Kashf Foundation Focus Note Series
August 2024

Bringing Micro Pension Scheme to Low Income Women

Kashf Foundation partnered with EFU to bring a micro pension scheme, Khushal Mustaqbil Plan (KMP), for low income women. The focus note brings forth Kashf's experience of developing and implementing the product in eight of its branches over a course of eight months

Barely 10% of the paid workforce across developing countries is in formal employment and covered by occupational pension and retirement savings program. The remaining 1.2 billion of self-employed, non-salaried workers across Asia, Africa and Latin America are excluded from such arrangements[1]. Access to reliable financial instruments is not only important to achieve short and long term financial goals but also provide easy access to the premium amount in case of financial emergency.

Micro pension scheme is a relatively new phenomenon and an innovative form of pension insurance for people with flexible and uncertain working pattern. It is a financial security scheme designed for individuals at the lower end of the economic spectrum[2]. Micro pensions have the potential to positively enhance financial security in crisis, encourage saving behavior and subsequently economic stability.

Micro pensions can typically be classified as voluntary or quasi-mandatory defined contribution schemes[3]. Different models of micro pension have been developed over the last two decades in India, Bangladesh, China, Philippines and other developing economies[4]. These include,

1) A partner agent model served by MFIs, NGOs, banks and other financial and non-financial institutions. This model leverages various stakeholders to deliver pension products to those who may not have access to traditional pension system.
2) Grameen model with compulsory savings under a micro pension scheme. Under this scheme, the mandatory contributions are deposited into individual savings account. Overtime, the compulsory savings accumulate and are invested by the pension fund provider. The fund grow through returns generated on investments.
3) Agency model where agents sell micro pensions to client. The agents are typically local individuals or small business owners who sell micro pension scheme to low income individuals.
4) A less formal community led model is a grass root approach to providing pension products to the underserved segments. The model is driven and managed by the community, which plays an active role in design,

[1] "Nigeria's New Micro-Pension Scheme". Enhancing Financial Innovation and Access
[2] "Effect of Micro-Pension Uptake on Performance of SMEs Operating within the Informal Sector of Nigera". 2023. Journal of Research in Economics
[3] Asiamah, E. 2023. "The Effect of Financial Literacy on Participation in the Informal Sector Personal Pension Scheme in Accra, Ghana." Open Journal of Business and Management
[4] "Micro Pensions in Developing Countries: Implications and Policy Relevance", July 2024. Center for Retirement Research at Boston College

implementation and management of the pension schemes.

Assessment of various models show the presence of microfinance industry in numerous micro pension projects by dint of their understanding of the informal segment's needs and their grass root presence making delivery of the pension product feasible.

In Pakistan, the provision of regular pensions is limited to the formal sector. The pension cover is provided through tax funded scheme for government employees, Employee Old Age Benefit Institute (EOBI) for private sector employees and Voluntary Pension Savings (VPS). It is estimated that collectively these programs cover 10-12% of the total labor force while leaving 72-75% of the informal workers in the country largely underserved. Therefore, the potential for micro pension schemes in Pakistan is large due to non-availability of reliable safety nets in the country that extend services to low income households and informal segments. This leaves a huge gap in product development that could caters to the unique security needs of low income households like small and frequent premium collection in line with the income levels of the low income segments and ensuring easy accessibility to the premium amount.

Responding to this gap in service, Kashf Foundation partnered with EFU to bring a pension scheme for women. The focus note showcases Kashf's experience of developing the product and experience of piloting it for eight months.

A. Path Leading to Micro Pensions

Realizing the lack of favorable financial instruments to enable low income households to achieve financial goals and cover emergency expenses, Kashf Foundation has tested various models to encourage savings and develop safety nets for women micro entrepreneurs. In 2010, Kashf experimented with a kisok model where an MFB created a bank led saving account in its branches for Kashf clients. The savings were accessible through a kiosk. Through a pilot in 5 branches, Kashf was able to open 12,000 accounts with an average balance of Rs.747. The project was discontinued due to high cost of model to the MFB and to the client.

Post this, a new agency agreement was experimented where Kashf became the agent for a commercial bank with retail Branchless Banking (BB) channels/segments to help mobilize savings for low income clients. Account opening linked to client's mobile number was undertaken at Kashf's branch through biometric verification. Clients could access their savings from Kashf's branch and through BB agents.

A financial education training was also run to impress the importance of formal savings among clients and to educate them on the saving product. Under the pilot, Kashf was able to open around 23,000 accounts with an average saving balance of Rs.1,200. The pilot was discontinued due to delivery, access and control issues.

However, these experiences helped Kashf understand the priorities of the low income women. They showed that while low income households save, they prioritize mediums which allow them flexibility, easy and free withdrawal and return on their savings.

These learnings relating to financial aspirations and priorities informed product development in 2023, when EFU and Kashf got together to bring a micro pension scheme for low income households.

B. Khushal Mustaqbil Plan (KMP)

Kashf Foundation and EFU entered into an agent and partner agreement where Kashf would be responsible for disbursing the product and dealing with all other technical dimensions relating to execution, and EFU would be responsible for the underwriting, rating or privacy of the insurance related offerings.

Once the agreement was signed between Kashf and EFU, a series of discussion ensued between the teams on product features that will be offered through the pension scheme, Khushal Mutaqbil Plan (KMP).

The discussion revolved around the premium amount and benefits, withdrawal limit, penalty on early withdrawals if any, other incentives etc. After a series of discussions spanning months, the following product features were finalized:

1. Pension scheme bundled with credit product

Khushal Mustaqbil Plan (KMP) was offered as a bundled product with Kashf's 12-month business loan. The product was offered to clients who had completed at least two loan cycles with Kashf.

2. Monthly Premium

The monthly premium of Rs.1,000 (silver plan), 1,500 (gold plan) and 2,000 (platinum plan) was offered under the pension scheme. The clients would choose the premium of their choice at disbursement and would continue to pay the KMP premium with monthly installment of their loan.

3. Policy Duration

KMP was offered as a three year policy with completion terms of 12, 24 ad 36 months. Since KMP was offered with a 12 month business product, the policy would continue if the client renews her loan within 30 days of loan completion.

4. Premium Benefit

While no benefit was offered if the policy is discontinued after a year, client would benefit from one additional monthly premium in case the policy continues for two years, and with four additional premiums if the client completes the three year term.

5. Flexibility in Withdrawals

Understanding the credit needs of low income households, the flexibility of being able to withdraw the premium amount under was given to clients.

Though no penalty was charged on early withdrawal, the frequency of withdrawal was limited to twice a year, anytime that the client would deem fit.

6. Encouraging consistency

To encourage regular contributions, offers like opportunity to participate in raffles and lucky draws for Umra tickets were floated for clients who would not withdraw the premium amount and continue to pay their monthly installments on time.

However, to accommodate for an emergency need, client were able to avail benefit from the policy even if she withdraws in a year but continues with the policy without withdrawing for the remaining two years.

7. Contingency Cover

The pension scheme provided cover to the client for unforeseen circumstances in case of disability or death, in event of which, the client's family would be provided with the benefit of the policy year.

Through the product, Kashf aimed to provide low income households with an instrument to reach their financial goals, build resilience by allowing access to the premium amount in case of emergency and improve client's relationship with the institution.

The pilot was initiated in eight Kashf's branches; five in Lahore and three in Kasur. Over the course of the pilot, Kashf aimed to reach 5,000 clients over the course of a year.

KMP Pilot Results: Major Findings

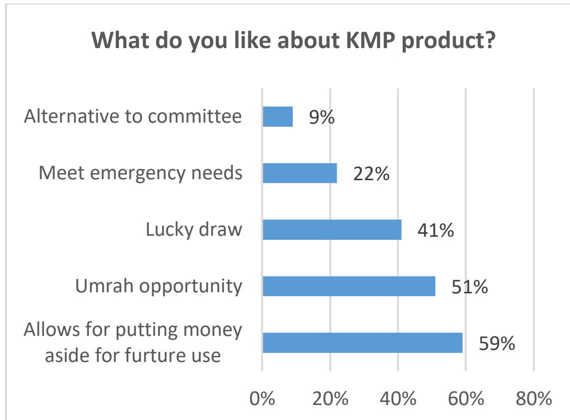
Since pilot initiation in December 2024, 5,676 women have been enrolled under the policy. Interestingly, 97% of the women opted for a silver plan, 2% gold and 1% platinum. The choice of the premium was determined by client's ability to contribute regularly, but more so, from their cautious approach towards the new product.

A detailed marketing and training plan was also chalked out to help the staff members and clients to understand the product features and benefits associated with it.

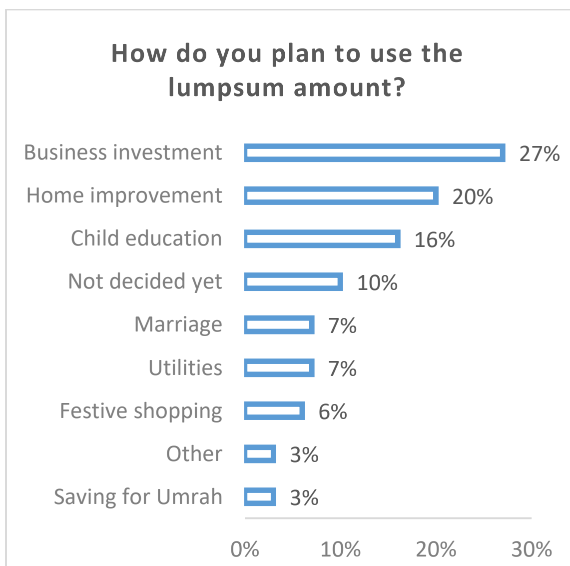
While Kashf undertook periodic assessments with staff and clients to monitor the uptake of KMP, Kashf Foundation gathered feedback from 100 KMP clients across eight branches in July 2024, employing stratified random sampling[5], to understand their opinion on product features and satisfaction with the service.

81% of the respondents felt that KMP was an extremely useful scheme for them. When asked about why they found the scheme useful, 81% said that it was because it allowed them to put money aside to meet larger expenses in the future and to cover contingency expense.

On what product features did the respondent like the most, 59% said that the it was simply that the facility allowed them to put money aside to meet future expenses, followed by opportunity to partake in lucky draws for Umrah ticket and other prizes.



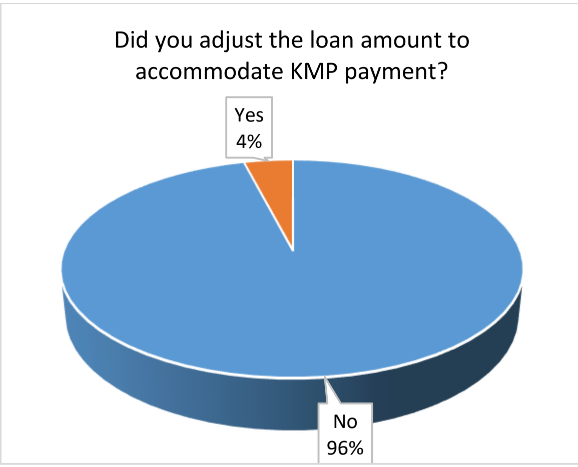
On what did they plan to do with the lump sum amount once the policy matures, about one-fourths said they plan to invest it in their business, 20% in home improvement and 16% on children's education.



[5] 95% Confidence Interval and 10% Margin of Error

Kashf was also conscious of the increase in monthly installment due to KMP and how it will impact the client's decision to take credit for business investment.

96% of the respondents did not report adjusting their loan amount due to KMP and 88% respondents said that they would be willing to repeat the business loan bundled with the KMP product.

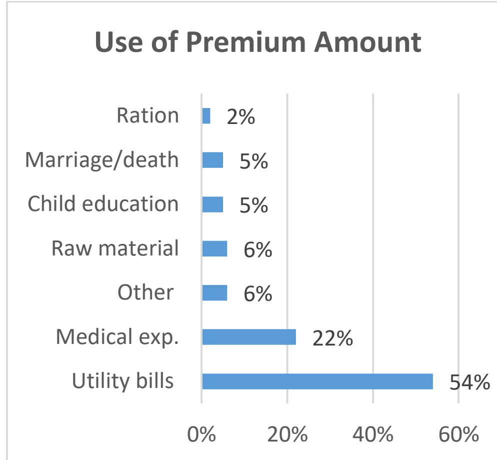


On satisfaction regarding product, 82% respondents reported being more satisfied with the credit product now that pension scheme has been bundled with it, than they were before. The net promoter score for the credit product also increased when KMP was bundled with it compared to the NPS for the regular KKK product, indicating improved relationship with the organization.

Net Promoter Score[6]

KKK- 2024	KMP 2024
45%	51%

As of June 23, 1.2% of the respondents withdrew from the premium amount that they deposited with the installment. Data collected from client at the time of premium withdrawal showed that 54% of the respondents withdrew the amount to pay utility bills and 22% for medical treatment.



Kashf called half of these clients to gauge satisfaction with the withdrawal process and their experience with KMP in general. Almost all the respondents reported receiving the money in a day or two and were satisfied with the withdrawal process.

All the clients said that the amount they received helped them in tackling emergency expenses and other basic needs. Respondents were asked what would they have done in the absence of KMP to fulfil these expenses, 80% respondents said they would have borrowed from relatives, 13% would have delayed expense and 7% said they would have borrowed from other MFPs.

For respondents who reported delaying he expense, one used KMP to fulfil medical expenses and the others for paying school fee and in fulfilling basic needs.

Responses on the use of KMP show the potential of the product in enhancing resilience of low income households and in helping them cope with necessary and unexpected expenses.

[6] Net Promoter Score®, or NPS®, measures customer experience and predicts business growth.

Way Forward

Based on the favorable reception of the product from clients in the eight pilot branches, Kashf Foundation will be rolling out the micro pension scheme, Khushal Mustaqbil Plan (KMP) in all of its branches, across Pakistan, over the course of the next six months.

Going forward, Kashf was not only able to negotiate maturity benefit for clients in the first policy year, but was also able to increase benefits for all maturity periods. Moreover, other than the three premium options of Rs.1,000, 1,500 and 2,000, clients will be offered five premium options to choose from.

Considering client's enthusiasm around raffles and Umrah, with rollout to other regions, the frequency of these events was also negotiated to increase with expansion.

The overwhelming response to the pension scheme, which was introduced in the form of KMP, is a testament of the existing demand for reliable safety nets for low income families. With economic downturn further depleting the income and resources of the poor, scheme like these have become more important than ever in allowing low income households fulfil their long and short term financial goals and to meet emergency expenses when needed. While financial providers need to reorient their focus on developing products that are in line with the needs of the poor, especially women, regulators have a central role to play in enabling client's access to such instruments by supporting innovation through public private partnerships.

Success of financial instrument like these rely heavily on cascading product knowledge among the clients and responding effectively to fears and misconceptions, if any. It is essential for organizations implementing these models to establish clear communication strategies and financial education campaigns for the clients to enable them in making financial decisions that best suit their needs.

Author: Anaum Ather Rana
Phone: +92 (42) 111 981 981
E-Mail: info@kashf.org
Website: www.kashf.org