A Practical Guide to Impact Assessments in Microinsurance

Edited by Ralf Radermacher and Katja Roth
This publication aims to guide academic scholars and microinsurance practitioners, donors and policy makers in designing and carrying out high-quality impact evaluations in microinsurance. Since microinsurance is a fast-growing sector providing innovative tools for risk protection of low-income people, impact evaluations are key to gaining more insight into the effects of microinsurance and the underlying causal relationships which can help optimise microinsurance schemes in future, improving their success, and ultimately contribute to the welfare of the poor.
This book aims at closing a gap: Not only does it show what needs to be considered for rigorous impact evaluations in microinsurance, but it discusses the specific strengths, weaknesses, objectives and limitations of different designs to attain this purpose, including randomised controlled trials, non-experimental designs, qualitative and participatory designs and mixed methods. Moreover, the book addresses the challenges of turning study designs into practice and how to best draw conclusions from given results, create reports and disseminate findings. Last but not least, the book proposes a set of core impact and outcome indicators which can provide a standard framework for all impact evaluations in microinsurance.

If impact evaluations in microinsurance were dishes, this book would be the cookbook!

A copy of this book can be requested by writing to info@microinsurancenetwork.org.

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More than 20 experts from the microinsurance arena have contributed to this book by (co-)authoring chapters. Their rich experiences are reflected in their contributions and make this book such a useful resource for all interested in impact assessment and microinsurance. Furthermore, 15 microinsurance experts functioned as reviewers for the chapters. Their critical view and constructive feedback has contributed a lot to shaping this book. Our thanks to all of them!

One of our objectives was the proposition of core impacts, outcomes and appropriate indicators for microinsurance impact assessments. As will be explained in the course of this book, in order to identify those core effects and indicators, we have conducted a Delphi process in which almost 30 experts took part (although there was some attrition from round to round). We thank all of them for their participation and most valuable input.

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Enjoy! Ralf Radermacher and Katja Roth
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Foreword

Microinsurance is a rapidly evolving development strategy to extend efficient risk management solutions to low-income households and small businesses. As noted by Amartya Sen, the Nobel Prize-winning economist, crisis has a “class-dependent character”. Lower socioeconomic classes, many of whom work in the informal economy, are more vulnerable to risks than others, and yet they are the least able to cope when crises occur. Microinsurance holds the promise of breaking this perpetuating cycle of vulnerability and poverty whilst making important development contributions, not just at the household level, but also within the community and across the country.

At the household level, microinsurance can potentially help to break the cycle of poverty through both protective and productive contributions. On the protective side, insurance can shield policyholders from the financial consequences of various risks. Small, regular premium payments are more affordable than the large expenses that accompany crises. On the productive side, through life insurance policies, the poor can amass savings and build assets. Alternatively, insurance can help facilitate access to productive inputs such as credit, by covering risks that lenders do not want to carry.

There is also the peace-of-mind effect where the working poor may feel less compelled to set aside unproductive contingency funds “under the mattress” if they are insured, and may make investments in higher-risk, higher-return activities.

Beyond the household level, studies have demonstrated a causal link between the development of the insurance industry in general – not specifically microinsurance – and national economic development. This is accomplished, for example, by stimulating entrepreneurship and enabling businesses to operate with less volatility. Since insurers and reinsurers have an incentive to reduce claims, they also contribute to development by promoting risk reduction measures. And by mobilising long-term savings, insurers are an important source of long-term finance that can be invested in initiatives such as infrastructure improvements, as well as acting as a significant stimulator for the development of debt and equity markets.

But in many countries, the insurance industry is not achieving its development potential. The insurance sectors in many developing economies evolved in the second half of the twentieth century, and focused largely on corporate clients, with little effort expended to build the infrastructure required for personal lines. The emergence of
microinsurance provides the insurance industry with an opportunity to build from the bottom up and create a foundation of retail insurance, ultimately making a stronger contribution to the country’s general economic development.

The contribution of microinsurance to a community and a country extends beyond its involvement in deepening the insurance industry. As microinsurance lies at the intersection between social protection and financial inclusion, the contribution to social and economic development will be greatest where these forces are well coordinated. For example, public private partnerships seem to be an important way to leverage market expertise to achieve public policy objectives. By fusing social protection with financial inclusion, it is possible to increase the effectiveness of both, enhancing the ability of workers in the informal economy to cope with the costs associated with illness or death of breadwinners, the theft of productive assets, and the destruction wrought by disasters.

All of these advantages of microinsurance should be clearly articulated as potential benefits. In theory, insurance is an efficient way for the poor to manage certain risks, and there is considerable anecdotal evidence to support the theory. Moving from theory into practice, we now need evidence from rigorous research to ensure that microinsurance actually benefits poor households – and what design features of microinsurance are likely to yield the largest impact to those it protects.

Microinsurance is not easy, and significant innovations are required to overcome the challenges of viably extending valuable insurance coverage to large numbers of low-income households. During the early days of microinsurance, the focus was primarily on understanding how it worked, the operational tricks of the trade, and improving access. Now that we are seeing significant outreach, and perhaps half a billion low-income persons have some coverage, more attention is being paid to assessing whether the poor actually benefit from insurance or not.

This impact question is not just of interest to academics, although a growing number of academics appear to be interested in trying to answer it. The expansion of academic interest in microinsurance can be partly attributed to the powerful public policy implications if insurance is proven to be a cost effective means of reducing the vulnerability of low-income households. Indeed, donors and policy makers are keen to understand impact. If, for example, they are going to provide subsidies, they want to know whether these interventions really benefit
those most in need of protection. Further, they might want to know whether investing in microinsurance is more efficient than investing in other forms of risk protection.

Impact is also of great interest to microinsurance providers. This may seem obvious for microinsurers with a development agenda, like non-governmental organisations (NGOs) and community groups, but even commercially oriented insurers are keen to understand how, and to what extent, their policyholders benefit from their products. The interest of insurance companies to understand impact has two dimensions. Firstly, such research can be built into a process of continuous improvement and enable insurers to identify ways in which they can improve their products, and expand market share, by enhancing the value that their clients derive from insurance. Secondly, many companies take their corporate social responsibility (CSR) obligations seriously and are therefore interested in evidence to validate their efforts. In that same line of thinking, social investors are also keen for impact evidence to justify their investments in microinsurance.

However, it is certainly not easy or straightforward to demonstrate the impact of insurance. It is not possible to look at the social and economic characteristics of policyholders before and after insurance to assess the impact because if there are improvements, for example to their incomes or health status, they could be attributed to many causes. To produce credible results, it is necessary to follow certain research standards and norms.

To advance these efforts, the Microinsurance Network’s Impact Working Group has developed these guidelines, sometimes known as the impact cookbook, to provide clear guidance on how to conduct impact studies properly, using both qualitative and quantitative research methods. We expect that these guidelines will lead not only to more valid studies, but also promote common frameworks, facilitating meta-analyses across studies so that we will be better positioned to demonstrate whether microinsurance theory really does translate into practice. I believe this publication will make an indispensable contribution to the campaign to prove and improve the value of insurance for low-income households and small businesses.

Craig Churchill,
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