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Role of Microinsurance in Protecting the Poor

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Abstract : *Access to quality and affordable financial services and products perform an important role in reducing inequality and poverty. The South African Government has since 2004, embarked on an inclusive program of action aimed at addressing economic exclusion. South Africa's low-income segment has in the past been excluded from the financial markets and their products. Microinsurance is acknowledged as one of the mechanisms through which to reduce the vulnerability of the low-income segment because planning and insuring risk can assist in maintaining financial confidence in the face of significant vulnerability. This research study sought to discover the factors influencing microinsurance penetration amongst low-income groups in South Africa. Qualitative, in-depth research enabled an understanding of the barriers through the eyes of the low-income market, as well as insurance providers. The target population was adult South Africans within the South African Advertising Research Foundation (SAARF) living standard measures of 1-6 with decision-making powers within their households. The findings suggest that the underlying factors are lack of understanding for insurance, market remoteness, and the alternative risk-coping strategies that exist within low-income communities, which were found to be insufficient cover for insurable risks.*
Keywords: *economic exclusion; low-income segment; microinsurance.*

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I. Introduction

There is increasing recognition that access and usage to quality and affordable financial services and products perform an important role in reducing inequality and poverty. The South African Government has since 2004, embarked on an inclusive program of action aimed at addressing economic exclusion. South Africa's low-income segment has in the past been excluded from the financial markets and their products (RSA Department of National Treasury, 2011:1).

Low-income households are particularly vulnerable to economic shocks and financial risks. The South African low-income household is vulnerable to economic shocks such as high-interest rates, inflation, loss of employment and disability, or the death of a family member. Any of these changes affect the household's ability to service their financial obligations and debts and in most cases, shifts them below the breadline. There are various attributes that perpetuate this risk entrapment such as lack of education, market remoteness, no borrowing power, and the lack of physical assets, amongst others (Cohen, McCord & Sebstad, 2003).

The Department of National Treasury has prioritised access to the provision of financial products to low-income groups previously excluded from financial services (RSA Department of National Treasury, 2011:1). This also includes microinsurance products designed to promote financial stability which are linked to prosperity and economic growth. Microinsurance has been considered a tool for economic development and the importance of the relationship between economic growth and financial development has been well recognised in the field of economic development and its role is a significant determinant in the economic growth process (Outreville, 2013:71).

The insurance sector has had challenges in providing insurance and financial products access to low-income consumers (Republic of South Africa's Department of National Treasury, 2011). An insurance penetration level of 25.6% was reflected in 2010 for formal insurance. However, in 2014, the penetration level declined to 14.28% according to a South African Insurance Industry Survey, conducted by KPMG (KPMG, 2014). This was closely aligned to a survey reporting a rate of 16% for life insurance and 13% for asset and property insurance (FinMark Trust, 2013), explaining that the take-up of insurance had declined since 2010. The low insurance penetration is an ongoing concern that needs to be addressed in South Africa where the majority of South Africans do not have any form of insurance against risks.

There are many ways in which low-income groups try to manage and plan for risks. They take part in informal savings schemes within the communities. Burial societies still play a major role in providing unregulated insurance, registered under the Friendly Societies Act 25 of 1956, and a large majority of those with funeral insurance are covered under these unregulated structures, which is a dilemma common to South Africa in particular. Currently, only less than one per cent of the entire poor population, which makes up 60% of the total population, are covered with short term insurance and this number must be raised to 6% as per the Financial Services Board (FSB) charter targets.

According to Churchill and McCord (2012), most low-income people work in the informal sectors of the economy and men and women mostly face similar risks. Their exposure to those risks and its impact, however, differs greatly depending on their social, financial and cultural statuses. Seventy per cent of the world's poor is made up of women. Therefore, there is a larger concentration of women at the bottom of the equality and life security chain. Microinsurance as a possible solution for risk protection is designed to take these specific risks into consideration. Even though gender equality cannot be achieved solely through microinsurance, it can surely be one of the effective tools together with other structural gender discriminations that should be addressed to improve the strategic positioning of women. Churchill and McCord (2012:12-13) define microinsurance as the protection of low-income customers against specific risks in exchange for regular premium payments proportionate to the likelihood of the risk occurring and the cost of the risk involved. Microinsurance is no different from conventional insurance. It differs in that it is designed with the low-income group in mind. The design is founded on research and an understanding of the low-income segment. Microinsurance is a mechanism for mitigating risks for the low-income segment of the market, which when in effect helps to reduce vulnerability to poverty (Radermacher & Brinkmann, 2011). Through microinsurance, the low-income household can have a sense of protection and financial confidence in the face of significant vulnerability. Risk pooling and informal insurance have been researched exhaustively and found to be limited in benefits and typically only cover a portion of the loss. Microinsurance has not been effective for the low-income segment as penetration rates for microinsurance products are very low at 14,28% (KPMG, 2014:49). It is estimated that only 5% of the potential microinsurance market is covered, which means that there are reasons why the low-income segment does not take-up insurance products designed to help them cope with financial risks. A key aspect of this research is to investigate reasons for low penetration levels of microinsurance within the low-income segment and to explore ways to significantly increase microinsurance access.

The financial inclusion level in SA is at 14,28% (KPMG, 2014:49). This research considers the landscape of access such as products and services, the costs to the low-income household, the distribution channel, and the education of the low-income client regarding insurance and mitigating factors, in order to understand the reasons for the low penetration of microinsurance. Before microinsurance can be made available on such a vast scale, a number of barriers have to be overcome (FinScope SA, 2013). Some barriers are external constraints, such as delivery constraints, some are shortcomings of existing products, some are related to people's perceptions about insurance in general, and others are related to insurance regulations or their absence thereof. The delivery channel is one of the most significant barriers and constraints for the expansion of microinsurance (Munich Re Foundation report, 2013:25).

1.1 Research objectives

The objectives of this research study are as follows:

To determine the role of microinsurance in protecting the low-income segment in South Africa against financial risks

To determine the landscape of microinsurance access to low-income consumers in South Africa.

To identify the drivers of the usage of microinsurance products and services by low-income consumers in South Africa.

To identify the barriers to the usage of microinsurance products and services by low-income consumers in South Africa.

To make recommendations on deepening microinsurance penetration to the low-income households in South Africa to ensure much safer financial risk management.

1.2 Significance of the study

The Department of National Treasury has prioritised access for the provision of financial products to low-income groups previously excluded from financial services (RSA Department of National Treasury, 2011:1). This also includes microinsurance products designed to promote financial stability which are linked to prosperity and economic growth. Microinsurance has been considered as a tool for economic development and the importance of the relationship between economic growth and financial development has been well recognised in the field of economic development and its role is a significant determinant in the economic growth process (Outreville, 2013:71).

The motivation for this study is the high prevalence of people in South Africa living on and below the poverty line, unable to fulfil their monthly financial obligations. This suggests that the majority are one month away from poverty should there be any long-term illnesses, loss of income, death, or natural disasters that can occur.

Microinsurance is proposed as an effective mechanism to protect the low-income market from potential financial risks. Many challenges, such as low penetration levels, exist in the microinsurance space and if they remain unresolved, they leave the low-income market without effective risk management and risk coping strategies. If challenges to penetration are addressed, microinsurance can be resourced and can create a better momentum for development.

The respondents for this research were insurance professionals currently offering insurance to the low-income market. The research sought to learn from the experience of these individuals and to interview low-income households to gain a better understanding of their risks and challenges as well as to develop potential solutions associated with providing insurance to the low-income market. A key aspect of the study was to analyse information and explore ways in which we can significantly increase the microinsurance penetration levels towards low-income households. The study analyses the current product offerings and evaluates whether they can be enhanced to create demand and meet the needs/demands of the low-income group.

II. Literature Review

Tadesse and Brans (2012:79) define microinsurance as a risk-pooling mechanism that combines resources of many insurance policyholders to compensate for the accidental losses of a few. Microinsurance is no different from conventional insurance. It only differs in that it is designed with the low-income group in mind. The design is founded on research and an understanding of the low-income segment. Biener and Eling (2012:77) argue that just downsizing conventional insurance product for the low-income consumer is not an effective way of approaching this market as the product must be designed with low-income consumers in mind.

Microinsurance is based on the same principles as other traditional insurances, however, with a number of key differences. The sizes of the transactions are smaller in value and premiums are lower. The target market consists of low-income consumers, with limited knowledge of insurance products and their benefits. Products offered are simpler, often providing just one type of cover rather than bundles. Due to the irregular income of the low-income group, products are designed to allow flexibility of premium payments. The micro-insurer might allow irregular payments, at irregular times and in uneven amounts. The claims process of a microinsurance client is faster in South Africa as the claim is typically paid within 48 hours and the process is less complicated and involves substantially less documentation. There is less regulation enforced on micro-lenders and underwriting is a simpler process with fewer terms, conditions and exclusions.

According to Biener and Eling (2012), there are key characteristics that differentiate conventional insurance from microinsurance programs:

The product offering must be relevant to the risk of low-income households. Insurance products cannot simply be downsized from the conventional insurance product to the low-income client with a blanket approach towards the low-income client. It will not be successful.

Products must be developed with the low-income client in mind, supported by market research.

While conventional insurance tends to exclude certain high risk persons, microinsurance is generally inclusive as it’s seen as an extension of social protection. Because of the generally low amounts of insurance protection by the low-income market, the cost of identifying a high-risk person may be higher than the costs of excluding them in the first place.

According to Churchill (2012), the following points need to be considered when implementing insurance for low-income clients:

Product demand is critical. There should be flexibility in the product design that enables the product to be designed together with the client specifically to ensure that the most needed coverage is included.

Distribution channels and premium collections. Distribution should likely be by someone who understands the culture of the target community and their needs.

Affordable premiums. This should be made affordable for the customer to avoid insurance lapses.

Adverse selection. The waiting period should be done strategically, long enough to discourage abuse and short enough not to be prohibitive.

Easy claims process. Elaborate claims processes usually result in dissatisfaction from a low-income client. The process should be simple, short with less paperwork.

Less contestability for existing illnesses. There is usually contestability of death arising from existing illnesses. This can be very difficult to implement as most clients from poor communities do not have formal medical records and in reality, this contestability is very difficult to explain to the client.

Minimal exclusions. A long list of exclusions is hard for sales staff to explain and difficult for clients to understand.

One price. Even though it is standard practice for insurance to calculate insurance differently for different ages and sex, this can be difficult to understand by the low-income client. Simplification of information is necessary and a single rate and benefits are necessary, unless in cases where clients design their own products.

Simplified sales promotions. Sales staff must be effectively trained on the products to ensure the insurer does not lose trust and credibility with the clients and potential clients. Sales presentations should concentrate on the important factors such as the risk coverage, benefits, costs, and who will be covered.

Exclusions. Some micro-insurers have previously implemented exclusions for HIV/Aids death causes and health treatment but soon realised that it was an impractical solution. HIV/Aids is rarely stated as a cause of death as it is usually the opportunistic diseases such as Tuberculosis, pneumonia, or other opportunistic diseases. This particular challenge rendered the exclusion ineffective. Insurers have since included HIV/Aids patients in the cover and for some insurers, the tests are done upfront and the risk gets priced accordingly. For other insurers, no tests are required. However, it seems to be assumed that most low-income clients could have the disease and this is considered in the product design, its benefits and costs.

2.1 Distribution models

2.1.1 Community-based model

According to Churchill (2012), this is an alternative distribution model introduced over the past few years which still offer many opportunities for micro-insurers. There are many alternative channels in which clients can access the financial products particularly short term loans and microinsurance. Some of the channels under this model include retailers, workers' unions, direct sales channels, cell phone payments, burial societies and worksite marketers. While these structures are great and reduce the marketing and distribution costs, they usually work in developing countries as with the low-income market, the level of education for insurance products is not always sufficient to implement such distributions. There is also a role performed by agents and independent distributors that can add value to this market.

2.1.2 South African distribution trends by the Association for Savings & Investments

In South Africa, the distribution of life insurance products follows a similar mix as seen in other countries. Independent brokers distribute the majority of business, followed by tied agents. This situation has been largely unchanged over the last five years. Independent brokers are particularly dominant in the single premium and retirement annuity recurring premium business, as an ordinary, recurring, premium business. They play a far larger role, particularly in terms of volume of policies sold. The direct channel in South Africa accounts for a small portion of the total investment and risk market, but as with international examples has a far higher proportion of the total risk market

2.1.3 Technology as a potential channel of distribution for microinsurance

Technology plays a critical role in disseminating information which could be utilised for education, marketing and sales. Many industries such as retailers already leverage technology for product sales. LSM 1-6 has a very high penetration level averaging 68%, however much higher in LSM 4-6. Expanded technology through cell phone and computer improves access.

2.2 Marketing benefits

According to Churchill (2012), some of the marketing tactics that have proven successful by insurers includes:

2.2.1 Cashback benefits

In marketing insurance, a key challenge is to assure potential clients that they are getting value for money particularly if they do not claim as many see this as a waste of money. To help address this problem, most insurance provides a non-claim benefit which is the amount that gets paid back to the insured should they not claim after a certain period of time.

2.2.2 Premium collections

The process of collecting insurance cover premiums from the low-income market is a major challenge for insurers as mostly are informally employed and self-employed without a banking or savings account so the usual deduction from the salary with the employer and the debit order does not work for many in this market. By definition of the low-income market, most have irregular income which presents a challenge of scheduling a premium payment.

2.3 Creating demand for microinsurance

In an attempt to increase the demand of microinsurance by the low-income consumer, Tadesse and Brans (2012:80) argue that the microinsurance demand is dependent on the need for the risk to be transferred, the transfer of risk is determined by the severity of that risk and the probability of that risk occurring. According to Tadesse and Brans (2012), the attitude towards insurance is dependent on these three factors: the perceived value of insurance as a concept and knowledge of how insurance works; the accessibility of insurance, affordability and product delivery; the trust of low-income group towards the product offering and the provider. The research will ascertain if there is an acknowledgement of the existence of risk amongst the low-income clients and understand their perceived value or lack thereof for microinsurance.

2.3.1 Determinants of demand for microinsurance

Understanding insurance: There is a widely held belief that a lack of understanding of insurance by low-income households is the key reason they do not buy insurance. Platteau and Ugarte (2013), however, bring in a piece of mixed evidence that suggests that an increased knowledge of insurance does not always translate into improved or higher demands.

Client and value proposition and perception: There is evidence that suggests that there is a link between the client's value and demand and that the product or service that delivers the best-perceived value is likely to have a greater demand and produce greater returns over time (Matul, Dalal, De Bock & Gelade, 2013, Magnoni & Zimmerman, 2011, & McCord et al., 2012). The traditional marketing strategic elements referred to as 4P's (Product, Price, Place and Promotion) of which the first three define the value proposition and the last one promotes it, are the tools that can be utilized to ensure there are no misperceptions. PACE which refers to Product, Access, Cost and Experience is a tool developed to assess the client value of insurance products by comparing it with other products or other means of protection for the same risk. PACE looks at both products specification and processes.

Wealth and liquidity constraints: Cole, Giné, Tobacman, Topalova, Townsend and Vickery (2011) provide evidence that liquidity constraints limit demands for insurance. The report suggests that wealthier people purchase insurance because they don't have liquidity constraints similar to the low-income client. Low-income households are innately sensitive to price changes. Economically when prices increase, demand decreases and vice versa. However, Cole et al. (2011) argue that low price alone is not enough to create a high demand. Cole et al. (2011) observed that even when prices were below actuarial prices, there was still a low uptake and that when health insurance was offered for free for an initial period, they only achieved a 30% take-up. However, this rose to 90% when there was heavy subsidisation by the government and great incentives offered to those selling the product.

Trust: Central to the effort of insurance and the financial sector is trust. Dong, De Allegri, Gnawali, Souares and Sauerborn (2009) provided three strategies to building trust for insurance practitioners. Product strategy must be portrayed in the product claim, value-added services, and communication. Institutional strategy, includes having trusted agents and representatives of the organisation and lastly, community strategy involves influencing peer pressure.

2.4 Behavioural factors

Dalal and Marduch (2010) state that the science of sales is built on the understanding of human psychology and not just economics. Some of these behavioural behaviours are driven by the following:

Loss aversion: People place greater value on loss than gain. An example of this is when you sell insurance as one could lose the property without such insurance versus selling peace of mind that you have insurance. Cole et al. (2011) found that the message with negative wording increases the level of take-up significantly and that none of the positive wording had such a significant impact.

Effect of past shock: Cole et al. (2011) demonstrated that the experience of a certain type of risk or hazard towards a certain risk in the past, increases chances of take-up for the same risk in the future. Evidence showed that if a farmer experiences inclement weather in the past, they are likely to acquire crop insurance in the future. However, Galarza and Carter (2010) suggest that a farmer might think that the misfortune will not repeat itself, resulting in not taking up insurance. There is also evidence that hearing of others' experiences of risk strongly impacts on the demand for the product.

Peer influence: Several pieces of evidence show that peer influence is one of the critical parts of the decision-making process, particularly for the low-income market. People attending village meetings tend to influence each other in the purchases of certain products and services. Internet retailer Amazon leverages the power of peer pressure by suggesting to the user what their peers are purchasing.

Other risk coping strategy: People have other alternative tools to protect themselves against risks. There are self-insurance strategies such as saving and informal risk-sharing insurances such as communal burial societies that partially protect against risk. By complementing informal risk-sharing, the insurers will be able to stimulate demand (Matul & Suministrado, 2012).

Microinsurance effect on the economy: Microinsurance is seen as a vehicle to promote financial stability, linked to a form of prosperity and economic growth because of the microinsurance's protection of households from different kind of risks that affect economic activity in different ways (Outreville, 2013:97). Risk is a constant in life and is ever present. However, the poor are greatly affected by risks in the absence of risk management instruments. The impact of the shocks on household income and assets as adapted from McCord (2005) suggest that people who receive a low-income continually struggle to improve their lives. They find that financial shocks can easily erode their hard-earned cash, which can plunge them below the poverty line for those without risk management options.

The role of the microinsurance is to temper the downturns, which are impediments to escaping poverty. Tom and Selvam (2010:7) found a correlation between living standards, education level of children, safeguarding of assets and poverty reduction of rural people with health and asset microinsurance. Microinsurance provides an opportunity for the low-income segment to build from the bottom-up ultimately making a stronger contribution to general economic development (Churchill & Matul, 2012:51).

2.5 Risk overview

Risk is the chance of a loss or a loss itself. Aven and Renn (2009:1) defines risk as an event or situation where something of human value could be lost and yet the outcome is uncertain. Risk is also defined as a probability and severity of adverse effect (Aven, 2011:515). Risks may come from natural disasters, life cycle, economic changes and health. Not every risk can be pooled and insured. There are preconditions that the risk has to meet in order for the risk to be insurable and transferrable into insurance.

2.5.1 Low-income customer

Fin Mark Trust (2013:12) defines low-income consumers, as individuals within LSM 1-6 range. This selection is based on the average household income. The following four clusters were developed based on the adult population:

BOP (11 194 000) 35.8%
The Core (10 534 000) 33.7%
The Buttress (5 105 000) 16.3%
The Apex (4 463 000) 14.3%

The South African Advertising Research Foundation (SAARF) is a market segmentation tool which developed living standard measures (LSM) for South Africa's adults, regardless of their ethnicity or location. Hofstede (2011:11) developed a theory that suggests that there is a breakdown between individualism and collectivism in South Africa and that the wealthy are individualistic and the poorer are collectivistic.

Figure 2.7: Lifestyle measure (LSM) groups for the South African adult population

LSM Groups	1-2	3-4	5-6	7-8	9-10
Household Income per month	R1,353.3	R2,098.2	R,4497.6	R12,026.4	R25,453.5

Source data: Finscope 2013 report (FinMark Trust, 2013)

Source: FinMarkTrust (2013)

2.5.2 How big is the low-income market in SA?

This is an overview of the South African population and a statistical analysis of the low-income group based on the LSM groups.

Total adult (16+) population
36.4 million
63% reside in urban areas 39% are under 30 years of age
52% receive money through salary/wage
50% earn a personal income of less than R2 000 per month (this includes 11% who do not have a personal monthly income)

LSM 1-2 in South Africa (adults) 658 thousand

14% - No Water
21% - No Toilets

78% - No Electricity
LSM 3-4 in South Africa (adults) 5.9 million
11% - No water
11% - No toilets
20% - No electricity

2.6 Characteristics of the low-income consumer

Low-income consumers are vulnerable to any economic changes or shocks. The vulnerability relates to the inability to deal with risks (Bali Swain & Floro, 2014:541). When there is a lack of income, health products, education and basic services manifest into poverty. Poverty and vulnerability reinforce each other (Akotey, 2011:183). Indebtedness from micro-lenders and credit purchases where clients pay in instalments with interest are some of the characteristics of a low-income consumer (Bali Swain & Floro, 2014:542).

2.6.1 Low-income consumer behaviour

Consumer behaviour is the study of individuals, groups and organisations, the processes they follow to make buying decisions and the impact these processes have on consumers and society (Chen, Chen & Huang, 2012:106). Factors that influence consumer behaviours include cultural background, religious background, perception, motivations and economic status. These influences determine consumer behaviours when making a purchasing decision. Kotler and Keller (2012:166) depict the process and factors that determine consumer behaviours in purchasing decisions. Low-income consumers are faced with risks every day and require protection from such risks.

III. Research Methodology

The research approach selected for this study was qualitative. Rallis and Rossman (2012:142) suggests that qualitative research seeks to learn about aspects of the social world to get a new understanding that can contribute to greater knowledge. The purpose of this study was to understand the reasons for the low penetration of microinsurance products. The study explored both the mitigating factors that exist and all other unknown reasons and thus due to the nature of this problem, an exploratory approach was employed which led to qualitative research. In determining the reasons for the low uptake of microinsurance products amongst low-income consumers, the research was open-ended for an opportunity to unfold various themes that would make the researcher understand the lives of a low-income customer. The data was collected through semi-structured in-depth interviews.

3.1 Target Population

The research was targeted at Living Standard Measures (LSM) 1-6. The LSM 1-4 have an average household income of R4, 497.60 per month, LSM 5-6 average household income of R12,026.40 (FinMark Trust, 2013). The research was conducted with 20 individuals consisting of 12 males and 8 females. The samples were selected from the following South African provinces: Gauteng, Mpumalanga, Limpopo, KwaZulu-Natal and Eastern Cape.
A quota was broken down according to the following LSM:

3.2 Interviews LSM breakdown

	LSM 1-4	**LSM 5-6**
Average household income	R4, 497.60	R12, 026.40
Number of in-depth interviews	10	10

The 20 in-depth interviews were split by province

Gauteng	8
Mpumalanga	4
Limpopo	4
KwaZulu-Natal	2
Eastern Cape	2

The following groups were deliberately included in the sample: Financially excluded group – those without any financial products and services, those using commercial products and services, those with social group memberships, and those with a combination of formal and informal financial mechanism. The research was designed to involve a wide range of LSM representation and stakeholders that will enrich the survey through cross-cutting information. Sampling profile for this research was the South African adult population aged 18 years and older, employed with a monthly income of R12, 026.40 or less (LSM 1-6) and have decision-making powers within the household.

3.3 Ethical considerations

Ethics is a philosophical term meaning ethos, the character that conveys moral integrity and constant values. All research, regardless of design, sampling, methods and techniques are subjected to ethical considerations (Gratton & Jones, 2010:121).

Interviews were conducted in English.

The participants were informed regarding the research intent, the nature of the study and the participation requirements. This also included the venue, duration of the interview and the anonymity of the participant.

Consent letter of participation was signed by all participants.

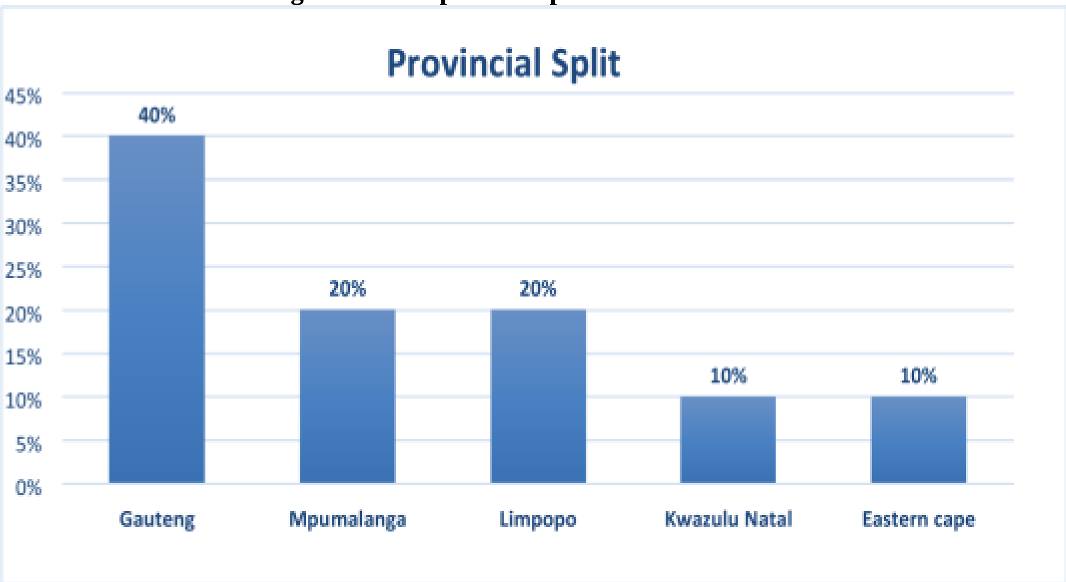
Participants were not subjected to undue risk, stress, embarrassment or loss of self-esteem during the interview.

The researcher ensured that caution was taken to avoid any undue harm to participants. No compensation was offered to the interviewees.

IV. Discussion And Interpretation Of Findings

The sample group were from the following provinces: Gauteng, Mpumalanga, Limpopo, KwaZulu-Natal and Eastern Cape with the following split representation:

Figure 4.3: Respondents provincial breakdown



4.1 Key Decision Makers

All the interviewees were the household decision-makers within their households. 50% of the households had four or more people. All participants had income, but two received this monthly allowance from their working children. The personal monthly income was between R2000–R12 000.

Based on a follow-up question on their income and the industries in which they work, the results show that 60% of the sample are employed full-time with monthly salaries, 30% own small businesses, most of which are informal unregistered informal businesses. There is no bookkeeping or bank account specifically for the business. Villagers purchase using cash only and the businesses do not have any electronic card payment facilities, nor do they use any other electronics such as computers. 60% are employed full time and 10% were unemployed. However, they do receive monthly financial support from their working children.

Figure 4.6: Respondent's Monthly income

LSM Breakdown: The LSM breakdown was 50/50 for LSM 1- 4 and LSM 5-6 respectively.

4.2 Research objective 1: Risks that requires protection from microinsurance

Respondents were asked about their previous risk events that they have encountered and whether they have plans to protect themselves against those risks in the future. Respondents did not seem to have a solid plan on how to protect themselves from risk. Some depend on their community policing forums and even the police officials for protection. They also depend on their families, friends and churches to support them with funeral costs and sending their children to school. Some of them seem to understand the need for formal insurance protection. When asked how they save for unforeseen circumstances, some of the responses were as follows:
Respondent 5 remarked that "I save for rainy days with the bank."
When asked how they protect themselves and their assets from risk:
Respondent 5 remarked that, "My house is not financed by the bank so there is no need to protect it." However, when asked about the possibility of fire damages, the response was that "There has never been fire damage to houses in our areas because we have electricity."
Respondent 10 said, "I have big dogs and they bite to kill. No one will ever get into my yard so my house and all the contents are protected."
Respondent 4 said, "There is a police station nearby so our area is not that bad with crime and damage to property."
Respondent 6 said, "I don't have any protection so anything can happen but I pray every day. I need to get insurance but I don't understand it and I hear insurance companies don't always pay the claims."
Respondent 6 also said, "I need funeral insurance. Funerals are very expensive and the casket you get from the burial society is not good quality so you need to upgrade it with your money and it can run into thousands."

4.2.1 General life events for the past 12 months

Respondents were also asked about life events in the past 12 months that could present opportunities for insurance:

Figure 4.9: Life events for the past 12 months

Started a new job	30%
Got a promotion	9%
Changed jobs	10%
Got an increase	10%
Bought a new house	3%
Bought a new car	5%
Became unemployed	2%
Retired	1%
Started own business	8%

4.3 Research objective 2: Landscape of access for microinsurance

This section presents the current service points available to the respondents and other community groups that are available for the community, as potential distributing points for microinsurance. The type of transactions they have and use was also presented.

4.3.1 Accessibility

This is measured by the time it takes the participants to reach a service point or institution. This shows the average time it takes. There was a difference between semi-urban and rural areas in the time taken to reach these financial points. It takes the rural market on average 60 minutes to get to the insurance branches which are situated in town and an average of 24 minutes for the semi-urban areas known as townships

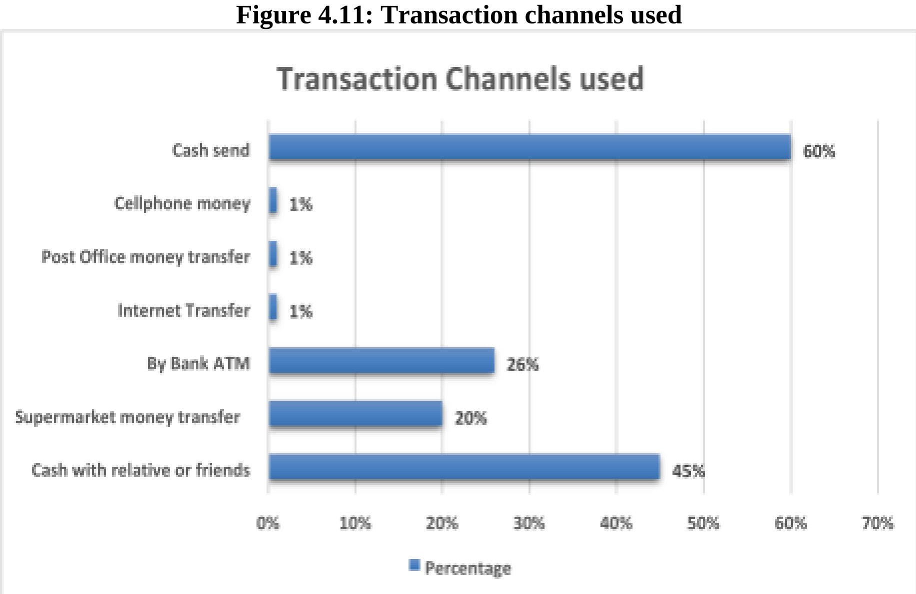
4.3.2 Average time taken to reach general service points

Figure 4.10: Average time taken to reach service points

	Service Point	Average time in minutes taken to reach destination. (semi-urban)	Average time taken in minutes to reach destination. (Rural)
1	Public transport	10	12
2	Petrol station	20	45
3	Supermarket	12	45
4	ATM	11	47
5	Post Office	12	42
6	Bank Branch	21	45
7	Insurance branch	24	60

4.3.3 Channels used for financial transactions

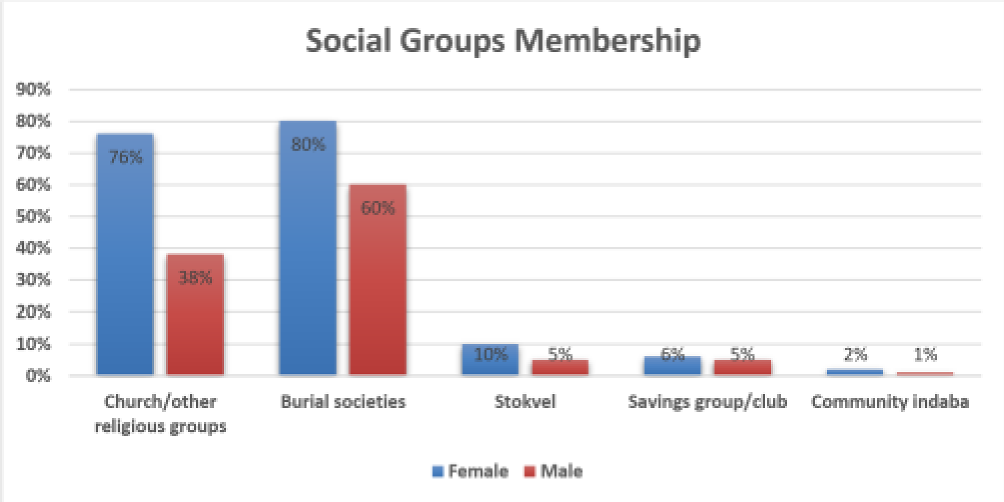
Figure 4.11: Transaction channels used



4.3.4 Social groups memberships in the community

Social groups are common in South Africa, particularly amongst the low-income group. These fulfil a number of social and financial needs, such as burial societies for a funeral, emotional support and sometimes catering. It is much more common amongst women in the villages. People generally use a combination of financial and insurance products and services with other non-formal products and services to meet their financial needs.

Figure 4.12: Social groups' memberships



Research objectives 3 and 4 concern the drivers and barriers of usage for microinsurance. Respondents were asked which insurance products they currently have. This was to determine the level of cover within the targeted segment.

4.3.5 Current insurance products

Figure 4.13: List of insurance products respondents currently have

	Currently have	Consider important
Funeral policy	45%	43%
Life assurance	20%	20%
Insurance for a car	6%	0%
Cell phone insurance	3%	8%
Unit trusts	7%	10%
Dread disease cover	0%	1%
Short-term household insurance	0%	3%

For those without funeral cover, when asked why they did not have the product, their reasons indicated that most belong to the burial societies within the communities they live in and for some, there is reliance on family, friends and church to bury them and take care of their dependents.

Reasons for not having health insurance were mostly that it is expensive and therefore they cannot afford it. Furthermore, they believe that their working children would pay for their medical costs should they get sick. If they were to choose an important microinsurance product, most would purchase funeral cover and an educational policy for their children.

4.3.6 Stories from the communities

Permission was attained from respondents to mention their names without exposing their full identities.

Story 1: Lesiba is 52-years-old running her own tuck-shop business selling consumables**.** "I realised that I needed a funeral policy after burying my husband. I do not feel like we buried him with dignity because I didn't realise that funerals are this expensive and I don't want the same for me and my kids. I also don't have money to take my kids to universities. Two of them have passed matric and they are staying with me helping me at the shop. I want them to get employment to get us out of poverty. I don't know of any other products by insurance companies."

Story 2: Lindiwe is 40-years-old living in the rural areas of Mpumalanga. She earns R3500 per month and she receives a grant from the government for her three children. She has numerous loans with a few institutions and struggles to make ends meets.

"I get given loans even when I don't qualify."

"I have a funeral insurance product and they deduct money from my salary directly which I don't like. Some months I could use the money for other important things."

"I need a cheaper funeral option because I don't earn enough money and they must allow me to pay when I have money to pay. I get a double salary on my birthday so I could pay for the months I've missed during that time."

Story 3: Elizabeth lives in Polokwane and she receives money monthly from her children. She gets more or less R3500 in total from her six children and she says one of her sons pays for her medical aid. She recently buried her husband and she was shocked at how much a funeral costs.

"I don't think I need insurance as my kids will bury me when my time comes. I can't take a life cover because I am all by myself with no one depending on me. All my kids are working so I will leave them my house and whatever little I am saving. I have an account with Capitec and I invest on the 31 days' notice whenever my kids give me more money than I need, especially in December."

"I also belong to the burial society where I pay R20 a month and they will buy me a casket, a cow, and some food and each family will contribute R10 towards my burial which is usually about R3000."

According to FinScope South Africa 2013, about 14,2 million South African adults live beyond their means. More than a third show one or more signs of over-indebtedness. Formal funeral cover went up 29% to 9,6 million adults. 25% claim to belong to burial societies. The respondents were asked which of the insurance products they are familiar with. Funeral insurance was top of the list.

4.4 Research objective 5: Recommendations for improvement of microinsurance product penetration

Respondents identified what they referred to as flaws with current microinsurance products, such as those that are insufficient to cater for small business owners, particularly considering that their cash flow is not stable. The insurance providers need to allow for flexibility of payments as currently they cancel your policy when you miss a payment and you lose the money you have paid.

There is mistrust towards insurance with claims. There was a perception with the respondents that insurance companies find excuses not to pay claims.

The sales team does not adhere to a professional dress code and they don't have cars. "They look dodgy and unprofessional and they want to collect money from us. How do we know they are legitimate?" one of the respondents remarked.

The accessibility of the insurance offices is not great. Most of them have to travel far to town just to speak to the insurance professionals as they do not trust those who walk into their homes. It's imperative for micro-insurers to partner with trusted organisations with better access to the market.

As part of the recommendations, respondents were asked who their source of financial advice is. Family has the highest percentage in this target group.

Respondents were asked who their source of financial advice is in order to understand the critical points during the sales process.

Figure 4.16: Sources of financial advice

	No one	Family	Friends	The bank	Broker	Direct	On line	Colleague
Buying house	4%	44%	13%	18%	13%	4%	-	-
Buying car	6%	58%	12%	15%	7%	6%	-	1%
Consolidating debt	19%	37%	6%	24%	5%	5%	-	1%
Taking life insurance	7%	44%	4%	11%	10%	12%	1%	--
Re-evaluating life insurance	7%	44%	3%	10%	13%	14%	-	1%
Short-term insurance	8%	39%	4%	9%	14%	14%	1%	-
Retirement planning	8%	22%	5%	7%	16%	13%	-	5%
Medical cover	7%	58%	6%	4%	9%	16%	1%	1%
Applying for account	9%	40%	4%	33%	4%	11%	-	-
Applying for credit card	9%	35%	3%	43%	5%	4%	-	-
Investment	8%	32%	3%	38%	10%	3%	-	-

Respondents were asked where they would be comfortable to be approached for insurance products. Being visited at home and workplace were the most preferred, followed by brokers' services.

Figure 4.17: Most comfortable to be approached

Most comfortable being approached	At home F2F	At work F2F	Call centre	Broker	At a bank	Advertising	Direct	Online
Retirement planning	22%	46%	2%	10%	5%	1%	6%	5%
Buying life insurance	20%	34%	7%	16%	6%	1%	6%	4%
Re-evaluating life insurance	25%	35%	5%	18%	5%	2%	4%	3%
Buying a funeral plan	22%	36%	7%	16%	5%	2%	7%	4%
Short-term insurance	19%	29%	5%	15%	8%	2%	9%	4%
Saving opportunities	18%	28%	3%	10%	29%	1%	3%	4%
Investment opportunities	28%	20%	-	4%	20%	-	3%	1%
Medical cover	18%	24%	3%	13%	13%	1%	4%	3%
Negotiating a loan	11%	27%	2%	10%	15%	3%	2%	-

The findings of this study revealed that low-income groups are vulnerable to risks on a daily basis and that they are not adequately covered for financial risks. Findings further indicated that people value their assets and they are aware of some risks that exist around them with their lives and their assets. This understanding does not seem to translate into an insurance product purchase. There is definitely a lack of awareness of most insurance products and how they work. Funeral products seem to head importance for insurance product knowledge and other insurance products are less known.

There is also reliance on informal insurance products such as burial scheme memberships, stokvels and reliance on friends and family for assistance. The perception that claims are not paid by insurers seems to be one of the key barriers of take-up for insurance products which if not taken care of can develop further mistrust for insurance companies.

Microinsurance penetration is low and focus should be placed on education, improved product access and distribution, and seamless processes, amongst other strategies, to increase financial protection to the low-income market.

V. Summary, Conclusion And Recommendation

The low-income market is constantly vulnerable to risks that require protection. The vulnerability relates to the inability to deal with risk. (Bali Swain & Floro, 2014:541). Some of the risks that were observed and mentioned during the in-depth research process include assets protection, short term insurance, business insurance, death and disability cover, crop protection, health protection and need to plan for emergencies.

There was also a consensus during the research processes, both by the primary findings and the literature review which concluded that the low-income segment does not have a saving culture and even those who do save, do not save enough to protect themselves from all risks. There is a gap in the current coping strategies and the need for risk cover that can only be eliminated by formal risk protection of microinsurance.

There is a demand for microinsurance stimulated by advertising. However, with the perceptions that micro-insurers do not pay claims, there is a lack of trust for the insurers by the market (Tadesse & Brans, 2012:80). For those who have insurance in place, there is good knowledge and penetration of funeral insurance. However, other insurance products and services are relatively unknown and understood. There is a common factor for people wanting to give their loved ones a dignified funeral. However, life after the death of a breadwinner is not given much thought. Pricing and affordability, as well as a lack of understanding concerning insurance products are mentioned as some of the reasons for not acquiring insurance.

Some of the suggestions made to improve take-up include cheaper and flexible monthly contributions, a more efficient claims process, distribution channels/accessibility of insurance and partnerships with some local businesses for ease of relationship management.

There is a need for microinsurance to protect the poor from risk and certain strategies need to be put in place to create and increase the demand and improve penetration of microinsurance into the low end of the market.

5.1 Recommendations

Product enhancement and diversification: Even though health insurance, property insurance, assets protection, crop protection and business insurance are some of the concerns of the low-income groups, the most common insurance they have is funeral insurance. Product development needs to incorporate diversified products that address all the needs of financial protection by the low-income market. The design and product features should be considerate of the unique challenges faced by the low-income market.

It is crucial for microinsurance products to strike a balance between inclusiveness, appropriate benefits, affordable and flexible premium rates, and sustainability and profitability for the business. Products need to be designed and customized for low-income clients and the conditions to their preferences.

Even with formal microinsurance being available, the low-income market will still have diversified risk coverage that will include other informal methods and insurers must acknowledge and seek cross-collaborations with these informal structures with complementary products.

A product educational plan will have to be developed in a manner that does not necessarily drive sales but seeks to inform the market about risks and how these will affect them in the future. This can be done through sponsorships, community hall presentations, and radio and print communication channels.

Distribution: Even with the formal microinsurance available, research shows that the low-income market will still have the diversified risk coverage that will include other informal methods and insurers must acknowledge and seek cross-collaborations with these informal structures with complementary products. These structures include local churches, burial societies and stokvels that the micro-insurers can collaborate with to bring education and distribution points for insurance products and services.

Government partnership: The government's role in protecting citizens against risks is one of its important focuses as well as providing financial access to the market previously excluded. The government could introduce insurance subsidies to the low-income market to eliminate the possible poverty cycle for generations. The government can through governance and regulation also create a supportive environment for microinsurance.

Financial Sector Conduct Authority (FSCA): FSCA must increase their role in education, funding, coordinating and monitoring better consumer education for the low-income segment. FSCA should create a level playing field by removing burial societies from the Friendly Societies Act.

Alternative distribution channels: Insurers should look at the possibility of collaborations with retailers who already have a wide footprint and relationships with the low end of the market. This is a new concept that is used by the financial institutions for clients in remote areas. Technological support and training must be provided to retailers for this collaboration to succeed. Online business and webpages should also be considered, as there are currently 26 million mobile users in South Africa. Workplace advertising was also highlighted as the preferred place of buying insurance products by the low-income market. This came second after home visits.

Field sales team: There are certain criteria in the selection of microinsurance sales and distribution personnel. Adapted from Roth and Athreye (2005), the agent must be a resident of the community in which it will sell the products and services. They should have at least passed matric/grade 12 and have the ability to read and write English, since the underwriting is in English and the forms are currently completed in English. The individual must have a record of integrity, leadership qualities, public speaking for presentations, training skills, have some previous working track record in the social or financial sector and a positive influence in the community. Micro-insurers who cannot attract experienced personnel should make significant investments into the training of their staff and continuous training should remain the greatest area of potential improvement (McCord et al., 2000).

Beliefs, attitudes, values and structures are crucial in the provision of microinsurance products and services. The universal four pillars of governance such as accountability, transparency, predictability and participation are also crucial in making a success of the microinsurance business.

Access is associated with being part of the social community: This is usually associated with trust and reciprocity. The field sales team must look the part as it was mentioned during the research that most of them do not look and dress professionally.

Process enhancement: Complex documentation for applications and claim processes should be streamlined and made simpler to avoid a bureaucratic nature. Insurance is usually tainted by the perception of claim pay-out problems and this perception needs to be addressed to ensure trust and reliability which also affect access.

Application process: Application documents need to be shortened, made simpler, in an easy to understand language of the market. The language barriers should also be taken into consideration during the application process design. The process should be short and provide simple product benefits and premium structures.

Marketing and education: The main messages conveyed by micro-insurers is that of testimonials that convey to the low-income households that they are vulnerable to risks and should have products that protect them from those risks. It is crucial to ensure that the reasons and not just the product information is communicated effectively to generate demands. Product benefits to clients must be communicated clearly, simply and accurately.

Education: There is evidence of scepticism regarding insurance for the low-income segment. All the participants knew and understood insurance but not the full implications. Funeral cover seems understood more than other products. Some households consider insurance as products for the rich. The perception of the insurance industry directly relates to the low confidence regarding insurance. The long delays with claims are one of the major issues that the insurers have to address with education. There is a need for strategic education to improve demand and take-up for insurance products, to improve the financial literacy of the market and changing the attitudes of the market towards the insurance industry.

Activating the industry: The demand for this market is to be carefully studied and understood by the insurers. A baseline study of this group needs to be conducted to inform every single product and the benefits package development, to ensure it addresses the special needs of the market. Development of the products together with the clients will ensure coverage of all risk protection needs, affordability calculations on a one-on-one level to ensure that assessment of all critical factors is ascertained. Expected results of these grand strategies will be an improved penetration of microinsurance to the low-income market and better protection of the market from financial risks. This will also provide sustainable business for the insurers and reduce the over-reliance on funeral products for better client and business value.

5.2 Areas for further research

Independent risk management by microinsurance, even though effective in protecting low-income groups from insurable risk, will be successful as a complement to the other instruments for comprehensive risk cover. An integrated strategy of social protection encapsulating health, private sector and civil society should be investigated. Subsidies by the government for insurance should be investigated. Subsidy versus grant could ensure that funds are directed for their intended purpose.

5.3 Conclusions

The goal of microinsurance is to protect the low-income market referred to as the poor from insurable risks, to help create economic development and to enable them to achieve financial protection for a better future. Demand for insurance needs to be stimulated and coaxed and therefore greater efforts need to be conducted in educating the low-income market about insurance, its benefits and its role towards protecting them from risks. The government can get involved through providing a conducive environment and supporting this economic imperative by introducing subsidies for the market. Because microinsurance is relatively misunderstood, there is a need to build capacity by the providers by improving processes, to invest in new delivery channels and training their sales force on how to effectively and attractively market microinsurance. Technological advances will need to be enhanced to streamline processes for expansion of microinsurance. By itself, microinsurance will not eliminate poverty. However, by effectively protecting the low-income market from risk, it can make a great contribution to alleviate poverty and achieve continuous participation in the economy by the low-income segment.

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