COMPARATIVE RISKS ANALYSIS OF MICRO-FINANCE INSTITUTIONS

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ABSTRACT

Microfinance Institutions (MFIs) in Kenya provide financial services to a wide spectrum of clients. The perception exists that the micro lending industry in Kenya is a high risk industry. Greater need is thus posed for the industry to be regulated by the National Credit Act. Due to the entrepreneurial nature of the micro lending industry in Kenya, risk management should be an integral part of every MFI in Kenya in order to maintain control and ensure sustainability. The study addresses critical risks affecting micro-finance institutions operating in Kenya, the strategies used by MFI to deal with their risks and the relationship between financial risk management strategies and the growth performance of microfinance sector in Kenya. The results from the study revealed that financial risks are the greatest source of risks at 40% with social risks having the least risk as represented by 23.33%. In this respect it indicated that MFIs need to develop ways to manage the risks and especially financial risks is very important. The study identified that the focus on new product development is a response to growing competition in the microfinance market. The study recommends that the MFIs should continue practicing effective financial management practices considering factors such as the collateral of borrower, the capacity to borrow, the liquidity ratio of the organization as well as the ability of the company to meet its operational costs. If management in the microfinance industry understands the risks in the industry and has the tools to manage these risks, together with the understanding of the profile of the ideal client, it will enable them to ensure sustainability of their businesses as well as address the financial needs of the lower income end of the market in Kenya in the best possible way.

Keywords: *Microfinance,Risks ,Income, Liquidity ration*

1. INTRODUCTION

(*BACKGROUND INFORMATION*)

The potential of using institutional credit and other financial services to alleviate poverty in Kenya is quite important. Approximately 18 million people which are about 60% of the Kenyan population are poor. Significantly they are out of the scope of formal banking services. For instance taking the case for Nairobi about 90% of the majority of households live below an estimated poverty line of Ksh.4, 032.per month and over half of households live below the absolute poverty line estimated at ksh.9, 678.00 per month. Most of these population have no access to clean water, are poorly housed, cannot afford transport and health services (Republic of Kenya estimates, 2004).The Daley-Harris (2007) Microcredit Summit Campaign Report has it that there are about 5,350 MFIs in the country due to the criteria adopted by the Central Bank in Kenya whereby the microfinance sector is composed of commercial banks, development finance institutions, deposit-taking and non deposit-taking microfinance institutions. In Kenya microfinance institutions play quite a significant role in relation to the development of Micro and Small Enterprise (MSEs).The National Micro and Small Enterprise Baseline Survey (Parker and Torres, 2010) shows that there are close to 1.3 million MSEs employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the MSEs receive credit and other financial services. The formal banking sector in Kenya over the years has regarded the informal sector as risky and not commercially viableIn the International labour organization (ILO) 2000 report, micro-finance institution is a sub-sector of the already established finance institution. The Kenyan micro-finance industry is one of the oldest and most established in Africa. Interest in the formal sector in Kenya started as far back as the early 1970's after the seminal ILO report on employment was issued in the Kenyan in 1972. This report for the first time identified the informal sector as a potentially important contributor to employment and growth in Kenya and other developing countries.There has been a gradual shift in interest and resources towards assisting the informal sector in a variety of ways for example relaxation of entry requirements for micro-finance (Aleke Dondo, 2003), setting up of Jua kali sheds in all major towns, introduction of technical subject in educational curriculum, licensing of more micro-finance institutions e.g. the Kenya women finance trust (KWFT). In the 1970's the main organizations providing credit to the informal sector were church based organizations like te national council of churches of Kenya (NCCK) and other smaller churches based non-governmental organizations. These programmes were heavily subsidized and were ad-hoc addition to other social outreach programmes offered to the poor. In the 1980's other specialized organizations began operating. Two major organization included KREP, which started as a subsidiary of a U.S based NGO and Kenya women finance trust (KWFT). These organizations were heavily subsided at the time and used the integrated (credit and training) approach to assist micro-enterprises. KREP initially had a limited loan portfolio but focused on lending funds provided by USAID and other donors to smaller organizations like NCCK, KWFT etc.

Aleke Dondo (1994) presents that interest and knowledge about the micro finance industry had grown substantially by early 1990's and the approach to the industry began to become more focused and sustainability oriented as such it had become an important source of finance to small scale entrepreneurs Kenya. Aleke identified that Microfinance institution play quite a major role in servicing the needs of rural small-scale farmers and micro-entrepreneurs through innovative microfinance projects.

Parker and Torres (2010) found that 72% of sample saved with and borrowed from microfinance. A few specialized, product based institutions began to emerge in the sector as many churches based organizations died out or collapsed due to lack of funding. The most prominent institution that emerged were KREP, KWFT, PRIDE, FAULU and increasingly other institutions like NCCK and CARE-WEDCO. All of these institutions continued to be reliant on donors' funds although KREP has been licensed as a bank and is scheduled to operate as a commercial institution. Microfinance sector has grown to a significant size for example k-rep had by 2010 disbursed a total of 30,222 loans totaling up to us dollar 19.m on 17,000 borrowers (Parker and Torres, 2010,). Kenyans population growth rate has been growing fast with estimate of 28m in 1996. Of this 45% being under 14 years, 53% being between 15-50 years with 2.3% growth rate (source; The Economic Survey 2004, Central Bureau of Statistics).Bouman (1989) presents that majority of microfinance institutions still have limited *access* to bank services to support their initiative. These composite factors have resulted into growth in the unregulated micro-finance, which has subsequently lend to the formulation of micro-finance bill waiting parliament approval. The MFIs face such risks as social- family breakup, crime, natural-landslide, drought, political-licensing, discrimination etc.

2. LITERATURE REVIEW

Preker A. (2001) gave insights on social risk management in rural areas of low-income countries, establishing that life cycle, social and structural risk that can affect the rural based savers hence affecting the micro finance. Preker identified that practices to manage finances among rural based savers involved the establishment of micro-finance institutions which would come with a wide range of benefits to low-income individuals by pooling their risks in a manner that is affordable to them. As per Leonard Mutesaira et al (2001) savings and credit SACCOS grew from handful to thousands of members and are best placed for savings mobilization from poor but are fraught with historical problems ranging from management capacity to fraud. They suffer from opaque governance and poor accounting and management system hence member has little of financial status of Sacco.

Martina I Hulman (1999) studied the financial service for the poor and poorest which depended understanding to improve provisions and development research. Van Greuning et al 1998 of World Bank used micro finance institutions to highlight distinguishing features of different types of micro finance and focus on risk taking activities.

Mayara kabage (2004) states that the Kenya cooperative Act, (1997*)* gave Sacco's greater autonomy with the main responsibility and supervision vested in the members hence leaving the Saccos prone to mismanagement and corruption.

Micro-save Africa, (1998) indicates that micro finance remains primo supply endeavor with limited methodologies applied to provide mainly working capital loans to poor micro-enterprise. Micro-save Africa further presents that Industry practitioner and experts have increasingly recognized that the poor requires wide range of financial services to manage risks and welfare, which in turn have direct effect on micro-financial activities.Robert Christen, (1995), said non-governmental organization especially micro-credit don't have a legal charter authorizing them to engage in financial intermediation. Government, NGO, Donor and practitioners are talking about legal structures for micro-finance of developing countries.

Hossain M. (1999) in micro save Africa argues that micro finance is unlikely to achieve anything like its potentials unless it can be done in licensed and regulated environment, therefore prudential regulation and supervision of micro finance is a topic that will unquestionably need to be addressed. More attention needs to be paid to reforming a regulation that makes it difficult for micro finance to operate efficiently and effectively.

1)

In discussing the role of microfinance services in helping clients manage risk, Rutherford Stuart (2000) considers risk in terms of shocks and economic stress events that require people to spend lump sums of money not readily available. In this light, the WDR research identified client's vulnerability to shocks as a core aspect of poverty. Financial services provide the means for poor households to transform small sums of savings into usefully large lump sums, and therefore can go a long way in decreasing vulnerability. The study found that MFIs play more of a role in helping clients protects against risks ahead of time than cope with shocks after they occur. Richard Rosenberg (1998) argues that Microfinance services play a crucial role in protecting against risks ahead of time. The field research shows several strategies that individuals and households use ahead of time to protect against risk. These strategies include diversifying income sources, building up physical, financial, human and social assets, and focusing on good money management. Financial services play an important role in this process. Loans enable clients to take advantage of opportunities to build and diversify all kinds of assets that can be drawn upon in times of need. Clients use loans to diversify their sources of household income and smooth income flows and consumption. They invest in enterprise fixed assets, financial assets, and physical assets, particularly housing. It's also used by clients, to build, human assets, particularly the education of children and health care ((Asaolu, 2001).

Participation in microfinance programs provides women access to knowledge and information that helps them to interact in the outside world and permits the building and strengthening of social networks (Hossain, 1988;Schriederand Cuevas, 1992). Women value group memberships, a component of social assets, in protecting against risk. By increasing women's economic contributions to the household, participation in a microfinance program can help improve their sense of self-esteem and control over assets. All of these assets increase the options and resources available to households in the event of a shock or stress event.

Maintaining access to MFI program credit, in itself, is a protection risk management strategy for many clients. They go to great lengths to ensure repayment, particularly when confronted with a crisis or shock, often by mobilizing informal sources of finance to ensure repayment, inter-group/social cohesion pooling of risky hence creating informal insurance (Zeller, 1998). Repayment means access to a new loan to start back on the road to recovery, to restock a microenterprise, to rebuild a house, to pay school fees. The role of financial services in coping with shocks or economic stress events is quite essential. Once a shock or stress event occurs, people use various coping strategies: they modify consumption, raise income by mobilizing labor or selling assets; they draw on informal and formal savings, and draw down claims on informal group-based insurance mechanisms. The Micro-save Africa (Asaolu, 2001) field studies suggest that clients generally use low to medium stress strategies in coping with loss – modified consumption, labor mobilization and informal borrowing from friends and relatives. They seek to conserve productive assets and thus maintain income-earning potential when possible. Across countries, clients were reluctant to withdraw children from school, cash in savings, or sell productive assets. In general the study showed that, clients tend to use informal sources of credit more often than MFI credit to cope with losses following a shock. When they were used, MFI services were only accessed when other sources were exhausted or failed. Clients reported using MFI loans following shocks to recover lost stock, make repairs on premises or equipment, or start alternative or additional business activities. In some cases they cited using their loans directly to smooth consumption but less frequently than expected.

2) The nature of the risks facing clients in MFIs is quite essential. CARD Bank survey, phillipines (1999) shows that Microfinance clients at all poverty levels face frequent and wide-ranging risks. This reality is best summed up by a CARD Bank client from the Philippines, "... life for the poor is one long risk." There are many sources of risk: structural factors such as seasonality, inflation, or the vagaries of weather; unexpected emergencies such as sickness or unexpected death of a family member, loss of employment, fires and theft; and the high costs associated with life cycle events such as marriage, funerals, and educating children. There are risks associated with operating an enterprise or taking a loan as well.

The clients interviewed cited illness as the most prominent source of risk, followed by the death of a family member and accidents. Enterprise risk was frequently mentioned in Bolivia and the Philippines, countries that have experienced large and rapid structural changes in their economies. The risk of taking a loan was mentioned, especially among first-time borrowers and older clients with larger loan sizes. Daniels et al, (1995). The risk of default and losing access to a valued financial service can be compounded by the loss of self-esteem, confidence, and social assets. Atieno M. (1994) states that the lending policies used by the main credit institutions in Kenya do not ensure efficient and profitable use of credit funds especially by farmers and so results in the disparity between demand and supply. Daniels et al ,(1995) further enhanced that whereas credit is important in enterprise expansion it may lead to contraction when not given in adequate amounts.The primary product design challenge emerging from this research is the needs to design products beyond credit that can help a broad spectrum of clients mitigate the various types of risks they face and cope with crises after they have occurred. Flexible savings and insurance, and housing, education, and emergency loans are examples of potential products that could improve clients' ability to deal with risk. The microfinance industry should focus on improving upon existing loan products and finding ways of introducing a broad array of products that enables clients to reduce their vulnerability to risk. One of the most important distinctions affecting how men and women use microfinance is that women must juggle family care and community management roles in addition to their productive work. A crucial part of women's reproductive work in many poor households is managing income and assets in order to protect the family from the risk of economic shocks. When possibilities for asset building are limited, the role of such risk management may be as or more important than income-generation in preserving a household's standard of living. Consequently, for the poorest households, the protective function of microfinance may be more important than its promotional function. Yet, in the past there has been a "narrow definition of financial services for the poor as inputs for financing production rather than broadly defined financing for all aspects of household investment."[33] This section describes how an expanded vision of microfinance is seeking to better support women's role of risk manager in the household, using both specially tailored credit products as well as innovative new types of financial services. (Chen and Dun, 1996)

There are many sources of risk that must consider in the daily management of their households, from structural factors such as seasonal effects, inflation, and the vagaries of weather, to emergencies including the sickness of a family member, loss of employment, fire, or theft. Life cycle events such as births, marriages, and deaths are also sources of risk because of the high financial costs associated with them in many societies. Finally, other type of risk is financial risk which is the unexpected variability of returns and thus include (Finance dictionary, 2009). Financial risk includes credit risks, liquidity risks and market risks. Credit risk is the risk that a borrower will be unable to make payment of interest or principal in a timely manner (Scott, 2003). The Farlex finance dictionary (2009) defined liquidity risks as the risk that an individual or firm will have difficulty selling an asset without incurring a loss. The Dictionary of Financial Terms (2008) defines market risk (systematic risk) as risk that results from the characteristic behavior of an entire market or asset class. Market risks are environmental in nature and encompass risks that might arise from financial losses due to changes in market interest rates (interest risk), or due to inadequate protection from fluctuations in currencies (foreign exchange risk), or due to long term asset and liability management (investment portfolio risk).

TABLE 1: RISK MANAGEMENT STRATEGIES AND THE ROLE OF MICROFINANCE

Risk Management Strategies	Role of Microfinance
Income Smoothing	**Promotional Role**
• Income generation • Asset Creation	• Provision of credit for income-generating activities
Consumption Smoothing	**Protective Roles**
• Contributions to insurance • Saving • Modifying consumption • Borrowing	• Micro insurance schemes mechanisms • Savings facilities • Savings withdrawals or insurance proceeds to fulfill immediate consumption needs • Emergency loans

(Source: Micro-save Africa, 2000)

The strategies poor people typically employ to minimize the risk of economic shocks fall into two main categories: income smoothing and consumption smoothing. Income smoothing refers to measures taken to reduce the probability of income shocks before they occur, and includes strategies like diversifying income sources; making low-risk production and employment choices; building up physical, human, and social assets; and ensuring good financial management.

Consumption smoothing, on the other hand, is aimed at protecting consumption patterns from the impact of shocks, and can take effect either before or after their occurrence. Post-shock responses include modifying consumption, raising income by mobilizing labour or selling assets, drawing on informal or formal sources of savings, or activating claims on informal insurance mechanisms. Microfinance can also reduce gender-specific risks for women by helping them increase their decision-making power and control over assets. This dynamic was illustrated by a study of female participants in BRAC's microlending programme in Bangladesh. This programme revealed that women's control over assets increased with their access to larger loans, and that greater loan sizes were associated with higher scores on knowledge variables, such as awareness of the legal way of divorcing or of local officials' names. These findings confirm that participation in microfinance programmes can help women increase their knowledge of the outside world, enhancing their bargaining power and assisting them in building and strengthening social networks. All these dimensions of women's empowerment reduce their vulnerability to economic (and sometimes noneconomic) threats. (Mansuri, 2003).

3)

There exist several financial risk strategies that may be used to address the financial risks such as Loan size limits which mitigate an MFI"s exposure, especially to new clients who do not have collateral, Standardised (simple) loan terms, Zero tolerance on delinquency and Group-based lending. Diamantini (2010) asserts that MFIs are particularly vulnerable to foreign exchange rate risk, since they operate in developing countries where the risk of currency depreciation is high. Furthermore, extreme currency depreciation tends to be highly correlated with a general deterioration of local economic conditions, which can cause higher loan delinquencies and a reduction in profitability of financial activities.

3. RESEARCH METHODS

3.1 Research Design

The study used descriptive which involves expert interview from 30 respondents drawn from micro-finance institutions and correlational survey research design which involves exploration of relationships between variables

3.2 Population and Sample Size

A population of microfinance institutions was identified in both agriculture and non agro-based using the register in the Ministry of finance, 300 MFI. A sample of 15 MFIs was gotten whereby the staff underwent random selection and from the each of the organizations 2 respondents were gotten. The total sample size of 30 respondents was the one drawn from the 15 MFIs.

3.3 Area of study

The study covers 20 micro-financial institutions which according to available data their reports and staff responses provides a broader and clear picture of the critical risk facing microfinance institutions in Kenya. With reference to MFIs in Kenya in relation to their risks and the management strategies used, assessed in the study include; Faulu Kenya , Kenya Women Finance Trust, Jamii Bora, UWEZO, Rafiki, ECLOF, AAR Credit Services, BIMAS, SMEP
Microafrica Kenya Ltd, Musoni Kenya Ltd, Platinum Credit, Opportunity Kenya, Jitegemea Credit Scheme and Remu.

3.4 Linear regression model

The study asssumed the linear regression model

$$\mathbf{Y=\alpha+\beta X_1+\beta X_2+\beta X_3+ u} \qquad \mathbf{[1]}$$

Where Y= Growth of MFIs

α= constant (intercept)

β= slope (gradient) showing rate dependent variable is changing for each unit change of the independent variable.

X_1= collateral consideration
X_2= capacity of borrower
X_3= capital of borrower consideration
u = Error/disturbance

4 . RESULTS AND DISCUSSION

4.1 Sources of Risk comparison

Financial aspects are the greatest source of risks as shown by 40% of the respondents, direct physical assets 20%, operational16.67% and social 23.33% hence the way the MFIs operates to manage financial risks is very important.

TABLE 2 : COMPARISON OF RISKS

	Frequency	**Percentage**
Direct physical assets	**6**	**20.00**
Financial	**12**	**40.00**
Operational	**5**	**16.67**
Social	**7**	**23.33**
Total	**30**	**100**

Source: Survey Data

Answer the following questions, using the scale 1 (agree), 2 (disagree) to 3 (no response) and the intermediate values. Leave blank if you do not know the answer: the response was as following.

4.2 Responses on the Methods Used By MFI to manage financial Risk

Answer the following questions, using the scale 1 (agree), 2 (disagree) to 3 (no response) and the intermediate values. Leave blank if you do not know the answer: the response was as following

TABLE 3: RESPONSE TO METHOD OF MANAGING FINANCIAL RISK

	1	2	3
Collateral consideration.	24	0	6
capital of the borrower consideration	25	2	3
capacity of the borrower	21	9	0
stringent debt collection practices	24	5	1
liquidity ratio	19	3	8
ability to pay of operational cost	22	8	0
Protection from market interest rates (interest risk).	19	8	3
protection from fluctuations on long term asset and liability management (investment portfolio risk	17	3	10

Source: Survey Data

The study established that a majority (80%) of the respondents agreed with the statement on collateral consideration. Therefore, MFIS should consider collateral of the borrower in order to reduce the financial risks. The findings imply that the MFIs under study have credit procedures which help in collateral consideration for the borrowers. A majority (83.33) agreed with statement on capital of the borrower considerations. Therefore, the findings present that MFIs should consider the capital of the borrower as a way to reduce the financial risk. The findings imply that the MFIs under study have put in place sound financial risk management strategies. The findings of the study indicated that (70%) agreed with statement on capacity of the borrower. This shows that MFIs should consider capacity of the borrower as a way of militating against financial risks. It is thus implied that that the MFIs under study requests borrowers to give proof of their ability to service the principal and the interest on loans advanced to them. Study showed that majority (80%) agreed with statement on stringent debt collection practices. This shows that MFIs needs to employ stringent debt collection practices as a measure of safeguarding against financial risk. It is thus implied that the MFIs have put in place stringent debt collection for the purpose of reducing the risk of default. A majority (63.33%) agreed with statement on liquidity ratio. In this respect the financial institutions are required to put in place liquidity risk management thresholds as part of the overall risk management framework. The finding implies that MFIs have put in place effective liquidity risk management practices which form part of the overall financial risks management strategy.

Study outcome revealed that a majority (56.67%) agreed with statement on protection from fluctuations on long term asset and liability management (investment portfolio risk). In this respect MFIs should safeguard themselves against price risk hence mitigate against financial risks. It is thus implied that MFIs experiences adequate protection from fluctuations on long term asset and liability management (investment portfolio risk) and this being part of an overall financial risk management strategy may have influenced the growth of MFIs.

4.2 Validation of the Model

Regression analysis shows that financial risk management strategies are a significant determinant of growth in MFIs. Regression results in **table 4** Indicates the goodness of fit for the regression between financial risk management strategies and growth is satisfactory. R squared of 0.801 indicates that 80.1% of the variations in growth are explained by the financial risk management strategies hence relevance of the study. The relationship between financial risk management strategies and growth is positive and significant (X=0.801, p value, 0.00 <Sig. F change>) as indicated in **table 5**. This implies that an increase in the effectiveness of financial risk management strategies by 1 unit leads to an increase in growth by 0.801 units.

TABLE.: FINANCIAL RISK MANAGEMENT STRATEGY AND GROWTH

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.895[a]	.801	.764	2.4799809	.801	21.516	3	16	.000

a. Predictors: (Constant), CAPITAL, CAPACITY, COLLATERAL

TABLE 5: FINANCIAL RISK MANAGEMENT STRATEGY AND GROWTH

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	396.985	3	132.328	21.516	.000[a]
	Residual	98.405	16	6.150		
	Total	495.389	19			

a. Predictors: (Constant), CAPITAL, CAPACITY, COLLATERAL
b. Dependent Variable: % CHANGE IN GROWTH

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	117.085	99.782		1.173	.258
	COLLATERAL	4.334	3.016	4.264	1.437	.170
	CAPACITY	-2.857	2.582	-2.929	-1.106	.285
	CAPITAL	-2.186	1.595	-1.561	-1.370	.190

a. Dependent Variable: % CHANGE IN GROWTH

5. SSUMMARY OF THE FINDINGS AND CONCLUSION

5.1.1 SUMMARY

The findings showed that o financial risks are the greatest source of risks as shown by 40% of the respondents, direct assets 20% , operational 16.67% and social 23.33% hence the way the MFI operate to manage risks and especially financial risks is very important. As the microfinance industry matures, service providers are increasingly concerned with developing new and better products. This focus on new product development is a response to growing competition in the microfinance market, the search for more defined market niches, and some anxiety about dropout rates. Following the study results, it can be recommended that the MFIs should continue practicing effective financial management practices considering factors such as the collateral of borrower, the capacity to borrow, the liquidity ratio of the organization as well as the ability of the company to meet its operational costs. Some crucial aspects that need to be addressed as far as critical risks that MFIs face in Kenya is that there is need to ensure improved financial information of the company. Microfinance assessments begin with the information provided by the MFI in its financial statements and operational records. However, this information is not always accurate or complete. The industry has much work to do in developing appropriate and reliable internal information systems, as well as strengthening internal controls and audits.

External audits of MFIs need drastic improvement- Most external audit firms lack experience in microfinance. Non-profit institutions generally pay little for audits and are not attractive long-term clients for large firms, who as a result often assign their least experienced staff to MFIs. MFIs and donor organizations themselves must require a higher standard for the work done by audit firms if the quality of information is to be substantially enhanced.

5.1.2 CONCLUSION

In summary, savings services can help minimize risk for MFI hence increasing their performance. For MFI clients particularly female clients Savings services should;

- **Make savings private, safe, and accessible**; De-link savings from loans, making savings voluntary and open to non borrowers and nonmembers; Enable clients to save small amounts frequently and conveniently; Consider the liquidity and illiquidity requirements of clients when designing savings products; Offer diversified savings opportunities, possibly including contractual savings products or savings accounts for specific life cycle needs; and Manage accounts with transparency and accountability within financially healthy and structurally sound financial institutions, which are governed by effective regulatory structures. Other services that minimize risk include insurance provision, emergency assistance, and loans for asset building. Size of clientele: insurance works by sharing risk across the large population.

- **Balance of risk/controls against adverse selection:** risks covered by insurance should only be able to affect a relatively small portion of the total insured population at any given time. The pool of insured households should include both high- and low-risk cases so that the average risk occurrence is similar to the average in the population at large.

- **Specified risks versus comprehensive coverage**: there is an inherent trade-off between size of premiums and breadth of coverage and/or percentage of costs covered some policies only against specific risks for which the chance of loss can be calculated. Others give broader coverage but only pay a percentage of costs incurred by the client.

- **Controls on moral hazard**: policyholders' ability to influence whether the risk actually occurs must be limited or controlled. These risks are especially high in the provision of health and property insurance following the advantages and disadvantages of direct MFI micro-insurance provision versus partnership with formal insurance providers.

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