The Actuarial Profession
making financial sense of the future

International Microinsurance Conference
Stefan Dercon

How to Insure the Poor

Lessons from Research

June 2011

Overview

1. Risk is Costly for the Poor
2. Is Insurance the answer?
3. Offering insurance is easy – getting the poor to buy it is hard
4. Directions for the Future

Plenty of risk....

Households reporting a particular event or shock affecting their wealth or standard of living considerably in last four years, Ethiopia 2006

(Young lives data)

Plenty of uninsured risk...

	Urban	Rural
Any shock?	**67**	**86**
Illness in family	22	31
Price shocks	21	38
Job loss	18	6
Death in family	15	14
Theft/crime	13	14
Livestock death	6	36
Land eviction	6	3
Crop pests	6	40
Drought	5	44
Rain/flood	3	22
Frost	1	12

Most rural societies – risk is part of life

- Adjust their livelihoods (risk management)
  - Avoid costly inputs, go for safe activities etc
- Are cautious in terms of investments and assets (risk coping)
  - Keep liquid assets, small stock, grain stores for periods of need
- Support each other in communities
  - Informally – family
  - Use savings groups, church groups, etc.
  - More formally via groups, such as *iddirs*

Only partial insurance!

e.g. in rural Ethiopia 1999-2004 data, **impact on consumption** in 2004?

Drought? -13 to 16%
Output price collapse? -19%
Demand for non-agricultural prod? -20%
Serious illness episode in family? -15%

Overall: if insurance had been offered for these sources of risk, **poverty down by a third**

5

Most rural societies – risk is part of life

LESS RISK BUT ALSO LOWER RETURN

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LOWER RETURN ON SAVINGS

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SMALL RISK POOL SO COSTLY

Lack of insurance a cause of persistent poverty

- Persistent consequences into adulthood when crisis affects family as a child
  - Tanzania: stunting and lower education by 2004 when adult mortality in family (1990s)
  - Ethiopia: stunting, morbidity and lower education by 2004 for children in families affected by famine in 1984-85
  - Zimbabwe: impacts of drought in early 1990s
- Lower returns to assets due to risk and shocks
  - 25-50% lower return per $ invested for uninsured in Tanzania and India
  - Lower income growth in 1990s for families affected by 1984-85 famine
- Lower investment into productive technologies
  - Lower fertilizer use in Ethiopia as debts cannot be insured (now)

Lack of insurance a cause of persistent poverty

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10

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Bett… …e large benefits

Better social protection could have large benefits

Better insurance …kets could …

11

Better insurance could have large benefits but…

- Alternatives to insurance:
  - Could be costly – such as savings and credit, especially for Covariate, Catastrophic and Correlated risks (3Cs)
  - Trade-off if products/provision are not offering 'perfect' insurance
    - Poor value products
    - Difficult products
    - Exclusion of groups to handle adverse selection
- Challenge of expansion of social protection
  - NREG income support (via employment) in India
  - RSBY health insurance in India and other heavily subsidised schemes

Overview

1. Risk is Costly for the Poor
2. Is Insurance the answer?
3. **Recent evidence from research on uptake and impact**
4. Directions for the Future

State of evidence

- Much practitioner based research (learning from experiences) and provider-linked research
- Less systematic evidence on
  - Actual uptake and its constraints
  - Impact
- Rapidly changing, and more and more research

14

Research on uptake

- Millions of people in the developing world have bought (micro-) insurance. E.g. 15 million 'poor' in SSA
  - 2.6% of those poor...
  - Mainly funeral and mainly South Africa
- NOT just a supply problem
  - Several studies systematically try to offer insurance
  - "Suitable" products for the poor, locally targeted (in health and in agriculture)
  - Often part of RCT studying impact

15

Some recent findings

- Series of experiments on 'drought' (index-based) insurance in India in Gujarat and AP (Cole, Gine and collaborators 2010)
  - 5-10% are buying the product, despite basic marketing effort
  - Very little renewal (AP)
- Credit linked with insurance vs credit alone in Malawi: (Gine et al 2008)
  - Fewer people want insured credit than uninsured (22% vs 33%)
- Drought insurance in Ethiopia (via cooperatives)
  - 3% bought product (Dercon et al. 2010)
- Troubling that risk averse buy less

16

Can we fix this low uptake?

- Jury is still out!
  - Better products should be possible
- Understanding? Cole et al. (2008)
- Basis risk (especially drought insurance products)
- Trust (perception of insurer default) (Dercon et al., 2011 on health in Kenya; Cai et al. livestock in China)
- NOTE:
  - Basis risk (Clarke) and/or trust (Zeitlin et al. 2011) could explain result related to risk averse buying less insurance

17

Understanding low uptake

- Some impact of better marketing and financial literacy training
  - Cole et al. Gujarat
- However: RCT by Dercon, Gunning and Zeitlin in Kenya (health hospitalisation insurance)
  - 13% uptake (without subsidy and basic marketing
  - Sensitive to prices (with 20% discount, 24% uptake)
  - But no additional impact from intensive learning activities (learning circles, Swedish Cooperative Circle)
  - Lower uptake if sales agents on commission for referrals (7% less, or only 6% uptake)

Understanding low uptake

- Improving trust may also be important (work in low trust environments with distrust of outsiders)
  - Evidence in Cai et al, Gine et al, Cole et al: measures of trust matter
  - In Kenya as well: trust matters substantially (direct measures plus result on advanced marketing)
  - Impact of working with endorsements from trusted agents in Gujarat (Cole et al)
  - In Ethiopia, where offered to funeral societies and their leaders, much higher uptake (25%)

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Directions for the Future

- Insurance for the poor has huge future
- But identify its niche and complementarity in development
  - Relative to savings, credit and social protection
- Success should be measured via impact, not uptake. But uptake cannot be ignored.
  - Few happy customers does not make healthy business
  - We need better understanding of why uptake remains so low.
  - Don't just believe your own marketing...

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.