V Insurance and the low-income market

13 The psychology of microinsurance: Small changes can make a surprising difference

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Anyone who has struggled to meet a deadline, stay on a diet or save for a large purchase knows how difficult it can be to translate intentions into actions. Many of us struggle when temptation is near, tomorrow's problems seem distant and choices are complex. These realities drive the field of behavioural economics, the branch of research that incorporates lessons from psychology and economics to enrich understanding of how people make decisions.[1]

Ideas from behavioural economics are transforming understanding of financial decision-making. One important lesson is that small changes in the design of products and marketing can sometimes make a surprising difference to how and whether financial products are used.

This chapter draws on behavioural economics ideas and results from laboratory and field research to describe new insights into how households think about losses and gains, weigh present and future trade-offs, struggle with self-control and are influenced by the way choices are framed. These insights may help insurers to improve product design, marketing, insurance education, pricing and take-up. This chapter articulates possibilities and describes examples, from microinsurance and broader contexts, to show practical ways in which behavioural ideas might be deployed to expand access to insurance.

13.1 Small changes can make a surprising difference

The microinsurance sector has grown in the last few years, but significant demand- and supply-side challenges remain. Suppliers are seeking ways to lower transaction costs, develop suitable distribution channels, adopt new technologies and improve organizational structures. These suppliers also realize that increasing demand and creating a culture of insurance in vulnerable communities will require changes in attitudes and beliefs, which can be a slow process *(see Chapter 14)*.

[1] For a broad introduction to behavioural economics, see Thaler and Sunstein (2008); for critical perspectives see Rubinstein (2006) and Güth (2007).

This chapter is a discussion of simpler changes, small adjustments that insurers and delivery channels can make that can have a meaningful impact on how people understand insurance, whether they buy it, and how they use insurance products.

To influence decisions, organizations must: 1) understand how decisions are made; 2) understand the context and "construals" under which poor households operate; and 3) evaluate the factors that prevent action (Mullainathan and Shafir, 2009).

The choices we make are a function of both our personal characteristics and the contexts in which we operate. Traditionally, economists have not paid much attention to the power of context, focusing instead on the internal, personal characteristics of decision-makers. However, experimental research shows that situational factors can influence a person's action in important ways – people sometimes behave very differently when external circumstances are modified.

Another overarching lesson from behavioural economics is the role of "construal". People do not always process information and choices in an "objective" manner. Rather, information is construed, interpreted and processed, based not on the actual state of the world but on our mental representation of the options (Mullainathan and Shafir, 2009). As a consequence, the way choices are framed can matter greatly. Simply providing information is not enough – it is important to understand how that information will be processed.

13.2 Strategies

This section reviews eight situational adjustments that can influence behaviour and explores how framing can influence people's decisions to buy and use insurance.

13.2.1 Keep it simple

When people make decisions, they evaluate the available options and choose the one they like best. Economists have long believed that "rational" people therefore welcome having options – the more alternatives they have to choose between, the better off they are. In traditional economic theory, that is the whole story, but behavioural economics offers a different view.

First, behavioural economics research has shown that adding choices can do more than just increase options; it can change the nature of choice-making itself. This puts a focus on "choice architecture". Choice architecture is the context in which a decision is made and, especially, how options are presented, or framed. The focus is on which options are available and, critically, on how the available options are perceived.

Differences in framing can be subtle, but they matter. Options can be presented alone or in comparison to something else, and the nature and the number of available alternatives for comparison matter.

Consider an example from magazine sales that has parallels to insurers selling a range of bundled products. Ariely (2009) reports on an experiment in which people were offered magazine subscriptions. Individuals were presented with two lists of subscription options. The first list included three items: online only for US$59, print only for US$125, and the combination of "print + online" for US$125. The second list included two items: online only for US$59, and print + online for US$125. In the first list, the choice of "print only" is irrelevant from the point of view of traditional economic theory: it costs the same as "print + online" but the latter provides more value. It so happens, however, that including the "irrelevant" option strongly influences the choice made by individuals: 84 per cent of those asked to choose a subscription option in the first list chose the expensive "print + online" option, but only 32 per cent of those choosing in the second list did. In other words, including an irrelevant item in the list of subscription options increased take-up of the expensive product by more than 160 per cent.

It is not the point of the example to show how to manipulate customers into buying expensive products. Instead, it shows how different combinations of options can shift the focus of customers, often inadvertently. Insurers can test menus of options to keep customers focused on the most meaningful options.

Second, new evidence shows that when people face an excess of options, they can experience feelings of conflict and indecision that can lead to procrastination or inaction. This phenomenon, called "choice overload", can be a real problem when it stands between people and the important decisions they want or need to make. The solution is not to eliminate all choices, but to recognize that providing too many choices can lead to inaction, counter to the desired outcome. In microinsurance, it should be borne in mind, typical choices are not simply between no insurance cover and formal microinsurance products, but may also include a range of informal mechanisms that poor households use to protect themselves against risk (Collins et al., 2009).

The existence of a choice overload effect is supported by experimental evidence. The best-known example is an experiment in a California grocery store. Shoppers were presented with a selection of jams to taste. Among those who stopped to taste the jam, shoppers were much more likely to purchase a jar when they were presented with six choices than when they had 24 jams to choose between (Iyengar and Lepper, 2000). The idea of choice overload has been challenged (e.g. Scheibehenne, 2008; Greifeneder, 2008), but the relevance to financial choices remains worthy of concern. The choice overload idea shows up, for example, in decisions to save. In the United States, many individuals can save for

retirement through partially tax-exempt savings accounts available through their employer. Enrolling in such accounts, however, can be complex: it involves choosing what percentage of one's salary to save and how to allocate the money saved among many financial products with different risk profiles and returns. Researchers implemented a Quick Enrolment™ mechanism that allows employees to sign up for a savings account with pre-set contribution rates and asset allocations. The choice is greatly simplified: it becomes only about whether to save or not, omitting choices about how much to save and how. As a result of the simplified Quick Enrolment™ mechanism, participation rates among new employees of an actual firm tripled (Choi et al., 2009).

Another example comes from a randomized field experiment in South Africa. Bertrand et al. (2010) sent former clients of a consumer lender direct-mail marketing letters for a loan. They randomly varied different elements of the letter, including the interest rate advertised, reference to the interest rate as special or low, suggestions for how to use the loan proceeds, a large or small table of example loans, and a comparison with a competitor's interest rate. Overall, the authors found that advertising content had a significant effect on loan take-up. In particular, the number of examples presented in the letter influenced people's decision to apply for a loan. Potential borrowers who received a loan marketing letter with one example of principal, interest rate and maturity were more likely to apply for loans – not necessarily with the amounts and rates advertised – than those who received letters with several examples. For the lender, this was a small, no-cost detail of its advertising content, but it made a real difference: the estimated effect on take-up was the same as that of a 25 per cent reduction in the interest rate.

Simplicity is important in microinsurance marketing as well. Products that provide various cover options or opt-out/opt-in features can be so complicated that potential customers turn away – even if on paper the design makes sense.

13.2.2 Frame the loss

Another aspect of framing is the kind of message attached to a decision. Options can be presented with a positive message: "Take advantage of this once-in-a-lifetime opportunity"; or a negative message: "Don't miss out on this once-in-a-lifetime opportunity".

An example of positive and negative messages is gain and loss frames. Insurance marketing can convey the same basic information by drawing attention to the positive benefit of cover in the face of an adverse event or by highlighting the loss incurred by an uninsured person facing the same event. Theory suggests that negative framing is more powerful than positive framing, and there is some evidence that loss-framed messages induce demand more powerfully than gain-framed messages (e.g. Ganzach and Karsahi, 1995). For example, messages like

"Don't lose your property or the money you put aside, buy insurance to be covered in case of emergencies" could lead more people to sign up for insurance than a positively framed message, such as "Increase your peace of mind, buy insurance to be covered in case of emergencies".

The explanation for the power of loss frames is that invoking potential losses triggers "loss aversion". Loss aversion is well-documented in the behavioural economics literature. A battery of experimental evidence has shown that the perceived loss associated with giving something up is greater than the perceived gain associated with obtaining it (Kahneman and Tversky, 1979; Tversky and Kahneman, 1991). The imbalance leads to an "endowment effect", or a preference for what one already has. In other words, when we own something we think it is more valuable than other people do.

List (2003) looked for evidence of the endowment effect. He randomly selected research participants to receive a mug, a candy bar, both, or neither, and then surveyed them about their preferences over the two goods. Participants who did not receive anything were asked which of the mug and candy bar they would like to receive. Overall, they did not have a strong preference for either of these two low-value, common items – they were as keen on the mug as the candy bar. Participants who received either the mug or the candy bar, however, were much less likely to subsequently trade what they had for the other item – they were about four times more likely to leave the experiment with the item they initially received. The "endowment" mattered. Accordingly, in the case of insurance, suppliers often achieve success when stressing the potential loss of existing assets.

13.2.3 Facilitate self-control

Insurance, like savings, can be seen as an investment that yields future cashflows. In a perfectly rational world, households would consider their present and future needs and optimally balance current consumption against saving and investing for the future. However, this is not the case. The temptation to spend our money now often gets between us and our most strategic investment goals.

Behavioural economics offers an explanation for problems with self-control and temptation. The notion of "time inconsistency" yields one of the field's most important insights for financial decision-making. Time inconsistency captures situations in which people have preferences at different points in time that conflict with each another. For example, experimental data shows that some people are particularly impatient with regard to meeting their present needs. So, even if these people genuinely value saving regularly in the future, that plan will be hard to sustain since, as time goes by, the future becomes the present and the preference to consume will prevail. If given the chance, some people will change their

minds about saving. The tension is sometimes called "present bias" and it can similarly reduce the demand for insurance.

Self-control problems, for example, make it hard to accumulate the lump sums needed to make large, up-front premium payments. In fact, the size of premiums is frequently mentioned as an obstacle to buying insurance. One way to accommodate self-control problems is therefore to make it easier to pay insurance premiums by allowing customers to pay in small instalments rather than insisting on one large payment. This approach is modelled on other financial tools already used by the poor. Both microcredit contracts and informal saving schemes use small and frequent payments to help the poor create larger sums. There are, of course, sometimes economic reasons for up-front premium payments in the microinsurance context, but it is no surprise that practitioners are increasingly introducing small and frequent payments.

Another way to address self-control problems is with commitment devices. Traditional economic theory argues that people always value liquidity, or the option to spend money at any time, in the present or in the future. Behavioural economics research, however, shows that people who exhibit a present bias may prefer products that offer structure and impose discipline, such as a contractual savings account or an endowment life insurance policy *(see Chapter 8),* which restricts access to funds until a certain date or the achievement of a savings goal.

Experimental evidence on contractual savings accounts shows that they can be powerful. Ashraf, Karlan and Yin (2006) conducted a field experiment to test the efficacy of a contractual savings product offered by Green Bank of Caraga in the Philippines. They randomly divided clients into three groups and offered the contractual savings products, called SEED, to one group. Another received nothing extra. A third group received promotional material on the value of saving (but no contractual savings product). All groups also had access to a standard savings product without any commitment feature, and the SEED account offered the same interest rate as Green Bank's standard savings accounts; the only difference was the impossibility for its holder to withdraw the funds until reaching his/her goal. What appears to many people as a limitation of the account was valued by others: women identified as having potential self-discipline problems were 15 percentage points more likely to sign up for the SEED account than other women. No difference existed for men. In addition, the commitment feature had a clear impact on savings balances. After a year, the average bank account savings increased by 81 per cent for customers offered SEED accounts, which was substantially higher than the savings in the other group.

This type of commitment mechanism can help people with self-control problems buy insurance. For example, insurance providers could offer an option to pre-commit during a lean season to buying insurance during the next harvest season. The lean season is when the need for insurance is felt the most, because

farmers cannot afford expensive emergencies, but it is also the time when farmers might not have the funds to buy insurance. Pre-committing to buying insurance, like the example tested by ICARD in China *(see Box 12.4)* could help some households who want to buy insurance but cannot avoid spending the money they would like to reserve for paying premiums.

In many ways, insurance itself is a commitment device, which requires individuals to make sacrifices in a structured manner in the present to qualify for a future benefit. Insurers can take advantage of this feature when marketing by highlighting the commitment nature of insurance products.

13.2.4 Make it salient

Poor households are faced with low and irregular income flows which they use to meet present needs. One of the main reasons poor households struggle to invest in the future – through either savings or insurance – is that future needs are not "salient". Salient ideas are those that are most prominent among the many thoughts that compete for our attention. In other words, salience means being present at the front of our minds.

For future needs to be salient, they must be recognized and seen as priorities relative to present needs (Armendáriz and Morduch, 2010). People might not fully attend to future needs because they give them limited attention (Karlan et al., 2010). As a result, some future needs might end up being completely ignored and not factored into decisions. Making future needs salient at the point in time when people are making investment decisions can help with planning ahead.

Like comparisons and framing, timing is an element of choice architecture that can influence decisions. This may be particularly relevant for people with irregular or seasonal incomes. Duflo et al. (2009) illustrate this point. The researchers found that farmers in West Africa were more likely to purchase fertilizer at the time of harvest. One explanation is that farmers have funds available at harvest time and choose to invest the money to counter self-control problems, as discussed above. Marketing insurance to people when they have money to spend – during the harvest season, for example – seems intuitive. Another explanation is that farmers are most likely to see the benefits of the fertilizer at the time of the harvest, which makes fertilizer salient.

The problem of salience is particularly important for insurance. Insurance is often bought for unexpected, unpleasant events that people prefer not to think about. If people make their expense allocations based on needs that are most salient, these unexpected events are the lowest on their list of priorities, even though they might have the largest impact on their well-being.

Organizations that promote saving encounter similar challenges. Fortunately, new evidence from experimental research is encouraging. It shows that the poor

can and do save, and the results point to strategies insurers could use to make their products more salient.

Through a series of randomized field experiments in Bolivia, Peru and the Philippines, Karlan et al. (2010) tested whether text message reminders (transmitted by mobile telephone) helped people to save by overcoming the limited attention problem. In each experiment, a bank offered a savings product and sent text messages to clients that reminded them to save. The researchers found that reminders increased savings: they led to a 6 per cent increase in the total amount of money saved, and a 3 per cent increase in the proportion of individuals that met their saving goals.

In the same way that text messages encourage regular savings, insurers that collect premium payments over time could encourage payments with reminders that make risk management actions more salient. When asking people to pay their premiums, messages could remind people of the benefits of insurance during the adverse events that can affect their household.

By making adverse effects more salient, reminders can help overcome the limited attention that people typically pay to unpleasant, future events. For example, CARE's microinsurance programme in India organizes community-wide celebrations when it pays out insurance claims. Public payments of claims provide an opportunity to positively make adverse events more salient, and remind people – insured and uninsured – that insurance is helpful when these events occur.

People also exhibit "availability bias": whether an event is easy to recall affects how people plan for it. The ease with which an event can be brought to mind influences its "subjective probability", or how likely its occurrence is perceived to be. Recent events are more readily available, so people tend to overestimate the probability that they will happen again. Similarly, witnessing something makes it more salient than simply learning about it. Availability bias can explain the spike in property insurance sales after a natural disaster, such as the increase in demand for earthquake insurance in California after the 1989 Loma Prieta earthquake (Palm, 1995). Regulators and insurers should be aware of this bias when educating people in disaster-prone areas.

13.2.5 Undermine overconfidence

Another bias that influences subjective probabilities is overconfidence. People tend to give overly optimistic estimates of the likelihood of experiencing both positive and negative events (Weinstein, 1980). The issue is not merely misperception, however. Overconfidence holds even when people are aware of probability statistics for the population as a whole. The bias is manifested in a widespread tendency to consider oneself above average – for instance, 90 per cent of drivers

in New Zealand ranked themselves as safer-than-average behind the wheel (Walton and Bathurst, 1998). As a result, people may systematically underestimate the risks they face.

This kind of miscalculation could cause people to under-invest in proactive risk management relative to what they would invest if they were taking actual risk probabilities into account. People may overestimate their healthiness, for example, and underestimate the actual risks they face. In other words, when people do not have a good understanding of how likely they are to experience a hardship, they may undervalue protective measures like insurance.

13.2.6 Access mental accounts

Traditional economic theory assumes that money is fungible – it has no labels and households' wealth can be collapsed into a single lump sum (Mullainathan and Shafir, 2009). Insights from behavioural economics, however, have shown that people do not always think about their money that way. Instead, they compartmentalize their wealth into separate "mental accounts" tied to specific spending goals (Thaler, 1990). Individuals might have different mental accounts for expenses related to rent, education, food and emergencies. Mental accounting might also be literally enforced by saving through different mechanisms and vehicles: a ROSCA (rotating savings and credit association), asking a friend to hold money, or a savings account in a microfinance institution. Individuals maintain these accounts separately, stick to the spending goals of each account, and are reluctant to dip into these accounts for outside expenses. This practice partly explains the difficulty in "dis-saving", where households are willing to borrow money even though they have savings.

However, mental accounting can also be used to create an association between the label and a future need. If individuals can create a mental association between an income stream and the future need, then this association could make that need salient (Karlan et al., 2010). And because mental accounts are not fungible, creating this association could prevent present needs from superseding future need.

In the text message reminder experiments discussed above, Karlan et al. (2010) tested the effect of mental accounts by associating reminders with personal savings goals set up by clients. Some clients randomly received messages which focused on their individual savings goals. While the associations with saving goals alone did not have a significant impact on savings, reminders that mentioned both particular saving needs and an incentive to save – a higher interest rate as a reward for making every scheduled deposit, for example – increased saving by nearly 16 per cent.

Most people tend to have a mental account for emergencies such as a rainy-day fund. Insurers could connect their product to this mental account to encourage people to see the insurance policy as an emergency fund. Referring to this pre-existing mental account could have a powerful effect on how people view the insurance product.

13.2.7 Realize the value of zero

There is something about a price of zero that people find compelling. Experiments show that items given away for free are strongly (and perhaps irrationally) preferred to alternatives with a positive cost and a higher net benefit, and that people's preferences suddenly change when zero enters the equation. Shampanier et al. (2007), for example, gave research participants the option to buy either a US$10 or a US$20 gift certificate for Amazon.com at a discount. In the first experiment, the researchers offered the US$10 gift certificate for a discounted price of US$5, and the US$20 gift certificate for just US$12. Most people chose to buy the US$20 gift certificate for US$12. In the second experiment, the certificates cost US$1 and US$8, respectively. Again, most people chose the US$20 certificate. But the decision changed sharply in a third experiment. This time, the US$20 gift certificate cost US$7 and the US$10 certificate cost US$0. Given that choice, 100 per cent of participants chose the US$10 certificate. The gift certificates' relative value did not change – the US$20 gift certificate always cost US$7 more than the US$10 gift certificate. The only thing that changed was the introduction of zero, and the effect speaks for itself.

As regards insurance, people generally prefer zero-deductible/co-pay policies to policies with cost-sharing mechanisms. The trick, though, is to take advantage of this preference without undermining the role of cost-sharing in mitigating moral hazard and adverse selection. One option may be to offer a health insurance policy with a limited number of free outpatient visits per year, and a normal deductible or co-payment for all covered expenditure after that.

13.2.8 Eliminate obstacles to action

While the focus has been on marketing insurance, behavioural economics can also identify steps to improve the use of microinsurance. When analysing decision-making, economists often emphasize the influence of internal, personal characteristics of the individual and focus less on the power of external, contextual factors. In practice, people's actions are influenced, sometimes disproportionately, by seemingly inconsequential "channel factors" (Mullainathan and Shafir, 2009). The idea is that certain behaviours can be facilitated by small

nudges. When designed properly, channel factors can be effective in translating intentions into actions, but if ignored, they can lead to inaction.

An experiment by Leventhal et al. (1965) illustrates the role of channel factors. Participants were educated in the risks of tetanus and the value of vaccination, and provided with information on where to obtain the injection. Follow-up surveys showed that the education changed participants' beliefs and attitudes to tetanus. The education failed, however, to change their behaviour: only 3 per cent of the participants had themselves vaccinated. The situation changed when channel factors were added to the education. The vaccination rate rose to 28 per cent when participants were also provided with a map to the nearest infirmary and were encouraged to think about an actual appointment time. These additional channel factors were needed to translate intentions into action.

Channel factors can have an effect on whether people buy insurance. Insurance education that includes topics such as risk management and insurance contracts might be useful to change households' perception of the value of insurance, but the knowledge might not translate into behaviour change if obstacles to action are not removed. Making the purchase of insurance convenient through on-site insurance representatives after training sessions is one example of a channel factor.

Channel factors can also affect how people utilize the insurance. Consider the case of a health insurance scheme with an established network of hospitals. The insurer has screened each network hospital based on quality, and established a pre-determined price schedule. Now all the insurer needs to do is make sure that people use the hospitals. The first requirement is for people to know the hospitals on the list, which can be accomplished by providing them with a map of the hospitals. However, in emergency situations, people often do not have access or the presence of mind to search for the map. Some insurers, such as Uplift in India, have instituted a hotline for people to call during emergencies that can direct patients to network hospitals. All the cost and effort of building a network of providers could be wasted if patients are not guided there properly, and hence a minor intervention can have a huge impact on how policies are utilized.

13.3 Conclusion

New evidence from research at the intersection of psychology and economics highlights how small details can have big effects. One important conclusion is that the context in which individuals make choices, including whether to purchase insurance, strongly influences their decisions. Table 13.1 summarizes several small-scale strategies that microinsurers can use as they aim to increase the take-up and use of microinsurance.

Table 13.1

Summary recommendations

Issue/strategy	*Short description*	*Implications for microinsurance*
Keep it simple	Offering more choices to consumers is not always best. "Choice overload" can lead to inaction.	Microinsurance may be difficult to understand for its target clients. Take-up could be increased by reducing the number of options available in microinsurance policies or simplifying target clients' choices in other ways, such as by offering composite insurance products.
Frame the loss	Individuals react differently to the ideas of gain and loss. The risk of losing something that one already has is a stronger motivation for action than the possibility of gaining something.	Take-up of microinsurance products could be increased by appealing to individuals' fear of losing (e.g. their property, their health) rather than advertising the benefits of insurance.
Facilitate self-control	Many people are impatient – yet also value the future and worry about losses. Some recognize their inconsistency and seek products and services that impose discipline and self-control.	Buying an insurance policy means spending small amounts of money in the present to receive larger benefits in the future. Insurance can impose discipline and help people with self-control issues accumulate lump sums. Advertising this feature to impatient potential clients can therefore help increase take-up.
Make it salient	Future needs, as well as uncommon and uncertain events, are usually not at the front of people's minds. Present desires and needs are usually much more salient, and much more likely to influence behaviour.	Making future and uncommon adverse events more salient can trigger action in the present to protect oneself against those events, notably by buying insurance. Paying insurance claims publicly, for example, is a good way to make adverse events more salient.
Undermine overconfidence	Insurance offers protection against uncertain events. Behavioural evidence shows that people are typically overconfident and think that these events are less likely to happen to them than to the rest of the population.	Microinsurers can increase take-up of policies by undermining potential clients' overconfidence, for example by providing data about the actual frequency of occurrence of insured risks.
Access mental accounts	Even though money is fungible, people often reserve certain amounts for specific uses. They might be able to afford a microinsurance policy but not buy it because, in their mind, their money has already been assigned to be spent on another item.	Microinsurance can take advantage of mental accounts: associating microinsurance with a specific income stream can increase the likelihood that individuals will actually purchase a policy.
Realize the value of zero	A price of zero has a unique ability to attract people's interest, even when a positive price provides more net value.	In insurance, zero-deductible/co-pay policies are generally preferred by low-income consumers, but cost-sharing is very helpful in counteracting moral hazard and adverse selection. Finding ways to exploit people's likeness for zero could help increase take-up of microinsurance.
Eliminate obstacles to action	Translating intention into action is not easy. Behavioural evidence suggests that "channel factors", or small nudges, have a surprising power to create action.	Channel factors can have an effect on whether people buy insurance, and how they utilize it. They can be used to bridge the gap between recognizing the need for insurance and actually purchasing a policy, or to direct insured patients to network hospitals where costs are lower.

14 Emerging practices in consumer education on risk management and insurance

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Consumer education in microinsurance involves a systematic effort to teach risk management strategies and the role of insurance in order to promote better risk management practices amongst low-income households. The goal of consumer education is to provide households with knowledge and skills that enable them to make informed financial decisions. Consumer education can be delivered by microinsurers, outsourced to partner organizations such as distribution channels or specialized training institutions, or be part of a collaborative national effort by government or industry bodies.

Consumer education is often considered to be an integral part of microinsurance schemes; it is intended to benefit both microinsurance practitioners and their clients. It is supposed to help low-income households make sound choices and practitioners stimulate demand. The current lack of academic and business research, however, makes it difficult to prove whether consumer education can keep its promise. New evidence from a host of on-going evaluations in Brazil, Colombia, Ghana, India, Kenya and South Africa will be available in the coming years to shed light on this question. Until then, lessons based on the experiences of practitioners serve as the best guide for those designing new consumer education programmes.

Given the growing number of consumer education programmes and the huge demand for capacity building, the Insurance Education Working Group of the Microinsurance Network decided to compile a list of emerging practices that microinsurance practitioners should consider when designing education programmes. This note summarizes feedback from more than fifty practitioners who were early implementers of consumer education schemes. Their feedback is documented in three studies (Dror et al., 2010; Burns and Dalal, 2010; Smith et al., 2010b) supported by the ILO's Microinsurance Innovation Facility and the Microinsurance Network.

The experiences of practitioners reviewed in these studies demonstrate that a long-term, integrated approach is needed to improve risk management capacity and increase the use of relevant financial tools. A programme that delivers ad hoc, stand-alone education, which is not linked to access to appropriate microinsurance products, is often not sufficient to realize these objectives.

This chapter highlights key design features for content and delivery of the education, and in the next two sections provides examples of organizations that have implemented these features. In the final section, the chapter reviews the challenges of sustainability and monitoring and evaluation that are especially relevant for practitioners who want to integrate education into their business models.

14.1 Content of consumer education

14.1.1 Focus on risk management and insurance; layer other financial concepts where possible

The foremost question for practitioners trying to design an education programme relates to the breadth of the content. Should the programme cover generic financial education concepts such as money management and budgeting? Should it cover broad risk management topics, such as the nature of risks and differences between insurance and saving? Should it focus primarily on product-specific details such as premium payment, benefits, exclusions and claims procedures? The breadth of the content depends on a number of factors, including resources available, the amount of time the educator has with the community, prior knowledge and experience of the community, and the mandate of the practitioner. Some practitioners surveyed argue that it is useful to begin with basic financial education before getting to risk management and insurance content. Starting with concepts like budgeting is important because it allows households to understand how current resources are being used and appreciate the impact of losses.

With limited resources, microinsurance practitioners may not be able to offer a comprehensive financial education programme. In such instances, the focus should be on risk management and insurance. The content could be designed to give low-income households the ability to identify household risks, tackle reservations about the concept of insurance, compare different risk management strategies including insurance and plot a strategy to prioritize and optimally manage their risks. If focused only on product benefits, the programme is more about marketing the specific product and can hardly be classified as consumer education.

Below are two examples of programmes that have cleverly layered insurance and risk management education.

CARE India, in partnership with insurer Bajaj Allianz, designed a comprehensive education programme *(see Table 14.1)* that included four components: 1) risk education; 2) insurance education; 3) product education; and 4) product logistics and practicalities. CARE India considered all of these topics indispensable in creating a culture of insurance and was deliberate about including all of them in the design of its Insure Lives and Livelihood (ILAL) programme targeting poor and vulnerable rural communities in Tamil Nadu, India.

Table 14.1

Content areas for CARE India

Risk education	*Insurance education*	*Product education*	*Product logistics*
– What are risks? – Risk management mechanisms – Risk mechanisms in practice – Difference between savings and insurance	– What is micro-insurance? – Principles of insurance – Why micro-insurance? – What are life and general insurance? – What are premiums, claims?	– Introduce CARE, Bajaj Allianz – What is ILAL? – Explain life and general products – What is premium, claim, exclusion, inclusion?	– How to pay premiums – When should premiums be collected? – How to file claims – Documentation requirements

In Kenya, the Swedish Cooperative Centre and Microfinance Opportunities developed a ten-session financial education module, shown in Box 14.1, which focuses on risk management and insurance and also includes relevant financial education concepts. The content is delivered using a study circle approach whereby one member of the group serves as the facilitator, leading a discussion about the key topic for the day.

Box 14.1

Content areas for Swedish Cooperative Centre and Microfinance Opportunities

1. Introduction to study circle methodology: How adults learn, choosing a leader, role of participants, planning learning sessions.
2. Risks: What is a risk? How can risk affect you? Which risks pose the greatest challenges?
3. Risk management tools: What is protection? Identify protection (before) and reaction (after) measures.
4. Savings: How to save more money. Where can you save? Use savings or credit?
5. Introduction to insurance: Myths about insurance, welfare associations and pooled risks; compare welfare association and insurance.
6. How insurance works: Insurance terms, cost-benefit analysis, frequently asked questions (FAQs).
7. Different types of insurance products: Basics of health, life and property insurance.
8. How to submit a claim: Terms for submitting a claim; practice and advice to complete a claims form.
9. How to find the best insurance products for you and your family: Choosing the best insurance product, questions to ask the insurance provider, good and bad techniques for communicating with family members and making decisions together, developing an action plan to purchase insurance
10. How, when and why to renew: What is a renewal? Consequences of not renewing your insurance policy, what to consider before renewal, to renew or not to renew your policy.

Source: Smith et al., 2010b.

14.1.2 Base education on what people know, and relate to their previous risk exposure

The content of a programme should always be framed in the context of what the households already know about insurance and how they think about their risks. When information is wholly new – as is often the case with insurance – households do not have an existing frame of reference. Thus, the programme should make explicit connections between insurance and the risk management strategies like savings and credit that are already being used by the households.

The content should be salient to capture households' attention and encourage retention. A simple way to make content salient is to talk about risks. Talking about risks might seem too obvious and basic, but it can be crucial for success. Lessons from the field of behavioural economics show that people often underestimate the probability of adverse events occurring *(see Chapter 13)*. Hence, to

make the education relevant, it is useful to remind them of the most prevalent risks in their communities and lives.

The educational material on risks can be followed immediately by a discussion about how households currently manage those risks, how informal risk mitigation strategies can be improved, and how informal strategies can be complemented by formal insurance. The goal is to place the value of insurance along other formal and informal arrangements to deal with risk.

For instance, Weather Risk Management Services (WRMS), which offers insurance against adverse weather conditions across India, reminds farmers of past crop failures, and explains the weather conditions that lead to such failures in order to provide farmers with concrete reminders of potential risks. With existing data on past crop failures, WRMS is able to show the amounts of produce a farmer had lost during the crop failures and how much a policy would have saved him.

Another example of providing relevant risk education comes from Hollard Insurance Group of South Africa, which organizes three-hour workshops in which participants are introduced to a "conversational map" that represents a community with houses, shops, factories and hospitals. The map, shown in Figure 14.1, features a number of insurable events. The trainer explains the benefits an insurance policy would provide in each event, as well as the rights and responsibilities of both the insurer and the insured.

Figure 14.1 **Hollard's conversational map**

14.2 Delivery of consumer education

When designing the delivery of their education programmes, practitioners need to decide on the tools they want to use, and the channel and frequency of delivery. Practitioners should remember that education should be about more than just transferring information. Good education programmes aim to promote proactive risk mitigation. For this to happen, the education needs to be delivered in a learner-centric manner – the more engaging and participatory the better. Practitioners should think of consumer education as a long-term process. Education can be most effective when it is delivered through a variety of channels and when it is on-going and integrated with access to valuable microinsurance products. Stand-alone, one-off training is not sufficient.

14.2.1 Mix of channels and tools

Practitioners should consider using a combination of channels (e.g. workshops, radio and TV) and tools (e.g. brochures, flip charts and games) in their programme delivery because each channel and tool can serve a specific purpose. Mass media and performing-arts channels are useful in raising awareness amongst a wide audience, while targeted channels like workshops and classroom training allow for greater participation and interaction, and potentially increased understanding. Diversifying tools helps to respond to varying learning styles and make the education interesting for different target segments. Using multiple channels also reinforces the messages.

CARE India and its community-based partners use cultural programmes like songs, drama and puppet shows to generate interest amongst households. The field officers create songs on insurance themes and set them to recognizable tunes borrowed from films. Dramas are performed for larger audiences by small teams of local self-help group members. Field officers reported that these cultural programmes were more effective in generating interest than simply talking to clients. However, they felt that while cultural programmes create broad awareness, the audience did not generally retain the details of the presentation and needed more opportunities to discuss insurance principles and product features in small groups.

CNSeg, the Brazilian Insurance Confederation, has actively engaged community members in its education programme by using mass media (videos and radio soap opera) to disseminate educational material. The videos and radio soaps are based on a simple script that highlights important messages around the value of insurance for low-income households. They are produced in the community and include local vendors and community members as actors. By soliciting community feedback to develop new scripts, CNSeg is using a participatory approach intended to develop trust within the community and encourage members to take note of and retain messages.

The Micro Insurance Academy (MIA) uses interactive games to help communities recognize their risks, learn about proactive risk management, and understand the value proposition of health insurance. One game, CHAT (Choosing Healthplans All Together) is designed to help poor communities manage trade-offs when considering healthcare benefits. The game, shown in Figure 14.2, allows members to jointly define the benefit package that covers their most relevant needs.

Figure 14.2

CHAT game

Individual participants are provided with a CHAT board, which displays different forms of insurable risks, along with a number of stickers representing the available funds. The participants then place the stickers on the board according to which risks they want to be insured against. Then, participants draw events cards which simulate real life risks, and discuss the judiciousness of their choices. In the second round, the exercise is conducted in a group of approximately 15 participants. Through discussions, the participants reach a consensus on the particular risks against which the community wants to be insured. Another game, called the Treasure Pot, helps community members understand the notion of insurance and risk-pooling. The game involves a simulation of real-life risks using cards that represent health events, and sweets that symbolize money. The game demonstrates the shortcomings of using credit or savings as risk management tools and how risk-pooling can benefit a community. The MIA uses such tools as part of a comprehensive insurance education programme that also includes workshops, brochures, mass media (radio and films) and street plays.

14.2.2 Delivering on-going education

Consumer education should not be a one-time activity but an on-going facilitation effort that uses consistent messages delivered by multiple channels in an integrated way. Ad hoc efforts are rarely effective.

The experience of the South African Insurance Association (SAIA) provides a useful reminder of why one-time activities might not effectively deliver insurance education. As part of its financial education initiative, SAIA supported a project that provided financial literacy workshops in rural and communal areas through community and labour organizations. Its objective was to empower low-income rural communities by providing basic financial literacy. While conducting a programme assessment, SAIA found that only 57 per cent of the participants interviewed ever remembered participating in the workshop. The poor retention rate could be because education was delivered in a stand-alone workshop, rather than in a continuous learning process facilitated by refresher messages in various forms.

Nevertheless, workshops can be an effective channel if shorter sessions are spread over a period of time, and if messages are strengthened by other channels. Freedom from Hunger in partnership with Sinapi Aba Trust of Ghana provides a series of workshops around "learning conversations" to help families understand how to obtain and use health microinsurance. The workshops consist of short, technical learning conversations that use stories, role plays and visual aids to explore how insurance works, how to save for premium payments, what the insurance covers and how to utilize available healthcare options paid for by the insurance. To reinforce the main messages, Freedom from Hunger plans to offer shorter "refresher" sessions prior to product enrolment campaigns.

CARE India and its community-based delivery partners found that certain topics, such as risk-pooling and claims conditions, needed to be emphasized and repeated on a continuous basis. Field officers also reported that explaining the value of life insurance in India was more difficult than talking about other kinds of insurance, because clients did not see the tangible benefits of life insurance. Field officers needed to focus on how life insurance helps the beneficiaries more than they had anticipated.

14.2.3 Link education and products

Improving risk mitigation and increasing access to insurance are complementary activities. On the one hand, the full potential of an education programme can only be realized when households have the option to apply their new knowledge and skills to select appropriate risk management tools. At the same time, insurance education can lead to greater product take-up, reducing costs of reaching households in the informal sector, and increasing the size of the overall risk pool.

When possible, consumer education should be linked to insurance products. Otherwise, people have little opportunity to change their behaviour. When education is tied to products, the content should also include a discussion on product-specific details. The question here is not whether marketing messages can or should be a part of wider education initiatives, but how they are integrated and if the education helps people make more informed choices.

ICICI Prudential provides life insurance with a long-term savings product to workers through tea estates in north-east India. Since most of the target group had never heard of insurance, the insurer organized an awareness-raising and education campaign. Stand-alone evening sessions run by trainers recruited from a community were accompanied by a movie initiative run by a community NGO. Video Volunteers taught and assisted selected youngsters from underserved communities to produce short movies on pressing issues such as health, sanitation, education and the importance of savings. During movie screenings, key features and benefits of the ICICI Prudential's microinsurance product were further clarified. The trainers found that they needed to use social issues (such as alcoholism) that intimately affected the lives of many in the community to reach the hearts of the clients, then introduce security topics such as financial management, savings and insurance. Delivery of evening sessions, screening of the movies, and background work by sales staff were all integrated into one coherent process to build trust and enable communities to make informed financial decisions.

14.3 Sustainability and business model for consumer education

Consumer education can be provided through different business models with varying funding arrangements that have implications for sustainability and outreach. In the most common model, the microinsurance practitioner (risk carrier or delivery channel) provides the education as part of its promotion strategy. These programmes typically have a short-term focus with a goal of raising awareness of insurance and specific products, so the education activities are integrated with marketing. These activities are typically timed to coincide with the enrolment period and, though the programme is connected to specific products, the content can be expanded to include broad risk management topics. The education programme is typically self-funded (through premium income for instance), and it thus becomes important for the organization to have a clear strategy for a sustainable business model from the beginning.

CARE India's partnership with Bajaj Allianz is an example of a slightly different business model where an external funder (Allianz SE) provides the seed funding required to develop the programme's infrastructure, including education materials and training capacity. In such programmes, it becomes important for

practitioners to create a business strategy to make the scheme sustainable so that the content can continue to be delivered once the initial funding runs out.

Old Mutual's "On the Money" in South Africa provides a different example of an insurer providing general financial education that is funded by its corporate social responsibility arm. This programme has a longer-term goal and a broader mandate than the previous examples, as its goal is to improve the financial practices of low-income South Africans; it is not focused only on insurance. The initiative has provided general financial education to over 50 000 South Africans since inception through workshops on how to manage finances.

14.3.1 Make use of existing institutions and pool resources

An improvement in a community's understanding of insurance is a public good, which means that many institutions could benefit from it. It may be difficult for one insurer to justify investing in a broad programme when competitors might equally benefit from the expense. If so, insurance associations, governments, donors, or non-profit organizations might be better suited to deliver broad programmes.

One approach is to pool industry resources at national level and have the education programme administered by an independent agency such as an insurance association. South Africa has adopted this approach. The South African Financial Services Charter requires all insurance companies to spend 0.2 per cent of post-tax profits on financial education. SAIA took this opportunity to promote a collaborative effort. It pooled the resources from various insurance companies and oversaw the consumer education efforts for the industry. The programme achieved impressive scale. However, the Charter placed limitations on insurers since it promoted generic education to the lowest income segments and did not allow insurers to build on the programme with their products. These constraints prevented insurers from thinking about education as a business opportunity and threatened the effectiveness of the scheme.

When a programme is delivered by an independent agency or insurance association, it is important to define its objective to ensure that all parties agree and guarantee continuous support. After four years of operations, SAIA changed its strategic direction to encourage its members to continue contributing resources while still pursuing a broader mission to educate consumers. SAIA re-evaluated its approach mostly because some insurers were concerned that the programme's design would not meet their commercial goal – educating potential clients in insurance to the point where they can make informed insurance decisions and thus promote insurance take-up. An evaluation of SAIA's programme also raised questions on whether it made sense for SAIA to focus on generic content, as other institutions may be better positioned to address this category of financial

education, for example the Department of Education or financial-sector regulator (Smith et al., 2010).

SAIA is looking for ways to link education to the marketing efforts of individual insurers. This is not easy, as an insurance association cannot promote the products of just one company. Approaches that have been tested by other associations include introducing a basket of products from different insurers, providing insurers with the details of various activities and opening an opportunity for them to be creative in building on them, and introducing vouchers with price discounts and promotions by different insurers (and distributing them randomly) (Smith et al., 2010). Most SAIA members now believe that it makes sense to pool resources for financial education as they can together create an insurance culture more effectively than through individual, uncoordinated actions.

FUNDASEG, the foundation of the Colombian insurance federation (Fasecolda), provides another example of an insurance education campaign with a long-term focus. FUNDASEG's education programmes are targeted at improving financial literacy among low-income households. The content includes a strong risk management and insurance component that is aimed at improving awareness of insurance amongst the low-income population. The programme is, however, not linked to specific products.

Each setting provides a different landscape of potential partnerships and options to deliver consumer education. Links to social programmes, government financial education initiatives, school education and consumer protection initiatives need to be explored. Consumer education should be delivered by multiple stakeholders, who should focus on their responsibilities vis-à-vis society and exploit their strengths to improve welfare. When a strong industry or government initiative exists, practitioners should explore partnerships with these initiatives. In the absence of broad initiatives, microinsurance practitioners can start individual programmes that demonstrate success to encourage broader consumer education initiatives. The private sector is well placed to pioneer consumer education as in the SAIA and FUNDASEG examples above. Yet, private collaboration is not common practice in most microinsurance markets, leading to the question of whether and how governments and donors can play a more active role in facilitating the creation of such public goods.

Each of the business models has specific strengths and challenges, as shown in Table 14.2.

Table 14.2

Business models – strengths and challenges

Provider	*Funding*	*Examples*	*Strengths*	*Challenges*
Risk carrier, distribution channel	Self-funding (e.g. premium income)	ICICI Prudential (India)	– Integrated with access to products – Potential for sustainability of clear cost-benefit established	– Typically limited content leading to limited impact
Risk carrier, distribution channel	Donor funding, public funding – sometimes limited to initial set-up	CARE-Bajaj, SCC (Kenya)	– Integrated with access to products – Can serve as a demonstration case – a way to assess costs and benefits – Broad content, ability to test channels	– Difficult to sustain programme after initial funding ends
Risk carrier	CSR funding	Old Mutual (South Africa)	– Broad content, ability to test channels – Can serve as a demonstration case – a way to assess costs and benefits	– Limited ability and interest amongst insurers to run such programmes – Not integrated with products
Insurance association	Fee-based member funding, public funding, mandated contributions	SAIA, FUNDASEG (Colombia)	– Broad content, ability to test channels – Some potential to integrate with access to products – Potential of sustainability and professional management when members continue to see benefits	– Difficult to link to products because of neutrality concerns – Difficult to pool resources of companies in competition with each other
Government agency (e.g. Department of Education, financial-sector regulator)	Public funding	Financial Services Authority programme (United Kingdom)	– Broad content, ability to test channels – Ability to reach youth through school programmes – Potential to address needs of different segments	– Challenging to monitor impact on risk management behaviour – Subject to political change – Weak incentives need to be well managed

14.3.2 Incorporate monitoring and evaluation activities

Careful monitoring and evaluation are needed to track the costs and benefits of education against the stated objectives of the education programme in order to understand which mix of content and delivery strategies is the most cost-effective. The monitoring and evaluation activities can be designed to measure how the programme affects households' knowledge, skills, attitudes and behaviours, and their eventual impact on the household and practitioner. Table 14.3 provides examples of indicators that could be measured.

Table 14.3

Examples of monitoring and evaluation indicators

Knowledge

- Knowledge of the purpose of insurance
- Knowledge of typical risks covered by insurance and the impact of these events on families
- Understanding of how insurance works generally
- Knowledge of insurance terms such as premium, claims and benefits
- Knowledge of product details such as price, claims-filing process and policy exclusions

Skills

- Ability to calculate cost of risk events
- Ability to compare insurance policies and select appropriate policy
- Ability to calculate premium costs and benefit payouts
- Ability to outline premium collection cycle
- Ability to complete application process
- Ability to file a claim

Attitudes

- Belief that insurance is suitable for low-income people
- Trust of insurance providers
- Belief that planning for a risk invites the risk
- Likelihood of purchasing an insurance policy in the next twelve months

Behaviours

- Creation and adoption of a risk management plan
- Use of debt, savings or insurance during emergencies
- Act of making timely premium payments
- Purchase of insurance policy in last twelve months
- Renewal of insurance policy in last twelve months

Most current monitoring and evaluation activities are ad hoc and limited to client satisfaction surveys or product take-up analyses. These activities provide important information but are often not enough to understand the effect of education on attitudes or behaviour, or the resulting social and economic impact on clients and practitioners. To measure the effect of the education on client behaviour the evaluator must isolate the effect of the education programme from the product and other external factors.

Important information on use and effectiveness can be extracted through qualitative research based on client interviews, focus-group discussions and financial diary analyses. However, assessing the impact on behaviours and well-being requires practitioners to apply experimental research methodologies such as randomized control trials that measure the impact of the programme using treatment and control groups. This type of research might seem challenging (not least due to the financial implication of conducting such rigorous research), but it is possible, and often necessary, to understand the effectiveness of different education approaches and convince stakeholders of the wisdom of investing in consumer education.

14.4 Conclusion

Creating an effective consumer education programme requires careful content, delivery design and strategic partnerships between various stakeholders. Monitoring and evaluation activities, while challenging, are critical to developing an effective education programme. This chapter presents preliminary lessons drawn from practitioners that can be replicated and tested in new contexts. More innovation and research in consumer education is clearly needed to understand what

it can and cannot do to improve the value and reach of microinsurance products. The key lessons that have been identified thus far are as follows:

- **Focus on risk management and insurance; layer other financial concepts where possible:** In the context of limited resources an approach that tackles all financial issues might not be feasible. In such instances, the focus should be on risk management and insurance.
- **Base education on what people know, and relate to their previous risk exposure:** The content of the programme should always be framed in the context of what the community already knows about insurance and how it currently manages risk. An easy way to make content relevant is to start the conversation by discussing the current risks facing the community.
- **Use a mix of channels and tools:** It is useful to use a mix of delivery channels, such as group-based training or mass communication, because each channel serves a different purpose, is geared to various learning styles and helps to reinforce key messages.
- **Deliver on-going education:** Financial education is not a one-time activity but an on-going effort that should deliver consistent messages through multiple channels in an integrated way.
- **Link education and products:** Linking education to insurance products provides an incentive for households to act and change their risk management behaviours. It also provides an opportunity for practitioners to strengthen their marketing interventions.
- **Make use of existing institutions and pool resources where possible:** Linkages to social programmes, government financial education initiatives, school education and consumer protection initiatives *(see Chapter 26)* need to be explored. When strong industry or government initiatives, such as social programmes, government financial education or consumer protection initiatives exist, organizations should explore partnerships with these initiatives. In the absence of broader initiatives, the private sector seems to be well placed to pave the way for consumer education.
- **Incorporate monitoring and evaluation activities from the start:** Careful monitoring and evaluation is needed to understand which delivery strategy is most effective, create a business model behind consumer education and measure the impact of education on household well-being.

15 Improving client value: Insights from India, Kenya, and the Philippines

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This chapter is an adaptation of Microinsurance Paper No. 12, published by the ILO's Microinsurance Innovation Facility (2011). The authors thank the staff of organizations that participated in the PACE tool testing for devoting their time, sharing data and providing useful comments on the final analysis. The authors are also grateful for comments on this chapter from Elizabeth McGuiness (Microfinance Opportunities), Michael J. McCord (MicroInsurance Centre), Barbara Magnoni (EA Consultants), Richard Coven (consultant), Pranav Prashad (ILO), Peter Wrede (ILO), Jeremy Leach (Hollard Insurance), Bert Opdebeeck (BRS) and Denis Garand (DGA).

In microinsurance, there is considerable emphasis on ensuring that the target market is receiving good value for its premiums. Microinsurance providers aim to improve their products to attract and retain their clients. Governments and donors are searching for effective ways to incorporate microinsurance into their development strategies. They all ask the same questions: Are clients really benefiting from microinsurance? How does one measure those benefits? And how do we improve the value proposition for the poor?

This chapter contributes to this discussion by focusing on improving client value rather than proving it.[1] It presents results from PACE (product, access, cost and experience), the ILO's client value assessment tool, which looks at the added value for clients from insurance products by comparing them to alternative means of obtaining protection from similar risks.

Section 15.1 briefly describes the PACE tool and its components. Based on an analysis of 15 microinsurers in India, Kenya and the Philippines, section 15.2 takes a practical look at opportunities to create value by expanding member benefits, facilitating access, lowering costs and enhancing client experience. Often these small improvements can make big differences in the way clients perceive and respond to microinsurance products. Section 15.3 illustrates the value of microinsurance in relation to informal mechanisms and social security initiatives. The final section provides a country-level analysis that compares the relative value of products in the same market, illustrating the importance of product and market maturity.

15.1 Client value assessment framework and tool

As summarized in Box 15.1, value creation is a complex process that can be analysed at many stages and from different perspectives. The PACE client value assessment tool deals primarily with the first stage of value creation, when the

[1] See Chapter 3 of this book as well as Dercon and Kirchberger (2008), and Magnoni and Zimmerman (2011) for literature reviews on the impact of microinsurance.

products are developed or refined (zone one in *Figure 15.1*). It caters to the needs of practitioners to develop a better value proposition to protect clients against specific risks. The PACE tool does not measure the impact of microinsurance, nor does it attempt to assess client satisfaction or purchase decisions. It is not a substitute for rigorous impact studies, which are needed to measure the effect of microinsurance on client well-being.

The PACE tool provides an initial analysis of the product and processes that can be complemented by market research or impact studies. It provides insights for practitioners that can support decision-making and can help instil a client-centred approach to microinsurance, at the same time providing information useful for the design of more rigorous studies or policy debates.

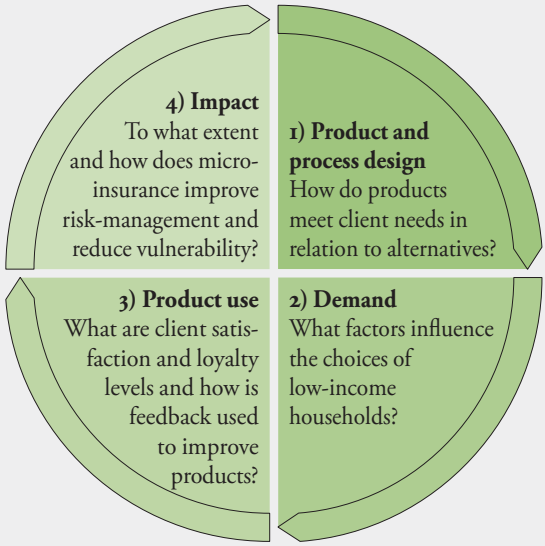
Box 15.1

Client value definition and value creation process

Client value is defined from the client's perspective rather than the seller's perspective. The definition of client value used in this chapter combines the viewpoints from the development and marketing literature (Sebstad and Cohen, 2000; Dercon, 2005; Woodruff, 1997; Kotler, 1994; Plaster and Alderman, 2006). From a development perspective, the ultimate question is whether, and to what extent, the product enhances the welfare of policyholders, their families and their communities. In the context of insurance, client value is about reducing vulnerability due to improved risk management practices that then contribute to improved well-being. This client-focused approach is in line with a cornerstone of marketing: valuable products are a means to accomplish clients' goals and satisfy their essential needs. The marketing perspective brings into the picture the analysis of purchasing behaviours, product use and client satisfaction. If there is no demand, the product may be poor, but it can also mean that buyers do not perceive the value offered.

Creation of value in microinsurance is a process that starts with developing a product and setting up its distribution. Value is created when clients use the product and are satisfied enough to renew their policies. Using insurance does not mean that the clients need to make claims, as they can also get non-insurance or indirect benefits such as access to productive inputs. This client value creation process is outlined in Figure 15.1. The steps are building blocks and by separately analysing each stage of the value chain it is easier to highlight value creation opportunities.

Figure 15.1 **Client value creation model**



The PACE client value assessment tool is anchored in the current knowledge available on low-income households' preferences for insurance products. Cohen and Sebstad (2005) list some key issues that need to be considered when developing risk management solutions for the poor. The underlying assumption behind the PACE analysis is that microinsurance products can deliver value only if they are:

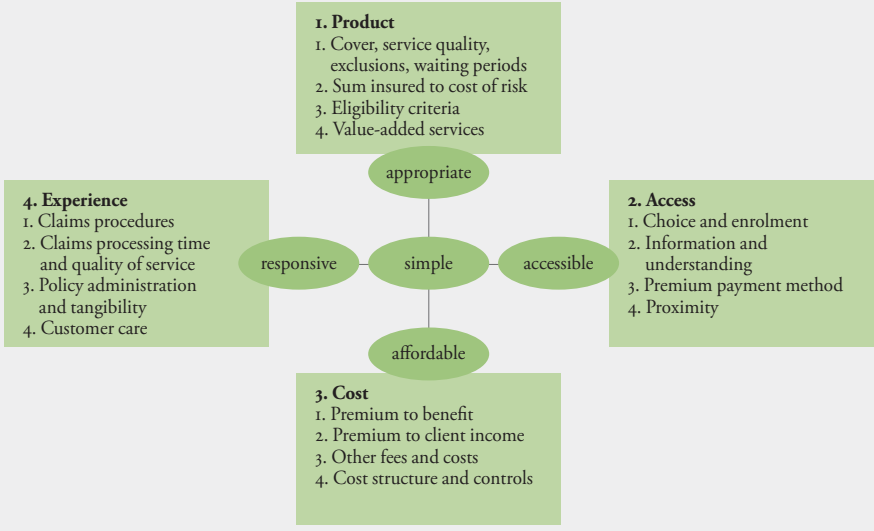
- **appropriate:** match the most important risk management needs of the target population.
- **accessible:** provide easy access, and products are explained in simple language and delivered in the vicinity of the target groups.
- **affordable:** provide good value for money at a price that the target clientele can afford.
- **responsive:** provide a timely response to shocks through prompt claims settlement and accurate answers to client queries so that the poor do not need to resort to expensive coping mechanisms such as borrowing from moneylenders.
- **simple:** are simple to understand and use; this is a fundamental principle given the low literacy levels of the target population.

The PACE framework is designed around the five principles mentioned above and is structured into four main dimensions. As illustrated in Figure 15.2, simplicity is a cross-cutting characteristic that is relevant for four aspects:

- **Product:** describes appropriateness by reviewing cover, benefit level, eligibility criteria and availability of value-added services.
- **Access:** focuses on accessibility and simplicity by investigating choice, enrolment, information, education, premium payment method and proximity.
- **Cost:** measures both affordability and value for money, while looking at additional costs to keep down overall costs of delivery.
- **Experience:** assesses responsiveness and simplicity by looking at claims procedures and processing time, policy administration, product tangibility and customer care.

Although all four dimensions are important for clients, it can be argued that under certain circumstances some dimensions are more important than others for a specific market segment. However, from the client's perspective the ideal solution is a balanced value proposition, a product that scores well on all four dimensions. Given this assumption, and for the sake of simplicity, the dimensions are treated equally. Moreover, while PACE is assessed from the clients' perspective, it assumes that reviewed products are either financially viable or that there is a clear strategy for achieving viability. Unsustainable products provide poor value to clients in the long term.[2]

Figure 15.2 **PACE added value analysis framework**



[2] The scoring uses a five-point scale and criteria on all 16 sub-dimensions. Whilst it is plausible to assume that all four main dimensions are almost equally important, not all 16 sub-dimensions carry the same significance. For example, one cannot compare the importance of claims processing with that of policy administration. Therefore, under each main dimension, two sub-dimensions are allocated higher importance and contribute 70 per cent of the total score for the dimension, while the two other sub-dimensions contribute the remaining 30 per cent. More on PACE scoring criteria and weighting can be found in Matul et al. (2011).

The PACE analysis presented in this chapter relied mostly on available secondary data and a limited number of staff interviews. Key data sources were product specifications, performance data, manuals and process flowcharts, reports and staff feedback. The data collection approach is similar to an audit, for which answers to specific questions are validated on the basis of data from different sources. This analysis provides greater insight when it is compared to similar products *(see section 15.4).* Client value cannot be analysed in isolation because microinsurance often complements existing risk management mechanisms such as informal savings and credit groups or tax-funded government safety nets *(see section 15.3).*

An important facet of this tool is that it looks at both product specifications and related processes. By evaluating current processes from the clients' perspective, PACE can identify opportunities for improvement. Part of the problem with some microinsurance products is that processes put in place to facilitate access or to service claims are often poorly designed and undermine the value of the products.

15.2 Value-creation opportunities

Based on the application of this tool in India, Kenya and the Philippines, and analysis of 15 microinsurance providers, this section provides some preliminary insights into efforts to enhance value under each of the four PACE dimensions. In each country, analysts considered similar business lines – life products in the Philippines, health products in India, and health and composite products in Kenya *(see Table 15.1).* Consequently, the list of value creation opportunities presented below is based on the experience of these insurers and does not cover innovations in other microinsurance product lines.

15.2.1 Improving product features to expand member benefits

Life insurance is the most developed microinsurance product, and ways to make it more valuable are well documented. Churchill et al. (2003) and Wipf et al. (*Chapter 9* in this book) argue that to make the products more attractive to potential clients, it is important to extend benefits beyond basic credit life and to include death cover for additional family members and/or other benefits. As presented in section 15.4, the life products in the Philippines provide an example of how, in a mature market, providers have incorporated best practices to deliver value to their clients.

Table 15.1

Products included in the testing of the client value assessment tool[1]

Country	*Insurer, product name*	*Product type*	*Delivery model*	*Start date*	*Outreach (lives)*
Kenya	National Hospital Insurance Fund (NHIF), informal sector cover	IP health	Government	2007	n.a.
	Cooperative Insurance Company (CIC), Bima ya Jamii	IP health, AD&D, funeral	PPP, partner-agent	2007	8 300 (June 2010)
	Pioneer Assurance, Faulu Afya	IP&OP health, term life, AD&D, funeral	Partner-agent	2010	11 000 (Sep. 2010)
	Britak, Kinga ya Mkulima	Whole life, IP health	Partner-agent, broker	2007	78 000 (Oct. 2010)
	Jamii Bora Trust (JBT), Jamii Bora health	IP health	Community based	2001	600 000 (Oct. 2010)
India	Government of India, Rashtriya Swasthya Bima Yojana (RSBY)	IP health	PPP, government	2009	45 million (Dec. 2010)
	ICICI Lombard, Health Insurance Scheme (HIS) for weavers	IP&OP health	PPP	2005	5.5 million (Dec. 2010)
	Yeshasvini Trust, Yeshasvini Scheme	IP health	PPP	2007	2.7 million (Nov. 2010)
	Bharti Axa, Palmyrah Workers Development Society (PWDS)	IP health	Partner-agent	2010	16 000 (Dec. 2010)
	VimoSEWA, Sukhi Parivar and Swastha Parivar	IP health, life and assets; IP health	Partner-agent	1992	100 000 (Dec. 2010)
	Uplift Mutuals, Uplift Health	IP health	Community-based	2003	100 000 (Feb. 2011)
Philippines	First Community Cooperative (FICCO), mutual benefit association (MBA)	Term life, AD&D	Regulated MBA	2007	330 000 (Nov. 2010)
	Centre for Agriculture and Rural Development (CARD), mutual benefit association (MBA)	Term life, AD&D	Regulated MBA	1994	4 million (Nov. 2010)
	Coop Life Insurance and Mutual Benefit Services (CLIMBS), Microbiz Family Protector	Term life, AD&D, funeral and fire	Partner-agent	2004	135 000 (Nov. 2010)
	MicroEnsure, Family Life with Taytay Sa Kauswagen (TSKI)	Term life, AD&D, funeral	Partner-agent, broker	2007	1 million (Nov. 2010)

[1] More details on the products and their performance can be found in section 15.4.
IP = in-patient; OP = outpatient; AD&D = accidental death and disability. MBA = mutual benefit association, PPP = public-private partnership

One of the few remaining issues with the value of life microinsurance is with accidental death and disability (AD&D) covers. Often the client value from those covers is questionable due to inappropriate pricing (high premiums for a very low frequency risk), exclusions and waiting periods, which, in principle, are not necessary to control adverse selection for accidental covers.

Given low-income households' high exposure to accidents and the difficulty they have in coping with unexpected expenses, it is important to continue to improve the value of AD&D products. Some providers in the Philippines, like CLIMBS, have simplified the list of exclusions and introduced no-waiting periods for accidental covers. Similarly, CARD and MicroEnsure provide accidental cover soon after enrolment, while natural death benefits increase incrementally over time. Another good feature of the CARD product is that disability benefits are paid out in monthly instalments rather than as a lump sum, so that for the insured it is similar to receiving a monthly wage.

As discussed in Chapter 5, designing valuable, sustainable health products is inherently more complex than other types of microinsurance. Many providers such as the Self Employed Women's Association (SEWA) and Uplift in India integrate preventive healthcare services in their hospitalization products, which is a good way to boost value (also to non-claimants) while lowering hospitalization claims costs.

Another relatively easy way to enhance benefits is a hospital-cash feature or a cover for loss of income due to hospitalization. This can be useful when clients need to pay (informally) for drugs or for services due to under-financed public health systems. In addition, it can also provide protection for informal workers who are not compensated for loss of income by social security systems. For example, CIC in Kenya pays out KES 2 000 (US$22) per week for up to 25 weeks during the hospitalization period. SEWA health workers come to the hospital on the first or second day of hospitalization to provide an advance on a claim that is reimbursed in full later on.

Lastly, eligibility criteria and mechanisms for choosing additional members or appointing beneficiaries for health and life products require careful monitoring. As noted in Chapter 16, and observed for some products in India and the Philippines, letting the principal member select other members for health policies can lead to gender discrimination, as it may result in much lower enrolment for female family members. Consequently, products that cover the whole family tend to be preferred, as they have the advantage of lowering adverse selection.

15.2.2 Facilitating access

Choice and enrolment

Intuitively, offering a choice between products or specific features should be beneficial. However, too much choice can complicate decisions and discourage cli-

ents from buying an otherwise valuable product *(see Chapter 13)*. In addition, mandatory products that offer no choice are usually less expensive, as they enable insurers to reach scale faster and avoid adverse selection. The merits and downsides of mandatory compared to voluntary products can be more usefully discussed if all client value dimensions are considered at once (see the Kenyan examples in section 15.4).

Some providers are experimenting with hybrid approaches. In the Philippines, MicroEnsure offers a mandatory product to borrowers of the microfinance institution (MFI) Taykay Sa Kauswagan, Inc. (TSKI), with an opt-in feature for clients who want cover to continue after their loans have been repaid, as many clients also save with TSKI. The basic idea is to control adverse selection through a mandatory product delivered with superior service that allows clients to appreciate the product and buy it voluntarily, or upgrade to a higher option in the future.

Clients' needs vary, yet many products have been standardized to reduce transaction costs. Although too much customization might be expensive to administer, giving clients some choice seems to be a valid solution. Among the insurers reviewed, only Pioneer Assurance and VimoSEWA offer such choice. As insurance literacy levels increase, it should be possible to let clients choose from a limited set of riders or even decide on a combination of composite products offering protection for health, life and/or property risks in one product. For the moment, the composite products available to low-income clients are rigid and expensive to deliver (see Kenya's experience in section 15.4).

The enrolment process matters, especially the timing and length of the enrolment period. VimoSEWA enrols after harvest in rural areas to overcome liquidity constraints and reach farmers when they are flush with funds from the harvest. Some Indian health schemes include a single, short enrolment window during the year. While a one-week enrolment period may mitigate adverse selection and reduce marketing costs, it is not enough to capture all interested households and it can create major operational challenges.

Information and understanding

Low levels of insurance literacy make it difficult for clients to understand policies and use them properly. They need to be provided with easy access to information on the product and educated in its use while taking account of other available risk management solutions. The latter usually involves broad financial education and various channels need to be used to relay educational messages and change consumer behaviour.

Chapter 14 outlines various strategies and tools used by practitioners. The client value analysis revealed some additional insights from providers, such as MicroEnsure, VimoSewa and Uplift, which run systematic educational pro-

grammes on risk management concepts that go beyond basic information transfer. MicroEnsure's education programme, for instance, is based on three pillars: 1) using comic books, songs and CDs to improve clients' financial literacy and enable them to compare savings and insurance products; 2) explanation of product benefits and logistics; and 3) education of MFI staff in the same issues with an emphasis on claims administration.

These comprehensive efforts are worth evaluating further, but given the costs it is unlikely that providers will be able to organize such broad programmes without support from donors, government or industry bodies. Hence, providing clear information on the product is a good start for microinsurers. FICCO in the Philippines and ICICI Lombard in India provide useful examples, with the former providing a very simple policy document that conveys the key benefits and logistics of the policy, and the latter including a list of exclusions on the back of the insurance card. In general, the providers studied in the Philippines outperform their counterparts in India and Kenya with the simplicity of forms and clarity of language used during the enrolment process.

Education seems more important when clients either do not decide to buy the product themselves (mandatory products) or pay little for subsidized products. In these circumstances, use by clients is often lower than expected (or claims rejection rates are higher), because clients do not fully understand the benefits and claims processes. More education is required for complex products, which probably explains why MicroEnsure conducts a broad educational programme and Britak in Kenya confines itself to information transfer.

Premium payment

Collins et al. (2009) draw a detailed picture of how poor people all over the world live on small and irregular incomes. Paying for insurance is difficult for low-income households struggling to meet a multitude of needs with scarce resources. Microinsurers recognize that this problem is hampering access and are trying different ways to overcome it.

Greater flexibility in premium payment is required. Low-income households appreciate paying in small instalments (irregular, if possible) at their doorstep and having their payments spread over time. Mobile payments, albeit not practised by the schemes reviewed, can provide a breakthrough, provided transaction costs are affordable *(see Chapter 24).* Reasonable grace periods to avoid policy lapses are also desirable. It is not always possible to add flexibility though, as insurance regulations may limit the ability to introduce more flexibility to adjust certain product features. For example, for health policies, annual premiums paid in a lump sum are often required.

In developed countries, automatic deductions from salary provide an easy, client-friendly option. This option is rare in the context of microinsurance as

low-income households often work in the informal economy. Among the reviewed products, only Britak in Kenya, which works with the Kenyan Tea Development Authority, offered automatic deductions to small-scale tea growers, who were paid a regular monthly wage and an annual bonus.

Another solution to make payments more convenient involves linking microinsurance to other financial services. For example, of CIC's Bima ya Jamii policies, almost 90 per cent are bought with a loan from savings and credit cooperative organizations (SACCOs). This is also practised by other providers in Kenya. The issue is delicate as there is a fine line between increasing client value and cross-selling credit services, which might lead to excessive debt or to an increase in premiums.

For this reason, using savings and remittances to finance premiums should provide clients with better value, but such solutions still need to be developed *(see Chapter 17)*. VimoSEWA had mixed results with two savings-linked premium payment mechanisms. Automatic deduction from savings accounts did not work when the account balance was insufficient, and it was difficult to educate clients properly given the mandatory nature of the product. VimoSEWA clients also have an option to make a deposit into a special SEWA bank account, for which they receive cover instead of earning interest. While this mechanism reduces transaction costs, it does not overcome liquidity constraints, as clients need to make a deposit that is 20 times the annual premium. Previously, a quarter of SEWA members had used the fixed-deposit payment method but this proportion had been declining steadily (McCord et al., 2006).

Proximity

Given the limited and often expensive transport options, low-income households need an accessible point-of-sale network to enrol in insurance schemes and avail themselves of their benefits. This requirement is embraced by most of the insurers reviewed, especially VimoSEWA, Uplift and PWDS, whose staff are present in the community for the enrolment process. It is also the case for the life insurers in the Philippines that often invest significant resources in training the frontline staff of delivery channels, who are situated close to the clients, as well as developing a network of their own agents to support the distribution partners.

15.2.3 Lowering costs

Value for money

Value for money can be measured by the ratio of all insurance and non-insurance benefits to the total premium paid. Of the reviewed schemes, it is not surprising that the subsidized products provide the best value for money. Products with many value-added benefits, such as Uplift or VimoSEWA, also score well on this

dimension. Interestingly, in the Philippines, where there is a mature market for life products, all products provide similar value for money.

The value for money analysis helps to identify overpriced products compensating for inefficient processes. For example, in Kenya neither a relatively cheap product from Britak nor the most comprehensive scheme from Pioneer Assurance seem to provide the best value for money. Both products have claims ratios of between 80 and 120 per cent, which means that members get more for their premiums. However, such a high ratio is also indicative of a problem with the programme, which ultimately can be bad for both the provider and the client. It seems that other Kenyan providers have more efficient processes or better cost controls, because even with lower claims ratios they offer clients better value.

Affordability

Many of the products reviewed seem to be affordable, especially in the Philippines, where all the products are within a range of PHP 20 to PHP 30 (US$0.44 to US$0.66) per year. As described in section 15.4, the only ones that do not comply with the affordability dimension are composite products in Kenya from CIC and Pioneer, which might explain their slow growth.

Again, a subsidy can be used to make products affordable as long as it is permanent or designed in such a way that it does not undermine the long-term viability of a specific product. This is becoming more prevalent in countries with sound government policies, especially for health and agriculture insurance products. Three of the reviewed health schemes in India are subsidized by either central or state governments.

Other costs

In most of the cases reviewed, products do not require clients to pay extra costs. However, receiving healthcare benefits, and family visits to a sick person, can still involve travel costs, especially in rural areas. Schemes such as RSBY provide a travel allowance, which removes barriers to access and should significantly improve the value of microinsurance in rural areas.

Many health schemes have co-payments of 10 to 20 per cent. As the PWDS example illustrates *(see Box 15.2),* if members are given a choice they intuitively select an option with co-payment and thus lower premiums. This is in line with the high discount rate that is often reported for low-income households, giving rise to the notion that households value cash in hand more than cash in the future *(Chapter 13).* Some of the Indian schemes offer co-payments for expensive surgery or hospitalization following an accident. This kind of co-payment should have limited impact on controlling moral hazard but can significantly increase vulnerability for those who are exposed to the catastrophic risks. It seems that client value can be significantly increased if co-payments are eliminated for rare but expensive events, while still used for more frequent, low-cost incidents.

Box 15.2

Preferences for higher co-payments (and lower premiums) at PWDS in India

Palmyrah Workers Development Society (PWDS), an NGO in Tamil Nadu, offers in-patient health insurance to its self-help groups in collaboration with two insurers. PWDS wanted to involve community groups during the development of the product to understand their requirements and gain early buy-in. Two product options were discussed with the community: one with full payment of the claim and a higher premium, and the other with a 20 per cent co-payment and a lower premium. When the product was rolled out, four out of five community federations opted for the co-payment option. Members felt that a co-payment would reduce false and excessive claims since a portion of the cost had to be borne by the claimant. Their decision to opt for the co-payment option was probably driven by the lower price, but also illustrated that they understood the requirement for self-regulation and were willing to try it.

Cost structure and controls

As explained in the "value for money" analysis above, effective cost controls should result in better-value products that will provide access to services in the long term. This is also the case for cost structure and efficiency, because consumers do not want to pay for providers' inefficiency. Detailed analysis of cost structure and controls goes beyond the scope of this chapter, but it is interesting to see various cost-reduction strategies among the participating organizations: eliminating intermediaries (MBAs in the Philippines), making use of staff from delivery channels (CLIMBS, Pioneer Assurance), involving specialized brokers (Micro-Ensure) or third-party administrators (TPA), maintaining adverse selection and fraud controls and monitoring costs at the healthcare provider level (Jamii Bora Trust, Uplift, RSBY). Lastly, technological advances should result in efficiency gains, though it is yet too soon for these cases to have provided evidence of this.

15.2.4 Enhancing experience

Claims processes and timeliness

Microinsurance becomes tangible for clients when a claim is settled and this provides an opportunity for insurers to build trust and increase loyalty. Claims procedures need to be convenient and claims need to be paid in a timely manner to provide a service that is better than the informal ways in which low-income households manage risks.

Quick payouts on funeral riders of the life policies in the Philippines are good examples of client value enhancement. CLIMBS, CARD *(see Box 15.9),* and Micro-Ensure pay the funeral benefit component of life insurance within 24 hours, while the rest of the life benefit is paid slightly later and is subject to more documentation.

Box 15.3

CARD's 1-3-5 claims settlement model

At the Center for Agriculture and Rural Development (CARD) in the Philippines, the 1-3-5-day procedure for claims settlement ensures that members have a positive experience with the insurer. Verified by the CARD branch manager or CARD MBA staff, claims are settled within:

- 24 hours of notification: a claim for indemnity must be settled if the dead body is not yet buried at the time of validation.
- three days of notification and with complete documents: a claim for indemnity must be settled if the dead body is already buried at the time of validation.
- five days of notification: definitive action will be taken in respect of difficult claims.

Source: CARD MBA website, 2011.

As discussed in Chapter 6, health microinsurance providers are increasingly offering a solution to access benefits through "cashless" claims. Instead of advancing their own money and being reimbursed later by an insurer, a member can access healthcare services free. Most health microinsurance players, including ICICI Lombard, RSBY, PWDS, CIC, NHIF, Pioneer Assurance, Jamii Bora Trust and Britak, have moved to "cashless" solutions, though the approach has its critics. Uplift strongly believes that a reimbursement basis creates a stronger sense of ownership amongst clients and avoids inflated costs (because of unnecessary treatment, for example) from healthcare providers. Uplift believes that a reimbursement system is more efficient in keeping overall claims costs down.[3] VimoSEWA practises something in between, by advancing part of the payout when the client is in the hospital and paying the balance after the documentation is submitted.

Despite these positive examples, many microinsurers can improve their handling of claims. The process can be cumbersome, especially for AD&D and some non-cashless health covers. Turn-around times of more than a month undermine value, as beneficiaries may resort to costly alternatives to generate the lump sum needed. High rejection rates for some schemes suggest that claims procedures are not clear or well communicated. The list of required documents for some products, especially in Kenya, is too long. It is uncertain whether the additional paperwork makes any contribution to the insurer's controls, but it definitely makes the clients' experience worse. MicroEnsure's commonsense approach to accident and death certificates is an example of a small change that improves the clients' experience *(see Box 15.4)*.

[3] Uplift tested cashless solutions and argues that the rates charged by healthcare providers were almost double those for clients paying cash.

Box 15.4

Process of improving client value at MicroEnsure

MicroEnsure started its partnership with Taytay Sa Kauswagen, Inc. (TSKI) in 2007, in the Visayas region of the Philippines, where the MFI was already self-administering a life insurance product to cover its members. The existing cover was used as a starting point to design an added-value product using the partner-agent model with support from MicroEnsure, a microinsurance intermediary *(see Chapter 23),* for product development, marketing and claims administration. Different features have been modified over time.

As a first step, the sum insured was increased from PHP 100 000 to PHP 120 000 (US$2 222 to US$2 666) so that the loan amount (on average PHP 30 000, US$666) and funeral costs would be fully covered and an additional amount would remain for the beneficiaries. Benefits between life and burial were separated and pre-existing diseases were included in the burial benefits, resulting in quicker benefit payments. To simplify the cost structure and enable clients to understand the product better, a community rate was introduced, so that there was no differentiation in the premium for age group. The enrolment of family members then became compulsory and a family rate was introduced, ensuring all members were protected, although at different benefit levels. The definition of dependents was also reviewed several times to adapt the policy to the family situations in the Philippines.

To simplify claims processing, MicroEnsure made the MFI a trustee on the policy. The documentation required for the claim process was reduced, including the possible use of village head certificate and affidavits. Furthermore, an increasing-with-time benefit table was introduced to limit verifications linked to exclusions and pre-existing conditions. Thanks to these adaptations, the claims turnaround time had decreased from three months to 44 days as of November 2010, which is significant progress, but it can still be improved.

Sources: Data collected from MicroEnsure; Microinsurance Innovation Facility, 2011.

Policy administration and tangibility

Policy administration is less of an issue than claims handling because most insurers reviewed – especially FICCO, CARD and CLIMBS – excel at delivering policy certificates or insurance cards to their members quickly. RSBY uses technology to issue membership cards on the spot during its enrolment campaigns. However, in other cases clients wait three to four weeks for the cards. Many providers do not provide any policy document or tangible proof of insurance. It is hard to defend the cost reduction arguments, as the proof of insurance can be as simple as the card used by ICICI Lombard with some key policy information on the back.

For clients to have a positive experience, it is also important to make insurance tangible for the vast majority who have been fortunate enough not to make

a claim. The efforts by Uplift and VimoSEWA described in Chapter 5 are good examples of providing value to clients who do not submit claims, but providing additional services might be costly and for product lines other than health insurance might be of less direct benefit to insurers. Providing tangibility can be as simple as offering a membership card and sending follow-up text messages with information on the insurance policy.

Customer care

As products and distribution models become complex, the role of customer care in microinsurance has become more important. In the past, this consideration has been largely neglected and many microinsurers had not provided clients with a way to contact them in the event of a problem or if they needed information. Recently, however, insurers have been making a greater effort to provide support to clients before, during and after a sale.

With advancements in telecommunications, call centres are being tested in microinsurance and the clients of some schemes (CIC, Pioneer, ICICI, RSBY, Uplift) have access to a toll-free number. It enables clients to understand the basic features of the product at the time of purchase, establishes a feedback and grievance mechanism, and allows them to check their policy status.

Customer care goes beyond call centres and just being close to the client. It is about having an institutionalized process to provide satisfactory answers to clients' queries, mechanisms for responding to grievances, and a system to monitor and act on individual requests and complaints. For example, CLIMBS, CIC, Uplift and VimoSEWA, among others, have made an effort to put in place structures for customer care. This is often not the case with many community-based or partner-agent schemes, which assume that being close to the client is sufficient.

15.2.5 Balancing trade-offs in a continuous improvement process

Many of the products include value-enhancing elements, though it is rare for one product to score well on all of the client value dimensions as there is often a trade-off between affordability and enhancements in benefits, access and experience. Client value improvements, however, do not always require an increase in premium. They can also be achieved through efficiency gains, as many processes can be streamlined. In fact, continuous improvement of client value was observed in several schemes, including MicroEnsure and Uplift *(see Boxes 15.4 and 15.5)*.

Client value enhancements should be strategic. There are intrinsic trade-offs between client value and business considerations. A "balanced" value approach across all four dimensions of PACE makes perfect sense for a client, but this might not be the best choice for a microinsurer in a competitive environment that wants to differentiate its offering.

Box 15.5

Process of improving client value at Uplift

Uplift Mutuals started its health insurance scheme in 2003 with a maximum cover of INR 5000 (US$111) for an annual premium of INR 50 (US$1.11) per person. The cover included full reimbursement for in-patient treatment at public hospitals and 80 per cent at private providers. In 2007, outpatient discounts on consultations and medicines were added and day-care procedures and accidents were included in the cover, while pre-existing conditions were excluded for two years (previously only one year), and the premium was increased to INR 60 (US$1.33) per person. At the same time, Uplift recruited fully dedicated field staff to improve customer care. In 2009, Uplift raised the sum insured to INR 15 000 (US$333) for a premium of INR 100 (US$2.22) per person.

Uplift had to address three problems during its early years: 1) a high claims rejection ratio; 2) an increase in the cost of claims; and 3) an increase in out-of-pocket expenses. Due to lack of awareness, many claims were submitted for excluded cases. The scheme was unable to control healthcare costs because it relied on a small network of empanelled providers, so it could not monitor (compare) costs. Uplift realized that its members valued access to information on health services as much as the financial benefit of insurance. To improve access, Uplift developed a network of more than 300 quality health providers offering price discounts of 10 to 50 per cent, and instituted a 24/7 helpline to point members to an appropriate health provider. To increase value for all members, even those with no hospitalization claims, Uplift also expanded its health initiatives to include drug discounts, monthly health camps, free check-ups and health education to prevent seasonal illnesses.

Uplift's efforts to improve client value seem to be paying off. As of early 2011 the scheme covered more than 100 000 people, the claims rejection ratio was 2 per cent, the loss ratio had increased to 47 per cent, the services ratio (proportion of members accessing outpatient or in-patient health services) was 56 per cent, out-of-pocket spending had decreased by 22 per cent, and the renewal ratio had increased from 48 per cent in 2008 to over 60 per cent in 2010. Uplift is currently not fully sustainable. Premiums are enough to cover insurance operations, but are not yet sufficient to sustain the value-added benefits, which are subsidized by a donor. Uplift management estimates that a tripling of the current outreach should generate economies of scale to sustain the full programme.

Sources: Data collected from Uplift; Microinsurance Innovation Facility, 2011.

Lastly, client value is contextual. Not all the enhancements that work in one country can be replicated or are needed in another. Clients' preferences might be different, availability of technology or distribution partners vary, and the land-

scape of informal mechanisms, national security schemes and microinsurance providers might make it necessary to find a niche for a specific product. The next section of this chapter compares various products at country level and illustrates the importance of looking at a product in relation to its alternatives.

15.3 Setting benchmarks: Informal mechanisms and social security schemes

Informal mechanisms and social security schemes provide benchmarks to assess the value of microinsurance in the context of other risk management options.

Low-income households use a multitude of informal mechanisms such as burial societies, savings or self-help groups to manage life, health and property risks. Through group risk-sharing mechanisms, households participate in an important social function nested within well-defined communities that allow risk-pooling without much fraud, moral hazard or adverse selection. However, as described by Dercon (2005) and Morduch (1999), they have many weaknesses. They can only handle idiosyncratic risks, and not covariant risks that affect entire communities (e.g. flooding). They are best suited for small disbursements for frequent events. Only well-structured groups, often managed by a remunerated committee, are able to respond to larger losses, but these are rare and found mostly in urban areas.

Low-income households tend to patch various strategies together because none can provide enough funds on their own to cover large losses. Households compensate by participating in multiple group schemes, or, in the event of an emergency, they deplete their savings, sell assets at low prices, or take one or more small loans from moneylenders or MFIs. These activities often involve high costs (Cohen and Sebstad, 2005; Collins et al., 2009).

The PACE client value assessment in Kenya on the use of informal risk management arrangements *(see Box 15.6)* confirms that they offer partial cover at a high price. Informal risk-sharing mechanisms in Kenya score low on product benefits and cost, high on access, and medium on experience.

Box 15.6

Client value from informal risk-sharing mechanisms in Kenya

In Kenya, "welfare groups" of 20 to 60 members are a popular, self-managed way to respond to life, and to a certain extent, health risks. They are better organized in urban areas, where members regularly contribute KES 200 to KES 400 (US$2.20 to US$4.40) per month to receive a KES 20 000 to KES 50 000 (US$222 to US$555) payout in the event of the death of the member or a family member. In the event of major illness, members are requested to contribute ex-post from KES 100 to KES 500 (US$1.10 to US$5.50), which results in lump sums of KES 5 000 to KES 30 000 (US$55 to US$333) to cover health bills. In rural areas the ex-ante collections are

rare, so members are requested to contribute during the funeral and sometimes groups organize special events to collect funds to help members respond to major health shocks (Cohen et al., 2003; Smith et al., 2010; Simba, 2002).

Since the cost of a funeral can vary from KES 150 000 to KES 200 000 (US$1 666 to US$2 222), risk cover from one group is insufficient. Many people belong to between two and five welfare groups at the same time or combine membership with other strategies such as borrowing or selling assets to generate the required amount. So even if regular contributions to one group may seem affordable (and are close to the premiums collected for similar microinsurance products), the cost-to-benefit ratio is low. Moreover, each membership incurs transaction costs in the form of time, fees and in-kind contributions, so relying on several informal group-based mechanisms can be a costly strategy for coping with shocks. Lastly, these groups do not have any reinsurance arrangement that could provide cover in the event of excessive claims, so the groups are financially vulnerable as well.

The welfare groups in Kenya are accessible, but seem to provide poor service to their members. Johnson (2004) reports that 40 per cent of households in one rural area belonged to at least one group. In most cases rules are simple, and groups are within the close community and have convenient ways to collect contributions in frequent but small instalments. Claims settlement procedures are also easy and quite flexible, but seem to work only for ex-ante schemes that provide good service in urban areas for life risks. In the event of a funeral, urban groups usually pay the benefit to the family instantly, but prompt payment is rarely the case in rural areas and in general for health risks. There is some evidence to suggest that ex-post contributions are provided with long delays, if at all. Simba (2002) says that collecting contributions from members can take many weeks after a funeral.

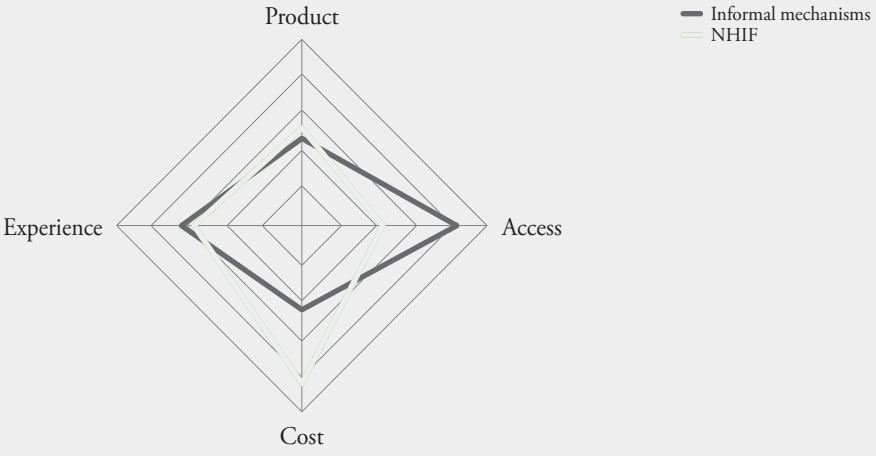
The other useful benchmark for analysing client value for microinsurance is social security schemes. Despite the emergence in many countries of social security schemes that go beyond the formal sector, their outreach is low and they rarely offer comprehensive protection, most often covering health shocks or catastrophic events, or aiming at reducing the vulnerability of children and elderly people (ILO, 2008).

The National Hospital Insurance Fund (NHIF) in Kenya is a good example of a government effort to protect a poorer stratum of the population. Originally available for formal-sector employees and funded by their contributions, in 2007 NHIF was opened to include informal-sector workers for an annual premium of KES 1 920 (US$21) for the whole family, which is approximately 0.8 to 1.2 per cent of a low-income household income, well within the willingness-to-pay range identified in Chapter 7. The cover can be bought by anybody at NHIF offices, but given the limited public awareness, few people have enrolled. It offers close to full hospitalization cover at government hospitals and limited reimbursements for

services from private health facilities. As the cover is reasonable for the price, NHIF scores well on cost, moderately on product and experience, mostly because of the low service quality at government hospitals, and poorly on access. Government schemes in India obtained similar scores, which suggests that while social security schemes might solve the cost problem (mostly through subsidies), better solutions are needed to enhance access, establish efficient processes and control quality of care.

As shown in Figure 15.3, in Kenya in the broader risk management picture there appears to be an opportunity for microinsurance products to add value. To do so, microinsurance should emulate the informal ways of providing access and complement the benefits of social security schemes, while at the same time offering superior service.

Figure 15.3 **PACE evaluation of informal risk management and NHIF in Kenya**



15.4 Relative value from products at the country level

This section presents a country-level analysis of the three markets: life microinsurance in the Philippines, health microinsurance in India and composite products in Kenya. It shows the importance of a client value assessment of a product in relation to alternatives in the same market to identify advantages, disadvantages and opportunities for product improvement.

15.4.1 Unveiling weaknesses of composite products in Kenya

Low-income households in Kenya rank risks to health and life as their biggest concerns (Cohen et al., 2003), and this demand perspective is consistent with the supply of informal risk management arrangements and microinsurance schemes that often cover both health and life risks. The Kenyan PACE analysis compares

three composite products by CIC, Pioneer Assurance and Britak, and two in-patient health products by Jamii Bora Trust and NHIF *(see Table 15.2)*.[4] One may argue that this is comparing apples to oranges. However, as health risks are a greater concern for low-income households, a comparison of a health and life product with a health-only product is a valid exercise from the clients' perspective, as both address their highest priority. Additionally, the products are comparable as they target broadly similar market segments: CIC and Britak serve the same populations in rural areas and CIC and Pioneer in urban areas, while Jamii Bora Trust targets the slightly lower-income market of urban slum dwellers. None of the Kenyan schemes, however, has a business case at this point *(see Chapter 18 for results from CIC).*

Table 15.2

Products included in the PACE analysis for Kenya

	CIC, Bima ya Jamii	*Pioneer Assurance, Faulu Afya*	*Britak, Kinga ya Mkulima*	*Jamii Bora Trust (JBT)*
Start date	2007	2010	2007	2001
Product type	IP health, AD&D, funeral, voluntary, stand-alone	IP&OP health, term life, AD&D, voluntary, stand-alone	Whole life, IP health, voluntary, stand-alone	IP health, credit life, mandatory, credit-linked
Cover	KES 340 000 (IP), KES 50 000 (hospital cash), KES 100 000 (AD&D), KES 30 000 (funeral)	KES 200 000 (IP), unlimited OP, KES 100 000 (life), Disability on tables	KES 100 000 (life), including 20 per cent for IP health	Unlimited IP, outstanding loan cover
Annual premium[1]	KES 3 650 for family	KES 6 995 for family	KES 1 860 for member and spouse	KES 2 400 for family
Distribution	SACCOs and MFIs	MFI	Employer (KTDA)	MFI
Targeted segment[2]	SACCO members and MFI clients KES 10 to 15 000 (rural) KES 15 to 30 000 (urban)	Urban micro entrepreneurs KES 15 to KES 30 000	Small-scale tea growers KES 10 to KES 15 000	Urban slum dwellers KES 10 to KES 20 000
Performance	8 300 lives (06.2010) 40 per cent claims ratio for life; 120 per cent for health 25 per cent renewal ratio	11 000 lives (09.2010) > 100 per cent claims ratio	78 000 lives (10.2010) 80 to 100 per cent claims ratio 1 per cent lapse rate	600 000 lives (10.2010) 80 to 120 per cent claims ratio

[1] Premiums do not include the cost of taking a loan to purchase insurance, which is very common for all the products reviewed except Britak.

[2] Average monthly household income based on estimations from the providers, on-going impact study of the CIC product conducted by EUDN and Oxford University, and Ana Klincic's study on Jamii Bora Trust clients (unpublished).

Note: US$1 = KES 91.

[4] CIC product sells NHIF in-patient cover and bundles it with life benefits underwritten by CIC.

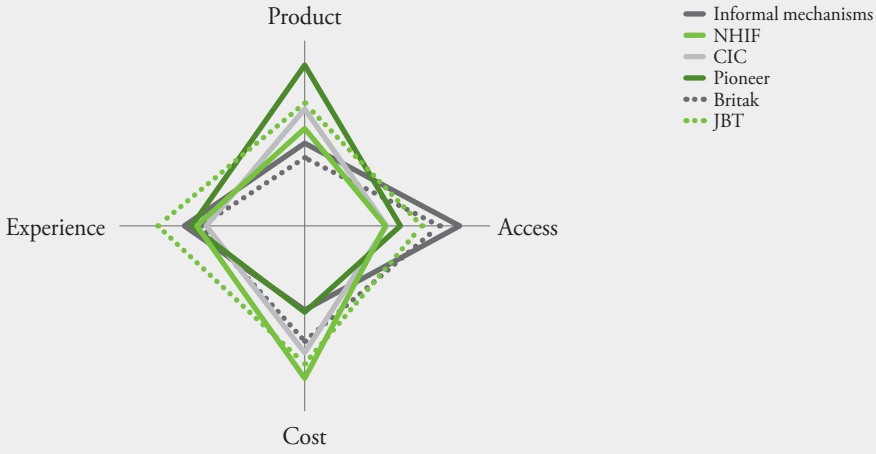
According to the PACE analysis, Jamii Bora Trust's microinsurance product is the only one that adds significant value *(Figure 15.4).* This product mimics informal mechanisms in terms of access, fulfils social functions and provides superior service, while providing more comprehensive cover than NHIF at a similar price. The relatively good value for money stems from the fact that adverse selection is limited due to the mandatory nature of the product, as well as the adequate controls that are in place to reduce fraud and moral hazard by healthcare providers. The mandatory, credit-linked feature lowers the ranking for access as clients do not have any choice and in most of the cases use loans to finance premiums. However, this is counterbalanced by product simplicity and the proximity of Jamii Bora branches. The possibility of giving the members more choice is now being discussed, but it seems that making the product voluntary for all Jamii Bora Trust members might reduce value for money, as adverse selection and administration costs will increase substantially.

Britak's is the most accessible product because of its simplicity and its very convenient delivery channel that allows automatic premium deduction from monthly wages. However, the relatively small benefits undermine its development potential. Moreover, the slightly lower value for money puts this product at risk when markets become more educated and less fragmented.

Bima ya Jamii has been a sound attempt by CIC to enable people to access to NHIF cover, while at the same time improving cover and service at a reasonable price. However, it has not worked well in practice and requires readjustment, as NHIF in 2010 announced its intention to include outpatient services in its cover, which will result in a substantial increase in premium. Therefore, CIC and NHIF are contemplating whether to stop offering the product in its current form. Despite improvements in proximity and client awareness, CIC and NHIF have encountered difficulties in streamlining the enrolment process, document requirements and synchronizing their information systems. CIC was also obliged by regulation to collect an annual premium up-front, which made it more difficult for people to afford or access the product.

Pioneer's composite product received a low ranking for different reasons. On the one hand, it is the most comprehensive product on the market and as such merits attention, but it is hard to explain to clients and difficult to maintain high service standards for a multiple cover, resulting in lower scores for access and experience. Moreover, the product struggles with adverse selection and there is a need to improve administrative processes to better manage the providers' network. Lastly, low-income markets are sensitive to price; a premium equivalent to 2.9 per cent of monthly income puts the Pioneer product above the limit of affordability. Nevertheless, it is the least mature of all the products and its value proposition is likely to improve over time.

Figure 15.4 **Client value PACE analysis, Kenya**



	Informal mechanisms	*NHIF*	*CIC*	*Pioneer*	*Britak*	*JBT*
Product	2.3	2.6	3.3	4.4	1.9	3.3
Access	4.3	2.2	2.3	2.7	3.7	3.3
Cost	2.2	4.2	3.4	2.4	3.2	3.8
Experience	3.3	3.0	2.7	3.1	2.9	4.0

The jury is still out on the client value from Kenyan microinsurance products as many of them are new; with their limited maturity, there is room for improvement. However, the PACE analysis raises a question as to the client value provided by composite products, at least in the rigid form used in Kenya. In theory, there are strong arguments in favour of composite products given the high acquisition costs in microinsurance. However, one needs to be conscious of their drawbacks. Inherent complexity makes it difficult to explain benefits to clients and to maintain high-quality service and expensive-to-administer policies, resulting in barely affordable products. From the client value perspective, the lack of choice is an issue as it cannot be assumed that one-size solutions fit all. All these factors have resulted in low take-up.

15.4.2 Comparing various models for health insurance in India

Over the last decade, a number of health microinsurance products have been developed in India, making it the most mature market for the provision of health covers to low-income households. As shown in Table 15.3, the PACE analysis captures this diversity by looking at six hospitalization products bundled with additional benefits. These products are delivered by a community-based scheme

(Uplift), by NGOs in partnership with insurers (PWDS, VimoSEWA), by an insurance company in collaboration with the Ministry of Textiles (ICICI Lombard), by a state Government in collaboration with cooperatives (Yeshasvini), and by the Government with various private insurers (RSBY).[5] The RSBY and weavers' schemes are subsidized and the latter is the only one offering full outpatient cover. It may seem unfair to compare subsidized schemes to market-priced ones, but those comparisons make sense from the clients' perspective, which is the essence of the PACE assessment. The products serve similar target groups, but are sold in different locations (with the exception of RSBY, which has been rolled out across India).

The government-sponsored schemes score similarly to their Kenyan counterpart NHIF *(see Figure 15.5).* Although they can provide better products at a lower cost due to subsidies, as large-scale schemes they underperform on both access and experience dimensions. For RSBY, access is limited to the population below the poverty line (BPL) as identified by the ration card. More importantly, enrolment numbers are suppressed by the fact that enrolment is often done within a specific window of time and all family members need to be present in person. Limited information provided to the public and limited effort to educate members are likely explanations for low usage rates. In the case of ICICI Lombard, access to its scheme is constrained by limited member education for a relatively complex product. Low usage rates may suggest inadequate claims procedures, but an emerging "cashless" system should improve service quality in the near future. The Government of India and the insurers involved are investing resources to make the RSBY and other government-sponsored schemes work for low-income populations.

Improvements in the access and experience dimensions might make it difficult for market-priced schemes to compete with RSBY and other government schemes, at least for the poorest clients. Some households are currently still enrolled in RSBY and other health microinsurance plans, but it seems that schemes will in future align themselves with RSBY and reposition their products. Organizations like Uplift, VimoSEWA and PWDS can improve access to RSBY and make sure that their members benefit from the government system.

[5] Various public and private insurers deliver RSBY; premiums vary slightly, but the product design and core processes remain the same. For the PACE analysis, the RSBY delivered in collaboration with ICICI Lombard is taken as a reference. For more information on RSBY and health microinsurance in India, see Chapter 20, section 20.2.4.

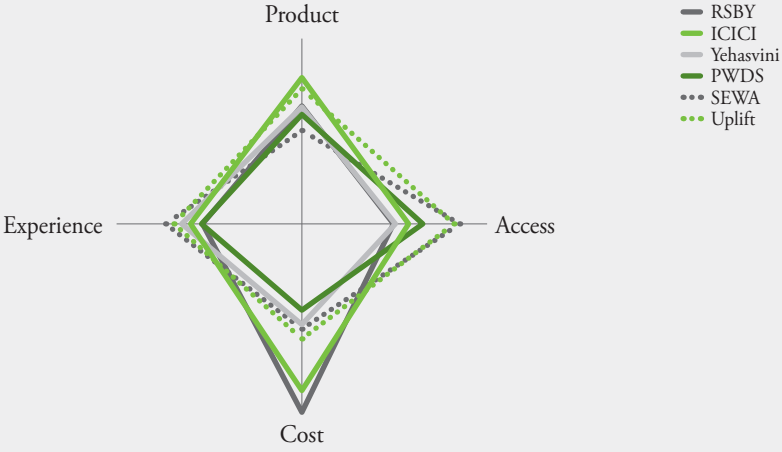
Table 15.3

Products included in PACE analysis, India

	RSBY	*ICICI Lombard, HIS scheme for weavers*	*Yeshasvini*	*Bharti-Axa/ PWDS*	*VimoSEWA, Sukhi Parivar and Swastha Parivar*	*Uplift*
Start date	2009	2005	2007	2010	1992	2003
Product type	IP health, voluntary, individual, stand-alone	IP and OP health, voluntary, group, stand-alone	IP health, voluntary, group, stand-alone	IP health, voluntary, group, stand-alone	IP health, voluntary, group, often linked	IP health, mandatory, group, credit-linked
Distribution	Varied	Cooperatives	Cooperatives	Self-help groups SHGs	SHGs	MFIs
Cover	INR 30 000 no sub-limits, pre and post IP, full maternity, transport allowance, OP discounts	INR 15 000 no sub-limits, comprehensive cover	INR 200 000 IP but limited to one incidence per person per year; mostly surgery	INR 30 000 no sub-limits, full maternity	INR 2 000 to 6 000 for composite products; INR 10 000 for the stand-alone product	INR 15 000 for IP, sub-limits pre and post IP, OPD discounts, preventive health services
Targeted segment[1]	– BPL population in both urban and rural settings – Monthly household income: INR 1 500 (rural) and INR 2 000 (urban)	– Weavers and other textile workers – Semi-urban and mostly rural (in 29 Indian states) – Mostly BPL members – Monthly household income: INR 2 000 (rural) and INR 2 500 (urban)	– Members of the Registered Cooperative Societies in rural Karnataka – Upper poor, some BPL members – INR 3 000 (rural) and INR 3 500 (urban)	– Members of SHGs in 7 Federations in 3 southern districts of Tamil Nadu – Rural only – Upper poor – INR 3 500 (rural)	– Members of SEWA and other NGO beneficiaries, mostly in Gujarat – Informal sector, rural (60 per cent) and urban (40 per cent) – Poor, some BPL members – INR 2 500 (rural) and INR 3 000 (urban)	– Mostly urban population, Pune and Mumbai, slum dwellers, microcredit clients – Poor, some BPL members – INR 2 500 (rural) and INR 3 000 (urban)
Performance	22.5 million cards issued (Feb. 2011) Average 2.5 lives per card enrolled	1.7 to 1.8 million policies, 5 to 6 million lives (Dec. 2010); 90 per cent coverage ratio 50 to 90 per cent claims ratio; low claims rejection ratio 95 to 100 per cent renewals ratio	2.7 million lives (Nov. 2010) 70 to 100 per cent claims ratio 70 per cent renewals ratio	6 500 policies, 16 000 lives (Dec. 2010) 140 to 160 per cent claims ratio	60 000 policies, 100 to 125 000 lives (Dec. 2010); 8 per cent of SEWA members 60 to 90 per cent claims ratio, 15 per cent claims rejection ratio 60 per cent renewals ratio	100 000 lives 47 per cent claims ratio, 2 per cent rejection ratio 70 per cent renewals ratio (Feb. 2011)

[1] Client income estimations should be treated with caution as limited data was available. Amounts stated above are based on estimations of providers in relation to BPL level in India, for which the threshold is set at approximately INR 1 800 (rural) and INR 2 300 (urban) monthly income for a family of four.
Notes: US$1 = INR 44.

Figure 15.5 **Client value PACE analysis, India**



	RSBY	*ICICI*	*Yeshasvini*	*PWDS*	*SEWA*	*Uplift*
Product	3.2	3.8	3.0	2.9	2.4	3.6
Access	2.6	3.0	2.7	3.4	4.4	4.3
Cost	4.9	4.3	2.6	2.3	2.7	2.9
Experience	2.7	3.1	3.3	2.7	3.7	3.6

Interestingly, as with Kenya, the most "balanced" client value is provided by a community-based scheme. As described in Box 15.5, Uplift scores well on the PACE framework mostly because of value-added services, quality care management, systematic client education efforts and outstanding customer care. VimoSEWA is very close to Uplift in several dimensions except for product, as benefits are the lowest among the Indian schemes. At the same time, VimoSEWA has been financially viable for several years now,[6] while Uplift is still dependent on donors, which suggests that the value-added benefits provided by Uplift might not be realistic for a market-based scheme. Premium increases might be an option to improve viability as most of the schemes reviewed in India are below the willingness-to-pay threshold for health insurance.

[6] But performance has not been validated with insurers carrying the risk for the scheme.

Yeshasvini and PWDS products add slightly less value, but they serve their captive markets and provide decent cover at a fair price. Access seems to be an issue for Yeshasvini, while PWDS, the least mature of the Indian schemes, needs to improve claims administration and quality of service. If adverse selection and moral hazard problems are solved, there might be room for further improvement, resulting in higher client value.

To summarize, the PACE analysis for India draws an interesting picture of the value delivered by different models. Each model has different strengths that can be exploited to create better health insurance products for low-income households. Private-sector players and NGOs should align their products with large public schemes (provided that service quality improves) through integration or by targeting different market segments.

15.4.3 Enhancing value from life insurance in the Philippines

Just as India is one of the most mature markets for health microinsurance, the Philippines is for life microinsurance. Compulsory life covers with disability and funeral benefits were selected for the PACE analysis. The different models represented include CARD and FICCO, which are large mutual benefit associations (MBAs), CLIMBS, a regulated, cooperative insurer working in a partner-agent model with MFIs and cooperatives, and MicroEnsure, a specialized broker that develops and administers products delivered in a partner-agent model.[7] The four products are similar and the microinsurers broadly target the same market segments *(Table 15.4),* which makes the PACE analysis easier than in the other countries where the presence of social security schemes and the complexity of health insurance made comparison more difficult.

[7] The MicroEnsure product with TSKI is taken as a reference for the PACE assessment in the Philippines.

Table 15.4

Products included in the PACE analysis, Philippines

	FICCO, MBA	*CARD, MBA*	*CLIMBS, Micro-biz family protector*	*MicroEnsure, Family Life with TSKI*
Start date	2007	1994	2004	2007
Product	Term life, AD&D	Term life, AD&D	Term life, AD&D, funeral, fire	Term life, AD&D, funeral
Cover	PHP 40 000 (natural death, principal), PHP 10 000 for others, same AD&D	PHP 50 000 (natural death, principal), PHP 10 000 for others, same AD, disability up to PHP 100 000, PHP 10 000 hospital cash due to motor vehicle accident	PHP 30 000 (natural death, principal), 10-PHP 15 000 for others, same AD&D, burial benefit PHP 2 500 to PHP 10 000, PHP 40 000 for fire	PHP 90 000 (natural death, principal), PHP15 to 30 000 for others, PHP 70 000 (AD&D, principal), PHP 10 to 20 000 for others, benefit PHP 5 000 to PHP 20 000
Monthly premium per family[1]	PHP 90	PHP 60	PHP 87	PHP 78
Distribution	FICCO MFI	CARD MFI	MFIs and cooperatives	TSKI MFI
Targeted segment[2]	Microentrepreneurs, fishermen, farmers and formal sector workers loans from PHP 13 000 to PHP 2M PHP 5 to 20 000 monthly average family income	Women microentrepreneurs, trade, services, agriculture PHP 5 to 20 000	Members of credit and savings cooperatives PHP 5 to 20 000	Women micro-entrepreneurs, working poor, mostly in rural areas PHP 5 to 20 000
Performance[3]	85 000 members (330 000 lives insured) 30 per cent claims ratio Retention rate > 80 per cent	1 million members (4 million lives insured) 15 to 25 per cent claims ratio Retention rate > 80 per cent	135 000 lives	1 million lives 45 per cent claims ratio

[1] Half of the premium for MBAs goes to a guarantee fund and is reimbursed to members when they decide to leave the scheme.

[2] As all schemes target a population that is just below or just above the poverty line, the estimated income range for all schemes is PHP 5 000 to PHP 20 000, with average monthly household income at PHP 11 000. These calculations are based on the following sources: 1) PhilHealth (2010): low income threshold at PHP 246 109 annually, approximately PHP 20 000 monthly; average income in low-income group PHP 7 500; 2) National Statistical Coordination Board (2011) official poverty statistic: monthly poverty threshold for a family of five at PHP 7 017.

[3] Claims ratio for MBAs is calculated on premiums collected. In reality, the ratio doubles as it should be based on the non-refundable portion only.

Note: US$1 = PHP 45.

All the schemes in the Philippines provide better value to low-income households than similar informal risk mechanisms *(Figure 15.6),* despite the fact that in the Filipino culture community support to help bereaved families is well established. The main limitation of informal mechanisms is that they only cover funeral costs, which still leaves families vulnerable when a breadwinner dies. Otherwise, informal mechanisms to deal with life risks are accessible, not

costly and quite responsive, especially when compared to the same arrangements in Kenya.

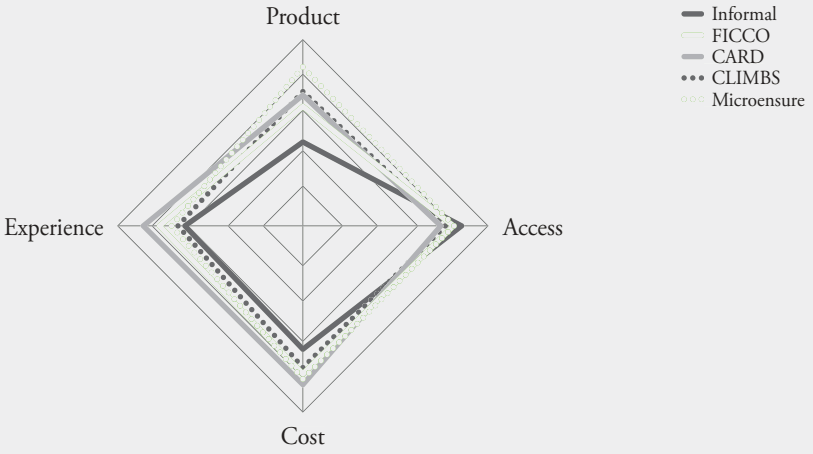
The fact that the life microinsurance products reviewed add value in the Philippines therefore merits attention, as it is hard to provide better value than the informal practice of *abuloy.*[8] In fact, the origins of microinsurance in the Philippines comes from the formalization of *abuloy* by some cooperatives that required members to contribute ex-ante PHP 2 to PHP 5 (US$0.04 to US$0.11) per month for a death benefit of PHP 20 to 35 000 (US$444 to US$777), which is close to the price people paid to be part of *abuloy.* As regulated MBAs such as CARD and FICCO emerged, they then built on the cooperatives' semi-formal schemes and fully formalized them.

All four products reviewed score almost the same on the four core dimensions of the PACE framework. As described in section 15.2, the products have various strengths and weaknesses, but offer good cover and service at a reasonable price. According to Rimansi (2002) the price is within the willingness-to-pay range declared by low-income households. There remains concern over value for money as all of the products are very profitable, suggesting that there is an opportunity to raise benefits or reduce premiums.

It is interesting to see such a convergence in an environment where there is not much competition, since most of the insurers (especially those that are member-based associations) serve captive markets. However, with increased activity by CLIMBS and the recent entry of MicroEnsure, competition has begun and the clients seem to have benefited. The life products in the Philippines built on informal mechanisms and have continued improving their features to provide better value, providing evidence that maturity does matter and that client value improves over time. There are still improvements to be made and with increased competition there should be further benefit to the client.

[8] Within *damayan*, a broader term for community support, relatives and friends contribute *abuloy* (informal support for funeral) to a family who lost a member.

Figure 15.6 **Client value PACE analysis, Philippines**



	Informal	*FICCO*	*CARD*	*CLIMBS*	*MicroEnsure*
Product	2.3	3.3	3.6	3.7	4.3
Access	4.3	4.0	3.6	3.8	4.0
Cost	3.4	4.0	4.4	3.9	4.3
Experience	3.2	3.8	4.3	3.3	3.5

15.5 Conclusions

Client value is a complex issue, yet it needs to be understood for practitioners to succeed in their business and for other stakeholders to support the development of microinsurance markets effectively. The PACE tool can be used to compare microinsurance to its alternatives through an audit-based system supported by secondary information sources. It fills a gap between key performance indicators, which can only indicate successes or problems, and full-fledged client studies, which are expensive and longitudinal in nature. The PACE framework looks at products through the clients' lens in a holistic way by taking into consideration the dimensions that are important to consumers. Hence, it can be used by practitioners to improve the value of their products and contribute to strategic management processes. The PACE results even seem robust enough to engage governments, donors and regulators in debates at the policy level.

The initial analysis in India, Kenya and the Philippines shows that there is a place for microinsurance to add value on the top of informal risk-sharing practices and existing social security schemes to protect low-income populations against life and health risks. The findings presented in this chapter confirm the

limitations of informal risk management arrangements and further explore how microinsurance should complement social security systems.

The three-country analysis points to the correlation between client value and maturity of markets. In the Philippines, where for more than a decade microinsurers have been continuously improving life products, the value of all the products reviewed appears beyond doubt. In Kenya, where innovation in composite products, such as health and life, has just started, the client value of most products is open to question as they are not much better than informal mechanisms and do not complement the social security scheme well either. Indian health microinsurance products seem to be half-way in their journey to delivering client value, with interesting interaction between valuable products delivered by community-based or NGO-run schemes and government-sponsored initiatives, which are growing in importance.

In the on-going value creation process, the competitive environment, market orientation and/or social commitment can lead to significant improvements. Enhancements have often been small adjustments that made a significant difference for low-income consumers. However, it is rare for an offering to excel in product, access, cost and experience. Hence, there remains room for improvement because clients are looking for value across the four dimensions. There are many trade-offs in this process, but if improvements lead to greater efficiency, a balanced proposition may be possible.

The examples described in this chapter are inspiring, but client value is contextual and not all ideas can travel across the borders to markets with different client preferences, social security set-ups, competitive landscapes and availability of technology or distribution channels. And yet, while context matters, some client value drivers seem sufficiently universal to be put on the global microinsurance agenda to further improve client value. This includes exploring:

- improvements in claims processing, customer care, consumer education and enrolment processes;
- translation of efficiency gains (through process improvements and use of technology) into better client value;
- the value of mandatory compared to voluntary product designs;
- the balance between simplicity and cover (simple covers compared to more comprehensive, appropriate covers) in the context of marketing, demand and acquisition costs;
- ways of structuring public-private partnerships for health and agriculture microinsurance;
- opportunities to build on informal mechanisms and ensure better coexistence with microinsurance.

Lastly, in microinsurance, as in any other retail business, client value should drive business viability. Better products mean reaching economies of scale, a prerequisite in microinsurance, more quickly. Some life products reviewed in this chapter show that it is possible to strike the right balance between client value and business viability. There is no simple answer on which business strategy is the most effective, but it is difficult to come up with a good strategy without understanding clients' needs and without a tool that will link market intelligence into the strategic planning process. To understand clients' needs, microinsurers need more client data.

16 Microinsurance that works for women

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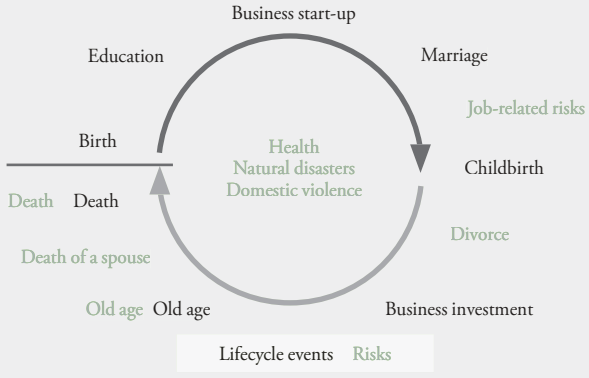
For millions of women around the world, microinsurance cover can mean the difference between life and death. Having effective coping mechanisms is crucial for poor women, who not only face a heightened vulnerability to risk for themselves, but who also shoulder the burden of managing their families' risks. Over the course of a woman's lifetime, these risks can include health problems for herself and family members, the loss of a breadwinner's income due to death or divorce, vulnerability in old age, worry over the care of children in the event of her own death, domestic violence, job-related risks and natural disasters, as shown in Figure 16.1. Any one of these risks can deliver serious and often devastating financial shocks to poor women and their households, potentially intensifying poverty, instability and vulnerability.

Figure 16.1 **Lifecycle events and risks for poor women**



Poor men are confronted with many of these same risks. However, the impact on poor women is far greater. Globally, women account for 70 per cent of the world's poor (UNIFEM, 2010). They face disproportionate levels of physical vulnerability and violence. They earn less income, often from informal sector employment, with less ownership and control of property (Mayoux, 2002). When these vulnerabilities are combined with the responsibility of ensuring the welfare and security of their families, it is clear that women not only have a

unique and pressing need for appropriate means to manage risk, but also serve as agents for the risk management of their entire families.

Poor women have traditionally coped with risk using approaches that offer moderate protection, but are frequently limited, inefficient, unreliable, or even harmful. Microinsurance offers a promising solution for poor women if it is designed and delivered effectively. Women form a significant segment of the emerging microinsurance market because they seek cover both for themselves and their families, serving as risk managers for entire households. Nonetheless, millions of poor women are uninsured.

This chapter highlights the importance of understanding the specific risks that poor women face and the influence of household dynamics on the ways those risks are managed. With those insights, the chapter explores how microinsurance can be better designed and delivered for women. It also serves as a call to action to MFIs[1] and other delivery channels, as well as to donors, insurers and the research community, to develop gender-sensitive microinsurance schemes.

Findings for this paper are primarily drawn from qualitative market research studies conducted by Women's World Banking (WWB) from 2003 to 2008 in eight countries spanning Africa, Eastern Europe, Latin America, the Middle East and South Asia and the existing literature on savings and microinsurance.

16.1 Gender and risk in poor households

How do risk management decisions and strategies differ between women and men? Although there are differences across cultures, in general men often fill the roles of provider, authority figure and head of household, and are usually responsible for making major financial decisions. Women often fill the roles of caregiver, homemaker, and increasingly, income earner and household financial manager. Inherent to caregiving is the responsibility of coping with risks – such as health problems, deaths in the family and emergencies – to maintain the security, health and stability of the home.

These roles give rise to different risk management strategies for women and men, which can be explored from three perspectives described below. First, women's attitudes to savings, risk-aversion and financial management often differ from those of men. Second, there are some risks that arise for women as a result of intra-household relations. Finally, women have a heightened vulnerability to risks due to their physiology and position in the household and society.

[1] This chapter focuses primarily on microfinance institutions as delivery channels.

16.1.1 Women's attitudes to risk management

Women are keen savers and risk managers. Women typically utilize their earnings to improve the care and standard of living in their households by either spending business profits on household expenses or saving them to draw upon in case of need. This behaviour relates to women's role as caregivers and suggests that, if women are providing for the day-to-day needs of the family, it frees up men's resources to invest and expand their businesses. In this sense their roles are interdependent. A Pakistani man reveals: "Women use [their income] in the house, they think about the children. They save money for the dowry or the education of the children. That is what women do. Men want to expand their business" (WWB, 2008c).

Evidence from developed countries suggests that women are more risk-averse than men in investment (Jianakoplos and Bernasek, 1998). However, differences in risk-aversion may not be biological or innate but rather arise from the traditional roles within the household and the different degrees of risks that women and men face. Whether these differences arise from innate preferences or from gendered contexts, women and men do manage risks differently, and this has implications for microinsurance product design.

16.1.2 Intra-household relations and risk management

Some households operate with significant joint decision-making and negotiation. In others, there may be a strong separation of roles, with little discussion or collaboration, or there may be latent or overt conflict in which some members, usually women, feel that they are seeking to fulfil their responsibilities in spite of their spouses. In the latter cases men may offer little assistance, withdraw their contributions when women earn their own income or make demands on women's savings and incomes for their own purposes. In the worst cases, conflict may lead to domestic violence and divorce.

How a household operates significantly impacts resource allocation to saving and insurance. Where cooperation is strong, joint decisions to mobilize funds for insurance may be made more easily. In households where roles are clearly separated or where there is conflict, these decisions are more likely to be problematic. In these cases, women who desire to purchase policies that respond to the needs ascribed to their role – for example, health care for children – may have to draw on their own, usually lower, levels of income and savings. The very existence of household conflict may also increase a woman's desire to buy insurance and affect the features she chooses. Awareness of such intra-household gender dynamics will enable the design and delivery of microinsurance products to be improved.

16.1.3 Heightened vulnerability to risk for poor women

Women's risk management needs are shaped by the specific and unique risks they face due to their physiology and position in the household and society. The key risks facing poor women are:

- **Health:** Health shocks are among the biggest and least predictable risks that poor households face. Mounting medical costs and lost wages can push otherwise stable households into poverty (Chen et al., 2008). Women face a dual challenge when it comes to health risks: they are more susceptible to health problems and more likely to be responsible for caring for others' health problems. Examples of greater susceptibility to illness for women include issues in reproductive health, as seen by the estimated 300 million women suffering permanent health damage resulting from pregnancy and childbirth (Ahmed and Ramm, 2006). Women are also more susceptible to sexually-transmitted diseases such as HIV/AIDS, as they are often in weaker positions to negotiate safe sex (UNAIDS, 2008). Women's health can also be threatened through increased exposure to unsanitary water while cleaning their homes and to harmful firewood or charcoal fumes while cooking (Ahmed and Ramm, 2006). Poor women may be less likely to use their limited resources for treatment when they are sick, preferring instead to use resources to treat sick family members, especially children (Kern and Ritzen, 2002).
- **Death of husband:** In most countries, women tend to outlive their husbands. The likelihood increases in communities where women are likely to marry older men, and where male life expectancy is shortened by violence, unsafe working conditions or military participation. For poor women, the death of a husband can be devastating – not just emotionally, but also financially and legally. Widows who may have depended on their spouses for financial support must learn to survive independently, with few opportunities to remarry. The risk is magnified for women with young children to support and educate. Widows may also face significant legal and cultural battles to retain property upon their husband's death. The loss of property can leave them without a home to live in and can threaten income and food security. Insurers might play a positive role in such situations by requiring that insured assets be in the woman's name (Ahmed and Ramm, 2006).
- **Old age:** Old age exerts substantial pressure on poor households through the need for financial support and living assistance, and increased healthcare costs. Traditionally, women have primarily coped with this risk by relying upon their adult children to support them. Increasingly, however, women are worried that their children will be unable or unwilling to provide this support. This breakdown of traditional roles leaves many women vulnerable, particularly widows.
- **Divorce:** WWB research reveals that many divorced women are under intense financial pressure – a pressure that is heightened if they have children to care for. As in the death of a spouse, divorced women face the loss of financial support

from their husbands, a cost that is heightened in countries where alimony is either not required or not enforced, and are often confronted with significant legal battles to retain property after divorce. These financial risks become even more difficult when combined with the cultural barriers and social ostracism that divorced women may face. While "divorce insurance" may not be feasible, insurers and delivery channels can encourage women to have their name on the legal titles of assets being insured, to protect them in the event of divorce or the death of a husband. MFIs and other delivery outlets could also help divorced women by providing links to affordable women's legal services that can help them retain their property after divorce.

– **Own death:** Many women worry that their children, especially their daughters, will not be properly looked after in the event of their own death. Women also worry about burdening their families with funeral costs and outstanding debt, and those that earn income fear that their family may not have the resources to survive without their contribution. Microinsurance is an obvious tool for providing financial support, including repaying outstanding debts and providing financial benefits to children, yet some women fear that their spouses, if declared the beneficiary of the life insurance policy, may spend part or all of an insurance payout for unintended purposes. To work around this problem, delivery channels might offer culturally-sensitive counselling to help women think through their options for naming a beneficiary. Microinsurance can also be designed to provide practical benefits directly, such as groceries or vouchers for school fees, to better ensure that women's needs are met even after their death.
– **Domestic violence:** Domestic violence not only puts women's physical and mental health at risk, but can also threaten their financial security. Women who suffer from domestic violence can incur serious financial costs for care and rehabilitation, which has implications for health insurance (Ahmed and Ramm, 2006). They may also find that their ability to earn an income is curtailed if their work subjects them to abuse or if abuse has rendered them unable to work. For poor women who do not own property, this risk is exacerbated. Research in South India found that 49 per cent of married women who owned neither land nor a house suffered from domestic violence, whereas that figure dropped to 10 to 18 per cent for those who owned either land or a house (Murray, 2008). Thus, MFIs' efforts to encourage asset ownership through savings and credit can also be an important risk management tool for women.
– **Job-related risks:** Poor women face a range of job-related risks that are often not covered by available insurance products. Traders who work on streets or in marketplaces may be vulnerable to theft and physical violence. Sex workers are highly susceptible to sexually-transmitted diseases, rape and abuse. Women in home-based businesses are vulnerable because they lack the safety measures which may be in place in factories and because they are physically isolated from

others, decreasing their opportunities to join unions and seek equal pay for their work. Since women typically get paid less for their work than men and are more likely to work in the informal sector where they receive less legal protection against job-related risks, their ability to prevent or cope with these risks is more constrained.

– **Natural disasters:** The effects of natural disasters on poor people can be especially acute, yet rarely is this covered by insurance *(see Chapter 4)*. A significantly larger proportion of disaster victims in many recent natural disasters have been women. This gender disparity results from various gender differences: as caregivers to children, women may be physically closest to dependents in a disaster situation and may therefore need to try to rescue them, reducing their ability to quickly evacuate. Cultural restrictions on the ability of women to leave their homes without male permission may also impede timely evacuation. Even if women survive the disaster itself, they suffer a second wave of risk as the threat of physical and sexual violence against women has been shown to increase, especially in shelters and relief camps, during the recovery phase (Dimitríjevics, 2007).

16.2 Traditional risk management and coping strategies

The mechanisms poor women traditionally use to deal with risk fall into two categories: 1) risk management or ex-ante strategies, actions taken to limit risks or prepare for the occurrence of a risk event; and 2) strategies for coping with risk or ex-post strategies, actions taken to deal with the consequences of shocks after they have occurred. This section discusses non-microinsurance risk management and coping strategies. Microinsurance as a risk management strategy is covered in section 16.3.

16.2.1 Ex-ante: Risk management strategies for poor women

– **Savings:** As discussed earlier, women use savings to pay for financial shocks associated with their caregiver role, including health, education and emergencies. Poor women employ a variety of savings strategies, including saving at home, in assets, in rotating savings and credit associations (ROSCAs) and in savings accounts held at banks, MFIs or cooperatives.

– **Making risk-averse business decisions:** With limited access to capital and education and significant constraints on their time due to caregiving responsibilities in the household, poor women often have little choice but to crowd themselves in undifferentiated, low-value-added, low-risk, low-profit business activities, such as tailoring or cooking that are extensions of their household duties. When profits are earned, women often avoid reinvesting their profits back into their

main business and opt instead for more risk-averse choices. This behaviour avoids large losses but also limits large gains, and is indicative of a preference for security and risk management over risky, but potentially more profitable, business decisions.

- **Investing in property:** Many poor women view owning property as an important strategy for managing the risks of divorce, widowhood or old age. With their name on the land title, they can avoid complicated and costly legal battles over property if divorced or widowed, thereby securing their place to live. Owning a home allows women to pass it on to their children, creates a place to live in their old age and gives them an option to rent either all or part of the house as a source of income, which is particularly vital for elderly women.
- **"Investing" in children:** Women often view investments in their children's education and businesses as investments in their old-age security. "The biggest investment you can make is to educate your kids, to give them money to go to the university," says a Dominican woman (WWB, 2008b). The hope is that well-educated children will have well-paid jobs that provide them with sufficient resources to care for their ageing parents and a sense of responsibility to "pay them back" for supporting them while they were young.
- **Participating in informal reciprocal social relationships:** Women in many cultures invest in informal reciprocal social relationships to prepare for various lifecycle events, such as the birth of a child or the death of a spouse. Risk management relationships, like *munno mukabis* (which translates to "friend-in-need associations") in Uganda, provide an opportunity for members to collect funds over time to amass sufficient resources to aid their members should a specific financial need, such as a death or a wedding, occur (CGAP, 2000).

16.2.2 Ex-post: Risk-coping strategies for poor women

- **Slashing household expenses:** After a financial shock occurs, poor women often respond by cutting household expenditure. Depending on the financial need, these cutbacks can include a reduction in day-to-day expenses such as food and medical expenses, and/or longer-term cost reductions such as moving into less expensive housing or pulling children, especially daughters, out of school (World Bank, 2009).
- **Borrowing money:** Many poor women resort to taking out loans to cope with financial shocks, either from family, friends, MFIs, or high-cost moneylenders and pawnbrokers. Women may also divert funds previously borrowed for another purpose (i.e. business investment) into managing immediate risks. When loans have already been taken, a last-resort strategy for coping with the risk may be to default on the loan if the money is needed elsewhere.

- **Selling assets:** Another strategy for coping with risk involves selling assets, such as gold, land and housing, or income-generating assets, such as business equipment or livestock.
- **Starting or increasing income-generating activities:** Members of poor households may also take up or increase income-generating activities to earn extra money to cope with financial shocks (Ezemenari et al., 2002). Frequently it is a severe financial shock that pushes women, and in some cases their children, into the labour force. A recent study of women sex workers in western Kenya disturbingly reveals that they are nearly 20 per cent more likely to supply riskier, better-paid sex on days when a family member, particularly a child, falls sick as a way to cope with health-related expenses (Robinson and Yeh, 2009).
- **Participating in informal reciprocal social relationships:** Informal social relationships can also help poor families cope with financial shocks. In Kenya, women use *harambees* (which translates to "pool together"), where women come together to cover the cost of financial shocks, such as a death in the family. Similarly, a study in Nepal found that when someone dies, community members typically donate small amounts of money and food, which families use during the 13-day mourning period (Simkhada et al., 2000).

16.2.3 Consequences of risk strategies

Though many risk strategies that poor households use provide some protection, even together they are often inadequate to fully cover the costs associated with financial shocks (Dercon and Kirchberger, 2008; Cohen and Sebstad, 2009). Moreover, these strategies often have adverse secondary implications for women and their families.

Inadequacies

While WWB research suggests that poor women are keen to save and can save around 10 to 15 per cent of their net monthly income, the amount is rarely enough to cover more than basic emergencies and some health-related costs. Savings can also be ineffective when the security of those savings is in question, as is often the case with informal savings where the threat of theft, fraud or pressure from other family members to spend counteracts their ability to serve as an effective coping mechanism. Research in Uganda found that 22 per cent of savings are lost in informal savings schemes compared to a loss rate of just 3.5 per cent in the formal sector (Wright and Mutesasira, 2001). Since women are more likely to use informal savings mechanisms, this risk affects them disproportionately (WWB, 2003).

Furthermore, saving through ROSCAs can be unhelpful when a number of members require money at the same time or when a member facing a financial

shock is not due to receive her payout (WWB, 2006d). Other informal reciprocal social relationships are also unable to provide full cover for many risks. In the earlier example from Nepal, contributions from community members were found to cover only 25 per cent of the costs associated with the death of a family member (Simkhada et al., 2000). Social relationships may also provide little protection from covariant risks, such as natural disasters or health epidemics, because others may be facing similar problems, limiting their ability to help.

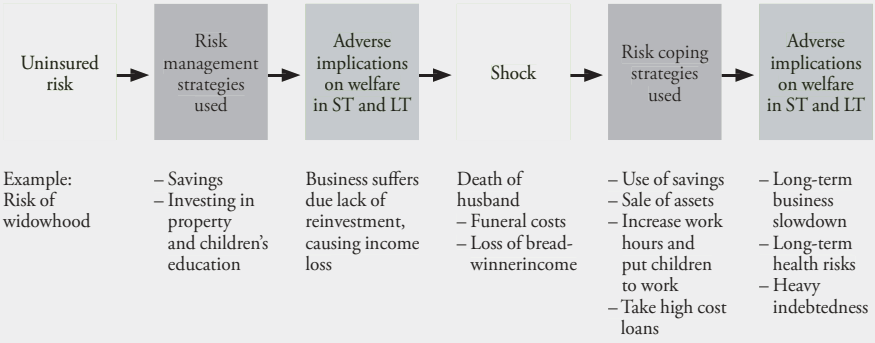
Adverse secondary implications

Several risk strategies, while sometimes effective in the short term, can lead to enduring adverse secondary implications, perpetuating a cycle of poverty for poor women and their households. Allocating business profits to savings instead of investment, for example, is one of the main reasons for women's businesses failing to grow to the same extent as men's businesses (Murray, 2008). Accumulating precautionary savings can also limit expenditure on other vital needs such as housing or education. Other risk-averse business practices, such as diversification into a number of smaller businesses, may reduce the impact of any one business failing, yet limit each business's chance of succeeding. These risk-averse choices cause poor women to forgo some profitable opportunities that might have helped them break the cycle of poverty (Dercon and Kirchberger, 2008).

When a woman copes with shocks by selling productive assets such as livestock or equipment, she may be forced to accept a below-market price out of desperation. Regardless, she wipes out her ability to earn income from the assets in the future. Similarly, pulling children out of school may reduce immediate household costs and free up children's time to work, but it causes a serious loss to children's development and severely curtails their long-term earning potential. Reducing food intake and medical expenses similarly can have a serious health impact on the household. Research from the recent economic crisis indicates that women and girls suffer disproportionately from these cutbacks (Institute of Development Studies, 2009).

Borrowing may help to smooth financial needs in the short term, but may lead to long-term indebtedness (Simkhada et al., 2000). Defaulting on existing loans may free up short-term cash, but may result in a future loss of access to finance. Figure 16.2 illustrates how many of the aforementioned risk strategies can fail the woman who employs them (Dercon and Kirchberger, 2008).

Figure 16.2 **Examples of risk strategies and implications**



Adapted from Dercon and Kirchberger, 2008.

The inadequacy and harm associated with many commonly used risk strategies suggest a strong need for more robust options that can provide more adequate and long-lasting cover without negative side-effects.

16.3 Gender-sensitive microinsurance

Microinsurance can provide adequate, long-lasting cover against shocks for poor women if properly designed and marketed to address their needs. While a diverse array of microinsurance products are becoming available, including schemes to protect against crop failures, property damage, natural disasters, unemployment, disabilities and the costs associated with women's roles as caregivers, this discussion will focus primarily on health and life microinsurance because those risks are typically reported to exert the most financial pressure on poor women (Roth et al., 2007).

Successful microinsurance programmes must strike a balance between providing cover that meets the needs of poor women, minimizing operating costs for the delivery outlet and insurers and keeping premiums low to foster affordability and accessibility (Churchill, 2006). There are several useful examples in the market. The Micro Insurance Academy presents clients with a "menu" of benefits, allowing them to pick and choose attributes depending on their needs and ability to pay. Others have offered clients other financial products such as savings accounts or emergency loans to supplement gaps in their microinsurance programmes. The boxes presented in this section provide some examples of gender-sensitive microinsurance.

16.3.1 Design attributes

Affordable women's health and maternity benefits

Health microinsurance for women must go beyond the coverage of basic health needs to cover women's lifecycle health risks, including reproductive health issues,

such as pregnancy, prenatal and well-baby care, contraception and menopause, as well as preventive care such as regular health screenings, vitamins, education on disease prevention, and immunizations and vaccinations for themselves and their children. Comprehensive health microinsurance should also cover various types of care, such as primary care, specialist care, mental health care, outpatient treatment, hospitalization, surgery and prescription drugs, as well as access to women physicians.

Many health microinsurance products lack comprehensive cover or offer it at a cost which is unaffordable to most women. Several schemes exclude pregnancy, citing the high costs for insurers and customers. When the Indian NGO Shepherd tried to negotiate the price for a health microinsurance programme that included maternity benefits with the state-owned United India Insurance Company, the premiums were roughly double the maternity-excluded amount, too expensive for Shepherd's low-income clients (Ahmed and Ramm, 2006). Others offer limited pregnancy cover. Delta Life in Bangladesh, for example, excludes coverage of women in their first pregnancy due to the higher risk of complications (Ahmed and Ramm, 2006). Other programmes have a nine-month waiting period for health cover to prevent women from enrolling in insurance upon discovering that they are pregnant, or restrict benefits to just one or two births per client (Herbas, 2009). Thus, the challenge is to find a way to provide comprehensive cover at an affordable price. Box 16.1 provides an example of how the Bolivian MFI BancoSol dealt with this problem.

Box 16.1

Bolivia's BancoSol negotiates to deliver better benefits to women

While many microinsurance programmes exclude maternity benefits or impose waiting periods of nine months or longer to prevent pregnant women from enrolling, BancoSol offers a uniquely comprehensive health microinsurance product to women in conjunction with Zurich. The programme provides full maternity cover with a seven-month waiting period, giving pregnant women a two-month window to purchase insurance to cover child birth. As Bolivia's top-performing MFI with nearly 200 000 clients in 2009, BancoSol was able to exercise its bargaining power to negotiate these women-friendly terms with Zurich, and quickly demonstrated the viability of such a programme through a pilot test. In the two years since that pilot, BancoSol's health microinsurance programme has reached over 14 000 clients. Sixty-two per cent of these clients are women, compared to just 45 per cent of borrowers, underscoring the high value of gender-sensitive microinsurance programmes for women.

Source: Authors.

Health microinsurance cover for the whole family

As caregivers, women strongly value health microinsurance that allows them to cover their whole family. However, high incremental costs for adding family members often make family cover unaffordable, or force women to pick and choose whom to insure. The latter response raises serious issues for women and girls because they are often the ones left out (Ahmed and Ramm, 2006).

In other cases, the choice to insure multiple family members is not available, as in the case of employer plans, which sometimes only cover employees. A woman in Jordan who faces this situation says, "My husband is insured alone for the company he works for. They take 7 dinars (US$10) per month from his salary. He can go to private hospitals, but we are not covered. He would have to pay more to include us [and we cannot afford it]" (WWB, 2006c). The Self-Employed Women's Association (SEWA) in India has mitigated this problem by offering clients pre-packaged family health microinsurance plans which automatically include all family members. While the packages are more expensive than insuring one individual, SEWA found that they were able to keep incremental costs low by insuring a larger population. The product proved to be popular: the programme tripled in volume in 2005 (Chatterjee, 2005). This example suggests that it may be possible to offer low-cost family plans and highlights the multiplier effect for insurers when the women's market is targeted as a conduit for family health cover.

Life microinsurance cover for husbands

A critical aspect of life insurance for women is to make cover available to both themselves and their husbands, yet in many schemes only women are covered. This is often the case with loan-linked cover, one of the most common forms of life microinsurance, which protects only the life of an MFI borrower *(see Chapter 9)*. Since MFI borrowers are usually women, basic credit life leaves them unprotected if their husbands die. This situation has been called "one of [microinsurance's] great ironies", suggesting that offering cover only on a woman's life effectively means that "for a woman to 'benefit' from insurance, she would have to die first" (Ahmed and Ramm, 2006). CARD in the Philippines recognized this need and modified its product to cover spouses. This created an added benefit for CARD's loan portfolio because the death of a spouse can impact a woman's ability to repay a loan (Ahmed and Ramm, 2006).

Protection for women's children: Option to designate beneficiaries and practical child-friendly claims

While many microinsurance schemes assume that husbands will be the beneficiaries of their wives' life insurance claims, many women want the freedom to choose another beneficiary if they feel that their husbands would not provide

suitable protection for their children in the event of their death, or if they worry that their husbands might use the insurance payout for unintended purposes, such as a second wife or personal consumption (Ahmed and Ramm, 2006). Given the option to designate a beneficiary, many women would choose friends, relatives or adult children over husbands, yet many products do not allow this flexibility (Cohen and Sebstad, 2006).

Another way to protect children is to structure claims to offer maximum long-term protection and incentives to avoid harmful strategies for coping with risks, such removing them from school. The All Lanka Mutual Assurance Organization (ALMAO) in Sri Lanka has introduced a life microinsurance plan that pays staggered benefits to children over a period of four years (20 per cent upon the death of a parent and 20 per cent each year for the following four years). See Box 16.2 for a description of the innovative approach that La Equidad in Colombia uses to encourage the children of a deceased parent to stay in school.

Box 16.2

Colombia's La Equidad structures life insurance benefits to protect children

In Colombia, an unfortunate yet common response to the financial shock of losing a parent is remove children from school. This decision cuts education costs and frees up the child's time to do paid labour, yet profoundly endangers a child's learning, development, and long-term income potential. To prevent this, La Equidad, a mainstream insurer of more than three million people, structured the benefits of its Amparar life microinsurance product to protect children. Besides a lump sum payment for death and funeral support, the policy pays monthly benefits that can only be used towards education for the two years following the death of a parent and also provides families with a monthly payout for food for one year. This programme is explicitly designed to prevent families from having to cut children's education or calorie intake to cope with the financial shock of the death of a parent.

Source: Adapted from Almeyda and de Paula Jaramill, 2005.

16.3.2 Delivery attributes

Availability for borrowers and non-borrowers

Many MFIs do not offer insurance to women who are not current borrowers. A Jordanian woman expresses her concern over this policy: "It should not be for [borrowers only]. Now I am a [borrower], but if my circumstances improve, I may not renew my loan. So insurance should be a different product from the loan. If I want a loan, I can buy a loan. If I want insurance, I can buy insurance" (WWB, 2006c). Unbundling life microinsurance and loans could be an effective

way to ensure more complete coverage for clients and raise the number of policies sold through MFIs to non-borrowing members, although this raises adverse selection risks.

Voluntary enrolment

Poor women often express dislike for mandatory life microinsurance programmes, particularly when cover does not meet their needs and when they are not fully aware of the benefits. The latter problem was observed in Uganda where women paid mandatory premiums without being aware of the cover, resulting in a misconception that premiums were actually loan-processing fees (Young et al., 2006). With limited information on how to use the policy, women did not reap any benefit from it.

Nevertheless, mandatory life microinsurance programmes are common. MFIs value the protection they offer on their loan portfolios and/or are motivated by the revenue potential from commissions. They also may not want to invest resources into convincing clients of the wisdom of buying the products voluntarily. These products, however, do feature an important upside for clients: because administration costs are kept low, the premiums tend to be significantly lower than for voluntary schemes. It is thus critical for MFIs and other delivery outlets to closely examine their clients' willingness to pay, in order to assess whether voluntary products are appropriate in the local context. SEWA in India and BancoSol in Bolivia both found that their clients were willing to pay for voluntary microinsurance if they valued the benefits and found the premiums good value (Chatterjee, 2005).

Gender-sensitive client communication

Effective gender-sensitive microinsurance programmes must contain an educational element to explain how microinsurance works and how it can offer valuable benefits to women and their households. Microinsurance will be a new concept for most and many may be reluctant or suspicious of it. They must be provided with easy-to-understand information on costs, eligibility, claims processing, cover, and long- and short-term benefits *(see Chapter 14).*

Communications must address the most common misunderstanding about microinsurance, expressed by a Jordanian woman when she says, "I joined an insurance scheme. We paid an amount for three children and my husband. The year finished [and] we did not benefit. So we saw we did not benefit from it and left the scheme. We paid 50JD (US$70) per year for each individual" (WWB, 2006c). Educational messaging can help convince women that there is a benefit from microinsurance even if they do not claim.

Messaging for women should also take into consideration the tendency, in many cultural contexts, for women to require more information than men before

making a decision to purchase insurance, and the high rates of illiteracy amongst women in many countries (McCord, 2007a). As women must be fully convinced of the product's function and benefits if they are to enrol voluntarily, the most successful gender-sensitive communication strategies ensure frequent contact with women clients by helpful staff (Chatterjee, 2005). Tata-AIG found it useful to hire and train women sales agents from local communities as a means of ensuring that the agents were approachable and accessible to local women. These agents were encouraged to sell first to people they knew in their community and then to branch out from there (Churchill and Leftly, 2006). These interactions must be also handled in a way that is sensitive to women who are living in difficult or abusive relationships who may require additional support to negotiate the purchase of microinsurance with their husbands. Box 16.3 provides a description of SEWA's approach to women's microinsurance and discusses the strategies SEWA uses to maintain frequent and approachable communication with its clients.

Box 16.3

India's SEWA Bank: A pioneer in gender-sensitive microinsurance

With a tagline of "Our lives are full of risks, VimoSEWA makes our life secure!," India's SEWA Bank offers its clients – all self-employed poor women – a choice of three bundled microinsurance schemes designed to provide unique "cradle to grave" cover for many of the key lifecycle financial pressures faced by poor women. Available at various price points to ensure affordability, the schemes cover the death, health and assets of women, with options to also cover husbands and children for a lower incremental fee. The children's cover provides protection for all the children in the family, to avoid parents having to choose which of their children to insure. Starting with 7 000 clients in 1992, in 2009 VimoSEWA covered nearly 200 000 women, men and children. The products are uniquely integrated with SEWA's fixed deposit savings accounts, giving clients the option to pay insurance premiums with the interest accrued from their savings account.

SEWA uses a variety of communication strategies to promote the products and educate clients about microinsurance. It has found that regular face-to-face interactions are highly valued by women clients, who appreciate the feeling of involvement and the opportunity to ask questions about their policies and discuss broader family issues relating to risk. VimoSEWA has used both small and large client meetings to provide comfortable women-only forums to discuss issues such as what can happen when a woman or a poor family is confronted with a major risk and how they can protect their families from those risks by using microinsurance.

Source: Authors.

Simple insurance policies and claims processing: Suitable processes for less-educated women

Insurance policies should be simple and easy to understand. Exclusions and complex provisions should be kept to a minimum and payouts should be straightforward and clear, which will make it easier for potential enrolees to understand how microinsurance works and what the benefits are for them. Insurance policies must also feature clear and simple claims processing if the programmes are to be successful. This means that the delivery outlet (i.e. an MFI) must provide sufficient and easy-to-understand information on how to process the claim and offer support to clients who need assistance. Clear information and proper support is especially crucial for new customers who may not be familiar with the process. Without an easy-to-use claims process accessible even to illiterate customers, women may not only fail to receive the full benefits of microinsurance, they may also effectively forfeit money spent on premiums which could have been used for other risk strategies (Mayoux, 2002).

16.4 Conclusion: A call to action

Poor women face a range of potentially catastrophic risks. The traditional risk strategies at their disposal are diverse, but often inadequate. Microinsurance, when effectively designed to meet the unique needs of poor women, can offer compelling benefits to this target market. Yet, with extensive demands for comprehensive cover and pressure to keep costs low, the execution of successful gender-sensitive microinsurance products represents a serious challenge. This chapter has attempted to raise many of the gender issues related to the provision of microinsurance, and proposes an urgent call to action to donors, insurers, the research community, MFIs and other delivery channels.

16.4.1 MFIs and delivery channels

Many MFIs are in touch with the financial needs of poor women, and therefore have an opportunity to go beyond the provision of loans to offer gender-sensitive microinsurance. Other delivery channels may have less access to the women's market, but still offer large opportunities for reaching poor women.

We encourage all delivery channels, including MFIs that already reach many women with loans, to learn about women's risk management and coping needs through localized gender market research. We encourage these organizations to use research-driven customer insights to develop new or improve existing gender-sensitive microinsurance products. After a product has been launched, impact-assessment studies are critical to ensuring that the scheme responds to women's needs in the local context. Developing gender-sensitive microinsurance offers both direct

and indirect benefits to delivery channels, from commissions on policies sold to the effects of having clients with healthier and more financially secure households.

16.4.2 Insurers

We encourage insurance companies to seize this opportunity to work with MFIs and other delivery channels to provide gender-sensitive microinsurance. For insurance companies that primarily serve higher-income people in the developing world, reaching out to poor women opens up a market of millions of new clients. In 2010, Swiss Re estimated that the potential market for microinsurance was four billion people (Swiss Re, 2010b), yet Roth et al. (2007) found that just 78 million low-income people in the world's 100 poorest countries had insurance cover. This leaves a significant opportunity for insurers to tap into high volume sales, estimated to be US$40 billion (Swiss Re, 2010b). Furthermore, by marketing microinsurance to women, insurers may enjoy a multiplier effect due to many women's preference to enrol husbands and children as well.

16.4.3 The research community

There is a vital need to better understand gendered responses to risks and how risk strategies such as microinsurance can help alleviate the financial burden of risks on poor women. *We encourage the research community to investigate the following research questions:*

- How do the cover and benefits of microinsurance compare to those of traditional risk strategies used by women? How do poor women combine microinsurance with other risk management strategies?
- Does microinsurance free up resources for women in poor households? How are these resources used? Does microinsurance affect women's rates of business investment, savings behaviour and/or levels of household consumption? How does this impact household economic security?
- How can secure savings accounts and microinsurance programmes complement each other to affect a poor women's ability to manage and cope with risks?
- What are the best practices in gender-sensitive microinsurance marketing, distribution and product design, including market education, pricing and claims servicing?

16.4.4 Donors

We encourage donors to use their resources to invest in developing microinsurance for women. With vast resources and missions to support poverty reduction, the donor community is in a unique position to provide critical support in developing microinsurance for women. Donors can fund research and consumer education, and can also provide critical technical assistance and capacity-building support to MFIs and other delivery channels seeking to develop microinsurance programmes (Latortue, 2008). As the costs associated with the initial research and development of microinsurance programmes can be quite high, and where commercial insurers may be reluctant to initially get involved, early donor support can be crucial to kick-start gender-sensitive efforts. At a higher level, donors can promote an enabling policy and regulatory environment for microinsurance, which considers the specific characteristics of women.

16.4.5 The future of microinsurance for women

Microinsurance is a new frontier of development, and there is much work to be done to create a gender-sensitive microinsurance industry. It is crucial to further develop an understanding of how women combine microinsurance with existing risk management strategies, how their attitudes to risk differ from those of men, and how microinsurance affects their rates of investment into businesses, savings behaviour and household consumption. Donors, researchers and practitioners each have an important role to play in creating a coordinated effort to further the development of gender-sensitive microinsurance.

17 Formalizing the informal insurance inherent in migration: Exploring potential links between migration, remittances and microinsurance

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In our increasingly global economy, the financial impact of migration has played a growing role in contributing to the financial flows across borders, in particular to developing countries. This migration is most commonly motivated by a desire to increase income and provide a better life for one's family. Over the past 20 years, the number of people living outside their country of origin has increased by nearly 40 per cent, from 155 million in 1990 to 214 million in 2010 (UN DESA, 2009).

Diversification of income and geography can help migrants and their families mitigate some risks, especially those related to large financial shocks in their home or host countries. For the families back home, the migrant often serves as informal insurance when an adverse event occurs. When there is an emergency that requires a significant cash outlay, the migrant is often called upon to send funds to cover the expense. Many migrants also find themselves in positions of extreme vulnerability in their host country, often working in the informal economy and unable to access basic social safety nets, or in dangerous jobs that increase the risk of accidents.

Insurance could be a useful tool for transnational households to manage some of these risks. However, traditional insurance is often too costly, complex or difficult to access for the low-income households of many migrants' families. These households require simple products that can be delivered inexpensively and conveniently, characteristics common to microinsurance. While there are significant obstacles to offering migration-linked insurance to migrants and their families, the opportunity to tap into the social capital created by migration and the money transfer channels that are already working with this population may help insurers overcome both the distribution and cost issues. In 2010, the international remittance flow was estimated at US$437 billion, three times more than the amount of aid flowing to developing countries (Ratha, 2010). The majority of this money goes directly to the families of migrants to support basic household needs such as rent, food and school fees. Mechanisms that allow transnational families to use a portion of these funds to purchase insurance could go a long way to reducing their vulnerability and risks.

In many host countries, migrants make up a large portion of the population that is generally not well served by the financial sector and especially by insurers, presenting an opportunity for insurers to reach out to a relatively untapped market. In home countries, linking microinsurance to migration may help to overcome some of the challenges of regular microinsurance sales because migrants tend to have a higher ability to pay than those in the home country and multiple motivations for wanting to protect their families back home (GTZ, 2009).

A range of insurance schemes could be linked to migration, including: 1) products aimed at mitigating the unique risks faced by migrants in their host countries, such as accident or repatriation insurance; 2) products to cover the unique risks of migrants' families in their home countries, such as protecting the flow of remittances; 3) products that tap into remittance flows or the distribution channels and networks created by migration; and 4) products that tap into the migrants' desire to protect their families in their absence by formalizing the informal insurance provided by migrants.

This chapter uses desk research and a series of interviews with key migration and remittance experts, microinsurance practitioners and money transfer agents to explore existing and potential links between migration, remittances and insurance.[1] Section 17.1 illustrates how migration may affect the preferences and demand for insurance of migrants and their families. Section 17.2 provides a framework for migration-linked microinsurance products and an overview of the existing products. Sections 17.3 and 17.4 consider the opportunities for and challenges to developing migration-linked microinsurance, including the legal and regulatory challenges, and those related to marketing, sales, payments and operational processes. Finally, section 17.5 provides preliminary recommendations for stakeholders, especially microinsurers, as they seek to address the risk management needs of migrants and their families.

17.1 Demand considerations for migration-linked insurance

Microinsurance initiatives could provide cost-effective tools to shift some of the burden of mitigating risks from the migrant to a third party. The increased capacity to pay as well as the unique risks faced by transnational families may contribute to increased demand for insurance. In addition, the migrant's desires, both to control how remittances are spent and to transfer risks to a third party, can influence demand.

[1] A limitation of this research is that many schemes are in their nascent stages of development, so it is difficult to draw definitive conclusions. Another limitation is that most of the programmes identified seek to tap into international migration flows, not domestic migration flows. The demand challenges to developing domestic programmes are likely to be similar, although operational challenges are likely to be quite different.

Most studies have found that the bulk of remittances are used for consumption, basic household needs (Orozco, 2003; Alvarez Tinajero, 2009; Asfar, 2003; de Bruyn and Wets, 2006) and health care (Amuedo-Dorantes et al., 2007). Migrants' families typically make the spending decisions.[2] However, when the preferences of migrants and their families on how to spend remittances diverge, the migrant may wish to have greater control over how funds are spent. Studies have also found that if given full control over how remittances are spent, migrants would spend money differently, allocating less to daily consumption and more to savings (Ashraf et al., 2010).

A study on formal funeral insurance in South Africa indicates that convincing migrants' families that it is sensible to spend remittances on insurance may be difficult, even when their income levels are sufficient (Crayen et al., 2010). Migrants, on the other hand, may have an interest in purchasing insurance for their families to protect their loved ones as the migrants are the ones who often pay the bills in a crisis. A study conducted by SegurCaixa, an insurance company providing insurance to migrants in Spain, found that migrants would like cover for themselves when visiting their home country as well as cover for their family members. A survey of Haitian migrants in the Turks & Caicos, conducted by AIC, a Haitian insurance company, also found that migrants were interested in transferring some risks and responsibility for their families back home to more formal channels.[3] Similarly, in focus groups with Guatemalan and El Salvadorian migrants, the Microfinance International Corporation (MFIC) found that they were interested in cover for their families, although less interested in protecting themselves, with the exception of repatriation and accident insurance.

Demand by migrants or their families for microinsurance is likely to vary depending on income level, degree of assimilation, documentation and other factors. SegurCaixa's study finds a strong correlation between income, assimilation and insurance demand. Take-up among immigrants was concentrated among those with higher incomes and those who had been in the host country longer. Magnoni et al. (2010) also showed that insurance take-up was more likely among Mexican immigrants in New York City who had been in the United States longer, as well as those with higher incomes, those who were married and those that had a bank account.

Transnational families face many unique risks. Therefore, in addition to the standard range of products that might be attractive to the migrant's family in the home country, there is a need to develop insurance specifically tailored to the

[2] Alvarez Tinajero (2009) found that in only 5 per cent of cases did the migrant decide how remittance funds would be spent and only in 12 per cent of cases was it a joint decision by the migrant and the head of the household receiving the remittance.

[3] Interview with Isabelle Depeche, Head of Microinsurance, AIC.

risks these families face, such as repatriation, remittance protection,[4] work accidents and unemployment.

17.2 Framework: The 3Hs of migration-linked insurance

Three types of models have emerged to address the microinsurance needs of migrants and their families. Dubbed the **3Hs** in Magnoni et al. (2010), these models are the **H**ost country model, the **H**ome country model and the **H**ybrid model *(see Table 17.1)*. The defining characteristic of each of these models is where the risk-taking entity or insurer is based.

In the **Host** country model, the insurer is located in the country to which the migrant has immigrated. Programmes of this type are best placed to insure the migrants themselves and may also have the potential to reach greater scale as they can easily serve migrants from multiple countries of origin. The Host country model typically does not insure the migrant's family back home, but may indirectly offer security to migrants' families. For example, SegurCaixa's repatriation and accidental death insurance provides families with a cash benefit that can ease the shock of losing remittance income in the event of a death or accident *(see Box 17.1)*.

Box 17.1

SegurCaixa's repatriation and accidental death insurance

SeguraCaixa, an affiliate of La Caixa, one of the largest cooperatives in Spain, offers some of the few migration-linked insurance products to reach a reasonable scale. In 2008, 66 000 legal migrants, mostly coming from Africa and Latin America, were insured with SegurCaixa Repatriación, which pays a lump sum upon death of the migrant and repatriation of the migrant's body, and 14 000 were covered by SegurIngreso, which pays a lump sum upon death of the migrant and regular monthly income to the family for five years following death. Monthly premiums start at €7 (US$10).

Sources: www.laCaixa.es and SegurCaixa Holding Annual Report, 2008.

In the **Home** country model, the risk-taking entity is located in the migrant's country of origin. The insured can be the migrant and/or the migrant's family depending on the product and distribution channel.

[4] Such products should consider the unique needs of those most likely to be left behind. For example, Magnoni et al. (2010) found that most family members back home are parents and in-laws, suggesting that health insurance related to the problems of ageing populations might be more appropriate for this community.

Risk-taking entities have a presence in both the home and the host country in the **Hybrid** model. This model is able to insure both the migrant in the host country and the migrant's family in the home country more easily than either the Home or Host model. Although the Hybrid model has many advantages, to date few insurers have attempted to serve the low-income market using such an approach.

Table 17.1 **General characteristics of the 3H models**

Model	*Insured*	*Mitigates risk for:*	*Need for an intermediary*	*Leverages remittances*
Insurer is in the migrant's **Host country**	Migrant	Migrant and migrant's family (depending on product)	Possibly for marketing purposes	Unlikely
Insurer is in the migrant's **Home country**	Migrant's family (most likely) or migrant (prior to departure)	Migrant (indirectly) and migrant's family (directly)	Definitely if targeting migrants; possibly if targeting migrant's family	Very possible
Hybrid: insurer is in both the host and home country	Migrant and/or migrant's family	Migrant and/or migrant's family	Possibly for marketing or money transfers	Possible

17.3 Legal and regulatory challenges

Legal and regulatory restrictions pose one of the most significant constraints to selling insurance to migrants and their families across borders as insurers are generally not licensed in both the home and host country. The constraints vary depending on the host and home country, whether the migrant and/or family members in the home country are beneficiaries of the policies, and the location of the insurance company. These constraints are often under-researched or underestimated, yet are one of the main factors preventing the launch of programmes. This section provides an overview of the types of regulations affecting migration-linked microinsurance products.

Choice of law. The first challenge in any cross-border transaction is to determine which jurisdiction's law applies. For migration-linked products, where insurance is sold by a foreign company and/or some or all beneficiaries are located abroad, it may not be clear which country's insurance law should apply. In general, parties can choose the law that governs a contract between them, but the issue is largely untested in respect of cross-border insurance sales.

Scope of regulation. Regardless of which country's law applies to the insurance contract itself, the parties must comply with the insurance laws of all countries in which they conduct activities. Insurance is typically governed at a national level by

a separate ministerial authority (Vollbrecht, 2000).[5] The European Union employs a "passporting" regime, allowing insurers authorized by the regulator in their country of domicile to carry on business and insure risks throughout the EU countries (Krishnan, 2010), which may facilitate migration-linked insurance between European countries.

Migration-linked products must also cope with different definitions of insurance and insurance-related activities, which are often defined quite broadly, in home and host countries. Moreover, requirements relating to the type of cover and exclusions required or allowed may differ between countries, posing challenges to the uniformity of cover across borders.[6]

Licensing of insurers. Nearly all countries require insurance companies to obtain a licence to insure risks located within their borders (Krishnan, 2010). Licensing can be a significant obstacle to Home models, where 1) insurers are unlikely to compete with host-country insurers; and 2) the migrant population is often small, making it difficult to achieve the economies of scale needed to offset the financial and administrative costs of acquiring and retaining a licence. Home models may seek partnerships in the host country to try to overcome these challenges, although depending on the country, even this may be impossible. Two such programmes between Latin America and the United States were discontinued because of such legal concerns.[7]

The Host country model avoids many of the obstacles related to insurer licensing, as domestic insurers that are already licensed in the host country can enter into insurance contracts with migrants located in those countries. However, Host models may be limited to insuring the migrant and be unable to insure the migrant's family abroad if they do not have a branch or an affiliate in the home country.

Regulation of intermediaries. Most countries require intermediaries involved in insurance contracts to be authorized (Sterling, 2000). In all three models, intermediaries may be subject to regulation in the home and/or host

[5] In the United States, insurance and related activities are governed by individual state laws, which further complicates matters.

[6] According to Warner (2004), these different laws, even if they are not in direct conflict with one another, could create significant administrative difficulties, and may lead to uncertainty where it is unclear which country's law is applicable. For example, in the Philippines, insurers are liable under life insurance policies in the case of suicides only if they are committed after the policy has been in force for two years unless the policy provides for a shorter period, while many US-based life insurance policies exclude cover in the case of suicide regardless of when it occurs.

[7] MFIC ceased offering EPSS's medical health plans to Guatemalan migrants in the United States out of concern they would be considered illegal by regulators *(see Box 17.3)*. BancoSol also stopped offering repatriation insurance to Bolivian migrants in the United States after it realized it had been misinformed by its partner about the legal restrictions on foreign insurers marketing and selling policies in the United States.

country, depending on where the advertising, entry into the contract, payment of premiums and other activities occur. The alternative channels described below may not have the capacity to obtain a broker or agent licence.[8] Often even licensed agents and brokers have limited authority to market or otherwise assist in the sale of products by unlicensed insurers.[9] There is some room for non-licensed intermediaries to promote migration-linked insurance schemes, although the scope of activities an intermediary may engage in without a licence varies greatly by country.

Documentation status. The undocumented status of many immigrants can pose serious challenges when purchasing insurance products in their host countries. Insurance companies often request identification documents that migrants may not have or may be uncomfortable sharing. In most developed countries, undocumented immigrants have broad rights to access courts and to enforce rights under contracts, but these rights are often limited in practice, which can penalize immigrants in the event of a dispute with the insurance company.[10]

17.4 Operational opportunities and challenges to migration- and remittance-linked insurance

Despite the potential market opportunities of migration-linked products, developing the products, distribution channels and administrative and operational functions to serve transnational families can be complex. This section outlines the opportunities and challenges facing migration-linked insurance in the following areas: 1) marketing and sales; 2) policy issuance; 3) premium payments; and 4) claims administration. Customer service is especially important, but also especially complex due to the transnational nature of the families covered *(see Box 17.2)*. Table 17.3 at the end of the section summarizes the main opportunities and challenges by model.

[8] Brokers (who represent the insured) are almost always required to be licensed, while agents (who represent insurers) often are not. The rationale for this distinction is that agents are indirectly supervised by virtue of the fact that they act on behalf of insurers, who are directly supervised. Agents are, however, often required to be registered with the regulatory authority or a professional association (Vollbrecht, 2000).

[9] In addition, both insurers and intermediaries must also comply with advertising laws applicable in any country in which products are marketed.

[10] In the United States, undocumented migrants have a legal right to pursue claims in court (Hagl v. Jacob Stern & Sons, Inc. and Montoya v. Gateway Ins. Co.) and in the European Union, many fundamental rights apply to everyone regardless of administrative status, but in practice undocumented migrants are denied a wide range of social protections (Carrera and Merlino, 2009).

Box 17.2

A review of Indonesia's mandatory overseas workers insurance

In Indonesia, approximately 90 to 95 per cent of migrants use a placement agency to arrange their work visas, travel and employment abroad. In 2006, the Government introduced regulations requiring all migrant placement agencies to provide migrants with insurance cover prior to their departure, during their stay in the host country and upon their return (TKI Insurance). This package includes cover for accidental death, death from sickness, funeral costs, accidental disability, medical expenses, trip cancellation, physical abuse, failure in work placement, early contract termination, unpaid wages, deportation, mental illness, unauthorized work transfer, and legal and court fees. The insurance is distributed by migrant placement agencies, with private insurers issuing the policies. One problem for all parties involved is the lack of a migrant database or comprehensive information on the claims figures, which negatively affects transparency, pricing and smooth claims processing.

Some other primary issues for the migrant include: 1) poor communication of coverage to migrant and family; 2) complexity of policies and claims procedures; and 3) minimal representation of insurers in host country, where the majority of incidents are likely to occur.

Some of the primary issues for the insurance companies include: 1) high broker's fees charged by placement agencies; 2) low prices set by regulation; 3) complexity of the product; and 4) requirement to insure "non-insurable" items.

Source: Interview with Yoko Doi, Financial Specialist, the World Bank Office Jakarta, 2009.

17.4.1 Marketing, sales and distribution

The challenges of distributing insurance to transnational families are significant due to the two locations of the target market as well as the cross-border nature of many programmes. Thus, for migration-linked microinsurance models to be successful, they must either find a way to market to both sides of the transnational family or structure their programme in such a way that one party has full decision-making power.

Home country models

For Home models, the biggest challenge in marketing to migrants is finding an appropriate distribution channel. When migration is legal and organized in advance, it is easier to market to migrants prior to their departure, as the terms of their migration are likely to be pre-defined with arrangements made through a formal channel, minimizing the legal constraints by avoiding the cross-border sale of insurance. For example, the majority of legal migrants from Indonesia and

the Philippines use placement agencies to secure employment, visas, and other documentation; these agencies can be an excellent distribution channel for microinsurance *(see Box 17.2)*. It is important to note, however, that much legal migration is short-term in nature, usually seasonal or for one to three years, making product design and premium collection easier, but limiting the potential for client retention.

Marketing and sales by Home models when the migrant is already in the host country are more difficult due to regulatory restrictions on marketing and the physical distance from the migrant. Many Home models have sought partners in the host country to market their products; however, these partners may face their own legal, regulatory or capacity constraints to marketing insurance *(see Box 17.3)*. Internet-based solutions may help to overcome some restrictions, but are unlikely to be effective without on-the-ground promotion in the host country.

Box 17.3

The right way to market? Medical plans for the families of Guatemalan migrants in North America

In 2007, IOM Guatemala brought together Empresa Promotora de Servicios de Salud (EPSS), a health-care services company in Guatemala, and Microfinance International Corporation (MFIC), a US-based microfinance and remittance processing company, to allow Guatemalan migrants in the United States the opportunity to buy pre-paid medical service plans for their families back home. EPSS has one of the largest networks of health clinics and hospitals in Guatemala and MFIC's affiliate, Alante Financial, was already working with unbanked migrant communities from Latin America in the United States to provide other financial services.

In theory, the match seemed ideal, but the programme never got off the ground, selling only 15 to 20 plans in the United States. According to staff interviewed, the programme's dismal results cannot be attributed to the product design as EPSS's plans are well priced and well regarded in Guatemala, but to legal and distribution challenges that limited sales.

Concurrently, EPSS worked with the Guatemala Canada Labour Migration Programme to market to migrants going to Canada for seasonal work. After a pilot in 2007, all 2 500 workers and their families in 2008, and 3 900 workers in 2009, were enrolled in the programme. It is expected that in 2010 the figure will reach 4 000. This disparity in outreach between the US and Canadian programmes highlights how key the distribution channel is to the success of migration-linked insurance and the additional difficulties encountered when trying to work with illegal or undocumented migrants.

Sources: Interviews with Sonia Pellecer, IOM Guatemala and Kai Schmitz, MFIC; www.saludosualcance.net, www.mfi-corp.com, www.munichre-foundation.org.

To avoid many of the challenges encountered when trying to market to the migrant in the host country, home country insurers may choose to market directly to the migrant's family so that they purchase insurance or relay the information to the migrant. However, these transmission channels can be slow and unreliable, and families may be reluctant to share information with the migrant where their demand for insurance differs. Seguros Futuro in El Salvador is an example of a home country model marketing directly to migrant's families, and it attempts to overcome some of these challenges with a financial education component *(see Box 17.4)*.

Box 17.4

Seguros Futuro: Recognizing the need for consumer education

Seguros Futuro recently launched a repatriation and remittance insurance product designed to protect El Salvadorian migrants and their families. The insurer markets its products through a network of savings and loans cooperatives estimated to serve 100 000 persons with family members abroad. The insurance covers the cost of repatriating the migrant's body from North America and provides the family with an on-going monthly remittance for one year. Premiums start at US$35 a year depending upon the level of cover selected.

Seguros Futuro believes that there is a need for such a product amongst its clientele as approximately 20 per cent of its affiliates have a family member abroad. However, the demand for the product is questionable, as most of the target market does not recognize the need for such insurance. Thus, Seguros Futuro is actively providing financial literacy to its target market on the benefits of insurance. Take-up has been approximately 25 to 30 per cent in the first six months for those attending training, with 222 policies sold.

Sources: Interview with Daysi Rosales, Executive Director of Seguros Futuro; and www.segurosfuturo.com.

Host country models

Host models face far fewer challenges when marketing to the migrant, as the insurers are already licensed in the host country. They may also have existing networks in the host country that can support distribution. Nonetheless, insurance markets in many host countries, especially developed countries, have evolved very little in terms of low-cost distribution and still rely heavily on relatively costly broker and agent models.

Host models may need to work in partnership with organizations already working with the target community, which can help locate migrants, help insurers gain the trust of migrants and also potentially help with consumer education. Such partnerships are even more important for undocumented migrants who are more difficult to reach and may require more consumer education.

Hybrid models

Hybrid models should be able to overcome many of the marketing and sales challenges faced by Home and Host country models. A home country-based insurer partnering a host country insurer does not face the same legal and regulatory constraints of the Home model, has proximity to both the migrant and the migrant's family, and has the ability to develop products for both. Choosing the appropriate distribution channel is still important.

Box 17.5

Pioneer Life's SparxX

Pioneer's SparxX is a bite-sized savings and insurance plan designed to be accessible to the lower-income segments of the Philippine population. It comes in denominations as low as 300 Pesos (approximately US$6) and provides a guaranteed return after a certain number of years, based on the individual's age. Concurrently, it provides the purchasers with life insurance equal to the guaranteed future value. Multiple cards can be accumulated over time to increase savings and insurance protection.

Pioneer is currently testing a variety of distribution schemes for SparxX, including two targeting migrants and their families. SparxX is being promoted through a marketing entity in Hong Kong to Filipino migrants using a network marketing and points scheme. It is also bundling SparxX with other insurance products for the families of migrants in the Philippines through its Savings and Wellness Clubs *(see Box 17.6 for more detail).*

Sources: Interviews with Noel Deguzman and Geric Laude of Pioneer Life Inc. and Pioneer Group; and www.pioneer.com.ph.

Marketing and distribution partnerships

Table 17.2 outlines partnerships that can be used in migration-linked insurance programmes. These partnerships can influence the costs for the end user, and selecting partners that already have the trust of the community, and recurring transactional relationships with the community, or both, can add more value.

Table 17.2

Partners for marketing and distribution of migration-linked microinsurance

Host country	*Home country*
– Remittance-sending agencies (banks, MTAs, limited MFIs)	– Remittance-receiving agencies (banks, MFIs, MTAs, pawnshops, post offices)
– Diaspora organizations	– Migrant/job placement agencies
– Service providers (i.e. repatriation company)	– Service providers (i.e. health care networks)
– Religious organizations	– Religious organizations
– Sports groups	– Other community organizations or NGOs
– Employers	
– Other community organizations or NGOs	

Exploiting the social capital of migration

Organizations such as church groups, home town associations and immigrant outreach centres that have already gained the trust of migrants, either because of a long-standing relationship with the community or through the provision of other services, can help insurers gain the trust of migrants, as Pioneer has done with the Catholic Church in the Philippines *(see Box 17.6)*. Another way insurers can informally make use of the social capital created by migrant communities is through referral schemes, whereby insurers reward migrants for referring their friends to the company. In Hong Kong, for example, the migrants can be awarded points for buying its SparxX cards and referring others.

Box 17.6

Pioneer's Savings and Wellness Clubs

Pioneer Group partnered with the Catholic Church in the Philippines to reach out to the families of migrants. Through its parishes, the church organizes Savings and Wellness Clubs that seek to help the families better manage their finances and make better use of their remittances. The Savings and Wellness Clubs bundle Pioneer's SparxX savings and life insurance product with personal accident and accidental medical reimbursement cover. In addition, financial literacy training is provided periodically in a group setting. The annual cost of joining the clubs is US$10 for adults and US$8 for those under sixteen.

As at June 2010, Pioneer had signed up approximately 1000 club members in its first six months. Around 20 per cent of those attending the launches it co-hosted with the Church have enrolled, which the insurer considers reasonable. A bigger challenge is the Church's capacity to organize promotional campaigns as there is only one full-time Church employee working on the project. In addition, few members regularly save or top up their SparxX cards after paying the initial fee.

Sources: Interviews with Noel Deguzman and Geric Laude of Pioneer Life and Pioneer Group; and www.pioneer.com.ph.

17.4.2 Policy issuance

In schemes where migrants are paying for insurance for their family members, it can be logistically challenging for insurers to obtain the necessary information and issue the policy to the family, partly due to restrictions on insuring third parties. Some insurers have structured their schemes so that the migrant makes the payment in the host country and passes on the personal details of the family member to the insurer. The family member is then responsible for filling out the application. For example, a home-country-based insurer might insure migrants'

family members through a partnership with a money transfer agent (MTA)[11] in the host country; the MTA could collect personal information necessary for the application, transfer that information to the insurer and release the premium payment after the application is completed by the family member. In some countries, however, there may be legal restrictions on an MTA's ability to play this role without holding a broker's or agent's licence.

17.4.3 Premium payments

One of the potential opportunities for migration-linked microinsurance is the ability to tap into remittance flows to ensure timely premium payments. The insurers can do so by working in partnership with an MTA in the home or in the host country, intervening at either the inception point or the reception point of the remittance flow. Eventually they may also be able to make use of technological innovations that facilitate cross-border premium payments.

Partnerships with money transfer agents

Home models can use local MTAs as partners to market their products and encourage premium payments when migrants send remittances directly to their families, as in the case of Seguros Futuro in El Salvador *(see Box 17.4)*. Home models working with migrants in their host country typically depend on a partnership with an MTA if receiving payment directly from the migrant. In BancoSol in Bolivia, remittance payments are made from MTAs into migrants' savings accounts in Bolivia from which insurance premiums are debited directly. Host and Hybrid models can also benefit from agreements with MTAs to serve as payment centres or channels for unbanked migrants in host countries.

Partnerships with MTAs are most effective when remittances are sent through formal channels such as banks, MFIs or other MTAs, rather than informal channels. MTAs also have a greater potential to become a regular payment channel for insurers when remittances are "smooth" (those sent frequently, usually in small amounts and through formal channels) rather than "chunky" (those sent in larger amounts but with less frequency and regularity and often through informal channels).

Other constraints on using MTAs as payment channels in some countries include the concentration of MTAs in urban areas, the high cost of services and a lack of competition, which may increase the cost of insurance and/or discourage MTAs from broadening their services. Regulations often set high thresholds for

[11] MTA is defined broadly and could include a specialized money transfer agency such as Western Union, a bank, an MFI or a financial institution, or other type of institution authorized to send or receive remittances (such as pawnshops in the Philippines).

MTAs' net worth and/or require them to post large bonds resulting in limited competition and high costs. Insurers may find some financial institutions resistant to such a partnership if they view the insurer as competition. In the Philippines, for example, Pioneer Life Inc. considered a partnership with an MTA to promote its Savings and Wellness Clubs and the SparxX "savings product". The alliance was not possible, however, because most remittances go through banks in the Philippines and the banks viewed SparxX as direct competition.

For partnerships between insurers and MTAs for a migration-linked product to be successful, it is essential for both parties to be fully committed to the project and the relationship. It can take significant time and resources to set up the guidelines and systems to allow for the direct payment of premiums, and explain to staff and customers how payments can be made. The MTAs need to be convinced of the market potential of the product, which needs to be in line with their other strategic goals.

Harnessing technology to facilitate premium payments

Online platforms and other technological innovations promise to reduce the overall cost of money transfers and increase convenience. Some MTAs, including Western Union, have already begun to introduce online platforms worldwide, adding payments for utilities, credit cards, and financial services to their menus. Safaricom, a mobile phone service provider in Kenya, has introduced money transfer services (M-Pesa) via its mobile phone network. In partnership with Vodafone, it is possible for Kenyans to send money home from the United Kingdom via their mobile phones.

None of the programmes identified in this study have developed a platform for the direct payment of insurance premiums, so it is difficult to know how receptive migrants will be to these payment channels. It is likely to depend on the level of computer and technology literacy of the target group, and their comfort level and trust in such payment systems. It may also depend on whether there is a supporting organization in the host country to direct migrants to the site and answer their questions.

17.4.4 Claims verification and administration

Another challenge of cross-border insurance programmes is processing claims, especially when the policyholder and the beneficiary are in different countries. Obtaining the paperwork to meet claims requirements from abroad can be complex and time-consuming, and not easily accessible to the migrant's family back home. To address this issue, some Home models offering repatriation insurance manage claims through alliances with companies based in the host country that support the claims process. For example, Banorte's life and repatriation insurance

for Mexicans in North America works in partnership with a repatriation company based in the United States. SegurCaixa has entered into a partnership with a repatriation company in Spain to assist with collecting and processing documents, and also works with consulates if there is no living family member in Spain to file the claim.

Some insurers have also worked in partnership with brokers who represent the beneficiary if they are out of the country. For example, BancoSol in Bolivia has a representative in Spain that helps migrants fill out claims applications and then forwards them on to Bolivia to be processed. This support is possible because Spain allows brokers to conduct limited activities on behalf of foreign insurers not licensed there.

Table 17.3 **Summary of opportunities and challenges of the 3H models**

	Opportunities	*Challenges*
Home country models	– More likely to understand needs of target client group – More inclined to enter microinsurance given it is a big market in many "migrant-exporting" countries – Can more easily market, sell and administer policies for migrant's families – especially useful for insurance requiring service providers, such as health care – Can tap into local distribution channels already working with the target clientele including remitters and MFIs to reach migrants' families or migrant placement agencies to reach migrants	– Legal barriers to marketing and selling insurance in host country – Lack of proximity to migrant makes marketing to them more difficult – Need a distribution channel in host country to work with migrants or to facilitate direct payment of premiums – Demand constraints for products in home country such as lack of consumer education required and trust
Host country models	– Legal and regulatory barriers likely to be less significant as insurers already licensed – Can be a large untapped market, as migrants are generally not as well served by the financial sector and there is little competition from other insurers – May have existing models that can support distribution although not always tailored to the target population – Migrants are more likely to demand insurance and be able to pay for it than family members – Migrants often organized in associations/networks which facilitates marketing	– Less likely to understand the needs of the target group – Less likely to have access to distribution channels working with the target – Customer support and claims administration are complicated where beneficiaries are family members in the home country
Hybrid models	– Avoid many of the legal and regulatory challenges because there are licensed insurers in both countries – Can market more effectively to migrant and family – important where families make joint decisions – Existing distribution channels in both countries (although may not to be tailored to target market) – Can provide continuous service to migrants who return to home countries	– Premiums may be higher as the partnership creates an additional layer – Claims administration more complicated where beneficiaries and services are in both countries, and two insurers are involved – Choice of law issues are more complicated

17.5 Conclusion

This chapter examines how insurers can address the specific risks faced by the transnational family and how the networks and connections created by migration may be used to reach this market. Although migration-linked microinsurance is nascent, the experiences highlighted above illustrate initial lessons to develop and promote schemes to protect migrant workers and their families. These include:

- Legal and regulatory constraints pose one of the most significant challenges to migration-linked insurance as insurers are generally not licensed in both the home and host country. It is essential to fully analyse legal and regulatory issues prior to launching a project, as activities permitted in one jurisdiction can be illegal in another.
- It may be more effective to market migration-linked insurance products directly to the migrant, given the often divergent spending preferences of migrants and their families, and the informal insurance responsibility of the migrant.
- Finding an appropriate distribution channel – which depends on the model, the migrant population's characteristics, and the regulatory environment, among other things – is key to achieving scale.
- The selection of partners that already have the trust of the community, and recurring financial transactions with them, can add value to insurers.
- The undocumented status of many migrants can pose serious challenges to marketing insurance products to them in their host countries, but this population's need for insurance from a risk management perspective is often great, signalling a possible role for donors and government agencies.
- There is a significant need for consumer education and financial literacy to promote migration-linked insurance. These programmes are costly and could benefit from new efforts involving mass media outlets, cell phone and internet platforms.
- To facilitate payments, migration-linked insurance products can tap into remittance flows through partnerships with MTAs, which are most effective when remittances are inexpensive, "smooth" and sent through formal channels. Technological innovations may provide alternative payment channels, although it is difficult to know how receptive migrants will be.
- Programmes must take special care to develop claims procedures and customer support facilities that are accessible to migrants and their families from abroad.

Migrants and their families represent a relatively untapped market for insurance, one with some unique and insurable risks. While the challenges are significant, the potential rewards, for both insurers and transnational families, of formalizing the informal risk management created by migration can also be substantial. However, establishing a successful migration-linked insurance scheme

requires a clear understanding of the market segment and its specific needs. Success is contingent on a firm commitment to the project by all parties involved, the microinsurer, the intermediaries and any supporting organizations to resolve the legal, marketing, distribution and payment challenges. To continue to expand migration-linked microinsurance schemes, especially to communities where the development potential is highest, further efforts to overcome the many challenges are needed.