Microinsurance
Learning and
Knowledge

Doing the Math: Loan Protection in Cambodia

A client value study of MEADA's Loan Protection Insurance

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Overview

1. What is client value and what do we know about it?
2. How MILK's Client Math helps us understand financial value
3. Key findings from our Client Math research with MEADA
4. Implications for the sector

MILK's Client Value Questions

1. Does microinsurance help protect people from **large shocks** (high cost events) in **comparison to other alternatives**?

1. Is microinsurance effective in smoothing consumption or protecting assets of the poor when **smaller shocks** (low cost events) occur?

How do We Define Value?

- Value is comprised of three components
  - ***Expected*** value, such as peace of mind or increased incentives to invest
  - ***Financial*** value, such as lower out-of-pocket spending when a shock occurs
  - ***Service quality*** value, such as improved financial literacy or access to better quality healthcare services
- Consideration of these three types of value and how best to provide them can inform effective product design

Financial Value Needs to be *Added* Value

Both insured and uninsured people have access to many different strategies to cover the cost of a shock.

It's important to think about insurance in the context of those other strategies and understand the extent to which it replaces them or fills gaps in ability to cope.

We find that the insured often use fewer and less burdensome strategies.

Using Client Math to Measure Value

- We know very little about the value of microinsurance
  - Traditional focus group client satisfaction studies conducted by insurers aren't enough
  - Impact studies can provide rigorous evidence of the effects of insurance on clients, but only work in certain contexts and for certain types of questions

- Client Math can help fill the gap
  - Explore **financial responses** of clients and non-clients to a shock through interviews - after the shock takes place
  - Gain insight into the **full cost** of the shock and the **range of financial tools** used by insured and uninsured to finance it
  - Avoid some logistical problems of impact studies

Client Math in Cambodia – Partners

- **MEADA** - Insurer
- **SAMIC** - MFI delivery channel
- **Enterprise Challenge Fund**- Funder of the study
- **Microinsurance Center**- Coordinator of MILK
- **Cambodian Institute of Development Studies**- Fieldwork

MEADA's Insurance Product

- Coverage:
  - Voluntary product available to SAMIC borrowers
  - **Basic life coverage (for borrowers + spouse for loans >$1,300)**
    - Offers a cash payout in the case of death
  - **Loan protection (for borrowers with loans <$1,300)** ✔
    - Offers loan forgiveness & repayment of what borrower paid
- Term: Insurance cover linked to loan; max term 24 months
- Limits: Maximum loan assured is $1,300, average size $700.
- Premium: 1.5% of loan principal, collected upfront

Our Research Questions

- How do insured and uninsured respondents cope with the financial consequences of a death in the family?
- How does loan protection insurance (write-off and cash payout) help clients to cope with these losses, when compared with other mechanisms?

Our Strategy

- We interviewed 59 respondents in Kep and Kampot provinces in November 2012:
  - 30 insured by MEADA (and borrower of SAMIC)
  - 29 uninsured (not a borrower of SAMIC)
- All respondents
  - suffered a recent death in the family
  - were alike in their socio-economic status
  - were active borrowers
- Only the insured had claimed a benefit

Quick quiz!

1. The cost of coping with a death in the family is equivalent to…
    A) 1 month of HH income
    B) 2 months of HH income
    C) 4 months of HH income
    D) More than 5 months of HH income

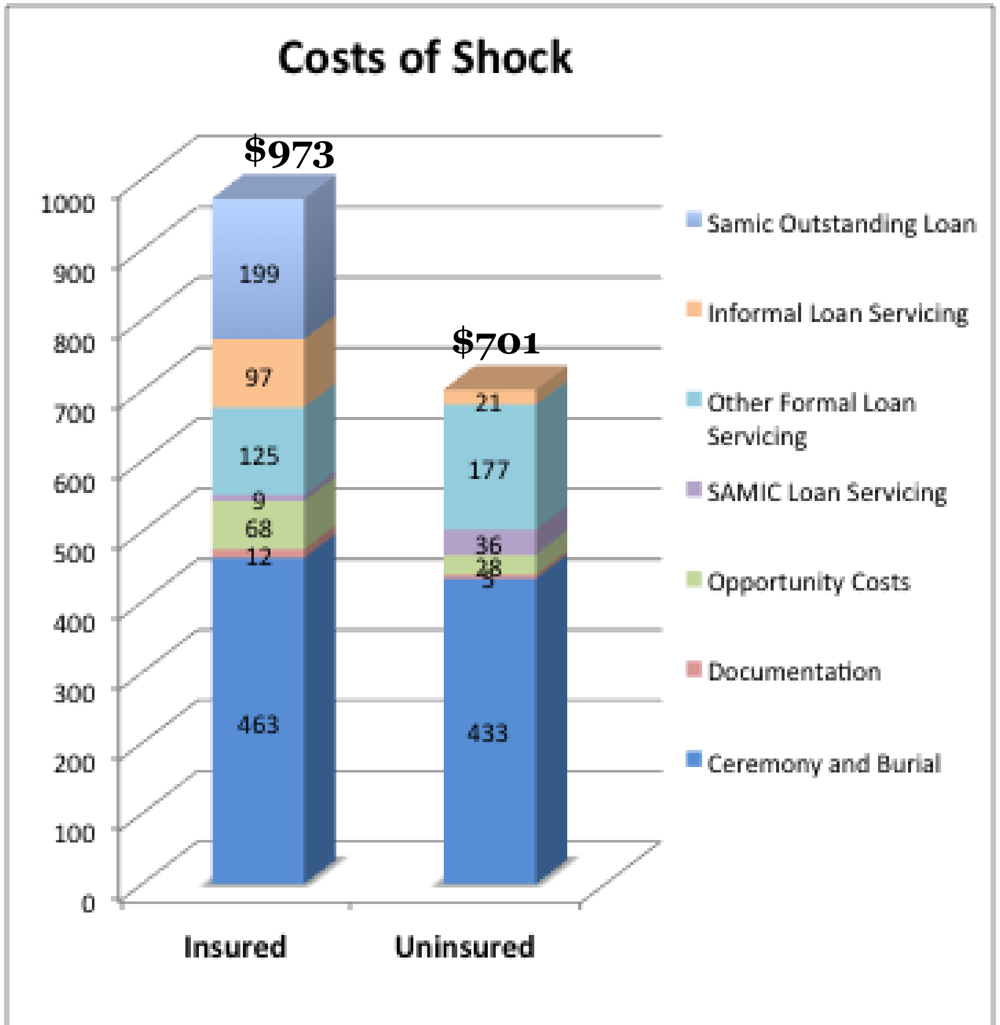
2. What type of financing / support was most prevalent for families when coping with the death…
    A) Loans
    B) Gifts and transfers
    C) Loan protection benefit
    D) Income

A Snapshot of the Sample

	Insured (30)	Uninsured (29)
Age	**44**	**49**
% female	**67%**	**83%**
Years of education	**2.9**	**2.8**
Household size	**5.5**	**6.0**
% migrant family members	**64%**	**69%**
Monthly income (before death)	**USD 225**	**USD 177**
Monthly income (after death)	**USD 164**	**USD 152**

- Respondents largely engaged in agriculture
- Nearly half the time, children were reported to be primary income earners (garment factories)

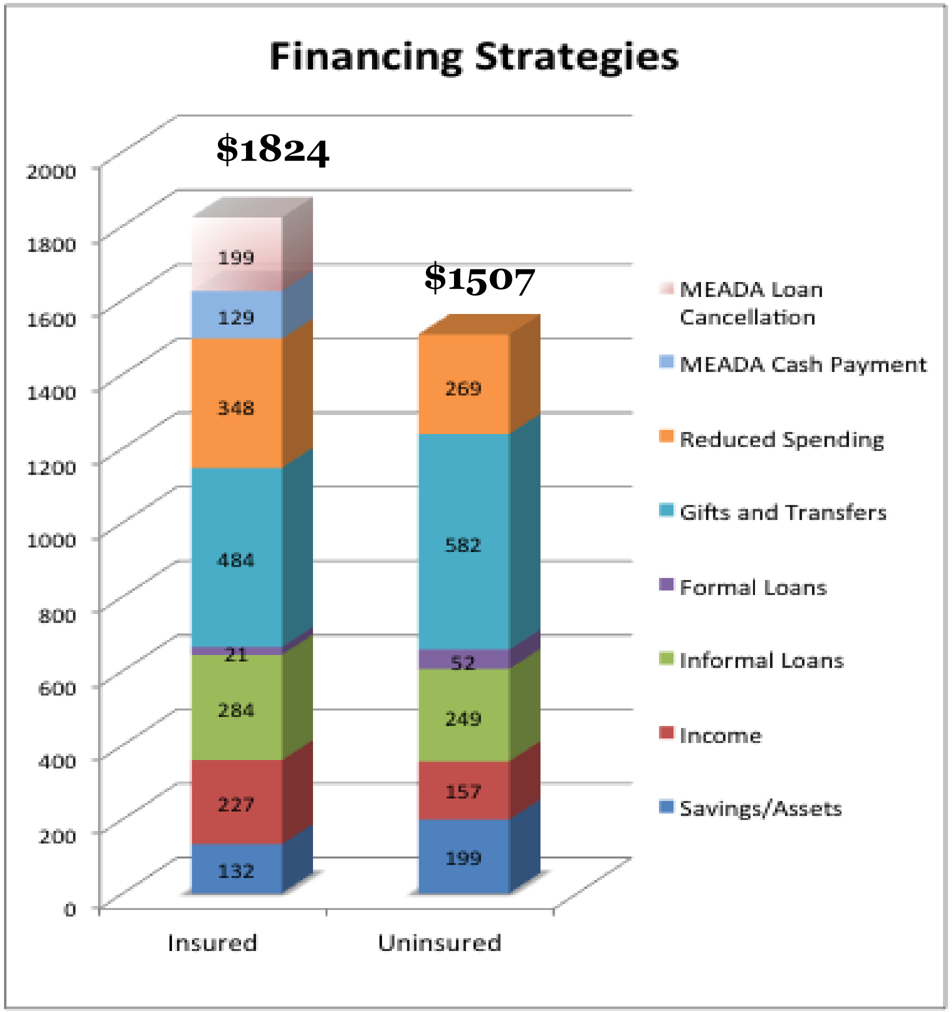
Findings: Coping with death



- The cost of the death was significant for both groups – amounting to over 5 months of household income.

- After ceremonies / burial, loan servicing on behalf of the deceased was most significant: 40% of SAMIC borrowers still had to service other debt vs. 58% of uninsured.

Findings: Financing costs of death

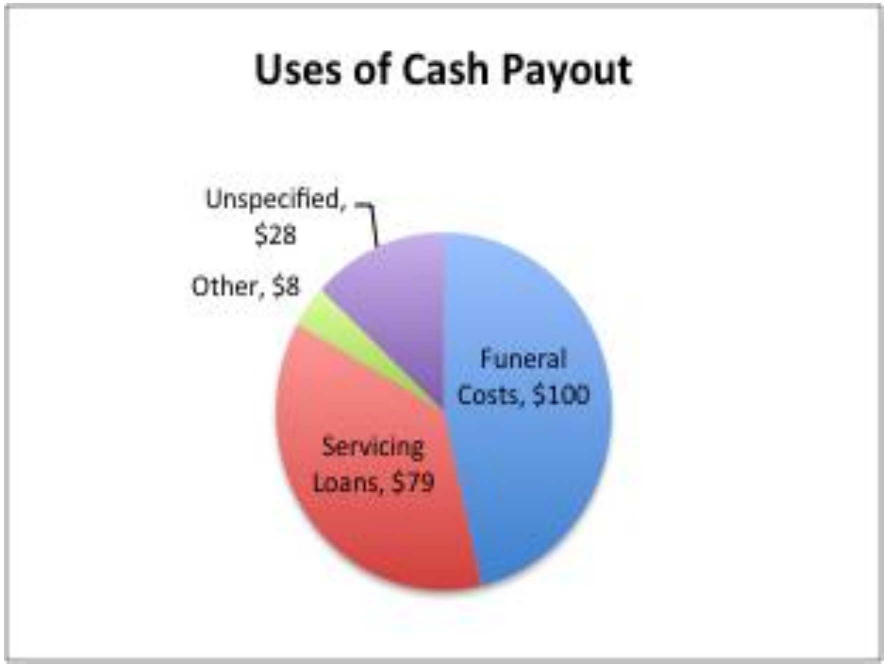


- Both groups used similar types and amount of financing
- Both groups financed substantially more than they reported spending – 150-200% of costs
- Gifts were substantial; families also reduced consumption – food, education and health

Findings: The insurance benefit and use

- While the insurance benefit achieved what it set out to, the financial value was small relative to costs and range of tools used by households
  - $199 loan write-off and $129 cash payout
  - 18% of total financing and 34% of total costs

- 18 of 30 respondents received a payout (averaging $215), used to cover funeral expenses and service non-SAMIC debt.



Findings: Client knowledge and expectations

- Nearly all respondents (87%) found the claims process to be "easy" or "very easy"
- But many unfamiliar with the process: only 50% reported knowing how file a claim before consulting with their credit officer
- Only 16% were able to correctly identify the benefit they would receive

The overall value of MEADA's coverage

- The **loan protection** eliminated the need for clients to service their SAMIC loan and helped to reduce the leverage of insured families.
  - However, families still had to cope with additional debt burden.
- The **cash benefit** was too small to substantially alleviate costs or impact the overall financial response
  - The benefit was tangible and added an important "expected value".
  - The size of the refund varied, leaving clients unsure of how much they would receive, which reduced this expected value.
- The **service value** of the product was very strong, as clients experienced easy and rapid benefit payments
  - After submitting documentation, the cash benefit came in 1.5 days and loan write-off took effect in 1.1 days.

Key Conclusions

- The insurance benefit alleviated only a small proportion of the costs that borrowers faced, but reduced leverage and gave insured a “fresh-start” relative to uninsured;
- Respondents from both groups financed twice the amount of their reported costs – likely because of long-term income replacement costs in addition to short-term funeral and loan servicing costs.
- Borrowers planned for and pieced together their financing with community and other support—but often made costly choices with spending cuts and loans.

Thank You!

Implications for the sector - Discussion

- How can we address multiple borrowing / over-indebtedness by MFI clients?
- How can we address the longer-term income-replacement needs that borrowers face with the loss of a breadwinner?
- How can we improve consumer education so that clients make informed decisions about the financial services they need– loans, insurance, savings?

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