Drivers of demand:
Learning from the consumer
Microinsurance Learning Sessions
Douala, Cameroon

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Agenda

• What is demand?
• What drives use?
• Who is the consumer?
• How to understand the consumer?
• Growing insurance business
• Shaping insurance policy
What is demand?

- Not just take-up or use
- Spectrum of factors influence decision to take up insurance
- Demand: consumer perspective from need to use

Lower income market different

Understanding consumer key for market development & sustainable use
What drives use?

Need to mitigate risk

% of the adult population experienced an insurable risk in the past 12 months

63% of adults

Lesotho

Type of risk experienced

9% Death of main breadwinner
14% Death of family member
25% Illness within the family
8% Loss of a job within household
7% Harvest failure/loss of crop harvest

4% 3%

77% of adults

Myanmar

41% Illness within the family
29% Harvest failure/loss of crop harvest

59% of adults

Swaziland

7% Death of main breadwinner
10% Death of family member
22% Illness within the family
5% Loss of a job within household
5% Harvest failure/loss of crop harvest

Lower income people are vulnerable – significant need to mitigate various risks
What drives use?

Limited use of insurance

How people cope with risk

- Used Savings
- Borrowed money
- Claimed insurance
- Cut down expenses
- Sold something to get money

% of the adult population

- Lesotho: 12% Used Savings, 6% Borrowed money, 10% Claimed insurance, 3% Cut down expenses, 2% Sold something to get money
- Myanmar: 19% Used Savings, 33% Borrowed money, 0.1% Claimed insurance, 37% Cut down expenses, 13% Sold something to get money
- Swaziland: 16% Used Savings, 11% Borrowed money, 3% Claimed insurance, 22% Cut down expenses, 10% Sold something to get money

Formal insurance often a good alternative to informal mechanisms, credit and saving. Yet - limited take up of insurance, why?
What drives use?

Need vs use

SADC example shows:

Significant need, limited use

Selection of key anchor risks

Product take-up
What drives use?

From need to use

- Environment
  - Internal

- Needs
  - Awareness & understanding
  - Attitude
- Means
  - Availability of appropriate, affordable, accessible products
- Use
  - Satisfaction?
  - Value?
  - Formal
  - Informal
What drives use?

Barriers to use

Consumer, market and regulatory factors

Demand-side
- Access barriers
  - Exclude
  - Proximity
  - Affordability
  - Eligibility
  - Product features
  - Regulation
- Usage barriers
  - Discourage
  - Perceived value
  - Relative cost
  - Hassle factor
  - Doorstep barrier
  - Trust
  - Decision rules of thumb

Micro-insurance use

Supply-side
- Entry barriers
  - Exclude
  - Decision rules of thumb
- Supply barriers
  - Discourage
# What drives use?

## Barriers to use

### Affordability

“The **insurance is for those who have money**, you have to have money to pay for it. It’s like a bank account, for you to have one you need to deposit in it.”

Farmer from Mafambisse, Sofala - Mozambique

### Broken trust

“I started with [company A], used to contribute M70 per month. When my husband died I **struggled a lot and failed to get the money** so I incurred some debts to bury my husband.”

Women in FGD age 41-55, Butha-Buthe – Lesotho

### Perceived value – “money down the drain?”

“Take me for example; the idea of taking a funeral cover repels me ...say the money you have contributed over the years by now amounts to R15 000 (USD 1500) that will not change the fact that the agreement was that they’d pay out a sum of R5 000 (USD 500) in case of death.”

Male, Aged 25 – 40, Manzini, - Swaziland

### Decision rules of thumb – Information difficult to find

“Our old house was destroyed by Cyclone Nargis. I had to sell half of the garden land to build the new house.... I think that **insurance is the way to mitigate the risk**. From the past experience, I think that we should have insurance. But **I don’t know how to do it and where to find information.**”

Older Female, 31-50 years, PhyaPon - Myanmar
**What drives use?**

**Decision rules of thumb**

<table>
<thead>
<tr>
<th>Consumer decision factors</th>
<th>Impact on uptake decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Information is expensive and hard to obtain</td>
<td>• Affordability threshold</td>
</tr>
<tr>
<td>• Product comparisons are difficult to make</td>
<td>• Functional proximity</td>
</tr>
<tr>
<td>• We suffer from decision fatigue</td>
<td>• Default decision</td>
</tr>
<tr>
<td>• Having less time or money than you need (scarcity) makes you less effective decision maker</td>
<td>• Short-term bias</td>
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<tr>
<td>• Lower-income individuals tend to discount the future more (hyperbolic discounting)</td>
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- Awareness & understanding
- Attitude
- Financial functioning
  - Physical access / availability of appropriate affordable products
- Formal
- Informal
- Satisfaction? Value?
What drives use?

Decision rules of thumb

**Default decision:**

“Same with me because I just wanted the account, so they say funeral I said yes, they said they say, yes, if you die that account will be paid out by the insurance, it wasn’t necessarily something that I sat and thought about, it was just a then there decision, please approve me and give me what I want.”

**Affordability threshold:**

“I signed up with the PEP policy because I was at home, not working anymore, so I knew that I could afford the PEP policy because **it was only R60** so I have no problem with paying that. If I have surplus money then I pay 3 or 4 months in advance for the policy”

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Participant 4, Clothing account with linked insurance, Johannesburg - South Africa

Participant 8, Pep funeral cover, Empangeni – South Africa
Who is the consumer?

5 discrete target markets with systematically different needs

<table>
<thead>
<tr>
<th>Economic Group</th>
<th>Average Income (Kyats)</th>
<th>% of the pop. living in Urban areas</th>
<th>Target markets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers</td>
<td>12.1m</td>
<td>50%</td>
<td>1</td>
</tr>
<tr>
<td>Farm workers</td>
<td>7.5m</td>
<td>40%</td>
<td>2</td>
</tr>
<tr>
<td>Piece/casual workers</td>
<td>4.7m</td>
<td>30%</td>
<td>3</td>
</tr>
<tr>
<td>Remittance dependents</td>
<td>1.7m</td>
<td>20%</td>
<td>4</td>
</tr>
<tr>
<td>Formal enterprises</td>
<td>2.5m</td>
<td>10%</td>
<td>5</td>
</tr>
<tr>
<td>Informal enterprises</td>
<td></td>
<td></td>
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<tr>
<td>Salaried private individuals</td>
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<tr>
<td>Government employees</td>
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</tbody>
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Source: FinScope Myanmar (2013)
Who is the consumer?

Target market 1: Farmers

12.1m Farmers

Financial services usage

1. Farmers have high take-up of regulated credit, but unmet demand still exists

2. Farmers reported high need for regulated insurance products.
How to understand the consumer?

• National quantitative surveys (e.g. FinScope) – insight into opportunity
  – Information: demographics, needs, current use, barriers

• Qualitative research: Focus group discussions, Human Centred design, Diaries, Immersion visits
  – Information: Consumer attitudes, perceptions and preferences
## Growing insurance business

### Learning from the consumer

- ILO Scale study showed understanding consumers is key to achieving scale
- Benefit: understand who to target and how to design products and processes
- Positive vs negative demonstration effect – insurers can create or destroy demand

<table>
<thead>
<tr>
<th>Area</th>
<th>Factors to understand</th>
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</thead>
<tbody>
<tr>
<td>Target market</td>
<td>Needs, regularity of income, level of income, how rural</td>
</tr>
<tr>
<td>Product</td>
<td>Simple, Tangible, Speak to need</td>
</tr>
<tr>
<td>Process</td>
<td>Trust, Transparency, Flexibility, Speed, Sales channel, Communication method &amp; frequency, Collection method, Docs to register and claim</td>
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Designing insurance policy

Learning from the consumer

• Policy should aim to reduce vulnerability and maximise productivity
• Insurance is a key tool but is underutilised
• Policy to create market while protecting consumer
• Consumer behaviour can inform policy by determining:
  – Who can best benefit from insurance/ prioritise key target markets
  – Which barriers exist to developing the market
  – Which channels should be enabled
  – Which products are abusive
  – How to identify and prioritise policy intervention
Conclusion

• All consumers are not the same
• Understanding the consumer key to grow business and developing the market
• Consumer research is critical to inform appropriate strategies
Thank You!

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