is reduced since clients will not feel the need for fraud if good support services are in place.
- 3.7.1 Reduced Overall Market Size - may be indirectly affected by promoting general supportive attitudes towards HIV & AIDS and with prevention messaging.
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns will be controlled by ensuring that clients do not need to drop out or rest due to avoidable HIV & AIDS stresses.
- 3.7.3 Change in Client Utilisation of Other MFI Products.

Risks Introduced

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises may also increase if PLWHA clients are kept on the books and offered new loans during the terminal illness phase.
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants.
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues may conversely increase if clients think that crying "AIDS" or "sickness" will get them soft treatment.
- 3.6 Operational Risks - Partnerships are introduced when partners are used for the services.
4.9.3 Business Development and Financial Planning Services

**Description**

Provide clients with, or facilitate access to, BDS to increase business volume or diversify business activity. Train (possibly via a partner) clients in financial planning for future lump sum cash needs and financial discipline. Furthermore MFIs might promote continuity of business beyond primary borrower's productive life, especially for PLWHA clients or those with other long-term terminal illnesses (e.g. succession planning). This may include training family members in the business so that when the primary borrower dies or is incapacitated, someone else can take over the business.

**Considerations**

- A well performing business and financial discipline will assist clients (whether they are infected or not) to deal with health and HIV & AIDS-related crises.
- Provision of these services to PLWHA clients can prolong the period that clients can be retained and will reduce the impact of crises on the family, particularly if family members or friends can take over the business from the primary client on his or her disability or death.

**Risks Addressed**

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues is reduced since there is less need for fraud if appropriate support is in place
- 3.7 Operational Risks - External Events
  - 3.7.1 Reduced Overall Market Size: the client base can be maintained if "clientship" can be transferred from one family member to another.
  - 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
  - 3.7.3 Change in Client Utilisation of Other MFI Products

**Risks Introduced**

- 3.6 Operational Risks - Partnerships
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants

**Box 4.9 Why attention for PLWHA clients?**

In the long term, prevention of HIV & AIDS is the most effective risk control for both clients and MFI, underlining the need for awareness raising, training and VCT. To promote VCT, it is important that there is confidentiality to ensure that clients who have been tested positive or who are suspected to be positive are not excluded or discriminated against. Raising awareness on how to live positively and access ART (if available) will assist the MFI to control the risk as life expectancy increases. Tailor-made financial services allow clients to prepare for the future and remain productive and profitable clients for the MFI as long as possible. In countries with high prevalence rates, a considerable number of clients will be HIV+. Offering a package of services, with partners, to these clients enables the MFI to retain productive and profitable clients as long as possible. The package of services could compose of the following services:

**Non-financial services (Section 4.9):**
- 4.9.1 HIV & AIDS prevention products
- 4.9.2 Education and healthcare services for PLWHA clients
- 4.9.3 Business development and financial planning services

**Financial services other than insurance (Section 4.10):**
- 4.10.1 Adjusted existing credit products
- 4.10.2 New credit product development
- 4.10.3 Savings products for health

**Insurance Services (Section 4.11):**
- 4.11.1 and 4.11.2 Credit life and credit disability insurance
- 4.11.3 Funeral Insurance
- 4.11.4 Disability Insurance
- 4.11.5 Health Insurance
- 4.11.6 Adjustments to existing insurance products

Once clients fall severely ill and chances of repayment are affected, the credit products will no longer be appropriate. However credit to family members, other financial services, as well as non-financial services, can still be relevant.
4.9.4 Client Education on Insurance or Any Other Product

**Description**

Insurance is a concept which is not easily understood by clients. Education and gaming workshops can illustrate the value to obtain buy-in and understanding and to ensure realistic expectations. Client (and staff) education may be required any time the MFI introduces a new product or service (such as those in sections 4.9 to 4.11) or modifies an existing service or product.

**Considerations**

- Education to ensure that the insurance product or other service is properly understood is important. On the insurance side, it may be hard for clients to see the difference between savings and insurance. Both require payments before returns or benefits can be collected, but in case of insurance the payments disappear, and the benefit is not seen if there is no crisis or worse if there is a risk event and this particular risk turns out not to be insured.

- The understanding of insurance products or other extended services by the MFI's staff may also be limited, and hence staff training is also important.

- Clients might have access to other insurance products or other services as well. Client education should deal with different types of insurance and possible insurance coverage of clients, advantages and disadvantages of different types of insurance, and of having different policies at a time to ensure that clients take an informed decision.

**Risks Addressed**

- 3.5.3 Product Development Risk: Controls as education will increase understanding of clients of the product.
- 3.6.2 Partner Services not Taken up by Clients or Staff: controls this risk as understanding of insurance product will increase
- 3.6.3 MFI Administration Failure in Relation to Partners and Services
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
- 3.7.3 Change in Client Utilisation of Other MFI Products
4.10 MFI PRODUCT DEVELOPMENT - OTHER THAN INSURANCE

In this Section we consider adjustments in existing, and the introduction of new financial services, that MFIs may consider as part of their responses to HIV & AIDS and health risk. Loan products are the simplest, dealing with the core business of most MFIs. Savings products bring a new order of complexity, and can be offered directly by the MFI or in conjunction with a deposit-taking partner. The same applies to insurance products.

This Section focuses on the products themselves. In Section 4.12 we consider the internal risk management to make savings and insurance products work from a health and AIDS risk management perspective for MFIs who choose to write these products themselves.

The importance of a good understanding of one’s market cannot be overstated. Market research and pilot testing provide crucial insights. Furthermore it is important to realise that specific market opportunities will differ per MFI. See Useful Resources 4.9 and 4.10 for further guidance.

Box 4.10 Learning from adaptation strategies MFI clients in Uganda have applied

In Uganda, clients in urban areas told a MicroSave research team during focus group discussions that they experienced less financial strain due to HIV & AIDS-related crises now (2001) than they did five years ago. Clients attributed this to better coping mechanisms that helped them to permanently change the mix of strategies used to respond to crises and their impact. Factors that contributed to adapt are:

- Over the last five years, access to microfinance has enabled clients to start to improve or diversify their business activities. Loans also increase access to lump sums of cash that clients can use to resolve crises and pay back in small amounts over time. Participants prefer this to liquidating business capital or other productive assets like land or cattle. This relates to loans to assist clients to build up assets and emergency loans as described under risk control 4.10.2 New Credit Products.
- Access to, and information about, treatment of HIV & AIDS is more readily available through radio, billboards, schools and Aids Support Organisations. Counselling and better treatment is also increasingly available. This enables PLWA and their family members to manage AIDS-related illnesses more rationally. For example money and scarce resources are not squandered on non-existing cures. Focus group participants said that such information enabled them to organize and plan in anticipation of crises, which in turn improved their ability to cope when a crisis confronted them. This relates to risk controls 4.9.1 Client HIV & AIDS education and prevention and 4.9.2 Education and Healthcare Services for PLWHA Clients.
- People are more aware of the economic impact of AIDS now than they were five years ago. Thus they are more likely to keep a buffer (savings) in case of eventualities - like funerals (Risk control 4.10.3 Saving Products for Health Protection). Financial discipline needed to access loans has also been helpful. Risk control 4.9.3 Business Development and Financial Planning Services could assist clients further in this field.
- Early detection and treatment enables a PLWA to manage opportunistic infections early on before they become debilitating. Furthermore the availability of information has encouraged openness, which again reduced stigma. Those who no longer fear to go for an HIV test begin treatment earlier, maintain their health better and thus live longer. This reduces the burden on their caregiver. It relates to risk controls 4.9.1 Client HIV & AIDS Education and Prevention and 4.9.2 Education and Healthcare Services for PLWHA Clients.

Source: Donahue et al., HIV/AIDS - Responding to a Silent Economic Crises among Microfinance Clients in Kenya and Uganda, www.microsave.org
4.10.1 Adjustments to Existing Credit Products

Description

Make existing credit products more flexible as strict loan policies or procedures can aggravate clients’ financial crises. Examples of changes in credit products, which could enable clients to better cope with health crises include:

- Allow access to compulsory savings in between loan cycles
- Allow resting between loan cycles without losing future increase loan options or undergoing training again
- Abolish compulsory upgrading to higher loan sizes
- Reduced attendance requirement for group meetings
- Allow for rescheduling of loan of clients having faced several serious crises.
- Allow for longer resting periods.

Considerations

- Do market research, concept and pilot testing before launching adjusted products.
- Additional flexibility may alleviate hardship but if not tightly controlled, can aggravate defaults and late payments, can give more opportunities for fraud or may be taken advantage of by clients. There is a fine line between adapting to realistic client needs, and maintaining financial discipline.
- Only loyal clients with good repayment history should have access to rescheduling. For relatively new clients, independent verification within the community might also be considered.
- Access conditions for flexible terms have to be communicated clearly as well as how this will mitigate the impact of health related crises.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Controls risk by mitigating dual effect of hardship and strict process, but increases risk of late payment, default etc through abuse or fraud. Strict controls required.
- 3.4.1 Poor or Illegal Treatment of PLWHA Clients or Applicants: Controls risk of actual/perceived discrimination or lack of caring.
- 3.4.2 Unintended Group Responses to PLWHA Clients / Applicants: Controls risk by mitigating the impact of health related hardship on the group, so less likely to discriminate.
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
- 3.7.3 Change in Client Utilisation of Other MFI Products

Risks Introduced

- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues may conversely increase if clients think that crying "AIDS" or "sickness" will get them soft treatment
- 3.5.5 Increased Non Staff Expenses : Increases risk: adjustments may need higher staff training, capacity, checks and balances, leading to higher costs.
### 4.10.2 New Credit Products

**Description**

Develop new credit products to enable clients in high HIV & AIDS prevalence areas to deal with the high frequency of health and death related crises in their families. Box 4.10 provides more information on clients’ coping strategies to deal with crises. Relevant credit products include:

- Emergency loans
- Loans assisting clients to build up assets, particularly assets that will increase ability to generate income but also those that will be of benefit to the household in the long term. Examples are: housing loans, house improvement loans, loans or lease products for mobile phones, fridge etc.

**Considerations**

- Do market research, concept and pilot testing before launching new products
- Depending on collateral, MFI might want to apply stricter selection criteria for approval of emergency loans such as past repayment behaviour, loyalty etc.
- Leasing products might be an interesting alternative to allow clients to grow their asset base while keeping MFI’s risk limited especially in cases of non-removable assets or assets that can be inactivated (for instance mobile phones)
- In low HIV & AIDS prevalence areas the impact of other health related crises might be high, in which case there will also be a demand for these products

**Risks Addressed**

| 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Risk of default due to temporary hardships is controlled through credit products targeting specific needs on a realistic basis |
| 3.5.3 Product Development Risk: Risk is directly controlled by introducing products that specifically target particular needs related to health crises, if done successfully |
| 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns |
| 3.7.3 Change in Client Utilisation of Other MFI Products |

**Risks Introduced**

| 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: These may be aggravated if credit is inappropriately granted to terminally ill individuals. The timing and access to additional credit must be structured to address temporary crises from which people are expected to recover |
| 3.5.3 Product Development Risk: There is still the possibility that the product will not be well developed, or target the actual needs of the clients |
| 3.5.5 Increased Non Staff Expenses: Increases risk: like any other new product, this may need higher staff training, capacity, checks and balances, leading to higher costs. |
| 3.5.2 Mismanagement of HIV & AIDS and health responses due to poor local knowledge: it is essential that any product addressing a perceived health risk be appropriate to local context: there is no point in emergency loans targeting a cause which is not a problem. |
### 4.10.3 Savings Products for Health Protection

#### Description

Offer savings services to clients and/or encourage clients to build up savings, as it will assist them to deal with crises. (See also Box 4.10) Activities could include:

- Encourage clients to save by introducing savings products if not currently offered and making the product more attractive by:
  - Paying interest on voluntary savings,
  - Introducing flexibility around savings (enable easy withdrawal of savings: opening hours, ATM, transfers via mobile phones and/or by using other points of sale), and/or
  - Allowing group members to deposit savings without having a loan, especially during rest cycles.
- Promote savings by producing leaflets and brochures, using illustrative games on use of savings, SMS text messages, and/or meetings. In the case of group loans, group meetings can be used for promotional activities. In the case of individual credit, special evenings for clients can be organised like Akiba Bank in Tanzania is doing.
- Promote savings for health crises by opening dedicated health savings accounts.
- An HIV specific savings product could target HIV positive people before becoming ill, and enable saving for later when they need treatment or become ill. A person, designated by the client, should be allowed to withdraw savings when client faces an emergency.

#### Considerations

- Market research is vital before doing product innovations or launching new products to understand clients' needs and preferences.
- Becoming a deposit taking institution, if not already one, is a significant step requiring consideration, capacity and expertise. The same holds for introducing ATMs, points of sale or mobile phone transfer services.
- Consider linkages with commercial bank / deposit taking institutions if not allowed or unwilling to take clients' deposits.
- Consider linkages with informal saving arrangements if your MFI is allowed to take deposits.
- For effective health risk management, health savings accounts must restrict the use of funds to healthcare expenses.
- Funds in health savings accounts may be required on short notice in the event of a legitimate crisis, so long term savings or fixed deposits are inappropriate.
- In case of health insurance, a health savings account can also be linked to saving for insurance premium.

#### Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Controls risk. Savings act as buffer in case of financial hardship due to health or HIV & AIDS, reducing late payment, default. May also reduce risk of death and severity of illness by ensuring funds are available for treatment.
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
- 3.5.3 Product Development Risk: Controls risk that credit only products doesn't meet client needs
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns: Controls risk. The savings buffer mitigates changes in resting and late payment patterns due to HIV and health related hardship
- 3.7.3 Change in Client Utilisation of Other MFI Products

#### Risks Introduced

- 3.2.1 Liquidity risk
- 3.5.3 Product development: Savings product may not be appropriate for client needs
- 3.5.4 Regulatory Risks
- 3.5.5 Increased Expenses: Increased product range may lead to higher expenses, as will either partnership management or management of own savings business (NB if new)
- 3.6 Partner-related risks: All these risks come with using partners for the savings vehicle
4.10.4 Credit Products for PLWHA people

Description

In high prevalence countries, large percentages of clients will be infected. The risk of lending to people living with HIV & AIDS can be controlled if clients know their status, live positively and have access to more appropriate products that suit their changed needs. For this reason a combination of services and products creates a far more powerful intervention than any one service or product in isolation.

The need for financial services is strongly influenced by health related crises that are likely to occur. Product features as mentioned in Sections 4.10.1, 4.10.2, 4.10.3 as well as 4.11 are therefore important.

Considerations

- PLWHA are in the first stages as productive as HIV negative clients and will need financial services.
- Explicit targeting of PLWHA should be combined with other financial and non-financial services. (See box 4.9)
- Do market research before introducing product innovations or launching new products.
- Concept and pilot test new and revised products before launching them full scale.
- Do not select clients only on the basis of their status, but include criteria relating to entrepreneurial qualities and business performance. (See Box 4.11)
- Credit products should pay attention to succession planning to enable continuation of the income generating activity by allowing family members to attend group meetings on clients’ behalf and to let them take over savings accumulated, loan and credit history.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises
- 3.7 Operational Risks - External Events
  - 3.7.1 Reduced Overall Market Size
  - 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
  - 3.7.3 Change in Client Utilisation of Other MFI Products

Risks Introduced

- Partner (soft NGO type) sends out wrong message regarding repayment affecting PAR and write-off ratio.
- Product Development Risk

Box 4.11 Credit Products for PLWHA people: A good and bad practice at Zambuko Trust

Zambuko Trust in Zimbabwe launched two different programmes in response to the high HIV prevalence rates in its country. The first programme, called SHAZ, targeted orphaned teenage girls in two urban centres with high prevalence rates among young girls. The programme aimed to provide the girls with life skills, business skills and business finance, and was implemented in collaboration with UZ-UCSF, Boost and One Up Business Training. Zambuko provided start-up capital and working capital. The programme was not successful. Repayment was almost zero. Zambuko Trust learned that people must be selected carefully and clients should be keen to run a business, have some experience, and it should involve family and community around clients.

In 2002, Zambuko Trust got involved in the second programme, which was implemented together with Hope Humana. Within the programme, Hope Humana identifies the economically active clients within their support groups to whom it provides psycho-social support and refers them to Zambuko for financial services. Zambuko trains the prospective clients, assesses their projects and then lends to groups of clients. In the training, the family business approach is used to reduce dependency on the PLWHA client and ensure that his or her family members can continue the business if the client falls ill or passes away. Repayment rates are good and clients have found it easier to live positively with HIV & AIDS and are living longer. The family business approach has proven to be successful. It can be concluded from the Zambuko experience that PLWHA people should not be treated differently. What matters is how their business is doing to ensure that they are able to repay the loan.

4.11 INSURANCE PRODUCTS

These controls concern the use of microinsurance, i.e. risk-pooling products that are designed to be appropriate for the low-income market in relation to cost, terms, coverage and delivery mechanisms. Whereas savings and credit can help people improve their income and move out of poverty, microinsurance helps them protect the gains and hence prevents them from falling back into poverty. Savings go a long way to protect people; however insurance helps to spread risks not only over time but also across individuals. Hence it offers a better protection and the only appropriate protection in the case of low frequency, high costs events.

The insurance can be provided by the MFI or in conjunction with a professional insurer. This Section applies to all MFIs using insurance whether they are providing directly or not. In 4.12.3, 4.12.4, and 4.12.5 the risk controls required for MFIs carrying insurance risk themselves are addressed. It will be evident that insurance products introduce significant risks for MFIs, especially when offering it directly, while alleviating or transferring others. This should not discourage MFIs from using insurance where appropriate as long as appropriate controls are in place.

Useful Resources Section 4.11


- HIV/AIDS and Microinsurance in the microfinance sector in Africa, AFMIN Hivos, Gommans et al., April 2005 http://www.hivos.nl/english/english/themes/financial_services_enterprise_development The Executive Summary gives an overview of issues to take into account when offering insurance services. Sections 8 and 10 provide some concrete examples on life/funeral and health insurance respectively.

- Reducing Vulnerability: The Demand for Microinsurance; MicroSave; Cohen et al.; 2003; http://www.microfinanceopportunities.org/Publications_MI.shtml. This document gives a detailed description of the results of a study on the demand for microinsurance from MFI participants in Tanzania, Uganda and Kenya. Attention is paid to the economic impact of illnesses and death.


- www.microinsurancecentre.org provides lots of information on microinsurance and at http://www.microfinancegateway.org/section/resourcecenters/microinsurance the microinsurance newsletter and lots of case studies documenting good and bad practice case studies on insurance can be accessed.

4.11.1 Credit Life Insurance

**Description**

Introduce insurance covering the outstanding loan balance in case of death of client. The MFI can either take insurance on the entire loan portfolio by MFI or maybe individual policies to clients. Insurance on the entire loan portfolio is invisible to clients though costs are included in expense recoveries. Credit life insurance offers no additional cover to clients outside of the loan agreement.

**Considerations**

- Insurance policies can be part of the credit agreement between MFI and client, and therefore compulsory. Some regulatory environments however prohibit compulsory insurance products.
- Compulsory or optional group policies with high take-up offer many advantages including wide coverage, reduced initial underwriting requirements, possibly reduced exclusions. Voluntary insurance products entail the risk of adverse selection.
- There exist many models of doing this, from in-house insurance development to partnering with a professional insurer.
- Do market research, concept and pilot testing before launching new products.
- It is important to measure client satisfaction to know clients’ perceptions, to counteract potential shortcomings, and to ensure that the product meets clients’ needs.
- Insurance may (or may not!) be a competitive advantage in marketing; consider how clients value insurance.
- Keep the product simple with limited or non-existent exceptions.
- Client education on product and product features is important, also for compulsory products, as illustrated in Box in Section 4.9.4.
- A cover on entire portfolio is more valuable to small MFIs since very large MFIs may be able to carry the risk themselves (except for catastrophes). Weigh up costs for MFI versus protection offered to MFI.
- External insurers may give the MFI additional income through commissions. At the same time this will increase the costs for clients.
- Carefully evaluate risks and complexity for MFI to write insurance itself.
- Life insurance can be linked with healthcare interventions - in particular life insurance and ART.

**Risks Addressed**

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Transfers risk of defaults due to client death to insurer in exchange for fixed premium
- 3.5.3 Product Development Risk: Controls risk of credit products violating needs of dependants
- 3.4.2 Unintended Group Responses to PLWHA clients / Applicants
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues

**Risks Introduced**

- 3.1.2 Insurance counterparty default risk is introduced if done with an insurance partner
- 3.1 All insurance provision risks are introduced if MFI writes the insurance itself
- 3.5.3 Product Development Risk: Insurance product may not be appropriate for client needs, although it is hard to go wrong with credit life since it is such a simple product
- 3.5.5 Increased Expenses: Higher expenses with new products (marketing, admin, staff training), and from management of partner or own insurance business.
- 3.5.4 Regulatory Risks: Acting as an insurer broker may introduce regulatory issues (e.g. FAIS Act in South Africa). Becoming an insurer introduces many regulatory issues.
- Partner-related risks: All partner risks, if a partner provides the insurance, particularly
- 3.6 Operational Risks - Partnerships: all partnership risks are introduced when partnering. See Chapter 5.
4.11.2 Credit Disability Insurance

**Description**

Introduce insurance covering the outstanding loan balance in case of permanent disability and repayments during period of temporary disability. Credit life insurance offers no additional cover to clients outside of the loan agreement. Different definitions of disability can be considered such as permanent disability defined in terms of objective criteria like paraplegia, blindness, loss of use of hands and temporary disability products covering loan repayments during periods of illness.

**Considerations**

All the considerations applicable to credit life insurance apply here as well.

- There are many variations on disability insurance using different disability definitions. The "easy" ones to manage grant benefits according to a list of objective criteria (like "paraplegia"), but disabilities for non-listed reasons may slip through.
- More complex disability definitions are more difficult to administer and might also be more vulnerable to fraud. They should not be considered without the input of a professional insurer or insurance expert.
- Disability insurance may introduce moral hazard - incentives for people to harm themselves for financial gain or to alleviate other financial strain.

**Risks Addressed**

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Transfers risk of defaults due to client disability to insurer in exchange for fixed premium
- 3.5.3 Product Development Risk: Controls risk of credit products violating disabled client needs
- 3.4.2 Unintended Group Responses to PLWHA Clients / Applicants
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues

**Risks Introduced**

- 3.1.2 Insurance counterparty default risk is introduced if done with an insurance partner
- 3.1 All insurance provision risks are introduced if MFI writes the insurance itself
- 3.5.3 Product Development Risk: Insurance product and definitions of disability may not be appropriate for client needs, and only partially alleviate risk
- 3.5.5 Increased Expenses: Higher expenses with new products (marketing, admin, staff training), and from management of partner or own insurance business.
- 3.5.4 Regulatory Risks: Acting as an insurer broker may introduce regulatory issues (e.g. FAIS Act in South Africa). Becoming an insurer introduces many regulatory issues.
- 3.6 Operational Risks - Partnerships: all partnership risks are introduced when partnering. See Chapter 5.
4.11.3 Funeral Insurance

Description

Introduce insurance product that pays a fixed defined benefit on death of client, and/or designated family members. Possible product features are:

- Usually the insurance is only valid while the loan is active, but can be offered as a standalone product or individual policy to the client extending beyond active loan periods like TEBA Bank in South-Africa.
- Additional services can include funeral arrangement, coffin supply etc. The benefits can also be completely in kind instead of a cash payout.
- Funeral insurance can either be voluntary or compulsory. Compulsory or optional group policies with high take-up offer many advantages including wide coverage, reduced initial underwriting requirements, possibly reduced exclusions.
- A fixed or flexible number of designated family members can be covered as well.

Considerations

All the considerations mentioned under credit life insurance, apply here as well.

- Funeral insurance is more complex than credit life, though still relatively simple for clients and MFIs.
- Individual policies offer most flexibility to clients, but more are likely to be declined for cover with stricter initial underwriting and stronger exclusions.
- Including family members increases overall cost, but spreads risk over bigger pool and may give better value. However claims experience of family members may be worse than that of active loan clients.
- Given risks and complexity, MFI is not advised to write insurance itself. If done risks have to be carefully evaluated.
- Careful product design which blends appropriate risk management with eligibility criteria. Features may include some combinations of: Exclusions, Waiting periods, Compulsory membership, Initial underwriting or Screening.
- In several countries in Africa informal burial societies are very common. Their role and performance has to be taken into account when developing funeral insurance products.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Transfers some unpredictable financial strain from the death of a family member from the client to the insurer, reducing the MFI's exposure to default and late payment, in exchange for known regular insurance premium.
- Limited growth potential for loans (3.1.2) and Limitation of growth due to reduced liquidity (3.1.3) Lower financial stress will also result in less clients dropping out, shorter resting periods, higher subsequent loans and the withdrawal of less savings.
- 3.2.1 Liquidity Risk: Lack of Funds for Loan, Withdrawal or Insurance Demands
- 3.4.2 Unintended Group Responses to HIV positive Clients / Applicants
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns

Risks Introduced

- 3.1.1 Client Late Payments and Default: If insurance premium is large, the additional demand for funds may aggravate other financial strains experienced by client.
- 3.1.2 Insurance counterparty default risk is introduced if done with an insurance partner
- 3.1 All insurance provision risks are introduced if MFI writes the insurance itself
- 3.5.3 Product Development Risk: Product may not be appropriate for client needs, e.g. when including families and most importantly, individual policies with many extra conditions
- 3.5.5 Increased Expenses: Higher expenses with new products (marketing, admin, staff training), and from management of partner or own insurance business.
- 3.5.4 Regulatory Risks: Acting as an insurer broker may introduce regulatory issues (e.g. FAIS Act in South Africa). Becoming an insurer introduces many regulatory issues.
- 3.6 Operational Risks - Partnerships: all partnership risks are introduced when partnering. See Chapter 5.
4.11.4 Disability Insurance

Description

Offer insurance services paying a fixed pre-defined benefit in case of permanent or temporary disability. The following product features can be considered:

- Usually the insurance is only valid while the loan is active, but can be offered as a standalone product or individual policy to the client extending beyond active loan periods like TEBA Bank in South Africa.
- Disability insurance can either be voluntary or compulsory. Compulsory or optional group policies with high take-up offer many advantages including wide coverage, reduced initial underwriting requirements, possibly reduced exclusions.
- A fixed or flexible number of designated family members can be covered as well.

Considerations

All the considerations mentioned under credit life insurance, apply here as well.

- There are many variations on disability insurance using different disability definitions. The "easy" ones to manage grant benefits according to a list of objective criteria (like "paraplegia"), but disabilities for non-listed reasons may slip through.
- More complex disability definitions are more difficult to administer and might also be more vulnerable to fraud. They should not be considered without the input of a professional insurer or insurance expert.
- Disability insurance may introduce moral hazard - incentives for people to harm themselves for financial gain or to alleviate other financial strain.
- Individual policies offer most flexibility to members, but more are likely to be declined for cover with stricter initial underwriting and stronger exclusions.
- Careful product design which blends appropriate risk management with eligibility criteria. Features may include some combinations of: Exclusions, Waiting periods, Compulsory membership, Initial underwriting or Screening.

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Transfers some unpredictable financial strain from the death of a family member from the client to the insurer, reducing the MFI's exposure to default and late payment, in exchange for known regular insurance premium.
- Limited growth potential for loans (3.1.2) and Limitation of growth due to reduced liquidity (3.1.3) Lower financial stress will also result in less clients dropping out, shorter resting periods, higher subsequent loans and the withdrawal of less savings.

- 3.2.1 Liquidity Risk: Lack of Funds for Loan, Withdrawal or Insurance Demands
- 3.4.2 Unintended Group Responses to HIV positive Clients / Applicants
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns

Risks Introduced

- 3.1.1 Client Late Payments and Default: If insurance premium is large, the additional demand for funds may aggravate other financial strains experienced by client.
- 3.1.2 Insurance counterparty default risk is introduced if done with an insurance partner
- 3.1 All insurance provision risks are introduced if MFI writes the insurance itself
- 3.5.3 Product Development Risk: Product may not be appropriate for client needs, e.g. when including families and most importantly, individual policies with many extra conditions
- 3.5.5 Increased Expenses: Higher expenses with new products (marketing, admin, staff training), and from management of partner or own insurance business.
- 3.5.4 Regulatory Risks: Acting as an insurer broker may introduce regulatory issues. Becoming an insurer introduces many regulatory issues.
- 3.6 Operational Risks - Partnerships: all partnership risks are introduced when partnering. See Chapter 5.
4.11.5 Health Insurance

Description

Cover a defined set of healthcare services in exchange for a contribution or premium. There are a wide range of potential products and delivery systems ranging from basic to comprehensive. Delivery systems can range from fee for service models that reimburse healthcare providers directly, through to managed care models where the health insurer owns or enters into relation with healthcare providers or clinics.

Considerations

All the considerations mentioned under credit life insurance in Section 4.11.1 also hold for health insurance.

- Health insurance is one of the most complex and difficult forms of insurance to get right. A full description of the options is beyond the scope of this Guide. We limit ourselves to some considerations.
- MFIs are not recommended to write health insurance directly.
- Determine benefits on the basis of elaborate market research on demand for, use (frequency) and perception of health care services accessed and good quality health services, as well as clients’ ability to pay.
- Give clients the option to choose their health care providers. It allows for competition and increases the likelihood of good quality services.
- Paying healthcare providers directly gives important data, allows for an additional check, eases administration, prevents fraud and is in the interest of clients.
- Have a computerized database to allow analysis of data, proper costing of products, quality audit of clinical services and to minimize risk of fraud at client and health service provider level.
- Partnerships with an insurance company and healthcare providers (most likely via insurance company) are the most feasible option.
- Careful product design which blends appropriate risk management with eligibility criteria. Features may include some combinations of: Exclusions, Waiting periods, Compulsory membership, Initial underwriting or Screening

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises: Transfers some unpredictable financial strain from the death of a family member from the client to the insurer, reducing the MFI’s exposure to default and late payment, in exchange for known regular insurance premium.
- Limited growth potential for loans (3.1.2) and Limitation of growth due to reduced liquidity (3.1.3) Lower financial stress will also result in less clients dropping out, shorter resting periods, higher subsequent loans and the withdrawal of less savings.
- 3.2.1 Liquidity Risk: Lack of Funds for Loan, Withdrawal or Insurance Demands
- 3.4.2 Unintended Group Responses to HIV positive Clients / Applicants
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns

Risks Introduced

- 3.1.1 Client Late Payments and Default : If insurance premium is large, the additional demand for funds may aggravate other financial strains experienced by client.
- 3.1.2 Insurance counterparty default risk is introduced if done with an insurance partner
- 3.1 All insurance provision risks are introduced if MFI writes the insurance itself
- 3.5.3 Product Development Risk: Product may not be appropriate for client needs, e.g. when including families and most importantly, individual policies with many extra conditions
- 3.5.5 Increased Expenses: Higher expenses with new products (marketing, admin, staff training), and from management of partner or own insurance business.
- 3.5.4 Regulatory Risks: Acting as an insurer broker may introduce regulatory issues. Becoming an insurer introduces many regulatory issues.
- 3.6 Operational Risks - Partnerships: all partnership risks are introduced when partnering. See Chapter 5.
4.11.6 Adjustments to Existing Insurance Products

Description

Adjust existing insurance products to fit in an HIV & AIDS environment. There are often pros and cons to all developments which should be taken into account:

- Using group policies minimises individual underwriting and ensures maximum coverage, but also makes HIV negative people cross-subsidise HIV positive people
- Using waiting periods rather than blanket exclusions (increases claims costs but decreases administration)

Considerations

- Importance of market research before launching innovated products
- Concept and pilot testing revised products before launching them full scale

Risks Addressed

- The exact risks addressed will depend on the nature of amendments made, but it is likely that insurance product adjustments should affect some or all of:
  - 3.1.1 Increased defaults, late payments etc due to HIV & AIDS and health: Controls risk by accommodating HIV & AIDS risk more fully
  - 3.4.1 Poor or illegal treatment of HIV affected, infected or sick clients: Controls risk of actual/perceived discrimination or lack of caring.
  - 3.4.2 Unintended Group Responses to HIV positive Clients / Applicants: Controls risk by mitigating the impact of health related hardship on the group, so less likely to discriminate.
  - 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
  - 3.8.1 Partners' Services Poorly Aligned to MFI and Client Needs
  - 3.8.2 Partners' Services not Taken up by Clients or Staff
  - 3.2.3, 3.2.4, 3.2.5 Insurance risks: All insurance related risks may be impacted through product adjustments.

Risks Introduced

- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues
- 3.5.5 Increased Non Staff Expenses: Increases risk: adjustments may need higher staff training, capacity, checks and balances, leading to higher costs.
- 3.2.3, 3.2.4, 3.2.5 Insurance risks: All insurance related risks may be impacted through product adjustments.
- 3.5.3 Product Development Risk: Adjusted products may not be suitable for clients
- 3.5.4 Regulatory Risks: Adjusted products must consider all applicable regulations

Box 4.13 Product Review with credit life and funeral insurance in Zambia

Madison Insurance Zambia is offering credit life and funeral insurance to clients of the MFIs CETZAM, FINCA and PULSE. Over time some product adjustments have emerged such as:

- **Reduction of premiums:** Madison usually does the policy review once a year. To date only FINCA Zambia has managed to achieve a downward adjustment in premium rates.
- **Additional policy:** PULSE added a funeral insurance policy after realising that credit life policy was not really meeting clients’ needs.
- **Additional coverage:** CETZAM and PULSE increased the number of additional lives covered under the funeral insurance policy after some clients indicated that they wanted to insure more household members
- **Claim reporting time:** CETZAM increased the claims reporting time from 14 to 30 days for the funeral insurance policy after realising that clients struggled to organise the required documentation within 14 days.

4.11.7 Insurance Products for PLWHA clients

Description

Develop specialised insurance products specifically targeting HIV positive people in case other attempts to include HIV positive people in the insurance pool do not work. Experiences so far are limited to life insurance.

Considerations

- These are extremely specialised insurance products. In order to be affordable, they are usually linked to ART access, and place onerous requirements on the insured to demonstrate compliance with medical recommended practice to minimise mortality risk

Risks Addressed

- 3.1.1 Increased defaults, late payments etc due to HIV & AIDS and health: Controls risk by accommodating HIV & AIDS risk more fully
- 3.4.1 Poor or illegal treatment of HIV affected, infected or sick clients: Controls risk of actual/perceived discrimination or lack of caring.
- 3.4.2 Unintended Group Responses to HIV positive Clients/Applicants: Controls risk by mitigating the impact of health related hardship on the group, so less likely to discriminate.
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues

Risks Introduced

- 3.5.3 Product Development Risk - Products may not be suitable for clients particularly if ART access and compliance conditions do not fit with local context
- 3.6 Operational Risks - Partnerships: all partnership risks are introduced when partnering. See Chapter 5.
4.11.8 Insurance Product Features - Own or Partner Insurance

Description

Use different product design features to control or mitigate various elements of insurance risk for all types of insurance products, such as:

- Initial underwriting
- Declarations of health
- Exclusions
- Waiting periods
- Different benefits
- Premium payment terms

For health insurance, the following additional options are available:

- Co-payments
- Benefit limits
- Cover only conditions or services
- Limit cover to certain beneficiaries
- Managed care

Considerations

- Product design features should be used sparingly to manage adverse selection and fraud, and to keep insurance affordable and viable, while not detracting from the value of the cover to the client
- HIV & AIDS exclusions have generally fallen out of disfavour since they are almost impossible to enforce due to the difficulty in clearly identifying AIDS as a cause of death (as opposed to TB or some other opportunistic infection)
- Care must be taken that product revisions do not violate anti discrimination legislation or are perceived as being unfair

Risks Addressed

- 3.1.1 Late Payments or Default due to HIV & AIDS and Health Crises
- 3.4.3 MFI Insurance Losses due to Fraud and Abuse
- 3.4.4 MFI Insurance Losses due to Adverse Selection
- 3.4.2 Unintended Group Responses to HIV positive Clients / Applicants
- 3.4.3 Fraud & Abuse Linked to HIV & AIDS and Health Issues

Risks Introduced

- 3.7.2 Product Development Risk
- 3.7.3 Regulatory Risk
- 3.8.1 Partner's Services Poorly Aligned to MFI and Client needs
4.12 INTERNAL RISK CONTROLS FOR MFI'S WITH EXTENDED PRODUCTS

While the previous Section considered the actual development of adjusted credit, savings and insurance products to mitigate health and HIV & AIDS risk, here we consider the internal controls required by an MFI offering these products directly. Adjusted credit products will almost certainly be written by the MFI, and so these controls apply to all who adopt credit product adjustments. However not all MFIs will start taking savings or carrying insurance risk.

Those who are considering taking deposits or writing insurance business could use these controls as a checklist to help understand what is required to write these new products soundly from an HIV & AIDS and health risk management perspective. The savings and insurance controls discussed here are generally not required by MFIs writing extended products in conjunction with partners such as deposit taking banks or professional insurers.

We have not attempted in this Section to give a comprehensive analysis of the controls required to write insurance business or to offer savings accounts - a manual on each would be required, and many other resources exist. However, we have highlighted some HIV & AIDS and health considerations.

The full extent of risk management required for conducting insurance business successfully would fill several manuals, and currently is the subject of intensive development amongst private sector insurers globally. Since capital is required to support insurance risk, more risk means more capital. Regulatory environments in many countries are moving towards requiring demonstrably implemented enterprise-wide risk management frameworks in capital assessments for statutory solvency measurement. We highlight some of the key elements required to manage insurance (underwriting) risk, and some of the other options like cell captives that may be available to MFIs who do not wish simply to purchase retail insurance from an insurer.
4.12.1 Fraud Control

**Description**

Install proper internal controls to prevent and detect internal fraud as well as fraud by clients. It includes the following components:

- Ensure that adequate internal controls are put in place in case of changed loan product features and increased flexibility around rescheduling of loans, etc.
- Ensure that adequate internal controls are put in place in case of changed savings products with easily accessible savings possibly also outside MFI, access of family members to savings accounts etc.
- Validate insurance claims through checks such as verifying the policyholder's details, the validity of the coverage, that premiums are fully paid up and that cover is still in force; verifying the claimant is legitimately covered (e.g. photo id's for health insurance); validating death certificates (for life insurance); validating healthcare invoices, provider practice numbers and consistency of diagnoses and services dispensed for health insurance.
- Validate savings account withdrawals through requiring identification and proof of need for dedicated savings accounts (e.g. healthcare invoices or proof of services for healthcare savings accounts)

**Considerations**

- Fraud management is an extensive science and many tools exist to assist MFIs in insurance, savings and credit fraud management.

**Risks Addressed**

| · 3.2.5 Insurance risk - fraud and abuse |
| · 3.4.3 Fraud and Abuse linked to HIV & AIDS and health issues |
| · 3.5.3 Product development risk |
4.12.2 Liquidity Management and Asset Liability Matching

**Description**

- Liquidity management is required for all savings products to ensure cash is available on demand by clients
- Increased demands for credit may also follow disasters or other significant events, and ensuring available credit to meet demand in emergency situations is important
- Asset-liability matching (ALM) may also be required to optimise assets backing reserves for insurance business
- ALM exercises can be useful for this

**Considerations**

- Savings accounts for dedicated purposes like healthcare savings accounts require validation that the withdrawal is to meet designated needs
- Demand for funds from healthcare savings accounts may be very volatile, and accounts should be backed with very liquid assets
- Savings accounts used to fund future ART may be held for a long period of time before accessing, and should be appropriately invested into higher yielding assets if possible

**Risks Addressed**

- 3.2.1 Lack of Funds to Meet Withdrawal or Insurance Demands
- 3.5.4 Regulatory Risks
4.12.3 Controls for Insurance Products - Cell Captive Insurance

**Description**

- A cell captive insurer is an insurer that divides its insurance license into largely self-contained cells, and then "rents" these cells to companies who want to write insurance business, but are not themselves registered insurers and who do not wish to, or may not, carry insurance risks on their balance sheets.
- The MFI provides capital for the cell, and becomes a shareholder in the cell, participating in the profitability of the cell.
- The cell captive company may also provide actuarial, underwriting and other technical assistance, as well as fulfilling the regulatory requirements of an insurer.
- The cell captive operator will have access to the reinsurance market.

**Considerations**

- Cell captive operators are not available in all countries.
- Significant scale is required for the arrangement to be appropriate, since the cell will require capitalisation by the MFI, and the cell operator's expenses and profit margins must be met.
- It is possible to reinsure all risk out of the cell, but if the MFI chooses not to retain exposure to the risk, then there must be good additional reasons for choosing this route over the direct insurance market - which itself is frequently competitive and may provide an adequate solution.

**Risks Addressed**

- 3.5.4 Regulatory Risks are addressed by having the cell captive operator take care of all compliance issues.
- 3.2.3 Insurance Risk: MFI Insurance Mispricing can be transferred to the extent that reinsurance is accessed, though the cell captive vehicle does not offer any protection on its own.
- 3.2.4 MFI Insurance Claims Volatility can be mitigated using non-proportional reinsurance covers, but the cell-captive vehicle does not offer any protection in its own right. The building of reserves within the cell can also help mitigate volatility risk.

**Risks Introduced**

- 3.6 Operational Risks - Partnerships: all partnership risks are introduced when partnering with a cell captive operator. See Chapter 5.
- 3.1.2 Reinsurer counterparty default risk: reinsurance claims via the cell in the event of catastrophes can be large. The cell captive operator may also owe balances to the MFI when dividend payouts fall due, and can pose an additional credit risk.
4.12.4 Controls for Insurance Products - Reinsurance

Description

- Transfer risk to a professional reinsurer or other provider of guarantees or reinsurance using various reinsurance structure, for example:
  - non-proportional cover, which transfer only larger risks
  - proportional (quota share) cover, which gives the reinsurer a defined proportional pro-rata participation in premiums and claims
  - catastrophe, aggregate excess of loss or stop loss covers, which provide protection against high aggregations of claims over time or in single events like floods
- Reinsurance reduces risk, but also reduces profit of insurance books since the reinsurers' own profit margins must be paid

Considerations

- Reinsurers are usually large global companies and typically have far greater data, and actuarial and underwriting resources than any MFI is likely to have, particularly when it comes to HIV & AIDS and health risks. Many professional insurers in South Africa obtain HIV & AIDS pricing bases from reinsurers. Reinsuring some or all of its insurance business is one way to access this expertise, while the MFI insurer builds its own experience.
- Reinsurers can typically only insure registered insurers, and cannot act as direct insurers themselves, so the MFI would need to be formally writing the insurance business to access the reinsurance market, or else could do so via a cell captive

Risks Addressed

- 3.2.1 Liquidity Risk: Lack of Funds for Loan, Withdrawal or Insurance Demands is addressed particularly "peak" demands following spikes in claims which are reinsured
- 3.2.3 Insurance Risk: MFI Insurance Mispricing is transferred to the extent that the risk is transferred to the reinsurer (at the reinsurer's pricing).
- 3.2.4 MFI Insurance Claims Volatility can be directly mitigated using non-proportional reinsurance covers

Risks Introduced

- 3.6 Operational Risks - Partnerships
- 3.5.3 Product Development Risk - the reinsurer may not understand the particular needs of the MFIs or its clients and introduce unaffordable or unworkable products or terms
- 3.1.2 Reinsurer counterparty default risk: reinsurance claims in the event of catastrophes can be large, and the credit rating of the reinsurer must be taken into account

Box 4.14 Challenges for a Professional Reinsurer Entering the Micro Market

A Ugandan micro insurer sought reinsurance support for its health insurance programme. A relationship was pursued with a professional reinsurer, and the reinsurer provided revised pricing for one of the insurer's products. However the pricing was too high to be supported by the market and the product did not sell.

Although the reinsurer was pricing the risk soundly, the margins that it required to enter a new market and to carry a very uncertain risk such as low-income healthcare microinsurance rendered the pricing unworkable.

The insurer utilised donor-supported guarantees to sustain it through early years while experience data built up, so that when it re-approaches the commercial reinsurance market in several years, the reinsurers will be able to price less conservatively, based on more data.

This underscores the critical importance of developing experience data.
4.12.5 Controls for Insurance - Insurance Technical Expertise

Description

- Insurance business requires expertise in some highly specialised areas:
  - Actuarial science for product design and pricing, reserving, solvency management, asset liability matching
  - Insurance accounting and law
  - Insurance risk management
  - Insurance MIS systems
  - Underwriting
  - Claims management
  - Distribution
  - Reinsurance

Considerations

- These skills can be built in-house if there is sufficient scale and available local resources, or obtained through consultants, micro-insurance experts, reinsurers, reinsurance brokers or other providers of technical assistance

Risks Addressed

- 3.2.3 Insurance Risk: MFI Insurance Mispricing - reduced using pricing or product design experts
- 3.2.4 Insurance Risk: MFI Insurance Claims Volatility - reduced using product design experts or experts in structuring reinsurance solutions
- 3.2.5 Insurance Risk: Adverse Selection - reduced using product design, underwriting, distribution, risk management and claims experts
- 3.2.6 Insurance Risk: Insurance Fraud and Abuse reduced using claims management, risk management and product design experts
- 3.5.4 Regulatory Risks reduced by using capital management and solvency management experts, as well as legal, actuarial, distribution and accounting experts where applicable to the relevant legislation

Risks Introduced

- 3.6 Operational Risks - Partnerships if partnerships are used for any of the functions
- 3.5.5 Additional Risk Management Expenses - the costs of the various experts can be high and must be balanced against value derived and actual needs; notwithstanding this, "cutting back" on core technical support functions can only spell danger. Close work with consultants is required to ensure that value is obtained efficiently.
5 PARTNERSHIP RISK MANAGEMENT

In Chapter 4 we set out risk controls to mitigate risks related to health and HIV & AIDS. Many of these risk controls involve partnerships, which bring their own risks and challenges. One may then wonder whether partnerships are worth it at all. The key is that many of the risks that partners can address are very complex risks that require great expertise: controlling mortality risk through insurance is highly specialised. On the other hand, the risks of managing a partnership are more generic business risks. So the MFI swaps a set of specialised risks requiring very difficult controls for a different set of risks with relatively simple controls. Note that "simple" does not imply "unimportant!"

This section gives guidance on partnership definition and selection, maintenance and monitoring. Section 5.1 summarizes the advantages of partnerships, section 5.2 elaborates on some generic questions to be asked during the different steps in the partnership management process. Sections 5.3 to 5.9 describe specific issues for different partners. Refer to resources provided in the Box: Useful resources Chapter 5 for more detailed guidance on partnership formation.

When going through this Chapter it is important to realize that we are defining current best practice. Reality is different and it will be difficult if not impossible to find a partner meeting all criteria. Good will and trust are important as well as a common vision on where to go and how to get there. Technical assistance can be acquired to assist the MFI and its partner organisation to work successfully towards achieving the common vision.

5.1 WHY PARTNERSHIPS?

The advantages of entering into partnership can be summarized as follows:

- **Risk Control**: Some partnerships (like insurance) are the only means to directly transfer key risks from the client and the MFI to the partner.
- **Simplifies Risk Management**: As noted above, using partners swaps a set of hard-to-manage risks for a set of easier-to-manage risks.
- **Complexity**: Managing health and HIV & AIDS risk is often complex requiring expertise ranging from economic empowerment, financial coping strategies and behaviour change to specialised financial services. Concerted efforts bringing different experiences together are more likely to yield results.
- **Focus**: It is questionable whether management will be able to initiate and monitor totally different services from its already challenging core business of offering financial services to the low-income sector.
- **Efficiency and Efficacy**: Drawing on a partner’s expertise reduces costs of capacity building, mistakes and reinventing the wheel, and increases chances of success.
- **Regulations**: Not all financial institutions are allowed to mobilize savings, to on-lend savings or to write insurance business. Setting up these extra facilities or separate companies requires scale, capacity, capital and risk management. Partnership solutions with existing banks or insurers may provide ready-made services.
- **Potential Conflict of Interest**: An MFI has a combination of development and business agendas. Writing insurance business may require a stricter commercial focus, while providing access to donor funded healthcare and prevention may require a softer focus. Partnerships enable the MFI to remain focused on its own agenda, and to allow partners to bring their own approaches to what they provide - as long as there is adequate common ground and the roles of different partners are clearly communicated to the clients.
5.2 GENERIC QUESTIONS FOR ALL PARTNERSHIPS

Description

- Partnership management begins with the MFI defining what it needs or hopes to obtain from the partner. Then follows a selection process culminating in the conclusion of a partnership. Finally, the continued management of the partnership is vital for ongoing benefit and success. This section deals with generic questions for all partnerships, and each sub-section deals with the different phases of the partnership management process: defining partnership objectives, selecting and concluding partnerships, and maintaining and monitoring partnerships.

Risk Controls

- 3.6.1 Partners' services poorly aligned to MFI and clients' needs
- 3.6.2 Partner services not taken up by clients or staff
- 3.6.3 MFI administration failure in relation to partners and services
- 3.6.4 Partners are damaging to reputation
- 3.6.5 Partners fail to deliver required services or functions
- 3.6.6 Partner forced to terminate service or partnership.

5.2.1 Defining Partnership Objectives

Before entering into a partnership, the MFI needs to be clear on why it wants to partner and what it wants to get out of a partnership.

Checklist

- What does the MFI expect to achieve through the partnership? What risks is the MFI attempting to manage? A measurable expectation would be ideal.
- Why are these risks not managed in-house?
- What products or services does the MFI see being deployed here? Although partners may come with different proposals, it is usually a good idea to have some initial thoughts about what might be required.
- Have partners been used in this field before? If so, what learnings are available?

"If you don't know where you are going, you will probably end up somewhere else."

Source: Laurence Peter, The Peter Principle, 1969
5.2.2 Selecting and Concluding Partnerships

The next step is to get an overview of the different partners active in the desired field of experience, be it credit life insurance, health care, market research or actuarial support. Depending on information available an actor analysis of the existing players might be valuable. If the MFI is venturing into new territory, it may be helpful to involve technical assistance partners at this stage. Refer to section 4.6 for more information.

Once the financial institution has an overview of the different potential partners, they can be assessed on the basis of the following checklist. The checklist provides a quick overview of issues. Readers are referred to the box with useful resources provided on the next page for more comprehensive information on establishing partnerships.

Checklist

- **Common Objective:** What are the mission and strategy of the organisation? Is there a common interest and common goal? Are these taken into account by both parties? Is the potential partner willing to address the issues posed by the HIV & AIDS epidemic and other health risks? Is the partnership mutually beneficial and can you convince the potential partner of those benefits?

- **Financial Stability:** How stable is the organisation? What is its financial performance over the past three years? In case the partner is depending on donor subsidies: How constant is their access to donor money? Are its contracts long-term?

- **Experience and Track Record:** What is the competence and track record of the organisation for their particular role? What is partner's experience in working with clients with similar characteristics as clients of this financial institution?

- **Flexibility:** If the organisation has not yet worked with clients similar to those of MFIs: Is it interested to serve this group of clients? Is it open to learn about the MFIs market and flexible to adjust their products/services to the needs of the clients of the MFI?

- **Partner Capacity:** Which clients does the organisation reach? What are the client characteristics for relevant products the organisation offers at the moment? What is the quality of the services the partner organisation delivers? Can it show effectiveness? What is its capacity i.e. is it able to serve all MFI's clients (in the long-term)?

- **Strategic Position:** What is the partner's market share and who are its main competitors in the MFI's area?

- **Reputation:** What is the reputation of the potential partner? How is it perceived in the market? How is it perceived by your staff?

- **Building Trust:** For a partnership to be successful, there has to be a basic level of trust. This requires deliberate efforts to ensure that partner organisations get to know and understand one another.

- **Modus Operandi:** Is there a consistent approach to the partnership between the MFI and the potential partner? Is there a common understanding on how to reach the goal set out? Is the potential partner committed to make the partnership successful? Are roles and responsibilities, communication channels and performance measures of MFI and partner well defined in a Memorandum of Understanding or other document, and operationally implemented. Are dispute resolution procedures well defined?

- **Monitoring and Evaluation:** Is there agreement on continuous monitoring of performance and communication to further improve the quality of the services delivered? This may include monitoring of:
  - Agreed performance indicators
  - Division of responsibilities
  - Staff evaluation of partner roles and performance
  - Client satisfaction surveys on acceptance and utilisation

- **Initial Work:** Is the service to be pilot tested to ensure effective and efficient communication and delivery of services, before scaling up operational interventions?
Box 5.1 Steps in selecting and concluding partnerships - the case of SEF and RADAR

SEF (Small Enterprise Foundation) and RADAR (Rural Aids and Development Action Research) started discussions in 2000 on possibilities for collaboration. SEF was worried about the impact of HIV & AIDS on its clients and as a result on its organization. RADAR felt that HIV prevention activities should look beyond awareness raising, education and condom distribution, and address structural factors contributing to the spread of HIV & AIDS, being poverty and gender equality. Linking with SEF allowed RADAR to work for a longer period of time with a particularly vulnerable target group. There was a clear common objective and it was decided to launch a joint programme: IMAGE (Intervention for Microfinance for AIDS and Gender Equity). Subsequently, both senior management and field staff participated in workshops to create a joint vision for the IMAGE programme. This was important for trust building and to agree on the modus operandi of the programme.

The programme started with a pilot project, which was closely monitored and evaluated. SEF and RADAR staff instituted ongoing, joint management and field team meetings to discuss and resolve issues relating to program integration, implementation and action research.


Box 5.2 Moving to interdependence, lessons from Stephen Covey

Stephen Covey, an influential management guru, highlights in his book: The Seven Habits of Highly Effective People, that achievements largely depend on co-operative efforts with others. Interdependence is therefore important. To reach the level of interdependence, independence first needs to be achieved through the habits of:
- Be proactive
- Begin with the end in mind
- Put first things first

Subsequently three habits for effective collaboration are mentioned, which are:
- Think win-win. Success follows much more naturally from a co-operative approach than from a confrontation of win-lose.
- Seek first to understand and than to be understood, or in other words: diagnose before you prescribe. This is important in communication and in terms of partnerships implies that you understand your partner and know what their benefits and objectives of a partnership are.
- Synergize or creative cooperation will result in the whole being bigger than the sum of its parts. It requires to see the strengths and potential of the partner organization.

Source: Stephen Covey, 7 Habits of Highly Effective People, http://www.businessballs.com/sevenhabitsstevencovey.htm
5.2.3 Maintaining and Monitoring Partnerships

Having a partnership and making it successful does not stop at concluding a partnership. Trust has to be built and relationships have to be maintained, monitored and evaluated. The checklist below will give guidance on issues to be taken into account.

Checklist

- **Performance Monitoring:** Are the results monitored and discussed as agreed? Do they include monitoring of relevancy of services offered, operations, and division of responsibilities? Does MFI management actively participate in partnership review?
- **Problem and Conflict Resolution:** Is there a common understanding on the underlying problems and the best strategy to address these? Are there sound conflict resolution procedures and are they utilised?
- **Communication:** Is there regular communication between the partners? Is internal communication and capacity within both parties adequate?
- **Alignment:** Do both partners continue to agree on the common goal and interest, or have these changed?
- **Credit Monitoring:** Are significant balances owed by the partner to the MFI? How are these addressed? Are there payment guidelines?
- **Client Service:** If relevant, is there repeated clear communication on roles and services of MFI and partner with staff and clients? What client feedback is received concerning the functions performed by the partner?

Useful resources Chapter 5:

- The HAMED (HIV & AIDS and Micro Enterprise Development) Working Group of the SEEP Network is developing a guide which will provide among others programming guidelines for developing partnerships and cross-sectoral collaboration as well as case studies illustrating promising practices and innovations. The Guide will become available on www.seepnetwork.org.
- Sisters for Life http://hermes.wits.ac.za/www/Health/PublicHealth/Radar/Publications.htm Training manuals on gender and HIV & AIDS (Sisters for Life) that have been developed under the IMAGE Programme (see also Box 5.1 and 4.9)
- People, development and teamwork, DTI http://www.businessballs.com/dtiresources/TQM_development_people_teams.pdf Gives an overview of important processes for good teamwork, which is also relevant for partnerships.
5.3 INSURANCE RELATED PARTNERS

This section deals with special considerations related to insurance partners, whether the insurance is for staff or for clients. These are in addition to those mentioned in 5.2.

5.3.1 Insurance Products

Description

Partnering with insurance companies to offer insurance products to MFI clients. We focus here on situations where the MFI is a client of an insurance company (possibly via a broker) as well as on the partner-agent models. Most questions will also be applicable to cell-captive models. It will even apply if the MFI uses its own insurance company or sets up a community-based model, if the insurance vehicle is regarded as a "partner".

Risk Controls

| · 3.1.1 Late payments or default |
| · 3.4.1 Poor or Illegal Treatment of PLWHA clients or Applicants |
| · 3.4.2 Unintended Group Responses to HIV positive Clients / Applicants |
| · 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns |
| · 3.7.3 Change in Client Utilisation of Other MFI Products |

Checklist

- **Financial Strength**: What is the insurance company's financial position? How is its solvency? How is its risk management strategy? Does it have access to reputable reinsurers and an effective reinsurance programme?
- **Regulatory Standing**: What is the opinion of the insurance regulatory authority and other local insurance experts of the insurance company?
- **Product Range**: What products does the insurance company offer at the moment? Is the proposed product adjusted to MFI clients' needs? Has market research been done? Has it been tested already?
- **Product Design**: Are risks of moral hazard and adverse selection adequately mitigated? Is the product compulsory or voluntary? Is the product group-based or individual-based? Is there initial underwriting or screening? Are there waiting periods? What are the exclusions? What are the rating factors i.e. for whom is it more expensive and for whom is it cheaper? How many clients would probably not qualify for cover and is this a problem? Are there co-payments or similar structures? What other costs will the MFI client incur?
- **Administration**: What is the application process for insured lives? What are the MFI's responsibilities in this? What is the claims process? What is the current claim turnaround time? Who is responsible for maintaining records? How are records updated over time, for example as child dependants become adults? What is the premium collection mechanism? Will the MFI have access to data on trends in claims?
- **HIV & AIDS Services**: Have the clients access to prevention activities, VCT, positive living, ART (including monitoring of compliance)?
- **Rates**: Is the premium guaranteed? Has it been determined in an actuarially sound way? Is premium not too high or too low? Have the effects of HIV & AIDS on expected claims (including possible availability of prevention activities and ART) been taken into account? Is the risk profile appropriate to the MFI's client base? Is there an experience refund or the possibility to adjust premiums on the bases of future claim experience?
- **Client Needs, Education and Satisfaction**: Can clients easily understand the product? Are there few exclusions? What is the client's perception and understanding of insurance products? What client education is needed and provided, and by whom? Will client satisfaction be evaluated, by whom and how frequently?
- **Cash or Services?**: Is cash payment most effective form or would it be better to deliver a service or product?
- **Marketing**: How is the product marketed? Availability of promotion materials suited for MFI clients? Who is responsible for product marketing?
- **MFI Capacity Building**: Is there a training arrangement for (new) staff to ensure that staff members of the MFI understand insurance product and are they able to market it and deal with the administrative issues?
• **Internal Roles:** Do job descriptions of loan officers (or other staff responsible for insurance products) specify tasks related to marketing, administering and claim processing? Do loan officers have sufficient time for additional tasks? What additional administration is required? How can this be integrated in the MFI's management information system? Can the MIS produce monthly reports on claims, claim payouts, claim rejections and totals per loan officer and branch?

• **Broker Services:** Can selection of insurance company, product development, administration, marketing, client education and staff training be arranged via a broker to reduce time and capacity requirements of the MFI? Please note that selection of broker is subject to generic partner selection criteria spelt out in section 5.1.

• **Financial Incentives:** What remuneration does the MFI get? Is there commission, administration fees or profit share?

• **Fraud Management:** Are fraud risks adequately understood and addressed? This issue is especially important for disability insurance and health insurance.

**Additional Check List for Health Insurance**

• **Coverage:** Is the package offered relevant for MFI's target group? Does it cover most important illnesses and costs clients occur? Do clients easily understand the product and its coverage? Is it based on market research? Does the package cover prevention, VCT, positive living, access to ART, monitoring of compliance? What is explicitly excluded from coverage?

• **HIV & AIDS and Insurance:** Does the health insurer understand the regulations regarding HIV & AIDS positive persons with respect to insurance?

• **MIS and Confidentiality:** Is there a system in place registering patient information, disease and medical treatment to ensure appropriateness of medical treatment, confidentiality and to prevent fraud. In case the system for patient information and medical treatment is not in place, is there an administrator who could do this?

• **Healthcare Provision:** Health insurance deals with the funding of healthcare, and is provided in conjunction with a healthcare delivery system. It is critical to consider all issues pertaining to the delivery system as well - see section 5 for more detail.
5.3.2 Reinsurance

**Description**

Reinsurance is a form of insurance that insurance companies buy for their own protection. One or more insurance companies assume all or part of a risk undertaken by another insurance company. Reinsurers can be a source of financial risk management and considerable expertise to MFI insurers.

**Risks Addressed**

- 3.1.2 Insurance and reinsurance counterparty default risk
- 3.2.3 Insurance risk: MFI insurance mispricing
- 3.2.4 Insurance risk: MFI insurance claims volatility
- 3.2.5 Insurance risk: Insurance Fraud and Abuse
- 3.2.6 Insurance risk: Adverse Selection

**Checklist**

- **Strategic Position:** What is the reinsurer’s market share and who are its main competitors?
- **Financial Strength:** What is the reinsurer's financial position? How strong is its balance sheet? Is it a reputable global player? Does it have an effective risk management strategy programme? In what territories does it operate?
- **Regulatory Standing:** What is the opinion of the insurance regulatory authority and other local insurance experts of the reinsurer?
- **Reinsurance Products:** What reinsurance structures will the reinsurer offer (proportional, non-proportional, catastrophe, stop loss)? What risks does the reinsurer cover (life, disability, health, non-life)? Does the reinsurer offer financial reinsurance solutions if these are desired?
- **Technical Assistance:** What technical support is provided in terms of underwriting, pricing, product development, claims management, administration or MIS? Does the reinsurer have particular knowledge of the MFI's market or of HIV & AIDS risks? What training services does the reinsurer offer?
- **Administration:** What are the administration and record keeping responsibilities of the MFI insurer and the reinsurer? What are the claims procedures and premium payment procedures?
- **Rates, Value and Financial Incentives:** What premiums are charged? What premium guarantees are provided? What other charges are levied? Is there profit sharing or experience rating? What reinsurance commission is payable? Does the arrangement provide value for money?
- **Internal Roles:** Do job descriptions of loan officers (or other staff responsible for insurance products) specify tasks related to marketing, administering and claim processing? Do loan officers have sufficient time for additional tasks? What additional administration is required? How can this be integrated in the MFI's management information system? Can the MIS produce monthly reports on claims, claim payouts, claim rejections and totals per loan officer and branch?
- **Broker Services:** Can selection of a reinsurer be arranged via a reinsurance broker (mainly for commoditised reinsurance where technical assistance is not a major consideration)?
5.4 **HIV & AIDS PREVENTION AND OTHER EDUCATION PARTNERS**

**Description**

HIV prevention efforts and education for clients and staff will likely be necessary at some point or on an ongoing basis to shore up their response to the disease and its impact and thereby to ensure their own sustainability. Numerous organisations provide these types of service ranging from country level networks, academic and research institutions, governments, NGOs, and also private service providers.

Education partners also include those focusing on insurance, financial services, workplace policies, risk management or any other field pertaining to MFI staff or clients.

**Risks Addressed**

- 3.1.1 Late payments or default
- 3.3.1 Increased Staff Costs due to Health and HIV & AIDS Issues
- 3.3.2 Workplace Disruption, Discrimination against PLWHA Employees
- 3.3.3 Key Person Risk
- 3.4.1 Poor or Illegal Treatment of PLWHA clients or Applicants
- 3.4.2 Unintended Group Responses to HIV positive Clients / Applicants
- 3.7.1 Reduced Overall Market Size
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns
- 3.7.3 Change in Client Utilisation of Other MFI Products

**Checklist**

- **Provider Experience:** Has the provider experience in providing HIV & AIDS prevention, education or other education to people like MFI clients or staff?
- **Service:** What are the specific objectives of the service being considered? Are they appropriate to the current needs of the MFI? Which of the following are provided: pamphlets, booklets or other written materials, KAP studies (Knowledge Attitude Practice), informational workshops, rights, participatory workshops, industrial theatre, computer-based training, web-based training, peer education, other? What languages are used? Are services once-off or ongoing or both?
- **Content:** What is the subject of the service: HIV & AIDS education and prevention, positive living, workplace policy (HIV, health or any other), training in insurance, savings, credit or other financial services? How recently was the content developed and updated?
- **Appropriateness:** Are materials appropriate for the literacy, skill and education levels of clients or staff, as applicable? Are the services appropriate to the social context and culture, including all the contextual factors spelt out in Section 1.5?
- **Access:** How accessible are services for MFI clients or staff? What is the duration and timing of activities? Is this appropriate for clients? Will they come to MFI offices for workplace services? How can implementation be done effectively for clients and communities?
- **Monitoring and Evaluation:** Have activities carried out by this service provider demonstrated measurable behaviour change / improvement? What activity reporting is done, how frequently, and which indicators are used?
- **Confidentiality:** How is participant confidential information protected in the case of workshops or other programmes?
- **Pricing:** What is the cost of the various services? Does this offer value for money?
5.5 HEALTH RELATED PARTNERSHIPS

Description

Healthcare partners are particularly important in the response to HIV & AIDS and other preventable and treatable health conditions, and may form an important part of integrated risk management strategies that include insurance, healthcare, education and prevention activities.

Healthcare providers run the full spectrum from single doctors to public sector clinics and hospitals to private sector healthcare groups. Some of the following questions may be more or less applicable depending on the specifics of the operation.

In Section 5.4.1 we first focus on questions that concern provision of most kinds of healthcare, and in Section 5.4.2 on additional considerations for HIV & AIDS.

Risks Addressed

- 3.1.1 Late payments or default
- 3.2.3 Insurance risk: MFI insurance mispricing
- 3.2.4 Insurance risk: MFI insurance claims volatility
- 3.2.5 Insurance risk: Insurances Fraud and Abuse
- 3.2.6 Insurance risk: Adverse Selection
- 3.3.1 Increased staff costs due to health and AIDS issues
- 3.3.3. Key person risk
- 3.6 All operational risks - partnerships
- 3.7.2 Change in client loan resting, growth and drop out patterns
- 3.7.3 Change in client utilisation of other MFI products

Checklist

- **Capacity:** How many clients does the healthcare service provider service at present? Does the service provider have capacity to take on the additional clients of the MFI?
- **Product Range:** Which of the following services does the company provide: primary care, nurse-based care, doctor consultations, specialist consultations (which specialists?), laboratory and pathology services, pharmacy services, hospitalisation, HIV & AIDS treatment and management, disease management for various chronic conditions, optical care, dental care, physiotherapy, prosthetics, others. Which diseases or conditions are treated and which are excluded?
- **Funding and Treatment Management:** What charging model is used: fee for service, capitated rates, other? What managed care mechanisms are used: treatment protocols, generic substitution, risk sharing with the providers (capitation), treatment authorisation for hospital, drugs or other treatments? If treatment is donor funded, how secure is the funding in the short and longer terms, and what is the exposure to exchange rate fluctuations?
- **Administration:** What are the invoicing procedures? What are the mechanisms for treatment payment by client or MFI? What validation procedures are in place? What records does the healthcare provider keep, and what is the MFI's obligation?
- **Treatment Protocols:** What are the treatment protocols for ART and other diseases? Are they in line with best practice models? Are they applicable to MFI needs? Are they effective?
- **Drug Supply:** For long-term treatments, how is a regular drug supply obtained and maintained? What are the risks of supply failure? What steps are taken to manage this risk?
- **Accessibility:** What points of service does the provider have and which services are provided at the different points of service? What are the distances clients must travel to healthcare services? What costs will they incur en route?
- **MIS and Confidentiality:** Is there a system in place registering patient information, disease and medical treatment to ensure appropriateness of medical treatment, confidentiality and to prevent fraud. In case the system for patient information and medical treatment is not in place, is there an administrator who could do this? How is patient confidentiality protected?
Quality of Providers: What are the qualifications and experience of the healthcare providers? Are they registered with appropriate professional bodies?

Indemnity and Liability: What professional or other indemnity is in place to provide coverage in the event of errors? What liability does the service provider carry, and how is that liability limited?

Fraud Management: How is patient and provider fraud managed? How is service provider and MFI employee fraud managed?

Client Needs, Education and Satisfaction: Can clients easily understand the service? What is their perception of the service? What client education is provided? How and when will client satisfaction be monitored and by whom?

Checklist HIV & AIDS Specific Issues

Services: Which of the following are provided: VCT, other counselling and psycho-social support, ART (and which regimens?), ART management and adherence monitoring, immune and viral monitoring, pre-ART prophylaxis and wellness support, prevention of mother to child transmission (PMTCT) with or without feeding supplements, post exposure prophylaxis (PEP), and palliative care.

Laboratory Services: Which of the following pathology and monitoring services are available or can be accessed, and how are they used: CD4 counts, viral load measures, saliva tests, ELISA tests, rapid HIV tests, Western blot tests and drug treatment resistance measuring (unlikely).

Drug Supply: How is a regular drug supply obtained and maintained? What are the risks of supply failure? What steps are taken to manage this risk? How are drugs funded? What are the risks of funding (donor, private, government or other) drying up? Are drugs sourced from local manufacturers or from other countries?

Patient Readiness: How does the healthcare provider assess client readiness for ART? Are they able to monitor and evaluate such readiness? What counselling is provided around treatment initiation?

Treatment Adherence: What training is provided to patients on adherence? How is adherence monitored and reported on? What mechanisms are used to ensure adherence (directly observed therapy, family or community involvement etc)? What steps are taken with non-adherent patients? Are healthcare providers trained in this matter?

Treatment Failure: How is treatment failure determined and responded to? What alternative regimens are available in the event of treatment failure or adverse reactions?

Provider Experience: Has the healthcare provider previous experience in ART disease management? How much experience do the treating doctors or nurses have in HIV & AIDS treatment and management? Are the doctors registered with any local HIV clinician’s association?
5.6 SAVINGS PARTNERS

Description

Banks and other deposit taking institutions can be used by MFIs unwilling or unable to take deposits themselves to provide general or special healthcare savings facilities. Savings are one way of helping clients mitigate some of the risks related to HIV & AIDS and health problems. We have used the term "bank" below for brevity, but this should be read to include any potential deposit taking partner.

Risks Addressed

- 3.1.1 Late payments or default
- 3.7.3 Change in Client Utilisation of Other MFI Products
- 3.7.2 Unexpected Change in Client Loan Resting, Growth and Drop Out Patterns

Checklist

- **Financial Strength:** What is the bank's financial position and solvency? How developed is its risk management strategy?
- **Regulatory Standing:** What is the position of the bank with the banking regulator?
- **Product Range:** What products does the bank offer? Is the proposed product adjusted to MFI client needs? Has market research, concept testing or pilot testing been done?
- **Product Design:** What are the minimum balances and permitted transactions on the different accounts? What kind of transactions can be made? What special savings accounts are offered? How is the use of special savings accounts like healthcare accounts controlled? Can the bank make direct payments to healthcare service providers? What is the authorisation procedure? What happens if there are insufficient funds in the account? Are fraud risks adequately understood and addressed? This issue is especially important for dedicated savings accounts.
- **Bank Charges and MFI Incentives:** How are the bank charges structured? Are they suitable for the low income market? Are they guaranteed? Are they sustainable? What have recent increases in charges been? What remuneration does the MFI get (if any)? Is there commission or an administration fee?
- **Interest:** What interest rates are paid on deposits of different sizes? How frequently is interest paid? How have the interest rates varied recently?
- **Accessibility:** Where can transactions of various kinds be done (locations of branches and ATMs, if applicable)? Is the location convenient or feasible for MFI clients? What are the banking hours? How well staffed are the banks?
- **Administration:** What is involved in opening an account? What are the MFI's responsibilities in this regard? Who is responsible for maintaining records? How are records updated over time? How are any applicable information regulations (such as FICA in South Africa) implemented? Are adequate internal controls in place to prevent fraud?
- **Client Needs, Education and Satisfaction:** Can clients easily understand the product? What is the client's perception and understanding of banking and savings products? What client education is needed and provided, and by whom? Will client satisfaction be evaluated, by whom and how frequently?
- **Marketing:** How is the product marketed? Availability of promotion materials suited for MFI clients? Who is responsible for product marketing?
- **MFI Capacity Building:** Is there a training arrangement for (new) staff to ensure that staff members of the MFI understand the savings products, and are they able to market them and deal with the administrative issues? What ongoing support is provided?
- **MIS and Confidentiality:** How is confidential information protected in the case of healthcare savings accounts (for example payment to particular providers who might be known to be HIV doctors)?
- **Internal Roles:** Do job descriptions of loan officers (or other staff responsible for savings products) specify tasks related to marketing and administering savings accounts? Do loan officers have sufficient time for additional tasks? What additional administration is required? How can this be integrated in the MFI's management information system? Can the MIS produce monthly reports on transactions, particularly payouts from healthcare savings accounts as well as on deposits, balances and so on?
Box 5.3: What can MFI country level networks do?

Country level networks of MFIs can play an important role to reduce the health and AIDS risks their member MFIs are facing. Examples include:

- Research the environmental factors influencing HIV & AIDS as set out in Section 1.5 so that its membership can access this information;
- Inform MFIs on the health and HIV & AIDS risks they face;
- Advocate for favourable regulations regarding insurance for the low-income market;
- Advocate for favourable regulations for deposit taking institutions and for non-deposit taking institutions, in the light of the HIV & AIDS pandemic;
- Lobby government and HIV & AIDS organisations to adequately address HIV & AIDS;
- Facilitate partnerships by building and maintaining a database on potential partners in different areas, i.e. insurance, healthcare, savings, HIV & AIDS prevention and other educational services. Database can provide answers to some of the questions raised in Chapter 5;
- Do market research among potential and existing clients of MFIs on the impact of health and HIV & AIDS crises. This can include interviews with clients of different MFIs, a competitor analysis, data analysis of different MFIs on dropout rates across time, PAR, and other general indicators. (See also Section 4.1.4 for more information);
- Do market research on demand for microinsurance, client education on use of different financial products in the light of increased health crises (including insurance);
- Keep database on technical experts in the field of risk management, actuarial analysis, market research, product development, insurance, MIS etc.;
- Provide MFIs with guidance and training on health and AIDS risk management;
- Provide membership with guidance on workplace policies or partners who can do so; and
- Sensitize partners to MFI needs and vice versa.

AFMIN is the Africa-wide network of country level networks and can provide more information on the networks of MFIs in different countries. For more information see: http://www.afmin-ci.org/;
### ANNEX 1: ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
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<td>AIDS</td>
<td>Acquired Immune Deficiency Syndrome</td>
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<td>ART</td>
<td>Antiretroviral Therapy</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>EB</td>
<td>Employee Benefits</td>
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<td>ELISA test</td>
<td>Enzyme-Linked Immunosorbent Assay test</td>
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<tr>
<td>HAART</td>
<td>Highly Active Antiretroviral Therapy</td>
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<tr>
<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
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<td>HIV+</td>
<td>HIV Positive</td>
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<tr>
<td>KAP</td>
<td>Knowledge Attitude Practice (or Perception)</td>
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<tr>
<td>MFI</td>
<td>Micro Finance Institution</td>
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<td>MIS</td>
<td>Management Information System</td>
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<tr>
<td>NGO</td>
<td>Non Governmental Organisation</td>
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<td>PAR</td>
<td>Portfolio at Risk</td>
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<td>PEP</td>
<td>Post Exposure Prophylaxis</td>
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<td>PLWHA</td>
<td>People Living With HIV and AIDS</td>
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<td>PMTCT</td>
<td>Prevention of Mother to Child Transmission</td>
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<td>STD</td>
<td>Sexually Transmitted Disease</td>
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<td>TB</td>
<td>Tuberculosis</td>
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<td>VCT</td>
<td>Voluntary Counselling and Testing</td>
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ANNEX 2: GLOSSARY OF TERMS AND DEFINITIONS

**Actuary:** Someone professionally trained in the technical aspects of insurance and related fields, particularly in the mathematics of insurance (the calculation of premiums, reserves and other values). An actuary uses complex mathematical methods, often with the aid of computers, to analyze past loss data and other statistics and develop systems for determining future premiums.

**Active clients per staff member:** The overall productivity of the MFI's staff in terms of managing clients, including borrowers, voluntary savers and other clients.

**Adverse Selection:** Tendency of persons with a higher-than-average chance of loss to seek insurance at standard (average) rates, which, if not controlled by underwriting, results in higher-than-expected loss levels.

**Aging summary of loans in arrears:** Overview providing detailed information on the number of loans in arrears as well as the period they are overdue, i.e. it specifies the number of loans > 1 day in arrears, > 14 days in arrears, > 30 days in arrears, > 60 days in arrears and > 90 days in arrears. If analysed over time it can depict whether clients are facing more repayment problems.

**AIDS:** Acquired Immune Deficiency Syndrome. A collection of specific illnesses and conditions which occur because the body's immune system has been damaged by HIV.

**Antiretroviral Therapy (ART):** Treatment with drugs that inhibit the ability of retroviruses (such as HIV) to multiply in the body. The antiretroviral therapy recommended for HIV infection is referred to as highly active antiretroviral therapy (HAART), which uses a combination of medications to attack HIV at different points in its life cycle.

**Attendance rate group meetings:** number of members attending group meeting / total number of group members.

**Average outstanding loan size:** Gives the average loan balance per borrower and is equal to gross loan portfolio / number of active borrowers with loans outstanding.

**Average savings balance per saver:** Savings / number of savers. (It might be good to check how many savings accounts are de facto dormant and to exclude them from analysis.)

**Beneficiary:** The person or financial instrument (for example, a trust fund), named in the policy as the recipient of insurance money in the event of the occurrence of an insured event.

**Benefits:** The amount payable by the insurance company to a claimant, assignee or beneficiary under each coverage.

**Borrowers per loan officer:** Measures the average caseload of each loan officer, as an indicator for productivity. It equals number of borrowers / number of loan officers.

**Borrowers per staff member:** The overall productivity of MFIs staff in terms of its lending business. Borrowers per staff member equals number of borrowers / number of staff.

**Broker:** A sales and service representative who handles insurance for clients, generally selling insurance of various kinds and for several companies. Brokers resemble agents, except for the fact that, in a legal sense, brokers represent the party seeking insurance rather than the insurance company.

**Capital Adequacy:** Capital adequacy standards require MFIs to have both a minimum nominal amount of capital to provide for financial sustainability and an adequate amount of capital to cover the risk of losses. This is especially important for organisations collecting savings.
**CD4-count:** HIV weakens the body's defence system by attacking CD4 cells, which strengthen the immune system of the body. When a person's body has lost so many CD4 cells that it can no longer fight diseases, the person is said to have AIDS.

**Claim:** A request for payment of a loss that may come under the terms of an insurance contract.

**Claims ratio:** A ratio indicating whether the claims are in line with expectation, i.e. as determined when calculating the risk premium. If actuarial analysis have been adequate the claims ratio should be around 100%. Definition = claims paid out during a period / risk premium received for that period.

**Claims rejection rate:** Number of claims rejected in a period / total number of claims received during that period.

**Claim turnaround time:** Average days from the submission of an insurance claim to payment of that claim.

**Cost per borrower:** Indicator for efficiency, equalling operating expenses / average number of borrowers.

**Cost per saver:** Indicator for efficiency, equalling operating expenses / average number of savers.

**Cost per active client:** Indicator for efficiency measuring the costs of maintaining an active client (saver, borrower, insurance client etc). Cost per active client is equal to operating expenses / average number of active clients.

**Co-payment:** Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes a formula for dividing the payment of losses between the insurer and the policyholder. For example, a co-payment arrangement might require a policyholder to pay 30% of all losses while the insurer covers the remainder.

**Covariant risk:** A risk, or combination of risks, that affects a large number of the insured items/people at the same, for example an earthquake, or a major flood.

**Coverage:** The scope of protection provided under a contract of insurance, and any of several risks covered by a policy. Credibility theory - a branch of actuarial science that tests the validity of data.

**Credit Life Insurance:** Insurance coverage that repays the outstanding balance on loans in default due to death of the borrower. Occasionally, partial or complete disability coverage is also included.

**Debt to Equity Ratio:** Measures the overall leverage of an institution and how much cushion it has to absorb losses after liabilities are paid.

**Deductible:** Mechanism, used by insurers to share risk with policyholders and reduce moral hazard, which establishes an amount or percentage, which a policyholder agrees to pay, per claim, or insured event, toward the total amount of an insured loss.

**Disability:** Physical or mental condition that prevents a person from performing one or more occupational duties temporarily (short-term), permanently (long-term), and / or totally (total disability).

**Disability Benefit:** A feature added to some life insurance policies providing for waiver of premium, and sometimes payment of monthly or lump sum income, if the policyholder becomes temporarily, totally and / or permanently disabled.

**Drop-out:** A client not returning to the MFI within a standard period of time. It includes voluntary and forced drop-out, i.e. clients that choose to leave versus clients that are expelled due to e.g. bad repayment behaviour.
**Drop-out rate:** Measures the proportion of clients not continuing to access services during the period. Different formulas are used. Two examples are the SEEP formula \( \frac{(Active \ Clients \ at \ the \ beginning \ of \ the \ period + \ new \ clients - Active \ Clients \ at \ the \ end \ of \ the \ period)}{Active \ Clients \ at \ the \ beginning \ of \ the \ period} \). The CGAP formula \( 1 - \frac{Number \ of \ Repeat \ Loans \ during \ period}{Number \ of \ Repaid \ Loans \ during \ period} \). It is important to have one similar time horizon to allow for comparisons across time.

**Drop-out rate adjusted for resting:** The drop-out rates can be adjusted for clients resting. The formulas are then: \( \frac{(Active \ Clients \ at \ the \ beginning \ of \ the \ period + New \ Clients + Number \ of \ Repeat \ Clients \ that \ returned \ after \ resting \ to \ the \ program - Active \ Clients \ at \ the \ end \ of \ the \ period)}{Active \ Clients \ at \ the \ beginning \ of \ the \ period} \). The CGAP formula \( 1 - \frac{Number \ of \ Repeat \ Loans \ within \ x \ days \ since \ last \ repayment \ during \ analysed \ period}{Number \ of \ Repaid \ Loans \ during \ period} \).

**ELISA test:** This test is usually the first one used to detect infection with HIV. If antibodies to HIV are present (positive), the test is usually repeated to confirm the diagnosis. If ELISA is negative, other tests are not usually needed. This test has a low chance of having a false result after the first few weeks that a person is infected.

**Exclusions (or exceptions):** Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments.

**Experience:** The record of claims made or paid within a specified time period.

**Experience Rating:** The process of determining the premium rate for a group risk, wholly or partially on the basis of that group's experience.

**Experience Refund:** Amount returned by an insurer to a group policyholder when the financial experience of a particular group (or class to which the group belongs) has been more favourable than anticipated.

**Fraud:** Intentional perversion of truth in order to induce another to part with something of value.

**Health Insurance:** Coverage that provides benefits as a result of sickness or injury. Policies include insurance for losses from accident, medical expense, disability, or accidental death and dismemberment.

**HAART:** Highly Active Antiretroviral Therapy, a term used to describe anti-HIV combination therapy with three or more drugs.

**HIV:** Human immunodeficiency virus, the virus that causes AIDS. There are two variants: HIV negative1, and HIV negative2. HIV negative1 is by far the most common worldwide.

**Incidence:** The number of new cases of a diseases or condition in a specific population over a given period of time. The incidence rate is determined by dividing the number of new cases by the susceptible population.

**Insurance:** A risk management system under which individuals, businesses, and other organizations or entities, in exchange for payment of a sum of money (a premium), offers an opportunity to share the risk of possible financial loss through guaranteed compensation for losses resulting from certain perils under specified conditions.

**Insured:** The policyholder - the individual(s), businesses, other organizations or entities protected by an insurance policy in case of a loss or claim.

**Insurer:** The party to the insurance contract who promises to pay losses or benefits.

**Lapse:** The termination or discontinuance of an insurance policy measured by non-payment of a premium. Causes can be too late payment of premium, dissatisfaction with product, product no longer relevant, and death.
Lapse Rate: The percentage of policyholders ending their insurance. Lapse rate = Policyholders whose insurance lapsed during period of time / Average number of policyholders during period. For comparisons over time it is important to take the same time period.

Law of Large Numbers: Concept that the greater the number of exposures (for example, lives insured), the more closely will actual results approach the results expected from an infinite number of exposures. Thus, the larger the number of people in the insured risk pool, the more stable the likely results of risk event occurrences.

Liquidity: The availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due.

Loan Loss Ratio: The loan loss ratio provides an indication of the volume of loan losses in a period relative to the average portfolio outstanding. The loan loss ratio reflects only the amounts written off in a period. Loan Loss Ratio = Amount written off during a period / 1/2 (portfolio outstanding at the beginning of the period + portfolio outstanding at the end of the period).

Moral Hazard: Hazard arising from any non-physical, personal characteristic of a risk that increases the possibility of loss or may intensify the severity of loss for instance bad habits or low integrity. An example might include failing to properly care for an insured goat because it is insured, thereby increasing the chance it will die of disease.

Morbidity: Sickness; the state of being affected by disease.

Mortality: Death. The mortality rate is the rate of death in a given population.

Operational Self Sufficiency: A ratio measuring how well an MFI can cover its costs through operating revenues. Operational self-sufficiency = Financial Revenue / (Financial Expense + net loan loss provision expense + operating expense).

Operating Expense Ratio: Highlights personnel and administrative expenses relative to the loan portfolio. It is the most commonly used efficiency indicator, which is defined by operating expenses during the period / average gross loan portfolio.

Outsourcing: The practice of subcontracting work to outside individuals or firms. Many insurance activities are effectively and efficiently outsourced, such as sales and service, actuarial evaluation, and even some risk (to reinsurance).

Policy: The printed document issued to the policyholder by the company stating the terms and conditions of the insurance contract.

Policy Term: The period for which an insurance policy provides coverage.

Portfolio at Risk (PAR): The principal balance of loans outstanding that have one or more instalments of principal past due by one or more days as indication for quality of the portfolio. Definition = outstanding balance, loans > 1 day overdue / gross loan portfolio. The PAR can also be determined for loans > 30 days overdue.

Portfolio to assets: An indicator measuring the MFI's allocation of assets to its lending activity. It indicates management's ability to allocate resources to the MFI's primary and most profitable activity - making microloans. It is equal to the gross loan portfolio / assets.

Post-Exposure Prophylaxis (PEP): Administration of anti-HIV drugs within 72 hours of a high-risk exposure, including unprotected sex, needle sharing, or occupational needle stick injury, to help prevent development of HIV infection.

Premium: The sum paid by a policyholder to keep an insurance policy in force. The premium = risk premium + operational costs + profit margin or surplus + investment income.
**Prevalence (prevalence rate):** The number of individuals with a condition in a specific population. The prevalence rate is determined by dividing the number of people with the condition by the total population.

**Productivity:** The amount of output produced per staff member. Indicators include: active clients per staff member, borrowers per loan officer, borrowers per staff member and savers per staff member.

**Prophylaxis:** Taking a drug to prevent an illness. Primary prophylaxis is the use of drugs to prevent a first occurrence of illness. Secondary prophylaxis is the use of drugs to prevent re-occurrence of illness.

**Reinsurance:** A form of insurance that insurance companies buy for their own protection. One or more insurance companies assumes all or part of a risk undertaken by another insurance company.

**Resting Period:** Period between repayment of loan and disbursement of subsequent loan.

**Retention rate:** Percentage of clients that have maintained their relationship with the MFI during the period. It is a measurement of client satisfaction and relevancy of services. It is equal to 100% - drop-out rate.

**Risk Appetite:** The level of risk that an MFI is willing to accept in pursuit of value and its mission.

**Risk Control:** A technique or strategy to reduce risks.

**Risk Function:** The risk function within the MFI is responsible for identifying, assessing and monitoring risk within the MFI, and for determining appropriate risk controls as well as the roles and responsibilities required in the business units to implement risk management.

**Risk Management:** Systematic process for the identification and evaluation of pure loss exposures faced by an organization or individual, and for the selection and implementation of the most appropriate techniques and strategies for treating such exposures.

**Risk Pooling:** Spreading of losses incurred by a few over a larger group, so that in the process, each individual group members' losses are limited to the average loss (premium payments) rather than the potentially larger actual loss that might be sustained by an individual. Risk pooling effectively disperses losses incurred by a few over a larger group.

**Risk Premium:** The portion of the premium that is used to fund claims and is equal to the expected claims.

**Risk Tolerance:** The acceptable levels of variation relative to the achievement of objectives, and are often best measured in the same units as the related objectives.

**Savers per Staff Member:** Number of savers / number of staff.

**Screening (or Underwriting):** The process by which insurance applicants are filtered, also known as underwriting. For example, applicants may be required to sign a declaration of health asserting their good health. High-risk individuals may be excluded or charged more.

**Settlement:** Payment of the benefits specified in an insurance policy.

**Solvency:** The availability of cash over longer term to meet financial commitments as they fall due.

**Term Insurance:** A plan of insurance that covers the insured for only a certain period of time (term), not for his or her entire life. The policy pays death benefits only if the insured dies during the term.
**Underwriting (or Screening):** Process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risk.

**Viral Load:** A group of tests that measure the amount of HIV in the blood. The two most commonly used viral load methods are PCR and bDNA.

**Waiting Period:** The length of time an insurance client must wait before their insurance becomes effective.

**Write-off Ratio:** The percentage of the MFI's loans that has been removed from the balance of the gross loan portfolio because they are unlikely to be repaid. Definition write-off ratio = value of loans written off / average gross loan portfolio.
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