

Estimating Demand for Microinsurance In Ethiopia

21 October 2008, Addis Ababa

Dir biyabir anbessa yassir.

“When spiders’ webs unite, they can tie up a lion.”





Who We Are

- Confederation of 14 agencies
- 100+ countries
- Ethiopia since 1962
- Oxfam America: US Affiliate

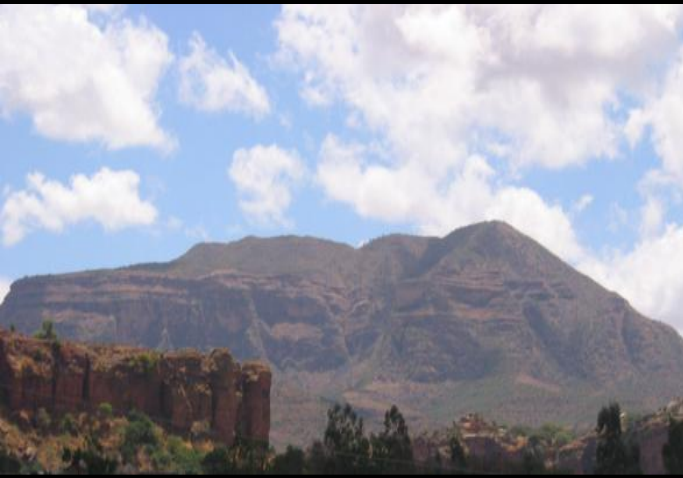
What We Do

- Emergency work
- Development programs
- Campaigning and lobbying
- Policy research



Caveats

- Qualitative estimates
- Quantitative where possible



Methodology

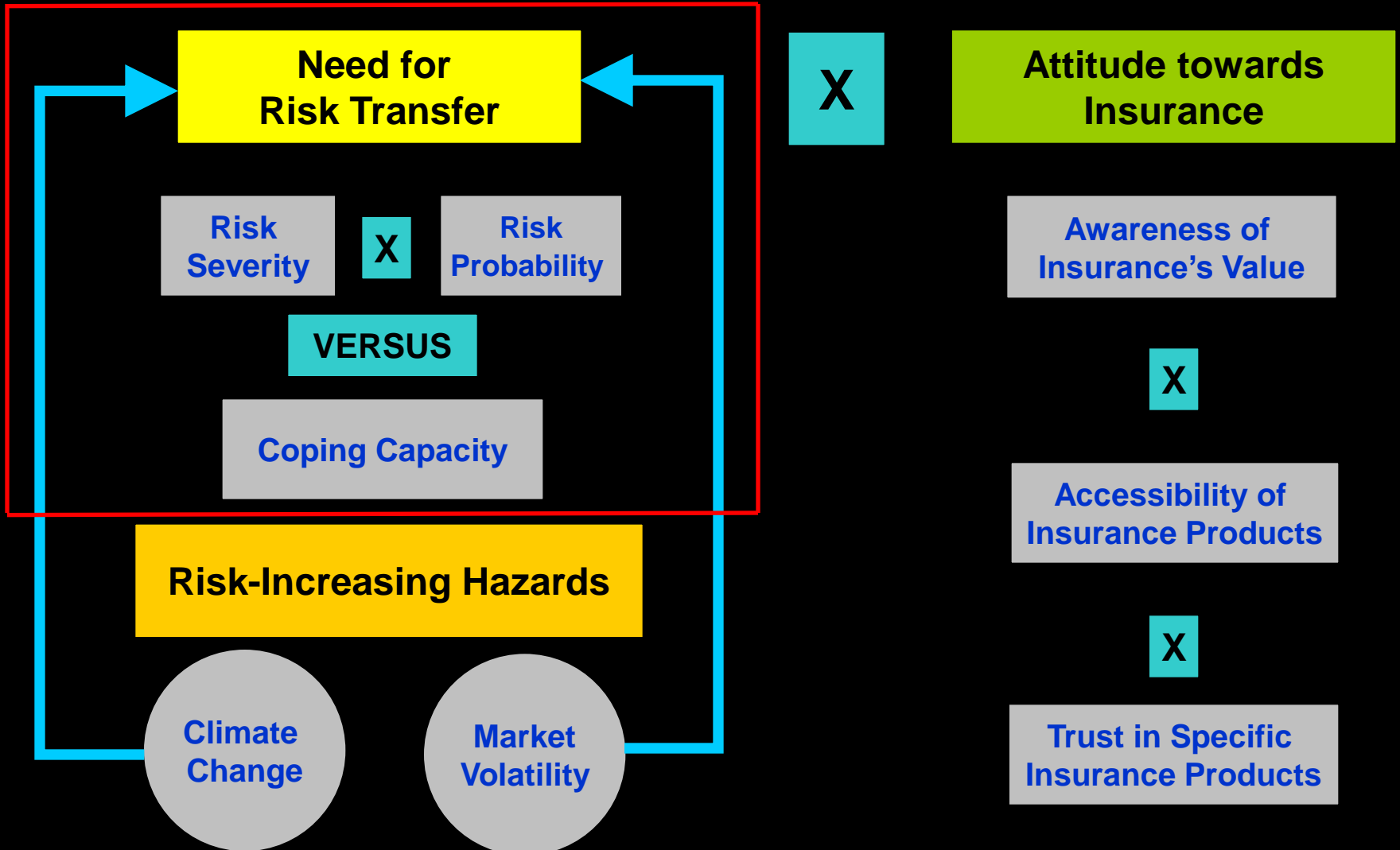
- Extrapolation from Adi Ha research in Tigray
- Extensive Lit. Review
- Field Research



Field Research

- Focus Group Discussions (95 participants)
 - Participatory Rapid Appraisal
 - In-Depth Interviews (43 participants)
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- Microfinance Clients
 - Existing Users of Micro-insurance
 - Poor Non-users of Microfinance
 - Urban/Rural: Addis (Arada), SNNP (Yirgachefe), Oromia (Yabello & Hagere Mariam)
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- Led by MICRO Development & Training & Consultancy Services (MDTCS)

Demand for Microinsurance = Need X Attitude



Understanding Client Risks

- Very wide range of risks
- Focus on severity and probability of key *insurable* risks
- Will discuss a few other important “non-insurable” risks (e.g. price, divorce)



Health

Illness, Injury,
Disabilities

Malaria

- #1 cause of outpatient visits

HIV/AIDS

- High prevalence in urban areas

Disabilities

- 2% of population disabled
- Men more accidents

Death

Mortality Rate

- Life expectancy: 54.99 years

Causes

- Infectious diseases
- Malnutrition
- Highest % car fatalities in world
- Clan conflict

Impacts

Dercon estimates funeral 25% of yearly consumption

Property

Fire

- Primarily urban concern

Theft

- In urban and rural, relatively infrequent.

Flood

- Usually affects small area but major floods in 6 of last 20 years.

Livestock

Mortality

- Annual losses: 720.4m Birr (est 05)

Disease

- Morbidity losses higher than death

Market

- Up to 35% of AG GDP from pastoralists

Crop

Drought

- Rainfall & GDP growth *highly* correlated
- 20% decline in consumption if experienced drought at least once in last 5 yrs

Disease/Pests

- Threat to all farmers.
- Yirgacheffe coffee estimate of 5,000-7,000B/season
- In case of total crop loss, takes at least 3 years for new plant to mature

Price

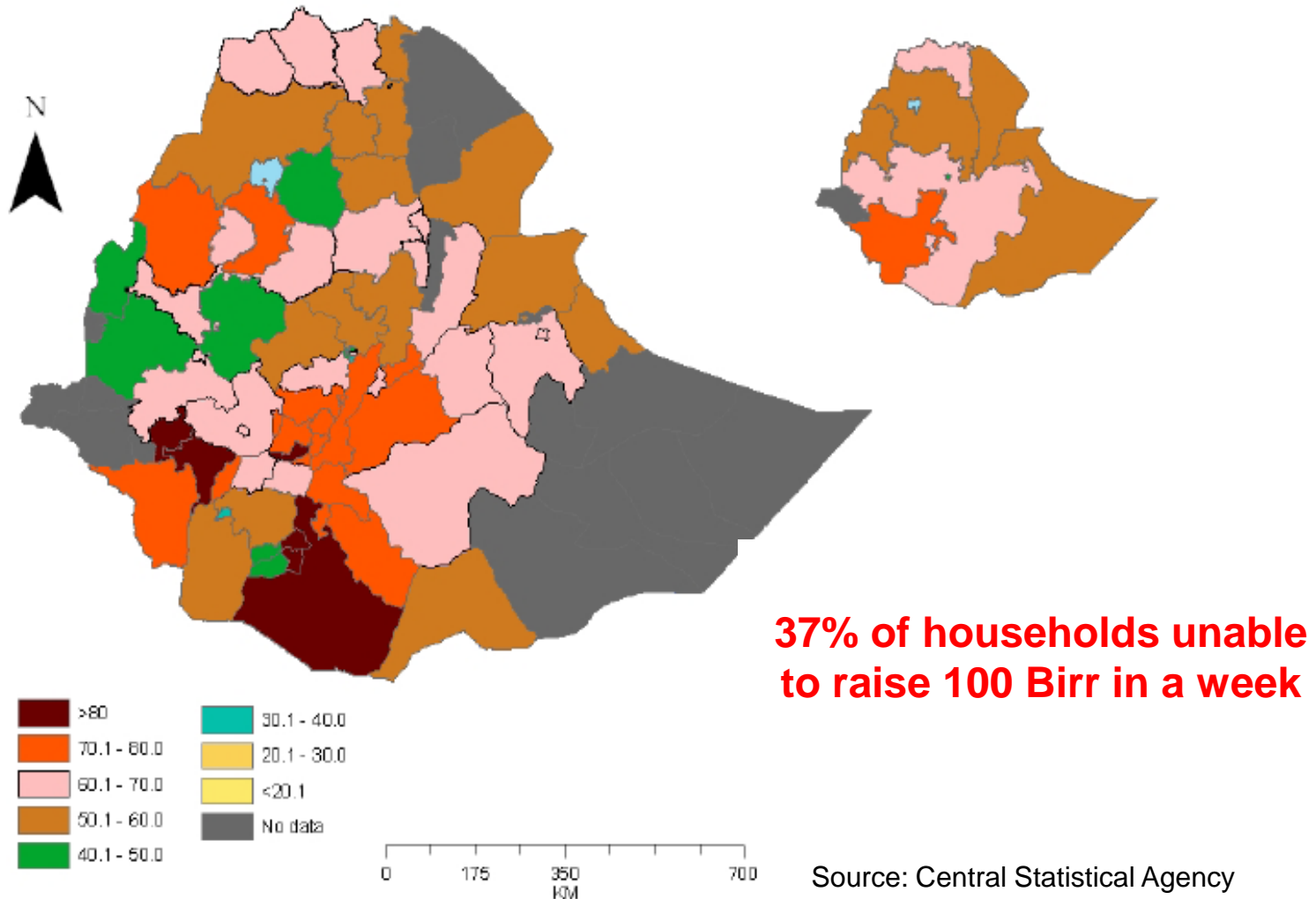
- Coffee price crisis:
31 cents/kg in 1999 → 12 cents/kg in 2001
- GDP from coffee went from 70% to 35% in 5 years.

Priority Risks by Region

Livelihood Group	High Ranking Risks in Field Research
Tigray rainfed cereal	Crop, death, health
Addis Abba urban	Death, health, property, unemployment, divorce
Hagere Mariam, Oromia mixed farming	Death, property, crop, livestock, divorce
Yirgachefe, SNNP Coffee—perennial crops/export	Crop, death, health, property, price
Yabello, Oromia pastoral	Livestock, health, death, property, price

Coping Mechanisms

Households Capability to Raise 100 Birr With in a Week

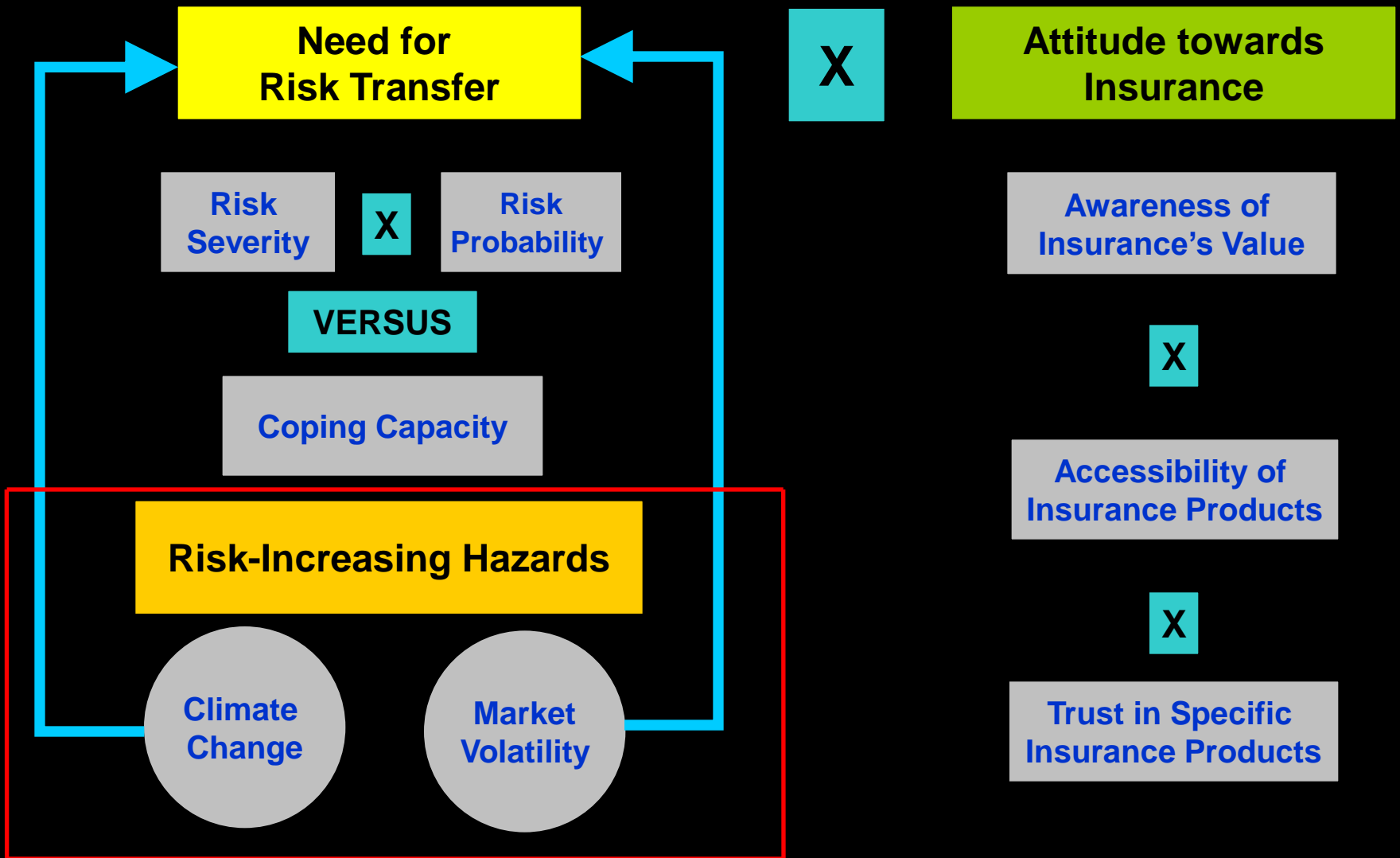


Coping Mechanisms

	Coverage	Access	Timeliness	Stress
Self-Insurance Cash Savings, Wealth Accumulation, Livelihood Building	<ul style="list-style-type: none"> •All risks •Low “benefits” 	<ul style="list-style-type: none"> •Low 	<ul style="list-style-type: none"> •Not timely 	<ul style="list-style-type: none"> •High stress
Community Mechanisms Iddir, Busaa Gonofaa, Dabare, Gare, Goxi etc.	<ul style="list-style-type: none"> •Idiosyncratic risks •Low “benefits” 			<ul style="list-style-type: none"> •Less stressful
External Assistance Government, UN, NGOs	<ul style="list-style-type: none"> •Covariant risks •Uncertain “benefits” 	<ul style="list-style-type: none"> •Uneven access across country 	<ul style="list-style-type: none"> •Very late 	<ul style="list-style-type: none"> •Least stressful (?)

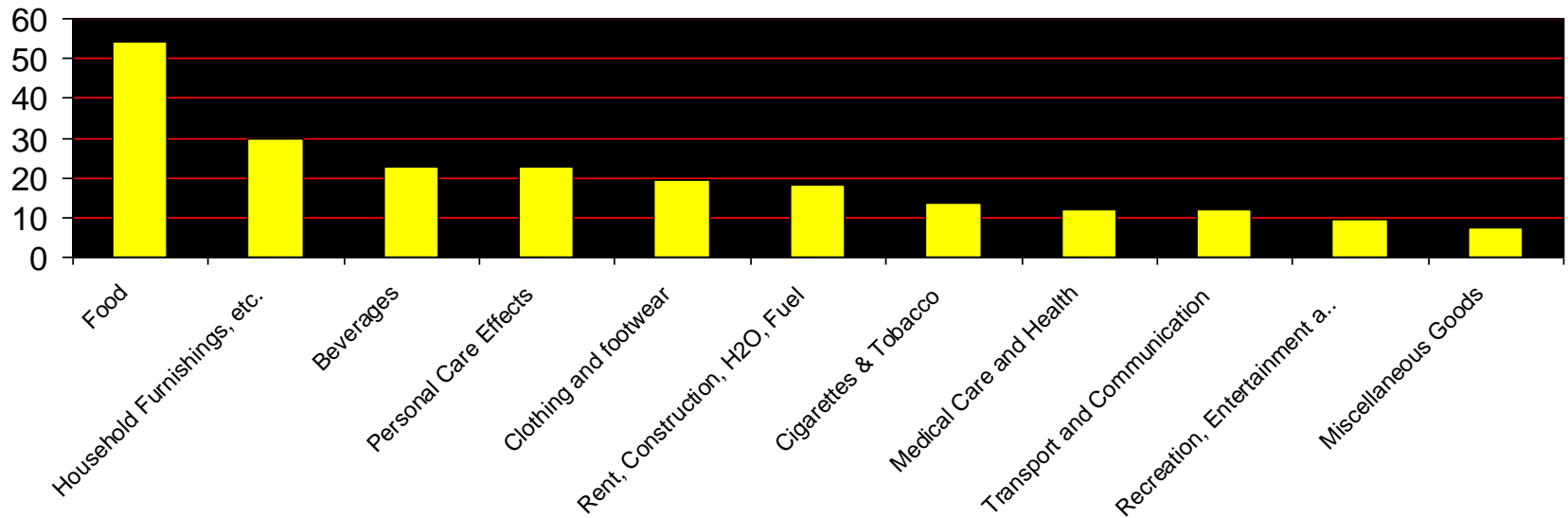
Opportunities for Microinsurers in the gaps

Demand for Microinsurance = Need X Attitude



Hazard 1: Market Risks

Increase in Consumer Price Index Date (vs. 1 yr ago)



Hazard 2: Climate Change

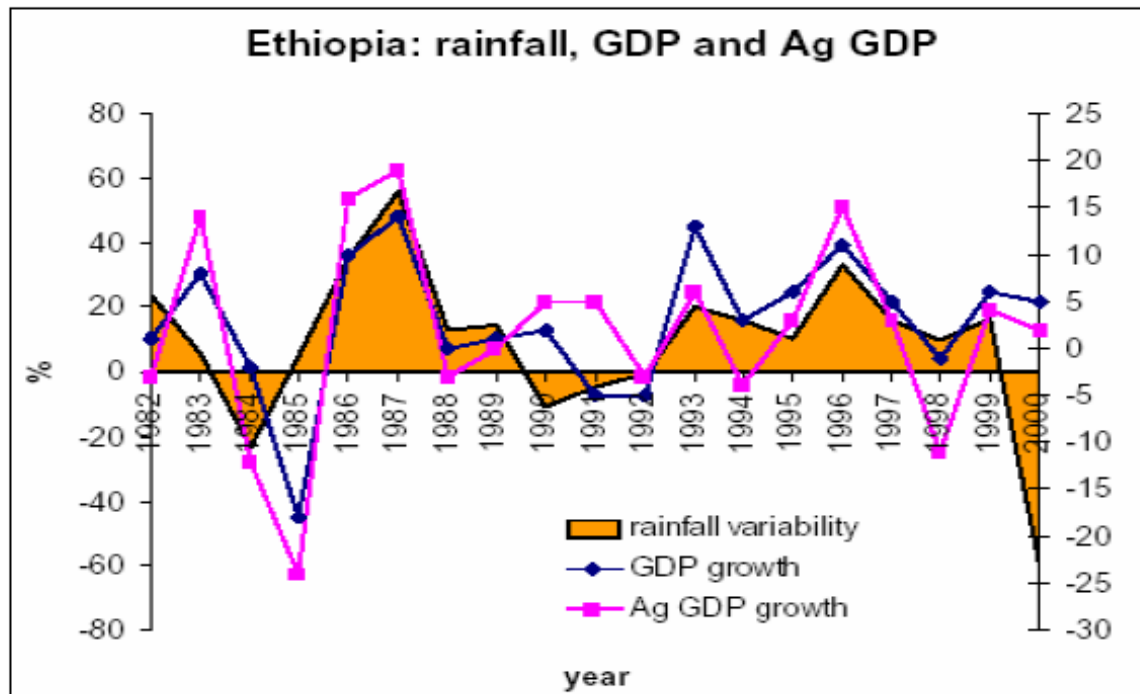
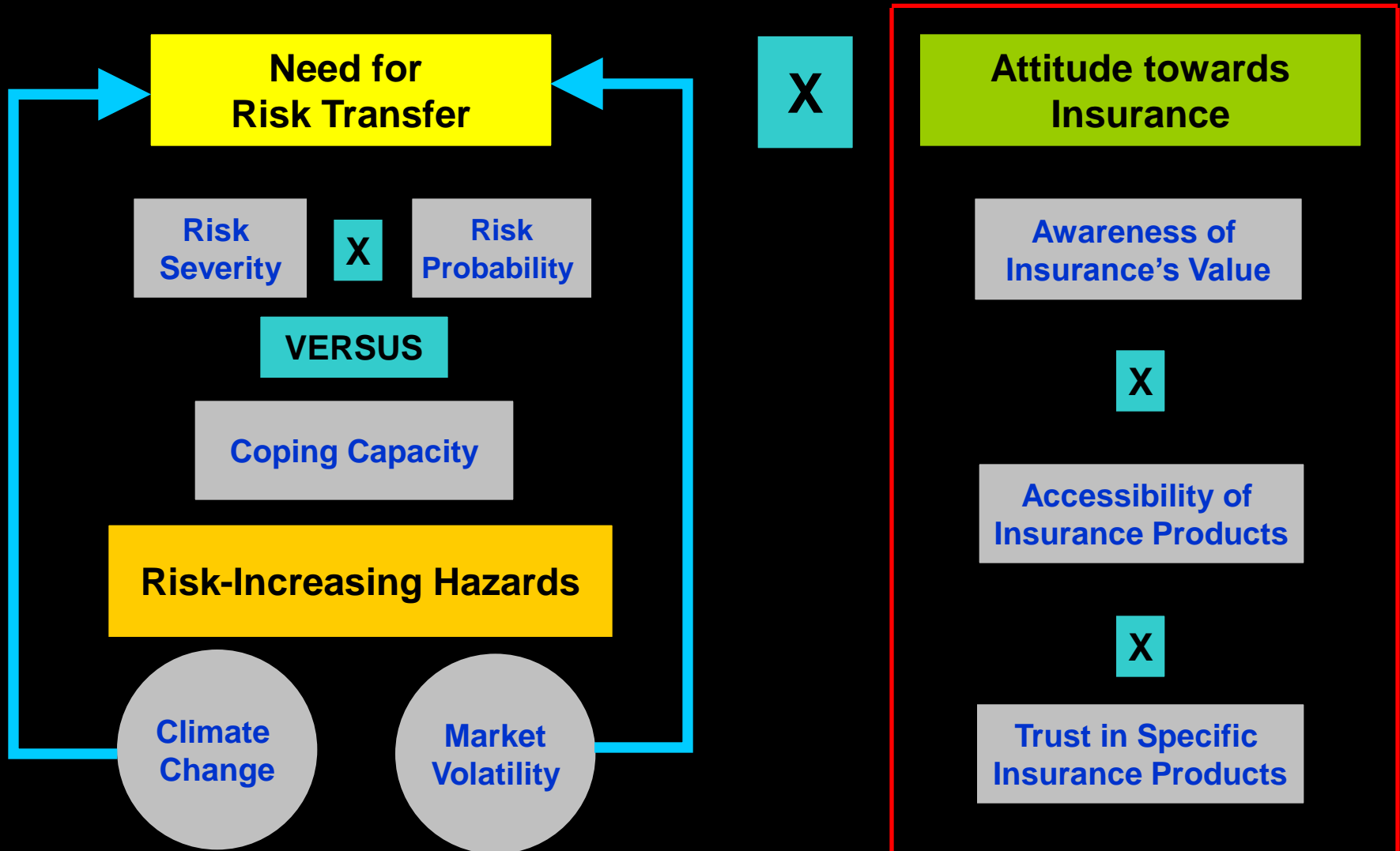


Figure 3.18: Relationship between annual rainfall and Gross Domestic Products (GDP) growth over Ethiopia. *From de Jong (2005), cited in World Bank (2005)*

Demand for Microinsurance = Need X Attitude



Awareness of Insurance's Value

- Ex ante risk management low priority.
- Limited knowledge of insurance.
- Familiarity with microfinance and iddir are key.
- Some credit-life clients unaware of coverage.

Accessibility: Affordability

An Implicit Risk Premium?

- The poor may not be “too poor.”
- Two ways to think about increasing affordability:
 - 1) Ex ante risk management cheaper.
 - 2) Insurance allows greater wealth accumulation.
- Implication: insurance could theoretically “pay for itself.”

Accessibility: Design

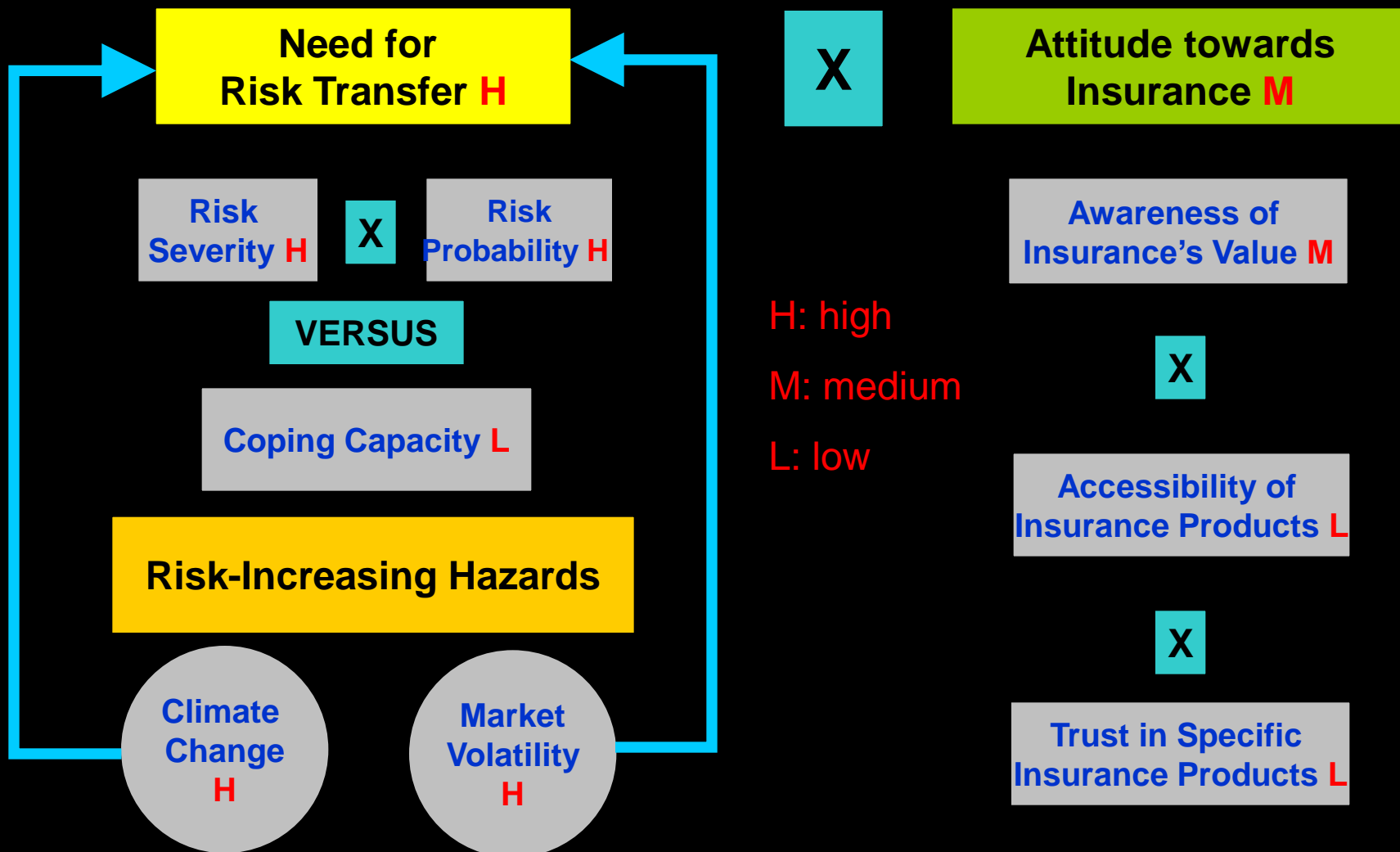
- Peak income times
- Standalone & bundled with credit
- Some interest in mandatory insurance
- Little concern for premium non-refund
- Bundle with social services

Trust in Products

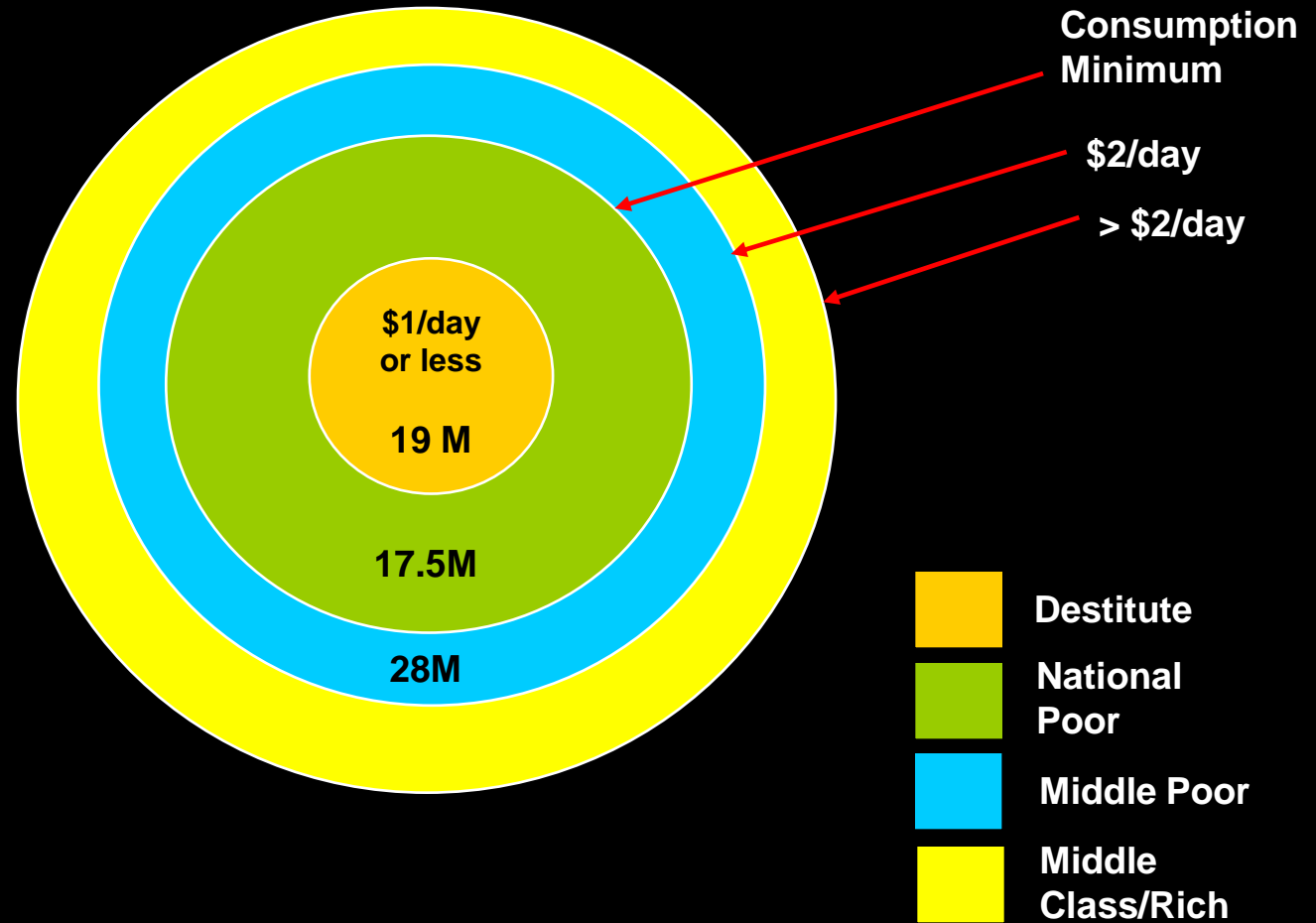
- Client involvement in design
- Learn from informal savings and credit behavior
- Distrust of group based products
- General trust or neutral attitude towards distribution channels

Demand for Microinsurance = Need X Attitude

“M” now, but can increase to “H” easily



Potential Clients



64 million total below \$2/day.

Hard to define which clients are "too poor" or "too rich" for MI

Estimating Demand for MI

We found a strong interest in the idea as a complement and/or replacement to traditional mechanisms.

- 88% in Tigray
- “Insurance is very helpful and important as long as the payment is appropriate – we are eager to benefit from it.” (Addis Ababa)
- “We expect this good idea to be reality.” (Hagere Mariam, Oromia)
- “Insurance is very important especially for Borena people...Currently we don’t have such a service.” (Yabello, Oromia)
- “We always face serious risks in relation to our coffee and inset and we need to have protection for them.” (Yirgachefe, SNNP)

But, they may not fully understand the limitations & costs.

Gender Analysis

- **Low gender equity**
- **Universal risks + gender specific risks.**
- **Women have less income, BUT**
- **Stronger precautionary savers**
- **Implication: good clients, but less ability to pay**
- **Design with gender in mind**

Conclusions

Can MI meet the needs of the poor? Yes, if designed well.

- PSNP experience
- 1984 Famine research

Will the poor want it? Yes, if designed well.

- Increase awareness
- Make accessible.
- Prioritize trust building.

Top Recommendations

Donors: Ex-ante risk management.

Government: Strong insurance consumer protection.

NGO's: Consider integrating into programming; work across boundaries.

Potential Insurers: *Demand-driven* products. Customer service; Create synergy with other development and risk reduction activities.

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