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WHY PEOPLE DO NOT BUY MICROINSURANCE AND WHAT CAN WE DO ABOUT IT

Michal Matul, Aparna Dalal, Ombeline De Bock, Wouter Gelade

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EXECUTIVE SUMMARY

Vulnerability to risk, a constant factor in the lives of the poor, is a cause of persistent poverty. Microinsurance offers one approach to mitigating risk, yet demand is disappointingly low.

Low demand for microinsurance is a complex issue. Many factors influence a household's decision to buy microinsurance. These "determinants of demand" include personal characteristics such as age, understanding of insurance, trust of the product, value proposition and perception of the product, ability to pay, use of other risk coping mechanisms and behavioural factors that prevent even those who want to buy microinsurance from doing so.

A review of more than 30 quantitative and qualitative studies revealed trust, liquidity constraints, the quality of the client value proposition and behavioural constraints to be the most important determinants of demand for first sales. Addressing these determinants had the greatest impact on take-up. The data on renewals (though limited) suggested that increasing understanding of insurance, improving client value proposition and overcoming behavioural constraints could significantly boost renewals and thus lower client acquisition costs. Personal characteristics such as risk aversion, age and gender did not appear to affect demand significantly. These findings debunk some of the most common myths about the demand for microinsurance.

Ten myths about demand for microinsurance

1. **People don't buy microinsurance because they don't understand it**

Low demand is often attributed to a lack of understanding of microinsurance concepts and products. Poor understanding is only one part of the problem, however, as better awareness and knowledge of insurance does not always translate into higher demand. Interestingly, consumer education does seem to stimulate demand for index insurance, but has no effect on health microinsurance, which highlights distinctions in purchase decisions for different types of insurance.

2. **People can't afford to buy microinsurance**

Liquidity constraints are one of the biggest determinants of demand, but not because the poor have no money; rather, they have insufficient funds at the time of enrolment. Practitioners can mitigate liquidity constraints by scheduling premium payments when money is most readily available, for instance after a harvest. Chen et al. (2012) evaluated the effect of deferred premium payments in a pig insurance scheme in China. They offered credit vouchers that allowed farmers to take up insurance while delaying the premium payment until the end of the insured period, coinciding with when pigs are sold and liquidity constraints are relieved. Deferred premium payments increased the purchase of the insurance by 11 percentage points (from 5 per cent, observed for those farmers not receiving vouchers).

3. **After a shock, people are more likely to buy microinsurance**

Experiencing past shocks does not always affect one's perception of risk. Galarza and Carter (2010) found that when a farmer suffers a loss several times in a row, he or she is tempted to believe that bad luck will not occur again in the next cropping season. Surprisingly, hearing about the misfortunes of others can have a higher impact on demand than being exposed to a shock. People often conform to the choices of their peers. Evidence shows that when peers spread information about insurance, they increase the likelihood that insurance is purchased.

4. **People don't buy microinsurance because they don't trust the insurance industry**

Trust is one of the most important factors of demand, but it goes beyond the reputation of the insurance industry. Practitioners need to implement a multi-dimensional approach to 1) build trust in the product, 2) build trust in the insurer and other institutions involved in the delivery of the product, especially through use of trusted agents and messengers, and 3) leverage trust that already exists in communities.

5. **People buy microinsurance when premiums are low**

Low premiums do not guarantee high demand. The cost to client is more than the premium. Clients can face substantial transaction costs that implicitly increase the cost of insurance. These costs relate to the opportunity cost and actual cost incurred to purchase or renew the policy, including paying premiums, and to file a claim and receive benefits. Thornton et al. (2010) provide evidence about the importance of transaction costs. When they allowed market vendors to enrol directly at their market stall (instead of insurer's office), uptake was about 30 percentage points higher.

6. People buy microinsurance when they are convinced

More important than intention is the ability to act on intentions. Barriers to action greatly influence demand. People are influenced, sometimes disproportionately, by seemingly inconsequential obstacles that prevent enrolment. These obstacles can be situational, such as requiring clients to submit the enrolment form at the insurer's office, without knowing the location of the office. Making renewal the default option (in lieu of requiring a client to actively re-enrol each period) may partially alleviate behavioural constraints and could promote renewal, as attested by Cai et al. (2011) in a study where renewals are higher when clients have to opt-out, rather than stay-in insurance. Such a default option needs, however, to be clearly communicated to clients as an undesired renewal can easily lead to distrust in the scheme.

7. People buy microinsurance when the product is actuarially fair

Client value goes beyond the cost and benefit levels of the product itself. For example, in health microinsurance, it is difficult to separate the related provision of healthcare from the product. The ability and ease to access the health care service is, in fact, considered a product feature. The poor quality of health centres is often identified as one of the most important impediments to demand for health microinsurance (Criel and Waelkens, 2003; Basaza et al., 2008; De Allegri et al., 2006). The importance of the quality of the client value proposition is even more noticeable in the context of renewals. Dong et al. (2009) find that the perception of the quality of the health centre is an important factor underlying the decision to renew.

8. People don't value free things, not even free microinsurance

Behavioural economics shows that the price of zero has a unique ability to attract people's attention. Offering insurance as a "free" add-on with other financial services might be effective to increase take-up. Evidence from MicroEnsure in Ghana shows that bundling savings and insurance can increase insurance penetration and stimulate savings mobilization.

9. Microinsurance always sells better when bundled with other financial services

Microinsurance is developed in an environment where people have access to a variety of mechanisms to cope with risk. It is of utmost importance to understand the added value of insurance in comparison with other risk-management mechanisms to correctly position microinsurance products and decide whether they should be bundled with other financial services. Crayen et al. (2010) shows that remittances act as a substitute to formal insurance in South Africa. Their results suggest that if a respondent receives remittances, she or he is seven per cent less likely to have formal funeral insurance. Stein and Tobacman (2011) find that people prefer a pure insurance or pure savings product to a mixture of the two.

10. Men, the middle-aged and the risk-averse, buy more microinsurance

Personal characteristics such as gender, age and risk aversion do not affect demand significantly. For example, risk-averse individuals perceive insurance to be a risky tool as they are concerned with the insurer's risk of default. Results are mixed in different settings for various products suggesting that traits such as lifestyle, attitudes or behaviours are more important than socio-economic variables for insurers to consider in market segmentation and product positioning.

There are cost-effective ways of achieving a significant increase in demand. Experience shows that acting on value proposition, trust and behavioural constraints are the most cost-effective ways of boosting demand. Incorporating these factors into a marketing strategy does not need to be a costly exercise. Some strategies, such as including value-added services and using trusted messengers or SMS reminders, address those determinants and can be deployed quickly without substantial investment.

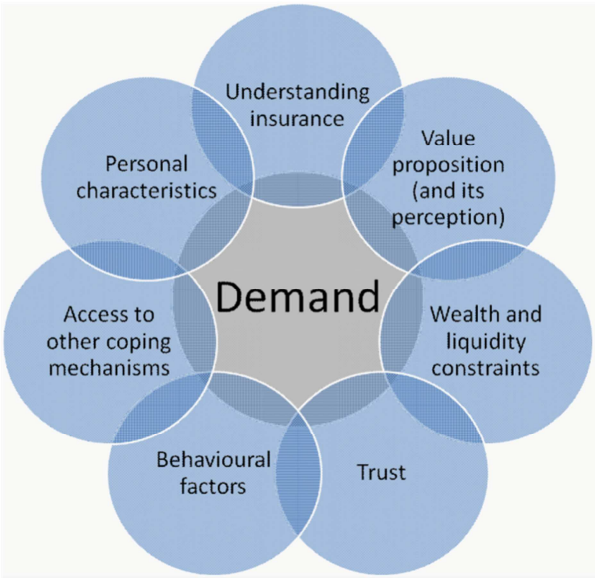
There is no silver bullet. The recommended approach is for practitioners to take care in selecting the right mix of strategies, based on an understanding of the market. Demand is a complex issue, but some determinants are more important than others. Understanding these nuances, and taking a holistic, structured approach to marketing (including product design, distribution and promotion), can have a significant impact on demand.

Gaps still exist when it comes to understanding demand for microinsurance. More work is needed to identify ways of overcoming behavioural constraints and building trust. There is also scope for more research in order to exploit complementarities between formal and informal practices, for instance by offering insurance via the vehicle of a pre-existing, informal group. Finally, more attention should be given to the problem of low renewal rates, one that has been largely neglected to date.

1.> INTRODUCTION

Vulnerability to risk, a constant factor in the lives of the poor, is a cause of persistent poverty (Dercon, 2011). Microinsurance offers one approach to mitigating risk, yet demand is disappointingly low. Voluntary insurance schemes rarely enrol more than 30 per cent of a target population. Studies have shown index insurance schemes with an enrolment rate of 17 per cent in Malawi (Giné and Yang, 2009), 6 to 16 per cent in India (Cole et al., 2011a; Mobarak and Rosenzweig, 2012; Gaurav et al., 2011) and 6 to 36 per cent in Ethiopia (Norton et al., 2011; Hill and Robles, 2011). Health microinsurance schemes have produced take-up rates of 25 per cent in Senegal (Bonan et al., 2011) and 19 per cent in Kenya (Dercon et al., 2011a). Renewal rates have been even more modest.

Figure 1: Determinants of demand for microinsurance



To unlock demand, practitioners must first understand the factors influencing a household's decision to buy microinsurance, and then develop strategies to overcome barriers. Low demand is often attributed to a lack of understanding of microinsurance concepts and products. However, poor awareness and understanding are only part of the problem. Many other factors influence a household's decision to buy microinsurance. These "determinants of demand" include personal characteristics such as age and risk aversion[1], understanding of insurance, trust of the product, product quality, ability to pay, use of other risk coping mechanisms such as credit, and behavioural factors. Any or all of these may prevent even those who want to buy microinsurance from doing so (see Figure 1). Once practitioners understand the demand determinants for their target market, they can adjust their marketing strategies for product design, pricing, promotion and distribution.

This paper aims to help practitioners understand how these determinants affect demand. It blends academic findings with practical examples from the field and presents solutions that practitioners can implement to improve demand. Conducted as a partnership between the ILO's Microinsurance Innovation Facility and the European Development Research Network (EUDN), it builds on the work of De Bock and Gelade (2012), who reviewed more than 30 quantitative and qualitative studies providing empirical evidence on the factors influencing demand for microinsurance.[2]

Demand is a complex issue, but some determinants are more important than others. Understanding these nuances and having a holistic, structured approach to marketing (including product design, distribution and promotion) can have a significant impact on demand. Marketing strategies do not need to be very costly. This paper presents examples of cost-effective marketing strategies that have been implemented by microinsurance practitioners in an attempt to improve demand for their products.

[1] To read more about the role of risk aversion, gender and age, see De Bock and Gelade (2012). The authors have not covered this issue here since results are mixed, and there are no obvious strategies to be recommended.
[2] The De Bock and Gelade (2012) literature review is published as Research Paper No 26; available at: http://www.ilo.org/public/english/employment/mifacility/knowledge/publ/repapers.htm.

It should be noted that improving demand is not just a matter of understanding client characteristics and decisions. Demand is also influenced by supply systems. For example, distribution channels selling life microinsurance products often fail to push renewals because the commission for renewed policies is much lower than the commission for initial sales. In such cases, levels of renewals will not increase until the incentive schemes are fixed.

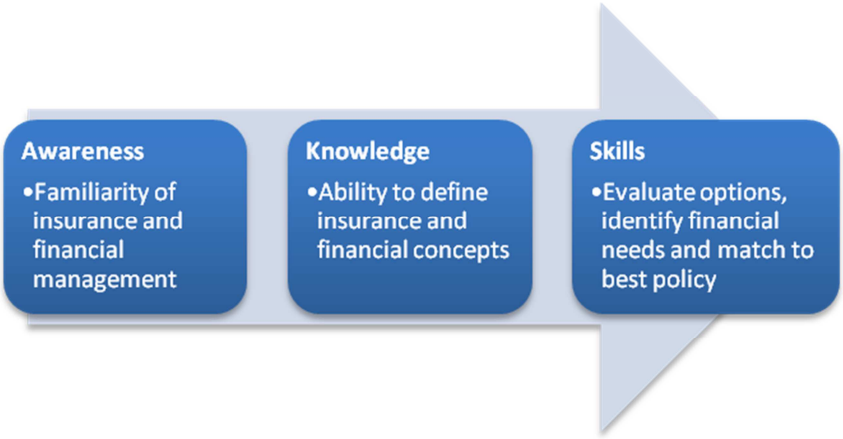
The paper is organized as follows. Sections 2 to 7 discuss the various determinants of demand in the following order: 2) understanding insurance, 3) client value proposition and its perception, 4) liquidity constraints, 5) trust, 6) behavioural factors and 7) other risk coping mechanisms. Section 8 analyzes the cost-effectiveness of various marketing strategies. The last section offers a conclusion.

2. > UNDERSTANDING MICROINSURANCE

It is widely believed that low-income households do not understand insurance; for this reason, they do not buy or renew it. Understanding microinsurance is influenced by awareness, knowledge and skills, as summarized in Figure 2. For example, Platteau and Ugarte (2013) measured understanding by checking, among other things, whether clients thought they should be reimbursed in the absence of a claim and whether they knew how their contract worked. People with a lower level of understanding were much less likely to renew; in fact, below a certain level of understanding, virtually nobody renewed the policy.

But is a lack of understanding the main reason that low-income households do not buy or renew microinsurance? Will increasing awareness, knowledge and skills necessarily increase demand? The evidence is mixed. While awareness and knowledge often increase with consumer education interventions, this does not always translate into higher levels of demand.

Figure 2: Understanding of insurance



Awareness

Detecting whether an individual has already been exposed to microinsurance products, or at least the concept of risk pooling, is a first step to improving understanding. Mass media campaigns are a cost-effective approach to raising awareness of insurance (see Box 1).[3] As discussed in Section 6, using a peer network is another solution.

Box 1: Using radio to raise awareness of insurance

In 2010, Microfinance Opportunities (MFO) and the Association of Kenyan Insurers (AKI) launched a radio education campaign to improve the risk management and insurance literacy of low-income households. The radio campaign increased awareness by 19 per cent and knowledge of insurance terms by 8 per cent. It proved a cost-effective (estimated at less than US$ 0.013 per listener, to reach approximately 10 million listeners) way to improve knowledge and awareness, but it had a limited impact on two other factors that influence demand, namely attitudes and trust.

MFO and AKI speculate that in order to translate increased awareness into higher levels of demand, radio campaigns need to counteract information circulated by word of mouth. Listeners mentioned that stories of negative experiences with insurance tend to be passed through social networks, spreading distrust and reinforcing negative attitudes.

Source: Tower and McGuinness (2011)

[3] See more in Bel and Pinzon-Caicedo (forthcoming) on how to design mass media consumer education, as well as Lee and Solana (forthcoming) on how to design promotional campaigns.

Awareness is important, but does not guarantee demand by itself. Ackah and Owusu (2012) computed an insurance awareness index in Ghana. Some 65 per cent of respondents were aware of at least one type of insurance. Yet, although many people had heard the word 'insurance', they did not appear to understand insurance as a way of preparing for future unforeseen misfortunes.

Knowledge and skills

Once people are aware that microinsurance products exist, efforts can be made to improve knowledge of microinsurance terms and concepts and of the specific product, as well as the skills needed to evaluate risk management tools.

Knowledge and skills (and subsequently, demand) are influenced by education and the financial literacy of individuals. Empirical studies have demonstrated that the likelihood of taking out insurance increases with years of schooling (Akter et al., 2008; Giesbert et al., 2011; Giné and Yang, 2009; Jehu-Appiah et al., 2011; Jowett, 2003; Schneider and Diop, 2004). However, neither Bonan et al. (2011) nor Giné et al. (2008) found a significant impact of years of school attendance on levels of enrolment.

New evidence indicates that financial literacy levels, rather than levels of education, affect demand. Giesbert et al. (2011) noted that the effect of education on demand may vanish once financial literacy is factored in. Cole et al. (2011a) studied financial awareness of clients and found that there was a strong correlation between an understanding of probabilities (that estimate one's risk exposure) with the decision to purchase insurance.

Microinsurance providers have tried to improve financial literacy through various training programmes. Financial literacy training can vary in terms of content (insurance only versus financial literacy), intensity (one time versus continuous) and design (conventional versus participatory training that uses adult learning concepts). Evaluations of financial literacy programmes, presented below, have provided mixed evidence as to whether increasing knowledge and skills leads to an increase in demand.

For weather and agricultural insurance, Gaurav et al. (2011) found that training has a varied impact on the purchase of index insurance. The training programme increased enrolment by 5.3 percentage points, but it was found that the training was only effective for those with low initial levels of financial literacy. Cole et al. (2011a) found that a visit by a trainer resulted in an increase in the enrolment rate of 20-25 percentage points, compared with households who only received brochures about a rainfall insurance product. Cai et al. (2011) found that the intensity of training is significant. They compared the impact of a basic information session with that of an intensive 45 minute training session, in a randomized experiment in China. Higher training intensity translated into an increase in the percentage of potential clients who purchased insurance from 35 per cent to 50 per cent. Additionally, a village meeting about insurance was shown to be more effective in stimulating demand than a short door-to-door visit. Giné et al. (2011) found that distributing comics as part of financial literacy training had a positive effect on enrolment, although this effect was only significant when enough people in the village received the comics.

In the context of health microinsurance, Bonan et al. (2011) and IPA (2012) came to less optimistic conclusions about the efficacy of literacy training. A three-hour training session on insurance and general financial management (Bonan et al., 2011), together with several educational modules varying in intensity (IPA, 2012), had almost no impact on demand for insurance. Likewise, Dercon et al. (2011a) randomly assigned people to 'study circles' which consisted of regular meetings during which written materials on insurance were discussed. This kind of participative training session did not produce any impact on the uptake of health insurance.

Thus, while insurance literacy training does increase knowledge, and hence contribute to increased understanding, its impact on the purchase of insurance is unclear. Interestingly, there are positive findings for index insurance, but no

effects for health microinsurance. These findings point to possible differences in how purchase decisions are made for different types of insurance. For example, the quality of health care services might be a more important trigger for health microinsurance.

Dror et al. (2010) argue that there is scope for improving financial literacy initiatives. As a start, practitioners can include education in the promotion of their products. Both Fitzpatrick et al. (2011) and Platteau and Ugarte (2013) observed that many individuals who dropped out of a health insurance scheme reported not knowing how to pay premiums. While this example may be commonplace within ill-managed schemes, it does indicate that the effective transmission of information is essential to the successful operation of microinsurance schemes. Education efforts should continue beyond the enrolment stage. This may help to increase levels of renewals. Reminding clients about benefits and product features on an ongoing basis could help to create a better perception of the value provided.

It is restrictive to discuss consumer education in the exclusive context of demand. Given the consistent results that improved knowledge produces, it may be argued that training creates a public service and should therefore be implemented even if it does not have a direct impact on demand. Even so, running financial literacy programmes, especially comprehensive ones, is more expensive than other demand strategies featured in this paper. As discussed in Section 9, with medium effects and mixed results, it is difficult for insurers to commit resources to this strategy. Therefore, comprehensive financial education programmes might be more appropriate under the mandates of government, donors or an industry association.

3. > CLIENT VALUE PROPOSITION AND ITS PERCEPTION

The evidence (though limited) shows that client value and demand are interlinked and products that deliver (or are perceived to deliver) higher client value are likely to produce greater returns for the insurer in the long term.[4]

For index insurance, the quality of the product is linked to basis risk. The most robust evidence is given by Mobarak and Rosenzweig (2012), who obtained random variation in the amount of basis risk by constructing new weather stations. They found that for every additional kilometre of perceived distance from the weather station, demand fell by 6.4 per cent.

In the case of health microinsurance, the quality equation extends beyond the cost and benefit levels of the product itself. It is difficult to separate the related service from the product, and the ability and ease of access to the health-care service is, in fact, considered a product feature. Lack of quality of health centres is often identified as one of the strongest impediments to take-up of health microinsurance (Criel and Waelkens, 2003; Basaza et al., 2008; De Allegri et al., 2006). For example, treatment given to patients matters significantly, making it critical to have in place the right incentives for health workers treating insured patients.

The importance of service quality is even more marked in the context of renewals. Dong et al. (2009) found that perceptions of the quality of a health centre was an important factor underlying decisions to renew. The authors reported that disliking the behaviour of medical staff was the second most frequently cited reason for not renewing insurance, coming second only to concerns over affordability. Platteau and Ugarte (2013) reported that (negative) perceptions of value were one of the three most important determinants of renewal for the Swayam Shikshan Prayog (SSP) health scheme in India. Together, these factors reduced demand by at least one third. In contrast, clients who used the value-added services were more likely to renew (see Box 2), which further emphasizes the importance of the appropriate value proposition.

Box 2: Use and renewals

SSP started providing the Arogya Sandhi health microinsurance product in 2009 in the state of Maharasthra. The product offered clients cashless inpatient insurance benefits from a network of area hospitals (private and public), and complemented this insurance with value-added services in the form of a discount of approximately 50 per cent on consultation fees from a network of local physicians and a 30 per cent discount on the retail price of drugs.

Platteau and Ugarte's (2013) abovementioned results regarding the link between value proposition and demand are confirmed by an analysis of renewals versus use of the product. SSP observed that of 10,000 clients, those 1,100 who had accessed discounted consultations and medicines, offered as a value-added service, were three times more likely to renew. Clients who used neither the insurance product nor value-added services had a 15 per cent renewal rate, compared with a 45 per cent renewal rate for those who used the value-added services and a 69 per cent renewal rate for those who used both benefits.

Source: Pott and Holtz, 2013.

Microinsurance products will only deliver value to low-income households if they are appropriate, accessible, affordable, responsive and simple. Practitioners should understand needs, preferences and capacities of a specific target segment. They should then use marketing tools to craft and implement the value proposition. The ILO's Microinsurance Innovation Facility has developed a tool, called PACE, to help microinsurance providers develop a better client value proposition (see Box 3).

[4] See also Matul et al. (2011), Magnoni and Zimmerman (2011) and McCord et al. (2012).

Box 3: Improve the client value proposition with the PACE tool

The traditional marketing toolbox for influencing sales contains four strategic elements: Product, Price, Place and Promotion, often referred to as the 4Ps. The first three define the value proposition and the last one communicates it, to make sure there are no misperceptions. The 4Ps take a supply perspective, and if applied bluntly there is a risk of losing focus on the client. The PACE tool developed by the Facility takes the client's perspective, thereby overcoming the risk associated with using the 4Ps.

The PACE (Product, Access, Cost, Experience) tool assesses the client value of an insurance product by comparing it with other products and with other means of protection from similar risks. Taking a holistic view, PACE can help to craft a new value proposition or refine one for an existing product. A key difference between PACE and other client value assessment tools is that it looks at both product specifications and related processes.

PACE has four dimensions:

- Product: assess appropriateness of coverage, benefits, eligibility criteria and availability of value-added services;
- Access: assess accessibility and simplicity by investigating choice, enrolment, information, education, premium payment method and proximity;
- Cost: assess affordability and value for money, and look at additional ways of keeping down overall delivery costs;
- Experience: assess responsiveness and simplicity by looking at claims procedures, processing time, policy administration, product tangibility and customer care.

Developing and then continuously improving the client value proposition is a process that starts with understanding the client, which involves all business functions. It does not make sense to do a PACE analysis if good client data is not available. Expected key client benefits should be matched with the provider's capability to deliver the specific value. During this iterative process, all product features and related processes need to be analysed and adjusted so as to deliver the main benefits at an affordable price. Based on feedback from practitioners, the PACE application is much more successful if it is applied in-house, by a small team comprised of staff from various business units.

Source: http://www.microinsurancefacility.org/en/thematic-pages/improving-client-value.

By taking a holistic view to develop an effective client value proposition, practitioners can make sure that elements important to clients are taken into consideration. Improving client value does not need to be a costly exercise; in fact, it may result in greater efficiencies and cost savings for the insurer, as shown in Box 4.

Box 4: Client value improvements at SAJIDA

The SAJIDA Foundation is a non-government organization (NGO) working with the poor and ultra poor in urban and rural areas of five districts in Bangladesh. The SAJIDA Foundation introduced its comprehensive microinsurance package HELP in 2006. It includes five services: health insurance, life insurance, disaster support, education sponsorship and legal education and assistance.

HELP was renamed Nirapatta (Safety Net) and substantially modified in 2011. SAJIDA conducted a PACE assessment through which it identified several client value improvements to the product and processes. These improvements, implemented in early 2012, included: claims processes, health cash benefits, insurance for ultra poor, premium structure, a marketing campaign to increase client understanding and better value-added services. SAJIDA developed an online health claims settlement tool to decentralize the claims settlement process. Previously, health claims could take up to a month to settle, but now they may be settled within seven days, using the online tool and the new decentralized claims settlement process.

Source: http://www.sajidafoundation.org

4. > LIQUIDITY CONSTRAINTS

Wealthier people are more likely to purchase insurance (Cole et al., 2011a; Gaurav et al., 2011; Giné and Yang, 2009) because they face fewer liquidity constraints than the poor.

Most evidence indicates that liquidity constraints limit demand for insurance. For example, Cole et al. (2011a), found that when asked the main reason for not buying insurance, respondents most commonly cited: "not enough funds to buy insurance". To test whether alleviating liquidity constraints would increase demand, researchers randomly gave 25 rupees (INR) or INR 100 to households and observed that those receiving the higher amounts were about 40 percentage points more likely to purchase insurance costing between INR 80 and INR 125. The higher payments had a greater impact on poorer individuals, for whom liquidity constraints were likely to be more binding.

Premium financing

Practitioners can mitigate liquidity constraints by asking clients to pay the premium when money is readily available, for instance after a harvest (De Allegri et al., 2006). Chen et al. (2012) evaluated the effect of deferred premium payments on a livestock insurance scheme in China. Farmers were offered credit vouchers, which allowed them to take up insurance while delaying the premium payment until the end of the insured period (when pigs were sold and liquidity constraints relieved). Deferred premium payments increased purchase of the insurance by 11 percentage points (from the 5 per cent take-up observed for those farmers not receiving vouchers).[5]

Low-income households prefer paying in small instalments, on their doorstep, but collecting and processing such payments is expensive. Providers are experimenting with solutions to finance annual payments through links with other financial services and using mobile platforms and automatic deductions to reduce the cost of collecting premiums through instalments (see Box 5).

Box 5: Facilitating premium payments

In developed countries, automatic deductions from a salary provide an easy, client-friendly premium payment option. This option is rare in the context of microinsurance, as low-income households often work in the informal economy and are unbanked. However, this situation is changing with the formalization of low-skilled jobs in manufacturing and agriculture. For example, 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 approach to making payments more convenient involves linking microinsurance to other financial services, as discussed in Section 7. For example, almost 90 per cent of CIC's Bima ya Jamii composite policies are bought with loan financing from Savings and Credit Cooperative Organizations. This system is also practised by other providers in Kenya. However, it is a sensitive issue, because cross-selling credit services could lead to excessive debt or to an increase in the premium. For this reason, the use of savings and remittances to finance premiums should provide better client value. For example, Changamka is testing a solution in Kenya that allows members to use an M-PESA mobile money account to save money for premiums for a composite product that offers hospitalization and funeral cover. Changamka and its partners plan to offer a comprehensive health financing solution that uses savings for outpatient visits and insurance cover for inpatient visits.

Source: Matul et al., 2011.

[5] See more at ILO, 2013.

Price discounts

As expected, low-income households are sensitive to changes in price. By randomly offering different discounts for index insurance, Cole et al. (2011a and 2011b) estimated price elasticity for demand of 0.7-1.1, meaning that a 10 per cent increase in price would lead to a 7 to 11 per cent decrease in demand. In contrast, Mobarak and Rosenzweig (2012) found a price elasticity of only 0.44. Dercon et al. (2011a) observed that a 10 per cent increase in prices caused a 7.6 percentage point reduction in demand. When looking at individuals who had a low level of trust in insurance, this effect became greater (17 percentage points reduction).

A low price is, in itself, not enough to generate high demand. When demand is very low, a discount can have a strong relative impact on take-up, but still lead to low absolute take-up. Indeed, even when prices are significantly below actuarially fair prices, Cole et al. (2011a) observed less than 50 per cent take-up. Likewise, although Bonan et al. (2011) and Thornton et al. (2010) offered free health insurance for an initial period, they only achieved about 30 per cent take-up. However, Cai et al. (2009) observed 90 per cent take-up when insurance was heavily subsidized by the government, and strong incentives were given to those selling it.

Are discounts an effective way of increasing demand? The answer seems to be yes, in the short run, but price discounts are not a sustainable strategy in the long term, unless permanent subsidies are available. One possible solution is for practitioners to offer initial discounts, perhaps with the help of government or donor subsidies, during which period clients experience the product, evaluate it, and then renew. Fitzpatrick et al. (2011) tested the effects of subsidizing a health insurance product in Nicaragua for an initial period. They found that while a subsidy significantly increased take-up at first, many clients dropped out after it expired. Even though overall take-up was somewhat higher among those who initially received the subsidies than among those who did not, the results indicate that subsidies were not a cost-effective way of increasing coverage. This finding is consistent with the work of Thornton et al. (2010), also conducted in Nicaragua, where less than 10 per cent of the enrolled clients decided to renew their subscription after the expiry of the subsidies. Their results indicate that those clients who received the highest subsidies were least likely to renew. On the other hand, Bauchet et al. (2013) found that when subsidized coverage was removed from a life insurance product by Compartamos in Mexico, clients purchased more coverage, although they did not purchase enough to achieve their previous subsidized coverage level.

When subsidies are used as a temporary tool to promote market development, there is a need for special efforts and incentives to encourage renewals. The experience of Compartamos does support the use of subsidies to develop trust and build an insurance culture, if appropriate value is offered and is evident to clients. Otherwise, removing subsidies can reduce demand, contributing to market failure rather than market development.

Transaction costs

Clients can face substantial transaction costs that implicitly increase the price of insurance. These costs relate to the opportunity cost and actual cost incurred to purchase or renew the policy, including paying premiums, and to file a claim and receive benefits. Thornton et al. (2010) provided evidence on the importance of transaction costs. The enrolment procedure for the health insurance they offered in Nicaragua normally required clients to forgo a day of work. When they allowed market vendors to sign up directly at their market stall, uptake was about 30 percentage points higher.

5. > TRUST

Engaging trust has been central to efforts by the financial services industry, especially the insurance sector, to win markets for their products. A wide range of empirical evidence highlights the importance of trust in the enrolment decision. Qualitative surveys point to lack of trust in management of a scheme as a reason for dropping out or not participating in the scheme (Dong et al., 2009; Basaza et al., 2008), and both quantitative and experimental research produces evidence to show that building trust enhances the take-up of an insurance product (Cole et al., 2011a; Cai et al., 2009; Giné et al., 2008; Dercon et al., 2011a; De Allegri et al., 2006).

The potential trust-building role played by experience with the institution delivering the insurance is highlighted by Cai et al. (2009), who studied a government-sponsored livestock insurance programme. They argued that willingness to participate in the scheme increased as trust in the authorities grew. Patt et al. (2009) reported that farmers said they put their greatest trust in organizations of which they themselves were members, and that, in general, trust increased as experience with the organization grew. Dong et al. (2009) identified trust in the management of the community health scheme as an important factor influencing households' probability of enrolling.

Practitioners need to implement a multi-dimensional approach to address trust challenges. Patt et al. (2009) presented a three-dimensional approach to building trust for practitioners:

- building trust in the product;
- building trust in the insurer and other institutions involved in the delivery of the product and
- leveraging trust that already exists in communities.

Figure 3 outlines sample strategies that practitioners can use to build trust, starting by making the product tangible.

Figure 3: Strategies to address the three dimensions of trust

Product	Tangibility: public claims, value-added services, more communication
	Financial training and promotion activities
Institution	Trusted messenger and sales agents
	Affiliation with trusted authorities
Community	Peer pressure (see Section 6)

Make the product tangible

A starting point for building trust is to make the product and its benefits more tangible. This can be done by designing the product to include frequent payouts, promoting claims payments and showing clients that the insurer is delivering on its promise, and by including value-added benefits.

Should the insurance pay out regularly, or only when disasters occur? Keeping the price of the contract constant, the trade-off is between many small payouts or fewer bigger payouts. For an index-based weather insurance in Ethiopia, farmers seemed to have a strong preference for many small payouts. When asked to choose between a payout, on average, every three years or every five years, 90 per cent preferred to have one every three years. Subsequently, actual take-up of the products reflected this preference, with 93 per cent opting for comprehensive covers (Norton et al., 2011).

Nonetheless, since comprehensive covers (more frequent payouts) are more expensive, the potential increase in take-up could be negated if more frequent payouts mean a higher price.

Insurers can leverage claims payments without necessarily increasing the payout frequency by celebrating individual payouts with entire communities. Lastly, needless to say, paying claims on time is a must. If not, trust can be easily destroyed.

Tangibility is not just about receiving a payout or celebrating claims. Box 6 provides examples of other strategies to make microinsurance products tangible. These revolve around services that add value to non-claimants and increase communication with clients.

Box 6: Making products tangible through value-added services and constant client communication

Value-added services can make inpatient health microinsurance products tangible to insured members, including those who do not claim. For example, Uplift holds 36 health education talks per year (approximately three per month) in each zone where its partner microfinance institutions (MFIs) operate. Talks last 30-45 minutes. They are given by field staff from the partner MFI. Uplift trains the field staff on the health topic and how to conduct the talk. The topics are chosen according to the needs of the community, for example, in response to an outbreak of a certain disease, or current health problems prevailing in the community. In 2011, 45,000 people attended Uplift's health talks, some attending just one of the 36 talks offered at a branch, while others came more regularly. An estimated 15-30 per cent of all households in the Uplift scheme attend at least one health talk per year. Uplift spends an estimated INR 17 (US$ 0.35) per person per year on health education (US$ 1.60 per household). The role of value-added services goes beyond just staying in touch with clients and promises to improve client value and viability.

A simpler, less costly way to stay in touch with clients is through SMS communication. For the Cooperative Insurance Company (CIC) in Kenya, SMS communication is at the centre of its marketing strategy to offer a 12-year Jijenge savings plan on a new flexible mobile money platform. Clients can save daily using M-PESA and receive a wide range of SMS alerts to provide them with updates on their statements, savings tips and reminders about their payments.

SMS communication can make insurance more tangible and more importantly, build persistency. Evidence has shown that SMS reminders sent by CIC reduced its rates of arrears. Even though only a small percentage (10 per cent) of those who received a weekly SMS reminder paid delinquent premiums within the next couple of days, use of SMS reminders is nevertheless a cost-effective intervention, as the cost of one SMS is less than 0.5 per cent of a weekly premium.

Source: Pott and Holtz (2013), Lee and Solana (forthcoming).

The trust issue is multi-faceted, so providers need to consider comprehensive strategies in order to build trust. Building trust lays a foundation. Without it, microinsurance services cannot be provided in a sustainable way. Providers should build on the framework described, developing a checklist so as to evaluate whether trust-building strategies are effective and whether all processes and people are aligned in the effort to build trust. This is a worthwhile investment, since trust is hard to build and easy to destroy.

6. > BEHAVIOURAL FACTORS

Attitudes and behaviour towards insurance may be influenced by a wide range of fears and beliefs that do not necessarily have a rational explanation. The above discussion of demand determinants relies on the assumption that people make decisions that maximize their well-being. Yet, it is clear that all people (not just low-income families) struggle with temptation, and good intentions are not always translated into action. This section highlights some types of "irrational" behaviour that can influence people's decisions and actions. These behavioural models, and the way in which they can affect demand for insurance, are described in Dalal and Morduch (2010). Insurers can incorporate these models into their marketing strategies to best address the challenges facing potential clients. The "science" of sales is, after all, built on understanding the psychology of human behaviour, and not just on economics.

Loss aversion

Kahneman and Tversky (1979) argue that people exhibit loss aversion, that is, they place greater value on a loss, than on a gain of the same amount. The way in which marketing explains a potential loss or gain is therefore important. Framing insurance as preventing a loss ("don't lose your property, buy insurance to be covered in case of emergencies"), rather than as offering a gain ("increase your peace of mind, buy insurance to be covered in case of emergencies") increases people's perception of the value of insurance (Ganzach and Karsahi, 1995). Cole et al. (2011a) tried different marketing strategies and messages. They found that the messages which used negative wording significantly increased levels of take-up; none of the other messages had a significant impact.

Effects of past shock

The probability with which individuals evaluate the value of insurance depends on the perceptions they have about the risk. Past shocks may have a strong influence on perceptions of risks, and therefore affect the demand for insurance products. Arun and Bendig (2010) showed that the experience of specific hazards in the past -- in particular the death or severe illness of a household member or the inability to sell agricultural products in the past five years -- increased the probability of using financial services in Sri Lanka. In contrast, Cole et al. (2011a) and Stein (2011) did not find any clear evidence to show that having experienced a weather shock increases the uptake of insurance services. The same is argued by Galarza and Carter (2010), who found that a farmer who suffered a loss several times in a row was tempted to believe that misfortune would not strike again in the next cropping season.

Thus, experience of past shocks does not always affect people's perception of risk. Surprisingly, hearing about the misfortunes of others can have a stronger impact on demand than being exposed to a shock.

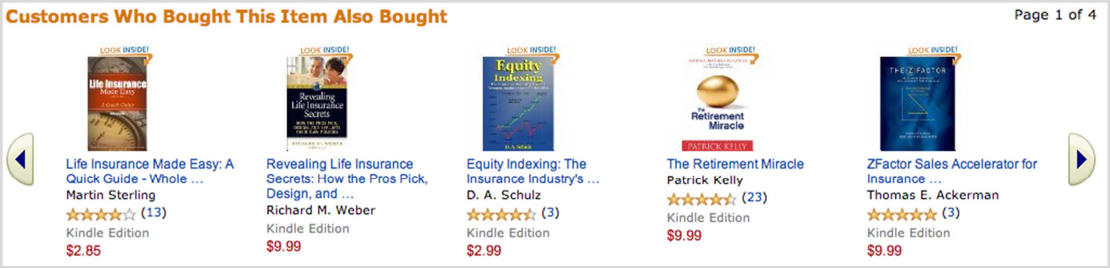
Influence of peers

People often conform to the choices of their peers (Thaler and Sunstein, 2008; Earls, 2007; Bentley et al., 2011). Several pieces of evidence show that the influence of peers matters in the purchase of insurance. Firstly, insurance purchases by people close to each other are correlated (Patankar, 2011; Giné et al., 2008). Cai et al. (2011) found that people attending a village meeting about insurance were substantially (12 percentage points) more likely to take up insurance than those receiving door-to-door visits. Interestingly, the door-to-door visits were much more effective (7 percentage points) in villages where a meeting took place, even though the individuals visited did not attend the meeting themselves. Moreover, each additional friend attending the meeting also substantially increased individuals' probability of taking up insurance.

By spreading information about insurance, peers can increase the likelihood that it will be purchased. In addition, their actual decision to purchase insurance may also influence the decision of others. However, in the short run at least, information about purchasing decisions may not spread as easily as information about the insurance itself. Box 7 presents two strategies used by commercial retailers, which could be translated into the microinsurance context. For example, promotion activities can emphasize the experiences of neighbours who bought the product, or clients may be offered referral incentives to sell or recommend products to their friends and family.

Box 7: How to leverage peer pressure

Influencing mass consumer behaviour by using peer pressure is gaining ground in today's business community. There are many creative strategies that can be used to embrace this concept. Websites such as http://herd.typepad.com/ provide some illustrations. For example, a core part of Internet retail giant Amazon's marketing strategy is to leverage the power of peer pressure by showing users what their peers bought. Below is a display from Amazon's website for the sale of a book called Life Insurance (The Guru's Guide). Other sites, such as the travel site TripAdvisor, showcase hotel reviews entered by the user's "friends".



Eliminating barriers to action

When analyzing decision-making, economists often emphasize the influence of personal characteristics of the individual, focusing less on the power of external factors. In practice, people's actions are influenced, sometimes disproportionately, by seemingly inconsequential 'channel factors' (Mullainathan and Shafir, 2009). For example, 'channel factors' can be details related to situation. A case in point is when clients are required to visit the insurer's office in order to submit an enrolment form, even though they do not know the location of the office. Addressing these 'channel factors' can be effective in translating intentions into actions. If they are ignored, they can lead to inaction. For example, as mentioned earlier, Thornton et al. (2010) showed that when market vendors were able to sign up directly at their market stall for health insurance, uptake was 30 percentage points higher.

Making renewals as a default option may partially alleviate behavioural constraints and could increase levels of renewal, as shown by the study of Cai et al. (2011), where renewals were higher when clients had to sign out, rather than sign up, for insurance. However, such a default option needs to be clearly communicated to clients, since an undesired renewal can easily lead to overall distrust in the scheme. Overall, the fact that these practical problems limit renewal of insurance suggests that good follow-up is crucial in building a sustainable insurance scheme. Platteau and Ugarte (2013), for instance, found that people were more likely to renew when they met a representative of the NGO in charge.

Box 8 presents other recommendations for microinsurance providers on marketing and product design. These recommendations are based on insights from laboratory and field research in behavioural economics.

Box 8: Insights from behavioural economics

- *Limit choice:* Offering more choices to consumers is not always best. 'Choice overload' can lead to inaction. Take-up could be increased by reducing the number of options.
- *Facilitate self-control*: Many people are impatient and inconsistent in their preferences. Some recognize their inconsistency and seek products and services that impose discipline and self-control. Insurance can impose discipline and help people with self-control issues to accumulate lump sums. Advertising this feature to impatient potential clients can help to 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. Making future and uncommon adverse events more salient can trigger action in the present, so that people will want to protect themselves against those events. Paying insurance claims publicly is a good positive way of making adverse events more salient.
- *Undermine overconfidence*: Behavioural evidence shows that people are typically overconfident and think that unexpected events are less likely to happen to them than to the rest of the population. Microinsurers can increase the take-up of policies by undermining potential clients' overconfidence.
- *Access mental accounts*: Even though money is an exchangeable commodity, 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 for spending on another item. Associating the insurance policy with a specific income stream can increase the likelihood that individuals will actually purchase it.
- *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 greatly helpful against moral hazard and adverse selection. Finding ways to exploit people's preference for zero could increase take-up (see Box 10 for an example).

Source: Dalal and Morduch, 2010.

7. > OTHER RISK COPING MECHANISMS

Microinsurance is developed in an environment where people have access to a variety of tools to cope with risk. Credit, savings, informal risk sharing agreements and self-insurance strategies also offer (partial) protection against risks and are seen as substitutes for insurance. It is of the utmost importance to understand the added value of insurance in comparison with other risk management services, so as to position microinsurance products correctly.

Bundling insurance with these products could also increase the demand for both products if they can be seen as complementary solutions. Results are mixed, showing that bundling insurance with other financial services is a difficult task that requires a thorough understanding of needs for and usage of the other financial services by the target group. If done incorrectly, bundling can have negative effects on insurance demand.

Informal risk sharing networks

Informal insurance mechanisms, where individuals mutually help each other in times of need, allow people to cope with unexpected expenses, such as funerals or illnesses. These arrangements can take the form of proper risk sharing groups, such as funeral societies, or of flexible transfers between family and friends (Fafchamps and Lund, 2003). When efficient, such informal risk pooling agreements can crowd out insurance (Arnott and Stiglitz, 1991). Compared with microinsurance, these agreements present informational advantages, since members can monitor each other, but they have the drawback of representing only a limited pool of risks. This weakens their ability to deal with large shocks that affect entire communities, or multiple individual shocks that may occur in a short period of time.

Informal risk sharing agreements and insurance are therefore seen as substitutes. However, there can also be complementarities. Box 9 provides an interesting example of an offering by South African insurer Old Mutual, which complements informal burial societies.

Box 9: Stimulating demand by complementing informal risk sharing mechanisms

Old Mutual introduced its Burial Society Support Plan (BSSP) in 2003 as its first product for the low-income market in South Africa. By mid 2011, the plan was covering almost half a million lives. This is a group funeral cover targeting traditional burial societies, which are an important source of community support (financial and otherwise) when a death occurs. The level of coverage is selected by the burial society. It applies to all principal members and is optional for their spouses and dependents. BSSP is a flat premium product and pricing has needed to be reviewed to contain rising claims costs (Angove and Tande, 2011).

It is difficult to differentiate BSSP from communal burial societies and schemes offered by funeral parlours. Old Mutual is now considering repositioning the product as a complementary offering to communal burial societies, which fulfil an important social function but do not provide sufficient cover. Members often need to piece together several funeral policies. If Old Mutual repositioned its group product correctly as the product that provides sufficient cash benefit that complements in-kind contributions of communal burial societies, it could reduce the difficulties caused by having to patch together a variety of mechanisms, while at the same time embedding its offer into local customs.

Source: Matul and Suministrado, 2012.

Credit

In theory, access to formal or informal loans should make people less likely to buy insurance. However, the evidence does not always indicate this to be the case. Giné et al. (2008) found that people wanting a loan but unable to get one were significantly less likely to purchase insurance. Akter et al. (2008) showed that those with access to informal or formal credit were more willing to pay for disaster insurance. Cole et al. (2011b), on the other hand, observed that people who had a loan had a similar demand for insurance as those who did not.

To test the link between loans and insurance, Giné and Yang (2009) offered credit to finance investment for new seeds. While doing so, they randomly obliged one group of customers to take up index-based insurance with the loan. They found that clients who were required to take up insurance were 13 percentage points less likely to take the credit. Galarza and Carter (2010) reached a more optimistic conclusion. In a laboratory experiment, participants were given a choice between a safe low-return product and an uninsured loan for a risky, high-return outcome. In the next game, participants could take out the loan with an additional index insurance, mitigating the risk of the loan. Fifty-seven per cent of the participants chose the insured loan in the second game, and 60 per cent of those who chose the safe option in the first game switched to the insured loan in the second, indicating that interlinking credit and insurance can increase demand for credit and motivate the purchase of insurance.

When bundling insurance with credit, providers need to make sure that clients are aware of the product they are buying. Encouraging clients to make a conscious decision about the insurance cover during enrolment (such as selecting the benefit level or the beneficiary) can help to ensure that staff explain the product.

Remittances

Remittances can be an important source of relief in times of need and have been proven to increase after disasters. Remittances provide self-insurance. Crayen et al. (2010)'s empirical analysis of remittances in South Africa showed that regardless of income levels, remittances served as a substitute to formal insurance when budget constraints were binding. Their results suggested that if respondents received remittances, they were seven per cent less likely to have formal funeral cover.

Savings

The limited academic literature available suggests that linking savings and insurance does not increase the demand for insurance. Stein and Tobacman (2011) found that people preferred a pure insurance or pure savings product to a mixture of the two. Clarke et al. (2012) offered people the opportunity to allocate money to different index and health insurance products. They found that the introduction of savings did not significantly change the demand for index insurance, suggesting that these complementarities are not very important. Nonetheless, people do indicate that savings are a significant part of their risk management strategy since they allocate a substantial share of their money to group savings.

However, evidence from MicroEnsure in Ghana suggests that bundling savings and insurance can increase insurance penetration and stimulate savings mobilization (see Box 10).

Box 10: Add-on insurance increases deposits

In 2011, MicroEnsure launched a savings-linked product with a bank in Ghana that had been experiencing low account balances and limited transactions. Although the bank had over 100,000 depositors, more than 85 per cent held a balance under US$ 60. The bank wanted to provide an incentive to customers to increase their savings balance, as interest rate increases had proved to be ineffective.

MicroEnsure and its partner StarLife Assurance launched an insurance product that was tied to the savings accounts. Depositors who held a minimum balance of US$ 60 each month were entitled to free life insurance, with benefits of up to US$ 180. Clients with a balance of US$ 120 were also entitled to life insurance for their spouse and children. The bank paid the premium to StarLife Assurance, instead of a portion of the interest that clients would have received, although no interest was deducted for clients with higher deposits. StarLife marketed the product via SMS, in-store marketing, posters and telemarketing, at a cost of less than US$ 0.50 per client.

In the first five months after product launch, the bank's deposits increased by 19 per cent. Deposits from clients with balances below US$ 60 increased by 207 per cent in five months as customers saved more in order to access the free insurance. This increase, along with anecdotal evidence from interviews with depositors, suggests that many bank clients changed their savings behaviour as a result of the additional insurance cover.

Source: Churchill et al., 2012.

In summary, when developing microinsurance, it is critical to understand which risks are least covered by existing arrangements, since insurance is likely to be most valuable, and in highest demand, when it complements rather than substitutes existing arrangements. One strategy is to understand the added value of microinsurance for specific risks in a given context, and design products accordingly. Another strategy is to bundle insurance with other financial services. There is some evidence that such bundles can have a positive effect on demand. However, based on scarce data, those impacts would appear to be lower than those of other strategies suggested in this paper. Bundling needs to be treated with care; to be successful, it requires an in depth understanding of the financial behaviour of the target group.

8. > STRATEGIES TO STIMULATE DEMAND

Throughout the paper, the authors have highlighted strategies that microinsurance providers can use to address the various determinants of demand and improve overall demand for products. These strategies are summarized in Table 1.

Table 1: Sample strategies to address demand factors

Determinant	*Marketing options*	*Sample strategies*
Understanding insurance	Promotion	• Embed educational messages in promotion campaigns • Incentivize sales force to transfer information • Leverage government financial literacy programmes • Conduct financial literacy initiatives (workshops, mass media, counselling)
Value proposition (and its perception)	4Ps	• Take holistic approach to client needs and preferences, and evaluation of value proposition of product and processes (e.g. using PACE tool)
Liquidity constraints	Price	• Offer price discounts • Reduce transaction costs • Provide options for premium payment (increase frequency, change timing, use mobile phones) • Offer premium financing through credit and savings
Trust	Product Promotion Place	• Explain product • Use trusted messengers • Celebrate claims payouts • Include value-added services • Increase payout frequency • Increase communication (e.g. use SMS reminders)
Behavioural factors	Product Promotion Place	• Use default options (opt-in vs. opt-out) • Make product salient • Use promotion campaigns to undermine over-confidence • Frame messages as "losses" • Eliminate enrolment obstacles
Access to other coping mechanisms	4Ps	• Bundle insurance with credit, savings, informal sharing networks, and remittances • Identify value-addition of insurance

A good marketing strategy cannot be designed without market and consumer insights. The first step is to conduct market research so as to understand client needs and assess factors affecting the various determinants of demand in a given context. The process of learning about clients should be continued once the product is implemented, using data mining of client information, client feedback and ad hoc studies.[6]

A more structured and holistic approach to marketing is needed. The studies reviewed emphasize interlinkages between various determinants and strategies. For example, an improved client value proposition will build trust; and bundling insurance with savings will mitigate liquidity constraints and make insurance more tangible. However, a haphazard approach to marketing is risky for providers. For example, a default option is a good solution to

[6] See more at: http://www.cgap.org/blog/what-do-clients-really-want-insurance.

behavioural constraints, but if not communicated properly, it can undermine trust and have a counterproductive effect in the long term.

Different strategies should be applied to first sales versus renewals, since the effects of determinants vary across the product life cycle (see Table 2). For example, overcoming the insurance knowledge challenge is more important for renewals than for first sales. On the other hand, liquidity constraints and trust matter less in the case of renewals.

Table 2: Summary of effects of determinants on first sale and renewal

Determinant	*Evidence available*	*Effect on first sales*	*Effect on renewals*
Understanding insurance	☺ ☺	Low-medium	Medium-high
Value proposition (and its perception)	☺	Medium-high	High
Liquidity constraints	☺ ☺ ☺	High	Medium
Trust	☺ ☺ ☺	High	Medium
Behavioural factors	☺	Medium-high	High
Access to other coping mechanisms	☺	Medium	Medium

Some strategies are more costly than others. When choosing a strategy, providers need to pay attention to cost-effectiveness rather than absolute outreach or cost numbers. Marketing budgets are kept confidential, so data on costs is not available. Based on conversations with practitioners, Table 3 estimates relative costs of the strategies discussed. The market is price sensitive but discounts are unsustainable in the long term, without subsidies. Lack of understanding can be an important trigger for renewals, but financial training interventions are expensive.

Table 3: Cost-effectiveness of demand strategies

Determinant	*Effect on first sales*	*Effect on renewals*	*Cost of strategies*	*Cost-effectiveness*
Understanding insurance	Low-medium	Medium-high	Medium-high	Medium
Value proposition (and its perception)	Medium-high	High	Low-medium	High
Wealth and liquidity constraints	High	Medium	Medium-high	Medium
Trust	High	Medium	Low-medium	High
Behavioural factors	Medium-high	High	Low	High
Access to other coping mechanisms	Medium	Medium	Medium-high	Low

Acting on the value proposition, trust and behavioural constraints appears to be crucial. The following strategies promise to have the greatest impact on demand in a cost-effective way:

- Improve client value proposition, especially through low-cost adjustments to benefit/price structure, enrolment or claims processes;
- Explain products to clients on an ongoing basis, i.e. after enrolment;
- Celebrate claims within client communities;
- Include value-added services that make products more tangible (for example, health prevention talks for an inpatient health microinsurance product);

- Use SMS reminders and other mechanisms to stay in touch with clients;
- Use default options for enrolment, especially during renewals, though clients need to be made aware of these options;
- Use trusted messengers during promotion;
- Use promotion to undermine overconfidence of clients, thus making clients aware of the need for the product;
- Use loss-framed messages to promote the product.

There is no silver bullet. The recommended approach is for practitioners to take care in selecting the right mix of strategies, based on an understanding of the market.

9. > CONCLUSION

Low demand for microinsurance is a complex problem, with many factors determining whether or not an individual buys insurance. Although the evidence is not conclusive, several lessons can be drawn from this review. Trust, liquidity constraints, the quality of the client value proposition and behavioural constraints are the most important determinants of demand. Mitigating those challenges has the strongest impact on take-up. The data on renewals (whilst limited) suggests that increasing understanding of insurance, as well as improving client value proposition and overcoming behavioural constraints, can significantly boost renewals, thereby lowering customer acquisition costs. Personal characteristics such as risk aversion, age and gender do not appear to affect demand strongly.

There are cost-effective ways of significantly boosting demand. Practitioners need to understand the demand puzzle in its context, identify the most important determinants and design specific marketing strategies. Experience shows that acting on value proposition, trust and behavioural constraints are the most cost-effective ways of boosting demand. Incorporating these factors into a marketing strategy does not need to be expensive. Some strategies, such as including value-added services, using trusted messengers or SMS reminders, address those determinants and can be deployed quickly without excessive investment. However, simply implementing the strategies is not enough. It is critical to continue evaluating their cost-effectiveness so as to improve market understanding and to keep adjusting marketing strategies in order to maintain high demand.

Gaps remain in understanding the demand for microinsurance. More work is required to identify ways of overcoming behavioural constraints and building trust. Both these drivers are important, and more research is needed on the effectiveness of related marketing strategies. More research is also required in order to exploit complementarities between formal and informal practices, for instance by offering insurance via the vehicle of a pre-existing, informal group. Finally, more attention should be given to the problem of low renewal rates, an issue largely neglected to date.

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MICROINSURANCE INNOVATION FACILITY

Housed at the International Labour Organization's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with generous support from the Bill & Melinda Gates Foundation to learn and promote how to extend better insurance to the working poor. Additional funding has gratefully been received from several donors, including the Z Zurich Foundation and AusAID. See more at: www.ilo.org/microinsurance

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microinsurance@ilo.org
www.ilo.org/microinsurance