

# MICROINSURANCE

## Improving risk management for the poor

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*The Working Group on Microinsurance, initiated by CGAP and comprising of representatives from donors, multilateral agencies, NGOs, private insurance companies and other interested parties, was established in 2001 to promote the development of insurance services for the poor through increased stakeholder coordination and information sharing. Currently chaired by the International Labour Organization (ILO), the Working Group is organised into eight subgroups. To share information about microinsurance initiatives, the Working Group issues this quarterly Newsletter. For more information contact Craig Churchill, [churchill@ilo.org](mailto:churchill@ilo.org)*

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### Concept

## SOME KEY QUESTIONS FOR MARKET RESEARCH ON DEMAND FOR MICROINSURANCE

Understanding clients' needs and their willingness to pay for microinsurance are key to creating a product that is feasible, acceptable, and affordable to low-income populations. Market research on the demand for microinsurance can help to determine the kinds of risks to insure and the parameters of the microinsurance product, including the terms of coverage, the amount of the premium, payment options, and payment systems. This article presents key questions that should be addressed in microinsurance-related market research.

### How does poverty affect people's demand for insurance?

The level of poverty can affect the way in which poor people manage risks. While everyone faces many of the same shocks, poor people are more vulnerable to them because they have fewer financial reserves and variable incomes. Shocks can be so frequent that, even if the cost of each is low, poor people often fall into a never-ending cycle of responding to crisis after crisis, such that they never manage to stay above poverty. Microinsurance provides an opportunity to mitigate risks ahead of time and thereby break this vicious cycle. Among Zambians, for example, funeral insurance is highly valued. One policy holder noted that "for the insured members of my house, I am assured I will not have to struggle to meet funeral costs, and my business income is spared."

To identify how low-income households prioritize different types of insurance and which attributes they seek in an insurance product, market research can help by gathering information on the types of informal insurance systems that people use and their level of satisfaction with formal insurance programs.

### What are the appropriate features of a microinsurance product?

Designing a microinsurance product requires careful consideration of the details. In particular, four main features are of extreme importance: affordability, coverage, timeliness and accessibility. For example, some microinsurance programs run into trouble when premium payment options are not in line with the cash flows of clients. Market research can help to make sure that the timing of payment and the timing of cash flows into a household match up. In Sri Lanka, an assessment of preferences among clients of The Yasiru Provident Fund, a microinsurance provider, led to changes in the insurance policy to match premiums to both benefits and the number of family members covered by the policy. In Albania, Opportunity International found that an existing insurance product failed not because the product's terms and pricing were unacceptable, but because the premium had to be paid in advance.

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Improvements in the modes of delivery and claims processes can generate greater demand for microinsurance by increasing the access of the poor to microinsurance and reducing the transaction costs of making claims. For existing products, the information needed to improve design and delivery can be generated by assessing customer satisfaction and conducting surveys to rank preferences for different product attributes. Product design research can also focus on services that support the adoption of microinsurance such as client education and marketing strategies. In light of recent evidence showing persistence rates of no more than 50%, this type of market research is particularly important to designing appropriate products.

Market research on demand for microinsurance can identify the right features to make a product work. It can also shed light on other risk-coping mechanisms that people use to complement the insurance. Such information can further be used in the development of a product concept and the pricing of the insurance.

## Do people understand the concept of insurance?

Many people do not understand the concept of insurance or how it works. In some cases, poor people view insurance negatively, seeing it as something that is only for the rich and generally irrelevant, unaffordable, or even unfair to the poor. Based on their experiences or what they have heard, people often mistrust insurers or believe they charge a lot for nothing in return.

Market research on demand for microinsurance can explore what poor people know about insurance, how they find out about it, and whether their understanding is correct or incorrect.

Market research can also reveal whether their attitudes about insurance are open and positive or negative and mistrusting. Most insurance providers currently disseminate information about their products primarily through marketing pamphlets and brochures, but many clients are not literate enough to evaluate this information properly.

Market research findings can be used to design client education that enables poor people to understand the products and to make informed decisions about insurance. The education can also help microinsurance field agents to become more informed about the products they are selling and their clients. For example, in Malawi, poor people are aware of insurance but have limited understanding of what an insurance policy is. In interviews, policy holders said they wanted more than information on just the costs and benefits of insurance and the elements of an insurance policy.

## What information is needed to refine existing microinsurance products?

Reviewing clients' experiences with existing microinsurance products is especially important for refining products and delivery channels. Questions about clients' satisfaction with types of coverage, costs, and exclusions can help to uncover people's understanding of insurance. Discussions about premium amounts and how they affect other household expenditures expose affordability issues and how these vary across different market segments. Clients' experiences with premium collection and claims processes - their ease, convenience, timeliness, and complexity - can help to improve systems. Questions about the benefits of insurance and the differences it has made can help to probe future demand and the longer term sustainability of microinsurance.

## Designing the market research

Getting buy-in from the top management of the sponsoring or implementing institution should be the first step in a market research study on demand. This will raise their awareness of not only the benefits, but also the time and resources needed to conduct the market research.

The microinsurance guidelines for conducting market research on demand offer a road map for finding answers to the four key questions raised above. The guidelines propose a mix of qualitative and quantitative research instruments and provide details of the most appropriate qualitative methods. The goal is to assist in the development and testing of appropriate microinsurance products. As more products become available, market research focused on the attributes, costs, use, and effectiveness of microinsurance products will help to improve and further the field of microinsurance.

*Source: Adapted from Sebstad, J., Cohen, M. & McGuinness, E., 2006: Guidelines for Market Research on the Demand for Microinsurance, USAID. [http://www.microlinks.org/ev\\_en.php?ID=13729\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=13729_201&ID2=DO_TOPIC)*

## Concept

# EXPLORING WAYS TO ASSESS IMPACT OF MICROINSURANCE

A recent study explored ways of assessing the impact of microinsurance on the poor by examining the use of two types of microinsurance - health and credit life - among clients in Uganda. Using qualitative research methods, it identified several ways in which microinsurance, particularly health microinsurance, can have an impact on individuals, their enterprises and their communities. The study also identified several key differences between microinsurance and microcredit/savings which can affect the design of impact assessments of microfinance. The findings provide some guidance on the design of impact assessments and suggest the need for further research in several areas.

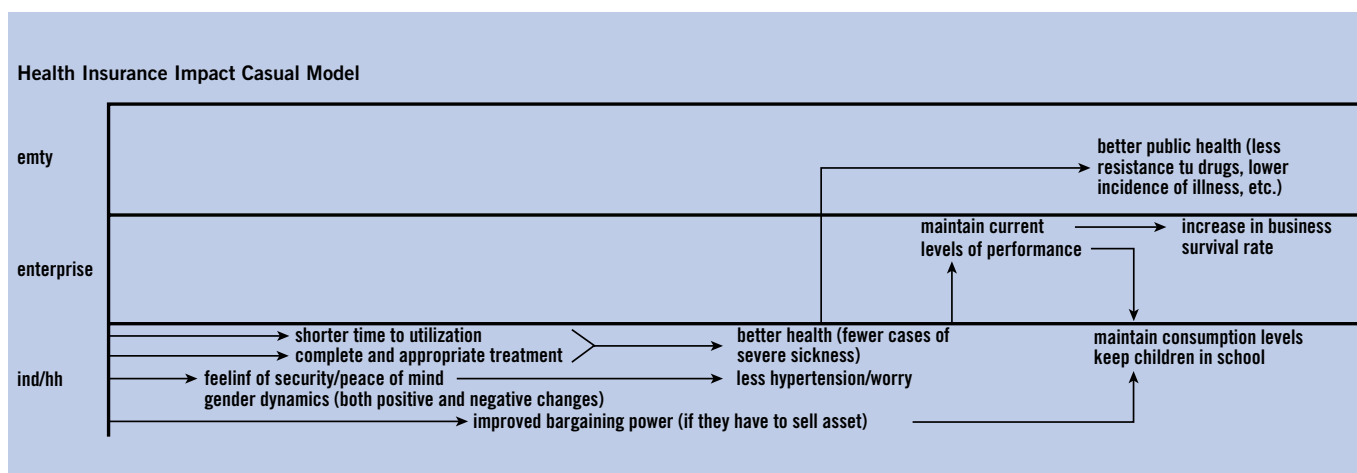
The purpose of the study was to identify and refine a causal model that can be used to design an impact study of microinsurance on the poor. The task proved to be much simpler for health microinsurance than for credit life microinsurance. For health microinsurance, the study was able to map out several potential pathways from program intervention to impact. They include the following:

- The most immediate benefit of health microinsurance is a greater sense of security, which can lead to less hypertension.
- Having health microinsurance leads individuals to seek treatment earlier and complete full courses of treatment.

This may also lead to an improvement in the overall health of the population at the community level.

- Health microinsurance may also contribute to an increase in the survival rate of businesses by improving the health of individuals and reducing their likelihood of having to take time away from work due to sickness.
- Health microinsurance can benefit the household by reducing the negative impact of health shocks, such that families can maintain their current consumption levels and keep their children in school.

Based on these hypothesized causal pathways, the study presented several



levels of analysis	domains of impact	intermediate indicators	final indicators
individual	individual health	shorter time to utilization of health services complete/ appropriate treatment	fewer incidences of sickness
	self esteem	feeling of security/peace of mind	less worry/improved self-esteem
household	household consumption	maintain ability to work when sick better able to sell assets (fetch better price)	maintain consumption levels keep children in school
enterprise	enterprise performance	maintain current levels of performance	increase in business survival rate
community	public health		improved public health

domains of impact and their corresponding sets of indicators. The diagram is a graphic representation of a health microinsurance impact causal model and the table lists the sets of intermediate and final indicators for measuring impact at the individual, household, enterprise, and community levels.

Identifying the causal pathways to impact for credit life microinsurance proved to be a much more difficult task because many people have never used it: for each year between 2003 and 2006, the number of settled claims among borrowers who have had credit life microinsurance averaged less than one tenth of one percent of the total number of clients, and only a fraction of those settled claims actually involved a payout. As a result, many clients see no benefit to having the policy.

Despite these differences across the two types of microinsurance, the study was able to draw some general conclusions about the design of impact assessments for microinsurance. For one thing, the causal

pathways and impact of microinsurance are considerably more nuanced than those of micro-credit or micro-savings, such that indicators traditionally used to measure the impact of microcredit and microsavings may not apply. Different indicators will likely be necessary to understand whether and how microinsurance makes a difference in people's lives.

Another difference between microinsurance and other kinds of microfinance products is the former's impact on behaviour and attitudes. Based on the preliminary research, changes in behaviour and attitudes probably make up the most robust area of impact, yet they can be extremely difficult to observe. Knowledge about microinsurance also plays an important role in achieving impact. A lack of understanding can limit the benefit that policyholders receive. If one is not aware of the fact that she has insurance, she will derive no "peace of mind" from it and be far less likely to undergo behavioural or attitudinal changes.

Finally, the study raises several areas concerning the impact of microinsurance which merit further investigation, including the importance of payouts. In this study, payouts were irrelevant to both schemes, suggesting that – unlike microcredit and savings – the real impact of microinsurance may not lie in the actual use of funds given. This and other findings point to a need to think creatively about ways to assess the impact of microinsurance because it is not like other microfinance products.

<sup>1</sup> A causal model is a conceptual framework that shows the logical links between program activities and expected outputs, outcomes and impacts.

Source: Adapted from Young, P., Mukwana, P. and Kiyaga, E., 2006: *Microinsurance Exploring Ways to Assess Its Impact, Microfinance Opportunities/IRIS*. <http://www.microfinanceopportunities.org/docs/Microinsurance%20Exploring%20Ways%20to%20Assess%20Its%20Impact.pdf>

## Case Study

### MICRO-HEALTH INSURANCE IN UGANDA: HOW TO MAKE A PRODUCT AFFORDABLE?

The following conclusions are based on a survey of both insured and non-insured households in urban and rural areas of Uganda with the objective to examine the financial impact of the health insurance schemes of Microcare, and on the use of loans and sale of assets to pay for health care.

Survey results proved that insured households had lower out-of-pocket expenditure on health care than non-insured households and were more financially secure. Concurrently, geographical factors had an influence as well. Households in a rural area were more likely to sell assets to pay for health care. Supplementary, descriptive results illustrated that households without health insurance were more likely to make catastrophic health spending than insured households (over 12% of the non-insured reached the threshold level of 20% compared to over 2% of the insured). Another notable result was that nearly 75% of the households in the survey had access to a loan and that as much as 40% of the insured used this loan to pay for health care. Two factors could explain this high number: either the size of the health package is too little to cover the expenses; or other health costs (transport to health care facility) play a significant role in the choice to use loans.

Many households in Uganda cannot afford the premiums of a basic health package that includes treatment for malaria. From an economical point of view, value for money (or utility) makes a product viable to buy or not. On the one hand, a low premium that reflects a (too) limited health package stands for low utility. On the other hand, a (too) high premium that reflects a (more than) basic health package also suggests low utility. As a result, a gap exists between the ability-to-pay and the desired level of health package. Hence, subsidies for premiums seem to be necessary to finance basic health packages and to stimulate a higher take-up of health insurance.

Microcare offers some health insurance packages through the MFI FINCA Uganda. Through this partnership, Microcare increases its outreach in a fast and sustainable way and FINCA Uganda customers are more likely to use loans not to cover health care costs. The premium is deducted from the loan disbursement and thus the issue of ability-to-pay is non-existent. People are more likely to start or continue with the micro-health insurance product. Also, combined products of deposit savings and access to insurance can serve to reach the same goal; poor people are given an incentive to accumulate savings for which they receive a premium and are insured at

the same time. Perhaps the latter form of combining products would serve the poor best due to its irregular income.

Uganda has many MFIs, and policy making in micro-health insurance should take into account potential benefits from the recent growth of microfinance.

*Source: Adapted from Wilms, A., 2006: The Financial Impact of Formal Health Insurance Schemes: Evidence from Uganda, Free University, Amsterdam. (Contact: [info@annekienwilms.com](mailto:info@annekienwilms.com)) [http://microfinancegateway.org/files/36532\\_file\\_The\\_Financial\\_Impact\\_of\\_Formal\\_Health\\_Insurance\\_Schemes.pdf](http://microfinancegateway.org/files/36532_file_The_Financial_Impact_of_Formal_Health_Insurance_Schemes.pdf)*

## Selected Info

### Glossary

**Health insurance** provides coverage against illness and accidents resulting in physical injuries. MFIs have realized that expenditures related to health problems have been a significant cause of defaults and people's inability to continue improving their economic conditions. Several MFIs have therefore, either started their own health insurance programs or have linked their clients to existing programs. While actual coverage varies, many health insurance providers cover for limited hospitalization benefits for certain illnesses, and for costs of physician visits and medicine. Some insurance providers also make available primary health care services such as immunization and contraceptives.

Source: *Microinsurance FOCUS Frequently Asked Questions* [http://microfinancegateway.org/resource\\_centers/insurance/microinsurance/insurance14#Q5](http://microfinancegateway.org/resource_centers/insurance/microinsurance/insurance14#Q5)

### Related Documents

#### **Health Micro-Insurance Schemes: Feasibility Study Guide (Volume 1 & 2)**, ILO/STEP, 2005

In order to provide sustainable and capable of growth micro-health insurance products that are well designed from a start, this guide assists promoters to carry out a feasibility study before setting up a scheme or extending its coverage. The guide is organized in two volumes: Volume 1 focuses on procedures and provides stakeholders with step-by-step assistance in carrying out the study and Volume 2 focuses on tools and offers practical support for each step.

[http://www.microfinancegateway.com/files/34017\\_file\\_34017.pdf](http://www.microfinancegateway.com/files/34017_file_34017.pdf)

#### **Critical Appraisal of Micro Health Insurance Laws**, George, Alex, Economic and Political Weekly, February 10, 2007

This article critically reviews the laws (and rules thereof) related to micro-health insurance, with special reference to the rural and social sector obligations of insurers and the regulations governing the sector, including those of third-party administrators.

<http://www.epw.org.in/articles/2007/02/11067.pdf>

#### **Health Insurance Models in the Philippines: The cases of ORT and CARD MBA-PhilHealth**. Rulloda, Jacqueline Martins, Thesis - European Microfinance Programme, 2006 (Contact: [jacqueline.rulloda@gmail.com](mailto:jacqueline.rulloda@gmail.com))

This paper compares two schemes: ORT Health Plus, a community-based model, and KaSAPI programme, partnership between PhilHealth and CARD MBA and highlights their strengths and weaknesses.

Find more documents on micro-health insurance on [http://microfinancegateway.org/resource\\_centers/insurance/products](http://microfinancegateway.org/resource_centers/insurance/products)

## News from the Working Group

### *Microinsurance Conference*

The Microinsurance Conference 2007 will take place from 13 to 15 November 2007 in Mumbai, India. This event is the third international Microinsurance Conference jointly hosted by the CGAP Working Group on Microinsurance and the Munich Re Foundation; and this year with the support of the IRDA.

The conference will have plenary panel discussions on the key topics: Regulation, supervision and policy issues; Innovations to improve efficiency and enhance benefits; Innovative microinsurance products and Group vs. individual products.

Registration will start on 1 July 2007.

More information:

<http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2007Microinsurance/default.htm>

### *Regional Workshops on Access to Insurance for the Poor*

The World Bank in collaboration with Munich Re Foundation and the CGAP Working Group on Microinsurance is organising a series of regional workshops on ACCESS TO INSURANCE FOR THE POOR. The first regional workshop will be held from 7-8 May 2007 in Rio de Janeiro, Brazil.

More information:

<http://web.worldbank.org/WBSITE/EXTERNAL/WBI/WBIPROGRAMS/FSLP/O,,contentMDK:21129454~pagePK:64156158~piPK:64152884~theSitePK:461005,00.html>

### *Subgroup Performance Indicators*

Summaries of the workshop report "Performance Indicators for Microinsurance Practitioners" have been published in English, French and Spanish. The workshop was held in October 2006 with the aim to strengthen awareness of microinsurers for performance analysis and risk management.

[http://microfinancegateway.org/resource\\_centers/insurance/insurance1#8](http://microfinancegateway.org/resource_centers/insurance/insurance1#8)

The subgroup is looking forward to receiving feedback on the proposed performance indicators and for the initiative from practitioners and experts.

Contact [denis@garandnet.net](mailto:denis@garandnet.net)

### *Subgroup Demand*

The Subgroup is looking for partners for cross testing a draft section module of a financial education module on risk management and microinsurance targeted at low-income households; part of the Financial Education for the Poor programme.

For more information, contact [Moniquec@mfopps.org](mailto:Moniquec@mfopps.org)

More information on microinsurance news and topics, and the Working Group's activities: [www.microinsurancefocus.org](http://www.microinsurancefocus.org)

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