MILK Brief #36:
"Doing the Math" – Credit Life Insurance in Indonesia[1]

Key Findings. The MicroInsurance Centre's Microinsurance Learning and Knowledge (MILK) Team studied death-related costs and financing in East Java, Indonesia, focusing on the role that Allianz's Payung Keluarga insurance product played. We found:

- A community-based "death fund" plays a crucial role for both insured and uninsured households in covering the costs of a burial and related ceremonies.
- Our findings suggest that the loan forgiveness component of the insurance may have offered greater value to clients than the cash payout; this is especially interesting given that the value of credit life insurance has often been questioned.
- The insurance product's cash payout was most commonly used to supplement other financing for the funeral (rather than for investment or replacing the lost income of the deceased); however, it does not replace the strong informal financing mechanism offered by the death fund.
- The insurance product's loan forgiveness component offered substantial value, covering on average 23% of the various outstanding loans left by the insured deceased. This allowed insured households to almost completely avoid difficult financing strategies used by some uninsured, such as asset sales and savings depletion.
- Our analysis suggests that women who have lost a husband or other higher-earning breadwinner often face a particularly great financial burden, and as such may experience the greatest value from insurance covering this loss.
- While careful attention is paid to explaining insurance product details to clients, substantial gaps in understanding remain, suggesting that additional education directed at clients and beneficiaries may have great value.

Studying Allianz's[2] Payung Keluarga Product in East Java, Indonesia

In East Java, an untimely death can leave the surviving family with a great financial burden. In addition to the permanent lost income of the deceased and the temporary loss of family members' income during the grieving period, families must cope with ongoing loan payments and the new (often quite large) costs of the funeral and related ceremonies.

A funeral in East Java is a community affair, surrounded by a mixture of Muslim ritual and Javanese tradition. The burial is followed by nightly Tahlilan prayer ceremonies over the

[1] This Client Math Brief was prepared by Danielle Sobol, Barbara Magnoni, and Emily Zimmerman (December 2014).
[2] The study was commissioned by Allianz, with support from GIZ and Allianz Indonesia.

seven days after the death (as per Islamic custom). Then come the Slametan ceremonies, a Javanese practice of joint meals, occurring on the 3rd, 7th, 40th, 100th, and 1000th day following the death. The practical aspects of a funeral itself are taken care of by a village committee called the Modin. The Modin cleans the body, wraps the body in the traditional white fabric, prepares the burial site, provides religious leadership for all ceremonies, and takes care of additional details such as the gravestone and decorations. In some cases this committee takes care of particulars beyond the funeral itself, including the death certificate and food during the Tahlilan. Each community compensates the Modin differently; some are paid directly by the bereaved family, some by the community, and some by a Mosque fund.

One important constant across communities is the tradition of paying off a deceased family member's outstanding debt (including all formal and informal loans) immediately. As Saeman, a small business owner in Ploso village in Jombang explained: *"This is believed to smooth the deceased's passage into her next life".* Therefore, along with the direct costs of a death, paying off debt is a priority for bereaved families, and the obligation to do so often competes with the desire for and ability to have a decent funeral.

Box 1: CREDIT LIFE INSURANCE

Credit life insurance covers outstanding debt in the event that the borrower dies. **Basic credit life** covers the principle and interest on a loan, while **enhanced credit life** provides additional benefits on top of basic coverage. These may include coverage of additional risks, coverage of other death related costs such as funeral expenses, or coverage of other family members in addition to the borrower.

Payung Keluarga (Family Umbrella in English), Allianz's enhanced credit life product in Indonesia, aims to relieve part of the burden of this debt (See Box 1: CREDIT LIFE INSURANCE). It is distributed through microfinance institutions (MFIs) and grants each MFI the flexibility to choose from a variety of benefits to match the needs of its own client base.

PT Bina Artha Ventura (PT BAV), a microfinance institution (MFI) that lends exclusively to female business owners whose sales do not exceed USD 200 per month, is one such MFI. Clients apply for their loans in groups of 4 or 5, and insurance coverage is bundled with loans. Payung Keluarga, as offered by PT BAV, covers two risks: the death of the borrower and the death of the borrower's husband. In the event that the borrower dies, the full initial loan amount is covered, from which the outstanding loan balance is repaid and the remainder passed to the beneficiary as a cash payout. In the event that the borrower's spouse dies only the outstanding loan amount is forgiven, and no cash payout is made. Coverage of the borrower's death as well as her husband's death is mandatory.[3] Coverage of the borrower comes at a premium of 0.24% of the initial loan amount per year, while coverage of a spouse is 0.35%.

Methodology

In October 2014, in an effort to better understand the value of this insurance coverage, the MicroInsurance Centre's Client Math researchers traveled to East Java to interview the families of recently deceased formal loan holders. The research utilized the Client Math methodology (See Box 2: CLIENT MATH) to investigate the client value of Allianz's Payung Keluarga product.

We targeted two groups of respondents. The first were beneficiaries of the Payung Keluarga product, whose deceased family members held outstanding loans with

Box 2: CLIENT MATH

Client Math uses in-depth interviews of low-income people (some with insurance and some without) who recently suffered an insurable shock. We quantify the full cost of the shock, as well as the financial response, exploring the role insurance played in helping clients deal with the financial burden.

[3] No other family member's death will be covered in cases where there is no spouse. In cases when the spouse is not available to sign forms at the time of loan application they will not be covered.

PT BAV. The second group consisted of family members of deceased individuals from the same communities who left outstanding formal non-BAV loans, but who did not have insurance. We spoke with beneficiaries of the Payung Keluarga product where the loan holder had passed away to assess the value of the cash payout specifically, given that it is a unique value added component of an otherwise standard credit life insurance product. The second group plays two roles. It acts as a comparison group to assess the role of Payung Keluarga, allowing us to approximate the role that insurance might have played for respondents who were not covered. It also gives us some idea of how a PT BAV borrower might have coped if she had lost her spouse.

The team worked with PT BAV claims data and local PT BAV staff to identify and reach the Insured population, while the Uninsured population was reached through partnerships with local MFIs[4] who do not offer any credit life insurance product. We selected a group of respondents whose family member had died in the 11 months prior to surveying. Through a partnership with local microfinance consultancy company MICRA Indonesia, the research team conducted 55 surveys in the Jombang and Kediri regions of East Java in October, 2014.

Who are the respondents?

Client Math studies aim to interview Insured and Uninsured respondents who are as similar as possible to each other so that the Uninsured may serve as a meaningful comparison group. However, in some cases, such as this one, a similar Uninsured group is not available (details are provided in Table 1). Alternately, our uninsured group can serve as a means to validate some of

Table 1: Socioeconomic and Demographic Characteristics of Respondents

	Insured (n= 28)	**Uninsured** (n= 26)	**p**[5]
Average Primary Loan Size[6] (Principal)	USD 131	USD 569	**0.029**
Monthly HH Income			
Current	USD 136	USD 126	0.699
Before Death	USD 178	USD 262	0.062
Difference	USD 42 (-23%)	USD 136 (-53%)	**0.003**
Monthly HH Expenses (Total)	USD 170	USD 173	0.405
General Expenses	USD 146	USD 135	0.664
Loan Payments for the Deceased[7]	USD 5	USD 24	**0.014**
Loan Payments for other HH Members	USD 18	USD 13	0.560
% Female (Deceased)	100	13	**0.000**
% Female (Respondent)	18	81	**0.000**
Average Age (Deceased)	50	50	0.988
% Have a Formal Savings Account	21	32	0.280
% Have Other Insurance[8]	7	23	0.117

[4] We are extremely thankful for the help of BPR Hamindo Natamakmur, BPR Artha Samudera Indonesia, and BPR Insumo Sumberato.
[5] A p-value below 0.05 indicates a statistically significant difference between the two groups.
[6] The primary loan refers to the BAV loan in the case of the Insured, and the Uninsured's loan with the MFI through which they were contacted for this study.
[7] Loan payments are only counted in monthly household expenses if the respondent is currently making loan payments, and include all loan payments, including those of primary loans.
[8] Of respondents who had other insurance, none had other life insurance coverage.

the hypothetical questions asked of the Insured related to their alternatives in the absence of insurance. Over the course of our Client Math studies, we have not always found Uninsured Groups with identical characteristics. However, they are always from the same low-income communities, having suffered the same shocks. Throughout our studies, we find that it is common for an insured beneficiary to overestimate their need or ability to use difficult coping mechanisms in the absence of insurance, particularly in the cases of savings, formal loans, informal loans and asset sales. As such, the uninsured may be a better counterfactual to the hypothetical questions posed to the insured.[9] When the results of the Uninsured group's coping mechanisms are combined with an understanding of what the Insured actually did do, we can learn much about what the Insured might have done without insurance.[10]

There are several notable differences between the Insured and Uninsured respondent populations for this study, primarily due to the gender difference between the groups. We will continue to highlight these differences throughout the text and explain how they affect conclusions. While all of the respondents in our Insured sample had lost a female family member, only 13% of the Uninsured respondents had lost a female family member. This is because of our focus on understanding the value of the cash benefit coverage of the product, which is offered only in the case a borrower dies (PT BAV lends exclusively to women). Among the general population, however, it is more difficult to identify deaths of productive-aged women who were borrowers. First, women are less likely to have access to credit, a specific reason that PT BAV offers uncollateralized loans for poor women, who may otherwise have limited access to loans. Additionally, women are less likely to meet an early death than their male counterparts.[11]

MICRA researchers interviewing an Uninsured respondent in Jombang, East Java

This gender disparity significantly affected the proportion of household income lost due to the death of the insured borrower as compared to those in our uninsured groups. Uninsured households lost an average of 53% of household income when the borrower (most commonly a man) died, while Insured households (who lost a woman) lost an average 23% of their household income.

The weight of the death of PT BAV's clients on their households was also mitigated by their relatively lower stock of debt. The Uninsured respondent group had, on average, primary loans that were 434% higher than those of the Insured respondent group, most likely due to the gender disparity.[12] Monthly loan payments for Insured and Uninsured borrowers represented similar percentages of pre-death household income (5% and 9% respectively). However, their burden was greater on uninsured families after the death, with monthly loan payment amounts representing 6% and 18% of the Insured and Uninsured post-death households' income, respectively. This illustrates the typical situation in many developing countries that the burden of losing a female is relatively lower than the loss of a male family member due to the male's generally higher income earning capacity. This indicates that the borrower's death was therefore more financially burdensome in Uninsured households (males) than in Insured households (females).

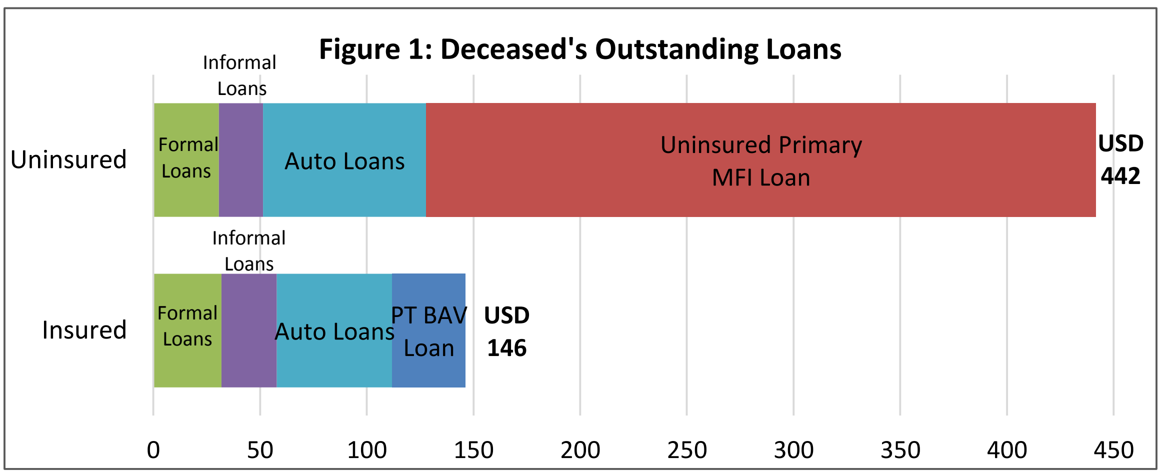
[9] See MILK Brief #31 MILK Brief #31: "What would you have done without insurance?"
[10] MILK Brief #31 notes that the mechanisms used by the insured may be the best counterfactual, whereby insurance tends to lead beneficiaries to use the same mechanisms to a lesser degree rather than fewer financing mechanisms to cope with the shock.
[11] In Indonesia, average life expectancy for women is 73 years vs. 69 years for men (World Bank)
[12] These differences require that we analyze the costs and financing related to the death in a somewhat different way than is typical in Client Math.

Funeral costs

While the cost of death included various items, including funeral costs, opportunity costs from lost income from the funeral, and the loss of the income of the breadwinner, we found that funeral costs, in particular were difficult to calculate as many respondents did not directly pay for much of this cost. In East Java, many families (72% of respondents in this study) have access to an informal financing tool for funerals known as a death fund, where community members pay in at certain intervals (weekly, monthly, or yearly) and a portion of these funds are paid out to help cover costs after a death. In some cases, a portion or all of death fund money bypasses the family altogether and goes straight to the Modin (26% of respondents in this study had all Modin costs covered directly by the death fund). For this reason, many families do not know the exact costs of their funerals, and funeral costs borne by the family vary substantially. While mean funeral costs borne by the household were USD 344 for the Insured and USD 696 for the Uninsured, they ranged between USD 0 and USD 1613. Part of the variation is due to the fact that the Modin paid for different components of each funeral at different percentages of each piece.

Costs and financing of outstanding debt

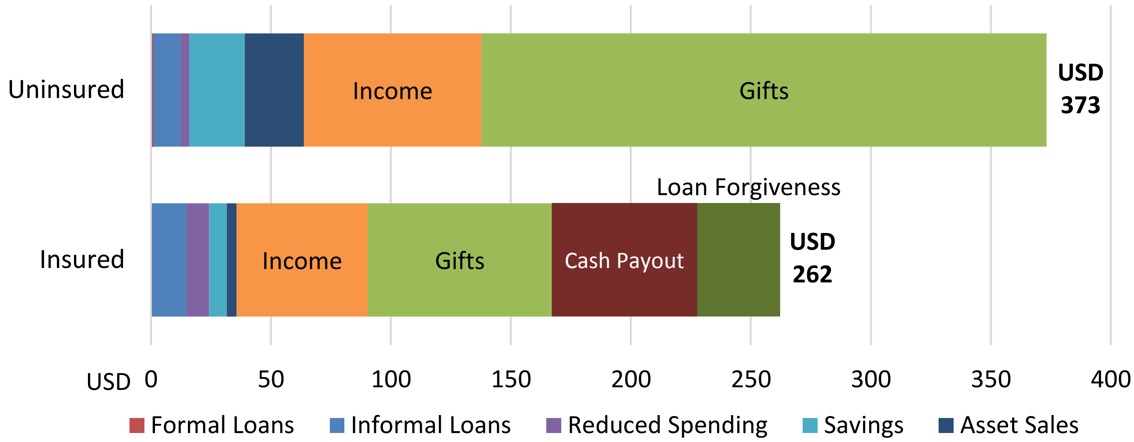
Because of the importance of loan financing in recovering from the financial burden left by a borrower's death and because of the special focus of the Payung Keluarga insurance on covering outstanding loans, we isolated these costs in our analysis (see Figure 1). Overall, the Insured deceased left an average USD 146 in outstanding debt (including the PT BAV loan), and the Uninsured deceased left a total USD 442. The two groups had nearly identical amounts of informal and auto[13] loan debt. However, the Uninsured had USD 278 higher outstanding formal loans at the time of their death (Uninsured deceased left a total USD 345 in formal debt, while the Insured left a total USD 67, before loan forgiveness). These debts represent a critical component of the total cost of the death, particularly given the strong cultural pressure to pay off loans at the time of death.



We find that the credit life insurance was valuable as it covered some of the substantial costs of repaying loans. **Payung Keluarga insurance forgave an amount equivalent to 23% of the sum of the various outstanding loans of the Insured (representing approximately 25% of monthly household income income).** This offered an important, though not sufficient, financial relief for Insured families given the strong cultural emphasis on repaying the deceased's loans. This extra support was especially helpful in light of the reductions in income families experienced around the time of the death. Respondents themselves missed an average of 2 weeks of work (for both the Insured and Uninsured groups) around the time of the death, contributing additional stress to this situation.

[13] While most auto loans in this region are used to finance motorcycle purchases, we did not distinguish between motorcycle and car financing in this study.

Figure 2: Financing Strategies



Additionally, the Insured were able to almost completely avoid difficult financing strategies used by the Uninsured, such as asset sales and savings depletion, as a result of their lower overall burden of financing the cost of the death. Financing strategies for all costs of the death (the funeral, the Tahlilan and Slametan ceremonies, and loan repayments) for the Insured and Uninsured are shown in Figure 2.[14] At the time of surveying (on average 210 days after the death for Insured and 174 days for Uninsured), Insured respondents had been able to pay off 47% of the deceased's total debt.[15] In fact, with USD 262 in mobilized financing, the Insured respondents *over-financed* their USD 146 in loans by an average of USD 116, and used this over-financing, including gifts, toward covering other costs. In contrast, the Uninsured *underfinanced* their quite large (average USD 442) loan balances by only mobilizing USD 373 on average and thus not effectively paying off all loans. While both groups appear to have access to and indeed use the same financing sources – mostly gifts[16] and income – the insurance coverage allowed Insured families to de-leverage and ultimately to utilize each strategy to a lesser degree. While some of this was the result of the relatively lower debt / income ratio of the Insured beneficiaries, the 23% reduction in outstanding loans was supportive in reducing this overall burden.

The value and timing of the cash payout

In addition to loan forgiveness, the insured received an average cash payout from Payung Keluarga of USD 61, which represents 23% of the total amount financed by Insured respondents. It was received, on average, 20 days following claim submission. In our MILK Brief #27: "Doing the Math – Funeral Microinsurance and Speedy Claims in the Philippines", we explore the relationship between the timing of insurance payouts and their use. Specifically, we find that when payments are made during specific ceremonies (wakes, funerals, etc.) they are more likely to be used for those ceremonies, perhaps inflating their cost or leading to a "bigger box" phenomenon.[17] As a result, the timing of the payout seems to have strongly influenced the use of cash funds. Of the insured respondents, 69% used some or all of the cash payout (an average of USD 54) to cover death-related expenses: the costs of the burial and related ceremonies and / or the deceased's outstanding loans. This payout generally covered the Slametan ceremonies, most likely because the cash payout was received on average 20 days after death, after the burials and the Tahlilan ceremonies. Compounding this effect is the fact that 64% of all respondents felt obligated to use

[14] We removed two financing strategies that were highly skewing this small sample: the gift of food in kind, and gifts from the government. Both of these were received by a small minority of respondents, but in very large amounts.
[15] Uninsured respondents had been able to pay off a lesser amount, 34%, most likely because they had larger debts to pay off, none of which were forgiven, and greater income loss than the Insured.
[16] Death fund payouts are included in the gifts category, as respondents were not able to separate this amount from other gift types.
[17] The "bigger box" refers to spending on funerals that may exceed anticipated spending (or the cost of a sufficient modest funeral) as a result of a windfall of funds from an insurance payout.

this cash for costs of the death. For example one beneficiary, whose mother had passed away, explained: "*It is my mother's money and should go to her ceremony*."

Of the 31% of respondents who did not use any of the cash payout to cover death related expenses, 63% used the cash to pay off other loans, and 50% used the cash to increase consumption of food (75% of these respondents had been spending less on food in order to cope with death-related costs). One respondent commented that he chose to use the money to pay off his own debt instead of paying for the funeral, as he was ashamed to have a loan. None of the respondents used the cash payout to invest in the family's existing business or in supporting additional income streams to adapt to the loss of the deceased's income, most likely because the payout was relatively small and seen as owed to the borrower.

Exploring costs and financing through case studies

The averages discussed above can sometimes obscure the nuance of individual cases. The two case studies that follow tell the stories of individual beneficiaries of the Payung Kelugara product, highlighting the role that insurance played in helping them to recover, as well as the limitations of this role.

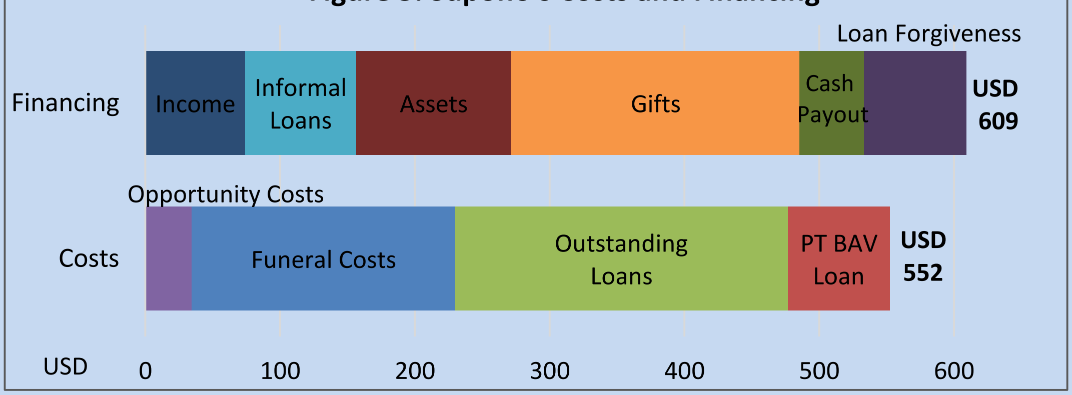
Supono: Recovering with a Payung Keluarga Benefit

Supono is a 48-year-old man who lost his wife, Sudarmiasih, in December 2013. When she died she left Supono to care for their three children and her elderly father. Supono works as a part-time employee in a store where his father-in-law once worked as well. Around the same time that Sudarmiasih died, her father fell ill, and has since been unable to work. This has left Supono as the only income earner in his household.

When Sudarmiasih died she had three outstanding loans: a PT BAV loan (with USD 76 outstanding) and two loans with neighbors (with a total USD 247 outstanding). Additionally, Supono, whose monthly household income dropped from USD 148 to USD 124 following his wife's death, had USD 230 in other death-related costs (see Figure 3).

Supono knew that his wife had taken out a loan from PT BAV and she had told him that the loan was covered by insurance. However, he did not know what to expect from this coverage. He waited 40 days to file a claim, and even

Figure 3: Supono's Costs and Financing



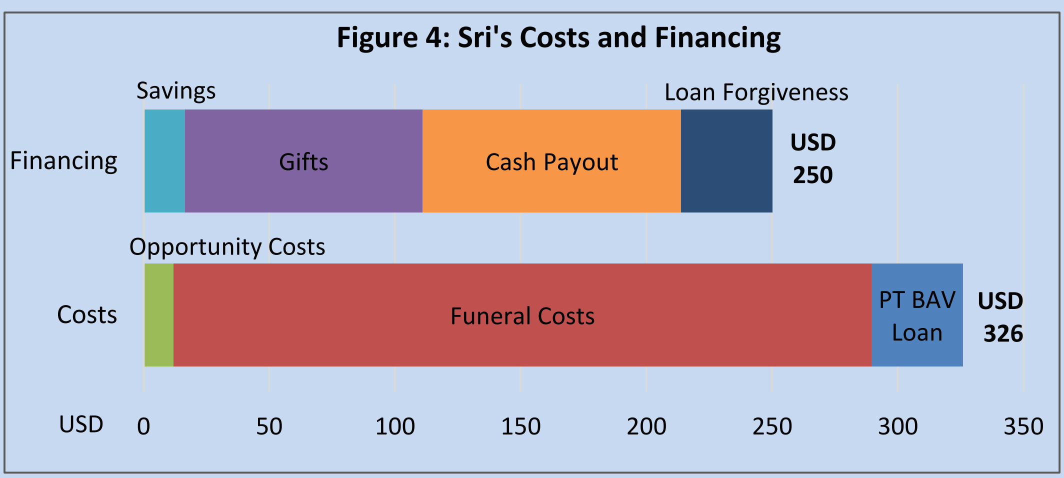
though a PT BAV loan officer described the claim process to Supono after his wife's death. He explained that he found the process confusing and that the amount of paperwork required delayed his claim submission.

Allianz's Payung Keluarga insurance covered 26% of Supono's expenses following his wife's death. He received a cash payout of USD 48, which he used to replace some of the USD 195 he spent on funeral expenses and USD 246 in repayments of outstanding loans. To some extent, these were "over-financed" because of the long wait time for the claim. However, the experience of those who received cash sooner (above) suggests that if received sooner, Supono's USD 48 cash payout may have gone towards paying for a "bigger box" or more elaborate funeral, rather than reducing his financing needs.

Sri: Coping Through a Payung Keluarga Benefit

Sri is 30 years old and lives with her husband and young child. She lost her 64-year-old mother Umini, a PT BAV borrower, in January 2014. Umini had been the head of household and primary income earner in a home made up of Sri, Sri's husband, and Sri's child. Sri only has nine years of formal schooling and does not work. Her husband is now the only breadwinner in the household, which was badly affected by Umini's death. When Umini died, their household income dropped by 68%, from USD 1,111 to USD 357. Umini did not leave any outstanding debt, as Allianz's Payung Keluarga insurance covered her PT BAV loan. Instead, the most substantial cost of her death was food (USD 272) for the Tahlilan and Slametan ceremonies.

Sri told us that her mother did not tell her that she had a loan or about the insurance that came with it. When Sri found out, she expected the loan forgiveness portion of the coverage, but the cash payout was a surprise. This may have contributed to some of Sri's trouble making a claim. She was "confused" and found the process difficult. It took over 41 days to receive her payment because of paperwork issues. Once she received the payment, however, she told us that the combination of the cash payout and loan forgiveness from Allianz were very important, as they covered over half of the costs of Umini's death (see Figure 4). Sri used the entirety of



the USD 103 cash payout towards refinancing of her mother's funeral, explaining that she felt obligated to use the cash in this way. Because the money was disbursed after the funeral, it did not likely contribute to a "bigger box" phenomenon, possibly because she was not aware of the cash component of the coverage. If anything, Umini's funeral was modest in comparison to others we heard of from respondents. Payung Keluarga significantly reduced the burden of death in a household where income dropped so dramatically.

Vulnerability of women and the Uninsured

On top of the benefit of full loan coverage in the event of the loan holder's death, Payung Keluarga protects loan holders against some costs of a spouse's death. Our study suggests that this may be the most valuable feature of the product, as it allows the female loan holder (in the case of a PT BAV loan) a smoother recovery from the death of the family's primary breadwinner, who is often a man. Though Sri was not a loan holder, her case above highlights the vulnerability of women when a main breadwinner passes away. In her case, the loss of a breadwinner was not a husband, but a higher-earning parent. Insurance played an important role in reducing her financing needs in the short term upon her mother's death. To better understand the role that the loss of a higher-earning – usually male – breadwinner may have on a women in the East Java region, we looked at the costs and financing of the 21 women in our Uninsured population who had lost a male breadwinner. With this group, we were able to extrapolate the potential value that Payung Keluarga could have offered uninsured women respondents had they borrowed from PT BAV instead of some other sources.

Uninsured women who lost their husbands were left with an average formal loan burden of USD 85. Therefore, loan forgiveness would have covered an amount equivalent to 68% of current monthly household income of these women, who saw an average drop in income of 46% upon the death of their spouses. Likewise, the loan forgiveness could also have value in preserving these women's access to credit, by ensuring that they do not default on their own loans at time when they face the great financial strain of a breadwinner's death and also pressure to repay his loans. While the Uninsured women in our sample are not perfectly comparable to the Insured women (notably, due to their higher average household income), this analysis suggests that Payung Keluarga might play a very valuable role for borrowers of PT BAV after the death of a husband.

Product awareness and perceived value

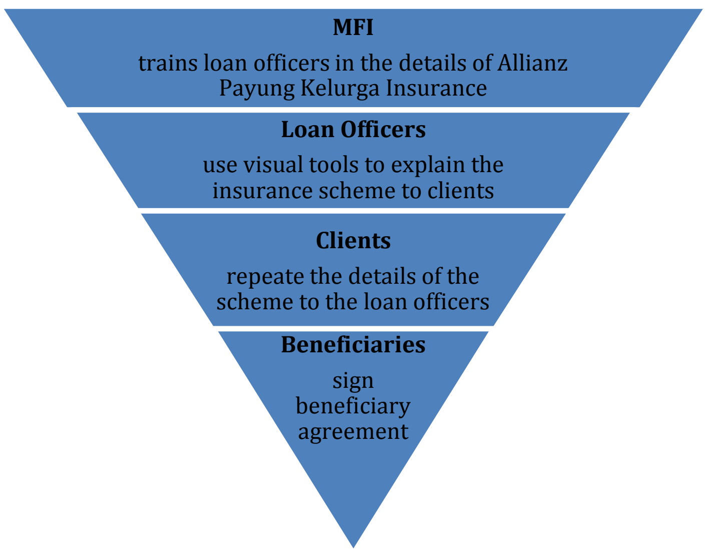
We sought feedback from PT BAV staff to better understand how clients learned about their insurance coverage and how this information might or might not be transmitted to beneficiaries. Loan officers explained that potential borrowers are generally informed about the insurance after the women have formed their credit group to apply for a loan. At that time, loan officers explain the scheme and loan terms to the groups through discussions and posters, and then ask the clients to re-explain the products to make sure that they understand the concepts.

Payung Keluarga claims forms

Clients' initial reactions to the insurance vary and are often rooted in superstition. One loan officer explained that women frequently ask "*Why are you offering this insurance? Do you want me to die?"* However, after an explanation of the benefits, most clients willingly name beneficiaries and note that they would pay the premium even if it were not mandatory. Despite this, the loan officers that we spoke with did not feel confident that clients understand and remember the details of their coverage, though they generally understand that if they or their husband dies, their loan is paid off. The loan officers hold information sessions with the clients only, leaving it up to the clients to explain the insurance to their beneficiaries. While beneficiaries are typically co-guarantors for loans and sign the corresponding paperwork, they are rarely informed of the insurance and typically do not read the material in detail. In our sample, **81% of beneficiaries did not know that they had insurance coverage at the time of death,** and **none had discussed how to file a claim with the deceased.** Figure 5 illustrates the diminishing flow of information from the loan officers to the beneficiaries.

Of the 5 respondents who were informed by the loan holder that they had insurance coverage, only 2 knew what to expect. The majority of beneficiaries (57%) were told about the claims process by the credit officer at the time of the deceased's death. Overall, even after being informed of the coverage, only **21% of beneficiaries expected the benefit that they received.** Most did not know what to expect (54%) or expected a different benefit, in many cases, only the loan coverage without the additional cash payout. The average amount of time after a death that it took to file a claim was 15 days (ranging from 1 to 60 days). As in the case of Sri, 54% of beneficiaries explained that they waited this long because they did not understand how to make a claim. Adding to this the 20 days from submission to payment, the total time from death to payment was 35 days on average.

Figure 5: The Diminishing Flow of Information



While nearly all of the Payung Keluarga beneficiaries expressed gratitude at having this insurance coverage, when asked what the main benefits of having insurance with PT BAV are, 68% answered that they did not know; 18% answered that insurance made them less worried about the costs of death, and 14% replied that insurance allowed them to not have to use income or sell assets to pay off debt. Finally, when asked why they think that PT BAV offers insurance, 89% of respondents answered that they did not know (the remainder believed that PT BAV offers insurance to help relieve the financial burden of a death).

Despite the fact that this insurance product helped families de-leverage and rely less on burdensome financing strategies (as compared to the Uninsured), there is little awareness among beneficiaries of the benefit of the product, even after it was used. This may also speak to the fact that the total amount of money may provide less value for Insured beneficiaries, who are often male and higher income-earning than their spouses.

Conclusions and Recommendations

In a culture where paying off the debt of a deceased loved one is considered a top priority following death[18], Allianz's Payung Keluarga credit life insurance plays an important role in easing the burden of a death. The average amount of debt left by the deceased in this study (across both groups and

[18] While it is equally important to pay off formal loans, as it is to pay off informal loans, it is often the case that formal loans take precedence as informal loans from friends or family may be forgiven in the event of a death.

before loan forgiveness) was USD 349, while the average monthly household income following the death (across both groups) was USD 132. Covering the full loan amount reduced household debt in the Insured group by an amount equal to 25% of the Insured's monthly household income (post death income for the Insured was USD 136, while average loan forgiveness was USD 34). The strong value proposition offered by the loan coverage is particularly interesting given that the value of credit life insurance to clients is often questioned (as it is seen to provide more protection to the lender than the borrower).

For our Uninsured female respondents, having a loan with PT BAV may have offered value vis-à-vis other MFIs, suggesting that the product could have a role in differentiating PT BAV from other MFIs in the region. However, the value of these products is not perceived as high, perhaps because the dollar amount was somewhat small vis-a-vis the coping mechanisms available to the Insured beneficiaries. Given the low price of this insurance policy (0.24% of the loan per year for borrowers and additional 0.35% for spouses), it appears to be a useful product offer and a potential differentiator for PT BAV.

Going forward, we believe that PT BAV could work closely with Allianz to strengthen the existing value proposition of Payung Keluarga through some minor adaptations to the product.

- **Increase perceived value through education for the loan holder and for the beneficiary.** The lack of product awareness among beneficiaries indicates a need for greater education for the loan holder and the beneficiary. Managing this can be a challenge since only 64% of beneficiaries, mostly when acting as co-guarantors, reported even knowing that the loan holder had a loan with PT BAV, often explaining that the loan was "*not their business".*

  It is, of course, the right of the loan holder to choose who she shares her financial details with, and MFIs have the responsibility to protect their clients' privacy. However, MFIs also have to balance this with consumer protection and ensuring that the client fully understands the product. Much of this balancing act falls on the loan officer and marketing campaign. It is important that clients understand the value of insurance, and there is room for more marketing and promotion about this benefit and how to communicate this benefit with beneficiaries.

- **Provide beneficiaries additional support in filing claims after the death.** Even once notified of the benefit, many beneficiaries do not appear to understand how to make a claim. Training loan officers to take as much of this burden off bereaved families will allow clients to get the benefit faster, increasing satisfaction with the product and sending a positive message to beneficiaries and their communities about the supportive role of PT BAV. Faster payments might lead beneficiaries to use the cash payout to increase spending on funerals rather than reducing indebtedness or filling an income gap left by a breadwinner. It is important to note that faster payments should be accompanied by appropriate messaging on the potential benefits the payouts can offer a family following a death (see below).

- **Change product messaging to encourage cash use to diversify income.** Many beneficiaries who received cash benefits used them to cover funeral costs rather than investment in income-generating activities or income smoothing. The perception that the benefit belonged to the deceased drove much of this decision. However, these additional contributions to the funeral were likely less valuable than the alternative investment, given the strong role of existing financing tools in many communities. Small changes in the marketing of the cash benefit to clients and to beneficiaries when the claims process is explained might help re-direct funds towards more productive uses. For example, calling the cash benefit "family investment cash" may be sufficient to change the understanding and behavior of beneficiaries.

- **Increase benefit for the death of a spouse.** The experiences of families described in this study highlight the fact that female borrowers offer important though often small contributions to household income. Often the death of a male family member can have a greater financial impact on the household. In East Java, this burden is heightened by the pressure to pay off the male's typically much larger outstanding loans with the household's newly reduced income levels. While it would require increasing premium levels, it appears that the additional coverage might also improve the perceived product value. Top up products may be useful on a voluntary basis to provide additional benefits in the case of death of a spouse or other family member. Such benefits could offer some support for the ongoing cost of living expenses or investments in the business for this group, whose household income dropped from USD 267 per month before the death to USD 125 per month afterwards – a loss of 53% of income.