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THE PSYCHOLOGY OF MICROINSURANCE SMALL CHANGES CAN MAKE A SURPRISING DIFFERENCE

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PREFACE

The primary goal of the International Labour Organization (ILO) is to contribute with member States to achieve full and productive employment and decent work for all. The Decent Work Agenda comprises four interrelated areas: respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Broadening the employment and social protection opportunities of poor people through financial markets is an urgent undertaking.

Housed at the ILO'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, launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation, supports the Global Employment Agenda implemented by the ILO's Employment Sector.

Research on microinsurance is still at an embryonic stage, with many questions to be asked and options to be tried before solutions on how to protect significant numbers of the world's poor against risk begin to emerge. The Microinsurance Innovation Facility's research programme provides an opportunity to explore the potential and challenges of microinsurance.

The Facility's *Microinsurance Papers* series aims to document and disseminate key learnings from our partners' research activities. More knowledge is definitely needed to tackle key challenges and foster innovation in microinsurance. The *Microinsurance Papers* cover wide range of topics on demand, supply and impact of microinsurance that are relevant for both practitioners and policymakers. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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SUMMARY

Everyone who has struggled to meet a deadline, stay on a diet, or save for a large purchase knows how difficult it can be to translate intentions into actions. Many of us struggle when temptation is near: tomorrow's problems seem distant, and choices are complex. These realities drive the field of behavioral economics, the branch of research that incorporates lessons from psychology and economics to enrich understandings of how people make decisions. One important lesson from behavioral economics is the understanding that small changes in the design of products and marketing can sometimes make a surprising difference in how and whether financial products are used. Aparna Dalal and Jonathan Morduch draw from laboratory and field research examples, and present eight recommendations for microinsurance providers. The authors describe new insights into how households think about losses and gains, weigh present and future tradeoffs, struggle with self-control, and are influenced by the way choices are framed. These insights can help insurers navigate how to improve product design, marketing, insurance education, pricing, and take-up.

1 > INTRODUCTION

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

Ideas from behavioral economics are transforming understandings of financial decision making.¹ One important lesson is that small changes in the design of products and marketing can sometimes make a surprising difference in how and whether financial products are used.

We draw on behavioral economic ideas and results from laboratory and field research to describe new insights into how households think about losses and gains, weigh present and future tradeoffs, struggle with self-control, and are influenced by the way choices are framed. These insights may help insurers to improve product design, marketing, insurance education, pricing, and take-up.

This note aims to articulate possibilities and describe examples, from both microinsurance and broader contexts. We present neither a comprehensive review of behavioral economics, nor a primer on innovations in microinsurance. Instead, we show ways that behavioral ideas might be deployed to expand access to insurance.

¹ See, e.g., Mullainathan and Shafir (2009), and Mullainathan and Krishnan (2008). For a broad introduction to behavioral economics, see Thaler and Sunstein 2008; for critical perspectives see Rubinstein 2006 and Güth 2007.

2 > SMALL CHANGES CAN MAKE A SURPRISING DIFFERENCE

The microinsurance sector has grown in the last few years, but significant demand- and supply-side challenges remain. Suppliers seek ways to lower transaction costs, develop suitable distribution channels, adopt new technologies, and improve organizational structures. These suppliers also realize that increasing demand and creating a culture of insurance in vulnerable communities will require changes in attitudes and beliefs, which can be a slow process (Burns and Dalal 2010).

In this paper, we put forward a discussion of simpler changes. We believe that there are small adjustments that insurers, microfinance institutions selling microinsurance, or other organizations involved in microinsurance can make right now that can have a meaningful impact on how people understand insurance, whether they buy it, and how they use insurance products.

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

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

Another overarching lesson from behavioral economics is the role of “construal”. We do not always process information and choices in an “objective” manner. Rather, information is construed, interpreted, and processed, based not on the actual state of the world but on our mental representation of the options (Mullainathan and Shafir 2009). As a consequence, the way choices are framed can matter greatly. Simply providing information is not enough – it is important to understand how that information will be processed. In this paper we offer examples of small situational adjustments that can influence behavior, and we explore how framing can influence people's decisions to buy and use insurance.

3 > STRATEGIES

3.1 KEEP IT SIMPLE

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

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

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

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

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

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

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

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

Another example comes from a randomized field experiment in South Africa. Bertrand et al. (2010) sent former clients of a consumer lender direct-mail marketing letters for a loan. They randomly varied different elements of the letter, including the interest rate advertised, reference to the interest rate as special or low, suggestions for how to use the loan proceeds, a large or small table of example loans, and a comparison to a competitor's interest rate. Overall, the authors found that advertising content had a significant effect on loan take-up. In particular, the number of examples presented in the letter influenced people's decision to apply for a loan. Potential borrowers who received a loan marketing letter with one example of principal, interest rate, and maturity were more likely to apply for loans – not necessarily with the amounts and rates advertised – than those who received letters with several examples. For the lender, this was a small, costless detail of its advertising content, but it made a real difference: the estimated effect on take-up was the same as that of a twenty-five percent reduction in the interest rate. Simplicity is important in microinsurance marketing as well. Products that provide various coverage options or opt-out / opt-in features can be so complicated that potential customers turn away – even if on paper the design makes sense.

3.2 FRAME THE LOSS

Another aspect of framing is the kind of message attached to a decision. Options can be presented with a positive message (“take advantage of this once-in-a-lifetime opportunity”) or a negative message (“don't miss out on this once-in-a-lifetime opportunity”).

An example of positive and negative messages is gain- and loss-frames. Insurance marketing can convey the same basic information by calling attention to the positive benefit of coverage in the face of an adverse event or by highlighting the loss incurred by an uninsured person facing the same event. Theory suggests that negative framing is more powerful than positive framing, and there is some evidence that loss-framed messages induce demand more powerfully than gain-framed messages (e.g., Ganzach and Karsahi 1995). For example, messages like “don't lose your property or the money you put aside, buy insurance to be covered in case of emergencies” could lead more people to sign up for insurance than a positively framed message, such as “increase your peace of mind, buy insurance to be covered in case of emergencies.”

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

In a well-known experiment, List (2004) looked for evidence of the endowment effect. He randomly selected research participants to receive a mug, a candy bar, both, or neither, and then surveyed them about their preferences over the two goods. Participants who did not receive anything were asked which of the mug and candy bar they would like to receive. Overall, they did not have a strong preference for either of these two low-value, common items – they were as keen on the mug as the candy bar. Participants who received either

the mug or the candy bar, however, were much less likely to subsequently trade what they had for the other item – they were about four times more likely to leave the experiment with the good they initially received. The “endowment” mattered. Accordingly, in the case of insurance, suppliers often find success when stressing the potential loss of existing assets.

3.3 FACILITATE SELF-CONTROL

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

Behavioral economics offers an explanation for problems with self-control and temptation. The notion of “time inconsistency” yields one of the field’s most important insights for financial decision-making. Time-inconsistency captures situations in which people hold preferences at different points in time that conflict with each another. For example, experimental data shows that some people are particularly impatient with regards to meeting their present needs. So, even if these people genuinely value saving regularly in the future, that plan will be hard to sustain since, as time goes by, the future becomes the present and the preference to consume will predominate. If given the chance, some people will change their minds about saving. The tension is sometimes called “present bias” and it can similarly reduce the demand for insurance.

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

Another way to address self-control problems is with commitment devices. Traditional economic theory argues that people always value liquidity, or the option to spend money at any time, in the present or in the future. Behavioral economics research, however, shows that people who exhibit a present bias, and who recognize it, may prefer products that offer structure and impose discipline. One type of commitment device is a contractual savings account. A contractual savings account restricts access to funds within the account until a certain date, or the achievement of a savings goal. Experimental evidence on contractual savings accounts shows that they can be powerful. Ashraf, Karlan and Yin (2006) conducted a field experiment to test the efficacy of a contractual savings product offered by Green Bank of Caraga in the Philippines. They randomly divided clients into three groups and offered the contractual savings products, called SEED, to one group. Another received nothing extra. A third group received promotional materials about the value of saving (but no contractual savings product). All groups also had access to a standard savings product without any commitment feature, and the SEED account offered the same interest rate as Green Bank’s standard savings accounts; the only difference was the impossibility for its holder to withdraw the funds until reaching his/her goal. What appears to many people as a limitation of the account was valued by others: women identified as having potential self-discipline problems were 15 percentage points more likely to sign-up for the SEED account than other women. No difference existed for men. In addition, the commitment feature had a clear impact on savings balances. After a year, the average bank account savings increased by 81 percent for customers offered SEED accounts, which was substantially higher than the savings in the other group.

This type of commitment mechanism can help people with self-control problems buy insurance. For example, insurance providers could offer an option to pre-commit during a lean season to buying insurance during the next harvest season. The lean season is when the need for insurance is felt the most, because farmers cannot afford expensive emergencies, but it is also the time when farmers might not have the funds to buy insurance. Pre-committing to buying insurance could help some households who want to buy insurance but cannot avoid spending the money they'd like to reserve for paying insurance premiums.

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

3.4 MAKE IT SALIENT

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

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

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

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

Organizations that try to encourage saving face similar challenges. Fortunately, new evidence from experimental research is encouraging. It shows that the poor can and do save, and the results point to strategies insurers could use to make their products more salient.

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

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

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

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

3.5 UNDERMINE OVERCONFIDENCE

Another bias that influences subjective probabilities is overconfidence. People tend to give overly optimistic estimates about the likelihood of experiencing both positive and negative events (Weinstein 1980). The issue isn't merely misperception, however. Overconfidence holds even when people are aware of probability statistics for the population as a whole. The bias is manifested in a widespread tendency to consider oneself above average – for instance, 90 percent of drivers in New Zealand ranked themselves as safer-than-average behind the wheel (Walton and Bathurst 1998). As a result, people may systematically underestimate the risks they face.

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

3.6 ACCESS MENTAL ACCOUNTS

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

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

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

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

3.7 REALIZE THE VALUE OF ZERO

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

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

3.8 ELIMINATE OBSTACLES TO ACTION

Our focus has been on marketing insurance, but behavioral economics can also inform steps to improve the use of microinsurance. When analyzing decision making, economists often emphasize the influence of internal, personal characteristics of the individual, and economists have focused less on the power of external, contextual factors. In practice, people's actions are influenced, sometimes disproportionately, by seemingly inconsequential “channel factors” (Mullainathan and Shafir 2009). The idea is that certain behaviors can be facilitated by small nudges. When designed properly, channel factors can be effective in translating intentions into actions, but if ignored, they can lead to inaction.

A well-known experiment by Leventhal, Singer, and Jones (1965) illustrates the role of channel factors. Participants were educated about the risks of tetanus and the value of vaccination, and provided with information about where to obtain the shot. Follow-up surveys showed that the education changed participants' beliefs and attitudes towards tetanus. The education failed, however, to change their behavior: only 3 percent of the participants got the shot. The situation changed when channel factors were added to the education. The vaccination rate rose to 28 percent when participants were also provided with a map to the nearest infirmary and were encouraged to think concretely about a suitable appointment time. These additional channel factors were needed to translate intentions into action.

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

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

4 > CONCLUSION

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

Issue/strategy	Short description	Implications for microinsurance
Keep it simple	Offering more choices to consumers is not always best. "Choice overload" can lead to inaction.	Microinsurance may be difficult to understand for its target clients. Take-up could be increased by reducing the number of options available in microinsurance policies or simplifying target clients' choices in other ways, such as by offering composite insurance products.
Frame the loss	Individuals react differently to the ideas of gain and loss. The risk of losing something that one already has is a stronger motivation for action than the possibility to gain something.	Take-up of microinsurance products could be increased by appealing to individuals' fear of losing (their property, their health, etc.) rather than advertising the benefits of insurance.
Facilitate self-control	Many people are impatient—yet also value the future and worry about losses. Some recognize their inconsistency and seek products and services that impose discipline and self-control.	Buying an insurance policy means spending small amounts of money in the present to receive larger benefits in the future. Insurance can impose discipline and help people with self-control issues accumulate lump sums. Advertising this feature to impatient potential clients can therefore help increase take-up.
Make it salient	Future needs, as well as uncommon and uncertain events, are usually not at the front of people's minds. Present desires and needs are usually much more salient, and much more likely to influence behaviors.	Making future and uncommon adverse events more salient can trigger action in the present to protect oneself against those events, notably by buying insurance. Paying insurance claims publicly, for example, is a good way to positively make adverse events more salient.

Issue/strategy	Short description	Implications for microinsurance
Undermine overconfidence	Insurance offers protection against uncertain events. Behavioral evidence shows that people are typically overconfident and think that these events are less likely to happen to them as to the rest of the population.	Microinsurers can increase take-up of policies by undermining potential clients' overconfidence.
Access mental accounts	Even though money is fungible, people often reserve certain amounts for specific uses. They might be able to afford a microinsurance policy but not buy it because, in their mind, their money has already been assigned to be spent on another item.	Microinsurance can take advantage of mental accounts: associating microinsurance with a specific income stream can increase the likelihood that individuals will actually purchase a policy.
Realize the value of zero	A price of zero has a unique ability to attract people's interest, even when a positive price provides more net value.	In insurance, zero deductible/co-pay policies are generally preferred by low-income consumers, but cost-sharing is greatly helpful against moral hazard and adverse selection. Finding ways to exploit people's likeness for zero could help increase take-up of microinsurance.
Eliminate obstacles to action	Translating intention into action is not easy. Behavioral evidence suggests that "channel factors," or small nudges, have a surprising power to create action.	Channel factors can have an effect on whether people buy insurance, and how they utilize it. They can be used to bridge the gap between recognizing the need for insurance and actually purchasing a policy, or to direct insured patients toward network hospitals where costs are lower.

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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 the support of a grant from the Bill & Melinda Gates Foundation.

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The Financial Access Initiative (FAI) is a consortium of researchers at NYU, Yale, Harvard and IPA focused on finding answers to how financial sectors can better meet the needs of poor households. The Initiative aims to provide rigorous research on the impacts of financial access and on innovative ways to improve access.

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