Coping with the Many Costs of a Death

Consolidated Lessons of MILK's Client Math Studies of Life Microinsurance

- Comparing the premium paid to the benefit received suggests that the five life microinsurance products that we studied all had similar value, but a more careful analysis of the "math" and context reveals that they had very different value to clients, and that their value emerged in different ways.
- Microinsurance helped the insured in our studies to avoid some of the most burdensome financing strategies, especially where coverage was greater; elsewhere, the differences in financing between the insured and uninsured were less stark.
- Families and communities can provide a great deal of support in some contexts, in covering the immediate costs of a funeral, but they are generally less available for the ongoing needs of a family after the death of a breadwinner. In other contexts, family and community play a limited role after a death, even in covering immediate costs.
- Timing matters and influences the value of insurance in multiple ways:
  - When benefits are paid greatly influences how they are used. Changing the timing of payments can change how much and what type of value products have, even without changing coverage.
  - We find some initial evidence of a "bigger box" effect: insured families tended to spend slightly more on average than uninsured when funding (including insurance benefits) is made available to them at the time of a funeral.
  - In-kind microinsurance is fast, easy, and seamless, allowing insurance beneficiaries to avoid inefficient churning of financing mechanisms while waiting for insurance payouts. However, cash policies can be more flexible, allowing beneficiaries to cover needs beyond funerals, which some clients may find more valuable.

Table 1: This brief summarizes the lessons of MILK's studies of life and funeral microinsurance:

Location:	Bogota, Colombia	Iloilo, the Philippines (MicroEnsure)	Puebla, Veracruz, & Chiapas, Mexico	Kampot & Kep, Cambodia	Panay Island, the Philippines (CARD)
Coverage:	In-kind funeral insurance	Funeral and life insurance (cash, paid in two stages)	Funeral insurance (cash)	Credit-life insurance (write-off of balance and reimbursement of portion paid)	Funeral insurance (cash)
Shock Studied:	Death	Death	Death	Death	Death
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MICRO INSURANCE CENTRE

The full publications referenced in this brief are available on MILK's website
www.microinsurancecentre.org/milk-project

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MILK Microinsurance Learning and Knowledge

Studying the value of life and funeral microinsurance

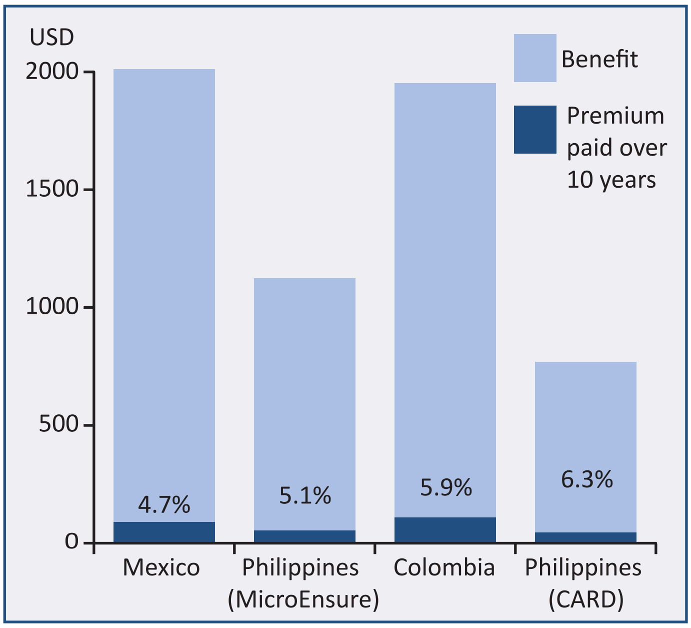
In addition to the emotional hardship it causes, the death of a family member can lead to enormous financial strain. Funeral costs and other obligations quickly add up, and can be especially difficult to meet when the deceased was a breadwinner and the family is strapped with the extra burden of lost income. We spoke with a low-income Mexican woman named Angela recently after the death of her mother. Covering the costs of the funeral and adapting to the unexpected loss of an income stream led to lasting financial hardship for Angela and her family. She pieced together four formal and informal loans to cover immediate costs, but as she struggled to repay these loans, Angela first depleted her savings and then, "not knowing what else to do," sold her banana field. While the proceeds of this sale allowed Angela to cover costs in the short term, it ultimately left her and her family even more vulnerable.

Microinsurance may have potential to help cope with some of this financial strain, potentially allowing families like Angela's to avoid the additional hardship of turning to financing strategies that create an ongoing burden. In response to the need for effective risk coping tools, many millions of low-income people around the world are covered by life microinsurance policies.[1] Nonetheless, very little is known about the value these products have to clients and beneficiaries. Over the past three years, the MicroInsurance Centre's MILK project has worked to begin filling this wide gap in knowledge through a series of "Client Math" studies of five different life and funeral microinsurance programs around the world. Client Math uses surveys of insured and uninsured low-income people who have suffered a particular shock, documenting the full cost of the shock and how that cost was financed, and thus gaining insight into the role that insurance played for those who were covered. Our Client Math studies of life microinsurance span a wide range of different types of coverage: in-kind and cash-based funeral insurance, credit-life, and a combined funeral and life microinsurance policy.

The actuary's guess

When considering the value of a microinsurance product, we might begin by comparing the benefit received by clients to the premium they pay (See Figure 1,[2] which provides a rough approximation of these numbers, based on the experience of respondents in our Client Math studies).

Figure 1: Premium (10 year)-to-Benefit Ratio



We refer to this approximation as the "actuary's guess," though of course an actuary would prefer to have much more information about the clients, risks, and benefits involved to make an accurate prediction of value. This analysis gives us some idea of what clients pay (in the form of a premium) for the benefit they receive when a claim is made. This very preliminary analysis suggests that the products offer quite similar value to clients, with a premium (paid over ten years)-to-benefit ratio ranging from 4.7% to 6.3%. We might guess from this approximation that the subsidized funeral insurance policy offered by Compartamos in Mexico (4.7% premium-to-benefit) and MicroEnsure's combined funeral and life microinsurance (5.1% premium-to-benefit) offer the highest value of the four products, and that Mapfre's in-kind funeral insurance in Colombia (5.9% premium-to-benefit) and CARD's funeral insurance in the Philippines (6.3% premium-to-benefit) offer slightly lower value. While this preliminary analysis can give us some indication of value, the question of client value is certainly far more nuanced. Client Math gives us an opportunity to explore the way costs of the shock and the financing tools available to low-income people influence value, as well as how other product characteristics interact with these costs and tools to meet beneficiaries' needs. Our findings might be surprising in light of the "actuary's guess." The products all have value in very different ways, and their value and shortcomings are far more complex than our first guess suggests.

The many costs of a death and how they are financed

A death often leaves many costs for surviving family members. A funeral alone can be very costly, especially

1 These policies are dominated by "credit-life" insurance that pays a client's outstanding loan balance to her lender, but many policies include a cash or in-kind benefit to the deceased's family instead of or in addition to loan coverage.

2 Premium is the amount paid per covered life by the client (excluding the amount of any subsidy), and benefits are the average benefits paid for each of the four studies in which a benefit was paid (cash or in-kind), plus the amount of any loan repayment covered by the policy. We have excluded the Cambodia credit-life product from this comparison because its coverage is quite different from that of the other products. Finally, when comparing products we have assumed that the risk prevalence (likelihood of death) is roughly the same between these four different contexts.

where cultural practices demand elaborate ceremonies and large gatherings. Families are often strapped with hospital bills and other costs of caring for their family member before the death. Surviving family members miss work as they mourn, attend services, and cope with the logistical steps of settling the deceased's affairs. When the deceased was a breadwinner, they also suffer the ongoing cost of lost household income, and must find ways to adapt to a lower income stream or new ways to support the family's income going forward. These many costs, while substantial everywhere, varied widely across and even within studies (total funeral costs in Mexico, for example, ranged from USD 239 to USD 3,868).

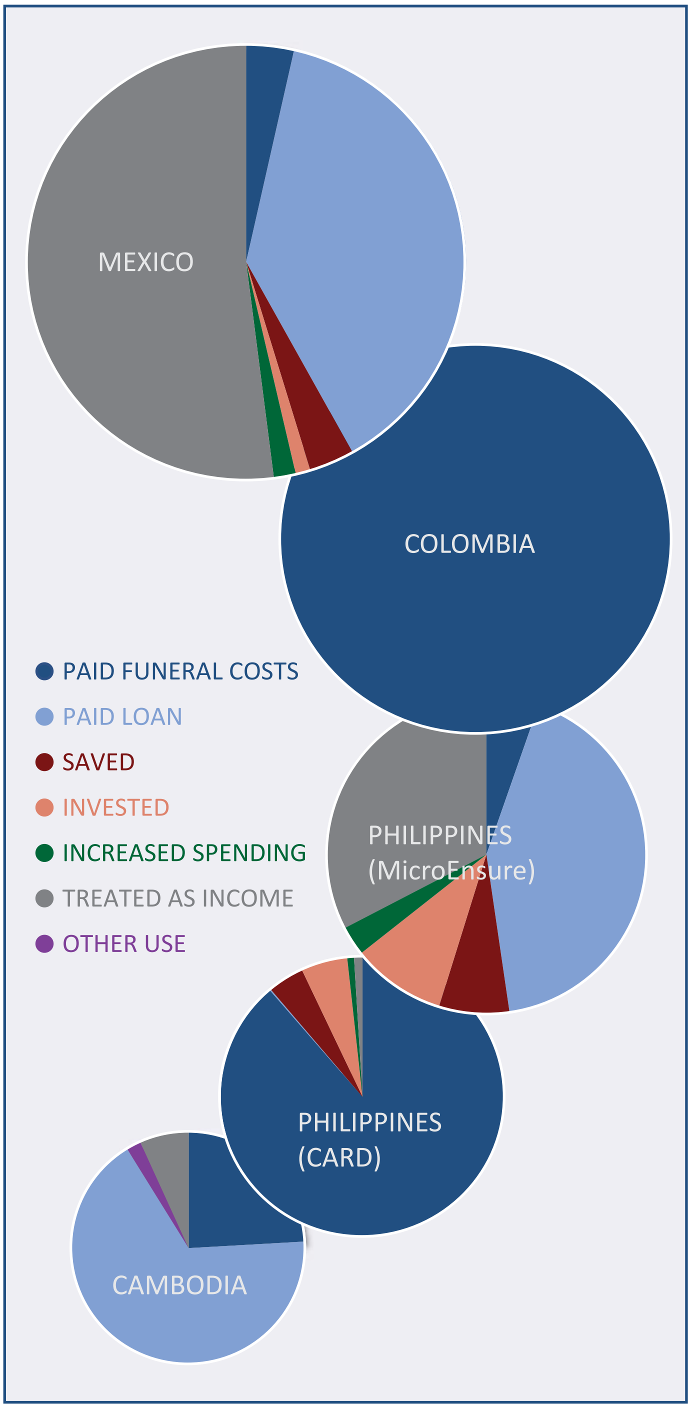
To cover the costs they face, the low-income people in our studies turn to a wide range of different resources. **Gifts and donations** from families, friends, and communities play a crucial role, particularly in paying immediate funeral expenses. This role, especially strong in certain contexts, is often driven by cultural norms; in the Philippines and Cambodia, nearly all (98%) respondents received such gifts, and they made up approximately 59% of the financing raised in those studies (excluding financing from insurance). In Mexico and Colombia, they played a much smaller but still substantial role, received by 52% of respondents in those studies. **Formal and informal loans** play an important complementary role, used by 17% and 54% of respondents across studies, respectively. Many families also use current **income** to cover some part of the cost, and some **reduce spending** on food, healthcare, and education, but how commonly these sources of financing are used and how much they cover varies widely by context. Both of these strategies also take time to accumulate; they are not available in substantial quantities to meet immediate funeral costs but rather are used to repay loans or meet later needs. Some families are forced to sell assets to cover costs, though asset sales were relatively uncommon outside of our Cambodia sample (36% of respondents in Cambodia and 6% elsewhere turned to this strategy). Another and perhaps more troublesome financing strategy that was rare overall but more prevalent in Cambodia was taking children out of school so they could work to support the family's diminished income. Doing so helped to cope with the immediate costs of the death, but with enormous consequences for the families' future wellbeing. Finally, **insurance** often played an important role for the families that were covered, though how it was used and its effectiveness in meeting needs varied widely.

How insurance fits in

Insurance can play a role in covering many of the costs described above, but its effectiveness in doing so and how it is allocated to costs depends on the size of the benefit, the nature of the coverage, and the timing of payment. Figure 2 shows the average uses of the insurance benefit for each of the five studies. The pies are roughly proportionate to the size of the total benefit, including cash, in-kind, and loan forgiveness benefits. While the insurance was generally used for similar types of needs, we see drastically different amounts and proportions of the benefit allocated to these different uses by product.

First, insurance can be used to **pay for the funeral**. Indeed, all of the benefit from Mapfre's funeral insurance in Colombia is put to this use, as it is paid in kind (covering a standard funeral package at an affiliated funeral home on a cashless basis). In other contexts, the insurance benefit was used for a variety of additional needs. In addition to direct spending on the

Figure 2: Uses of Insurance Benefit



funeral, cash insurance benefits, when they are paid later, can be used to pay off funeral-related borrowing, as we see in the other studies. The structure of such products can lead to greater inefficiency and cost when beneficiaries are forced to turn to loans and other short-term strategies to cover immediate needs, but they also allow greater flexibility than cashless products to allocate insurance to different uses.

Insurance benefits were also used by many respondents to **pay down debt**, including funeral-related borrowing and other loans taken out to support the family after the death (for example in Compartamos' product in Mexico and in MicroEnsure's product in the Philippines), as well as any outstanding loans left by the deceased. While credit-life insurance pays the outstanding balance of a borrower's loan, many of the deceased in our studies had loans from multiple sources, not all of which were insured. As such, insurance reduced but did not always eliminate the debt burden on surviving families. However, the limited support provided by insurance may have played a crucial role in allowing those families to manage the debt left to them. In Cambodia, after accounting for the loan repayment insurance, insured and uninsured families were left with nearly identical debt burdens from the deceased, but the insured were able to service all of this debt, while the uninsured were able to service only 69% of it.

In several studies, respondents could not easily recall exactly how the full amount of the insurance benefit they received was spent. We assume that the unallocated amount was used as income, covering ongoing needs of the family and helping to replace some of the lost income of the deceased. However, although many families reduced spending on daily needs after the death, only a very small proportion of the insurance benefit was used to help bring **spending** back towards previous levels. This is likely due to the fact that these families were even months after the death still strapped with the ongoing costs of lost income, which insurance only partially relieved.

In addition to supporting income directly, part of the insurance benefit was used by some respondents to adapt to ongoing costs of the loss. Portions of the benefit were sometimes **invested** or **saved**, though generally not in large amounts. The financial cost of a death goes far beyond the most immediate costs of a funeral and its related customs and ceremonies. When the deceased was a breadwinner, the surviving family must adapt to a lower income stream and/or find ways to increase its income in the future. Several of the insurance products we studied (particularly the MicroEnsure product in the Philippines and the Compartamos product in Mexico) seem to have provided some support in cushioning income after the death. Some (notably, MicroEnsure's product in the Philippines) also enabled families to save or invest some money, partially supporting their long-term recovery. All five products, however, fell short of truly meeting these ongoing needs.

In some but not all studies, we see substantial **differences between the financing strategies used by the insured and uninsured**. This difference is particularly stark in the case of Mapfre's funeral insurance in Colombia, which seems to have been effective in helping insured respondents avoid taking on additional debt, using savings, and cutting spending; because the benefit was delivered in-kind, these families avoided the need for most up-front financing. Similarly, in Mexico we find that the insured were able to rely somewhat more heavily on informal loans from friends and family, rather than on the more burdensome tools of formal loans or drawing down savings. These differences suggest that the insured may have leveraged the expected insurance payout to access loans from friends and family, a trend that we also see in our studies of property insurance. In our other life insurance studies, where coverage was more limited, we see less drastic differences between the financing of the insured and uninsured. Some of these differences were eroded when insurers paid benefits after a long period of time (for example, MicroEnsure's product in the Philippines), leading beneficiaries to turn to similar financing tools as the uninsured to cover costs while waiting for the payout. Additionally, in the face of both the large size and ongoing nature of a family's needs after a death, lower-coverage products played a more limited role in relieving the overall financing burden on families.

Timing matters: The complex impacts of delayed payments

While delays in paying claims are typically viewed as a sign of low value, we find that in some ways and for some of the clients in our studies, delays may have increased value by influencing how clients use the benefit. The time an insurance benefit is received seems in large part to determine how it is spent. Two studies in the Philippines of products paid at very different times provide an example. Beneficiaries of CARD's product, which pays very quickly, spent almost all of the benefit on the direct costs of the funeral. Beneficiaries of the MicroEnsure product, which involved long delays,[3] used just over half of this benefit on income replacement or productive investments aimed at generating additional income, and only 39% to pay off loans incurred to cover funeral costs. While it caused additional inefficiency and hardship in some ways, the delayed payment seems to have helped those families channel more of the benefit toward meeting their many ongoing needs after the death, not only the funeral.

It has been suggested that funeral insurance, rather than providing financial relief, may lead families to

3 The product paid a funeral assistance benefit, paid on average 26.2 days after the death, and a life benefit, paid on average 83 days after the death.

simply buy a "bigger box" or otherwise spend more on non-essential elements of the funeral than they would have without insurance. Evidence from Client Math on this topic is not conclusive, but the insured families in our studies tend to spend slightly more than the uninsured. This greater spending might be seen as some evidence of a "bigger box" effect, but might also reflect the slightly higher socioeconomic status that Client Math often observes in insured respondents. Our two studies in the Philippines shed light on the nuanced impact of timing. The total amount spent by the insured on the wake and funeral does not vary significantly by payout time. However, those clients receiving very fast payouts (near the time of the wake) dedicated a larger proportion of spending to the wake, while those receiving slightly slower payouts (near the funeral) spent relatively less on the wake but more a on the funeral. For these clients in the Philippines, the timing of the payout seems to have influenced the specific usage of the benefit, but not overall spending.

Revisiting the actuary's guess

Though the actuary's guess above suggested that these products have similar value to clients, a more careful consideration of the "math" and the context suggests that in fact they have value in very different ways. As such, which product is best depends on the need it is intended to fill. For meeting immediate financial needs related to a funeral, cashless funeral microinsurance such as Mapfre's product in Colombia may be best. The costs of a funeral, unlike damage to one's home from a flood, cannot be delayed. Cashless, in-kind coverage avoids the need for inefficient financing tools to fill the gap before a cash payout is received, such as taking out formal loans, or strategies with long-term consequences, such as depleting savings, selling assets, or taking children out of school to work. Such products also alleviate some of the strain of planning a funeral at an already stressful time, and may also reduce pressure to over-spend because a "standard" funeral is covered. Cashless products, however, lack the flexibility of those providing a cash payout.

The flexibility that comes with cash payouts and some other product features can itself provide great value to clients by allowing them to allocate benefits among their needs as they choose. Flexible products such as the one offered to Compartamos clients in Mexico (which pays benefits in cash and allows the client to select her level of coverage) give clients and beneficiaries the flexibility to spend more or less on the funeral, and to spend that money more precisely as they choose. This flexibility seems especially desirable where funeral practices are more elaborate and culturally important, even if it sometimes enables a "bigger box." Further, in contexts such as the Philippines and Cambodia, where friends, family, and community play a very large role in funeral financing, the remaining financial needs for the funeral may be more limited than ongoing needs, for which these other resources are less available.

Even with cash benefits, which are presumably fungible, the way payouts are allocated by beneficiaries appears to depend partly on when they are paid. CARD's benefits, paid soon after death, were used mostly on the deceased's funeral, while MicroEnsure's benefit, paid much later, was often put to other uses. While less effective in relieving funeral costs, a greater proportion of this benefit was used toward the family's ongoing needs, and was at least arguably better spent. This advantage to later payments should not, however, be seen as an excuse for delay due to inefficient or inadequate claims processing; the lack of certainty that comes with such delays can greatly diminish value. An intentionally delayed life (as opposed to funeral) microinsurance benefit, however, may ultimately have great financial value to some families as they move forward after a death.

VALUE THROUGH PEACE OF MIND

Exploring the Expected Value of Life Microinsurance

What if something happens to me? That is the concern of parents…that you will leave your children on the street.

– Compartamos client

Client Math studies suggest that life microinsurance can play an important role in alleviating the financial strain of a death in the family when claims are made. But what value, if any, is offered to the great majority of clients who do not "use" the insurance because, thankfully, they don't die?

To address this question, MILK conducted a randomized control trial in Mexico with Banco Compartamos to see whether policyholders perceived value in the product. A randomly chosen group of clients was told that they would no longer receive a free basic insurance package, while another randomly selected group kept its free coverage. When clients lost access to the free insurance, many compensated by voluntarily purchasing coverage. In focus groups, they emphasized the peace of mind that insurance provides. Clients' reaction to losing free coverage is a powerful indication that they see value in the product, despite the fact that most are unlikely to "use" it. Compartamos' clients were unique in that they had familiarity through their previous experience being covered by it for free. Many were aware of the product's reliability, and had seen instances of claims being paid and used, which develops understanding and trust of the product.

If you have life insurance, it is not so much a concern. At least you no longer feel the stress of 'what would I do?'

– Compartamos client