# MILK Brief #20:
# "Doing the Math" – Loan Protection Insurance in Cambodia[1]

## Studying SAMIC's Loan Protection Insurance in Kampot and Kep

In Cambodia, the microinsurance industry is at a nascent stage, with only three institutions serving the low-income market with credit life or life insurance products. The microfinance sector, however, is far more developed and poised to provide microinsurance opportunities to protect clients and their families from the financial risks they face through the delivery of insurance.

With this in mind, in 2007, the Cambodian Health Committee, the foundation organization of the microfinance institution SAMIC (Samaki Microheranvatho, or Microfinance of Solidarity) created Measure for Economic and Accelerated Development for All (MEADA). MEADA is a microinsurance provider offering life and credit life microinsurance products in twenty districts of Cambodia. "MEADA" means "Mother" in Khmer, capturing the program's objective of nurturing and protecting low-income Cambodian families in the event of unexpected losses resulting from the death of a borrower.

After five years of operations, MEADA awaits its microinsurance license and is positioning itself to improve value of its product, enter new partnerships, and reach greater scale in the months to come. Having reached this crossroads, MEADA and its funder, the Enterprise Challenge Fund, are taking stock to understand whether and how the product is adding value for clients and to further enhance this value through improved product coverage and operations. The MicroInsurance Centre's Microinsurance Learning and Knowledge (MILK) Project, having studied several life and funeral insurance products worldwide,[2] was interested to see whether loan forgiveness on its own could provide value to clients facing a wide array of financial burdens, and whether it could provide value over and above traditional community-based support.

*A respondent and his children at their home.*

## MEADA: How it Works

MEADA offers two insurance products for two distinct client segments – **loan protection coverage** for borrowers of loans up to USD 1300 and **basic life coverage** for borrowers and their spouses who have loans above USD 1300.[3] This Client Math study focused exclusively on the loan protection insurance, because there were at the time of the study very few claims on the basic life cover. This loan protection product covers only the borrower in the case of death and permanent disability; in the past, partial coverage was also extended

[1] This MILK Brief was prepared by Laura Budzyna and Taara Chandani (April 2013) and was financed by the AusAID funded Enterprise Challenge Fund which is managed by Coffey International Development Pty Ltd.

[2] See MILK Brief #8: "Cashless Funeral Microinsurance in Colombia," MILK Brief #15: "Funeral and Life Microinsurance in the Philippines," and MILK Brief #16: "Life Microinsurance in Mexico."

[3] The benefit for the basic life coverage is a single cash payout whose amount is dependent on the period of coverage, cause of death (accidental or natural) and the person deceased (borrower or spouse). Basic life does not include loan protection cover.

to immediate family members but this was discontinued in 2011 when MEADA reduced the premium and scaled back benefits. The current benefit includes a **write-off** of the outstanding loan amount (principal and interest) as well as a **reimbursement** of the loan repaid to SAMIC by the borrower, excluding interest. Each SAMIC client designates a single beneficiary to receive the reimbursement, usually his or her spouse. The beneficiary must submit a death certificate as well as a police report in the case of an accidental death (to confirm the death was not by suicide, which is excluded), and obtain a doctor's certificate in the case of a permanent disability that does not result in loss of limbs or eyesight (i.e. is not physically apparent).

Clients pay a premium equal to 1.5% of the loan amount per year, collected upfront in cash at the time of loan disbursement. MEADA's claims ratio is on average around 15% since it began operations in 2007, which bodes well for the product's profitability and sustainability. However, this claims ratio is low in comparison to industry standards for microinsurance, and low claims ratios raise concerns that a product may not be providing sufficient value to clients. Claims ratios have increased over time, however, to 20% in 2012 (mostly attributed to the drop in premium), a promising trend from a client benefit perspective (see Table 1), though still far from what would be expected of valuable microinsurance in the aggregate.

Even though the coverage is voluntary, its uptake is relatively high, due in part to aggressive marketing, a high-touch sales strategy, good staff training, and a motivating commission and prize structure: 75% of SAMIC's borrowers have purchased the loan protection coverage and 22% have purchased basic life coverage. As of December 2012, **10,215** lives were covered under the loan protection product and nearly **4,851** clients and their spouses were covered under basic life. To date, SAMIC and MEADA have settled 155 claims.

**Table 1: Overview of MEADA's Portfolio for Loan Protection and Basic Life**

| Year | Total SAMIC Clients | Insured (total) | Percentage insured | Premium collected (USD) | Value of claims paid (USD) | Claims ratio |
|---|---|---|---|---|---|---|
| 2007 | 6,294 | 1,374 | 22% | 15,881 | 1,056 | 7% |
| 2008 | 10,340 | 772 | 7% | 11,760 | 1,606 | 14% |
| 2009 | 10,987 | 4,213 | 38% | 42,601 | 2,374 | 6% |
| 2010 | 10,410 | 5,841 | 56% | 58,422 | 10,278 | 18% |
| 2011 | 10,809 | 8,705 | 81% | 65,665 | 14,330 | 22% |
| 2012 | 13,949 | 13,084 | 94% | 73,255 | 14,723 | 20% |

## Assessing the Value of MEADA

MILK defines client value as the value that an insurance product adds over and above the available risk management tools. We divide this added value into three categories: **financial value**, **expected value**, and **service value**. Client Math analysis focuses primarily on financial value: (1) whether the benefit adequately matches the costs related to the loss, in terms of both type and amount, and (2) how the insurance works in the context of and in relation to clients' usage of other financial tools. Secondarily, we also look at expected value, in terms of clients' behavior and reported "peace of mind" as a result of expecting the coverage; and service value, especially in terms of speed and ease of claims processing.

*A respondent discusses the costs she faced after the death of her husband.*

It is interesting to consider that the insured population interviewed for this study had somewhat higher levels of overall debt than the uninsured population. Covering the additional debt of this relatively low-income and vulnerable group thus potentially offered important value to these clients. We analyze the **financial**

**value** to clients of MEADA in two parts: the loan forgiveness and the cash refund of the portion of the loan the deceased had already paid.

The financial value of the loan cancellation averaged USD 199, which represented 100% of the SAMIC loan but less than half of the total debt burden that insured respondents faced from all lending sources*.* The loan coverage component of the insurance helped by eliminating the cost of servicing the SAMIC loan, though it did not address the additional debt burden left by the deceased. ***The insurance benefitted family members of SAMIC clients by eliminating on average USD 199 of their loan obligations.*** Thus, while the insured started off with a higher debt burden than the uninsured, the SAMIC loan protection helped to "level off" the outstanding debt faced by both groups.

The cash refund, which averaged USD 129, was very small compared to the immediate costs that families faced after the death. We also find that insurance beneficiaries use nearly the same suite of alternative strategies as families of the uninsured to finance both short and long-term costs after the death, including the repayment and servicing of outstanding loans. ***This suggests that, overall, the magnitude of the cash benefit of the insurance seems to be too small to substantially alleviate costs or impact the overall financial response of beneficiaries, who still had other, non-SAMIC loans to service as well as expensive funeral costs to pay.*** Other strategies, especially gifts from family and friends, provided much more substantial support to pay these costs.

While the ***cash refund*** had limited financial value, it did add to the product's **expected value**. By refunding this nominal amount, MEADA offers a tangible and psychological benefit to clients. This can improve the client's perception of the product's value, even if it does not substantially mitigate household costs. On the other hand, the size of this cash refund varies considerably, depending on the point in the loan cycle at the time of death and the amount repaid up to that point. Beneficiaries were therefore unsure of how much they would receive, which reduced the product's expected value.

The **service value** of the product is perhaps its strongest component. Beneficiaries reported that the claims process was easy and efficient: on average, they reported receiving the benefit just seven days after the death, and just one day after submitting their documents. By providing immediate relief, the MEADA product quickly reduces uncertainty after a shock. This service value is only tempered by the fact that respondents had low understanding of the benefit they were entitled to receive. Still, with manageable claims ratios and impressively quick payout times, MEADA should be poised to expand its coverage and improve client education to enhance its overall value to clients.

## Methodology

In December of 2012, MILK researchers traveled to Cambodia's Kampot and Kep provinces to speak to individuals who had suffered the loss of a family member. With the help of MEADA and the Cambodian Institute of Development Studies, the researchers randomly selected 30 beneficiaries who had lost family members and received a benefit from MEADA's Loan Protection Coverage product. With the help of village leaders, the researchers also identified 29 uninsured respondents from the same villages who recently had lost a family member who had an outstanding loan at the time of death. Surveyors administered a one-hour survey to each client, focusing on obtaining answers to the following two questions:

1. How do insured and uninsured respondents cope with the financial consequences of a death in the family?
2. How does loan forgiveness insurance help clients to cope with these losses, when compared with other mechanisms?

First, surveyors asked respondents to catalog and quantify all of the costs associated with the borrower's death, focusing on ceremonial, loan servicing, and opportunity costs. Next, respondents named and quantified the strategies they used to finance these costs. Finally, those who benefited from the insurance gave details on their uses of the cash portion of the benefit and their impressions of the claims process and the insurance coverage.

## Who were the respondents?

To obtain a clearer picture of the sample and to ensure that the two groups were as similar as possible, surveyors collected information on the demographic, socioeconomic and financial characteristics of each respondent.

Table 2 shows average demographic characteristics of the respondents. It illustrates that the typical respondents are middle-aged widows and widowers heading households of approximately 6 people. Respondents had very low levels of education, averaging just less than three years of formal schooling. Their family members had died of a variety of causes, from heart disease to traffic accidents. Of the insured respondents, 37% were the policyholder; 53% were the spouse of the policyholder, and 10% were either the parent or the child of the policyholder.[5]

**Table 2: Socioeconomic Characteristics of Respondents**

| | **Insured** (n=30) | **Uninsured** (n=29) | **p[4]** |
|---|---|---|---|
| Age | 44 | 49 | 0.029 |
| % Women | 66.7% | 82.8% | 0.156 |
| Years of Schooling | 2.9 | 2.8 | 0.888 |
| Household Size | 5.5 | 6.0 | 0.312 |
| % Migrant Family Member | 63.3% | 69.0% | 0.588 |
| Monthly Household Income (before death) | USD 225 | USD 177 | 0.264 |
| Monthly Household Income (after death) | USD 164 | USD 152 | 0.721 |
| Monthly Household Expenses(after death) | USD118 | USD131 | 0.475 |

***Livelihoods*** While respondents were the principal income earners in their households around 40% of the time, most reported their children as the principal income earners (47% of insured and 56% of uninsured). Through focus groups, we found that it is common for children to drop out of school after the primary level, because of the prohibitive cost of secondary school and because of the necessity to contribute to the family income. Respondents' children most commonly worked in garment factories; respondents themselves were most likely to be self-employed and working in agriculture or services.

In both groups, the death of the SAMIC client delivered a blow to household income, which decreased by 26.8% for the uninsured and 14.5% for the insured after the death (see Table 2). Interestingly, however, **the death affected different components of income differently**. For instance, although respondents report a decrease in their own income (possibly following the need to deal with the time-consuming activities around a shock) other household members' income tended to increase. This is likely because children began working or increased the hours they worked once a parent had passed away. Income from remittances also increased substantially during this time, by a factor of 3.2 for the insured and 2.1 for the uninsured.[6]

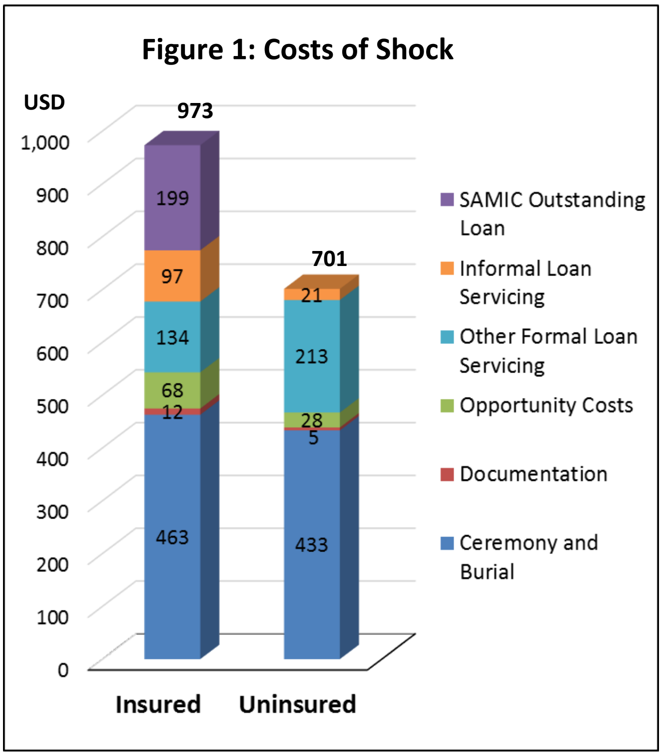
***Financial Lives*** Borrowing represents a very important part of both groups' financial lives: at the time of the interview, 67% of insured and 90% of uninsured had formal loans outstanding, and 37% of insured and 31% of uninsured had informal loans outstanding. In focus groups, we found that borrowing was extremely common, and that most borrowers had more than one loan at a time. The most common borrowing sources were SAMIC and other MFIs, followed by friends and family, which respondents also reported as being the cheapest sources. Borrowing from moneylenders was also relatively common but more expensive. This community's propensity to borrow is noteworthy, as it may limit the value that a single loan forgiveness product can have for a person who has borrowed from multiple sources.

Saving, on the other hand, was far less common among all respondents. Only 3% of insured respondents and 14% of uninsured respondents had formal savings accounts, while 37% of insured and 21% of uninsured saved at home.[7] Similarly, insurance was uncommon: no respondent reported having any other insurance coverage besides loan protection.

[4] A p-value below 0.05 indicates a statistically significant difference between the two groups.
[5] Our study sample included clients from 2010 and early 2011. This period was before policy changes were enacted to limit cover to the client and thus during that period, immediate family members were also covered under the policy.
[6] While we acknowledge these longer-term effects on income here, we will only focus on the immediate costs after the death in our client math analysis.
[7] There is limited access to formal savings in rural areas; many MFIs, including SAMIC, do not have a deposit-taking license.

## How much did it cost?

In the wake of a family members' death, families faced numerous immediate costs. These costs range from funeral expenses to opportunity costs of missed work. We found that on average, the cost was **USD 973** for insured respondents and **USD 701** for uninsured respondents, amounting to **between five and eight months' of household income** after the death for both groups. The single largest cost was the ceremony, followed by the burden of loan servicing on behalf of the deceased.




***Ceremony and Burial/Cremation*** Most Cambodians we interviewed practiced Therevada Buddhism, which requires hosting a wake, a funeral and a seven-day ceremony after a person's death. These ceremonies, while culturally important, are often costly: insured respondents reported paying **USD 463** and uninsured respondents paid **USD 433** on costs related to these ceremonies. The most expensive components of ceremonies tend to be food for mourners, the venue, the coffin, and the priest or monk who leads the ceremony. As mourners often wear white, clothing for family and friends is another common expense.

***Loan Servicing*** Loan servicing on behalf of the deceased represents the second largest cost that respondents faced, amounting to **USD 430** for the insured and **USD 234** for the uninsured. For the insured, **USD 199** of this burden was eliminated by the MEADA loan cancellation, leaving an average of **USD 231** of non-SAMIC debt to be serviced. In spite of the loan coverage from SAMIC, 40% of insured respondents still faced the obligation of repaying the deceased's *other* formal and informal loans, only slightly less than the 58% of uninsured respondents who had to do the same**.**.

***Documentation*** While relatively minor, the cost of death certificates and other documentation, coupled with transportation costs to obtain these documents, averaged USD 12 for the insured and USD 5 for the uninsured. The difference is likely due to the necessity for insured respondents to compile documentation including the police report in order to make a claim.

***Opportunity Costs*** On average, insured respondents and their family members missed a total of 22 days of work, while uninsured households missed 17 days. Based on the reported daily wages of those who missed work, these days translated to **USD 68** in lost income for the insured and **USD 28** for the uninsured.[8]

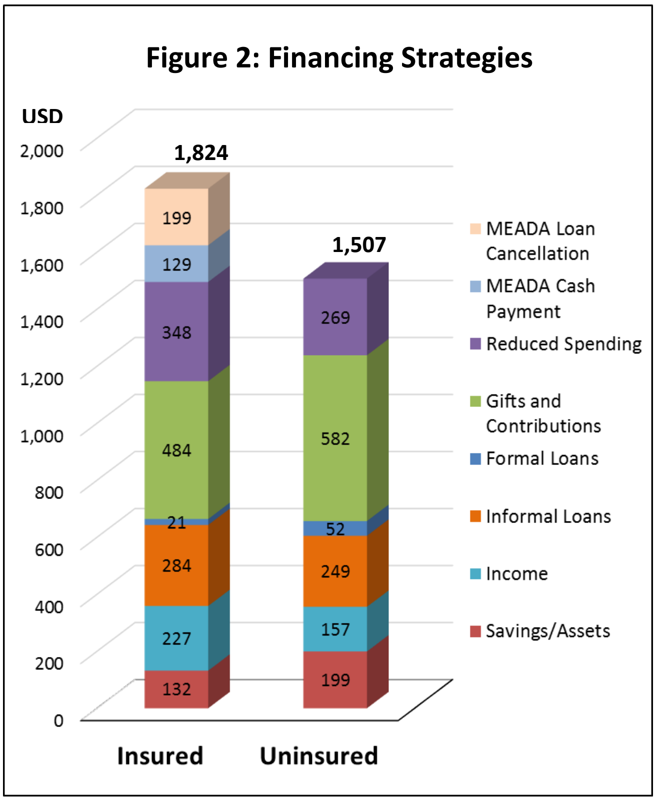
## How did families cope?

Figure 2 illustrates the financing strategies used by respondents in both groups after the death of their family member. Three key observations can be gleaned from this graph. First, **both the financing strategies and amounts are nearly identical between the two groups, when <u>excluding</u> the loan cancellation and the cash payment from the insured respondents' financing**. Insured respondents did not raise fewer funds than uninsured clients, nor did they use markedly different financing strategies. Thus, the insurance benefit did not seem to influence financing activities of the insured group.

[8] These numbers do not correspond to monthly household income figures, as they refer to individual income levels earned at the time of death, which were not equal to incomes at the time of the interview.

Second, **both groups financed substantially more than their reported immediate costs.** Excluding the insurance, insured and uninsured respondents financed between 150% and 200% of their costs respectively, totaling **USD 1496** for the insured and **USD 1507** for the uninsured. Including the insurance benefit increases this total to **USD 1824** for the insured.

Third, **the insurance benefit is small relative to both the costs and the suite of financing tools used by respondents**. Averaging USD 129 in cash payout and USD 199 in loan forgiveness across the insured group, the total benefit accounts for only 18% of the total financing and 34% of total costs. Respondents turned to other strategies, especially friends and family, to help cover these costs. Indeed, the substantial support that respondents received from friends and family suggests that short-term cash payouts for funerals may be less relevant in this community. The cash payout, which was the only fungible portion of the benefit, was not large enough to substantially mitigate costs; instead, the value of this payout may lie in the tangibility it offers to clients rather than the amount.




*A woman describes the strategies she used to pay for her husband's funeral and outstanding loans.*

These three observations suggest that both the magnitude and variety of other financing strategies may indicate the need for a response to **long-term costs** after the death of the family member, not just the short-term costs related to the ceremony and loan repayments. Though the MEADA product contributed in small part to immediate funeral costs and eliminated some debt servicing needs, other strategies were needed for more long-term demands, including income replacement and servicing debt from other sources. Beneficiaries factored in these needs, for instance, when taking out additional loans and making decisions to cut spending.

***Gifts and Transfers*** represent not only the most common financing strategy, but also the most substantial one: 97% of insured respondents report receiving gifts, averaging **USD 484**, and 100% of uninsured respondents received gifts, averaging **USD 582**. According to Cambodian custom, funeral guests make donations of food, clothing and money to the bereaved family during the burial ceremony. This seems to have happened in both groups, and the amounts collected very closely match the actual costs of the ceremony. Approximately 85% of these gifts were in the form of cash, followed by in-kind gifts and remittances. In the focus groups, clients emphasized the importance of friends and village associations in alleviating this cost. We have seen this in other studies of life insurance as well: in the Philippines, for instance, friends and family contributed an amount equivalent to the insurance payout.[9]

[9] See MILK Brief #15: "Funeral and Life Microinsurance in the Philippines"

***Loans*** After the death, the insured borrowed **USD 305** and the uninsured borrowed **USD 301**. Though a higher percentage of uninsured respondents borrowed money (93%) than insured respondents (63%), the average total amount borrowed is roughly equal between the two groups. For both groups, these loans were overwhelmingly from informal sources: the three most common sources were moneylenders, family and friends. A higher proportion of the uninsured sought out moneylenders, which we saw had less favorable interest rates.

***Reduced Spending*** After the death, 70% of insured and 62% of uninsured respondents reported cutting their spending, amounting to **USD 348** for the insured and **USD 269** for the uninsured. Over 60% of these cuts were in food purchases, underscoring the long-term nutritional and health impacts of such a financial shock on a family. Many respondents also reported cutting education spending, and 17% of insured respondents and 10% of the uninsured said that at least one family member had stopped attending school since the death. This follows conforms to the pattern we observed earlier: many children began working after the death to replace the lost income of the deceased. This suggests that having loan insurance does not necessarily help beneficiaries to avoid some of the most difficult financing mechanisms.

It is important to note that this reduced spending often took place over the course of several months, even though the majority of the reported expenses took place in the immediate weeks after the death. This reinforces our supposition that, in addition to financing immediate ceremonial and loan servicing expenses, respondents were coping with the loss of an income-earner in the household through decreased spending in the medium term.

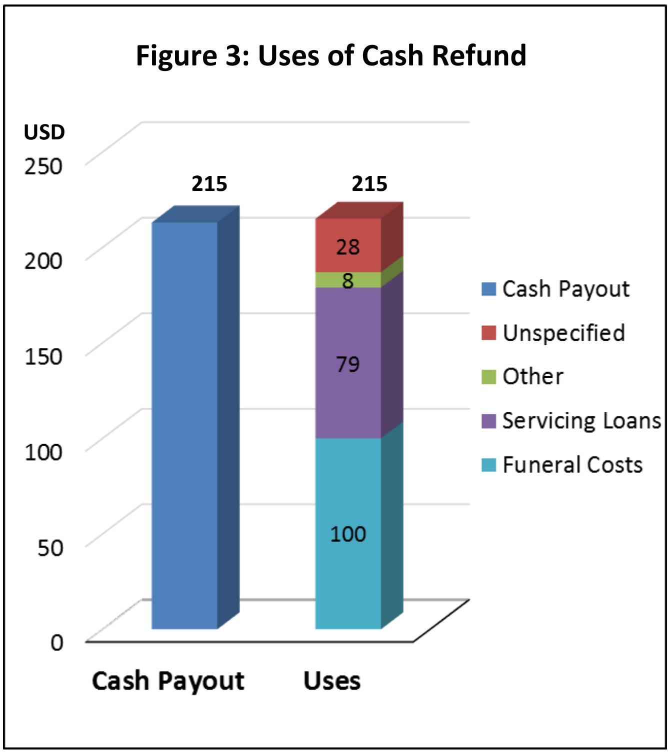
*Children play near a respondent's house in Kampot. Children are often the most affected by spending cuts in the aftermath of a family tragedy.*

***Income*** A somewhat less common strategy to use income to finance costs related to the shock. Overall, insured respondents used **USD 227** and uninsured respondents used **USD 157** in income, accounting for 140% and 103% of monthly household income, respectively. Though the majority of this sum came from the earnings of the respondent and other adults in the household, a sizeable portion of this additional income came from regular remittances from family members living elsewhere (remittances accounted for 22% of this sum for the insured and 46% for the uninsured). The remittance component of respondents' income did increase after the death, indicating that this is a common and efficient coping mechanism.

***Savings and Assets*** As might be expected from the low rates of saving observed earlier, very few respondents used savings to finance their costs. Overall, insured respondents used only **USD 4** and uninsured used **USD 18** – a mere sliver of the total need. On the other hand, asset sales made up a more substantial portion of the strategy. Overall, 30% of insured respondents and 41% of uninsured respondents sold assets, most commonly animals and vehicles. Insured respondents used **USD 227** and uninsured used **USD 157** of these sales to finance the shock. The average value of these sales, however, was USD 501 and USD 353, respectively, revealing inefficiencies in this strategy.

## Receiving and using the insurance benefit

Beyond the more direct financial value issues discussed above, insured respondents' experience with MEADA also helps us understand the value that the product has to offer in relation to the speed and ease of the claims process and their usage of the refunded cash.




***Filing the claims*** Beneficiaries' positive experience of the claims process indicates that MEADA offers **service value** to clients. Respondents waited 3.1 days on average before initiating the claim, and they took an additional 2.3 days to collect and submit the necessary documentation. Once the claims process was complete, the benefit came almost immediately afterwards: the cash payment arrived just 1.5 days after submitting documents. The loan forgiveness came even more quickly, averaging just 1.1 days after submitting documents. In the focus groups, clients reported that the loan officers expedited this process for them. The speedy response is something we have rarely seen in other life insurance products, and it undoubtedly adds value by reducing uncertainty for beneficiaries, as well as the need to pull together additional short-term financing while waiting for the benefit.

An overwhelming 87% of beneficiaries found the claims process to be "easy" or "very easy." Many, however, were unfamiliar with the process before consulting their credit officer: only 50% reported knowing how to file a claim when the family member passed away. In addition, most were unfamiliar with the actual loan forgiveness benefit they were entitled to receive: only 16% of respondents were able to correctly identify the benefit. The focus groups confirmed this: most respondents were unsure of the exact terms and costs of the policy they owned.

***Using the Cash Refund*** In our sample, 18 of the 30 insured respondents received a cash refund of the principal already paid,[10] averaging **USD 215** for this subgroup, as seen in Figure 3. In addition to the debt relief, these individuals enjoyed the benefit of liquid funds to put toward expenses.

On average, these beneficiaries used **USD 100** of this refund toward the ceremonies and burial. As we saw earlier, the average ceremony cost was USD 463 for the insured; this subgroup of 18 spent an average of USD 449. Thus, the refund covered approximately 22% of their funeral cost, leaving respondents to cover the remainder using other strategies.

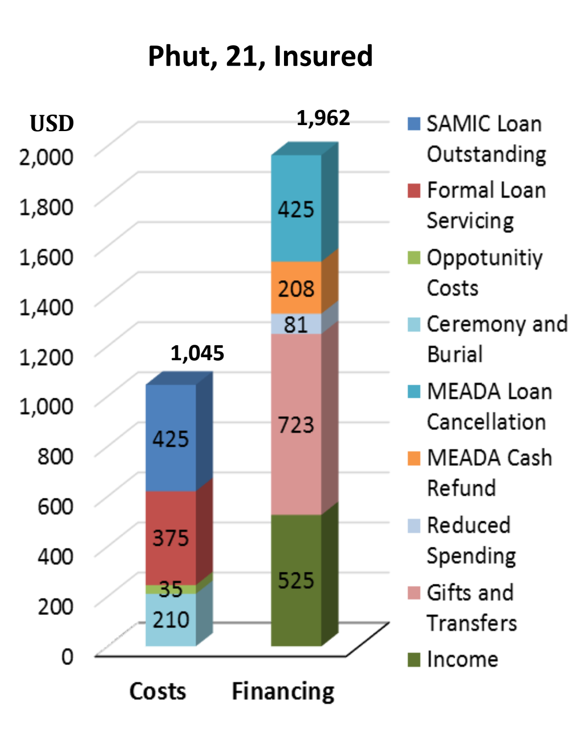
Another **USD 79** of the payout went toward servicing loans, including both the deceased person's loans (which were not forgiven for the basic life clients) and the respondent's own loans. This subgroup reported just USD 178 in loan servicing costs, so they were able to use a portion of the cash to pay 44% of these costs.

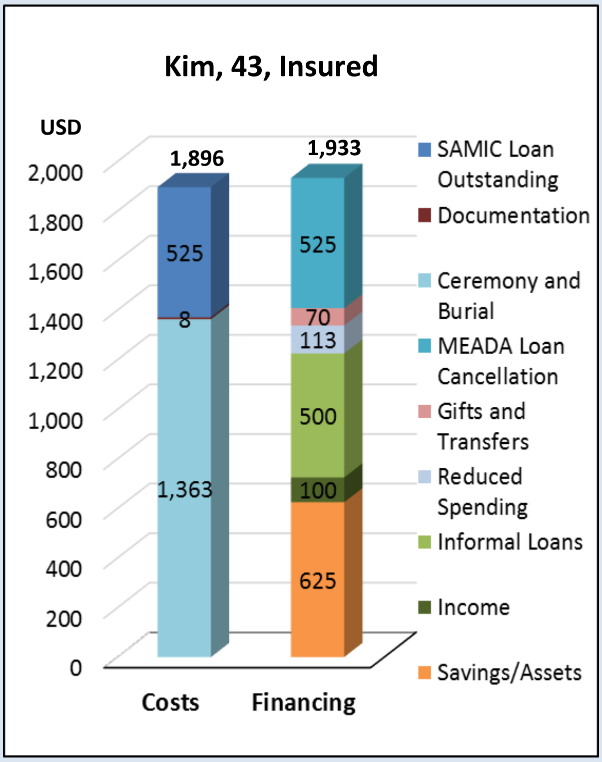
An average of **USD 8** was designated for "other" uses, including everyday expenses. The remaining unspecified **USD 28** was most likely funneled into everyday expenses and income replacement.

[10] Because of a four-month grace period at the beginning of the loan cycle, some clients had not yet begun to pay back the principal, and therefore their beneficiaries received no cash refund.

## A Closer Look at Select Respondents

### Insured Respondents




**Phut, 21,** lost his father to hypertension in April 2012. He now heads the household of five, including himself, his wife, two other adults and a child. He has nine years of education – the highest in the sample – and he owns a phone, a bicycle and several farm animals. He is self-employed in the service industry, and others in his family work as farm laborers. Before his father died, the monthly household income was USD 377; now, Phut's family makes do on just USD 207 per month.

Between the coffin, the food, and the burial, the ceremony cost USD 210. He also missed seven days of work, foregoing USD 35 in wages. Although his father's loan from SAMIC was forgiven, Phut had to pay his father's outstanding loan from another MFI in the amount of USD 375.

Phut initiated the claim with MEADA just one day after his father's death and submitted documents on the following day. On the third day, he received the benefit: USD 208 in cash, representing the loan paid to date, and a forgiveness of the remaining USD 424. Phut reports using the entire amount of this cash toward his father's other debt.

At the funeral, Phut received an outpouring of gifts, including USD 633 in cash and USD 90 in-kind. These gifts more than covered the ceremonial costs and the remaining portion of his father's other debt. However, Phut says that he and the other adults in the household used USD 525 of their income for costs related to the death. He also reports reducing spending on food, health, and animal feed by USD 81. This illustrates that Phut's family was not just financing the immediate costs of funeral and loan servicing after his father's death; they were also attempting replace the lost income that his father once made.

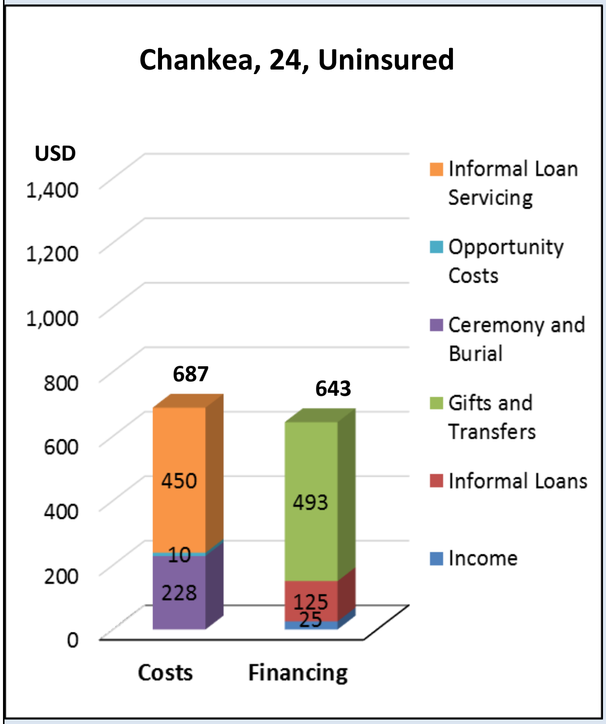
**Kim, 43,** lost her husband to an illness in October 2012. She now heads her household of six people: four adults and two children. She has just three years of education. They own a TV, a phone, a bicycle and several animals. The main breadwinner of the family is her child, who is a domestic worker, and she also receives remittances from a relative who lives outside the region. Before her husband died, the monthly household income was USD 150; now, the six live on just USD 100 per month. At the time of the interview, Kim had two outstanding loans from moneylenders, totaling USD 813.

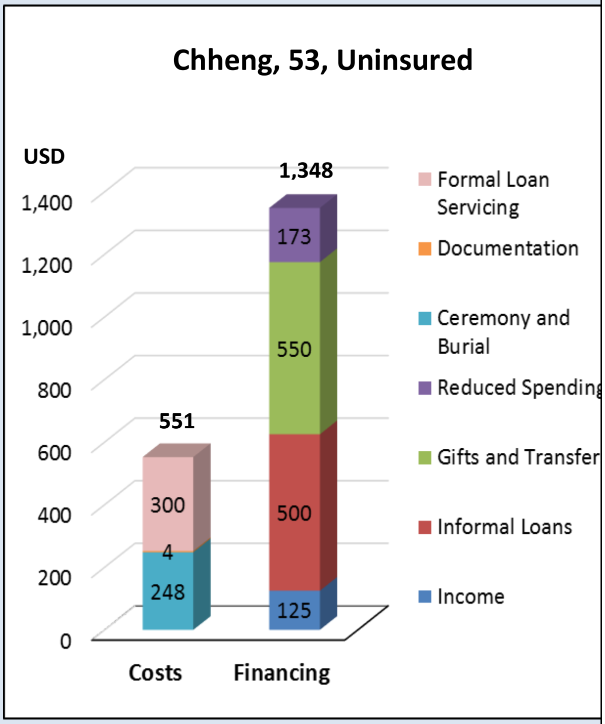
The funeral of Kim's husband had a very high price tag, costing a total of USD 1363 for the coffin, priest, clothing, decorations, venue, food and music. Kim also paid USD 7 to collect the necessary documents. Fortunately, thanks to the insurance, Kim faced no costs at all for loan servicing: just one day after she submitted the documents, her husband's outstanding loan of USD 525 was canceled.

Instead, her efforts were spent covering the costs of the funeral. After the death, she received gifts of USD 50 in cash and USD 20 in kind. She sold an animal for USD 625 and borrowed an additional USD 500 from a moneylender at 5% per month. Her household cut spending on education by USD 19 per month for two months and food by USD 38 per month over the same period. Finally, she used USD 100 in remittance income to cover her costs.

In Kim's case, the loan cancellation relieved her of another USD 525 she would have had to pay over and above the ceremony and burial costs. As she already churned through five different financing sources just to finance the funeral, it is difficult to imagine how she would have come up with the money to repay the SAMIC loan if it were not for the insurance.

**Uninsured Respondents**




**Chankea, 24,** lost her father to high blood pressure in June 2011. She lives with her husband. She has six years of education, owns a radio and several farm animals. She and her husband both work as farmers, earning USD 131 per month.

Adding up the cost of the coffin, the priest, clothing, decorations, music, and venue, the ceremony cost Chankea USD 228. She missed 7 days of work, losing USD 10. Her single highest cost, however, was loan servicing on behalf of her father: she had to repay a moneylender the USD 450 that her father owed.

After her father's death, Chankea received USD 493 in gifts, including USD 150 from remittances. Though generous, the gifts did not quite reach the sum she needed to pay for the funeral and repay her father's loan. To finance the rest of the cost, she borrowed USD 125 from a different moneylender at an interest rate of 7.5% per month, and she used USD 25 of her own income. She was also forced to become delinquent on her own loan, which she stopped making payments on for 8 weeks after her father's death. Had Chankea been relieved of the responsibility to repay her father's loan, she could have covered all of the costs with gifts alone and would have avoided becoming a delinquent borrower herself.

**Chheng, 53**, lost his wife to disease in August 2012. He heads a household of four adults and one child, and they own a television, two phones, two bicycles, and several farm animals. He has only two years of education. His grown children work in the service industry and garment factories, earning USD 70 per month. He himself contributes USD 45 to the household, and the family receives an additional USD 9 each month in remittances. The household's total monthly income is now USD 124, compared to USD 153 when his wife was contributing. Chheng has formal loans from MFIs totaling USD 3000. He has a savings account at a community bank, with a balance of only USD 8.

The venue, burial, priest and coffin for the ceremonies cost Chheng USD 248. He also paid USD 4 for the death certificate and other documents. When she passed away, his wife owed the bank USD 300: Chheng was now responsible for that loan.

However large his losses, Chheng managed to make do with a variety of strategies, financing far more than the immediate costs of his wife's death. First, he received cash gifts totaling USD 550. He borrowed another USD 500 from a moneylender at 10% interest. He and his family also cut back on food by fifty cents per day for three months and stopped spending his usual USD 43 per month on fertilizer for three months. He also used USD 125 of his own income – equivalent to one month of the total earnings of his household.

Though many of the strategies Chheng used were difficult (like cutting spending) and expensive (like borrowing from a moneylender, and jeopardizing his crops by forgoing fertilizer purchases), it is clear that he had set out to finance more than his immediate losses. He raised 2.5 times his reported costs.

## Was it worth it?

Overall, we found that although the MEADA loan forgiveness quickly relieved a debt and offered a useful cash refund, the product fell short of beneficiaries' immediate and long-term needs. The size of the insurance benefit is quite small compared to the costs, and even smaller compared to the total array of financial strategies used by respondents.

Because many clients and their family members have multiple loans, the forgiveness of one loan is helpful in reducing indebtedness after a death, but other strategies still need to be used. The MEADA loan forgiveness relieved the beneficiary of the SAMIC loan, but many still had to service other formal and informal loans on behalf of the deceased. However, they were able to service these more completely than the uninsured, who remained leveraged with the debt of the insured for some time after their death. This likely gave insured families a "fresh start" in terms of their leverage compared to uninsured families, saving them the cost of future servicing of the outstanding loans. Uninsured families, on average, continued to have about 31% of the deceased's obligations to service.

The cash refund from the insurance was inadequate in magnitude: although the returned principal provided the beneficiaries with some funds, it did not approach the large immediate cash needs of the beneficiaries after the SAMIC client's. Instead, it provided a symbolic and tangible benefit, adding perceived value but not a great financial value. Moreover, this expected value is limited by the variability and uncertainty around the size of this cash payout. By simplifying the cash portion to a small fixed payout, instead of paying an amount that varies depending on point in the loan cycle, MEADA might improve clients' understanding and perception of the product.

If the insurance benefit seemed small in comparison to the cost, it is positively dwarfed by the amount of money that beneficiaries raised through other financing mechanisms. Respondents from both groups financed twice the amount of the reported costs related to the death. This is likely due to the fact that they are facing long-term income replacement costs as well as short-term funeral and loan servicing costs. Thus, clients themselves perceive and plan for these long-term costs, and rethinking the product to help address these needs may be an interesting direction for MEADA to take.

Interestingly, insured and uninsured respondents appear to have used almost identical financing strategies, both in amount and proportion. Gifts and contributions covered an impressive portion of the costs, and clients turned to more difficult strategies (such as expensive borrowing and reduced spending) to make up the rest. The insurance does not seem to replace or help clients avoid any other strategy, likely due to the fact that it targets only a small proportion of the costs that clients face. However, it appears to have some value in reducing overall leverage at the household level.

Although MEADA's take-up is very high and its payout is fast, it is not clear whether this service value outweighs the still low financial value that the product provides. Thus, we feel that it is poised to expand the benefits to better match the costs, whether in amount, form or duration.

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Microinsurance Learning and Knowledge (MILK) is a project of the MicroInsurance Centre that is working collaboratively to understand client value and the business case in microinsurance. Barbara Magnoni leads the client value effort and Rick Koven leads the effort on the business case. For more information contact Michael J. McCord (mjmccord@microinsurancecentre.org), who directs the project.