COLUMNA
Guatemala

CGAP Working Group on Microinsurance
Good and Bad Practices
Case Study No. 5

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Good and Bad Practices in Microinsurance

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1. A **series of case studies** to identify good and bad practices in microinsurance
2. A **synthesis document** of good and bad practices in microinsurance for practitioners based on an analysis of the case studies. The major lessons from the case studies will also be published in a series of **two-page briefing notes** for easy access by practitioners.
3. **Donor guidelines** for funding microinsurance.

The CGAP Working Group on Microinsurance

The CGAP Microinsurance Working Group includes donors, insurers and other interested parties. The Working Group coordinates donor activities as they pertain to the development and proliferation of insurance services to low-income households in developing countries. The main activities of the working group include:

1. Developing donor guidelines for supporting microinsurance
2. Document case studies of insurance products and delivery models
3. Commission research on key issues such as the regulatory environment for microinsurance
4. Supporting innovations that will expand the availability of appropriate microinsurance products
5. Publishing a quarterly newsletter on microinsurance
6. Managing the content of the Microinsurance Focus website: www.microfinancegateway.org/section/resourcecenters/microinsurance

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The authors

Acronyms

AAC/MIS	American Association Cooperative/Mutual Insurance Societies
FENACOAC	Guatemalan National Federation of Credit Unions
GDP	Gross Domestic Product
ICMIF	International Cooperative and Mutual Insurance Federation
IGSS	Guatemalan Institute of Social Security
INE	National Institute of Statistics
ISCAP	Institute of Insurance Studies and Research of Central America and Panama
MFI	Microfinance institution
NGOs	Non-governmental organisations
Q	Quetzal
REDIMIF	Network of Microfinance Institutions
SOCODEVI	Société de Coopération pour le Développement International
UPA	Union Progresista Amatitlaneca
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

Executive Summary

In 1946, the Republic's Congress created the Guatemalan Institute of Social Security (IGSS), which established several social protection benefits, including accident and illness at work, maternity coverage and health care. However, only employees with a fixed contract appearing on a company's payroll could be members of the IGSS. Therefore, the self-employed, workers in the informal economy and the unemployed do not benefit from social security and are unprotected from the main health and death risks.

Many Guatemalan businesses from both the informal and formal economy do not have insurance. In Guatemala, the only company focused on providing insurance to the popular sector of the economy is COLUMNA, Compañía de Seguros S.A. COLUMNA has its origins in the Guatemalan National Federation of Credit Unions (FENACOAC), which began managing a group life insurance scheme for the cooperatives' members in 1970. In 1994, the federation and nine member cooperatives created their own insurance company, COLUMNA.[1]

Over the years, COLUMNA has had invaluable support from SOCODEVI (Société de Coopération pour le Développement International) and the AAC/MIS (American Association Cooperative/Mutual Insurance Societies). They have provided technical assistance in strategic planning, marketing and product design. These organisations have also assisted through various training programmes for COLUMNA's directors, managers and executives.

Today more than half a million Guatemalans have access to some insurance through COLUMNA. Nearly 90 percent of COLUMNA's clients are members of the 35 credit unions affiliated to FENACOAC, most of which live in rural areas and work in agriculture and the informal economy. Cooperative members have, through COLUMNA, a life insurance policy protecting their savings, contributions and credit balances. Around 54,000 members, or roughly 10 percent of the credit union members, also have a microinsurance policy for funeral services and accident cover called "Plan de Vida Especial" (Special Life Plan).

The Special Life Plan is a group life insurance product that offers a benefit between \$1,235 and \$6,173 in case of death, and an additional sum to cover accidental death and disability. The low insurance premium between \$7.80 and \$39 is paid annually. The product is marketed and distributed through the credit unions, benefiting from a large geographical cover around the country. Some sell the policy when the member joins the credit union or applies for a loan, in which case the amount of the policy is added to the loan and repaid monthly. While this makes the policies more affordable, the disadvantage is that, when the loan matures, the insurance policy also terminates and in some cases is not renewed.

[1] The terms "credit union" and "cooperative" are used inter-changeably in this paper. All of FENACOAC's members are savings and credit cooperatives (or credit unions), but some of them are also engaged in other enterprises or activities.

COLUMNA has been able to retain its risk levels according to its solvency capacity and has also had appropriate reinsurance cover. Premiums are effectively priced and the plan has been profitable. During the last four years, the estimated profit for the Special Life Plan has averaged 26 percent of the net written premium.

Claims are managed through the cooperatives that sell the policies and settlement takes around 30 days. Clients see the benefit of accessing insurance in their own cooperative without having to travel to COLUMNA's offices in the capital. However, the 30-day settlement period is regarded as a disadvantage because many policyholders have difficulty advancing the payment for the funeral services. The plan offers the possibility of receiving a half of the benefit as a cash advance from the cooperative; however some cooperatives are unwilling to implement this option.

With regards to customer satisfaction, members feel that the product's benefits are acceptable. However, besides faster claims payments, they would like to have health care included because some members have had difficulty in affording health care expenses. Policyholders think that the plan's pricing is adequate, but they would like to receive more information when buying a policy, especially when the insurance plan was sold together with a loan.

Consequently, plans have been made to introduce changes into this insurance plan:

a) To compensate clients during the first year since benefits are not available during the 6-month waiting period;
b) To extend the cover to the member's partner (husband or wife);
c) To settle claims quicker;
d) To negotiate special terms with funeral companies so that policyholders do not need to pay immediately for the services offered;
e) To incorporate health care benefits;
f) To implement a better accounting system in the cooperatives for a more efficient plan management;
g) To develop new marketing and distribution strategies to reach more people; and
h) To develop other payment options through automatic deduction.

The main lessons learned so far at COLUMNA are as follows:

- The most cost effective way to reach the low-income market is through organisations that already reach large numbers of the intended target market. The distribution of microinsurance should be done through organisations such as cooperatives, microfinance institutions, trade unions and the like. It is also important for such organisations to form a network or association so that the insurance company can have a more efficient distribution channel.
- In a successful partnership with popular organisations, their senior management must be firmly committed to promoting and distributing microinsurance products.
- Insurance company shareholders should implement a policy on surplus that allows the company to grow and maintain good solvency levels.

- Significant benefits can be reaped from collaboration with international organisations that provide support, training, and market information. COLUMNA benefited greatly from its relationship with AAC/MIS, SOCODEVI and the International Cooperative and Mutual Insurance Federation (ICMIF).
- A microinsurance product must be simple and premiums should be affordable. There should also be a range of premium and benefit levels to make the product relevant to a higher percentage of the targeted market.
- Sales personnel must receive adequate training to promote microinsurance products. Printed promotional material should be simple to understand.
- The insurance company must establish a mutually beneficial business relationship with its marketing and distribution channels. For example, credit unions should receive commissions for selling policies. The cooperative's employees that promote and sell microinsurance, and the person in the cooperative responsible for the overall microinsurance promotion, should also receive cash incentives.
- The cooperative's administrative procedures regarding insurance products should be simple and computerized so employees can easily provide customers with appropriate information regarding the policy, premiums and claims.
- The insurance company should monitor the performance of its distribution channels on a regular basis.

1. The Context

1.1 Macroeconomic Data

Guatemala is the most industrialized and the most populous country in Central America. The National Institute of Statistics (INE) has estimated that Guatemala's population in 2002 was over 11 million people. Women constitute 50.7 percent of the population, 35 percent live in cities, and 42.8 percent are native. With a projected population growth rate of 2.1 percent, it is estimated that Guatemala will have 18.1 million people by 2020, with an increasing percentage of persons over 18. The metropolitan regions (Guatemala City) and the north of the country are expected to expand, while the population in the southwest of the country shows is expected to decline.

Between 1990 and 1998 the average economic growth rate was 4.1 percent with inflation at 12.1 percent. The average growth in production is slightly higher than the current demographic growth rate, which indicates a small improvement of the income per capita. During this period, Guatemala endured a programme of economic stabilization, structural reforms, and the end of 35 years of civil war. A driving force behind the civil war was the intense concentration of wealth and land ownership, which left the indigenous population and other rural poor essentially disenfranchised.

Table 1. Macroeconomic Data of Guatemala

GDP in 2003 ($ Billons)	196,396.3
Population (millions)	11,237,196
Density of population per km2	103.1
Percentages of urban and rural population	Urban: 35%. Rural: 65% (Natives: 43.8%)
GDP per capita ($)	4,400
GDP growth rate (%)	2.1
Inflation (%)	6.9
Exchange rate (Quetzals per $ 1)[2]	8.1
Infant death rate (per 1000 live birth)	14.6
Infant death rate during first five years (per thousand)	3.1
Maternal death rate (per 100,000 live births)	88.8
Access to drinking water (% of the population)	Poor population: 51% Non-poor population: 81%
Expenses in health care as percentage of GDP	1%
Expenses in health care per capita ($)	16.3
Number of doctors per thousand people	1.2
Hospital beds per one thousand people (urban /rural)	0.7
Illiteracy rate (%)	29.4

[2] This exchange rate will be used in all calculations of current figures in this paper.

1.2 Role of the State in Insurance

There are two relevant sets of insurance legislations in Guatemala: one regarding the Guatemalan Institute of Social Security (IGSS) and the other for private insurance.

Social Security

In Guatemala, social security is mandated by the Republic's Constitution, which states: "compulsory social security will be established." In 1946, Congress passed a law to specify how social security will be provided and the extent to which it will be implemented by creating an autonomous public institution—the Guatemalan Institute of Social Security—to provide national and compulsory social protection. As stipulated by law, employers and employees must register as contributors.

The social security law establishes that: "Every inhabitant of Guatemala that is an active part of the production process of goods and services is obliged to contribute towards the maintenance of the social security regime in proportion to their income and has the right to receive benefits for himself and the members of his family that are financially dependant on him. The quantity and quality of such benefits will be compatible with the minimum protection required to maintain social stability."[3] The social security regimes include protection and benefits to cover the following risks:

- Accidents at work and professional illnesses
- Maternity
- General illnesses
- Disability
- Orphans
- Widowhood
- Death (funeral expenses)

IGSS's original mandate stipulates that the ultimate goal is to include Guatemala's entire population. In practice, however, only employees with a fixed contract in the private and public sectors can be members of the IGSS. Therefore, entrepreneurs in the informal economy and their employees, domestic workers and the unemployed do not benefit from social security because they are not registered with the Superintendence of Tax Administration of the Public Treasury Department. The State does not have a support system for the protection of the most vulnerable and those working in the informal economy.

Insurance

The Banking Superintendence, a Central Bank body, is responsible for monitoring the Bank of Guatemala, banks, financial organisations, credit institutions, insurance companies, bond stores, foreign exchange outlets, among others. The Banking Superintendence has a supervisory function to ensure that these entities fulfil their legal obligations and act according to the appropriate regulations in terms of liquidity, solvency and capital adequacy.

[3] Act No.295 of the Republic's Congress 30 October 1946, Constitutional Law of the Guatemalan Institute of Social Security.

To fulfil this supervisory role, the Superintendence carries out the following tasks:

- Monitor and inspect financial institutions with total freedom; investigate and access all information sources and systems of the supervised organisations, including accounting books, records, reports, contracts, documents and vouchers that serve as proof their operations—on-site inspections usually occur once a year and last two weeks;
- Monitor and inspect any company that offers services—such as information technology, accounting, legal advice—to the organisations under the authority of the Banking Superintendence;
- Request information on any of the company's activities, operations and financial status, either on an individual basis or, if required, in a consolidated form.
- Keep records of these financial institutions, including financial records, lists of directors, managers and legal representatives of the above-mentioned organisations, as well as of their external auditors and insurance agents.

The State does not promote insurance activities. The only compulsory insurance is for motor vehicles, but it has not yet been approved by Congress and therefore is not observed.

1.3 Insurance Industry Basics

Rules for Creating Insurance Companies[4]

Private insurance companies, regardless of the source of their capital, can only be constituted and organised as limited companies according to the country's regulations. State insurance companies are regulated by their own legal parameters. Some of the most significant characteristics of insurance companies are as follows:

- *Ownership and purpose*. The company must operate exclusively as an insurance company, a reinsurance company or both. The duration of the company must be indefinite and must be based in Guatemala. Guatemala does not allow any agency or subsidiary of foreign insurance companies to operate in the country.
- *Approval to operate*. The application to create an insurance company must be presented to the Banking Superintendence, which evaluates the integrity and the expertise of the founders, promoters and nominated executives of the company. These requisites are verified through background checks on the character of the individuals (e.g., to ensure that they had not experienced bankruptcy or committed crimes), and through accreditation and participation in workshops or training seminars. Then the results of this analysis are sent to the Ministry of Finance, which makes the final decision for approving an insurance company's statutes.
- *Start of operations*. After having obtained approval, insurance companies must present the Banking Superintendence with the technical bases, rates, policies and other documents that they intend to use in their initial insurance plans, as well as relevant

[4] Decree Law No. 473. May 4th, 1966.

reinsurance treaties. Insurance companies in a position to commence operations must communicate their intention to start business to the Banking Superintendence, which will authorize operations after having verified that the minimum and additional capital required have been deposited in a national bank.

- *Capital requirements*. Since 1990, insurance companies wishing to operate in the country are obliged to have a totally paid up minimum capital of three million Quetzals ($375,000) for either life insurance or non-life insurance. Companies interested in operating simultaneously in all insurance lines are required to have a paid-up capital of no less than six million Quetzals ($750,000). Start-up insurance companies must also have additional capital equivalent to 25 percent of the start-up capital registered in a special account as capital reserve. This reserve is used to cover the initial deficit of the company's operations, if there is any.

Over the last 30 years, no insurance company has been declared bankrupt in Guatemala. Neither have there been any illegal or fraudulent schemes. Foreign insurers are prohibited because it is thought that they would not operate in the public's interest if operations, reserves and investments were managed abroad. This policy must be seen against Guatemala's long history of domination by foreign companies that have expatriated profits.

Key Features of Microinsurance

In Guatemala, there are many entrepreneurs in both from the formal and informal economies that do not have any insurance. At the end of 1998 and in 1999, the National Institute of Statistics (INE) carried out a survey on income and expenses of the country's population. The research identified 1.6 million informal enterprises, including 475,000 microenterprises, nearly a million self-employed workers, and 170,000 small enterprises that employ between 5 and 9 workers. There are also more than 175,000 persons in domestic service. Within the agricultural sector there are another 1.6 million production units. Nearly all of these workers and their families are not covered by insurance or social protection.

COLUMNA, operating through the country's credit unions, is the only company in Guatemala that provides insurance to workers in the informal economy. There is certainly significant potential to replicate this model by linking insurers with other financial service providers and associations to reach workers in the informal economy. The REDIMIF network of microfinance institutions (MFIs) consists of 20 members serving more than 100,000 active entrepreneurs. In addition, MFIs not affiliated with REDIMIF serve another 75,000 microentrepreneurs. Small business associations, cooperatives of entrepreneurs and communal associations have between 50,000 and 75,000 members. Furthermore, within the banking system, BANRURAL has 68,000 active microenterprise clients and BANCAFE has 30,000.

Through these organisations, over 440,000 microentrepreneurs, or 27 percent of the current production units, have access to credit and savings. Consequently, the infrastructure exists for a much broader extension of insurance to the low-income market if insurance companies—and even the IGSS—used these agencies as distribution channels.

Table 2. Insurance Industry Basics

Subject	Notes
Name of the insurance regulatory bodies	• Banking Superintendence • Ministry of Finance
Key responsibilities of the regulatory authority	• Superintendence: technical and administrative supervision • Ministry of Finance: acknowledgement of legal entity, issue authorization to operate
Minimum capital requirements to obtain a license as an insurance company	Life or non-life insurance: \$375,000 All lines: \$750,000 Additional capital: 25% of the minimum capital.
Other key requirements to obtain a license as an insurance company	The Superintendence must be satisfied with the integrity, solvency and technical capacity of directors and managers.
Capital requirements for an operational insurance company	By law, the minimum capital agreed between the companies and the Superintendence in accordance with solvency margins.
Other key regulatory aspects that must be observed	Technical and mathematical reserves, in accordance with a specific law
Minimum capital required for reinsurers	Not stipulated by the law
Number of regulated private insurers	18 (includes one state insurer)
Annual premium of regulated private insurers	Nov. 2002 = \$218 million Nov. 2003 = \$231 million
Number of regulated state insurers	1 (called "Crédito Hipotecario Nacional")
Annual premium of regulated state insurers	Nov. 2002: \$8.2 million Nov. 2003: \$15.7 million[5]
Number and type of other regulated insurance organisations	1 (called "Instituto de Fomento de Hipotecas Aseguradas").
Annual premium of other regulated insurance organisations	At 31/12/2002 \$3.0 million
Number of reinsurance companies	None
Annual premium of reinsurance companies	Not applicable
Other non regulated organisations that offer insurance products	Pirate insurers that sell insurance in dollars. The premium volume is not known.
Requirements for the certification of insurance agents	Authorization must be granted by the Banking Superintendence, with previous sponsorship of an insurance company. They cannot be legal entities.

[5] This enormous boost came largely from the state-owned electric company, *Instituto Nacional de Electricidad* (National Institute of Electricity), representing a premium volume of more than Q 100 million, which purchased coverage from the state insurer again.

2. The Company

2.1 The Company's History

The origins of the COLUMNA insurance company are rooted in the Guatemalan National Federation of Credit Unions (FENACOAC), which began offering a group life insurance scheme for the cooperatives' members and staff in 1970. FENACOAC's original scheme included coverage for savings, loans and funeral expenses for members and the employees of the cooperatives, a package that was creatively called "mutual protection."

In the early 1990s, the Superintendent threatened to cancel FENACOAC's mutual protection services unless the federation created an insurance company. In fact, the cooperatives had been contemplating such a move for a few years. Besides the push from the Superintendence, there were important pull factors that motivated the federation to establish COLUMNA. The cooperatives' members were demanding other, more complicated types of insurance than the federation could offer. Plus, as an informal insurer, the federation could not access international reinsurance. Finally, given the fast growth of the "mutual protection" programme, a new structure was needed to satisfy demand.

To create an insurance company, the board members and executives must have the skills and know-how to manage a company of this nature. In 1993, the Canadian NGO SOCODEVI (see Box 1) started collaborating with the federation, providing FENACOAC's managers with insurance expertise and support. The next year, with strong leadership from the federation, FENACOAC and nine of its most successful credit unions established COLUMNA Compañía de Seguros S.A. The start-up capital came from the reserves created by the "mutual protection" programme and capital contributions from the founding cooperatives and the federation. Most of the insurer's original employees came from FENACOAC's insurance department. COLUMNA's initial products were roughly the same as those previously offered by the federation.

During COLUMNA's first two years, it was advised by a SOCODEVI expert from Canada who assisted in the following areas:

- Create and execute annual development plans
- Conduct technical revision of existing products
- Launch new products for auto and fire protection
- Research, purchase and install a computerized system based on a thorough need analysis
- Introduce progress indicators and performance monitoring
- Revise reinsurance treaties and support in the preparation of renewals
- Develop the organizational chart and job descriptions
- Provide specialized staff training
- Conduct insurance training for the company's board members.

Box 1. SOCODEVI's Support for Microinsurance

In 1985, some of Quebec's cooperatives and mutual societies decided to create an organization that would allow them to share their expertise with cooperative and mutual organizations from developing countries. They created SOCODEVI: Société de coopération pour le développement international, a non-profit organisation.

Through the promotion of the cooperative movement, SOCODEVI contributes to sustainable development in partner countries with a view to empowering their inhabitants. In providing technical assistance, SOCODEVI relies heavily on the expertise of its member organisations, Canadian cooperatives and mutuals, which include four insurers and one funeral services provider.

In the insurance sector, SOCODEVI's approach is to set up cooperative and mutual enterprises that offer high performing, diversified and accessible products and services adapted to the members' needs. According to SOCODEVI, this formula is an excellent way to:

- Help stop the de-capitalisation that can occur after death, illness or damage
- Provide a measure of protection and security to low-income households
- Offer low-income rural and urban populations access to quality insurance services
- Encourage the development of local expertise within a country
- Reinvest in the community

SOCODEVI helps insurance organizations improve their competitiveness while developing their management and marketing capacities. The expertise offered by SOCODEVI includes creating insurance companies, preparing business plans, designing products and conducting actuarial estimates, developing marketing strategies, and setting up management information systems. Besides its support for COLUMNA from 1993 to 2004, SOCODEVI also assists the following microinsurance providers:

- **ServiPeru**, a service cooperative that has been providing family health insurance for over 12 years. With SOCODEVI's assistance, ServiPeru diversified its coverage by also providing funeral services.[6]
- **Auxilio Postumo**, a Guatemalan benefit mutual serving the country's teachers, now has more than 50,000 members. SOCODEVI assisted in introducing a funeral insurance product to cover the member's spouse.
- Also in Guatemala, **ASAPESPU** is a benefit mutual serving more than 40,000 health sector employees. SOCODEVI assisted the insurer to revise and increase the benefits for members and their families.
- **Seguros Futuro** is an El Salvadorian insurance cooperative that provides personal and household insurance products for the cooperative movement.
- In the Dominican Republic, **CoopSeguros** is an insurance cooperative that provides personal, general, and micro insurance products to owners or drivers of motorcycle-taxis.

With each of these partners, an assessment is made to set the objectives of the partnership and to specify measurable indicators. These are then incorporated into a memorandum of understanding that clarifies the expectations and responsibilities for both parties.

[6] For a detailed description of ServiPeru, see Good and Bad Practices Case Study No. 1.

Over the past decade, COLUMNA has gradually increased its scope and product range to better meet the needs of both the cooperatives and their members. The company started its life insurance operations in November 1994 and expanded into non-life insurance in September 1996. It has also expanded its distribution channels; approximately 25 cooperatives now sell COLUMNA insurance and 10 percent of sales comes from organisations that are not affiliated with FENACOAC, such as NGOs. With capable and conservative management, the insurer has done an outstanding job of managing growth while balancing the needs of its clients with the interests of its shareholders.

Products and Services

Through FENACOAC members, COLUMNA offers a range of insurance and microinsurance products, although the insurer does not really make a distinction between the two. The main products and services include:

- **Credit life insurance** on the loans offered by credit unions to their members. This insurance pays the loan's balance to the cooperative in the event of the policyholder's death, fulfilling the credit unions' mandate that debt dies with the debtor.
- **Life savings insurance**: COLUMNA offers insurance on savings and contributions, allowing the family of the deceased to receive an economic benefit in addition to the accumulated savings and contributions.[7]

These two products are compulsory for the cooperatives' members and represent approximately 65 percent of the company's premium volume.

COLUMNA also offers a microinsurance product called "Plan de Vida Especial" or Special Life Plan, which provides a benefit in the event of the insured's death or disability. This product generates approximately 13 percent of the company's premiums and 19 percent of the profits (for more details, see Section 4).

Other insurance products offered to the cooperatives and their members include: fire and allied perils (earthquake, hurricane, flood, cyclone and malicious damage), theft, auto, and fidelity insurance for credit unions against fraud, assault, and theft. Of these, auto insurance is the most important, representing 15 percent of the company's total premium volume, followed by general insurance (fidelity) with 5 percent. Fire and allied perils are not a significant business area for COLUMNA. (For key results by product line, see Section 5.1.)

The process of offering both micro and traditional insurance has both advantages and disadvantages for COLUMNA. On the plus side, COLUMNA's target market—cooperatives and their members—request both types of coverage. In other words, if the insurer were to specialise in microinsurance, it would leave its market unprotected against important risks. By providing a range of products, COLUMNA can more cost-effectively meet the needs of its market while generating additional premiums for itself.

[7] Contributions refer to the shares that one must buy to become a credit union member.

On the other hand, the microinsurance operations are different from other insurance products, especially marketing. Some of the expected efficiency is lost because it is not always appropriate for one employee to handle different types of insurance. Perhaps in the future, if the microinsurance reaches significant scale, it might be possible to reorganise the company to allow greater focus on microinsurance.

Achievements

Since the company commenced its operations, COLUMNA has grown rapidly. At the end of 1995, it covered 194,000 persons; by December 2003 this figure had increased to 514,126. The insurer's growth is largely attributable to the success and expansion of the cooperatives, although COLUMNA has started to look beyond the cooperative market. Based on the number of people covered, COLUMNA is by far the largest insurer in Guatemala. Unlike traditional insurers that focus on the easy-to-reach urban market, COLUMNA is serving rural populations that never had insurance protection. In 1995 the company had a net income of $598,000 income;[8] by December 2003 this figure had risen to more than $4 million.

Part of COLUMNA's success can be attributed to the foresight of the company's founders, who decided to capitalise profits during the first five years rather than claiming dividends. This was not an easy decision to make. There was a lot of pressure from shareholders to distribute the initial profits, primarily for two reasons. First, some cooperatives were invited to invest in this venture not only to respond to members' needs, but also as a business opportunity. They believed that the insurance sector generates high returns, and they wanted to get their share. Second, the shareholders lacked knowledge about insurance operations and did not realise that insurance companies require a lot of capital if they are going to grow. These factors highlight the need for general information and training of shareholders and directors during the creation of the company.

Ultimately COLUMNA's shareholders wisely conceded to the strong recommendations made by the Vice President of AAC/MIS and the SOCODEVI representative. In fact, the first memo of understanding between COLUMNA and SOCODEVI underlined the importance of this issue. After the first five years, half of the annual surplus has been retained as capital and the rest is distributed to shareholders. As a result, COLUMNA has been able to build on a solid financial foundation. COLUMNA's capital increased from Q.4.4 million in 1995 ($731,000) to Q.24.4 million in 2003 ($3.0 million).

Looking Forward

In 2003, COLUMNA conducted a strategic planning exercise in which it identified the following aspects as its competitive advantages:

- organisational structure set up at national level
- claims settlement is done in a timely fashion
- personalized service
- affordable products for the majority of the population
- access to and knowledge of clients' needs
- good image of cooperatives at local level as distribution channels of insurance companies.

[8] Exchange rate of $1 = Q. 6.02 at 31-Dec-1995. Source: website Bank of Guatemala. www.sib.gob.gt.

To build on or leverage these strengths, COLUMNA plans to emphasise or improve its marketing and sales, use of information technology, and human resources. COLUMNA's expanded marketing strategy will rely on a broader array of distribution channels, including agents as well as strengthening its collaboration with the cooperatives. The company would like to increase the number of cooperatives using an automated system for insurance processing to minimise errors and expedite claims settlements. Lastly, COLUMNA would like to improve customer satisfaction through a culture of excellence, professional training, employee appraisals and appropriate compensation.

Table 3. Institutional Basics

Subject	Notes
Legal structure	Limited company created in accordance with Insurance Act 473 and the commercial code
Registered legal form	Constituted as a stock company
Regulatory status	Regulated by the Banking and Insurance Superintendence
Start of business operations	November 1994
Start of microinsurance operations	1970
Key business activity	All lines of insurance with the exception of marine and aviation; core business: credit life and life savings
Target market of insurance business key business activity	Cooperatives and their members, non-governmental organisations, small companies and non-legal entities
Geographic area of business operations	Throughout the country, using the cooperatives as distribution channel
Development, marketing or service strategies with other organisations	• Pursuit of customer service excellence • Distribution agreements with cooperatives belonging to the FENACOAC System
Providers of reinsurance	Professional reinsurers, qualified at international level
Type of reinsurance	Proportional treaties for fire and allied perils. Non-proportional treaties for the rest of lines

Table 3A. Institutional Basics - Trends

	2003	2002	2001	2000
Total assets ($)	5,593,384	4,639,670	4,042,373	3,434,637
Premium Income ($)	4,123,400	3,412,171	28,265,191	2,916,212
Total capital ($)	3,009,187	2,544,243	2,268,604	1,927,429
Total number of insured lives	514,126	466,294	496,112	452,100
Total number of microinsurance policies[9]	117	104	94	87
Total number of insured lives in microinsurance	53,982	50,614	46,127	26,591
Number of staff in microinsurance	4	3.5	3	3
Number of policies / staff in microinsurance (%)	2,699 lives / employee	2,812 lives / employee	2,563 lives / employee	1,477 lives / employee
Marketing and distribution expenses ($)	70,068	52,785	39,117	34,757

[9] This reflects the number of branches for the cooperatives that have group policies; each branch has a separate group policy.

2.2 Organisational Development

Organisational Structure

As shown in Chart 1, COLUMNA's organisational structure consists of the general manager and several departments:

1. **Non-life Technical Management** handles claims and product management for auto, fire, theft and accident, including the reinsurance treaties related with these insurance lines.
2. **Life Technical Management** performs the same functions for the group and individual life insurance products.
3. **Marketing and Distribution Management** is responsible for implementing all the promotional activities and coordinating the product distribution. It is also in charge of training the cooperatives' employees who sell insurance.
4. **Administration, Finance and Support**. The company has twelve positions related to administration, finance and management support. Some years ago, these jobs were part of the administrative and financial department. However, since the resignation of the manager in charge of this unit, these positions report directly to the general manager's office.

Administrative Tools

The tools utilized for the company's administration are as follows:

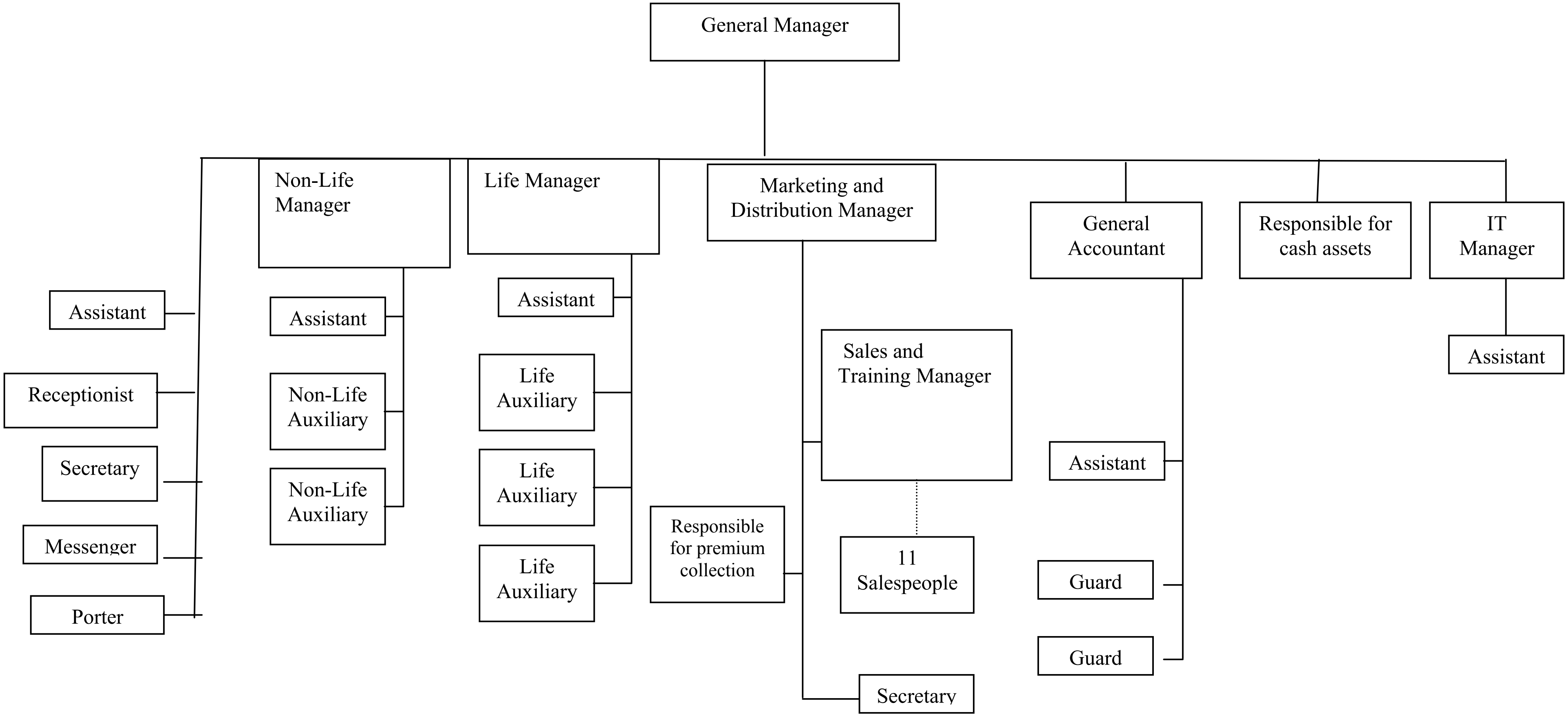
- Operational budget
- Monthly financial statements
- IT equipment: Every operational and executive post has a computer with access to an internal network of electronic mail. The company also has an automated insurance administration system (called OSIRIS), an operational support system for the Special Life Plan product, and other support systems for general administration (accounts, collection of payments, investment management)
- Weekly meetings between management and executives

Knowledge and Experience

COLUMNA's general manager, Roberto Quevedo, has been in charge of the organisation since it was founded, providing continuity of leadership. In fact, he predates COLUMNA since he was previously responsible for the Insurance Department of FENACOAC.

The organisation's managers and staff have an appropriate knowledge of insurance. Most employees have worked for COLUMNA since the company started, giving them ample experience in the insurance industry. In general, COLUMNA's staff is very stable and has absorbed the company's philosophy of good service and solidarity, which makes them act with a supreme sense of responsibility.

Chart 1. Organigram of COLUMNA, Compañía de Seguros S.A.



COLUMNA's training programmes appear adequate. COLUMNA's executives and managers have university degrees and regularly participate in courses organised by the Institute of Insurance Studies and Research of Central America and Panama (ISCAP). They also attend seminars supported by AAC/MIS. High staff retention is a significant advantage for COLUMNA since the organisation can continually build on its employees' expertise.

The greatest training weakness has been the extension of expertise to the cooperatives. The personnel distributing the products have not had appropriate training in marketing, policy underwriting, and claim settlement. While COLUMNA has made an effort to train cooperatives' employees, this has been difficult given the large number of agencies, their wide geographical distribution, and the high staff turnover in some cooperatives (see Box 2). As a result, the cooperatives' employees are not always adequately trained.

Box 2. Staffing Challenges in the Credit Unions

Most credit union employees do not have university degrees. Employees are usually promoted from within. The middle-level management—credit director, marketing director and branch managers—are young individuals who started with the credit union in low-level positions and were promoted to higher levels of responsibility.

Recruiting and retaining qualified staff is a significant challenge for credit unions. They offer salaries significantly lower than those available in the private sector and have difficulty attracting sufficiently skilled personnel. Directors sometimes balk at paying sufficient wages to staff when they themselves are not well paid. Some staff report that they must maintain outside jobs to make ends meet. As a result, there is often high turnover, especially among employees who receive training in computing, loan evaluation, and other administrative areas. Credit unions are frequently used as a training ground for staff who then go on to acquire higher paying jobs in the banking sector.

Adapted from Alemeyda and Branch, 1998.

Ownership and Governance

Over the years, the ownership of COLUMNA has expanded from FENACOAC and 9 member cooperatives to FENACOAC and 20 member cooperatives. FENACOAC controls the insurance company, as it holds the majority of the shares, and it exerts strong leadership. The cooperatives that have not become owners of COLUMNA are generally smaller and do not have the financial resources to make a long-term investment. Although non-owner cooperatives are eligible for the same services as COLUMNA's shareholders, because of their small size they are less interesting customers for the insurer.

When COLUMNA was established, a provisional Board consisted of four people from the cooperative movement and the lawyer involved in the constitution of the insurance company. Later, five more board members joined: three directors appointed by FENACOAC and two directors appointed by the member cooperatives. During the past decade, there have been few changes to the board, as the re-election of members is permitted. Furthermore, since the cooperatives are also represented on the board of the federation, some people have switched from being representatives of the cooperatives to representatives of FENACOAC, or vice-versa, without changing the individuals on the insurer's board.

2.3 Resources

The company's main financial resources come from the income generated from premiums, and income resulting from the investment of technical reserves belonging to policyholders and the capital reserves. According to the financial results in the last few years, 80 percent of the company's income comes from insurance premiums, 13 percent from return on investments, and 7 percent from other sources (reinsurance and other products).

With regards to microinsurance development, the company has not received financial backing from donors, but it has been provided with technical assistance from organisations such as SOCODEVI and AAC/MIS. It has also been the indirect beneficiary of donor support to strengthen the Guatemalan credit unions (see Box 3).

Box 3. Credit Unions in Guatemala

Credit unions are private cooperative enterprises owned by individual shareholders and capitalised by local resources. The investors rely on their own capital to foster their economic development through access to financial services—savings, credit, money transfers, check cashing and insurance. In 1997, the 35 credit unions affiliated in the Guatemala national federation were owned by 151,630 low and low-medium income persons who had accumulated \$20.5 million in share capital, \$42.7 million in savings and \$77.8 million in total assets. Their share capital and savings were invested in a \$53.1 million loan portfolio that financed their microenterprises and agricultural activities, housing improvements and personal loans. The ratio of savers to borrowers was approximately 3 to 1.

Credit unions do not exclusively target the poor or define their mission as serving the poor. Guatemalan credit unions serve a wide range of households, from low-income, primarily indigenous communities to middle-income communities. Their goal is to have a diversified and heterogeneous membership in terms of income and wealth to build a stable institution.

The FENACOAC credit unions are distributed throughout the country. Only four are located in Guatemala City. Since 1993, larger credit unions have expanded by opening branches in neighbouring towns and provincial capitals. Ten of the largest credit unions operate 40 branch offices. Seventy-seven percent of the loans is in rural towns and secondary cities.

Through a USAID-funded cooperative strengthening project, WOCCU worked with FENACOAC and its affiliated credit unions from 1987 to 1994. The project provided technical assistance in savings mobilization, financial management, and credit analysis to a core group of credit unions. New policies and operating standards were developed to improve financial services and management skills, followed by aggressive marketing programmes to attract new members.

As credit unions in Guatemala began to mobilize more savings, they became stronger financially, and their relationship with the federation changed. As credit unions no longer looked to the federation for funds, the federation began to approach the credit unions to sell to them deposit services for their liquidity investment, offering rates that were competitive with bank deposit rates. The federation became a central clearinghouse for services that credit unions could not provide individually. Affiliated credit unions became a "system" interlinked by services and economic benefits to its components. FENACOAC's 35 affiliated credit unions comprise approximately 88% of the total assets of all Guatemalan credit unions.

Adapted from Alemeyda and Branch, 1998.

2.4 External Relations

Over the past ten years, COLUMNA has benefited from the technical assistance provided by SOCODEVI and AAC/MIS (see Box 4), which has been a key element in the company's development. To avoid duplication and enhance effectiveness, SOCODEVI and AAC/MIS decided to collaborate instead of having separate technical assistance programmes. Through consultants and projects of SOCODEVI, AAC/MIS and their insurance company members, COLUMNA has received assistance with:

- developing strategic plans
- the design, development and evaluation of products, policies and premium rates
- various training programmes for directors, managers and executives

The relationship with the credit unions affiliated to FENACOAC has also been a key factor in the company's growth. As described in Section 4.2, COLUMNA depends on the credit unions for distributing its policies. Indeed, COLUMNA's success is largely attributable to the success of the credit unions.

Box 4. AAC/MIS

The Americas Association of Cooperative/Mutual Insurance Societies (AAC/MIS) is an association of over 35 popularly-based insurance societies from North, Central and South America and the Caribbean. AAC/MIS members share ideas and experiences to better equip themselves to provide modern and competitive insurance protection. AAC/MIS offers technical assistance and educational opportunities to new and emerging member societies based on the principles of mutual self-help, democracy in ownership and governance, and equitable sharing of gains and losses. The association responds to requests from cooperatives, credit unions and associations throughout the hemisphere that ask for assistance in forming their own insurance agency, department or company.

The focus of AAC/MIS' international development efforts is to work with their members to reach and serve populations that currently have no access to insurance. It has been often said that the people who are most in need of insurance are those least able to afford it. As popular-based insurance companies are formed by credit unions, cooperatives, labour unions and farmers groups, AAC/MIS members in developing countries are a sustainable and highly effective way to develop appropriate products to reduce the personal and business risks of lower-income people.

To help it carry out this work, the association uses its own funds together with funds from corporate sponsors, government and private aid agencies. Many members see this activity as a valuable development experience for their staff. Recently the association and its members have worked in more than 20 countries and have played a leading role in the expansion of eight insurers in Central and South America, and the Caribbean.

2.5 Risk Management Products

COLUMNA offers a range of life and non-life insurance products through Guatemalan credit unions, where members also have access to savings accounts and consumption loans. This combination of savings, credit and insurance provides credit union members with a whole menu of financial products that can help them to manage risks and economic stresses. Perhaps the one missing option from the menu is health insurance.

2.6 Profit Distribution

When COLUMNA was founded, the board decided to capitalize any surplus generated during the first five years. Since 1999, the net surplus has been distributed as follows: 50 percent is added to the shareholders' capital and 50 percent collected by the shareholders. This arrangement has continued to strengthen the insurer while now generating returns for its cooperative owners.

2.7 Investment of Reserves

The policies regarding the investment of reserves have to follow the guidelines established by the Guatemalan insurance regulators, which are quite complicated. COLUMNA has always faithfully fulfilled the regulations established for the investment of reserves—this is one area to which external auditors pay careful attention. In general, the profitability of investments comes from the returns on government investment instruments.

2.8 Reinsurance

From its early days, COLUMNA has had the support of the International Cooperative and Mutual Insurance Federation (ICMIF) to obtain reinsurance. Together, they have tried to achieve a balance between the risk retention capacity of the insurer in relation to its capital levels and the lowest reinsurance premiums. Reinsurance covers the whole portfolio, including the microinsurance product.

Before the start of the last quarter of each year, COLUMNA prepares all the statistical information in relation to policy portfolios, risk accumulation and claim ratios—with ICMIF's support—to develop a reinsurance programme for the following year.

3. The Target Market

Table 4. Client Information

Subjects	Notes
Target market (groups and individual customers)	• Credit Unions • Non-governmental organisations • Other cooperatives • Popularly based organisations (churches, microentrepreneurs)
Exclusion of specific groups	None in particular
General economic status of customers	Medium to low
Main professional occupations of customers	• Traders • Housewives • Employees • Entrepreneurs • Farmers
% of customers working in the informal economy	Approximately 15 percent
Social status of customers	Primary education: medium level Secondary education: low level
Geographic characteristics	Rural area: 90 percent Urban area: 10 percent
Nature of the membership	35 cooperatives and around 500,000 members
Methods of customer capture	• Marketing based on the lists of cooperative associates • Marketing in the cooperatives premises when clients are applying for a loan, withdrawing or paying in funds • Marketing in the cooperative conferences and activities organised by the cooperatives for their members

3.1 Characteristics

Ninety percent of COLUMNA's clients come from credit unions affiliated to FENACOAC. The remaining policyholders are linked to other popularly based organisations or come directly from the general public.

According to a survey carried out in the middle of 2003, COLUMNA's customers have the following characteristics:

- **Sex**: 63 percent are men
- **Age**: 53 percent are between 30 and 44 years old, 27 percent are between 45 and 59 years old. Customers under 30 represent 15 percent, and clients over 60 constitute the remaining 5 percent. The small percentage of customers over 60 is an important factor that has helped to maintain a low claim ratio.

- **Occupation**: 32 percent are merchants and traders, 16 percent are housewives, 15 percent are salaried employees, 8 percent are entrepreneurs, 6 percent are farmers, 2 percent are craftsmen, and the remaining 2 percent work in other occupations.
- **Income**: medium to low

Research conducted in the mid-1990s in Guatemala by AAC/MIS determined that the credit unions were attracting members from the low wealth segment of the small- and medium-scale enterprises, but not the very poor. For example, the researchers interviewed claimants and found that one-third of the beneficiaries operated family-run microenterprises or were surviving housewives with modest resources. Beneficiaries included a part-owner of a cow, a limestone saleswoman, a tailor, several seamstresses and a seller of stuffed peppers.[10]

3.2 Vulnerabilities

According to the information obtained by focus groups of customers, credit union members are mainly concerned about the risks of illness, accidents and the death of the family's father. Customers also highlighted an increased concern over crime, which has generated greater risks of theft, assault and murders. Risks to the home are considered fairly low and therefore of little importance.

Customers' main concerns regarding risks are illnesses and accidents. These risks are managed through medication, natural medicine and, in the event of critical illness or serious accident, a visit to a medical centre or a hospital.

Regarding the risk of death, the most common strategy for customers is to purchase through the cooperative an insurance policy that covers funeral costs.

3.3 Relationship between Risks and Services

Through its products and services, COLUMNA satisfies most of its clients' risk management needs. The main exception would be coverage against health related risks. COLUMNA is not currently offering a health insurance product, but hopes to do so in the future.

3.4 Familiarity with Insurance

Before purchasing insurance, most clients are quite unfamiliar with it. In general, customers learn about insurance when they join a cooperative, which informs them of the life insurance coverage on their savings and contributions. Also, when they apply for a loan they are informed that in the event of death, the balance would be paid by the insurance.

With time, however, many of them forget about having an insurance policy and about the benefits. Some customers believe there should be more communication and promotion of the insurance products offered by the cooperative.

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[10] AAC/MIS, "Impact of Group-based Insurance Programs in Colombia, Bolivia and Guatemala. Undated.

4. The Product

COLUMNA offers three products that could be considered microinsurance, credit life, life savings and the Special Life Plan.

The first two group policies, offered on a mandatory basis, are mainstays in the credit union movement. Credit life or loan protection can trace its roots back to the early days of the international credit union movement to ensure that "debt dies with the debtor." Savings protection emerged soon thereafter to provide life coverage for persons who did not have outstanding loans, and as a strategy to attract deposits and increase savings balances.

In COLUMNA's case, for the savings protection, the credit unions pay premiums to the insurer each month based on the average outstanding balances in savings accounts and contributions for persons who are eligible for life savings—only savings and contributions that were deposited before a member turns 64 are considered eligible. Since the credit union is paying the premium, clients perceive this as a free member benefit. The actual premium is 0.71 per Q. 1000 per year and members are implicitly accepting a lower interest rate on their savings in exchange for this benefit.

For the loan protection, at the end of the month the cooperatives create a portfolio report on the loan balances and apply a rate of 0.71 per Q. 1000 to determine the loan protection premium for the next month. The report and the premium are sent to COLUMNA. The costs for the loan protection are born by the borrower and included in the loan repayments. The cooperative establishes its own loan procedures, but to be eligible for insurance COLUMNA requires that the cooperative member is younger than 69 and the maximum cover per person is Q. 50,000 ($6000).

These two products are compulsory for the cooperatives' members and represent approximately 65 percent of the insurer's premium volume. The benefits of the loan insurance are paid to the cooperative, whereas the benefits of the deposit insurance are paid to the cooperative member's beneficiary.

The third product, "Plan de Vida Especial" or Special Life Plan, provides a benefit in the event of the insured's death or disability. This product, currently covering 54,000 members, generates approximately 13 percent of the company's premiums, and is the main focus of this section.

Table 5. Product Description: Special Life Plan

	Policies and characteristics of the product
Type of microinsurance	Life insurance
Individual and group product	Group
Period (duration)	Annual renewal
Eligibility requirements	To be younger than 64 years of age when joining
Renewal requirements	To be less than 69 years of age (although this is being increased to 74 years).
Rate of policy non-renewal	26 percent
Compulsory or voluntary	75 percent of cooperatives have compulsory life insurance
Product's cover (benefits)	Natural death, accidental death and special accidental death
Key exclusions	• Suicide during the first two years • Death due to AIDS[11] • Natural deaths occurring during the first 180 days • Death or disability occurring while engaged in illegal activities
Price – premium	Q. 63.39 per sum assured of Q10 000 per year
Price – co-payments and deductibles	None

4.1 Business Partners

COLUMNA has essentially three different categories of business partners. First, there are the owner cooperatives that distribute the insurer's products and own the insurer, such as described in Box 5. Second, there are other FENACOAC members that do not have an ownership stake but still distribute COLUMNA's products. In practice, there is little distinction between the first and the second category. The third category is other organisations, including cooperatives and NGOs, that are not FENACOAC members but serve as delivery agents for COLUMNA, although these do not currently distribute the Special Life Plan product.

The core business for FENACOAC members is the provision of financial services, including savings, loans and family remittances. A few cooperatives have diversified their activities into supermarkets, hotels and entertainment centres.

Many cooperatives in Guatemala disappeared in the 1980s as a result of the civil war, political persecution or plain bad management. Commonly associated with socialist or populist political leanings, they did not have political support from Guatemala's military and right-wing governments. Yet the credit unions associated with FENACOAC, organised on a geographic common bond, generally survived and, on the whole, have a favourable image within their communities.

For the credit unions, the income generated from the insurance activities is quite minimal, well below 5 percent of gross revenues. Yet the relationship with COLUMNA provides three

[11] This exclusion will be removed in 2005, as explained in Section 6.2.

primary purposes for the credit unions. First, it lowers their credit risk since they do not have to try and recover loans that default due to the death of the borrower. Second, insurance is an additional service that the credit unions can offer their members while generating fee-based revenue (as opposed to the riskier revenue from loans). Third, credit unions also purchase affordable fidelity insurance for themselves and their employees from COLUMNA to protect against fraud, theft and damage.

Box 5. Cooperativa Union Progresista Amatitlaneca (UPA)

Cooperativa UPA was founded by 31 members in 1965 with a total capital of $126 to meet the credit needs of small farmers. In 1975, UPA opened a grocery store as an additional service to its members and the general public. By 1998, UPA had over 18,000 members and assets in excess of $13 million. The cooperative provided loans for housing, commerce, microenterprise, personal and agricultural purposes, with an average loan of $1500.

UPA's loans are insured by COLUMNA. A service fee is paid upfront from the initial loan amount to cover the insurance premium. Each borrower is informed about the insurance and accepts the service fee as a condition of the loan.

In addition, UPA provides insurance to its members who save in the credit union. UPA doubles a member's savings in the event of death or total disability. The insurance helps promote member savings, gives an edge to UPA in competing with other financial institutions and provides a valuable service to its members.

UPA also offers voluntary funeral insurance.

Adapted from AAC/MIS: Insuring Microenterprise Loans (Undated).

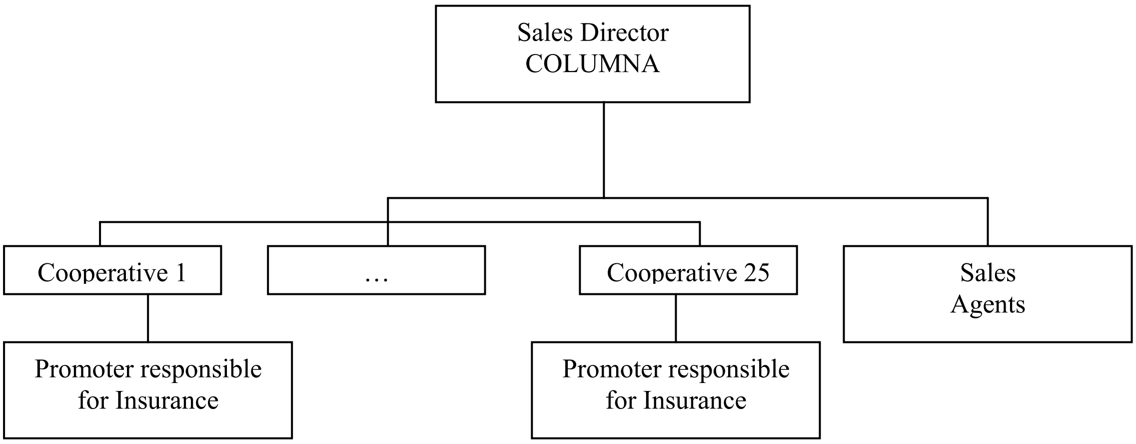
4.2 Distribution Channels

COLUMNA distributes the Special Life Plan through 25 cooperative organisations affiliated to FENACOAC, as shown in Chart 2. In addition, for its other products, the insurer has promotion and distribution agreements with other popular organisations, such as NGOs, and a limited amount of direct sales. Altogether, COLUMNA partners with 35 organisations that have a total of 117 branches (since some cooperatives have branches in different towns).

The efficiency of these channels depends on the attitude of the cooperative's manager toward insurance. In three-quarters of the cooperatives, the Special Life Plan is compulsory when a member joins the cooperative or applies for a loan. This approach was introduced in recent years to streamline paperwork and increase volumes, but it does not apply to renewals. Consequently, the Special Life Plan has a renewal rate of 74 percent. It is estimated that voluntary purchases only account for 10 to 20 percent of the total number of policies.

To support the cooperatives and other distributors, COLUMNA has a team of 11 sales agents responsible for training of the cooperatives' personnel in charge of insurance promotion, and those promoters then support their credit union colleagues. COLUMNA's sales agents also sell other insurance plans, such as auto, fire and individual life.

Chart 2. Distribution Channels at COLUMNA



In general, potential clients are approached when they come to the cooperative to apply for membership or to request a loan. The staff member dealing with the associate will provide information about the Special Life Plan, its benefits, premium rate, and the payment options.

In cooperatives where the insurance is not compulsory, potential clients are also approached while they are queuing at the cash desk or waiting to resolve a particular matter at the cooperative's offices. In this way, other associates hear about the product and also become interested. In general, the success rate is one in five.

Some cooperatives also organise a lottery with electrical appliances as prizes; anyone who has purchased or renewed an insurance policy is eligible for the draw. The results from this type of promotional activity are quite positive; during the period of the year when these promotions are launched, 30 to 50 percent more insurance policies are sold or renewed.

To enrol someone in the insurance scheme, the first step is for the cooperative to complete an Insurance Application Form (one form per person), which offers general information about the particular insurance product. Applicants fill in their identification number, date of birth, designated beneficiaries and address, and provide a photocopy of their identification card. Applicants also have to pay the premium or authorize the cooperative to deduct it from their savings or loan accounts. The documents and premium are forwarded to COLUMNA monthly for processing, and then the insurer sends an insurance certificate directly to the member.

When the policyholder pays the premium to the credit union, the cooperative issues an official COLUMNA pre-numbered receipt. If the cooperative or one of its promoters receives premiums and does not forward them to the insurer, the client is not insured with COLUMNA. Although COLUMNA's internal auditors visit each cooperative at least once a year to ensure that documentation and funds are properly handled, such a deceit would most likely come to light if a claim was made.

4.3 Benefits

The main benefit from the Special Life Plan is funeral expenses, with a sum assured between Q. 10,000 and 50,000, payable in the event of death. In addition, the policy offers the following additional benefits:

- **Accidental death**: if the death occurs as a result of an accident, the insured sum is doubled.
- **Special accidental death**: if the death occurs as a result of a "special" accident—e.g., travelling as passenger in public transport, in an elevator, or as a result of fire in a public building—the insured sum is multiplied by three.
- **Total and permanent disability**: in the event of permanent disability caused by an accident, the policyholder receives the insured sum.
- **Loss of limbs**: compensation for the loss of limbs as a result of an accident is paid according to the following schedule of benefits:
  - 100 percent of the insured amount for the loss of both hands, both feet, the sight of both eyes, of one hand and one foot, or the loss of one hand or one foot together with the sight of one eye.
  - 50 percent for the loss of one hand or one foot.
  - 33.3 percent for the loss of sight in one eye.
  - 25 percent for the loss of the thumb and any other finger on the same hand.

The Special Life Plan was first developed when COLUMNA was launched. Since then, the main change to the policy has been to offer a broader array of benefit options. At the beginning the sum insured was only Q. 10,000; now there are five different plans as summarised in the following table. Ninety percent of the policies are for Plan A.

Table. Special Life Plan Amounts Insured and Policy Limitations According to Age

	Plan A	Plan B	Plan C	Plan D	Plan E
Insured amount →	Q. 10,000	Q. 20,000	Q. 30,000	Q. 40,000	Q. 50,000
Limitation of amount insured according to age for initial coverage					
Age					
From 18 to 44 years	none	none	none	none	none
From 45 to 49 years	none	none	none	none	excluded
From 50 to 54 years	none	none	none	excluded	excluded
From 55 to 59 years	none	none	excluded	excluded	excluded
From 60 to 64 years	none	excluded	excluded	excluded	excluded

The age highlighted in the table above refers to the member's age when they initiate coverage; it does not apply to renewals. The maximum age for coverage is 69 years old, but if a member purchased the policy before they were 45 years old, then the insurance will still be valid after turning 69, although the benefit will be reduced to 25 percent of the sum assured. In 2003, the insurer carried out an actuarial revision of the product and as a result the insurance cover will be extended to 74 years of age as long as the member is 64 or younger when he or she starts the policy.

To meet the special needs of children, COLUMNA has recently developed an accident insurance product for schoolchildren. It is a separate product from the Special Life Plan and has started to be promoted on a larger scale this year in the cooperatives and in the nearby educational centres.

Regarding women's needs, the spouses of credit union members are allowed to purchase the Special Life Plan without having to join the cooperative. However, the number of spouses that acquire this insurance is very small. It is possible that additional promotional and marketing activities are required to extend this product to members' spouses.

4.4 Premium Calculation

The premium for the Special Life Plan was calculated according to an actuarial study carried out when the company first developed the product in 1995. This actuarial study established an annual risk premium of 5.12 per thousand for all benefits included in the plan.

According to the technical notes of the actuarial study, a fixed 0.42 per thousand for administration expenses and a further 12 percent for acquisition costs were added to the risk premium. Once these extra charges were applied, the Annual Commercial Premium per thousand was 6.30. The rates are the same for voluntary and compulsory coverage.

The commission rates paid are as follows:
- Commission to the cooperative: 10 percent
- Contingency fee (commission for payment collection): 2 percent
- Bonus depending on the achievement of yearly targets: 1 percent for the cooperative and 1 percent for the cooperative's manager.

During the last four years, the average income obtained from the Special Life Plan, without taking into consideration the investment return, has been 26 percent of the net written premium. The following table shows the results of the Special Life Plan during the period 2000 to 2003. The figures for premium and claims are actual; the acquisition expenses, administration expenses and reinsurance costs are estimated.

Table. Results of the Special Life Plan, 2000 to 2003 (Figures in Quetzals)

	2003	2002	2001	2000
Net written premium	4,053,939	3,054,010	2,263,182	2,010,946
Claims	1,574,167	1,198,333	1,177,500	505,000
Acquisition expenses	567,551	427,561	316,845	281,532
Administration expenses	695,650	524,063	388,358	345,075
Cost of reinsurance	148,773	112,077	83,055	73,798
Technical profit	1,067,799	791,975	297,423	805,540
% Claims / Premium	39	39	52	25
% Total expenses / Premium	35	35	35	35
% Total profit / Premium	26	26	13	40
Total	100	100	100	100

4.5 Collection of Premium

The insurance plan's premium is paid on an annual basis, with three payment options:

- Cash payment at the cooperative's counter
- Cash payment together with the initial contribution that the associate makes when he or she joins the cooperative, which happens when the insurance plan is compulsory for members
- Through the repayment of a loan, which happens when the insurance plan is a loan requirement

For renewals, the collection process includes the following steps:

1. With the support of a computerized system, COLUMNA generates renewal notices for policies due to expire the following month, which are sent to the respective cooperatives.
2. The cooperatives inform the associates of the insurance policy expiry and deal with the payment of the renewal premium.
3. The cooperative prepares a monthly report, which details the policies renewed, the premium paid and the policies that have not been renewed.

The most common problems with premium collection are related to policies that were sold as part of a loan application, and the premium was financed through the loan. When the loan expires, the insurance also terminates and in some cases it is difficult to get the associate to renew the policy. COLUMNA is exploring one possible solution to this problem: to ask the associate before the last loan instalment is paid to authorize the deduction of the premium from his or her savings account.

4.6 Claims Management

The Claim Process

The process of paying claims is summarised in Chart 3. For a natural death, the claimant must produce the deceased's death certificate, birth certificate and identity card. The claimant must also provide his or her own identity card to ensure that they are indeed the beneficiary. In the case of accidental death, the claimant must also provide a doctor's post mortem certificate and a police report about the accident. Disability claims must be supported with a doctor's certificate. In its claims requirements, COLUMNA does not make any particular exceptions to accommodate the unique characteristics of the microinsurance market (also see Annex 2).

One of the most innovative aspects of COLUMNA's claims processing is that some cooperatives make partial payments when the initial documentation is provided by beneficiaries, which helps with immediate expenses until the full payment is available from the insurer. However, cooperatives only pay an advance if they is sure that COLUMNA will repay them. To check if the person was properly insured, the cooperative normally calls COLUMNA for verification.

Both the cooperative and the insurer are involved in claims underwriting to some extent. The cooperative does an initial screening of the documentation to ensure that everything is complete and accurate. The insurer provides a second and perhaps more thorough scrutiny of the documentation. An estimated 5 percent of the claims are rejected by COLUMNA's claims department; it is unclear how many additional claims are never submitted because the cooperative identifies problems.

The main reasons for the rejection of claims are as follows:

- Death caused by a criminal act excluded by the insurance policy
- Not having paid the premium to renew the policy
- Age outside the age limit
- Death occurring during the 180-day waiting period

Chart 3. Claim Settlement Process

Client / Beneficiary	Cooperative	COLUMNA
Informs the cooperative about the claim. →	The client is informed of the paperwork and required documents. The client is informed that when he/she presents a Death Certificate, the cooperative will immediately provide to 50 percent of the natural death benefit. ↙	
Completes necessary paperwork and presents it to the cooperative. →	The cooperative verifies that the required documents have been duly completed and, if these are in order, sends them to the COLUMNA. If the beneficiary asks for a cash advance, the cooperative makes the payment, asks the client to sign the relevant document and files it temporarily until the claim has been paid off completely.↘	
		Verifies the claim and writes a cheque for the payment of the claim. Sends the cheque to the cooperative. ↙
	Informs the customer that the cheque is ready for collection. ↙	
Signs the acceptance document and collects the cheque. →	Forwards the acceptance document signed by the customer to the insurance company. →	Files the acceptance document in the claim file.

Common Reasons for Delay

On average, it takes the cooperatives 20 days to process the paperwork and get it to COLUMNA and then it takes the insurer about a month to pay the claim. While these time periods are longer than COLUMNA would like—the insurance company wants to pay the claim within five days of having received the required paperwork—it is a big improvement from the four months it took to pay claims in the past. The delays are also partly offset by the cash advances provided by the cooperatives.

Most delays are caused by the required paperwork being incomplete or incorrect. When the documents are not presented properly, it is usually because of a communication problem, either between the insurer and the cooperative or between the cooperative and the client; for example, perhaps the cooperative's employee forgets to ask for a piece of information, or perhaps the client did not understand the requirements. To improve the situation, COLUMNA has recently provided the cooperatives with a manual that details all the claims requirements (see Annex 2). The manual also contains a one-page handout for the customer detailing the paperwork required.

Claims delays have discouraged some cooperatives from offering an immediate cash advance on the claim because they fear that they will not receive the claim form duly completed. In some cases, the cash advance is not granted because it is not known whether the insurer will accept the claim or not. To resolve this situation and encourage the payment of cash advances by the cooperatives, COLUMNA has run some training courses for them, based on the manual, in which there is a checklist of criteria to help determine if it is safe to pay a cash advance (see Box 6).

Box 6. Requirements for an Advance Payment

The claim will not be rejected if the following issues are addressed:

- The policy has to be in force.
- The policy must have been paid for.
- In case of natural or violent death a waiting period of 180 days between the conclusion of the contract and the death must have passed. This period does not apply for accidental death.
- The cause of death stipulated in the doctor's post mortem certificate must not include HIV/AIDS.
- In case of suicide, the policy must have been in force for at least two years.

Delays are much more common with accidental deaths because of the additional documentation requirements (post mortem and police report) and because the insurer more carefully scrutinises the larger claims. To reduce the delays, the insurer often pays the basic indemnity first while it investigates the settlement relating to accidental death.

Table 6. Claim Processing: Special Life Plan

Subject	Notes
Parties involved in the claim processing	• Claims beneficiaries • Person in charge of insurance at the cooperative • Person in charge of claims in COLUMNA's life insurance management department
Documents required to submit a claim	• Signed declaration by the claimant • Death certificate • Birth certificate and identity card of deceased associate • Identity card of the beneficiary • Certificate provided by the forensic doctor and information about the accident provided by the police (in the case of death caused by accident)
Claim payment method	The cheque is written at COLUMNA's offices and sent to the cooperative, which hands it over to the beneficiary. The cooperative can give a cash advance equivalent to 50% of the insured amount to cover the immediate funeral costs.
Avg. time between the event and the claim notification	10 days
Avg. time during the claim is dealt with by intermediaries	20 days
Avg. between the claim notification and the claim settlement	30 days
Claims rejection rate	5 percent
N° of claims received per month	Between 10 and 15 claims each month.

4.7 Risk Management

Adverse selection. The main adverse selection problem arises from policyholders that buy insurance with the intention of making a claim soon thereafter. COLUMNA has two ways of controlling for this risk. First, it has a 6 month waiting period before policyholders are eligible for natural death benefits (although they are immediately eligible for accidental death benefits). Second, to avoid adverse selection COLUMNA has reduced the benefits for older age groups, as shown in Section 4.3. Adverse selection is further controlled by those cooperatives that have chosen to make the insurance mandatory.

Moral hazard. With life and disability insurance, the moral hazard problems are fairly low, especially since the sum assured amounts are not large enough to provoke reckless behaviour. COLUMNA controls moral hazard by excluding suicide during the first two years, and by excluding death and disability claims caused by participation in illegal activities.

Fraud. The few cases of fraud that have been detected have involved altered documents or false medical certificates, for example in cases where the real cause of death was excluded from the policy (e.g., AIDS). COLUMNA's claims underwriting practices, including occasional on-site investigations, minimise this risk.

Covariant risks. This biggest covariant risk is that there are some geographical areas with a high risk of death due to riots or terrorism. However, this risk has not affected the claim ratio because of the large geographical spread; COLUMNA's products are distributed by nearly 117 branches located in different areas of the country. Plus COLUMNA has reinsurance.

4.8 Marketing

In general, COLUMNA has not sufficiently invested in marketing. Over the years, the acquisition cost ratio has remained very low, even during periods when one might expect higher expenses, such as the launch of a new product or the opening of a new branch.

Even though there has not been a formal evaluation of the marketing programme for the Special Life Plan, it is clear that promotion has been limited. Only 54,000 members have purchased the product, and yet the FENACOAC system serves more than half a million persons, so the potential market within the cooperative sector is still large.

The lack of investment in marketing has been a characteristic of COLUMNA for many years. The company's conservative management considered marketing as an expense instead of an investment in the development of the company. The relatively low renewal rate shows some weaknesses in the marketing process, customer service, and administrative processes.

COLUMNA's growth has been mainly through the credit life and life savings products. Success with these products is directly tied to the success of the credit unions in fulfilling their core functions—if the cooperatives lend more money and collect more savings, COLUMNA increases also its volume of business. However, the growth of the microinsurance product has been slower, partly because of insufficient marketing efforts and partly because the product was not as closely linked to the cooperatives' core business.

During the last year, COLUMNA's marketing budget has financed the following activities:
- Training and monitoring the cooperatives' personnel responsible for insurance sales and service, which represented less than 1 percent of premium income.
- Payment of commission to the cooperative, representing approximately 14 percent of premium income.
- Printing expenses for the promotional materials, which cost approximately 1 percent of premium income. Recent brochures and marketing materials all include a picture of columns, to depict strength and support, along with the slogan "10 Años" (ten years) to illustrate that the company has been around for a while and is dependable (see Annex 1).

To market microinsurance, COLUMNA relies primarily on presentations to members when they join the cooperative. This introduction has a mixed impact depending on the commitment of the credit union's management and staff. To improve sales presentations, COLUMNA intends to invest more in training. Other promotional strategies include:
- The distribution of informational brochures.
- Presentations at the cooperatives' general assemblies, including some testimonies from associates (or their beneficiaries) that have benefited from the insurance plan.
- Occasional raffles of household appliances among policyholders.

Perhaps more importantly, the marketing manager has focused on obtaining approval from the cooperatives to make the product compulsory when the members join the cooperative or apply for a loan, and therefore linking the product to the credit union's core services.

Next year, COLUMNA will dedicate more resources to marketing side of the business to achieve a wider outreach, both within the cooperative sector and elsewhere. COLUMNA anticipates an improvement in the effectiveness of marketing activities, especially since it has learned numerous lessons over the years (see Box 7).

Box 7. Marketing Lessons from COLUMNA

In Guatemala, insurance is relatively unknown in the rural areas where the cooperatives are based. Consequently, COLUMNA's marketing strategy had to include a fair amount of client education to explain the benefits of insurance and how it works.

One of the bigger marketing challenges is to structure the roles and responsibilities between the insurer and the cooperatives. Throughout COLUMNA's history, the insurer has tried various options. To work closely with its cooperative network, one experiment was to have a minimal sales force inside COLUMNA, but to use people inside the credit unions who were involved in member recruitment and the marketing of savings. Although a low-cost approach, this strategy did not generate good results. The salespersons lacked of sufficient insurance knowledge and, more importantly, there was not a direct contractual relationship between the insurer and the salespersons since they were employees of the credit union.

In the early years, COLUMNA experimented with its own sales team that would sell by phone or visit the cooperatives now and then. These salespersons, however, were not always accepted by the local credit unions. Consequently, there was significant staff turnover as salespersons could not collect enough premiums, so their corresponding commissions were too low to act as a sufficient incentive.

The best solution looks like having a sales team that has direct links to the cooperatives, but under direct management from COLUMNA. To manage this relationship, it is necessary to have formal commitments from the cooperatives to jointly market insurance along with their other products and services. These formal commitments must be expressed as annual targets for premiums by product line, which are decided jointly by the cooperative and the insurer.

Three other aspects need to be considered. First, it is necessary to divide the commission between the sales person and the cooperative in such a way as to motivate both parties. Second, the insurer should be aware that money is not the only motivator, especially for the cooperatives. The insurer's marketing strategy must also target the cooperative's directors and staff, so that they are reminded of the economic impact of insurance on the communities in which they work. For example, the insurer should regularly notify the credit union of the claims paid to its associates. Third, the sales persons have to have the skills and the resources (e.g., effective promotional materials) to succeed.

Also, when working with a many credit unions throughout the country, the insurer must prioritise in which credit unions it will make an additional marketing effort and investment. Typically the larger credit unions and those with the most committed leadership get the most attention, but they may not be the cooperatives with the greatest market potential.

4.9 Customer Satisfaction

The renewal rate of Special Life Plan has been 74 percent. The main reasons for non-renewal are:

- Some associates do not know the meaning or the benefits of the insurance policy. Therefore, when the insurance is about to expire, they do not see any reason to renew it.
- Some associates claim not to have received the renewal notice.
- The price is *not* considered to be a reason not to renew, as this is believed to be very low.
- Some associates believe that it is unfair that they have not been able to renew their policy in time due to a lack of information and then, if they wish to do so, they have to go through the waiting period again.

In discussions with the credit union members, they suggested that the premium should be deducted from their current accounts with previous authorization (a few months before renewal date). They also suggest that policy conditions could be improved—even if the cost is also moderately higher—to motivate the associate into progressively attaining better coverage.

To evaluate customer satisfaction, focus group discussions and interviews with customers were used to assess six aspects of the insurance service:

1. **Price**. Customers feel the fees are adequate and in line with the benefit received.
2. **Benefits**. Customers believe that the benefits are reasonable, however they are rather limited. Most customers would also like to have health cover included in the plan.
3. **Service at the time of purchase**. There were several objections:
   - Compulsory insurance: Some credit union members said that that it was inappropriate to make insurance a requirement.
   - Lack of information: For many there is a lack of information about the insurance benefits, what it included and excluded, the duration of the cover and the circumstances in which they can lose the insurance, and the advantages of buying insurance. Some associates are not aware that they have insurance. They claim that the cooperatives hardly give them any information about their insurance policies.
4. **Premium collection**. Customers do not have problems with the method of premium collection. Because the cost of the policy is so low, they are happy with annual payments. However, they do mention that there is a need for more information and better management so that they can make the policy renewal payment.
5. **Dealing with the claims**. Some associates have had or know of bad experiences when making a claim. They complained about slow settlements, poor communication, and inefficient mechanisms.
6. **General satisfaction**. The customers that took part in this research were asked to give a mark from 1 to 10 to quantify their satisfaction with the product. The average figure was near 8.

5. The Results

5.1 Financial and Operational Results

COLUMNA has a fairly thorough management information and performance monitoring system. Some of the information utilized by administrators to determine results, performance and impact include:

- Half-yearly evaluations of the company's Strategic Plan
- Quarterly evaluations of the company's Annual Operational Plan
- Monthly evaluations of the Income and Expenses Budget
- Monthly evaluations of the company's Financial Statements
- Monthly evaluations of the sales targets by product and by distribution channel
- Statistics reflecting the number of people insured through the different insurance plans.

The main operating results obtained during the last few years are shown in Table 7. The table on the following page shows the net profit of each insurance line sold by COLUMNA during 2003. From the total net profit (Q. 5,732,478), life insurance generated a profit of Q. 4,471,146, which represents 78%. This product line includes various insurance plans: individual life plans, group policies for loans, savings and contributions, and the Special Life Plan. The company does not keep separate records showing the results of each plan, and therefore the results statement for the Special Life Plan is not available, however estimated results of this plan for the period 2000-2003 are presented in Section 4.4.

Table 7. Key Results (Currency in Quetzals)

	2003	2002	2001	2000
Net income (net of donations or contributions)	33,399,543	27,638,585	28,265,191	23,621,316
Total premium (value)	27,524,707	21,902,395	17,878,394	15,103,507
Premium increase (%)	26	23	18	27
Claims / total premium (%)	42	46	44	38
Administration costs / premium (%)	16	19	15	15
Commissions / premium (%)	7	7	8	8
Reinsurance / premium (%)	10	12	8	8
Added reserves per period / premium (%)	11	13	8	17
Added net results per period/ premium (%)	21	19	22	20
Claim costs / total number of policyholders	Q. 21.78	Q. 20.61	Q. 15.81	Q. 16.50
Increase in policyholders (%)	10	-6	10	--
Premium investment results	2,995,983	3,308,394	3,366,325	3,132,492
Percentage of distributed profit[12]	86	95	94	84

[12] This percentage is the ratio of the distributed profits from the total profits. The difference of the two is used for capital reserves that do not belong to the shareholders (e.g., 14 percent in 2003). Half of the distributed profit is paid in cash to the shareholders and the other half stays in the company increasing shareholder capital.

Table. COLUMNA, Compañía de Seguros S.A. - Financial Statements per Insurance Line, 2003 (Figures in Quetzals)

Accounts	TOTAL	Life	Accident and Illness	Fire	Auto	Transport	Theft	Glass Breakage	Third Party	Technical Risks	Others
NET WRITTEN PREMIUM	26,710,559	20,847,047	86,658	406,676	3,878,162	1,081	26,508	3,960	3,868	197,988	1,258,611
(-) Ceded reinsurance premium	2,753,582	2,208,768	9,175	263,894	189,366	282	1,568	0	0	6,721	73,807
= RETAINED NET PREMIUM	23,956,977	18,638,279	77,484	142,782	3,688,795	799	24,940	3,960	3,868	191,267	1,184,804
(-) Variations in Reserves	2,214,154	1,555,797	1,698	21,389	365,921	-11	2,838	404	-369	13,553	252,934
= NET ACCRUED PREMIUM	21,742,823	17,082,482	75,785	121,393	3,322,875	810	22,102	3,556	4,237	177,714	931,870
Acquisition and renewal expenses	3,267,164	2,434,974	5,308	70,901	546,099	61	2,913	312	983	31,976	173,638
(-) Ceded reinsurance commissions	78,070	0	0	72,820	5,198	46	5	0	0	0	0
= Acquisition costs	3,189,094	2,434,974	5,308	-1,919	540,901	14	2,908	312	983	31,976	173,638
Expenses from contractual obligations	11,198,209	9,147,771	39,000	700	1,692,990	0	0	0	0	7,173	310,574
(-) Ceded reinsurance recovery	1,642,261	1,443,716	0	0	139,035	0	0	0	0	0	59,510
(-) Other recoveries	116,882	0	0	0	116,882	0	0	0	0	0	0
= Incurred claims	9,439,065	7,704,054	39,000	700	1,437,073	0	0	0	0	7,173	251,065
Property expenses	316,956	247,416	1,014	4,849	46,022	0	317	32	32	2,345	14,929
Administration expenses	4,265,827	3,329,905	13,651	65,267	619,398	0	4,266	427	427	31,567	200,920
(-) Rights of policy issuing	297,486	0	4,355	22,142	198,010	54	0	0	314	9,666	62,945
= Property and Admin Expenses	4,285,297	3,577,320	10,310	47,974	467,410	-54	4,583	458	144	24,247	152,904
TOTAL OPERATIONAL COSTS	16,913,456	13,716,349	54,618	46,756	2,445,384	-40	7,491	770	1,127	63,396	577,607
Profit (loss) in Insurance Operations	4,829,367	3,366,133	21,167	74,637	877,491	850	14,611	2,786	3,111	114,318	354,263
Investment products	2,995,983	2,659,235	2,097	43,142	208,820	0	1,798	300	300	4,494	75,798
Profit (loss) in Operations + Investments	7,825,350	6,025,368	23,264	117,779	1,086,311	850	16,409	3,086	3,410	118,812	430,061
(+) Other income	742,755	659,269	520	10,696	51,770	0	446	74	74	1,114	18,792
(-) Other expenses	357,204	278,833	1,143	5,465	51,866	0	357	36	36	2,643	16,824
= Other income and expenses	385,551	380,436	-623	5,230	-96	0	88	39	39	-1,529	1,967
GROSS PROFIT (LOSS)	8,210,901	6,405,804	22,641	123,010	1,086,215	850	16,497	3,124	3,449	117,283	432,029
(-) Income tax	2,478,423	1,934,657	7,931	37,920	359,867	0	2,478	248	248	18,340	116,734
NET PROFIT (LOSS)	5,732,478	4,471,146	14,710	85,090	726,348	850	14,019	2,876	3,201	98,942	315,295

5.2 Reserves

In accordance with the law and requirements set by the Banking and Insurance Superintendence of Guatemala, the company has to create the following technical reserves:

- Mathematical Reserves for life insurance plans.
- Ongoing Risk Reserves for group life plans.
- Ongoing Risk Reserves for non-life insurance.
- Reserves for Liabilities Pending Payment.
- Catastrophe Reserve for the line of earthquake.

Regarding the Special Life Plan, as part of the group life insurance sector, the reserve requirements are as follows:

- **Ongoing Risk Reserves**, which are established according to the following regulation "…for group insurance, reserves will be created with 40 percent of the net premium amount that corresponds to the policies issued or renewed during the year"[13]
- **Reserves for Liabilities Pending Payment**, which are established according to the following regulation: "... for life insurance a reserve will be created with the amount repayable as stated by the conditions of the contract"[14]

The company has created the necessary reserves for the Special Life Plan, and for all other insurance products, in accordance with the current regulations. This is also audited on an annual basis by an independent firm of auditors and by the Banking Superintendence. The reserves are also duly invested following the rules established by the Superintendence. Since the company was created, there has never been a lack of reserves and the company's technical reserves have always been adequate.

5.3 Impact on Social Security Policies

Some governmental organisations, insurance companies and popularly-based institutions (e.g., cooperatives and NGOs) have acknowledged COLUMNA's good work as the only insurance company that has succeeded in introducing group insurance widely into rural sectors and populations with low income. In spite of this, COLUMNA's example has not encouraged other insurers to develop and promote products for persons with little social security.

[13] Article 2º, Regulations for the Investment of Technical and Mathematical Reserves for Insurance Companies, Banking Superintendence, Guatemala.
[14] Article 4º, Regulations for the Investment of Technical and Mathematical Reserves for Insurance Companies, Banking Superintendence, Guatemala.

6. Product Development

The Special Life Insurance Plan was not developed as a result of a formal study on the general public's demands or market research among the cooperative associates. It was created to fulfil a clear need for many low-income persons to help the family of the deceased to cover funeral expenses and other basic needs.

The process began in the early 1980s when some members of the cooperatives' Education Committees suggested the creation of a fund or insurance policy to help members' families in the event of death with a basic sum of money. In 1984, ten years before the birth of COLUMNA, FENACOAC started managing such an insurance policy, providing basic coverage for a low premium, affordable to all associates. Later, because of inflation, the premium and the benefit were adjusted, but it was still affordable for members.

In 2003, with the support of AAC/MIS and SOCODEVI, market research was carried out to identify the insurance needs of cooperative members, their interest in purchasing insurance, what risks to cover, and how much to charge for it. This information is being used in the development and improvement of products and their distribution. The Table below provides a summary of the key findings.

Table: Market Research Results (2003)

Type of insurance	% of the sample to whom the insurance applies	Weighted grade of need (*)	% of YES, has insurance	% that has insurance with COLUMNA	% of NO, does not have insurance	% of YES would buy insurance
Life	100%	High (60%-79%)	50%	21%	50%	38%
Fire	100%	Medium (40%-59%)	3%	0%	97%	41%
Theft	100%	Medium (40%-59%)	3%	0%	97%	47%
Car (damage to the vehicle)	% owning a car: 45%	High (60%-79%)	24%	2%	76%	38%
Car (damage to passengers)	% owning a car: 45%	High (60%-79%)	24%	2%	76%	35%
Accidents (for children)	% who have children < 21: 62%	High (60%-79%)	21%	6%	79%	63%
Medical	100%	High (60%-79%)	15%	0%	85%	60%

*Scale: None, low, medium, high, very high

This research did not specifically explore issues related to the Special Life Plan. Given its current success, the company is not looking to modify the product design, but would like to improve the service and operational aspects of the product.

6.1 Analysis of the Competition

Since the Special Life Plan is one of COLUMNA's most popular products, the company strives to keep it highly competitive, especially in terms of price, and therefore takes great interest in the products of other insurance companies and that could represent a threat.

Competition for the microinsurance product has emerged from *bancassurance* products. In 2001, one of the main banks launched a product similar to the Special Life Plan with an additional cover offering a daily allowance for hospitalization as a result of an accident. COLUMNA immediately designed a similar cover to include it in the Special Life Plan, however the cooperatives' associates did not express any interest in the competition's product or in the new cover added to COLUMNA's plan.

6.2 Self-evaluation

Once a year, the insurer analyses the performance—based on sales volumes and claims rates—of each cooperative to reward those that have achieved good results. For cooperatives that have performed poorly, the company determines what caused the poor results and, in conjunction with the cooperative, looks for ways to improve the situation. This process also creates a formal opportunity to dialogue about new products and changes to existing products. As a result of self-evaluations carried out in the last few years, the insurer has incorporated new options for larger insured sums and has eliminated the limitation of non-payment in the event of death by AIDS.

6.3 Design of the Product

Since COLUMNA was essentially inheriting the federation's informal insurance scheme, before starting in November 1994, the insurer felt is was important to have an authorized insurance plan to replace FENACOAC's funeral insurance. Therefore, taking as a base FENACOAC's claims experience, COLUMNA employed the actuarial services of Mr. Eddy Perdono to design the technical note and the clauses of the policy.[15]

To evaluate risks, the company analyzed the statistical information on premium and claims available from the funeral insurance that FENACOAC had been managing for some years. Based on this experience and the mortality table CSG 60, COLUMNA fixed the premium rates. Another resource used to design the product was the Regulations on Group Life Insurance established by the Insurance Superintendence that sets the basis on which to design and operate group life insurance.

Neither a prototype nor a pilot test was carried out. However, the insurer dealt directly with the cooperatives to sell the idea of replacing the funeral insurance managed by FENACOAC with COLUMNA's new insurance plan. The product's total development costs came to around Q. 70,000 ($12,000), most of which was spent in actuarial consultations and the development of IT solutions. This investment was recuperated over the first year, as a result of very good technical results following a low claim ratio.

[15] A subsequent actuarial review was conducted in 2003.

7. Conclusions

This chapter summarizes the main lessons learnt about microinsurance and states the future plans of the company.

7.1 Lessons about Microinsurance

Few low-income Guatemalans have insurance to cover funeral expenses, and even fewer could face the economic needs should the head of the family die. It is the simple people from rural areas, and persons above 35 years of age, that need a product like funeral insurance the most. The best way to penetrate this market is through cooperatives or other organisations that group these people because they can “multiply” the placement of insurance plans rather than just “add” more clients through the insurer’s direct selling agents.

From COLUMNA’s decade of experience with microinsurance, the most significant lessons include:

- Do not underestimate the demand for microinsurance from the low-income market. In a country such as Guatemala, with large numbers of low-income people, even marginal market penetration can result in significant volumes of policies. Not only is this market potentially profitable, but this service achieves a valuable social objective by helping reduce the vulnerability of those least able to cope with risks on their own.
- Organisations that group large numbers of people have a greatest potential to introduce microinsurance to the low income market. Therefore, it makes sense to promote and distribute microinsurance products through them. It is also important to integrate—to form a network of—all first level organisations so that the insurance company can have access to more efficient channels for marketing and distribution.
- Another essential element is the firm commitment from senior management (president, CEO and board) of the grassroots organisation, in this case the cooperative, to promote and distribute microinsurance products.
- Insurance company shareholders should implement a policy on surplus and distribution of profits that allows the company to grow and maintain good solvency levels.
- An insurance company can benefit significantly by associating with international organisations that provide support and training, promote mutual cooperation, and share technical intelligence. This was the case with COLUMNA, which has reaped returns from its ongoing relationships with AAC/MIS, ICMIF and SOCODEVI.
- The product must be simple and benefits should be in line with an affordable premium for the targeted customers. There should also be different premium and benefit levels to suit members depending on their needs and income to ensure that the products are appropriate for a high percentage of the targeted market.
- The personnel from the cooperatives that are in contact with associates must receive adequate training to promote and to offer relevant information about microinsurance.

- Printed promotional material should be simple to understand.
- The insurance company must establish a mutually beneficial business relationship with its distribution channels. The intermediary organisations (cooperatives) should receive financial incentives (commission) for achieving predetermined and mutually agreed sales targets. The cooperative employees that promote and sell the microinsurance product, and the person in the cooperative responsible for the overall microinsurance promotion, should also receive cash incentives.
- The cooperative's administrative procedures for insurance should be simple and computerized so that employees can easily generate the appropriate paperwork to hand out to customers.
- The insurance company should regularly monitor the development and implementation of each cooperative's marketing and distribution programme.
- At the beginning, it is better to establish a successful business relationship with only a few organisations, and to develop with them the product and the processes needed for promotion, distribution and operation. Once the systems have been worked out, then the product can be methodically introduced into other organisations.

7.2 Future Plans

The biggest challenge is to promote the Special Life Plan with the 120 service points of the FENACOAC system so that a higher percentage of associates purchase the product. To achieve that objective, COLUMNA plans to introduce a number of important changes to its microinsurance product:

- **To find solutions to the criticism regarding the qualifying period**. To facilitate the underwriting of a group policy, COLUMNA does not require a medical examination. Instead, to control adverse selection the Special Life Plan has a six-month waiting period before policyholders can claim for natural death benefits. Some cooperatives selling this product have requested the elimination of this exclusion because it is hard to sell a one-year policy with a 6 month waiting period. While there has to be a mechanism to prevent anti-selection, it is not right to charge a premium for a risk that is not being covered. For this reason, COLUMNA is considering the following options: a) to charge a lower premium during the first year to compensate for the qualifying period; b) to offer a higher benefit for accidental death; or c) to apply a discount on the first renewal premium.
- **To extend the cover to the associate's spouse**, which would mean the same benefits for the spouse, but for a smaller premium.
- **To settle claims quicker**. Although there is the option of having a cash advance to help the beneficiaries with the funeral expenses, in practice this is infrequently offered by the cooperatives as they fear that COLUMNA may not pay the claim. To solve this situation, the insurer will implement a better procedure for the payment of the advance and, if the paperwork required for the claim settlement has been duly completed, COLUMNA will pay immediately.
- **To negotiate contracts with funeral companies**. To allow beneficiaries to obtain adequate funeral services without having to pay for them immediately, the company is seeking to make arrangements with funeral companies, which would then charge

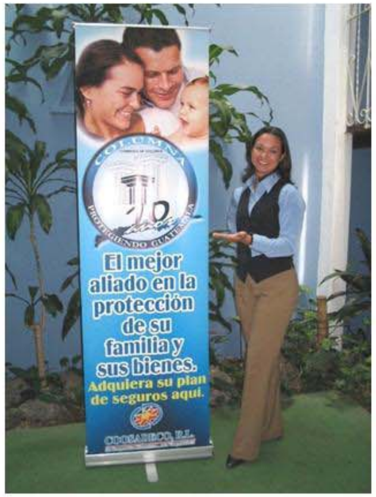
COLUMNA for the services. There has been some resistance to this arrangement because, according to some, when funeral companies have this type of contract they provide a poorer service and try to overcharge the insurance company. However, COLUMNA will try to establish an adequate relationship with the funeral companies to agree on mutually beneficial terms and conditions.

- **To add health services to the plan's benefits**. COLUMNA has already started dealing with companies that are providing health care services in Guatemala to design a health cover plan that would suit the credit union members, in terms of costs and benefits. However health insurance could be costly for the insurer if not well analysed and restricted.
- **To implement a better accounting system** in the cooperatives so that they can administer the insurance plans more efficiently. This system would be a new version of the one being used by COLUMNA and would be set up for the cooperatives to work through Internet.
- **To develop new marketing strategies**. At the end of 2003, there were 54,000 policyholders of the Special Life Plan. Given the large number of members associated to the FENACOAC system, a tremendous market remains. Therefore, the company will need to design and implement adequate marketing strategies, focusing especially on those cooperatives where the insurance is not compulsory, to gain a larger market share.
- **To develop payment options through automatic deduction**. More convenient payment methods will be especially important if the company offers new covers such as health care, for which the annual premiums would be considerably higher. It would be important to offer policyholders the option to pay by instalments (e.g., monthly, quarterly and biannually) and use automatic means of payment, such as direct debit from savings accounts.

To expand its market, COLUMNA will also try to introduce the Special Life Plan into those cooperatives that are not yet offering it. Further expansion might be possible through relationships with other affinity organisations, such as REDIMIF and others that offer microcredit. If COLUMNA is able to successfully extend microinsurance outside of FENACOAC, it could dramatically increase its outreach.

ANNEX

PROMOTION AT THE POINTS OF SALE (Cooperatives)



From Left to Right:

Brochure 1: "Special Group Life Insurance"

Brochure 2: "COLUMNA: Your Best Ally for Your Children's Protection "

Display 3: "COLUMNA: The Best Ally For the Protection of Your Family and Your Property"

Brochure 4: "COLUMNA: Your Best Ally for Your Family's Protection"

Brochure 5: "Travel without Worry, Feeling Relaxed and Safe"

Annex 2: Documents to Present for Proof of Claim

A. Compulsory Documents, By Law

1. The claimant's declaration under oath, legalized by notary public.
2. Insurance policy or certificate of insurance (according to each insurance plan).
3. Insured's birth certificate.
4. Death certificate.
5. Identity card. A photocopy of the identity card legalized by notary public will also be valid.
6. Medical certificate from the doctor that looked after the insured, if he had medical assistance before his death (legalized by notary public if the doctor is from a clinic or private hospital).
7. Photocopy of the beneficiary's identity card.

B. Other Documents Required by the Insurance Company

1. In the event of violent death (accident, suicide, homicide and assassination), the following documents are required: a report from the Police, a report from the office of the public prosecutor and a certificate from the forensic medical examiner (state pathologist).
2. When the insured has been taken to a medical centre, the ambulance report from the ambulance that took the insured to such centre will also be required.

C. Specific Documents for Savings Insurance

1. Certification of the savings accounts' balances, issued by the accountant of the savings provider, at the date of the insured's death.
2. Photocopy of the savings account book or statements, showing the transactions recorded during a minimum period of two years prior to the date of death. These documents must have the signature and seal of the accountant.
3. For claims where balances of fixed term savings are included, a photocopy of the recorded transactions during a minimum period of one year is required.
4. Photocopy of the application form completed by insured at the time of joining the institution.

D. Specific Documents for Loan Protection Insurance

1. Certification of the debt balance at the date of death, issued by the accountant of the loan provider.
2. Photocopy of the loan repayments record or statements. These documents must have the signature and seal of the accountant.
3. Photocopy of the loan application form.
4. Photocopy of the loan contract.

E. Specific Documents for Special Life Insurance

Original copies of the insured's Certificate and Consent form.

F. Specific Documents for Total and Permanent Disability for Savings Insurance

1. The claimant's declaration under oath, legalized by notary public.
2. Certification or Photocopy of identity card.
3. Medical certificate, with an opinion on the disability.

4. Written evidence of the accident by competent authority (Fire Brigade, Police Force, other emergency services).
5. Certification of savings accounts' balances, issued by the accountant of the savings provider, at the date of the insured's disability.
6. For claims where balances of fixed term savings are included, a photocopy of the recorded transactions during a minimum period of one year is required.

G. Specific Documents for Total and Permanent Disability for Loan Protection

1. The claimant's declaration under oath, legalized by notary public.
2. Certification or photocopy of identity card.
3. Medical certificate, with an opinion on the disability.
4. Written evidence of the accident by competent authority (Fire Brigade, Police Force, other emergency services).
5. Certification of the debt balance at the date of disability, issued by the accountant of the loan provider.
6. Photocopy of the loan repayments record or statements. These documents must have the signature and seal of the accountant.
7. Photocopy of the loan application form.
8. Photocopy of the loan contract.

H. Specific Documents for Daily Income

1. Benefits payment specific form for daily income.
2. Written evidence of the accident by competent authority (Fire Brigade, Police Force, other emergency services).
3. Certificate from the public or private hospital where the insured received medical care. This must include a description of treatment given and the exact dates of the patient's admittance to and discharge from hospital.
4. Photocopy of the insured's identity card.

I. Special Cases: Advance Payment of Benefits for Special Life Insurance Claims

To grant an early payment of benefits in this plan, the insurance provider must take into consideration the following aspects:

- ✓ That there is no exclusion limiting the payment of an advance
- ✓ The beneficiary must present the insured's death certificate and identity card
- ✓ Photocopy of the beneficiaries' identity card
- ✓ The insured's certificate and consent form

The Cooperative will make an advance payment of 50% to the beneficiary. Then, when the file has been dealt with and approved, the Insurance Company will repay the 50% to the Cooperative and the difference will be paid to the beneficiary.