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International Labour Organization

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FUNERAL INSURANCE

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PREFACE

The primary goal of the International Labour Organization (ILO) is to contribute with member States to achieve full and productive employment and decent work for all. The Decent Work Agenda comprises four interrelated areas: respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Broadening the employment and social protection opportunities of poor people through financial markets is an urgent undertaking.

Housed at the ILO's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low-income families to help them guard against risk and overcome poverty. The Facility, launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation, supports the Global Employment Agenda implemented by the ILO's Employment Sector.

Research on microinsurance is still at an embryonic stage, with many questions to be asked and options to be tried before solutions on how to protect significant numbers of the world's poor against risk begin to emerge. The Microinsurance Innovation Facility's research programme provides an opportunity to explore the potential and challenges of microinsurance.

The Facility's *Microinsurance Papers* series aims to document and disseminate key learnings from our partners' research activities. More knowledge is definitely needed to tackle key challenges and foster innovation in microinsurance. The *Microinsurance Papers* cover wide range of topics on demand, supply and impact of microinsurance that are relevant for both practitioners and policymakers. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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1 > INTRODUCTION

Funeral insurance is a term life insurance policy where the benefit is used towards funeral expenses. The benefit can be in the form of a funeral service, a cash benefit that could be used towards a funeral, or a combination of the two. Outside of credit life insurance, funeral insurance is the most prevalent form of microinsurance in a number of countries (see Box 1).

This paper considers the current and potential role and value of funeral insurance for low-income consumers based on evidence from selected countries. Despite the variance in experiences across countries, the following important themes emerge:

1. Funerals and related expenses are prominent in the minds of low-income households and, accordingly, many households place high priority on finding ways to deal with funeral expenses and are willing to dedicate part of the household income to funeral cover.
2. There is a strong link between funeral insurance and the underlying service, namely the funeral. This link to a tangible service is an important driver of demand as well as, in some cases, of the choice of distribution channel used.
3. Funeral insurance is provided in both formal and informal markets. In some instances, funeral parlours self-insure – that is, informally act as insurers. Informal funeral insurance furthermore occurs where groups of people pool funds to help cope with funeral expenses. Funeral insurance is also an important product in some formal markets and is at the forefront of many commercial insurers' drive to reach down the income spectrum. As such, it has been one of the focus areas for alternative distribution innovation.
4. Funeral insurers are challenged to deliver better value to customers. The combination of strong demand for funeral cover and the close association with funeral services may lead to particular consumer vulnerabilities. A number of trends are, however, starting to emerge to counter abuse and provide enhanced value.

Box 1 Mapping funeral insurance

A survey of microinsurance practitioners in Africa found that 14.7 million people in 32 African countries were covered by microinsurance products. More than half (8.2 million) are in South Africa, where funeral insurance is by far the biggest microinsurance product. Survey respondents were providing life cover to 9.1 million low-income persons, of which 6.2 million had funeral cover (Matul et al, 2010).

Dercon et al (2004; 2006) highlight the history, prevalence and social role of informal group-based funeral insurance in Tanzania and Ethiopia. Dercon et al (2008) find that nearly 90 per cent of rural households in a relatively representative sample of the rural Ethiopian population belong to at least one *iddir*.

In Kenya, survey data show that up to 4 million adult Kenyans are part of a society or group that fulfils a welfare function such as the provision of a funeral payout on death in the family or payment of hospitalisation costs (FinAccess, 2009).

Survey data for South Africa (FinScope, 2009) show that 43.5 per cent of all adults have some form of long-term (life) cover. Of them:

- 45 per cent indicated that they have funeral cover through a burial society.
- 27 per cent indicated that they have funeral cover that was bought from a retail store.

Eighty per cent of the South African Financial Diaries sample (Collins et al., 2009) have at least one form of funeral cover and most of them have more than one:

- 26 per cent have a formal funeral plan;
- 57 per cent belong to a burial society; and
- 24 per cent have some kind of policy with a funeral parlour

A study on microinsurance in Colombia (Cáceres and Zuluaga, 2008) quoted 2006 data by the Colombian industry association which estimates that 24 per cent of the 2.7 million microinsurance policies are for funeral insurance. In addition, industry sources estimate that the informal funeral cover market, provided through funeral service providers, could serve up to three million clients.

Though no hard data is available on the reach of informal funeral cover provided outside of the insurance industry by funeral homes in Brazil, industry players estimate that as many as 20 to 25 million people have funeral cover – the bulk of which covers low-income persons (Bester et al., 2010).

A similar study in the Philippines (Rimansi, 2008) estimates that about half of the members of the 22,000 active financial cooperatives (or about 1.2 million adults) are covered by informal, in-house funeral insurance, roughly 41 per cent of the total microinsurance market. In addition, informal funeral groups called *damayan* funds are widespread.[1]

[1] "Damayan" is a Filipino word that means "to console," "to empathize with the other" or "to be a part of" a certain unfortunate or unforeseen event. This comes from the local practice of helping one's neighbour who might be in great need. As a matter of practice, each individual in a *damayan* fund voluntarily pledges and contributes a certain amount to a fund that will be given to the aggrieved party who is likewise a contributor to the fund. Membership to the fund is voluntary and the benefits are not pre-determined but are contingent on the funds collected.

2 > FUNERAL COVER MATTERS

Why is funeral insurance so popular in the countries reviewed? A number of social, cultural and economic factors contribute to the demand for such insurance.

Paying last respects. Some cultures place significant emphasis on a dignified funeral. The risk of death and the need to find ways of providing for the related expenses are constantly on people's minds. In some cultures, funerals are seen as essential to honour the dead. For example, in South Africa a dignified funeral is given high financial priority as part of the cultural belief in the importance of honouring ancestors. Expensive funerals that include food and transport for those attending the funeral are the norm. Market research conducted by Alternative Insurance Company (AIC) in Haiti (Nabeth and Barrau, 2010) likewise showed that Haitians believe that a dignified funeral is essential to ensure that the soul of the deceased will look after them. One focus group respondent remarked: "I also want a brass band for my funeral. I won't entertain the idea of not having a brass band; when I'm in my coffin, I will take my leave to the rhythm of a brass band!"

Funerals are also an opportunity for relatives to keep in contact and maintain social ties. There may be social pressure to have an elaborate funeral ceremony, just as in other cultures an expensive wedding ceremony – relative to the income of the family – may be emphasised. Even in cases where municipalities offer free burials for those who cannot afford a private burial, some focus group respondents indicated that the family's pride would not allow a "pauper's funeral". The cultural significance of funerals is an important driver of insurance demand but, as discussed later in this paper, it is at times also a driver of vulnerability.

Living in the shadow of death. Funerals are not only important culturally, they are also a practical reality. Focus group discussions in Colombia, Brazil, Haiti, Kenya and the Philippines indicated that the risk of death is an almost daily reality for low-income households. Focus group participants in Ethiopia regarded drought, often seen as the primary risk facing individuals, as "in God's hands" and instead focused on the financial risks of death and illness in considering coping strategies. In the South African financial diaries, death affected more than four-fifths of the households during the study year and funerals were by far the most common financial emergency (Collins et al., 2009). In Zambia, when asked why they are most concerned about death risks, one focus group participant remarked: "It just comes suddenly. Even today a funeral can happen."

This prioritisation is not universal. In some cultures people prefer not to think about, or plan for the eventuality of, death. In India, focus groups identified health risks as top priority, not death. In Uganda, likewise, the risk of death was not ranked highly. In countries such as Ivory Coast there is a difference according to tribe and religion and in majority Muslim countries such as Senegal funerals are not emphasised at all.[2] In environments where elaborate funerals are not the norm, there are nevertheless other

[2] Source: Discussion with CGSI Consulting.

costs associated with the death of a family member that imply that similar risk cover (even if not called funeral insurance) may still be of value.

Matter over mind. Surprisingly, funeral insurance is sometimes popular in countries where people are reluctant to talk about death. This can be regarded as a feat of pragmatism over cultural taboos. Focus group research in Brazil revealed that people tend to buy funeral cover on the lives of relatives to avoid the financial impact of a funeral. They have an insurable interest in the life of relatives for whom they would be expected to make a funeral contribution. Funeral cover thus becomes an income smoothing strategy. This holds true even for wealthier individuals. In Indonesia, McCord et al (2005) noted that wealthy people were joining *arisans* (local multipurpose social assistance groups) so that funds from the *arisan* could smooth the demands on them from others, plus create a mechanism whereby relatives and others are not demoralised by the frequent need to approach the wealthy for help.

A substantial financial impact. It is commonly accepted that a funeral is a substantial expense, though there is variation across countries:

- In Ethiopia, a funeral can comprise up to a quarter of annual income (Dercon et al, 2008).
- In Brazil, funeral insurer SINAF estimates that the average household spends approximately one month of household income on a regular funeral, and more for expensive options.
- In Haiti, market research[3] found that a mid-range funeral costs between US$1,000 and US$1,300, which is roughly equivalent to the GDP per capita (IMF, 2010).
- Roth (1999) found that funerals in one South African township cost approximately 15 times the average monthly household income. The South African financial diaries suggest that households spend about seven months' income on a single funeral (Collins et al, 2009).
- In Zambia and Kenya focus groups confirmed that funerals are a very big expense. The cost relating to the funeral feast and transport for the guests often exceed that of the funeral service itself, a phenomenon that is also confirmed by the South African financial diaries.

Not just the expense of a funeral. While the importance and cost of the funeral is emphasized above, it is not the only cost stemming from a death in the family. Debts have to be settled, day-to-day expenses have to be paid and visiting relatives need to be fed, often resulting in a multi-layered approach to managing the costs (see Box 2). Where sickness preceded death, medical bills may already have drained family savings or resulted in borrowing. Where the deceased was a breadwinner, the loss of income will furthermore present a major challenge. Even if the deceased was not a breadwinner, there can be significant lost earnings during the mourning period as organising a funeral and hosting relatives may result in an inability to work for weeks.

[3] By CGSI consulting, for Alternative Insurance Company Haiti.

Box 2 Why have multiple funeral insurance policies?

"As a person you have needs, there is a hierarchy of needs. Socially you need to have money should something happen – so you need the burial society, and then you need the undertakers who will take care of the funeral. The money from the insurance company takes time to pay out so whenever that money comes, you can settle all your outstanding bills, so it is worth it. It's for peace of mind in a way."

– South African focus group participant

Coping with the cost. The financial shock of the funeral has to be managed in some way. Market research indicates that people use a variety of coping mechanisms, including depleting savings, taking out loans, calling on family and friends for contributions or selling assets or business inventory – often, due to the time pressure, at less than the asset or stock value. An extreme coping mechanism mentioned in focus groups in Zambia was taking children out of school to help in the business or collect money.

An example from the financial diaries research conducted in South Africa illustrates the variety of coping strategies employed (see Table 1). When the brother of one of the respondents died, she used numerous ways to cover the expenses of the burial. While contributions from family and the community are a reliable coping mechanism mentioned time and again in the market research, there is consensus that it is simply not enough. Generally, the market research confirms that many of the coping strategies are either unreliable or will not be sufficient by themselves and may plunge people (further) into debt. Furthermore, where families and the community contribute, the net effect may be a reduction in income for the whole community over time. Some form of funeral cover is therefore often regarded as non-negotiable to respondents in market research.

Table 1 Thembi's coping strategies

Sources of funds	US$	Uses of funds	US$
Payout from burial society	154	Undertaker	538
Contribution from relative	231	Tent	91
Contribution from relative	154	Pots	35
Contribution from relative	154	Food	649
Rental of cooking pots by relative	35	Sheep	100
Purchase of sheep by relatives	100		
Borrow from aunt's burial society (no interest)	154		
Borrow from cousin's savings club (30 per cent per month)	92		
Borrow from cousin (no interest)	108		
Use income (social grant money)	92		
Use deceased brother's grant money	49		
Total	1 414		1 413

Source: Collins et al., 2009

3 > KEY CHARACTERSITICS OF FUNERAL COVER

This section considers the nature of funeral insurance in more detail. What makes funeral insurance different from other types of microinsurance? What are the market's salient features?

3.1 ONE PRODUCT, MANY PROVIDERS

As illustrated in Table 2, funeral insurance is provided by a variety of risk carriers.

Table 2 Types of funeral insurance providers

	Formal	Informal
Mutual	Cooperative insurers Examples: *Solidaria & La Equidad* in Colombia	Community risk-pooling groups Examples: *Iddir*, *damayan* funds, burial societies, funeral associations
Corporate	Commercial insurers Examples: SINAF (Brazil), Sanlam Sky (South Africa), AIC (Haiti)	Funeral undertakers Examples: funeral homes in Brazil or Colombia, undertakers in South Africa, certain pre-need companies in the Philippines

As part of the formal insurance market funeral insurance is provided by both commercial insurers and mutual or cooperative insurers. Either mutual or corporate entities can also provide informal funeral policies:

- Informal insurance provided by mutual entities includes the in-house funeral cover provided by cooperatives in the Philippines that are not registered insurers, or the informal risk-pooling groups found in various guises in different countries: *iddir* in Ethiopia, funeral associations or funds in Zambia, *damayan* funds in the Philippines, welfare societies in Kenya or burial societies in South Africa.
- Informal funeral insurance is corporate where funeral service providers, who are commercial rather than member-based organisations, carry risk in-house. Even if such undertakers are registered as a company or partnership (that is, are formal entities), the funeral cover provided will be informal, and possibly illegal, if done without an insurance licence.

3.2 IS IT INSURANCE OR NOT?

Where funeral insurance provides in-kind benefits, namely a funeral service, such benefits sometimes fall outside the regulatory definition of insurance. For example: in Colombia, Brazil and Kenya funeral assistance provided in-kind is explicitly excluded from the regulatory definition of insurance.[4] The market is

[4] In Colombia, a 2006 opinion by the Financial Superintendence (based on a 2003 constitutional court judgment) holds that the policies provided by funeral service providers fall outside the definition of insurance in the Fundamental Law of the Financial System. These providers therefore operate on an unregulated and unsupervised basis. In Brazil, CNSP Resolution 102/2004 differentiates between "insurance cover" and "assistance services" and allows funeral assistance services to operate outside the definition of

therefore not subject to insurance regulation or supervision. In other instances, informal risk-pooling where there is no contractual guarantee on the benefits provided, or where groups are smaller than a certain threshold size, is implicitly not regarded as insurance. This is for example the case for burial societies in South Africa or, until recently, *damayan* funds in the Philippines.[5] It is therefore legal for them to continue to operate informally.

Such intentional exclusion of certain activities from the formal insurance market is known as regulatory forbearance. Regulatory forbearance can be in recognition of the low insurance risk posed by certain practices, or can come about due to pragmatic concerns (for example a lack of supervisory capacity to enforce insurance regulation across thousands of groups). It can even be the result of lobbying by strong industry groups. In Brazil, for example, recent attempts to incorporate funeral assistance into a microinsurance bill were thwarted by a funeral home lobby in Congress.

3.3 SALIENT UNDERWRITING FEATURES

Funeral insurance is essentially an entry-level, simple and affordable life insurance product. There are a number of common product design elements:

- Group pricing. Funeral insurance is most often priced and adjusted on the experience of groups, even if sold individually. This means that there is limited or no individual underwriting, which helps to make the premiums affordable.
- Renewable. As with other microinsurance products, insurers' lack of experience with the target market means that they may have limited actuarial data on this market, making it difficult to get pricing exactly right. Due to this uncertainty, insurers are generally (though not always) reluctant to commit to a whole-life/long-term price guarantee or contract, rather opting for renewable term cover. This gives the insurer the option not to renew the contract when it expires or to adjust the price on each renewal in line with the risk experience of the group. Many funeral policies are therefore monthly or annually renewable.
- Waiting periods to counter anti-selection. Where there is no individual underwriting, anti-selection may be a challenge. People may be prone to buying funeral insurance on the life of a relative that is ill or dying. Such anti-selection is typically countered by waiting periods. Waiting periods of up to six months are common practice in the funeral insurance industry. For example: a policy may be structured to only cover accidental death for the first six months, with no claims for natural death allowed. From month seven onwards the policy will cover all life risks. Another method to counter anti-selection may be to increase the schedule of benefits over a period of, say, three to five years, for example by paying only 10 per cent of the benefit in the first year, 25 per cent in the second year and so forth.

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insurance as it entails in-kind benefits (assistance services) rather than monetary reimbursement in the event of a claim. In Kenya, the definition of insurance excludes all benefits in kind. Funeral benefits are explicitly mentioned under this exemption.

[5] Note that legislation passed in 2010 requires *damayan* funds to be registered. They may therefore no longer operate informally with the sanction of the regulator.

- Limited exclusions. Though some exclusions may apply, funeral insurers tend to limit exclusions (for example for pre-existing conditions) as exclusions are complex to communicate to prospective clients and costly to enforce. Instead, to keep the policy as simple as possible, insurers tend to price for the risk of anti-selection associated with no exclusions, or to manage it through the imposition of a waiting period.

3.4 FUNERAL SERVICES: THE NAIL IN THE COFFIN

Perhaps the quintessential element of funeral insurance is its close association with the underlying funeral service. In some cases, the benefit provided is a funeral service rather than a cash payout. Even where there is a cash benefit, it is the need to pay for the underlying funeral service that drives the demand for funeral insurance. The link with funerals matters on three fronts: tangibility, distribution and self-insurance.

Tangibility. The fact that benefits are often described in terms of a funeral service of a certain standard makes funeral insurance very tangible in the eyes of consumers. Low-income consumers place high value on tangible benefits. For budget-constrained individuals the opportunity cost of paying insurance premiums is high. Consequently, the promise of a sum of money that may or may not be enough to cover the expenses at the time of need may be less enticing than the assurance that their expenses will be covered or that certain necessities will be provided in the event of a certain peril. Tangibility is also becoming popular as a means of communicating value for other types of microinsurance. Apart from funerals, tangible benefits include grocery baskets or coupons, discounts at certain stores, the replacement of an insured item, or payment of school fees or other bills for a predetermined period. Increasingly, funeral insurers are adding such other tangible benefits to the funeral insurance offering to enhance the clients' perception of value. For example:

- Hollard (South Africa) now offers a funeral insurance product that provides a rental car and cell phone airtime for making funeral arrangements, and payments towards groceries for six or twelve months after the funeral – all in addition to the lump sum cash payout for the funeral.
- In Vietnam, where talking about death is still a cultural taboo, a composite product that combines funeral cover with hospitalisation cover, the provision of an ambulance for emergencies and the payment of school or pre-school fees could be popular, according to focus groups led by Groupama VietNam.

Distribution. Standalone funeral insurance is often distributed through the funeral service provider in the markets reviewed.[6] Distribution through the undertaker reduces distribution costs and may facilitate uptake: people are clients of the funeral home and regard insurance as a way of pre-funding the funeral. The

[6] Note that this phenomenon is found in some countries, notably South Africa, Brazil and Colombia, but does not account for the bulk of the funeral insurance market globally. In most countries, funeral insurance is simply sold by insurers through traditional or alternative distribution channels and benefits are provided in cash rather than in kind. In such cases, funeral insurance may also be a rider on or component of a broader insurance policy.

flipside is however that an underdeveloped funeral services market may undermine demand for funeral insurance. Likewise, customers may not be happy with the level of service received in-kind.

Self-insurance. As mentioned above, in some cases undertakers act as insurers of their own book without being licensed insurers. Examples include pre-need companies in the Philippines that have their own chapels and crematoria and provide life plans, "death care" plans or cremation plans without buying a guarantee for the risk from an insurer. Other examples are the funeral homes or cemeteries in Brazil that sell funeral plans. Where this is the case, specific consumer vulnerabilities may arise (see Section 3.2).

3.5 ALTERNATIVE DISTRIBUTION

The fate of funeral insurance is not solely linked to funeral service providers. Funeral insurance is the source of much activity and innovation in the commercial insurance sector's efforts to develop viable products targeted at the low-income market. Specifically, the funeral insurance market is seeing substantial developments in alternative distribution channels.

Cell phone channel. Term life or funeral policies, being affordable and simple, are one of the first insurance products introduced through mobile network operators. For example, mobile operator Tigo in Ghana provides free funeral insurance cover as reward for buying airtime (the more airtime you buy, the more cover you receive). Not only does this instantaneously extend funeral insurance to millions of customers, but it is hoped that it will provide an introduction to the concept of insurance that will enable the company to sell more complex, voluntary insurance products to its customers in the future. The model uses SMS and media campaigns to inform clients of the amount paid out in claims and the fact that payments were made within 48 hours of receiving the necessary documents. These campaigns aim to overcome negative perceptions of insurance.

Another model involves offering mobile network customers the option to buy insurance voluntarily, using their phones as a premium payment platform. Besides using cell phones to pay premiums, a number of insurers are also harnessing the mobile phone to communicate with clients, for example to inform them that premiums are due.

A funeral off the shelf. Off-the-shelf funeral policies are another example of alternative distribution. In South Africa, for example, funeral insurance is the only product that the market is familiar enough with for it to have become commoditised. That means funeral insurance can be sold in-store through passive sales techniques, relying on consumers to purchase it without face-to-face, active sales by an agent.

Box 3. Alternative distribution: Pep-Hollard South Africa

Pep is the largest low-income clothing retailer in South Africa. It has partnered with innovative insurer Hollard to provide funeral insurance that is sold off the shelf at premiums that start from around US$5 per month for a policy covering the whole family, with a benefit of around US$1,000 per person. The "insurance starter pack", as it is called, contains the policy card, the policy document and other information. The cashier captures the buyer's basic details and a call centre then phones the client to activate the policy.

The customer is given the choice of a number of options with regard to the benefit level and the number of people to include as lives assured. There is also an option to cover just elderly parents. Each policy option pays out a cash amount that can be used towards a funeral or for any other purpose at the discretion of the beneficiary.

Source: Smit & Smith, 2010a

"Sold, not bought". Zuluaga (2010) highlights the use and potential of alternative distribution channels such as utility companies or retailers for funeral insurance in Colombia. In contrast to the South African experience, one of the main lessons from Colombia is the need for active sales. Even if clients find it convenient to pay premiums through a channel with which they have an existing relationship (e.g. at the cashier in-store, or through an add-on to a utility account), they initially need to be convinced to purchase it through active and often face-to-face sales techniques (see Box 4).

Box 4 Alternative distribution: CODENSA Mapfre Colombia

Bogota electricity utility CODENSA and insurer Mapfre have partnered to offer CODENSA's two million clients a number of insurance options, among them three family funeral plans that provide in-kind funeral service payouts at a monthly premium starting from US$2. CODENSA sees the insurance offering as a way to provide additional services to its electricity client base, thereby increasing client retention. It plays an active role in sales and marketing, as well as in product administration.

Different marketing techniques are employed. Initially, a pamphlet with insurance product information was included in the electricity bills sent out to clients, but this passive form of marketing was not effective. Currently, marketing is conducted through a combination of call centre and face-to-face sales. The customer database is used to identify prospective clients based on their income strata and to locate them geographically. Prospective clients are then contacted by telephone. If the call centre does not close the sale but generates interest, a sales agent is sent to the person's home. The CODENSA sales force also operates on a door-to-door basis (targeting specific neighbourhoods at a time) in parallel to the call centre marketing drive.

Source: Zuluaga, 2010

4 > DELIVERING VALUE

This section considers the value proposition of funeral insurance to its clients and looks at ways in which insurers are starting to improve value.

4.1 CONSUMER VULNERABILITIES

Link to underlying service creates vulnerability. The cultural importance of a dignified funeral found in a number of countries may create vulnerabilities to abuse in the funeral insurance market. Such vulnerability is exacerbated by the strong link between funeral insurance and the underlying service provider. Where benefits are provided by a particular funeral parlour, it will create a captive market for that service provider. This arrangement can lead to a number of consumer protection concerns:

- Geographic limitations. Where there is no option of a cash payout, clients can only receive the funeral service benefit in the geographic area served by the funeral parlour in question. Should a client move to a different town or city, it will be problematic. In some instances, clients may pay premiums for a long time, just to find that they are unable to claim because they moved outside of the service area of the funeral parlour.
- Multiple cover. A person can only have one funeral. Should different family members therefore insure the same life under different policies, they will forfeit all but one policy's benefits, should the policy benefit be a funeral service with no option for a cash payout. Over-insurance can be an issue even where the benefit is not linked to the underlying service. To minimise sales costs, insurers often only check the identity numbers of lives assured and beneficiaries at the claims stage. It may therefore happen that more than one family member insured the same life under different policies. Where this is not permitted under the conditions of the policy, it results in only one policy being paid out.
- Inflated costs. The fact that the undertaker knows that the insurance will ensure that people use its funeral service, thereby creating a captive client base, may drive up the cost of the funerals provided.[7] There will be no effective competition in the market, as the client cannot compare services and prices between different service providers at the time of the funeral.
- Cost-benefit mismatch. Where consumers are promised a funeral service rather than a cash benefit, they have no guarantee that the cost of the service will actually be the stated monetary value. The "value" of the funeral offered may therefore be inflated vis-à-vis the actual cost of the service rendered. Consumers may be misled into paying inflated premiums in the belief that it will provide them with a superior funeral,[8] resulting in a situation where clients are not happy with the level of the service

[7] See, for example, the findings regarding Indonesia noted by Hintz (2009).

[8] This was a striking finding of the South African focus group research. One respondent mentioned that he was paying R350 (US$49) per month – or around 10 per cent of his total monthly income – for a funeral parlour policy. He justifies such a high monthly premium by the fact that he has been assured that he will receive a very fancy coffin and the best service as part of the package. Respondents were also asked about the details of their current policies. In most cases, the premiums of the policies used by various respondents

(e.g. finding the coffin to be inferior to the one promised beforehand). In this way, unscrupulous behaviour by funeral service providers could undermine trust in the funeral insurance industry.

While funeral parlours may, therefore, be a valuable partner to insurers in distributing insurance, caution has to be exercised against anti-competitive and abusive practices to ensure that the insurance bears value to the client and not only to the funeral industry. In some cases this will require specific regulatory interventions.

Just a fancier casket? It can be argued that extending insurance coverage may simply lead to cost increases and serve to line the pockets of the funeral industry. As the demand for funeral insurance is driven by the demand for the underlying service, the danger is that the cultural or social pressure for a dignified funeral may be exploited (intentionally or unintentionally) to push the price of funerals to unnecessarily high levels. Even where the funeral service provider is not the insurer or directly linked to the insurer, the fact that a funeral expense benefit of a certain amount will be paid out implicitly caters for a funeral costing the same amount or more. Should the insurance benefit increase, some argue, it could lead to a more expensive funeral. In this way, insurance may fuel higher funeral costs.

Yet it is not necessarily the case that funeral insurance just leads to fancier funerals. As indicated in Section 1, expenditure on funerals tends to be high regardless of whether the person has funeral insurance. As the focus group research indicated, people will "beg, steal or borrow" to pay for a funeral and buy funeral insurance in response to the reality of a funeral as unavoidable expense. There is also evidence that, where families have the choice and receive a cash payout, insurance benefits are not only used to pay for the cost of a funeral, but also to deal with other financial impacts of a death in the family (e.g. settling debts, dealing with loss of income or paying for essential services and food).

The perils of informal risk management. Though complaints do arise from the practice of formal insurers, consumers are particularly vulnerable where funeral insurance is provided outside of the regulated insurance market. Funeral service providers that provide in-house coverage without an insurance licence do not comply with any insurance regulation. They do not price products actuarially and generally do not separate their insurance business from the funeral service business. Contributions collected are often not kept aside as reserves against future claims; instead, funeral services are paid out on a cash-flow basis. When cash flow problems arise or mortality experience is higher than expected, providers that operate on a cash-flow basis will no longer be able to honour their commitments. While the absence of compliance costs and actuarial practices reduce short-term operating expenses, the fact that risks are not adequately managed is to the ultimate detriment of consumers.

Having said this, it is important to note that the informal market does offer a number of advantages vis-à-vis the formal market. For example, it tends to pay benefits more quickly and with fewer documentation

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would differ substantially, but this information was never met with concern and did not lead to them questioning the value of their own policies.

requirements. It may also be less strict regarding aspects such as insurable interest.[9] Most importantly, the informal market often serves communities where no formal products are available, thereby extending access to insurance. These are some of the issues for insurers to consider when designing products and business models.

4.2 MAKING FUNERAL INSURANCE BETTER

How can funeral insurance provide better value to consumers and avoid consumer protection concerns? To answer this question, it is important to know the target market's preferences and behaviours, and to tailor products and services to clients' needs. A number of insurers are already engaging with these issues, as is apparent from the examples below.

Portability. In some countries insurers are decoupling the insurance benefit from a particular service provider or, alternatively, the insurer exercises increasing control over the services delivered by its network of parlours. Ultimately, it is the insurer who bears reputational risk if the funeral parlour does not deliver value. Such decoupling gives more leverage to insurers to limit the abuse of customers in the funeral services industry as customers are not tied to any one funeral service provider. For example:

- AIC makes use of a network of accredited funeral service providers and clients can claim the service at any one. Another option, for example provided by some insurers in South Africa, is to provide discount vouchers redeemable at a range of accredited funeral parlours or specific funeral parlour chains.
- A number of South African funeral insurers pay cash benefits that the beneficiary can use at his/her own discretion to buy a funeral service from any service provider or towards any other expenses.

Pay when it's needed. The payment of claims is when insurance becomes "real" for clients and as such is a powerful marketing opportunity for insurers (see Box 5). Yet rejected and delayed claims are recurring complaints against the insurance industry. Swift claims processing is very important in the case of funeral insurance, as funeral expenses cannot be put off until the claim is paid. Insurers are starting to focus on better claims service as a way to improve the value of funeral insurance. Increasingly, promises are made for a maximum number of days for claims settlement and in some cases, such as the Philippines, this is even entrenched in regulation. MicroEnsure Philippines introduced a product feature whereby the first 10 per cent of the benefit is paid within 24 hours without any need for proof of death. The remaining 90 per cent

[9] Formal products tend to have strict rules on insurable interest to counter abuse. However, the 'traditional' concept of insurable interest does not necessarily align with the liabilities faced by the poor. For example: the fine print of a policy may stipulate that only family members where there is some legal relationship, proven by documentation, may be covered on a policy. A policyholder, faced by the need to pay for funeral expenses for a number of relatives, may however decide to include a step-mother, an unofficial foster child or a distant relative on the policy. At claims stage, it may emerge that these persons did not meet the insurable interest criteria. This then forms the basis for the repudiation of the claim, even if the person in fact had a real insurable interest given the allocation of financial responsibilities within the community. Insurable interest is a valid concern and it may be difficult for the formal market to be more accommodating in this regard. In the informal market, in contrast, insurable interest conditions are often less strict.

is then paid later, after all documentation has been submitted. In South Africa, insurers as a rule promise to pay claims within 48 hours of receiving all the necessary documentation. In other countries the promise is five or ten days. This is an area where continuous improvement will be needed.

Box 5. The importance of claims: Alternative Insurance Company (AIC) Haiti

During the devastating earthquake that struck Haiti in January 2010, claiming the lives of more than 220,000 people , AIC's approach was to encourage claims – to the point that it explicitly decided to pay claims even where there were valid contractual grounds for repudiation. It embarked on an advertisement campaign to inform potential claimants that they should claim and where they could do so, sent sms messages to all policyholders to the same effect, approved claims even where policyholders used non-accredited undertakers, and provided full service benefits to clients with lower cover in recognition of the important word-of-mouth effect in the community of a successful claims experience. AIC therefore regards successful claims not as a loss, but as an essential component of its business model.

Source: Nabeth & Barrau, 2010; discussion with O. Barrau, President of AIC, 2010

There are a number of other ways in which formal insurers are seeking to enhance the funeral insurance product and address some of the challenges noted above: some are finding innovative ways of reducing the documentation burden, for example by using a call centre to collect policy details from the client; some make use of grace periods and other product design elements to provide flexibility to clients who may not have a regular income.[10]

Business rationale for better value. The above measures are not implemented for altruistic reasons; it makes business sense for insurers to improve value and overcome negative perceptions in the funeral insurance market. Through the power of word-of-mouth, better value will lead to higher volumes. Conversely, poor value will soon undermine volumes. Furthermore, countering abuse, improving value and focusing on speedy claims payment may lead to lower lapse rates. Higher persistency is attractive because client acquisition represents a significant cost that may take several months of premium contributions to recover.[11]

In some cases the business case for better value may also lie in the distribution partnership. The distribution partners, be it a retailer, mobile network operator or utility company, may carry reputational risk should the insurance product sold under its brand name provide poor value. It is therefore in insurers' interest to continuously improve customer value, as this will strengthen the distribution partnership.

[10] In South Africa, these factors have contributed to the dramatic increase in the share of the formal sector in the funeral insurance market: survey data show that between 2003 and 2007 the number of people with funeral cover in South Africa increased by roughly 10 per cent per annum; formal cover growth has exceeded 20 per cent annually. This means that the share of the formal market has risen significantly vis-à-vis the informal market. Source: FinScope 2003, 2007 and 2009, as well as the Eighty20 Funeral Access Frontier.

[11] In an early study on the scope for microinsurance in South Africa (Bester *et al*, 2003), actuarial calculations showed that if policy lapses in the lower-income life insurance market could be reduced by 25 per cent, there would be an 18 per cent downward impact on pricing of policies.

Beyond funeral. Since the funeral expense is not the only financial need should a family member die, insurers are starting to move beyond pure funeral insurance to design policies that provide a cash payout, part of which may be used to cover the expenses of a funeral. As discussed in Section 2.4, they are also starting to include innovative tangible benefits as part of the product suite. In this way, as Box 6 illustrates, funeral insurance is starting to evolve into life insurance, which in turn can form the basis for a bundled offering of life and other types of cover.

Box 6 The role of market research in designing funeral-plus products

- Pep-Hollard, South Africa. One of the options of the Pep-Hollard Family Funeral Plan (see Box 3) provides a monthly payout for a fixed number of months rather than a lump sum benefit (Smit & Smith, 2010a). Even though the product is still marketed as funeral insurance – as the market is familiar with this product category - this way of structuring the benefits explicitly recognises customers' need for an income stream rather than just covering the funeral expense. It also speaks to the phenomenon found in the South African focus groups that participants tended to have more than one funeral policy, each for a different purpose. This policy would look after the ongoing cash needs of the family.
- AIC, Haiti. AIC takes a fresh approach to funeral insurance. Before launching its funeral insurance product, Protecta, it undertook extensive market research. Based on the resulting insights it gleaned about the target market, AIC designed Protecta to offer four benefit levels (ranging from around US$1,125 to US$2,500) and four plan options for each benefit level (Barrau, 2010):
  1. *Protecta Classic*: the full benefit amount is paid out in the form of a funeral service from an accredited funeral parlour.
  2. *Protecta Plus*: a funeral service plus a fixed cash component that the beneficiary can use towards additional expenses. This benefit was included to cater for the ancillary expenses related to the funeral, such as food and transport, but also to allow for a small cash benefit to tide the family over after a family member dies.
  3. *Protecta Cash-back*: a proportion of the premium is reimbursed every three years, provided that all premium payments are up to date. This option was included to increase the value proposition to clients so that they do not think that they pay premiums without getting anything back if there is no claim. It is also a way for AIC of keeping the renewal rate as high as possible.
  4. *Protecta Five Star*: includes all of the above benefits. Experience has shown that this plan is the most popular. This popularity has a lot to do with the name of the plan, which speaks to the cultural significance of a dignified funeral in Haiti.
- UNACOOPEC, Ivory Coast. UNACOOPEC, a microfinance institution with more than 800,000 clients, believes strongly in the role of market research in developing an insurance product. In partnership with Allianz, the MFI developed the product based on market research that indicated that people often take out loans to cover the funeral expenses of a family member. This finding indicated a definite need for funeral insurance, which was confirmed by the rapid take-up of the product during the pilot phase. Policyholders are given the choice of spending the full benefit on a funeral, receiving a cash payout, or

a combination of the two. In the case of the latter option, the beneficiary receives a voucher to purchase the service at a funeral parlour. If the service costs less than the voucher amount, the remainder is paid out in cash.

- SINAF Brazil. SINAF is a formal funeral insurer in Brazil, a country where funeral assistance is largely provided outside the definition of insurance by unregulated funeral service providers. Based on its market research, it offers clients a number of options for funeral and funeral-plus cover. Clients can choose the premium and benefit level for the plan that best suits their needs. The most basic plan covers just funeral expenses. Clients are then offered the option to also include personal accident cover, i.e. to add a cash benefit in the case of accidental death. The third option is to add an income protection component that provides a monthly cash payout referenced against the deceased's monthly income for a specified number of months. Therefore the policy provides protection against loss of income due to the death of a breadwinner over and above the funeral cover.

Pure funeral insurance already represents an intergenerational transfer by avoiding expenses that may set the next generation back in their asset formation process. "Funeral-plus" insurance that extend benefits beyond funeral costs will play an even larger role as a form of long-term saving for the next generation. In this way, funeral insurance can form the basis for the development of a broad-based life insurance market.

5 > CONCLUSIONS

This chapter has shown that funeral insurance is one of the most popular microinsurance products in a number of countries. While being part of the broader microinsurance market, it also has a number of particular features. Funeral insurance is not just insurance business as usual and requires a dedicated understanding of the dynamics driving funeral insurance markets. This applies to both insurers seeking to effectively target and distribute it, as well as for regulators seeking to find the right regulatory approach to it. Often, these dynamics relate to the underlying funeral service. The funeral service channel may drive demand, distribution and underwriting of funeral insurance. The link to the funeral service creates a tangible benefit for funeral insurance that engenders trust and provides real value, but that can also lead to vulnerability to consumer abuse. Increasingly, insurers are starting to focus on ways to provide better value by adding elements beyond pure funeral insurance. In this way, funeral insurance is evolving into life insurance that can form the basis for asset formation and intergenerational transfers.

In conclusion, the experiences reflected in this chapter raise six key principles for the delivery of value in the funeral insurance market:

1. Do not forget the importance of tangibility and providing for the immediate needs of the client following a loved one's death. Funeral insurance need not entail an in-kind benefit (funeral service) to be tangible. Innovative ideas based on consultation with the market can lead to improved uptake and retention, and better client value.
2. Retain the focus on simplicity, even while adding additional components to increase value.
3. The funeral cannot wait for the payout. Tardy claims payment will undermine consumer trust. Product simplification and minimisation of exclusions that have to be assessed at claims stage may support more efficient claims.
4. While informal insurance may pose many risks, commercial insurers have much to learn from the level of service delivered by informal players.
5. It makes business sense to ensure good value. In the interest of creating a vibrant insurance market characterised by high persistency, insurers have to ensure that their clients derive value. In addition to considering their own product and performance, insurers may have to delink insurance benefits from specific funeral providers or exercise control over provider networks to ensure client value.
6. Think beyond the funeral. Funeral insurance may be the starting point to build a life insurance market amongst low-income households.

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MICROINSURANCE INNOVATION FACILITY

Housed at the International Labour Organization's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation.

See more at: www.ilo.org/microinsurance

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