
DEMAND FOR MICROINSURANCE: LESSONS AND EVIDENCE FROM ZAMBIA

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Microinsurance Conference

November 21-23

Cape Town

Demand Breakout group

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RESEARCH AGENDA

1. To what economic stresses are low-income households and businesses most vulnerable?
2. What coping mechanisms do low-income households use to alleviate the impact of economic stresses?
3. How do these views vary across demographic variables, such as gender, income, and level of education?
4. What are the strengths and limitations of the prevailing coping mechanisms?
5. Is there a potential demand for insurance?
6. What are implications for MFIs that want to develop risk-managing financial services?

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CONTEXT - CASE STUDY

Research Partners

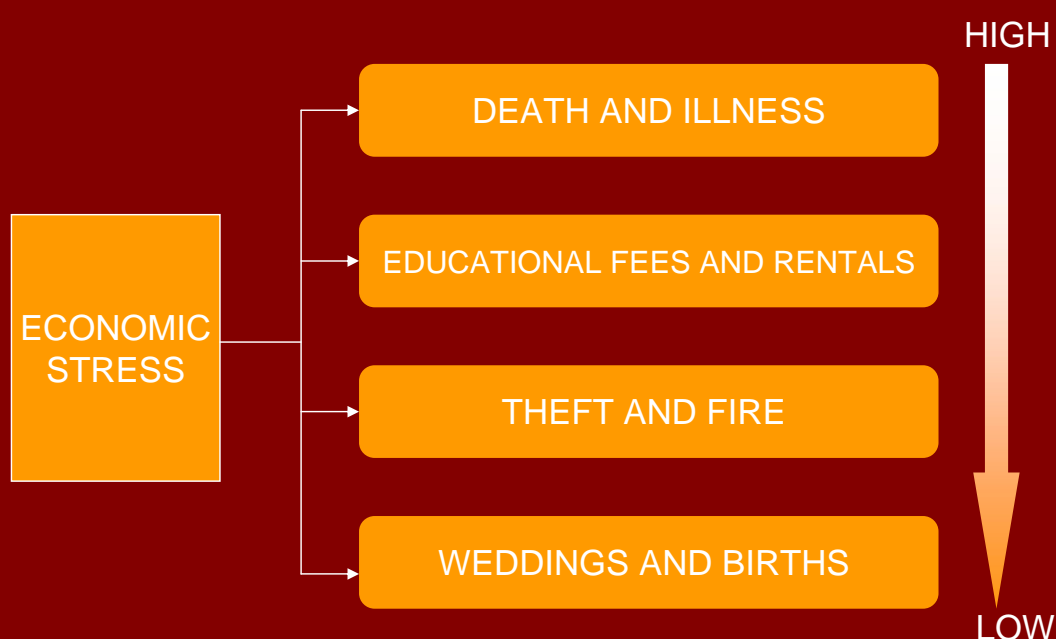
- Main Partner-Pulse, one of the pioneer and oldest MFIs in Zambia
- Interviewed clients, Management and Operational Staff of Pulse
- Interviewed non-MFI clients
- Interviewed management staff from one other MFI (CETZAM) and insurance company (Madison Insurance Company)
 - CETZAM offers a mandatory Funeral insurance Policy to its clients
 - In principle Pulse clients have access to credit, savings (Compulsory savings called Loan Insurance Fund) and insurance (Credit Life Insurance scheme)

Research Methodology

- Unstructured interviews (Personal histories), Focus Group Discussions, and Structured Interviews
- Total sample size: 335; 275 Pulse clients and 60 non-clients

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RISKS



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COPING MECHANISMS

SOCIAL ASSETS



- Friends, relatives, neighbours, fellow entrepreneurs. These were largely based on reciprocity *“Assist someone today in order to be assisted some other time when you are in need.”*

PHYSICAL ASSETS



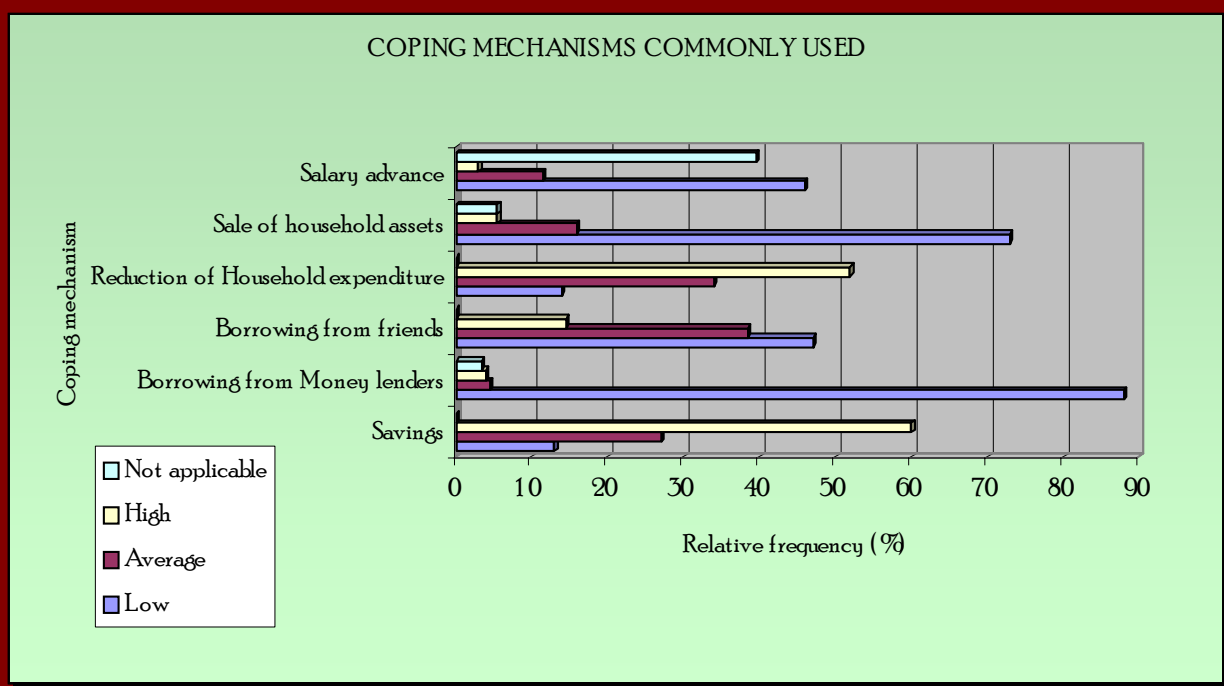
- Household assets such as radios, televisions, stoves and refrigerators
- Important note-the research was carried out in an peri-urban setting.

FINANCIAL ASSETS



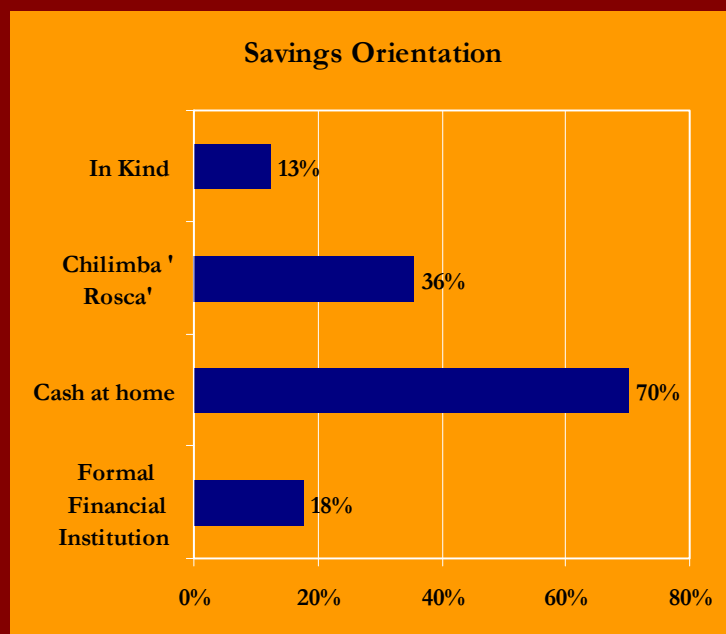
- Includes Savings at home (*under the mattress*),
- Savings Clubs called *Chilimbas* (ROSCAs),
- Borrowing from Money Lenders

Understanding Coping mechanisms 'Commonly Used Coping Mechanisms'



Understanding Coping mechanisms

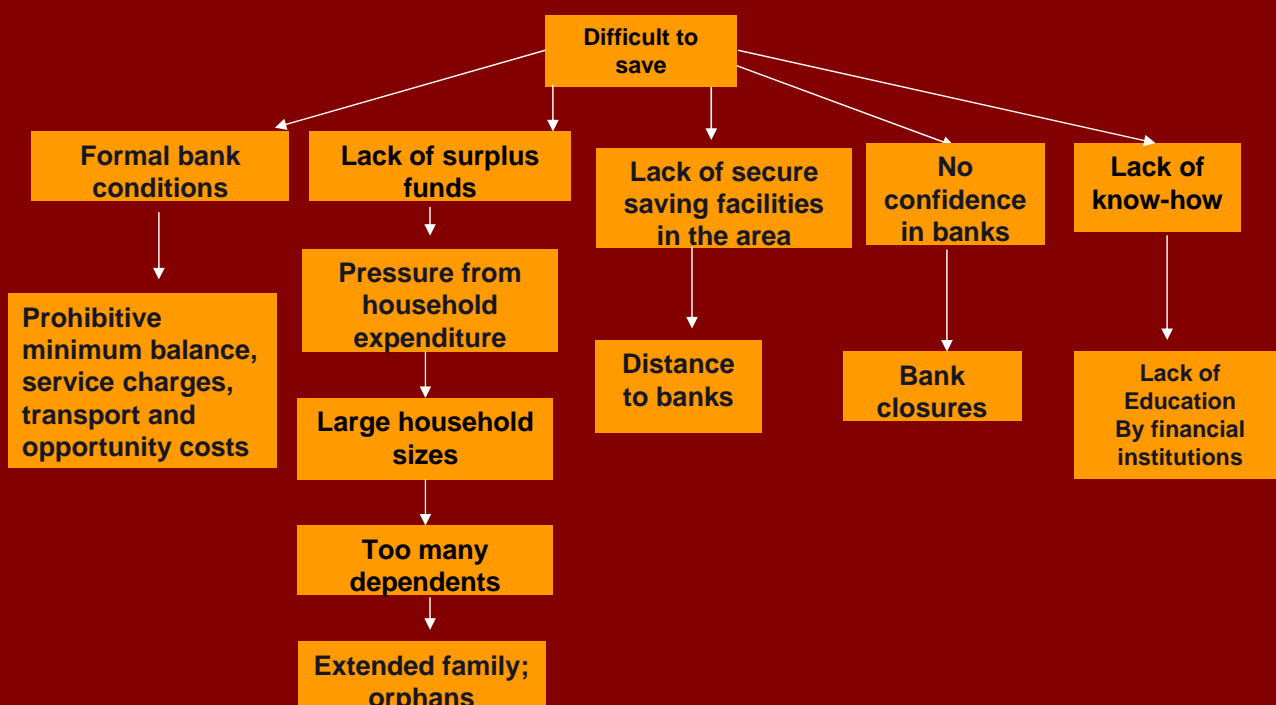
'Optional formal risk managing mechanisms-Savings'



DO NOT IGNORE OPTIONAL FINANCIAL RISK MANAGING MECHNANSMS

Understanding Coping mechanisms

'Factors Hindering Low-income Persons from Saving'



USE MORE THAN ONE RESEARCH TOOL FOR INDEPTH UNDERSTANDING

Understanding Coping Mechanisms

‘A Case for Informal Insurance: Market Funeral Funds’

- Formed among fellow entrepreneurs operating in the same market place
- Small weekly contributions (US \$ 0.13 - 0.26)
- Payout in terms of cash or in-kind (usually equivalent to US \$ 13- \$ 26)
- Payout was quite small in relation average funeral cost (US\$132 - \$158)
- Market Funeral Funds involving bigger amounts not significant
- Dropouts common
- Not enough research done to capture profound information on these market funeral funds. However, it is relevant to note that these work in the same way as insurance- *small non-refundable contributions (premiums) and payout (claim), if and when the insured event occurs.*

DO NOT IGNORE WHAT IS PREVAILING! BUILD ON IT.

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Understanding Coping Mechanisms

‘Strengths and Limitations of Risk Coping Financial Assets’

UNDERSTAND THE GAPS!

Coping Mechanism	Strengths	Limitation	Prevalence
Saving at home	<ul style="list-style-type: none"> · High liquidity · Money saved not affected by Bank closures 	<ul style="list-style-type: none"> · Challenge of financial discipline · Risky of money being stolen · Erosion of the purchasing power of money saved · Not disciplined 	High
Saving in saving club	Works well for: <ul style="list-style-type: none"> · Accumulating funds for investment · Purchasing household assets 	<ul style="list-style-type: none"> · Not typically a solution to economic shocks or emergencies · Only prevalent among women 	High among women
Saving in a bank	<ul style="list-style-type: none"> · Safety guaranteed · Money saved gains interest 	Prevalence is low due to: <ul style="list-style-type: none"> · Conditions regarded as prohibitive · Lack of confidence in the banks 	Low
Borrowing from moneylenders	<ul style="list-style-type: none"> · Quick access · Effective for economic stresses 	<ul style="list-style-type: none"> · Exorbitant interest rates · Image of moneylenders 	Low
Non-interest borrowing	<ul style="list-style-type: none"> · Effective for economic shocks 	<ul style="list-style-type: none"> · Depends on coincidence of need and availability of funds · Applicable to only certain types of economic stresses 	Average

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Is there demand for insurance?

Product Concept Development

Type of Insurance products

- Life Insurance
 - Credit Life
 - Coverage-Death, Sickness, Funeral Expenses, Additional Lives

- Health Insurance

- Property Insurance

Delivery and Design Issues

- Marketing and Sales

- Claims Processing

- Premium Payments

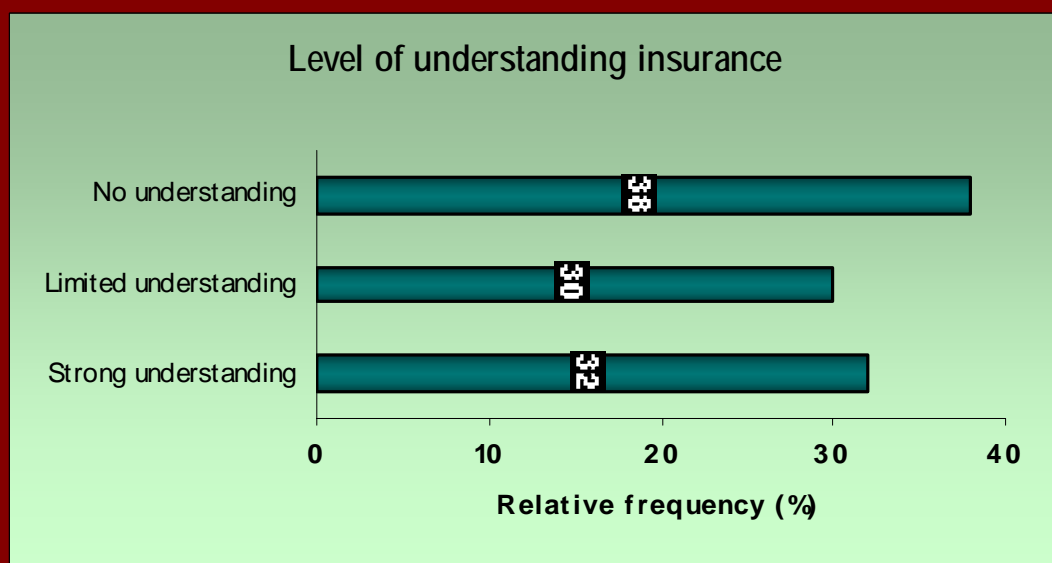
DEMAND STUDIES 'MARKET RESEARCH' IDEALLY LEADS TO PRODUCT DEVELOPMENT

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Is there a Demand for Microinsurance?

Some critical Issues and challenges

1. Knowledge of Insurance



“NOT SURPRISINGLY, THE HIGHER THE EDUCATIONAL ATTAINMENT, THE GREATER THE LIKELIHOOD THAT ONE UNDERSTANDS INSURANCE” . THIS WAS THE CASE FOR LITERACY AS WELL

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Some critical Issues and challenges

2. Perception of Insurance

Affordability

“Insurance should be accessed by all who can afford to pay the premiums to protect themselves and their property against fire, theft, accident, disease and death.”

“Insurance is something that needs a lot of money.

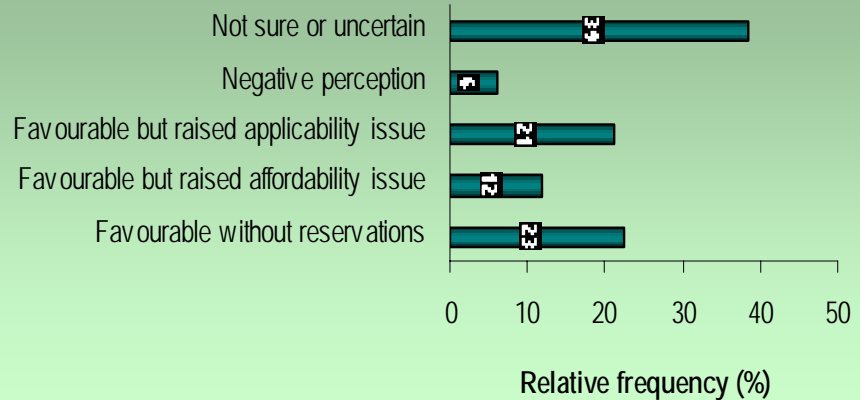
“Insurance is good if you have a big business, but when the business is small, it becomes a big burden.”

Applicability

“if you don’t have valuable assets and money, it is not important to insure.”

“ Insurance is for those who have a lot of assets such as cars, houses and big household assets

Perception of Insurance



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Some critical Issues and challenges

3. Preference for Risk Managing Financial Services

---Insurance least preferred.

Risk-managing Financial Service	No. of As	No. of Bs	No. of Cs
	From 12 FGDs		
1. Savings	9	2	1
2. Emergency loans (Credit)	3	8	1
3. Insurance	2	2	8

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CASE STUDY CONCLUSIONS

- Vulnerability of low-income households (or the poor) is not eliminated by access to microenterprise loans alone.
- Coping mechanisms used by the poor do have limitations in effectively enabling them cope with the risks they face.
- The poor's vulnerability to risks does not automatically translate into demand for insurance.
- Insurance is different and complicated business. There are a number of recognised critical challenges regarding its provision to the poor which includes perception of insurance, level of understanding of insurance and the poor's attitude towards risk pooling.
- Particular for voluntary provision, one other important challenge is the choice between peace of mind (insurance) and putting food on the table.
- Microfinance Institutions need to tread softly as they consider provision of insurance to their clients or low-income households.
- There is still need to gain profound understanding of informal coping strategies used by the poor and analysis of alternative risk managing financial services along side the promotion and development of microinsurance.

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FOR MORE INFORMATION

- Manje, L. and C. Churchill. 2002. "The Demand for Risk-Managing Financial Services in Low-income Communities: Evidence from Zambia." ILO Social Finance Working Paper No. 31. Geneva: ILO, www.ilo.org/socialfinance

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