CONDENSED MILK

Protecting those Left Behind: An Experimental Study of Life Microinsurance Purchase Decisions of Compartamos Banco's Clients in Mexico

The loss of a loved one can lead to enormous stress, both emotional and financial. The financial stress can be particularly severe for low-income families left vulnerable by funeral costs and the loss of a breadwinner's income. Life microinsurance has great potential to alleviate some of this pressure and to offer value to these families, both by reducing their financial burdens if a death occurs and by offering peace of mind as soon as the purchase is made. Nonetheless, take-up of life microinsurance products remains low overall.

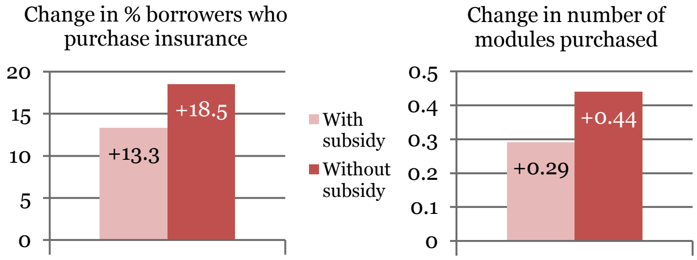
The MILK project studied the demand for a life microinsurance product offered to over 1.8 million clients of Compartamos Banco in Mexico with a randomized control trial (RCT). Compartamos sells life insurance in modules of MXN 15,000 (about USD 1,160 at the time of the experiment) of coverage, and subsidizes coverage by providing one free module to each of its village bank borrowers. At their own cost, borrowers have the option to purchase up to seven additional modules.

MILK's study measured the impact of price and marketing on insurance purchase and coverage, shedding light on the links among client value, pricing, information, and demand. The **subsidy intervention** varied the price of coverage by eliminating the subsidized module of coverage for some clients but not others. The **marketing intervention** measured the impact of two different marketing approaches on demand. The experiment was conducted with 8,763 clients in the state of Sonora in February and March 2012. The two interventions combined to create four groups of borrowers. Because clients were randomly assigned (by village bank) to one of the four groups, we know that the outcomes we measure were *caused* by each intervention.

Eliminating the subsidy

The subsidy intervention tested the impact of eliminating the free module of insurance on clients' purchase decisions and total insurance coverage. Borrowers in roughly half of the village banks involved in the experiment were told that they would no longer be covered by a free module of insurance due to changes in Compartamos' policy. All borrowers kept the opportunity to purchase additional modules voluntarily, under the same conditions as before the experiment (price, eligibility, etc.). While clients were told as part of the project that the free module had been permanently eliminated, *Compartamos in fact provided back-up coverage for families in the event that any borrower passed away during the study period, though none did.*

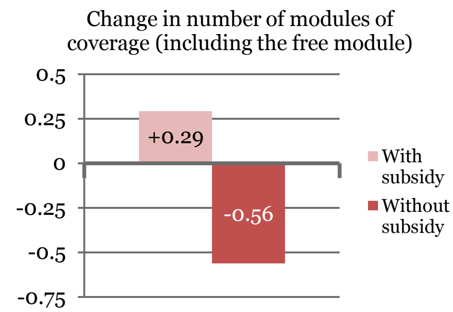
We found that borrowers partially compensated for the loss of the subsidy by making more voluntary purchases of insurance, and by purchasing more modules. Those in groups with no subsidized coverage were 5.2 percentage points more likely to purchase insurance (one or more module), and purchased 0.15 more modules on average.



Microinsurance Learning and Knowledge

This publication is a summary of the full report on this project, written by Jonathan Bauchet, Emily Zimmerman, Barbara Magnoni and Derek Poulton and available on MILK's website: http://www.microinsurancecentre.org/milk-project

However, eliminating the subsidy resulted in a **lower level of total coverage** on average. Although clients purchased more insurance after the subsidy was eliminated, they did not purchase enough insurance to reach the same level of total coverage that clients who kept the subsidy had. Borrowers in groups without the free module were covered by 0.85 fewer modules, on average, than those who continued to receive the subsidized module.



We also found **suggestive evidence that poorer and more vulnerable borrowers were affected disproportionately** by the elimination of the subsidy. Non-homeowners did not increase their purchase of additional modules when the subsidy was eliminated; only homeowners did. Non-homeowners also suffered a larger drop in total insurance coverage than homeowners. While home ownership is not a perfect indicator of income, overall wealth, or vulnerability, the potential equity implications of eliminating the subsidy should be carefully considered.

Marketing the insurance

The marketing intervention standardized the information provided to borrowers by introducing two posters that loan officers brought to group meetings. The top half of the posters provided the same basic information about the product. In the bottom half, the "factual" poster (see photo above) emphasized the financial toll that a funeral takes on a family and how insurance helps one to cope, using a visual representation of typical funeral costs and how they are financed. The "emotional" poster emphasized the emotional toll of a death on the surviving members of the family, using a series of pictures to tell the story of a family affected by the death of a breadwinner and how insurance helped them to recover. Half of the groups were presented with the factual poster, the other half were presented with the emotional poster. Loan officers were also given a short script to accompany each poster, which they delivered while showing the poster.

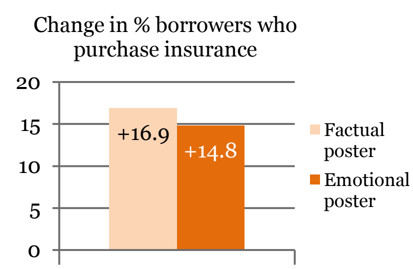
"[With the factual poster], now we know more or less how much [a funeral costs]."

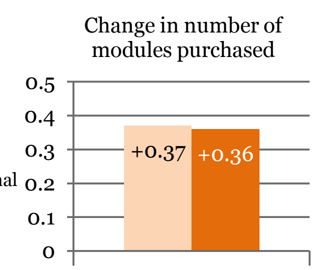
"[The emotional poster is] a bit harsh, but that's reality. It helps to open our eyes to the possibility."

-Compartamos borrowers, offering insights into the relative strengths of the two approaches

We find strong **suggestive evidence that the standardized marketing approach, regardless of whether factual or emotional, increased sales of insurance**. The percentage of clients who purchased any insurance increased by more than 20% after the standardized approach was adopted. The evidence is only suggestive because the study did not include a randomly assigned control group that received no marketing intervention, but no other factor seems to be able to explain the increase.

Overall, we find **no conclusive difference between the emotional and factual messages** in terms of percentage of borrowers purchasing, number of modules purchased, or total coverage. These averages, however, hide important differences in the way the marketing messages interacted with the elimination of the subsidy. When the subsidy was eliminated, **sales of additional modules only increased among Compartamos borrowers who were presented with the factual poster** – borrowers who received the emotional message did not increase their purchase of additional modules and lost more coverage.





What does this mean?

Compartamos' borrowers' partial compensation of the loss of the free module shows that they **perceive value in the insurance product and are willing to pay for it**. When discussing the value of life insurance, borrowers point to the peace of mind it brings. They are keenly aware of the potentially devastating financial consequences of a death and see insurance as an effective tool for preparing for those costs in case they ever arise.

"If you have life insurance ... at least you no longer feel the stress of 'what would I do?'"

-Compartamos borrower

The specific type of subsidy implemented by Compartamos, offering basic coverage automatically, may help potential clients overcome their lack of trust in the insurer. This study does not establish whether the subsidy caused the high take-up of insurance among Compartamos borrowers before the experiment, but shows that eliminating the subsidy did not lead to a drop in purchases. This suggests that offering such a subsidy on a temporary basis may help protect more households against the financial consequences of a death. At the same time, however, the subsidy does lead to a higher level of total coverage than offering the product for voluntary purchase alone. Eliminating the subsidy also has important equity implications, as we found evidence that the subsidy helps poorer and more vulnerable clients more than their wealthier counterparts.

Standardizing the marketing message appears to have been effective at increasing take-up and coverage overall, but we found **no evidence that the "emotional" marketing approach was more effective** at selling insurance to the poor. Providing clear, factual information helps clients make informed choices. The factual poster's influence on the purchase decision of borrowers who had the free insurance module taken away shows that providing them with this information doesn't only make sense from a consumer protection and education perspective, but makes business sense as well.

This study was conducted by the Microinsurance Learning and Knowledge (MILK) project

MILK is an initiative of the MicroInsurance Centre that is working to gain insight into two questions: 1) Is there a business case for microinsurance among insurers and delivery channels? 2) Do clients get value from microinsurance?

To see the full RCT study visit: **http://www.microinsurancecentre.org/milk-project**