

# Is demand for micro-insurance poor in rural area?

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# Outline

- Introduction
- Literature review
- Methodology
- Research Findings
- Conclusion and Policy concerns



# Introduction

- “Micro-insurance aims at aiding poor families by offering insurance plans tailored to their needs”
- Micro-insurance therefore
  - targets the low-income people
  - offers limited benefits for small premiums
  - an insurance with less administrative procedures (Churchill and McCord, 2012)



# Why is micro-insurance important?

- Sri Lankans are highly vulnerable for risks and uncertainty than ever before
  - Life events of people, and natural disasters (floods, droughts, landslides, pest & disease outbreaks for crops, etc.
- Informal mitigating and coping mechanisms are popular particularly in developing countries (informal transfers within network of friends, selling/mortgaging the assets, borrowing)
- Unable to cope with risks and vulnerabilities is a key driver of persistent poverty in long run (Fafchamps M., 2003)
- Insurance has evolved as an effective instrument to compensate the financial losses from shocks affecting assets and livelihoods.

# Facts of insurance industry in Sri Lanka

- Penetration of insurance industry is 1.21 as a % of GDP (IBSL, Statistical Review, 2016)
- Micro-insurance schemes in Sri Lanka are quite young and still experimental (*The landscape of micro-insurance in Sri Lanka, 2016*)
- The number of registered micro-insurance policies has increased sharply -- 0.35 million in 2013 to 1.46 million in 2015 (excluding informal coverage ) 6.9% of total population (*The landscape of micro-insurance in Sri Lanka, 2016*)
- Life insurance 2.89 million 2016
- The Regulation of Insurance Industry Act, No. 43 of 2000



# Objective

This study attempts to examine the different aspects of demand for micro insurance through the qualitative methods (which is a part of a country diagnostic on micro insurance development for Sri Lanka)

# Literature review

Factor	Principle	Citation
Price	Lower price → higher demand	Cole et al. (2011) Dercon et al. (2011)
Transaction cost	Less enrolment when substantial cost for the insured person	Thornton et al., (2010)
Trust (product itself, in the institution, and the degree of interpersonal trust among agent)	Affects for dropping out and not participation decisions	Cole et al. 2011; Cole et al. 2013; Cai et al. 2009
Coverage, waiting periods, eligibility criteria, premium payment method, simplicity, claim processing procedures	Differently affect on demand	de Bock and Gelade 2012
Personal characteristics	<ul style="list-style-type: none"> <li>• Gender – Women have high tendency to buy products. Men also show a higher take up rate</li> <li>• Age -- older people are more likely to purchase product</li> <li>• Education -- a positive relationship with enrollment</li> </ul>	<ul style="list-style-type: none"> <li>• Jehu-Appiah et al. (2011)</li> <li>• Schneider and Diop (2004) and De Allegri et al. (2006)</li> <li>• Gaurav et al. 2011</li> <li>• Giesbert et al. 2011; Giné and Yang 2009</li> </ul>



# Methodology

- Study area -Five districts were selected
  - lowest household income
  - poverty headcount ratio
  - conflict affected area
  - natural disaster prone areas
  - paddy cultivation area



# Cont.,

- Study sample
  - Participants were randomly selected.
  - With the support from Divisional Secretariat, Statistical Officers, Samurdhi Officer and Grama Niladhari
  - The selected sample of respondents for the FDGs consisted of both men and women



# Method of data collection

- Data collection tool - A pre prepared interview guide
  - Private vs public sector financial services
  - Popular use of insurance
  - Personal risks faced by the respondents
  - Potential risks in Sri Lanka
  - Available different risk coping mechanisms
  - Advantages and shortcomings of the coping mechanisms
  - Views on insurance relative to the other coping mechanisms
  - Types of insurances and providers
  - Methods of improving insurance

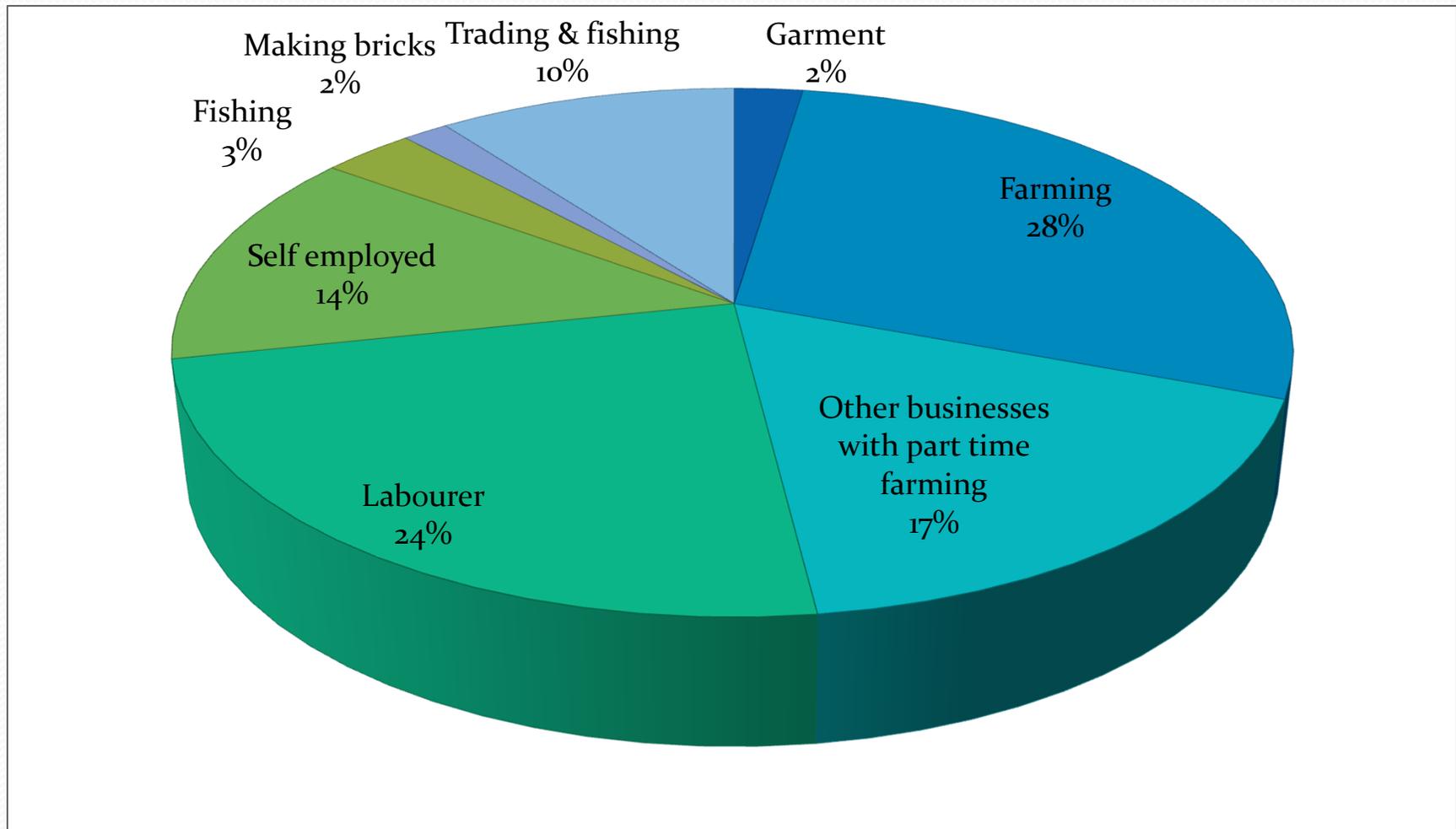
# Study area and sample

District	GN Division	Number of Respondents
Ampara	Irakkamam	12
	Irakkamam	12
Moneragala	Thalkotayaya	12
	Bandarawadiya	15
Ratnapura	Yakadagoda	13
	Bulugahapitiya	13
Hambantota	Kattakaduwa	12
	Weegamuwa	12
Kalutara	Werawaththa	11
	Ihala Naragala	12
<b>Total</b>	10 FDGs	124

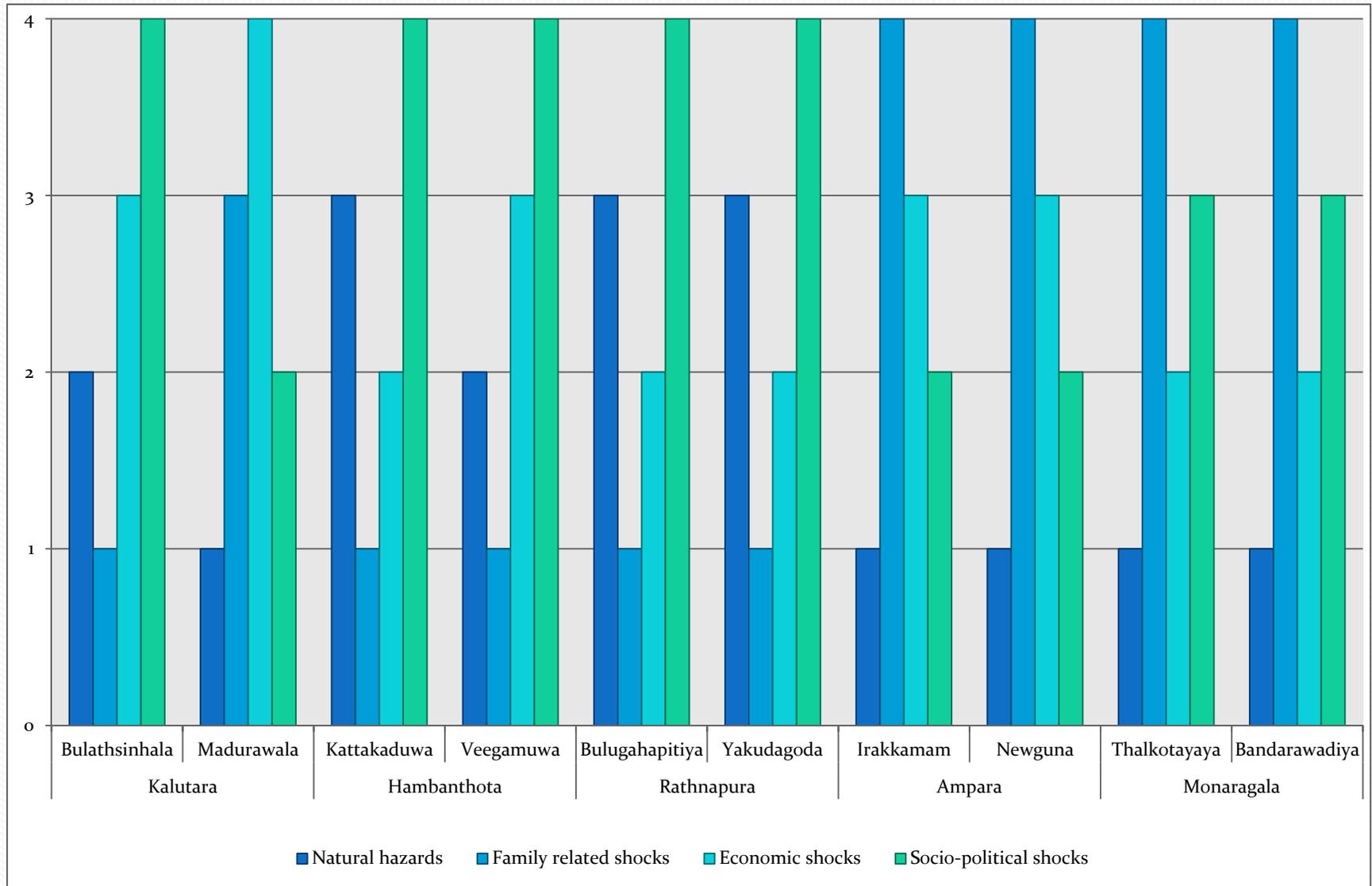


# Research findings

# Economic activities of the sample



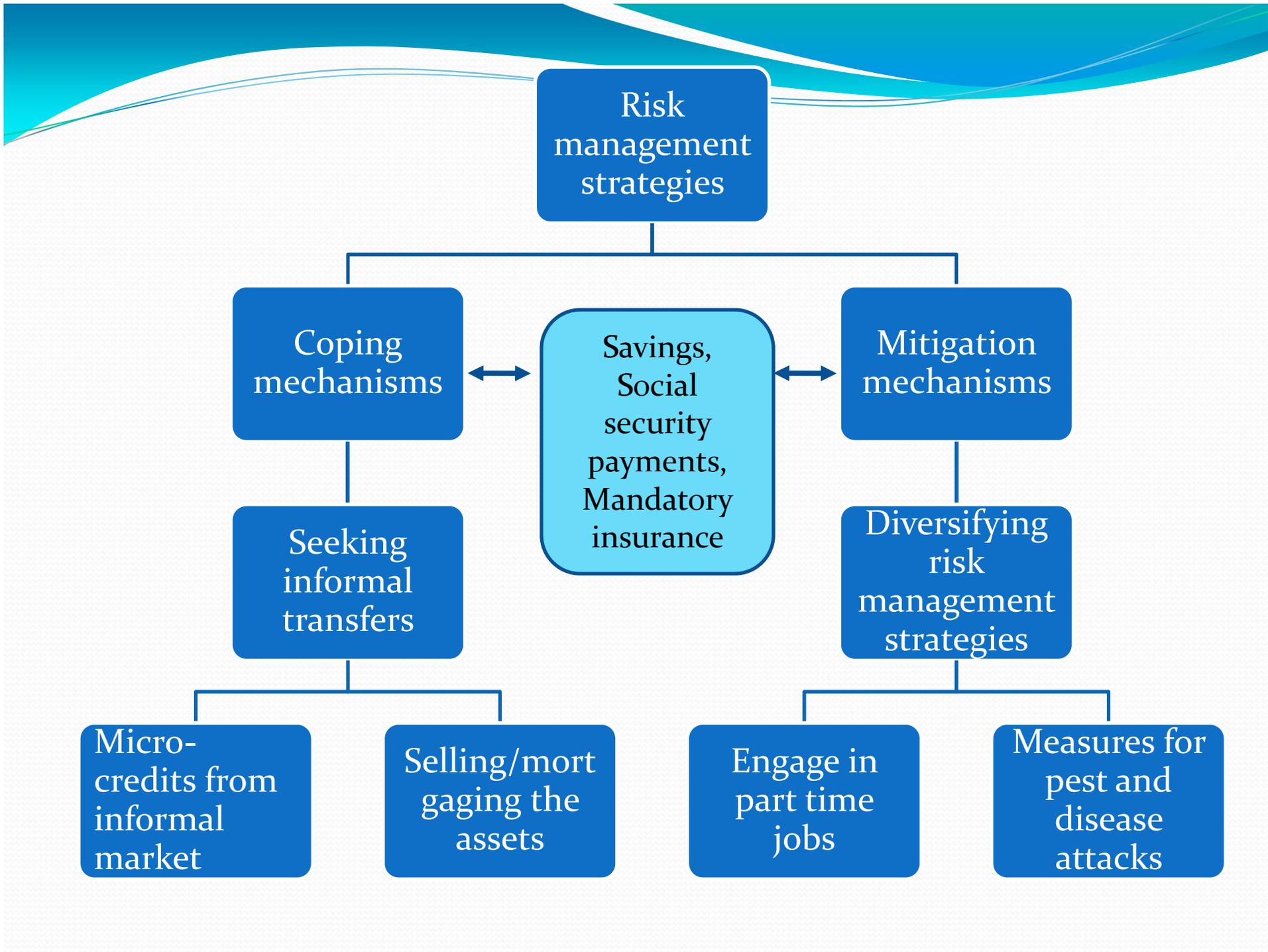
# Risk rank





# Key areas of findings

- Risk Management Strategies used by the Households
- Understanding the concept of Insurance
- Different aspects of demand for micro insurance



# Understanding the insurance concept

- Non compulsory insurance holders have fairly good knowledge of insurance than compulsory policy holders

*“Yes, we all know what insurance is. Most of us are members of Jana Sarana insurance scheme which is operated by Hambantota Chamber of Commerce”*

*Respondent ,Kattakaduwa,Hambantota*

*“I have heard of insurance. I know there are agents in our village too. But I have not heard of any success stories for me to obtain insurance”*

*Respondent ,Bulathsinghala–Kalutara*



# Aspects/determinants of demand

- Need for micro insurance
- Awareness and knowledge/satisfaction of individuals
- Access to insurance service providers



# Need for micro-insurance

- Demand side -- lack the capacity to access formal insurance
- Supply side -- formal insurance products have been designed primarily for the middle and high income



## Cont.,

- Nature of the area -- rural remote areas with poor infrastructure and other facilities
- Less affordability the same protection against the risks Eg: more prone to illness due to less sanitation, poor nutrition, poor access to health services, etc.
- Involved in high risky employments such as farming, brick making, manual labour, etc.
- Low and volatile incomes
- Lack of income diversification opportunities
- More prone to natural hazards such as droughts, floods, etc.
- Lack the education necessary to make informed decisions on preventative or reactive measures
- Low capacity of savings and asset ownership
- Poor interaction with formal financial institutions even if they have access to them (eg: all the respondents had bank accounts but they were inactive.)



# Awareness and knowledge/satisfaction

- Overall knowledge and awareness of people on insurance (Samurdhi, Micro-credits, commercial insurance) was quite good
  - The knowledge on premiums, claim procedures, benefits and recovery methods
- Information is given by the agents/community members
- No gender difference
- Regular income earners prefer voluntary insurance (life, health ) from both private and public
- Irregular income earners prefer only public service providers

# Access to insurance service providers

- Few public and private/cooperate service providers are available
- Amount of premium and time frequency do not fit with the people with informal economic activities



# Perception and satisfaction

- Poor trust with commercial insurance providers
- The trust is high with public service providers (Samurdhi officer)
- Available insurance policies do not fit with the people's need – premium, time duration etc
- High transaction cost (required documents, travelling to city for pay the premium etc)
- As such, high premiums, irregular incomes, lack of awareness, trust and uncertainty on continuous payment of premiums reduce the enrollment

# Conclusion and policy concerns

- **Simplicity:** Simple insurance instruments with standard contracts that could be understood by non technical people will be of great importance.
- **Value of premiums:** The value of premium should be affordable and within their paying capacity. Flexibility in the insurance policy to customize the value depending on individual characteristics would be appealing.
- **Frequency of payment:** The respondents preferred monthly payments of premiums However, flexibility in paying accumulated sums in case they miss any few months payments were said to be preferred by them.
- **Method of payments:** Preferred to pay premium through post office ,Samurdhi Bank and any other government bank



## Cont.,

- **Location:** Easy access to the services -- Since credibility of agents are lower, provision should come directly from company officers or through a reliable and respected person in the village like Grama Niladhari or Samurdhi Officer
- **Benefit payments:** Efficient mechanism with transparent benefits/payments within a short period of time with less documentation was greatly valued by the participants.
- **Information:** Preferred to receive insurance information through notices. The best places to disseminate notices were identified as Samurdhi Office/ Grama Niladari office, common places such as boutique, temple etc.



# Conclusion and policy concerns

- Micro-insurance schemes in Sri Lanka are quite young and still experimental.
- A number of informal micro-insurance schemes operate outside the insurance law. (The landscape of micro-insurance in Sri Lanka, 2016)
- A few NGOs provide micro-insurance services to poor households at affordable prices but operate outside the insurance law.
- Unregulated/informal insurance providers do sell insurance to the needy since penetration of the commercial insurance industry is too limited. (Landscape study)
- The micro-insurance sector requires a strong regulatory framework for its expansion.



Thank You!