

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

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

Low demand for microinsurance is a complex issue. To increase scale, practitioners must first understand the factors influencing a household's decision to buy microinsurance, and then develop strategies to overcome barriers. Many factors influence a household's decision to buy microinsurance. These "determinants of demand" include personal characteristics, understanding of insurance, trust of the product, insurer and sales agent, 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 (see Table 1).¹ The data on renewals (though limited) suggested that increasing understanding of insurance, improving the client value proposition and overcoming behavioural constraints could significantly boost renewals and thus lower client acquisition costs.

TEN MYTHS ABOUT THE DEMAND FOR MICROINSURANCE

In this brief, we debunk common myths about the demand for microinsurance using the new evidence from studies and our partners.

MYTH 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. For example, for health microinsurance, the product's scope of benefits and the quality of health care services might be more important triggers of demand.

MYTH 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.

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¹ This brief is excerpted from Microinsurance Paper no. 20, which includes detailed results from the studies. The paper is available at www.ilo.org/microinsurance. Michal Matul and Aparna Dalal are part of the ILO's Microinsurance Innovation Facility; Ombeline De Bock and Wouter Gelade are FNRS research fellows at CRED at University of Namur.

Table 1 The effects of determinants on first sales and renewals

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

Practitioners can mitigate liquidity constraints by scheduling premium payments when money is 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).

MYTH 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. Cai et al. (2011) found that people attending a village meeting about insurance were 12 percentage points more likely to take up insurance than those receiving door-to-door visits. Each additional friend attending the meeting also substantially increased the demand.

MYTH 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.

MYTH 5. People buy microinsurance when premiums are low

Low premiums do not guarantee high demand. The cost to the client is not just the premium. Clients can face substantial transaction costs that implicitly increase the cost of insurance. These costs relate to the opportunity and actual cost incurred to purchase or renew the policy, and to file a claim and receive benefits. Thornton et al. (2010) provide evidence about the importance of transaction costs. The enrolment procedure for the health insurance they offer in Nicaragua normally required clients to forgo a day of work. When they allowed market vendors to enrol directly at their market stall, uptake was about 30 percentage points higher.



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MYTH 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.

Addressing these barriers can effectively translate intentions into actions, but if ignored, they can lead to inaction. 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. This was the case in a study by Cai et al. (2011) 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.

MYTH 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 health care 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. Platteau and Ugarte (2013) report that the (negative) perception of the value was one of the three most important determinants of renewal for the Swayam Shikshan Prayog (SSP) health scheme in India. SSP observed that clients 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 the value-added services had a 15 per cent renewal rate compared to a 45 per cent renewal rate for those who used the value-added services, and a 69 per cent renewal for those who used both benefits.

MYTH 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. Depositors who held a minimum balance of US\$ 60 each month were entitled to free life insurance with benefits of up to US\$ 180. Five months after the launch, deposits in the bank increased by

19 per cent. Deposits from clients with balances below US\$ 60 increased by 207 per cent. This increase along with anecdotal evidence from interviews with depositors suggests that many customers changed their savings behaviour as a result of the free insurance cover.

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

Bundling insurance with other financial products could increase the demand for both products if they are seen as complementary solutions. Results are mixed, however. Crayen et al. (2010) show that remittances act as a substitute for formal insurance in South Africa. Their results suggest that if an individual receives remittances, she or he is seven per cent less likely to have funeral insurance. Stein and Tobacman (2011) find that people prefer a pure insurance or pure savings product to a mixture of the two.

Box 1 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.

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.



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Microinsurance is developed in an environment where people have access to a variety of mechanisms to cope with risk. Credit, savings, informal risk-sharing agreements, and self-insurance also offer (partial) protection against risks and are seen as substitutes for insurance. It is of utmost importance to understand how insurance adds value in comparison with other risk-management options to correctly position microinsurance products (see Box 1).

aversion do not affect demand significantly. For example, risk-averse individuals can perceive insurance to be a risky tool if 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.

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

Personal characteristics such as gender, age and risk

Box 2 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 in India holds 36 health education talks per year (approximately three per month) in each zone where its partner microfinance institutions operate. 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.



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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.

DEMAND STRATEGIES

Once practitioners understand demand determinants for their target market, they can adjust their marketing strategies for product design, pricing, promotion and distribution. The following actions show potential to stimulate demand in cost-effective ways:

- Improve the client value proposition, especially through low-cost adjustments to the 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, see Box 2);
- Use SMS reminders and other mechanisms to stay in touch with clients;
- Set default options for renewals, though clients need to be made aware of these options;
- Use trusted messengers during promotion;
- Leverage promotion to reduce overconfidence of clients, thus making clients more aware of the need for the product;
- Use loss-framed messages to promote the product.

Different strategies should be applied to first sales versus renewals, since the effects of determinants vary across the product life cycle (see Table 1). 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.

There is no silver bullet. The recommended approach is for practitioners to take care in selecting the right mix of interventions, 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. 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.

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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