

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

THE PREFERENCE FOR MICROINSURANCE PRODUCTS BY
HOUSEHOLDS IN THE INFORMAL ECONOMY OF GHANA

By
NEWLOVE DAVIDSON MENSAH

A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF
ADDIS ABABA UNIVERSITY IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN
ECONOMICS (POLICY ECONOMICS) IN THE DEPARTMENT OF
ECONOMICS



ADDIS ABABA UNIVERSITY

JUNE, 2008

294



ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

“The preference for micro insurance products
By households in the informal Economy of Ghana.”

By

Newlove Davidson Mensah

Approved by the Board of Examiners:

Beyene Tadesse
Advisor

[Signature]
Signature

Eyad Hasan Qayad
Examiner

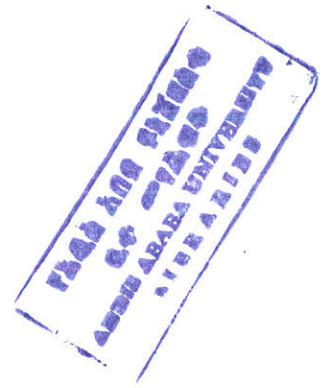
[Signature]
Signature

Tefera Regassa
Examiner

[Signature]
Signature

DEDICATIONS

Ameli, Nanayaa, Mawutor and Abena





ACKNOWLEDGEMENT

I am highly indebted to the Almighty God for His grace and mercy that has taken me this far. Secondly, my appreciation goes to my supervisor Dr. Beyene Tadesse for all his enormous efforts and support. I am equally grateful to the entire team of lecturers of the Department of Economics, Addis Ababa University especially Dr. Alemayehu Geda for his good human relationship with me during the time spell I was a student.

I do equally like to mention Mr. Tsegabirhan W/Giorgis Abay, current head, Department of Economics, Addis Ababa University as well as Dr. Girma Estifanos, the MSc. Economics Programme Coordinator, Dr. Wassie Berhanu, the current acting MSc. Economics Programme Co-ordinator for their co-operation and good human relation through out my MSc. Economics programme. My biggest and very special thanks go to African Economic Research Consortium (AERC) Nairobi-Kenya, for their immense financial support and sponsorship given throughout my entire programme at Addis Ababa University and also for the JFE/CMAP at KCB, Nairobi-Kenya.

I wish to acknowledge the help given me by Gabriel Pollen a colleague Zambian, Martha Kibru, Techane Fanaye Tadesse, Eyerus Regassa and Mamo Girma all of MSc Economics class of 2006/2007-2007/2008 academic session. I equally like to mention the following notable and intelligent personalities namely Messrs Atnafu Gebremeskil, *Habtamu Neda*, Yabibal Mulalem all instructors, Department of Economics, AAU for their valuable contributions to the econometrics section of this study.

I also like to thank the staff of the General Office, Department of Economics, Addis Ababa University; the Graduate Administrator, Mr. Demissie Andarge Chanyalew, Tigist Sisay of Economics Department Documentation Center, the Graduate Secretary, Misikir Getachew, Dinkenesh Demeke (Undergraduate's Economics Computer Lab), Bizunesh Wondimu (Graduate Economics Computer Lab), Firewoin Afework and Haregewoin Alemu (Department of Economics General Office, AAU) for creating an enabling environment for the completion of this thesis.



TABLE OF CONTENTS

	Page
DEDICATION.....	i
ACKNOWLEDGEMENT.....	ii
LIST OF TABLES.....	viii
LIST OF FIGURES.....	viii
LIST OF ACRONYMS.....	ix
ABSTRACT.....	xii
 CHAPTER ONE: INTRODUCTION	
1.1 Background to the Study.....	1
1.2 Research Problem.....	7
1.3 Objectives of the Study.....	9
1.4 Significance of the Study.....	10
1.5 Organisation of the Paper.....	10
1.6 Limitations of the Study.....	11

**CHAPTER TWO: AN OVERVIEW OF THE INFORMAL SECTOR AND THE
FINANCIAL SYSTEM IN GHANA**

2.1 Introduction.....	13
2.2 The Private Sector of Ghana.....	13
2.3 The Informal Sector in the Context of the Ghanaian Economy.....	14
2.4 The Financial System and the Microfinance Industry of Ghana.....	15
2.4.1 The Insurance Industry in Ghana.....	17
2.4.2 Micro Insurance in Ghana.....	18

CHAPTER THREE: THEORETICAL AND EMPIRICAL LITERATURE REVIEW

3.1 Theoretical Literature Review.....	20
3.2 A Global Image.....	20
3.3 Concepts and Definitions of Vulnerability.....	21
3.4 Risk and Risk Management.....	23
3.4.1 Informal Risk Coping Strategies.....	24
3.4.1.1 Reciprocal Lending.....	25
3.4.1.2 Reserved Credit Capacity.....	25
3.4.1.3 Gifts.....	25
3.4.1.4 Accumulating Assets.....	26
3.4.2 Informal Group-Based Mechanisms	26
3.4.3 Formal Risk Coping Strategy.....	27

THE ABADIA UNIVERSITY
 LIBRARY

3.4.4 Self-Insurance.....	29
3.5 Microfinance as a Tool in Reducing Vulnerability of Households.....	30
3.5.1 Microcredits.....	31
3.5.2 Microsavings	32
3.6 Microinsurance: A New Perspective.....	32
3.6.1 Definition of Micro Insurance.....	33
3.6.2 Social Protection Perspective of Micro Insurance.....	35
3.7 Empirical Literature Review.....	37
3.7.1 Evidence on Risk Sharing.....	44
3.7.2 Informal Insurance Mechanisms.....	47
3.7.3 Summary of the Literature Review.....	52
CHAPTER FOUR: THEORETICAL AND EMPIRICAL METHODOLOGY	
4.1 Introduction.....	55
4.2 Research Methodology and Sources of Data	55
4.3 Theoretical Specification and Justification of Probit Model Estimation Procedure..	56
4.3.1 Maximum Likelihood Estimation of the Probit Model.....	57
4.3.2 Model Specification and Explanation of Choice Variables.....	58
4.3.3 Alternative Coping Strategies.....	58
4.3.4 Types of Risk.....	59
4.3.5 Cash Flow or Income Level.....	61



4.3.6 Educational Biases and Risk Tolerance.....	63
CHAPTER FIVE: DISCUSSION AND INTERPRETATION OF RESULTS	
5.1 Introduction.....	67
5.2 Socio-Economic Background of Households.....	67
5.3 Economic Activity and Income Profile of Households.....	68
5.4 Risk(s) Faced by Households and Coping Strategies Employed.....	71
5.4.1 Major Types of Risks Faced by Households.....	72
5.4.2 Coping Strategies Employed by Households	74
5.4.3 The Significance of Coping Strategies Used Against Risks.....	75
5.5 Awareness and the Need for Micro Insurance.....	82
5.5.1 Households Formal Insurance Awareness, Use and Attitude towards Risk...82	
5.5.2 Payment Frequency and Premium Payment of HHs	83
5.5.3 Insurance Types Households are willing to Buy.....	87
5.6 Econometric Analysis of the Determinants of Households need for Micro Insurance..91	
5.7 Interpretation of Probit Regression Results.....	92
CHAPTER SIX	
SUMMARY, CONCLUSION AND POLICY RECOMMENDATION	
6.1 Summary and Conclusion.....	96
6.2 Policy Recommendation and Implications.....	99
REFERENCES.....	102
APPENDIX.....	115

LIST OF TABLES

Table 5.1 Gender by Marital Status of Sampled Household.....	67
Table 5.2 Income by Business Types of Sampled Households.....	69
Table 5.3: Income by Gender Distribution of Sampled Households.....	70
Table 5.4: Sampled Households Average Monthly Incomes from Economy Activity.....	71
Table 5.5 Major Risks Faced by Sampled Households Operating micro Enterprises.....	72
Table 5.6 Gender by Financial Burden Sampled Households Faced Due to Risks.....	74
Table 5.7 Coping Mechanisms Sampled Households Used as Risk management.....	75
Table 5.8: Income Source by Types of Coping Strategies Sampled Households Used.....	76
Table 5.9: Monthly Income by Coping Strategies Employed by Sampled Households.....	78
Table 5.10: Educational Level of Sampled Households by Coping Mechanisms Used.....	80
Table 5.11: Marital Status of Sampled Households by Coping Strategies Used.....	81
Table 5.12: Households Willing to Pay a Certain Premium Over a Rang of Periods.....	84
Table 5.13 Sampled Households Income by Premium Payment Frequency.....	85
Table 5.14: Income Level of households and Premium Levels Interested in Paying.....	86
Table 5.15 Sampled Households Preference for Microinsurance Product by their Sexes...88	
Table 5.16: Educational Level of Households by Preference for Microinsurance Policy...89	
Table 5.17: Income Level of Households by Preference for Microinsurance Policy.....90	
Table 5.18: Marital Status of Households by Preference for Microinsurance Policy.....91	
Table 5.19: Probit Regression Results for Micro Insurance.....92	

LIST OF FIGURES

Figure 5.1: Financial Burden Created by Encountered Risk on Sampled Households.....	73
---	----

APPENDICES



APPENDICES

Appendix A: Questionnaire Designed For Households.....	115
Appendix B: List of Insurance Companies	122
Appendix C: List of Broking Companies	122
Declaration.....	124

LIST OF ACRONYMS

ACCOSCA	Africa Confederation of Co-operative Savings and Credit Association
ASCAs	Accumulating Savings and Credit Associations
BACs	Business Advisory Centres
BRAC	Bangladesh Rural Advancement Committee
CGAP	Consultative Group to Assist the Poorest
CMF	Center for Microfinance
CUA	Credit Union Associations
ERP	Economic Recovery Programme
FGD(s)	Focus Group Discussion(s)
FINCA	Foundation for International Community Assistance
FUSMED	Fund for Small and Medium-scale Enterprises Development
GCIC	Gold Coast Insurance Company
GHAMFIN	Ghana Microfinance Institutions Network
GITF	Ghana International Trade Fair
GoG	Government of Ghana
GSS	Ghana Statistical Services



RFLS	Revolving Fund Loan Scheme
ROSCA(s)	Rotating Savings and Credit Association(s)
SAP	Structural Adjustment Programme
SEWA	Self-Employed Women's Association
SIC	State Insurance Corporation
S& L	Savings and Loans
SMEs	Small and Medium Enterprises
SSEs	Small-Scale Enterprises
WIEGO	Women in Informal Employment: Globalisation and Organization



ABSTRACT

Over the past few decades, governments and donor bodies became more focused in alleviating poverty through major policy reforms such as the Structural Adjustment Programme as well as the Economic Recovery Programme. The World Bank and the International Monetary Fund therefore initiated numerous Poverty Reduction Strategy (PRS) programmes through many governments in developing countries. In recent times, the government of Ghana has intensified its crusade on poverty alleviation by granting microcredits through various microfinance institutions in the country to many micro entrepreneurs operating in the informal economy.

The main objectives of this study was therefore to investigate the main types of risks facing sampled households operating in the informal economy of Ghana and identify various coping strategies used in managing their vulnerability to risk and an appraisal of the preference for micro insurance as the best alternative coping candidate. The study used data from the data base of Enterprise Life Assurance Company in Accra for its analysis. Descriptive statistics and probit regression procedures were used in this study. The study reveals that households faced a lot of risks among which the major ones are health, death and business risks. It was observed that vast majority of households essentially used informal insurance as risk management options.

The regression results showed an inverse relationship between informal insurance and sampled households preference for microinsurance. This means that the more households are keen on using informal insurance the less their preference for microinsurance services. Additionally, the coefficients of health and property risks were positively related to sampled households preference for microinsurance, meaning that, given households frequent exposure to these risks, the need for microinsurance must increase. This study invokes a major challenge on the Government of Ghana to ensure a smooth delivery of the National Health Insurance Scheme to households and advises the National Insurance Commission to encourage insurance companies to intensify their awareness programmes on the benefits of their various micro insurance products as the major way forward in risk management.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Poor households throughout the world face two fold disadvantages. The first is difficulty in generating regular income whilst the second is vulnerability to economic, political and physical downturns. Harder still, the two disadvantages reinforce each other: poverty is a source of vulnerability and repeated exposure to downturns in turn reinforces poverty (Matin et al, 1999). It has been estimated that there are over 500 million economically active poor people in the world operating microenterprises and small scale businesses (Women's World Banking-Ghana, 1995). Most businesses in Ghana can be categorized into Micro, Small and Medium Scale Enterprises (MSMEs), which have an employment capacity in the region of 55% of the total labour force in Ghana (Daily Graphic Ghana, 2006). Microenterprises usually represent the backbone upon which most developing economies are anchored however, many households who operate microenterprises and small businesses face several risks and therefore are highly susceptible to fluctuations in their income as well as expenditures arising from health costs, theft, fire outbreaks, violence, death, disability and natural disasters such as drought and floods.

Vulnerability exacerbates poverty, because it begets an impulse propagation mechanism to many shocks that invades the lives of poor households as well as microentrepreneurs (Cohen and Sebstad, 2003). Frequent occurrence of shocks; sudden illness, loss of property due to fire outbreaks at both residence and business premises as well as the death of a major wage earner can plunge a financially and an economically stable family into chronic poverty and dire financial distress and if not exacerbate the existing level of poverty due to the financial stress created by the shocks (Cohen and Sebstad, 2003).

Vulnerability is closely associated with poverty and therefore can be viewed as the inability of individuals, microentrepreneurs and households alike to deal with risk effectively. Development practitioners view vulnerability both as a symptom and a source of poverty, because household's vulnerability to risk and crisis is often linked to available resources (Millinga, 2002). That is to say, the availability of scarce resources is inversely related to vulnerability. The need for microinsurance is directly related to vulnerability; it grows out of risks and risk-management strategies of low-income households. Research on the impact of risk events and how poor people cope with shocks help illuminate the need for micro insurance. Risk comes in many forms, for example illness, death of a loved one, fire or theft. These shocks occur frequently and create pressure on household's cash flow that worsens their ever-present stress of meeting regular expenses, such as food, rent and the payment of children school fees. When financial pressures exceed the cash flow capacity of households, they mostly seek financial assistance from outside sources. In some circumstances, microinsurance could be the best option for filling this gap.

The difference between microinsurance and conventional insurance policyholders is that the former are poorer, have fewer financial reserves and have incomes that fluctuate considerably throughout the year. Poor households are more vulnerable to shocks because they have fewer resources not only to meet the immediate costs of shocks, but also the secondary expenses incurred in getting back on track. Once their reserves get dwindled, low-income households are forced into increasing chain of reactions. They respond to each crisis with increasingly stressful coping mechanisms and therefore the challenge for microinsurance is to turn reactive risk-management practices into proactive ones.

According to a UNDP 2000 report, about 70% of the world's poor live in rural areas and their employment is mainly informal, family or self orientated and solely in agriculture, providing them seasonal cash flows with fluctuating characteristics. Inadequate roads, lack of transport and communication isolate poor households from economic opportunities and limit their access to social services including health, food, sanitation and education, particularly for women and minorities. Manipulation from intermediaries, depressed food prices, monopolistic marketing boards, and protectionism by developed countries makes it increasingly difficult for poor producers to access export markets and obtain the right market prices for their goods (Carney 1999, Creese & Bennett 1997).

The disparity between rural and urban sectors is evident by the greater progress in human development and less deprivation for people in urban areas (UNDP 2000). Additionally, lack of formal financial services enables mercenary moneylenders to extremely exploit low-income and poor households through informal saving schemes (Rutherford 1999b, Ford Foundation 2000). Periodic bout injuries and chronic illnesses resulting in long-term disability affect an estimated 5-10 per cent of people in developing countries. Disability is related to poor education, nutrition and unemployment which are caused by injuries or by communicable, maternal diseases (World Bank 2000, Brown & Churchill 1999). Over the past ten years the incidence of natural disasters have increased, adverse weather situations such as drought, flood and storms are becoming more frequent and more severe. The settlements of poor households are commonly found in hazardous, marshy and coastal areas where nobody else is interested in using the land. These slummy places are highly inflammable, structurally very weak and prone to collapse (Pollner 2001). Women are disproportionately represented among the poor and the challenges they face



are greater than those of men .It is women who bear the burden of abject poverty such as taking care of the sick, working extra hours and giving up their food and education in times of crisis (Ford Foundation 2000).

As mentioned above, poor households therefore face enormous difficulty in generating regular and substantial income and are extremely vulnerable to economic, political and physical downturns (Matin *et al* 1999, Brown & McCord 2000). Additionally, the inequality, lack of diversification and social injustice faced by the poor mean that unexpected losses can only be met from existing funds, with limited opportunities to find other sources of income and assistance. For the poor and for those just above the poverty line, a drop in income or increase in expenses can further reduce their already low economic standard of living.

About 90% of economic agents living in developing countries lack access to financial services from financial institutions (Robinson, 2002). Financial services generally include savings and credit, insurance and payment services (Siegel, Alwang and Canagarajah 2001). Most households and microentrepreneurs don't have access to adequate financial services and are particularly prone to enormous risk. Many of these risks could have been practically insured; however in the face of little income and other valuable assets, the dream of insuring becomes increasingly impossible.

A major reason, of course, is that insurance is one of the most difficult of all financial services to provide. Insurers face numerous risks such as getting their prices right, fraud threats, moral



hazard incentives¹ and adverse selection effect issues². Insurance providers to low-income households and micro entrepreneurs into the bargain, face extra challenges in trying to cover their costs and make profit via selling relatively low-cost insurance policies.

Over the last few decades, an increasing evidence in some developing countries in the likes of Bangladesh, Benin, Senegal, Kenya, Uganda and Ghana show that microfinance institutions have made significant impact on individuals economic units who operate microenterprises in relieving them of their financial stresses and also assisting them to secure and improve the financial standing of their families. It was discovered that all the families have a set of coping strategies that were employed in the case of grave calamity depending on their available resources.

When households are faced with protracted illness or there is the death of a major wage earner, they often turn to the resources of extended families and communities for assistance. Support from these sources usually comes in the form of transfer, either in-kind or in cash. Sometimes there is an explicit understanding that the transfer will be reciprocated the recipient (borrower) by in the event that the donor (lender) is the next in crisis in future. Some other times assistance may come in the form of loans with flexible terms that must be repaid by a certain spell of time.

Micro insurance products are being developed and implemented by a lot of organizations in an attempt to circumvent the issues of vulnerability and scarcity of resources. The intention is to

¹ Moral Hazard is the risk that the insured will change his/her behaviour and increase the possibility of a claim (Ford Foundation 2000). This is more likely in microinsurance as the policyholder has little to lose and a lot to gain.

² Adverse selection occurs when a significant portion of high risks policyholders sign up to the insurance policy, if the policy is voluntary than those that are most likely to make a claim will be the first to sign up (Ford Foundation 2000).

help micro entrepreneurs and households cope effectively in the face of illness, death and property loss. Development institutes such as the Consultative Group to Assist the Poorest (CGAP), Microinsurance Center and MicroSave-Africa have recognised that microinsurance products are the most appropriate way to lower the impact of risks facing households.

Most analysts (Rutherford, 2000; Morduch, 1998; Sebstad and Cohen; 2002; Wright, 1999; Hassan 1999; and Mosley 1999) have recognised the relationship between client level risk and microfinance at two interrelated levels: how these risks may affect the quality of an MFI's portfolio, and how the improvement and diversification of market oriented financial products, services and delivery mechanisms can reduce client's vulnerability to risk. Microfinance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas in most developing economies. Clients are often traders, street vendors, small farmers, service providers (hairdressers, rickshaw drivers), artisans and small producers, such as blacksmiths and seamstresses (Women's World Banking-Ghana 1995).

Usually their activities provide a stable source of income (often more than one activity). Although they are poor, they are generally not considered to be the "poorest of the poor". Therefore, the study essentially seeks to understand strategies employed by individual households in reducing vulnerability to risk(s) and the role of micro insurance to help them manage risks in their daily endeavours. Whilst this paper focuses on how the risk faced by households can be reduced, it is clear that improving the ability of households to manage risk is a "win-win" strategy for both households and MFIs.

1.2 Research Problem

Over the past few years, as governments and donors have become more focused on the problems of poverty associated with policy reforms such as the Structural Adjustment Programme (SAP) and the Economic Recovery Programme (ERP), the importance of determining which groups in society are more vulnerable to risk has become essentially relevant. The World Bank's policy of linking its lending to government efforts in reducing poverty, has given rise to Poverty Reduction Strategy (PRS) studies. Accordingly, there has been a growing recognition among development practitioners that, poverty alleviation is best achieved by empowering and giving necessary priority attention to disadvantaged groups with the right opportunities for self-determination in their daily endeavours.

In recent times, the Government of Ghana (GoG) as part of its keen efforts in alleviating poverty in the country has targeted the private informal economy, which is made up of many households who operate MSMEs by granting them microcredits through various MFIs to boost their economic activities and income levels. The reason being that MSMEs account for a significant proportion of informal economic activities in the Ghanaian economy. The government of Ghana therefore initiated a five year poverty reduction programme called the Livelihood Empowerment Against Poverty (LEAP) under the auspices of the National Social Protection Strategy (NSPS) in 2007 to strengthen the above policy measure. The programme commenced this year with the disbursement of grants to beneficiary households in 21 districts in the range of GH¢ 8 and GH¢ 15 per month. The programme is earmarked to cover 25000 households this year and expected to be doubled next year with future threshold coverage of 164,370 households by 2012.

The beneficiaries of the LEAP programme are mainly orphaned and vulnerable persons with severe disabilities and with no productivity capacity. It is projected that HHs with one or two persons will be entitled to GH¢8 per month whilst that of three will receive GH¢ 10 with that of four or more getting GH¢ 15 per month. The main objective of the LEAP programme is to empower extremely poor HHs to provide for them basic necessities of life to help them leap out of the malaise of extreme poverty and access existing government intervention to enable them contribute to socio-economic development.

Micro and small entrepreneurs have shown that they can contribute to the growth of the Ghanaian economy in diverse ways. For instance, they have been able to channel their little personal savings into small businesses and have been able to manage these businesses, regardless of the numerous risks bedeviling them. Their strength therefore lies in their numbers and they can play an important role in achieving the development goals for production.

A major inherent weakness, however, lies in their exposure to various types of risk, which makes most of them susceptible or vulnerable to a host of mishap that micro insurance may help them to manage and for which they can hardly afford. Churchill (2003) has pointed out that; many Microfinance Institutions (MFI's) have recognised that the vulnerability of low-income households cannot be eliminated by access to microloans only. Therefore the provision of microinsurance, like savings services, may enable MFI's to broaden their impact on low- income communities by reducing client's risks rather than just giving them financial assistance. While microloans may help low income households to reduce their vulnerability, via boosting income and assets, it may not be an effective means to risk management.

It stands to reason therefore that any poverty alleviation strategy must enhance the ability of households in dealing with risk (Holzmann and Jorgensen, 2000, Siegel et al 2001). To improve the performance of households operating MSMEs, policy makers and other stake holders must pay attention to their vulnerability to risks and hence identify the types of risks, the frequency of occurrence, severity and coping mechanisms currently available to them in reducing their vulnerability to risks and appraise the relevance of micro insurance in supporting them to reduce their vulnerabilities.

1.3 Objectives of the Study

The main purpose of this research is to explore low-income households need for microinsurance in the face of rising and emerging risks as well as the opportunities and the challenges to the provision of microinsurance in order to project the development of microinsurance market in Ghana. Therefore the specific objectives of the study include the following:

- (i) To investigate the main types of risk and its associated financial distress facing low-income households in Ghana.
- (ii) To identify diversity of strategies and risk management options that households employ in response to risks.
- (iii) To explore the extent of households knowledge, use and attitude towards micro insurance provision in Ghana.
- (iv) To examine households preference for microinsurance services in the context of their financial commitments.

1.4 Significance of the Study

By definition MFIs target some enterprises as well as individuals in particular income groups. The provision of numerous micro financial services and products including insurance promotes micro entrepreneurial activities in the country. For instance the use of formal insurance as risk coping mechanism, may help households to better reduce vulnerability to risk and there by attain more financial security which has positive impact on their incomes and could enable them boost their productivity and eventually become stabilized financially. Focusing also on the risk aspect of households and small scale businesses not forgetting micro entrepreneurs, the study can make essential contribution to poverty alleviation in Ghana.

Insurance can improve the quality of loan portfolio, since bad debts can often be ascribed to the death or illness of a client or a client's family member. The outcome of the study may lead to further research in the area of risk management for financial product development in Ghana to help households deal effectively with risk. The study is equally important in all respect in that, it may assist the Government of Ghana (GoG) via the Ministry of Finance (MOF) as an advocate of the development of micro insurance and microfinance industry as a yardstick for private sector led approach in the fight against poverty alleviation in the country.

1.5 Organization of the Study

The study was organized into six chapters. Chapter one covers the introduction to the study, research problem, objectives, significance and organization of the study. An overview of the private sector and the financial system in Ghana with particular references to households, micro entrepreneurs, microfinance institutions and the insurance industry in Ghana in its entirety was

covered in chapter two of the study. Chapter three covers theoretical and empirical survey of existing literature on micro insurance, risk sharing systems and other group based informal insurance systems in Africa through Asia. Chapter four contains theoretical and empirical methods used in the study. Analysis of the data obtained on the types of risk, risk coping strategies, demand-side related issues for micro insurance was covered in chapter five whereas chapter six of the study accounts for the summary, conclusion and policy recommendations.

1.6 Limitations of the Study

The most crucial limitation of the study is the extent of data coverage in terms of the sample size and the study area. The study basically used qualitative data requested from the data base of Enterprise Life Assurance Company Limited (ELAC), Accra. The ELAC survey used designed questionnaires with close-ended and open-ended mixed questions in getting information on households. One of such limitations might be information bias as the quality of information presented in the question may have affected responses received from households and may have not given true reflection and result of the objectives the study seeks to achieve.

Another possible limitation may have been interviewer-respondent bias which may have emanated from the case of misinterpreting the questionnaires to households and also due to the probability that interviewers could have influenced responses given by households. Also due to low literacy level among households, it is possible the questionnaires were translated into the local language for households and as such households' response could have been possibly influenced by the manner in which the translation was carried out. This could be inferred from responses given by households in connection with their willingness to buy formal micro



insurance services. About 64 percent of households were unwilling to buy formal insurance. It stands to reason therefore that most households could have probably overstated their preference as regards their decisions in making formal insurance policy in future. Additionally, most of the responses given by households with reference to the amount of premium they would be willing to pay in case they want to make formal insurance policy, may have been influenced by the starting range of minimum premium amounts given. Though most of the above biases could have been minimized as much as possible, it is important for readers to factor these two limitations into a critical consideration in making reference to this work.

Lastly, due to financial resources and time constraint on the part of the author the study could not cover households on wider scale but focused only on the Greater Accra Region of Ghana. Also the author could not increase the sample size beyond the original size of 100 households. However, from a theoretical point of view any sample size greater than the number 30 is large enough to be used in conducting a research, hence in the absence of any possible alternative measure, the author of this study managed to carry out a meaningful explanation and illustration of the study.



CHAPTER TWO

AN OVERVIEW OF THE INFORMAL SECTOR AND THE FINANCIAL SYSTEM OF GHANA

2.1 Introduction

This chapter presents a general overview of the informal economy of Ghana, drawing particular references to micro enterprises and entrepreneurs in the private informal sector. It also covers the various regimes of the Ghanaian financial system with preference to the insurance industry and the inception of microfinance and micro insurance institutions in the country.

2.2 The Private Sector of Ghana

The definition of the private sector captures the term used for the system in which markets operate; it is also used interchangeably with the term the business sector; and often used in contrast to the set public sector; meaning institutions, organisations and entities under the control of government either at central, regional, district or local levels. The private sector of the economy of Ghana is dominated by the activities of micro enterprises in the informal sector (Boeh-Ocansey, 2005). About 60% of all businesses in the private sector of the economy operate in the informal sector, of employment generated by the private sector; formal private sector employs 6.9%, whilst informal sector employs 93.1% which constitutes 40% of Ghana's Gross National Income (GNI) and accounts for about 22% of real gross domestic product (GDP) (ILO/JASPA, 1989).

2.3 The Informal Sector in the Context of the Ghanaian Economy

The term “informal sector” was coined in Ghana in 1971 by a British anthropologist, who was studying the economic activities of low-income communities in the Greater Accra Region of Ghana (WIEGO and GSS, 24th October, 2005). The informal economy, as it is now called and defined, comprises of self-employment in small unregistered enterprises and wage employment in unregulated and unprotected jobs. In developing countries, informal employment consists of one half to three quarters of non-agricultural employment. In Sub-Saharan Africa, excluding South Africa, informal employment constitutes nearly 80 per cent of non-agricultural employment. In Ghana today, informal employment represents over 90 per cent of total employment (WIEGO: Women in Informal Employment: Globalisation and Organization in collaboration with GSS: Ghana Statistical Service, 24th October 2005).

In the Ghanaian context, any attempts in the definition of the informal sector could only end up with a characterization of the informal sector as follows:

- ❖ Highly unregulated and unorganized
- ❖ Predominantly cash transactions
- ❖ Non-existent or poor record keeping
- ❖ Little or no barriers to entry
- ❖ Relatively high rate of illiteracy
- ❖ Non-conformity to state rules and regulations
- ❖ Illegal activities associated with black economy such as informal financial marketers and drug trafficking
- ❖ Highly risky and highly rewarding

In a nutshell, the informal sector could be defined as encompassing small and big scale, highly unorganized, economically productive entities, slow to adapt to modern corporate practices with little or no distinction between the business and the personalities involved. It usually uses unconventional business methods. It is not highly captured in official national records because operators seek to conceal their activities from public authorities to avoid paying taxes and complying with other governmental regulations. The activities of operators in the informal sector are highly furtive. The informal sector in Ghana includes mainly the rural agricultural sector, small time gold and diamond winners popularly code named in local parlance as *galamsey* miners, small repair workshops who assemble and model vehicle and are confined to the major cities of Accra, Kumasi, and Takoradi in the country.

The description may also capture shoe-manufacturing businesses, which adapt simple technologies to counterfeit popular Italian models, private lotto operators popularly known as banker-to-banker operators, private arms manufacturers in various part of the country. Again the definition may also include small traders of various categories such as street vendors, hawkers and occupational groups such as providers of commuter services in major cities, mini bus service operators popularly and locally denoted by the jargon *trotro*, private taxi services, food processors, providers of small time savings schemes designated as Susu Groups, etc.

2.4 The Financial System and the Microfinance Industry of Ghana

The financial system in Ghana includes commercial banks, insurance companies, discount houses, finance houses, savings and loans associations of leasing companies, credit unions and the stock exchange market. Also, there are several rural banks widely dissipated throughout the country (Acquah, 2003). Over the last two decades, microfinance has captured the attention of

the international development and business communities as a “silver bullet” for poverty alleviation. Stories abound of village women in Asia, Africa, and Latin America who, upon receiving a series of small loans from microfinance institutions (MFIs), were able to use their entrepreneurial skills to uplift themselves out of the chains of poverty. Small loans may have helped many poor worldwide by allowing them to start small businesses or buy assets; however the road out of poverty is hardly smooth. Frequent financial pressures and unexpected shocks often erode hard-earned gains, which may suddenly plunge households back into chronic poverty. MFI in Ghana is defined to include institutions which act as intermediaries and can be formal, semiformal and informal. Specifically they include:

- ❖ Informal sector institutions which include unregistered savings and credit associations and loan brokers.
- ❖ Semi-formal institutions includes solidarity groups revolving fund such as Susu groups or clubs which are prevalent in market places and ROSCAs which may be sponsored by an NGO, Bank or a Development Agency.
- ❖ Formal institutions like rural banks, Cooperatives Credit unions and departments which may be supported by external donors.

The main services provided by MFIs are the provision of savings and credit, but may also include other financial and non-financial services. MFI provide these to individuals or community groups who operate micro enterprises but are typically unable to obtain credit from the formal financial sector and find the cost of finance in the formal sector prohibitively expensive. As at year 2000, the formal sector had 105 rural banks through out the country, 200 credit unions and 8 Savings & Loans³ (S&Ls) as well as some commercial and

³ Savings and Loans Associations

development banks namely (ADB, GCB, SSB, NIB, HFC Bank, Standard Chartered Bank, Barclays Bank, Stanbic Bank etc). Credit unions have the most extensive coverage among the microfinance institutions in Ghana and have witnessed a sharp increase from 200 in the year 2000 to 250 in 2004. Currently the number of credit unions in the country is well over 300 (CUA 22nd October 2005). Microfinance services in the country is anchored on an umbrella body called the Ghana Microfinance Institutions Network (GHAMFIN) and currently it's membership is opened to a number of microfinance practitioners, such as savings and loans companies, rural banks, credit unions, financial NGOs, Susu (savings) collectors, rotating savings, business development service providers and apex bodies such as the ARP Apex Bank, the Ghana Unions Association (GUA) and many more only to mention a few.

2.4.1 The Insurance Industry of Ghana

Insurance came into inception in Ghana during the colonial time spell of 1924, with the establishment of the erstwhile Royal Guardian Enterprise now Enterprise Insurance Company Limited and was introduced by British Colonial traders basically to service their commercial businesses. Until independence on March 6th 1957, almost all the insurance companies operating in the then Gold Coast were subsidiaries of British insurers. The first indigenous private insurance company, the Gold Coast Insurance Company (GCIC) was formed in 1955 and in 1962, the State Insurance Corporation (SIC), the first Ghanaian government's insurance company was established. Sixteen more companies were established in 1976. The 1989 insurance law, PNDC Law 229 led to the establishment of the National Insurance Commission (NIC) the sole body responsible for regulating and supervising insurance activities in the country.

2.4.2 Micro Insurance in Ghana

Micro insurance is quite a new field and as such only very few organisations are involved in its delivery to low income groups, the economically active poor households operating MSEs in the informal sector of the economy. Households have both in the past and at present resorted to diversity of risk management strategies to deal with their exposure to risk. These strategies include borrowing, saving, selling productive and non-productive assets and other forms of “self-insurance”, informal group based risk sharing system such as ROSCAs and Burial societies and occasionally formal insurance.

Micro insurance is the most effective means of reducing the vulnerability of the poor from the impacts of disease, theft, violence, disability, fire and other hazards. To this effect some microfinance institutions, insurance companies and the government are providing some form of micro insurance products to help vulnerable but economically active poor households in the country. These products range from credit-insurance and loan guarantee schemes for households operating MSEs and who are clients of MFIs, accident policy to address disabilities and deaths resulting from motor accidents, and the recent introduction of National Health Insurance Schemes (NHIS) to cater for health care issues and needs in the country. Citi savings and loans bank, now called Intercontinental bank with its head quarters based in Nigeria, is among the few banks that provides credit-insurance for its clients.

Credit-insurance works in this way, when an MFI client takes a loan, he/she is required to repay the loan interest by monthly installments. So if the loan interest is 18% of the actual loan then an additional 2 % would be added to the 18% to take care of the insurance on the loan. Hence

instead of 18% loan interest to be charged on the loan, the client ends up paying 20% as loan interest. The Credit Union Association (CUA) also has a Loan Protection Plan (LPP) for its members through Unique Insurance Company (UIC) Limited. CUA/UNIQUE'S LPP enable both the lender and the borrower to transact business without fear of default due to death, total or permanent disability of the borrower. It is an insurance policy sold to Credit Union members at a time when a loan is extended to a borrower. The policy protects Credit Unions and families of Credit Unions members against financial losses and difficulties when a member dies or suffers disabilities with unpaid Credit Union Loans.

The insurance coverage matches the loan obligations. It means, when a Credit Union member takes a loan of 975 Ghana Cedis or USD 1000 for a year, he/she has an obligation to repay the loan at the relevant interest rate, for instance say 30%. The other obligation is that, borrowers are required to repay the loan within a fixed period of one working calendar year. The insurance policy therefore covers these obligations, that is the loan plus the relevant interest payment is protected against death and disability of the borrower. The National Health Insurance Scheme (NHIS) was set up to provide affordable access to quality health care for all citizens especially the vulnerable poor located within the country's rural and semi-urban areas. The NHIS has diverse range of health coverage options, therefore whether one is single, has a family, or is about to proceed on retirement there is always a health cover to suit one's circumstances and life.

CHAPTER THREE

THEORETICAL AND EMPIRICAL LITERATURE REVIEW

3.1 Theoretical Literature Review

This chapter presents a general theoretical framework of literature review and commences with an exposition of the global depiction of micro enterprises, risk related mechanisms and strategies, with particular emphasis on the inception of microfinance and micro insurance.

3.2 A Global Image

It is on record that approximately three billion people worldwide live on 2 USD every day. It is also noted that more than one billion of the above estimation survive on one half of the mentioned amount or even less, which justifies the World Bank's standard definition of the most austerity form of poverty. Most wage-earning jobs are really very scarce in many developing countries. It stands to reason therefore that most citizens in LDCs make ends meet through self-employment in the informal economy.

Many of the world's poor persons live in the rural areas, scattered over geographically isolated regions and rugged terrain which is increasingly difficult to serve with financial products. Most of these individuals are stark illiterates and semi-illiterates, and therefore it follows that they cannot read or sign their names, a prime prerequisite in every standard loan agreements. Some have backgrounds which do not define any consumer protective policies, leaving them entirely and routinely at the mercy of predatory and exploitative village monopoly mercenary money lenders.

Most individual economic agents virtually lack the relevant credit worthiness, business track histories and asset collateral to advance in support of standard loan contracts (Hatch & Frederick 1998, FINCA INTERNATIONAL Web Site, 2005). Modern microfinance came into inception and was intended to alleviate human suffering created by poverty, by way of empowering micro entrepreneurs access to quality and affordable financial services such as microcredit and microsavings required to redeem if not deliver the global economy from a challenging financial turmoil. Microfinance is a powerful instrument in combating the severity of chronic poverty and it requires building financial systems that will serve the needs of low-income households, micro entrepreneurs and micro enterprises alike.

3.3 Concepts and Definitions of Vulnerability

According to Moser (1996), the concept of vulnerability has not been given any clear cut definition or theorized up to date, because it is concerned with contextually specific processes of change. It has proved difficult to identify widely accepted indicators. Nevertheless the study provides the following operational definition for elements of vulnerability. Vulnerability may be considered as the insecurity of the well-being of individuals, households (HHs) or community in the face of a changing environment. It is a dynamic concept which captures negative outcomes on the economic welfare of individuals, households (HHs) and communities via environmental changes. Environmental changes that constitute threats to welfare may be ecological, economic, social, or political in nature, and may take the form of sudden economic shocks, long term trends or cyclical seasonal variations. These changes are often associated with increasing risk and uncertainty as well as economic insecurity and financial instability.

The analysis of vulnerability involves not only identifying the threat it poses in question but also the ability to resist or withstand the negative effects of the changing environment, and the level of resilience to recover afterwards and exploit positive opportunities. Individuals, HHs and communities ability to resist negative impacts relates to their ability to mobilise assets in the face of dire financial hardship. Vulnerability may therefore be closely linked to asset ownership; the more assets people have, the less vulnerable they are, the greater the erosion of asset, the greater the level of insecurity (World Bank, 1990b). Vulnerability is not just a function of the environment, but also it is the product risk of person's conditions and also of his/her own actions. Therefore vulnerability is determined by options available to households and individuals to make a living, risks facing them and their ability to handle these risks.

Although vulnerability is often used as a synonym for poverty the two terms do not mean the same thing. Because of the priority put on fixed measurements, poverty is essentially a static concept. On a sharp contrast distinction, vulnerability is more dynamic, capturing the multi-dimensional aspect of changing socio-economic status. People move in and out of poverty on daily basis. It stands to reason therefore that, vulnerability is a key concept (Lipton and Maxwell 1992, p.10). Well-being and poverty are the ex-post outcomes of complicated decision processes of individuals and households over their assets and incomes subject to risk. Vulnerability to poverty is an ex-ante situation that is before one has knowledge of the actual shocks that will occur and the impulse propagation mechanism.

The concept of vulnerability introduces more complex aspects of "livelihood security" relating survival, security and self-respect, as well as consideration of the way people subjectively perceive their poverty status: what it means to be poor (Glewwe and Hall 1995,p.2. Although poor people are usually among the most vulnerable, not all vulnerable people are poor.



Vulnerability has recently been defined as “a dynamic concept, generally involving a sequence of events caused by macroeconomic shock” (Glewwe and Hall 1995)⁴.

3.4 Risk and Risk Management

Risk is defined as the chance that a loss occurs. In other words, risk is related to the possible occurrence of events which are far over and above the direct control of individual households and micro entrepreneurs. It is the characteristics of the environment faced by people in its climatic, ecological but also social and political dimension. There are a lot of risks consisting of both systematic and unsystematic risks. Systematic risk is individual specific risk such as fire outbreak, theft and robbery. Unsystematic risk is that risk which affects the whole lot of individuals and households across a whole region simultaneously. A typical instance is the case of drought and flood or other natural disasters such as earthquakes which affects vast majority of economic citizens in a country at the same time. Unsystematic risks can be very detrimental to crops and property and may be unpredictable ahead of time. Some risks are insurable whilst others are not, it must be random, independently distributed among the insured and it should be determinable, measurable and non-catastrophic. Vulnerability begins with a notion of risk and assumed that risk is characterized by a probability distribution of events.

Households can respond and manage risk by using formal risk management and informal risk management strategies. Formal risk management tools include loans with flexible payment schedules, emergency loans, savings and insurance. Informal risk management tools on the other hand include burial societies, ROSCAs (Rotating Savings and Credit Associations),

⁴ That is in the context of panel data set study in Peru.

Accumulating Savings and Credit Associations (ASCAs), money lenders and Mutual Aids. It is essential to delineate risk management into ex-ante actions that is actions that occur before risk event takes place and ex-post actions, which are actions taken after a risky event had cropped up. Ex-ante risk actions can eliminate risk and lower exposure to risk. In this case ex-ante risk mitigation actions that can provide compensation include formal and informal responses to expected losses such as self-insurance precautionary savings in financial or other assets⁵). Ex-post risk mitigation actions includes, selling assets, seeking emergency loans from relatives, friends, money lenders and banks, removing children from school etc. Some governments provide safety nets, such as public works programme, Food Aid in the case of natural disaster (like drought and floods) and formal insurance.

3.4.1 Informal Risk Coping Strategies

Households employ a variety of strategies to combat risk. These may include informal risk coping strategy (borrowing, saving, selling productive and non-productive assets and other forms of self- insurance/ individual informal risk coping strategies and informal group based risk sharing system) and occasionally formal insurance. Informal risk coping strategies incorporate a range of activities and organizations that tend to develop between individuals or within local communities on personalised basis. Two different types of informal strategies namely individual and group-based strategies are explored to highlight their diversifying ability to proffer protection to low-income households. Individual risk-coping strategies are ways households may access sufficient funds to recover from a loss caused by a risky event, such as the cost of

⁵ Physical assets and Human assets. The former comprises of housing, building, lands and other physical items, including consumer durables and productive assets whilst the latter comprises of skills and knowledge, ability to labour, good health, self esteem, bargaining power, autonomy and control over decisions. Physical assets are of particular importance for poor urban households

rebuilding a market stand destroyed by bulldozers, illness, death of a family member, etc. The following four strategies are commonly employed by micro entrepreneurs as a hedge against the occurrence of risk namely:

3.4.1.1 Reciprocal Lending

One other common household response to risk is to initiate reciprocal lending. In good times, when a household has additional income, interest-free loans are made to other households facing financial distress with an implicit obligation that today's borrower will provide a similar loan in the future when today's lender is the next in need.

3.4.1.2 Reserved Credit Capacity

For micro entrepreneurs with access to some form of credit through suppliers, moneylenders, etc. Reserving some of this credit for use in the event of a loss can be a helpful risk coping response. By using a portion of the credit available from a seed supplier for instance, a rural farmer may be able to obtain a loan from the same supplier to replace stolen or damaged tools.

3.4.1.3 Gifts

Similar to reciprocal lending, households may also rely on gifts from relatives and other community members as a means of accumulating social capital to cope with risk. The only disparity between gifts and reciprocal lending is that, gifts do not obligate the receiver to repay the favour in the future.

3.4.1.4 **Accumulating Assets**

Households protect themselves from risk-induced losses by maintaining a stock of physical assets (e.g., cows, goats and other animals, gold, etc.) that can be sold at any time-t in the event that mishap occurs.

3.4.2 **Informal Group-Based Mechanisms**

In some parts of the world, low-income households form community-based savings clubs or welfare associations as a way to share risk (Cohen, Monique et al, Washington, DC: Microfinance Opportunities, 2006). Though considered to be “informal” in that they are not part of any regulated financial systems, many have well-defined charters and rules regarding the obligations and rights of all its members. Savings clubs include so-called rotating savings and credit associations or ROSCAs, whose members make regular contributions to a savings fund. The fund is then given to different members every week or month, such that everyone in a ROSCA can expect to receive a large lump sum periodically.

A group-based mechanism that is similar to ROSCAs is the Accumulating Savings and Credit Associations or ASCAs, which also involve members contributing regularly to a central fund but do not rotate it to different members on a regular schedule. Other welfare associations include groups whose funds are distributed only in cases of emergency. Burial societies, which pool together money for the purpose of paying funeral expenses, are particularly common. In some East African countries, even rich people join these types of welfare associations, partly due to tradition and high cost of burial ceremonies. In Uganda, the popular Munno Mukabi or “friends in need” system helps to cover the costs of funerals, including food for guests and embalmment of the deceased. (McCord, Michael and Sylvia Osinde- Nairobi: MicroSave-Africa, July 2003)

One reason why group-based mechanisms are popular is that they are generally very flexible, allowing members to access funds quickly and easily. In Indonesia for instance, a member facing an emergency situation can quickly apply to draw their turn in a ROSCA early, so long as he/she takes the money at a discount. In case of burial societies, many will disburse funds without a death certificate and instead depend on verbal verification by family members. Another reason for the popularity of group-based insurance is the fact that belonging to such a group strengthens an individual's ties to his/her community. In India for instance, self-help groups consisting of 10 to 30 individuals that come together for some purpose, whether to save, to borrow, or simply to share experiences and build amity are nearly everywhere. They provide many MFIs and other organizations with an entry point for reaching the poor.

3.4.3 Formal Risk Coping Strategy

Insurance serves as a protection mechanism against unexpected losses by pooling the resources of many individuals to compensate for the losses of the few; the more uncertain the event the more insurance becomes the most economical form of protection. Policyholders only pay the average loss suffered by the group rather than the actual costs of an individual event; insurance replaces the uncertain prospect of large losses with the certainty of making small, regular, affordable premium payments (Brown & McCord 2000, Brown & Churchill 1999). The paramount function of insurance is to act as a barrier and protection against risk.

Risk can be handled by; assumption, combination, transfer or loss prevention activities. Insurance schemes utilize the combination method by persuading a large number of individuals to pool their risks into a large group to minimise overall risk (Ali 2000). In the developed world



insurance is part of society, such that some forms of cover are required by law. In developing countries the need for such safety net should be given much greater attention, especially at the poorest levels where vulnerability to risks is much greater and with the availability of fewer opportunities to recover from large losses. Risk pooling allows large groups of households to share losses arising from the occurrence of a risky event. Therefore, when households suffer any losses, such as the death of the basic wage earner, insurance allows them to receive more complete compensation for their loss than they could have provided by themselves.

Individuals affected by negative events benefit from the contributions of many others that were not affected. Insurance reduces vulnerability as households replace the uncertain prospect of large losses with the certainty of making small, regular premium payments. This risk pooling mechanism is quite distinct from targeted savings products, which sometimes have been marketed as insurance. The risk pooling aspect of insurance works best for both provider and consumer when: a) the loss is relatively large and b) there is a low likelihood that the risk will occur (Brown and Churchill 1999). Insurance has therefore become a useful tool in covering the cost of funerals, expensive medical treatments and rebuilding a burnt down home or business housing.

If the loss were relatively small, then savings and credit would probably be a more appropriate measure to be employed to remedy the situation. For poor persons who believe that insurance is an appropriate response for selected risks, they would have to identify which of the unlikely risks that insurers are willing to cover are the most likely to occur to them, and if the risk(s) did occur would cause the greatest financial hardship. This analysis often points to a potential demand for

life insurance, since death is fairly an inevitable certain event that causes significant hardship in the event of occurrence, including the initial funeral expenses and the recurring loss of income if the deceased was a major income earner. Insurance is a mechanism that uses risk pooling to compensate individuals and groups adversely affected by a specific risky event and as such, it is a way to transfer risk from an individual to a group so that each individual only pays an average of the loss for all members of the group. Microinsurance (MI) is a subset of insurance that provides protection to the poor in a way that reflects their cash constraints and coverage requirements. Brown et al, 2000 defined microinsurance as a subset of insurance that are designed to be beneficial and affordable for low income households.

3.4.4 Self-Insurance

Self-insurance refers to measures that do not involve sharing or pooling of risks in any way. Rather, individuals (or households) simply manage the risk (or the loss) by him/herself. For example, a household may create small, home-based businesses to supplement income from existing micro enterprises and/or earnings from casual labour and salaried employment. In this way, even if the household loses its primary source of income (due to, say, a bad season resulting in poor harvest or the breadwinner of a family losing a job), it would still have some means of earning a living. A household may also build assets by investing in housing or purchasing livestock, or it may strengthen its social networks by participating in reciprocal borrowing and lending systems. Even paying for preventive health care may be considered a form of self-insurance: for many who depend on physical labour for work, their health is their most valuable asset, and taking care of it becomes a form of self-insurance. Self-insuring measures are common among people of all income levels, even though by themselves they offer only limited protection. Borrowing is especially and by far the most popular. In Tanzania and Uganda for instance,

people prefer to borrow when faced with an unexpected need for cash, even if they could draw down on their savings, which would be cheaper (Monique Cohen and Pamela Young, 2007). Similarly, in Bolivia, borrowing is a frequently used response to a crisis. The preference for borrowing reflects the fact that very few people have the capacity to accumulate enough savings for more than one emergency. It also indicates the fact that people tend to earmark their savings for buying assets and are therefore reluctant to use them for other purposes. Another popular but rarely preferred strategy is the sale of liquid productive assets, such as livestock, household items, and land. Liquidating assets can provide short-term relief to a cash-strapped household. However, once depleted, an asset base is extremely difficult to build up again. Not surprisingly, selling assets is generally a measure of the last resort.

3.5 Microfinance as a Tool in Reducing Vulnerability of Households

Development practitioners have discovered a growing recognition that poverty alleviation is best achieved through the empowerment of the most deprived operating micro enterprises and giving them the right opportunity for self-enhancement. Many micro entrepreneurs are faced with increasing difficulties in improving their economic wellbeing including limited access to health, education and income opportunities. Over the past few decades, many microfinance institutions have been established to provide access to savings and credit mostly targeted at poor persons. The evolution of the microfinance sector is both recent and past in that, people have almost always been borrowing, lending and saving right from the spell of time the world switched over from using bullions and commodities as a medium of transaction to money. The MF sector is new in the sense that it has been primarily developed as a responsive mechanism to the inability and insensitivity of the formal financial system to penetrate very deeply into the economic

hinterland in order to serve the needs of low-income households and micro enterprises (Srinivas, 2004; McKinnon 1973). Microfinance is like retail banking for developing economies, that is to say, it is the single most important channel in providing financial services for economically poor and active individuals. Unlike the case in the industrialized nations, micro entrepreneurs form a larger proportion of the population in the informal economy of most developing countries and do not have access to financial services, mainly because they don't have the necessary asset collateral capacity and the credit worthiness to support loan contracts. Although MF is an essential catalyst designed and targeted at households with low income status in transition economies to heighten their income levels in commercial activities and reduce their vulnerability to crisis, it is not the only instrument for combating poverty, and also it is not necessarily the right solution in all situations; it must be noted however that, it makes an important contribution in alleviating poverty by helping poor persons emancipate themselves from hard pressed and unfortunate economic and social circumstances.

3.5.1 Microcredits

Microcredits and microloans are small amounts of money borrowed by poor households to finance their self-employment activities and other purposes, but the prime concern of microcredit is to serve as working capital loans for micro enterprises as a means in breaking the chain of poverty cycle. However, it must be mentioned that microcredit is not always the answer and the major way forward. A microloan may help a household to augment its income, and may even help accumulate some valuable assets, but does not reduce household's vulnerability and susceptibility to all kinds of risks. It is worth mentioning that micro entrepreneurs need a variety of financial services not only loans (microcredit).

3.5.2 Microsavings

Savings can either be voluntary or part of a compulsory savings scheme promoted by an MFI to provide collateral for a microcredit. Voluntary savings are ways for people to hedge against crises such as periodic bout of chronic sicknesses or natural catastrophes, to safeguard against riskier but more attractive businesses, or to provide for anticipated costly events in the near future (e.g. payments for children's education, the birth of a child, marriage or funeral costs). However, in the face of serious inevitable exposure to risks which begets losses that are beyond the means of most average households and micro entrepreneurs operating micro enterprises, insurance then becomes the best promising candidate to cushion their needs.

3.6 Micro Insurance: A New Perspective

A lot of microfinance institutions have been trying to develop insurance products for their clients to reduce risks such as: property insurance, livestock, health and life insurance, crop insurance, and compulsory insurance against loan defaults through out the beginning and the end of the 1990s. Microfinance institutions have so far focused and limited their programmes solely to the provision of savings and credit services. However, a growing number of MFI practitioners and promoters have recognised that providing credit is not enough for sustainable development of economic agents and entrepreneurs. A range of other financial services including insurance and other support services are required to be provided along with savings and credit. The poor are vulnerable to different types of risks and adopt various choices of strategies to reduce the impact of the losses. Micro insurance services are essentially very relevant for low income households to cope with uncertainties and emergencies like illness and injury, death, natural disasters, theft and other life cycle needs. Formal insurance services are inaccessible to the poor because of an

upfront payment of high premiums and other complicated procedures that characterize it. Over two billion people worldwide lack any type of formal social security protection. Poor people are the least likely to benefit from coverage, yet they are the most vulnerable to risks and economic distresses. Microfinance is one of the most widely acceptable means of managing risks faced by micro entrepreneurs and households; however it's not complete in itself.

3.6.1 Definition of Micro Insurance

There are two fold definitions of micro insurance in the context of this study. Insurance refers to financial services that use risk-pooling mechanism techniques to provide compensation to individuals and groups that have been adversely affected by a specified risk or event. The micro portion constitutes the second definition and it refers to the subset of insurance products that are designed to be beneficial to and affordable for low-income households, individuals and groups. In other words, the "micro" portion refers to the fact that it targets low-income market through innovative cost structures, premium payment systems, terms of coverage, and delivery modes.

Thus, products that allow an affected individual to receive only up to the amount they have contributed are considered as savings products, not insurance. Persons affected by any negative events benefit from the contributions of many others that are not affected and, as a result, they receive compensation that is greater than the amount they have invested in the insurance policy. There are two main faces of micro insurance. The one focuses on extending social protection to the poor in the absence of an appropriate government schemes and the other offers vital financial services to low-income poor households.

Low-income persons live in risky environments, vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both natural and man made varieties. The poor are more vulnerable to many of these risks than the rest of the population, and they are the least able to cope when crisis strikes. Poverty and vulnerability reinforce each other in an escalating downward spiral. Not only does exposure to these risks result in substantial financial losses, but vulnerable households equally suffer from ongoing uncertainty about whether and when a loss might occur. Because of this perpetual apprehension, the poor are less likely to take advantage of income-generating opportunities that might reduce poverty.

Micro insurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. This definition is essentially the same as one might use for regular insurance except for the clearly prescribed and well defined target market: low-income households. Generally micro insurance is for persons ignored by mainstream commercial and social insurance schemes. Particular focus is placed on individual persons who work in the informal economy and do not have any commercial or social protection benefits from their employers or by the government through employers directly. Since it is easier to offer insurance to persons with predictable incomes, even if it is a small sum, than to cover informal economy workers with irregular cash flows, the latter represents the micro insurance frontier.

3. 6. 2 Social Protection Perspective of Micro Insurance

According to the ILO (2000), social security is protection provided by society for its members through a series of public measures namely:

- ❖ To compensate for the absence and substantial reduction of income from work resulting from various contingencies such as sickness, maternity, employment, injury, unemployment, invalidity, old age and death of a breadwinner.
- ❖ To provide people with healthcare.
- ❖ To provide benefits for families with children.

Social protection does not only include public social security schemes but also private or non-statutory schemes with similar objectives, such as mutual benefit societies and occupational pension schemes, provided that the contributions to these schemes are not wholly determined by market forces. Regardless of the specific definition, social protection is an important tool to prevent poverty and strengthen the capacity of the poor to get out of poverty. According to ILO 2005b, social protection can be seen as a productive factor for three main reasons as indicated below:

- ❖ Social protection helps people to cope with important risks and loss of income. In doing so, it can enhance and maintain the productivity of workers and create possibilities for new employment. For instance, healthcare systems help maintain workers in good health and cure those who become sick. Similarly, work injury schemes help prevent accidents, periodic bout of sicknesses and rehabilitate injured workers.
- ❖ Social protection can be a critical tool in managing adverse changes in the economy and the labour market. For instance, unemployment insurance creates a feeling of security

among the workforce, which encourages individuals to undertake riskier initiatives that may result in a higher return for them and the economy.

- ❖ Social protection can stabilize the economy by providing replacement income that smoothes out consumption in recessions, thus preventing a deepening of recession due to collapsing consumer confidence and its negative effects on domestic demand. For instance, unemployment benefits and old-age pensions help to maintain the purchasing power of workers after they have lost their jobs or retired.

Conclusion

Micro insurance is essentially one relevant instrument which can be used to extend social protection to the excluded. It is particularly relevant in situations where governments lack the resources and capacity to provide social protection for the entire populace. Even in situations where resources are available, if governments support micro insurance as a social protection mechanism, like it is the case in Colombia, it may be a more efficient means of social protection than services provided entirely by the government. As an independent risk-management arrangement, micro insurance may not be sufficient to protect poor people against risk and therefore an integrated strategy of social protection should be conceived in collaboration with various stake holders and governments. Micro insurance can be most successful if it complements other risk-management instruments on the basis of a comprehensive risk assessment.

3.7 Empirical Literature Review

Experience to date, shows that micro insurance can help people manage some risks, but that it is not appropriate for all risks (Siegel, Alwang, Canagarajah 2003). Insurance is appropriate when risks are idiosyncratic (specific to an individual or household), uncertain (in terms of if it will occur, when it will occur, or how often it will occur), and result in significant losses (but not catastrophic).

Economic stresses that cause short-term increases in household expenses that cannot be covered by regular cash flow (e.g., educational expenses or minor health expenses) are often more appropriately addressed by credit or savings (Churchill 2005). Moreover, covariant risks or catastrophic events that affect large numbers of individuals at the same time (such as floods or earthquakes) can be partially counteracted with flexible savings which often require other forms of social protection, emergency and disaster assistance, or public support (Siegel, Alwang, Canagarajah 2003). Typically, these categories of covariant risks are not insurable.

Recent work on weather index insurance for farmers in Vietnam suggests there is potential demand but requires further research to assess the elasticity of demand for such products. Research on the nature and impact of idiosyncratic risks facing poor people can identify a role for insurance as well as for other risk managing financial services.

Past studies have found that micro insurance is most effective when it is complemented with other financial services (Manje and Churchill 2002). Up to now; the knowledge with micro insurance has been quite very limited. Churchill and Brown (1999) noted that micro insurance products have addressed a fairly narrow range of risks and the coverage has been inadequate.

The most common product is credit insurance with the next best alternative being life insurance. Some institutions offer the two as a related policy whereas others offer them as separate policies. It is noteworthy to remember that many of the archetypes for today's microcredit came from studies conducted on traditional credit systems, particularly the case of adapting relevant features of ROSCAs to systems of group guarantees.

In the insurance field, there is the need to do the same, that is, to assess the pluses (strengths) and minuses (weaknesses) of informal structures and get used to them where appropriate. This puts a central attention on the details of the product, coverage, exclusions, accessibility, and the timing of delivery. Self-Employed Women's Association (SEWA) in India has spearheaded the provision of micro insurance to its members. Bangladesh Rural Advancement Committee's (BRAC's) and the Grameen Kalyan Welfare have implemented health programmes based on a combination of insurance premiums and co-payments made at the time of receiving medical treatment.

In some contexts, indigenous mechanisms for informal insurance exist, for instance in South Africa poor people combine resources from ROSCAs, other informal savings and credit arrangements together with insurance to cover costly funeral expenses (Roth, 2001). Monique Cohen and Jennifer Sebstad (2003) took up the major challenge in their synthesis to identify the prospects of providing financial services that enables poor persons to better manage risk. Based on field research conducted between May and June 2002 in Kenya, Tanzania and Uganda, the above mentioned synthesis paper made recommendations on the types of risks that present themselves to micro insurance products, services and the types of coverage micro insurance may put forward.

They brought to light and drawn pointed attention to the positive attributes of group-based informal insurance systems that could be considered when designing micro insurance products and services. Millinga (2002) and his team researched into the demand for micro insurance by urban and rural poor households in Tanzania. They used mixed methods including literature review, Focus Group Discussions (FGDs), Rapid Participatory Assessment (RPA), and in-depth interviews. All data were analysed using the analysis matrix designed for each specific RPA instrument and individually for each focus group discussion.

Case studies and quotes were prepared at the time of the FGDs and used to support arguments of specific issues raised by the research. The key finding of the study was that, poor households, in particular clients of MFIs, are exposed to a wide variety of risks which compels some of them into complete poverty, perpetual disability and impairment. The study reached the conclusion that, vulnerability to risk does not transform by itself into a demand for insurance coverage especially formal insurance products and services. They discovered the willingness to pay for insurance against a number of risks rural and urban poor individual face; however their evidence indicated and confirmed that people need flexibility in the manner premiums are collected. Matul (2005) in his quantitative study on the demand for micro insurance in Georgia, presented findings on a household survey with a sample of one thousand households, representative of eight regions through out Georgia. Their study built directly on the qualitative exploratory research work that was conducted by Monique Cohen and Jennifer Sebstad in January (2004) and provided better comprehension of the significance of insurable risks, low income household risk-management strategies and general attitude towards insurance.

Guha-Khasnobis and Ahuja (2004) found out in India that some insurance companies have taken a progressive view of the regulatory obligations and have made genuine attempts to understand the rural and low-income segment of the market having realised the potential in them but tapping that potential requires a different kind of approach. The development of micro insurance in India has shown how insurance can be extended to the poor in India in cost-effective ways noting that the mechanism for providing insurance is different from either formal market-based insurance or state led insurance scheme.

Micro insurance combines the positive features of both formal insurance (by organising it scientifically) as well as informal insurance (by using local information and resources that helps in designing appropriate scheme at reduced costs). The study found out that in order to penetrate deeply into the economic hinterland and provide financial services to deprived groups, both public and private insurance companies adopted collaborative strategies required for developing activities at grass root levels. The presence of an intermediary agency that represents and acts on behalf of the target community is deemed essential to extend insurance cover to them.

Churchill (2003) in his paper entitled "Is Micro insurance a Priority for the poor? Understanding the Demand for Risk-managing Financial Services" did identify complexity of factors namely: type of risk, alternative coping mechanism, planning propensity, poverty level, cash flow, social conditions as well as education, biases and risk tolerance that influence the demand for insurance and other risk-managing financial services. Up till now, microfinance has not been successful in helping persons to cope with risks after they have occurred. According to Manje and Churchill (2002), insurance products may not be the top priority for many microfinance

customers. Given the target market's lack of familiarity with insurance, deep-seated magnitude of negative perceptions about insurance, developing and delivering demand-driven insurance products will be a major increasing challenge. If MFIs want to enter the insurance field to provide customer services, rather than being profit oriented, they must adopt an alternative approach towards risk pooling. Rather than taking premiums upfront and then paying claims out of an insurance reserve, the organisation could deduct a certain amount from each customer's savings account to pay for claims on an as-needed basis. This approach formalises the existing methods of reciprocity and mutual support, but because it is done over a bigger risk pool, it reduces the burden on individual households. Leftley (2002), points out that in Albania, Opportunity International found out that an existing insurance product failed not because the product's terms and pricing were unacceptable, but because the premium had to be paid in advance down right.

It was noted crystal clear that an upfront payment requirements were not in line or consistent with the potential cash flows of policyholders. McCord and Osinde 2003; Cohen and Sebstad 2005; Manje and Churchill 2002; Herrera and Miranda 2004, Matul 2004 claimed that previous experiences with micro insurance has shown that, many people do not understand the concept of insurance nor how it works. In some cases, the views of poor people about insurance are negative. They see it as the province of the rich or as a den of opulence for the affluent class; something that is irrelevant, unaffordable, or even unfair. Based on their experiences or what they have heard, people often mistrust insurers or believe they charge exorbitant premiums for nothing in return. These factors impede the demand for and adoption of micro insurance. Similarly, Enarsson and Wiren (2005) have reported from studies conducted in Malawi that,

many poor people are aware of insurance but have limited understanding of what an insurance policy was. Enarsson and Wiren (2005) were of the view that interviews conducted with MUSCCO members in Malawi revealed that, policy holders wanted more than just information on the costs and benefits of insurance, and the elements of an insurance policy. Again, Cohen and Sebstad (2005) put forward that in Uganda most policyholders did not know how much they were paying, what was covered or how to make claims. Even the insurance agent on duty (an MFI staff person) also showed much ignorance and knew little and therefore could rarely be of much help to their clients.

Herrera and Miranda (2004) equally shown that in Guatemala, Columna policyholders said that they wanted to be better apprised of their policy status, but the institution failed to provide them with available information. There is mounting evidence that some policyholders are very sensitive to the value of the costs and benefits of a micro insurance policy. Across three countries surveyed in West Africa, IDR found that the contribution of household income to health insurance is consistently between 1.5 and 2.5 per cent of household income. When the premium price is raised above 2 per cent, households adjust by reducing the number of household members covered by the insurance, rather than increasing their premium payments (Galland, 2005a).

In Ukraine, market research showed that a decrease in the premium by 30 per cent was met by a 10 per cent increase in policyholders (Matul, 2006). Indeed, market research is critical to better understand ability and willingness to pay. The capacity to pay is difficult to determine. As Matul and Tounitsky (2006) have noted, this is not only a function of income levels but also it is very subjective. Households may wish to have a comprehensive coverage, but often lack both the

capacity to pay and access quality services. As noted in rural Nepal, “in the absence of good health services, paying for health insurance is simply a waste” (Simkhada, et al., 2000). The level of financial literacy strongly influences what people think they can afford; client education on insurance product influences what people think they are getting for the price. And therefore a major challenge in extending insurance to the poor could be achieved through educating the market and overcoming its biases against insurance. Many people are sceptical about paying premiums for an intangible product with future benefits that may never be claimed – and they often regarded insurance companies as untrustworthy. Insurers assume rightly or wrongly that, the low-income market cannot afford insurance. Interestingly however, when insurance first came into widespread inception in the late 19th century, it was seen as a poor man’s financial service. The wealthy did not need insurance because they could essentially self-insure. Somewhere along the way, as insurance became more sophisticated and the wealthy recognized their vulnerabilities, this perception has reversed absolutely.

In some parts of Africa and elsewhere, women are especially vulnerable following the death of a husband when they lose their property to other relatives (in the absence of property rights or knowledge of ways to exercise their property rights). In some parts of rural Ghana, “CARE PLANET FINANCE” (2002) conducted an exploratory qualitative research on the development of insurance products and found out that in defining market needs among men and women, the importance of risks varied across the two groups. The study found out that the major concerns among women were school fees of their wards, health problems and funeral expenses in that descending order respectively. Whilst among the men, health problems was considered the major risk followed by motor accident and then by school fees of their wards in that ascending order.

3.7.1 Evidence on Risk Sharing

Most households in low-income countries deal with economic hardships through informal insurance arrangements between individuals and communities rather than through publicly managed programmes or market-provided insurance schemes. Households may, for example, draw on savings, sell physical assets, rely on reciprocal gift exchanges or diversify into alternative income-generating activities.

These mechanisms can be highly effective in the right circumstances, but most recent studies showed that informal insurance arrangements are often weak. Poor households, in particular, have substantial difficulties coping with even local idiosyncratic risks. Public policy can help reduce vulnerability by encouraging private flexible coping mechanisms while discouraging those that are fragile and may possibly hinder economic and social mobility. Promising policies include creating self-regulating workfare programmes and providing a supportive setting for institutions working to improve access to credit, crop and health insurance, safe and convenient saving opportunities” (Jonathan Morduch 1999).

Morduch (1998c) is of the view that, there is mounting evidence that many low-income countries from Sub-Saharan African across Southeast Asia, have suffered major natural disasters and political upheavals in the 1990s. These events have reminded observers of the reality hidden in official poverty statistics and that the condition of poverty is linked closely to vulnerability. Many poor households are exposed regularly to risks from illness, harsh weather conditions, political instability, and economic mismanagement. He did pin point to the fact that, concern

with vulnerability may be both intrinsic and tied to implications for income generation as well as to the longer-term consequences for the health and education of children (Jacoby and Skoufias 1997; Hoddinott and Kinsey 1998; Rose 1999). Apprehension⁶ of risk can lead poor households to forgo potentially valuable new technologies and profitable production choices. Rosenzweig and Binswanger (1993), for example, used data from rural South India and demonstrated that an increase in risk (as measured by an increase of one standard deviation in the coefficient of variation of the date of the onset of the monsoon) leads to a 35 percentage point reduction in farm earnings for the poorest quarter of households but has no effect on the wealthiest farmers.

Vulnerable households may also fall into poverty following adverse economic and climatic shocks as productive assets are depleted as a major policy measure in hedging against consumption levels. It stands to reason therefore that redressing risk constitutes an important complement to redistributive efforts and counter-poverty strategies projected at increasing economic growth and employment. On the other hand, even with the possibilities of loopholes in both public safety nets and private insurance markets, poor households are not completely exposed to risk. Most of them have devised strategic coping mechanisms to deal with the harshest and the hardest blows of risk. Most of these mechanisms are provided neither by the market nor by the state but instead are private "informal insurance" arrangements. They include individual and community actions, such as drawing down savings, selling of physical assets, reciprocal exchanges of gifts and loans, diversifying crops, and expanding income-generating activities (For recent surveys, see Alderman and Paxson 1994/1996; Besley 1995; Morduch 1995; and Haddad and Zeller 1996). Some, like ritualized gift giving, have firm roots dating

⁶ The World Bank Research Observer, Vol. 14, no.2 (August 1999), pp. 187-207.

© 1999 The International Bank for Reconstruction and Development/ THE WORLD BANK

back from generations and even centuries, whilst others were recently created responsive measures to squarely face tricky situations (Mauss 1967). Some recent studies have cautioned that most public policies may do a little more harm than good by way of crowding out informal risk coping mechanisms, however there is increasing evidence that attests to the fact that crowding out is unlikely to be a substantial problem. Most informal insurance mechanisms are typically weak and often provide only insufficient protection to poor households.

Studies from diverse regions in the likes of arid and semi-arid rural India, China, and Sub-Saharan Africa posit that despite the availability of informal insurance arrangements, households are still exposed to considerable risk from unpleasant and unfavourable shocks including even idiosyncratic shocks that do not simultaneously affect their neighbours. Moreover, private informal mechanisms that are effective in reducing vulnerability can impede economic growth and social mobility. Thus, even where informal insurance is well developed, public actions that may likely dislodge informal mechanisms may yield less net benefits.

The emerging evidence suggests that policymakers need to be more concerned with the provision of disaster relief in the face of large aggregate shocks such as floods, earthquake, droughts, and other natural disasters. It is equally important to reflect on the needs of households that suffer from hardships due to adverse personal, economic, or other crises such as periodic bout of illness, poor and bad harvests as well as transitory unemployment. Alternative policy options and measures such as creating a supportive enabling environment for institutions that offer safe and reliable means for poor households to borrow and in particular and to save must be encouraged. Recent experience shows that it is also possible to offer limited life

insurance and protection against other basic exigencies in a simple, low-cost manner. It may also be possible to improve on existing insurance arrangements for poor households, by drawing lessons from emerging microfinance movement and relying on non-governmental organizations and profit making commercial enterprises to take key roles. Public workfare programmes that provide temporary employment with low wages to distract those who already have work, such as India's Employment Guarantee Scheme, can also provide households with a flexible means for self-insurance in times of dire financial distress.

3.7.2 Informal Insurance Mechanisms

Reciprocal gift is a common way to solidify and foster social and economic relationships and this potentially constitutes an important form of informal insurance. In Northern China, for example, gifts are given to mark births, deaths, and weddings, as well as to help the elderly, the ill, convalescents and women who have just given birth (Kipnis 1997). Anthropologists have tended to downplay gift giving as a product of a rational calculus associated with informal insurance systems, instead highlighting its role in securing social status and signaling commitment to the community (Malinowski 1922).

But, given the sense of obligation engendered by gift exchange and the great potential for gift exchange to address risk, it is only natural that economists have taken the gift insurance relationship seriously. Economists have therefore viewed gifts in similar manner as they do consider other transfers such as public aid (Cox and Jimenez 1991). Private transfers of cash, food, and clothing are large and frequent in some countries. For example, 40 percent of black South Africans have reported either receiving or giving cash transfers (Cox and Jimenez 1997).

Cash transfers reached large numbers of residents in urban Colombia (Cox and Jimenez 1998), Thailand (Paulson 1995), and the Philippines, where 82 percent of urban and 89 percent of rural households report receiving transfers (Cox and Jimenez 1995). Remittances from migrants, whether migrants to another country or to a city from ones own country can also be substantial (see Lucas and Stark 1985 on Botswana and Paulson 1995 on Thailand). Approximately two-thirds of all transfer inflows to Pakistan between the time space of 1985 and 1988 came from migrants who sent money home to their families (Foster and Rosenzweig 1999).

In the Philippines, 26 percent of urban and 13 percent of rural households received remittances from migrant parents or children (Cox and Jimenez 1995). But in other countries especially where migration is limited, reported transfers are of minor importance. From a survey conducted in India, it became very apparent that fewer than 400 of 4,000 households received net transfers between the time periods of 1968 and 1971 as documented by Foster and Rosenzweig (1999). Scarcity of transfers is especially prominent in contexts where they are expected to be most valuable. In a smaller ICRISAT survey of poor villages in southern rural India, Rosenzweig (1988) finds that transfers responded to risk except that they covered less than 10 percent of the typical shortfalls in income. Studies done on exchange in Sub-Saharan Africa by Czukas, Fafchamps, and Udry (1998) seconds the above assertion. In a four-year study of 16 villages in northern India, Morduch and Sicular (1999) find that no more than a quarter of households reported receipts of transfers from their neighbors; 10 percent admitted receiving gifts from outside their village. The transfers were modest and averaged between 10-20 percent of households mean income.

Lim and Townsend (1998), who have examined International Crop Research Institute for the Semi-Arid Tropics (ICRISAT) files, cut conclusions that households bridge gaps between income and desired consumption levels through saving, borrowing, and preserved bumper harvests and buffer stocks from grain. Dercon (1992), Alderman and Paxson (1996) are of the view that, the importance of these mechanisms is become more evident in most low-income economies of LDCs. Households may take actions to even out income levels after an adverse economic distress by working longer hours or taking an extra job (Kochar 1999) and may even take precautions in advance to reduce the probability or the coverage of loss (Morduch 1995). These mechanisms can be relatively effective in the right circumstances and as such has given rise to concerns and conclusions that publicly provided resources would simply swap and crowd out informal activities (Morduch 1995).

New tests of informal insurance mechanisms relate the variability of total household consumption to income variability. If households can use coping mechanisms to “smooth” consumption somewhat, income should be more variable than consumption. If communities can perfectly pool their incomes to share risks where every given household's income is a small part of the total, the consumption level of a given household relative to its neighbours should be a function only of total community income and the household's assigned share of the total. The household's own income recognition should then not affect consumption patterns, and all idiosyncratic risk should be eliminated. The guru who pioneered and first tested the articulation of the above idea was in the personality of Townsend (1994). He used data from the International Crop Research Institute for Semi-Arid Tropics (ICRISAT) to conduct studies in the villages of southern rural India. He established with the results emanating from his studies

that, the evidence does not fully support the proposition with respect to perfect risk pooling. However, it comes surprisingly very close to having controlled for community resources. Townsend's study also revealed that the marginal propensity to consume out of household's own income is nowhere greater than 0.14, whilst the theory of perfect risk sharing predicts it should be zero. However, Morduch (1991), Ligon, Thomas) and Worall (1997), and Ravallion and Chaudhuri (1997) find weaker evidence using the same data. In a similar fashion, Ravallion and Chaudhuri's estimates of the marginal propensity to consume was between 0.12 and 0.46. The above results according to the authors, suggested that informal insurance exists but it is not practically perfect.

The authors therefore did acknowledge that, one major inbuilt weakness of the studies was that it did not reveal the specific mechanisms that propel the results: they were consistent with both gift exchanges within communities (but not with perfect risk sharing) and with self insurance activities such as borrowing and saving (but not with the perfect ability to smooth consumption). In practice, borrowing and saving on the average, are typically far more important coping mechanisms than the exchange of transfers as put forward by Lim and Townsend (1998). In some developing countries, savers even pay to save as it is the case and practice in Ghana, where some door-to-door agents known as "Susu" collectors collect deposits and charge customers involved for rendering them their services. Similar procedures and systems have been identified in India and elsewhere in Asia (Rutherford, 2000).

The idea that there are costs associated with savings instruments, and that one may not get back all that one has put in, is not necessarily strange to poor households and poor persons in general.



Indeed, to assess the value of a product from client's perspective, one needs to consider the transaction costs associated with making deposits, along with the opportunity costs – where else could they have put their money, and what is the return from those investment opportunities? Similar studies from other countries also find evidence of highly imperfect informal insurance. Deaton (1997), for example, finds little evidence of strong risk sharing in samples from Cote d'Ivoire, and Townsend (1995a, b) reported mixed results of risk sharing after sampling Thai villages.

Jalan and Ravallion (1997) noted that the poorest 10 percent of households in rural China can protect themselves from just 60 percent of an adverse income shock, whereas the richest 10 percent can survive with 90 percent on the average. According to the authors, this measure reiterates the evidence from southern rural India that: households with large landholdings have less difficulty in coping with idiosyncratic income shocks albeit the consumption levels of landless households and smallholders decline sharply as income falls (Morduch 1993). On a stark contrast distinction, Gertler and Gruber (1997) took a different count and opinion on risk sharing. In evaluating the ability to cope with the costs of illness in Indonesia, they find that households insure adequately against about 70 percent of common health shocks but can protect their consumption levels against only say 30 percent of the illnesses that seriously impair their long-term performance. Their findings mirrored Cochrane's (1991) evidence using data from the United States as well as Lund and Fafchamps's (1997) data from rural Philippines. Lund and Fafchamps in particular, found out that informal insurance arrangements are effective only in the case of young adults who are suffering from chronic illness; older adults' who relapse into sickness are far less likely to be helped. Lund and

Fafchamps's data shown that informal insurance also helps with funerals but not with crop failures, mild illnesses, or unemployment (other than that of the head of the family and his spouse). Household's social network also matters: households with more friends (especially richer family friends) have a greater ability to use informal insurance. Households that are not so well connected with families and friends, who have the correspondence capacity and the channel of influence to attain high income status, are less likely to succeed in employing informal insurance as coping mechanism in the event of an adverse shock. These results based on class disaggregation and type of shock; reveal the inbuilt demerits in informal insurance that would not otherwise be evident. And they imply that there is more than enough scope for potentially beneficial interventions that go beyond disaster relief.

3.7.3 Summary of the Literature Review

The literature reviewed covers substantial empirical researches conducted on micro insurance related studies: which has drawn pointed evidence on risk sharing mechanisms and coping strategies in many low-income countries, with particular references to sub-Saharan Africa through Southeast Asia. The prime issues of major concern addressed and expounded in the literature are outlined as follows:

- ❖ First, it is noteworthy to mention that many developing economies have started spearheading the crusade for the provision of micro insurance, the most latest or recent field in microfinancing.
- ❖ Into the bargain, most countries from sub-Saharan Africa have investigated the demand for micro insurance by rural households and urban poor operating micro enterprises and have found out that, there are clear cut indications of high demand for micro insurance

and that most clients of MFIs are prone to a wide range of risks which constrains them into abject and naked poverty as well as permanent disability.

- ❖ However, some studies have revealed that vulnerability to risks does not by itself translate into the demand for micro insurance coverage, particularly formal insurance products and programmes, whilst other studies proved and shown that there is the willingness to pay for insurance against a number of risks⁷ faced by MSMEs.
- ❖ Insurance can be extended to the poor in cost-effective ways by providing insurance which is different from either the formal market-based insurance or government led state insurance provision. That is, both private and public insurance companies must adopt collaborative strategies and involve various organisations for multiple development activities at grass root levels. The presence of an intermediary agency that represents and acts on behalf of target groups and communities is deemed essential to extending insurance cover to households.
- ❖ MFIs are the best candidates for the provision of micro insurance in the informal economies of LDCs and should actively experiment and innovate to make the mainstreaming of micro insurance a reality. Some MFIs are already playing an essential role for the promotion of this worthy cause and the delivery of micro insurance products. However, there are various limitations on the dependence of MFIs as substantive distribution channel for micro insurance products.

For instance, lack of transparency has been documented that if micro insurance is linked to loans; as reported in Zambia by (Manje, 2005) and in Uganda by (McCord et al., 2005a) that microcredit borrowers were not aware of the fees charged for loan processing and the micro

⁷ Health risks and Death risks are of the major concern to MSMEs.

insurance premium payment (sometimes women were not even aware of their insurance coverage).

- ❖ Poverty limits the number of financial obligations a person can take on. Experience from an MFI-linked insurance scheme in Nepal suggests that many poor households find the burden of an insurance premium in addition to a loan repayment stressful. Policyholders who already had health insurance were unwilling to pay a second premium for voluntary life insurance (CMF, 2005). However, the mandatory nature of many insurance products make it difficult to predict the demand (and willingness to pay) among poor households for voluntary insurance at different premium levels.
- ❖ Most MSMEs have developed coping strategies to deal with risks. Most of these strategies are neither provided by the state or the market (formal insurance), but instead private informal insurance arrangements which are often very fragile, feeble, imperfect and provide only inadequate protection for deprived and underprivileged persons.



CHAPTER FOUR

THEORECAL AND EMPIRICAL METHODOLOGY

4.1 Introduction

This chapter outlines the research methodology used in the study. The study analysed the need for micro insurance as an add value in building economic security for low income households operating small scale businesses in the informal economy of Ghana.

4.2 Research Methodology and Sources of Data

This study primarily involves qualitative illustration as well as quantitative estimation. A survey was conducted by Enterprise Life Assurance Company (ELAC) to collect data on households and was requested for the purposes of this study. A sample of 100 micro entrepreneurs were drawn from four selected MFIs in Accra. In addition 10 key informants comprising five MFIs and five insurance companies in Accra were interviewed. The research instruments included interviews and questionnaires. The technique used in questioning households' involved personal face-to-face interviews and respondents filling in the research questionnaire. All respondents were selected by a random probabilistic procedure.

The data used was obtained from the data base of ELAC, Accra from a survey conducted on households who were clients of selected microfinance institutions (MFIs) in the Greater Accra Region of Ghana. Other primary sources of information included key informants of selected MFI's and insurance companies. However, to achieve the prime objectives of this study it was only the data obtained on households that was used. The data obtained on MFIs and Insurance companies was not used because it focuses on the supply side of micro insurance.

There were three sets of questionnaires. The first set was designed for households, the second set for MFI's and the last set for insurance companies who provide micro insurance services. Secondary information were obtained from review of literature on insurance, micro insurance, risk and vulnerability, risk-sharing systems, and other informal group-based insurance systems in Sub-Saharan Africa and Southeast Asia. The questionnaire used involved a mix of close and open ended questions to capture issues relevant to the survey.

The first set of structured questionnaire designed for households was administered to sampled clients of four MFIs which captured the first two specific objectives of the study namely :data on the type of risk(s) facing a sample of 100 households operating small scale businesses in the informal economy of Ghana with particular emphasis on potentially insurable risks including property loss due to theft and fire outbreak at both residence and business premises, natural disasters such as drought and floods, death -accidental and natural death of spouse, children, parents and other dependents , health -long and short term illness etc as well as loss in business due to fluctuation in prices. Data on risk coping strategies, income profile of households to assess their capacity to afford insurance premiums and client knowledge about micro insurance and formal insurance systems to manage risks were also covered.

4.3 Theoretical Specification and Justification of Probit Model Estimation Procedure

The study essentially made use of a probit regression estimation technique because the dependent variable assumes a dichotomous form. That is households preference for micro insurance products was delineated into households who were willing to make the policy and

those unwilling to make the policy. Again probit regression technique was chosen because of the assumption of normal distribution of the error term and also the probit uses a cumulative normal probability distribution. Therefore for an accurate estimation of the required parameters, the study sees a probit regression estimation procedure as the best alternative candidate.

4.3.1 Maximum Likelihood Estimation of the Probit Model

The probit model is defined as $\Pr(y=1|x) = \Phi(bx)$(2.0)

Where Φ is the standard cumulative normal probability distribution and bx is called the probit score or index. The observed dependent variable takes on a dummy of 1 or 0 using the following criterion. We define a latent variable y^* such that:

$$y^*_i = X_i^{-1}\beta + \varepsilon_i \dots\dots\dots(2.1)$$

Where

$$\varepsilon \sim NID(0,1) \dots\dots\dots(2.2)$$

$$y = \{1 \quad \text{if, } y_i^* > 0 \dots\dots\dots(2.3)$$

$$y = \{0 \quad \text{if, } y_i^* \leq 0 \dots\dots\dots(2.4)$$

In general the likelihood contribution of observation i with $y_i = 1$ is given by $p\{y_i = 1/x_i\}$ as a function of unknown parameter vector β . similarly the likelihood contribution of observation i with $y_i = 0$ is given by $1 - p\{y_i = 1/x_i\}$ as a function of unknown parameter vector β . The likelihood function of the entire sample for i is then given by;

$$L(\beta) = \pi \prod_{i=1}^N p(y_i = 1/x_i^{-1}\beta)^{y_i} * p(y_i = 0/x_i^{-1}\beta)^{1-y_i} \dots\dots\dots(2.5)$$

Substituting for $p(y_i = 1/x_i) = F(x_i^{-1}) \dots\dots\dots(2.6)$

We transform equation (2.5) into logarithmic form to obtain the log likelihood function denoted

$$\log L(\beta) = \sum_{i=1}^N y_i \log F(x_i' \beta) + \sum_{i=1}^N (1 - y_i) \log(1 - F(x_i' \beta)) \dots \dots \dots (2.7)$$

4.3.2 Model Specification and Explanation of Choice Variables

There are three categories of risk-managing financial products namely: liquid savings accounts from which clients can draw down to circumvent the effects of economic stresses; emergency loans; and micro insurance, which may possibly include death coverage, protracted illness, disability, theft of property and possibly drought or other natural disasters such as floods or earthquakes (Churchill, 2002). To explore the circumstances under which low-income households may prefer or choose one over others, it is necessary to consider a range of social and economic issues namely: alternative coping strategies, type of risk, cash flow, education, biases and risk tolerance.

4.3.3 Alternative Coping Strategies

Poor households in general do not have access to savings facilities, emergency loans or insurance from formal or semi-formal institutions. Therefore whilst they may have a need for the support provided by these services, they are unlikely to articulate significant demand because they do not maintain the least expectations that a bank or any insurer would be willing to entertain their needs. The need for risk-managing financial services therefore has to be inferred on the basis of cost effectiveness of current risk coping strategies employed by low income households including their reliance on informal micro insurance services.

Multilateral support strategies tend to be responsive. If an obvious risk event occurs, like the death of a family member or in the case of a business burnt down, community members may well show some care and assistance to the stricken household, usually with in-kind support services such as food, labour and some materials to rebuild the business. The only type of advance premium payments in this example would be participating reciprocally in mutual support to other families in dire financial distress. In a sense, paying out a claim today is tantamount to paying a premium against future claims (Platteau, 1997).

Reciprocal gift is a classical instance of bilateral support strategy whereby gifts are given to family and friends almost as premium payment. Should a risk event occur, then one may be able to contact recipients they offered help sometime back and request assistance from them.

4.3.4 Types of Risk

Microinsurance is a market based mechanism to reduce the vulnerability of low income households. For instance, the preference for microinsurance products is a function of risk exposure and the impact of its severity on households. Potential need is therefore a function of risks such as death, illnesses, fire outbreaks at households business and residential premises etc as well as households' capacity to pay. With reference to formal and semi-formal financial services, if such services were available to poor households, savings and emergency loans would considerably be a more flexible alternative choice than micro insurance because they can ameliorate the effects of numerous economic stresses. A life insurance policy for instance, will not help if one's house gets burnt down or business is looted. Indeed, only few risks are insurable, those that are easily observable and idiosyncratic, and therefore insurance must be complemented with other means of managing risks. Savings might be slightly more responsive

than credit since it is possible to use one's savings for any purpose, not just risk management. This advantage of savings over credit, however, depends on the design of the loan product.

The risk pooling aspect of micro insurance works best for both providers and consumers when: a) the loss is relatively large and b) there is low likelihood that the risk will occur (Brown and Churchill 1999). Micro insurance is therefore useful to cover funerals, expensive medical treatments or rebuilding a burnt down house. If the loss is relatively small, then savings or credit would probably be a more appropriate alternative to micro insurance.

Poor persons who believe that micro insurance is an appropriate response for selected risks would have to identify which of the unlikely risks that insurers are willing to cover are the most likely to occur to them, and if such risk(s) did occur would cause the greatest financial hardship to them. This analysis has often drawn pointed attention to the potential need for life micro insurance, since death is fairly a certain event⁸ that causes significant dire distress or financial mishaps, including the initial funeral expenses and the recurring loss of income if the deceased was a major breadwinner or wage-earner in the family.

Complicating the demand for health micro insurance and to a lesser extent for life micro insurance is that, people's perceptions of their vulnerability vary widely depending on their age, their current health, their marital and family status, etc. It stands to reason therefore that, the need for micro insurance is not static rather it fluctuates considerably as one ages, has children or becomes bed ridden due to protracted illness. That is, as households perceive that they have become more or less susceptible to risk, their preference for micro insurance services vary accordingly.

⁸ Uncertainty has three different elements: if, when and how often? Although it is certain that we will all die at some point, the uncertainty arises from not knowing when.

4.3.5 Cash Flow or Income Level

Potential preference for risk-managing financial services is not just related to absolute poverty, but also to the level of income and expenditure variability (Churchill, 2005). Saving and borrowing enable persons to allow consumption to be somewhat independent of income (Morduch 1995). For non-poor individuals, the ability to smooth consumption often results in access to material possessions such as posh cars, luxurious houses etc. Irregular income sources make it difficult for low income households to save or even afford regular micro insurance premium payments, however these circumstances make savings more important as a buffer for the weeks or months for households with little or no income.

The choice between relying on savings versus borrowing depends partly on whether the economic stress decreases income or increases expenses. Drought, for example, decreases income in the same way that a household or a micro entrepreneur would experience poor market conditions. Alternatively, if the shock creates an increased expense but does not adversely affect one's gross income, then an emergency loan could be a reasonable alternative solution. For example, the death of a child would create an unexpected funeral expense, but may not affect income unless the child was working. Poor households perceive asset accumulation as a form of savings and/or micro insurance that necessitates the postponement of present consumption in the face of sustaining greater security tomorrow. Therefore, for savings and micro insurance to be good options, households must have some net income so that they can put money aside either in a bank or under the mattress⁹.

⁹Some households in certain African communities kept their monies under the mattress, as a medium of savings in order to have the financial capacity to purchase an asset.

The poorer individual becomes the stronger their sense of economic exigency and urgency plans for longer term outlook. For instance, during adverse circumstances most credit constrained parents tend to withdraw their children from school and put them into income earning jobs, which is essentially akin to substituting present consumption over future consumption (Jacoby 1994 cited in Zeller 1999). In Europe and North America in the early mid 20th century, insurance was ironically seen as financial services for poorer classes. Wealthy persons preferred to use their own money to achieve greater returns, and because they had high net worth, they were less vulnerable and less in need of protection. The growth of insurance policyholders came mainly from risk averse working poor who sought security yet focused their attention on low-return investments like insurance.

There are two explanations for this apparent contradiction between the historic and current demand for insurance by the poor. The historical working poor had low payment but regular wages that enabled them to pay their weekly penny premiums; the same would probably be true today for low-income and poor households if insurers were interested in their businesses. But for the self-employed and persons with irregular and unpredictable incomes, insurance may not be a top priority. The second difference is that the insurance sold to yesterday's factory workers accumulated value, so that it combined insurance with savings, albeit for a fairly low turn over. If these endowment policies were available to today's poor in developing countries, there may very well be a high need for insurance products since accumulating value policies may help households overcome major obstacles. Non-existence of such conditions today precludes poor and low income households from patronising insurance products.

4.3.6 Educational Biases and Risk Tolerance

On personal levels, the preference for saving, credit and particularly insurance essentially depends on one's education, biases and tolerance for risk. Although savings and credit are fairly familiar to most people, many low-income people are not familiar with the risk-pooling concept or they have an incorrect understanding about insurance. Research among micro entrepreneurs in Lusaka, Zambia, for example, revealed that 38 percent of the sample had no understanding of insurance and an additional 30 percent had only basic or rudimentary knowledge. The level of understanding strongly correlated with the level of literacy and formal education. It came to light that men generally had greater familiarity than women (Manje and Churchill 2002).

Many consumers often have unfavourable opinions about salespersons that may have incentives to oversell insurance and appear to profit from other people's miseries even if there were no scam issues associated with insurance.

The preference for micro insurance services in the context of this study refers to households who were willing to make the policy and those unwilling to make the policy. This was measured as a function of types of risk facing households, alternative coping mechanisms used by households in militating against the risks identified, the income level of households as well as the level of education of households. Most of these variables were proxied. For instance, alternative coping strategies likely to be used by households as risk management strategies may include self insurance, informal insurance and formal insurance. Similarly, types of risk facing households were proxied by death, health and property risks. Death risk was further delineated into death1 denoting death of a spouse, death2 designating death of one's children and death3 depicts death of parents. Equally important was the income level of households' and type of businesses households were engaged in.

Income source of households was delineated into income from main economic activities and other sources of income such as remittances and income due to activities other than income from main economic activity. For instance, a household's main economic income source could be trading in food stuffs, general hard wares for building and construction etc. Other income sources for households apart from remittances and main economic sources come from the sale of ice water, soft drinks and other assorted items placed at designated commercial strategic points. Other sources of income were captured as othersource1 for remittances and othersource2 for the sale of ice water, soft drinks and assorted items.

Therefore based on the above explanations, the preference¹⁰ for micro insurance services in the context of this study is essentially a function of the following choice variables namely: income from main economic activity, other sources such as remittances and the sale of ice water and assorted items, business type, education, health risk, property risk and informal insurance.

Econometrically, the model is illustrated as follows:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 x_7 + \beta_8 x_8 + \varepsilon_i$$

Where:

y = Preference for micro insurance products: 1 if yes and 0 if otherwise.

β_i = Coefficients to be estimated.

x_i = Explanatory variables

¹⁰The Preference for microinsurance products in the context of this study refers to households who are willing to make micro insurance policy and those reluctant to make the policy. It was measured as yes if a household was interested in the policy and no if otherwise.

ε_i = Stochastic disturbance term.

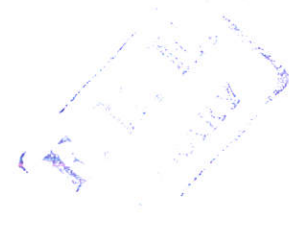
x_1 = Total amount of income from main economic activity.

x_2 = Remittances: 1 if households received remittances and 0 if otherwise. Households, who receive remittances as supplement to their income, are expected to be in the position to buy microinsurance products. Therefore it is expected that as remittances increase, household's preference for microinsurance services will likely increase.

= Sale of ice water and assorted items etc: 1 if household obtained income from the sale of ice water and assorted items and 0 if otherwise. Households who obtained extra income from the sale of ice water and assorted items are expected to be in a better financial position to buy microinsurance products relative to those who solely rely on income from their main economic activities.

x_4 = Business type: 1 if households were engaged in trading, 2 if households provided services and 0 if otherwise. Households who earned income from more than one economic activity may be in a better financial position to make microinsurance policy compared with households who are engaged in only one economic activity with fluctuating income characteristics.

x_5 = Education: the level of education of households was measured as 0 for no education, 1 for primary school, 2 for junior high school, 3 for senior high school and for 4 for tertiary institution. Households who are educated may have better understanding of risk management products and may become aware about the existence of microinsurance services. Hence highly educated households are more likely to buy microinsurance products compared with less educated households or households with no education.



x_6 = Health risk: was measured as 1 if a family member faced illness leading to permanent disability, hospitalization or death and 0 if otherwise. The impact of financial burden created on households due to health problems faced, was captured by the frequency of occurrence of health related problems. Therefore households who are faced with periodic health issues are expected to buy microinsurance.

x_7 = Property risk: was measured as 1 for fire or theft at either business or residential premises of households and 0 if otherwise. The frequency at which households faced theft or fire outbreak at their residence or businesses premises will determine their preference for microinsurance. Therefore if households face theft and fire outbreak risks frequently, they may likely buy microinsurance products.

x_8 = Informal insurance: 1 if households used informal insurance coping mechanism and 0 if otherwise. The choice of alternative coping strategies available to households is inferred on the basis of cost effectiveness, therefore if households find informal insurance strategy more effective, their preference for microinsurance will likely be low.

CHAPTER FIVE

ANALYSIS AND DISCUSSION OF RESULTS



5.1 Introduction

This section presents the results of statistical and descriptive analysis on the socio-economic backgrounds of households, risk management strategies, types of risk, income profile of households and their insurance awareness, use and attitude towards risk. Finally, the regression analysis and interpretations of the results are comprehensively included.

5.2 Socio-Economic Background of Sampled Households

The socio-economic indicators of households are very essential because they reveal the pattern of households' behaviour in making micro insurance decisions. Factors such as age, sex, marital status, business types and income levels may affect households' decisions in making micro insurance policy.

Table 5.1: Gender by Marital Status of Sampled Households

Gender	Marital Status						Total Percentage
	Total Number of Sampled Households	Divorced	Married	Separated	Single	Widow Widower	
Females	48	8	65	6	17	4	100
Males	52	2	65	4	27	2	100

Source: Author's own computation from data

Table 5.1 shows gender composition by marital status of sampled household. Out of 100 sampled households, 48 were females and 52 were males. About 65 percent of both females and males were couples at the time the household's survey was conducted. About 8 percent of females who were divorced and 4 percent of them were widows. Equally important was the number of females who separated from their marriages and this constitutes 6 percent of the total sample size. This means quite a significant number of female households were more exposed to risk and therefore could have considered making micro insurance policy. The reason is that given a typical traditional African society, the onus of raising children becomes the single burden of divorced and separated women. Similarly in some parts of Africa and elsewhere, women are especially vulnerable following the death of a husband when they lose their property to other relatives in the absence of property rights or knowledge of ways to exercise their property rights (Cohen and Sebstad, 2005).

5.3 Economic Activity and Income Profile of Sampled Households

Table 5.2 on the next page summarizes the various income levels and business types of sampled households who operate in the informal economy of Ghana. Many households were engaged in trading activities. The second dominant economic activity of households was provision of services whereas agriculture was the least economic activity households pursued.

Table 5.2: Income by business Types of Sampled Households

Income in Ghana Cedis (GH¢)	Business			Total Percentage
	Agriculture	Service	Trading	
150+	0	50	50	100
100-150	0	45	55	100
80-100	6	22	72	100
50-80	6	44	50	100
20-50	0	41	59	100
<20	65	0	35	100

Source: Author's own computation from data/ Exchange Rate: 1 USD= GH¢ 0.95

Sampled households were engaged in three main business activities namely agriculture with specific aspects such as the cultivation of food crops, vegetables, fruits and rearing of livestock. The main types of trading activities of households include the sale of general hard wares for construction, selling of food stuffs, imported second household goods and food items etc.

Among service provision work sampled households were engaged in include secretarial services such as typing and printing, communication services, hair dressing and tailoring, rental activities such as cars and apartments and leasing of properties such as land etc. The table reveals that only 6 percent of households who were engaged in agriculture as their main economic activities earned income per month in the range of GH¢ 80- GH¢ 100 and GH¢50 -GH¢ 80 respectively. About 50 percent each of households who were engaged in service provision and trading activities earned the highest income of GH¢ 150+ per month whereas 72 percent of households who were equally engaged in trading activities as their main source of monthly income earned

GH¢ 80- GH¢ 100. To some extent, the decision making process as regards the preference for micro insurance products may be influenced indirectly by gender issues but directly by income. Hence these two factors have been linked together as illustrated below.

Table 5.3: Income by Gender Distribution of Sampled Households

Income Per Month	Sex		Total Percentage
	Female	Male	
150+	42	58	100
100-150	36	64	100
80-100	53	47	100
50-80	33	67	100
20-50	83	17	100
<20	50	50	100

Source: Author's own computation from data

Table 5.3 shows gender and income composition of sampled households. About 58 percent of males constitute sampled households in the highest income category of GH¢ 150+ per month relative to 42 percent of females in the same income bracket of GH¢ 150+ per month. About 83 percent of females were in the least income range of GH¢ 20- GH¢ 50 per month. Similarly males constitute 64 percent of those in the second highest income range of GH¢ 80- GH¢ 100 per month against 36 percent of their female counterparts.

The above table is very important because income constitutes the single most relevant factor in households decision making process in connection with micro insurance products. Therefore given the income composition of households, one would be able to picture their capacity in making a micro insurance policy. In order to understand the cash flows and income expenditures

of households thereby assess their capacity to buy micro insurance products, it is important to link their income levels to their businesses. Table 5.4 captures the average monthly incomes households earned from their various economic activities.

Table 5.4: Sampled Households Average Monthly Incomes from Economy Activity

Income Per Month	150+	100-150	80-100	50-80	20-50	Below 20	Total
Total Number of Households	31	14	17	18	18	2	100

Source: Author's own computation from data

Out of a total of 100 sampled households, 31 sampled households earned the highest income of GH¢ 150+ per month whereas 14 households earned the second income category of GH¢ 100- GH¢ 150 per month. Seventeen households earned the income range of GH¢ 80- GH¢ 100 per month and 18 households earned GH¢ 50- GH¢ 80 per month. In addition 18 households earned the income range of GH¢ 20- GH¢ 50 per month whereas only 2 households earned the least income below GH¢ 20 per month.

5.4 Risk Faced by Sampled Households and Coping Strategies Employed

Two of the major objectives of this study were to investigate the main types of risk facing households who operate small scale businesses in the informal Ghanaian economy and also determine diversity of coping strategies used as risk management.

5.4.1 Major Types of Risk Faced by Sampled Households

The table below summarizes the main types of risks with their respective magnitudes faced by households operating small scale businesses in the informal economy of Ghana. The survey captured three major types of risks faced by households namely; health, death, and business risks. The frequency of the risk and the extent of damages involved to a large extent determine the desire of households to pursue micro insurance policies (ELAC Survey Field Report, 2006).

Table 5.5: Major Risk(s) Faced by Sampled Households Operating Micro Enterprises

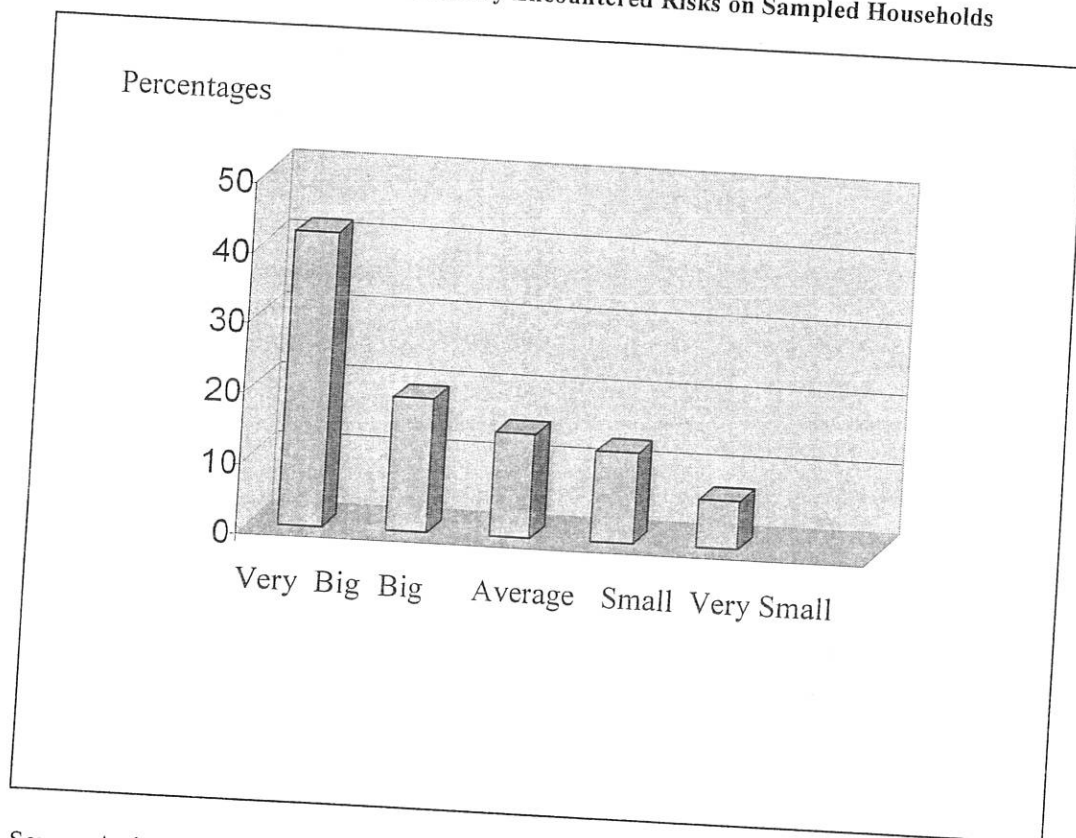
Risk(s) Faced by Households Operating Micro Enterprises	Percentage of Households Facing Risk(s) (%)
Health risk only	13
Death risk only	8
Business risk only	9
Health and Death risks only	7
Health and Business risks only	5
Death and Business risks only	12
Health, Death and Business risks only	30
Households who faced none of the above risks	16
Total	100

Source: Author's own computation from data.

It was discovered that health risk constitutes the single most important risk confronting sampled households who operate small scale businesses in the informal Ghanaian economy. Since this constitutes 13 percent of the total households sampled. The second important risk facing households is that of business risks due to price fluctuation and this constitutes 9 percent of

sampled households. Altogether health, death and business risk facing households constitute 30 percent and 16 percent of households did not indicate any risks they faced. The figure on the next page is based on the risks identified in table 5.5 in order to examine the financial impact the risk made on households.

Figure 5.1: Financial Burden Created by Encountered Risks on Sampled Households



Source: Author's own computation from data.

Figure 5.1 shows the financial burden created on households as a result of the risks¹¹ they encountered. It can be seen that about 40 percent of sampled households admitted that the financial impact they suffered due to various risk encountered was very big whereas about 17 percent acknowledged that the financial burden they faced due to the encountered risk was average. About 5 percent could not tell the financial strength of the risk they faced. The essence of financial burden is to explain the effectiveness of coping mechanisms sampled households

¹¹ This is in the context of the risks summarized in table 5.5

employed. Here households who claimed the financial burden they faced was very big may have found the strategy they used ineffective. Therefore they need to look for an alternative risk management option such as micro insurance. Table 5.6 directly supports figure 5.1 in that, it illustrates the category of sampled households who suffered most severely from the risks encountered.

Table 5.6: Gender by Financial Burden Sampled Households Faced Due to Risks

Gender	Financial Burden					Total Percentage
	Small	Very Small	Average	Big	Very Big	
Female	19	15	17	4	46	100
Male	12	23	23	4	38	100

Source: Author's own computation from data.

That 17 percent of sampled female households said the financial burden they faced due to risk encountered was average against 23 percent of their male counterparts whereas 46 percent and 38 percent of females and males admitted that they encountered very big financial burden due to the risks faced. In summary, the impact of financial burden was highest on females relative to males. One possible reason could be that most of the females were divorced, separated or widowed.

5.4.2 Coping Strategies Employed by Sampled Households

The survey revealed that households used three main types of coping strategies viz: informal insurance, self insurance, and no coping mechanism. Most of them used self insurance while others employed informal insurance measures. Table 5.7 on the next page shows the various coping strategies sampled households used as risk management. Most households used 60

percent of self insurance whilst 38 percent used informal insurance mechanism. No household used formal insurance as risk management option making this study very important for stakeholders, policy makers and the government of Ghana alike. One likely explanation as to why vast majority of households may have decided to use self insurance coping option as a tool for risk management may be due to the decision making cost involved in using it such as time and effort.

Table 5.7 Coping Mechanisms Sampled Households Used as Risk management

Coping Strategy	Total Percentage
Informal Insurance	38
No Coping Method	2
Self Insurance	60
Formal Insurance	0
Total	100

Source: Author's own computation from data.

5.4.3 The Significance of Coping Strategies Sampled Households Used against Risks

The study attempted to identify the various coping strategies households used. Here the term coping strategies refer to the measures sampled households actually used as a hedge against the risks they faced. Similarly, the phrase risk faced by sampled households means anything dangerous or unpleasant that may have actually happened to households and therefore impacted adversely on their health conditions and economic well being. The Coping mechanisms used by households in the context of this study are very important because it will serve as a yard stick for assessing household's preference for microinsurance products. The preference for risk managing financial services with specific reference to the choice of coping mechanisms available to

households is inferred on the basis of cost effectiveness. In the context of this study, cost effectiveness of coping strategies employed by sampled households could be examined on the basis of their income sources or business types, income levels, educational levels and marital status as explained in tables 5.8 through 5.11.

Table 5.8: Income Source by Types of Coping Strategies Sampled Households Used

Income Source	Coping Strategies							
	Informal Insurance	Help from Associations	Help from Relatives & Friends	Loan from Banks	No Coping Method	Self Insurance	Depleting Savings	Selling Household Assets
Agriculture	50	50	0	50	0	50	50	50
Services	33	83	4	13	5	62	96	4
Trading Activities	27	95	0	5	0	73	98	2

Source: Author's own computation from data.

Table 5.8 shows the main economic activities pursued by sampled households linked to coping mechanisms with the specific coping strategies they did employ in combating their vulnerability and exposure to risks. Out of a total of 100 sampled households, only 5 percent of those who were engaged in service provision as their main economic activity used no coping strategy in the face of risks they encountered whereas 33 percent and 62 percent used informal and self insurance coping mechanisms respectively. A comparison of sampled households who used both self insurance and informal insurance reveals an interesting pattern.

It is very clear from the table that vast majority of sampled households (73 percent) which engaged in trading activities used self insurance as risk management option. Similarly 62 percent and 50 percent of those engaged in service provision and agriculture, used self insurance respectively. In the case of informal insurance, 50 percent of sampled households which engaged in agriculture used this strategy whereas 33 percent and 27 percent of those providing services and trading activities respectively used informal insurance coping mechanisms. It is interesting to observe that none of the sampled households surveyed used formal insurance such as micro insurance as risk management. This could be due to the fact that they may be unaware about the existence of micro insurance products in the country making this study very important for the government of Ghana, policy makers and other stakeholders alike. A comparison of the specific types of informal insurance and self insurance sampled households used in mitigating their exposure to risks and risks encountered showed that, 96 percent and 98 percent of sampled households which engaged in service provision and trading activities used the method of depleting savings as specific self insurance whereas 83 percent and 95 percent equally obtained assistance from associations they belonged to as specific informal insurance coping strategy. Also, about 4 percent and 2 percent of sampled households providing services and trading activities respectively liquidated valuable assets as a hedge against risks encountered.

In similar fashion, 50 percent of those engaged in agriculture also relied on associations they belonged to as their specific informal coping strategy whereas 50 percent relied on loans from the commercial banks. In addition, 13 percent and 5 percent of sampled households which were engaged in service provision and trading activities respectively, obtained loans from the commercial banks as specific informal insurance coping methods. Most sampled households did

not rely on assistance from their friends and relatives as specific informal coping strategy, an indication that, there may be no strong social and family ties existing among them.

Table 5.9: Monthly Income by Coping Strategies Employed by Sampled Households

Monthly Income	Coping Strategies							
	Informal Insurance	Help from Associations	Help from Relatives & Friends	Loan from Banks	No Coping Method	Self Insurance	Depleting Savings	Selling Household Assets
150+	35	55	3	42	3	62	97	3
100-150	21	64	7	29	7	72	100	0
80-100	18	71	6	23	0	82	100	0
50-80	56	33	11	66	0	44	100	0
20-50	17	72	0	28	0	83	100	0
< 20	0	0	0	0	0	100	100	0

Source: Author's own computation from data.

All income groups depleted their savings as a measure against risks as shown in table 5.9. Specifically, about 35 percent of sampled households in the highest income range of GH¢ 150+ used informal insurance coping mechanism as risk management whilst 62 percent used self insurance coping strategy. Only 3 percent of sampled households in the afore-mentioned income range used no coping mechanism to mitigate risks encountered.

Interestingly, all sampled households in the lowest income range of GH¢ 20 Cedis per month used self insurance strategy and specifically, they used the option of depleting savings as risk management. In the case of sampled households in the income bracket of GH¢ 100 - GH¢ 150, 21 percent of them used informal coping strategy whereas 7 percent used no coping mechanism whilst 62 percent used self insurance method with almost 100 percent of them depleting their savings.

Of sampled households in the income range of GH¢ 80 - GH¢ 100, 18 percent used informal insurance method whilst 82 percent used self insurance option. About 71 percent of sampled households in the income range GH¢ 80 - GH¢ 100, relied on assistance from associations as specific informal insurance option used and 6 percent got assistance from friends and relatives whereas 100 percent of those who used self insurance, specifically used the option of depleting their savings. About 56 percent used informal insurance in the income range of GH¢ 50 - GH¢ 80 whilst 44 percent used self insurance. About 83 percent of households in the income range of GH¢ 20 - GH¢ 50 used self insurance relative to 17 percent who used informal insurance method.

Table 5.10: Educational Level of Sampled Households by Coping Mechanisms Used

Education	Coping Strategies							Selling Household Assets
	Informal Insurance	Help From Associations	Help From Relatives & Friend	Loan from Banks	No Coping Method	Self Insurance	Depleting Savings	
No Education	0	0	0	0	0	100	100	0
Primary School	40	60	0	40	0	60	40	60
Junior High School	27	67	7	26	0	73	93	7
Senior High School	31	58	5	37	2	67	100	0
Tertiary Institution	31	54	8	38	0	69	100	0

Source: Author's own computation from data.

Table 5.10 shows that all sampled households with no education used self insurance coping method and specifically, all of them depleted their savings as a measure against risks they encountered whereas 40 percent of those who had only primary education used informal insurance strategy. Similarly, 60 percent of sampled households with primary education used self

insurance method with 40 percent of them specifically using the option of depleting savings whilst the remaining 60 percent liquidated their valuable assets. It can be observed that most households used the strategy of self insurance irrespective of their educational levels and specifically, vast majority of them used the option of depleting savings. One possible explanation for this phenomenon may be due to the effectiveness of self insurance as an interim measure and also it may entail little decision making cost in terms of time and effort. The table below links marital status of sampled households to the various coping options they employed in order to determine the effectiveness of coping strategy.

Table 5.11: Marital Status of Sampled Households by Coping Strategies Used In Percentages

Marital Status	Coping Strategies							Selling Household Assets
	Informal Insurance	Help From Associations	Help From Relatives & Friend	Loan from Banks	No Coping Method	Self Insurance	Depleting Savings	
Divorced	20	80	0	20	0	80	60	40
Married	31	58	5	37	3	66	98	2
Separated	20	60	20	20	0	80	100	0
Single	32	59	5	36	0	68	100	0
Widow/ Widower	33	33	0	67	0	67	100	0

Source: Author's own computation from data.

Table 5.11 shows that most sampled households used self insurance coping mechanism as risk management irrespective of their marital status. Significantly, a large proportion of sampled households used the method of depleting savings as specific self insurance coping methods. Again the reason for this may be due to its effectiveness in terms of decision making, time and

efforts. Also fairly significant number of households used informal insurance mechanisms and specifically most of them obtained assistance from associations they belonged. One important thing worth observing from the above table is that 67 percent of sampled households who were widows and widowers obtained loans from the commercial banks as specific informal insurance coping method used. One possible explanation for this is that significantly large proportion of sampled households surveyed were clients of microfinance institutions and for that matter they may have easily assessed loans from the MFIs themselves as well as the commercial banks.

5.5 Awareness and the Need for Formal Micro Insurance

This section presents sampled households awareness and the need for micro insurance as risk management option.

5.5.1 Sampled Households Formal Insurance Awareness, Use and Attitude toward Risk.

Although none of the sampled households pursued formal micro insurance, the survey revealed that 96 percent of them had some awareness or at least some rudimentary familiarity of formal insurance policies. Only 4 percent of them had no knowledge of formal insurance. Specifically about 30 percent acknowledged knowing health insurance and motor¹² insurance. Similarly, 14 percent were familiar with life insurance whereas 24 percent admitted they knew property insurance. However, the survey revealed that sampled households did not make micro insurance policy for various reasons such as high up front premium payment requirements from policy providers, low levels of income and lack of awareness in connection with the existence of micro insurance products in the country, bad experience news generally associated with insurance such

¹² Motor Insurance: The government of Ghana obligates all automobile or transport owners and operators (both private and commercial) to make compulsory motor insurance policy for their vehicles.

as insurance agents and providers always double cross and swindle policy holders, intentionally delay the payment of compensation and benefits due policy holders, frustrate and treat policy holders unfairly. When sampled households were asked to indicate their willingness to make micro insurance policy in the near future, should their perception as regards the purchase of micro insurance products change in the context of all the reasons mentioned above, 36 percent of sampled households indicated their interest whereas the remaining 64 percent of households were still adamant as regards using formal microinsurance as a tool for risk management.

5.5.2 Payment Frequency and Premium Sampled Households were willing to pay

The various amounts of premium sampled households were willing to pay for micro insurance products in the context of their income and cash flow expenditures has been linked to the frequency at which they would like to pay their premium. This is an attempt to determine the willingness of sampled households to make micro insurance decisions on the basis of their financial commitments. Tables 5.12 through 5.14 on the next pages captures sampled household's responses on the frequency and the amount of premium they were interested in paying irrespective of the risk type.

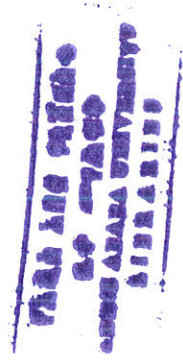
Table 5.12: Households willing to pay a Certain Premium over a range of Periods

Minimum premium	Monthly	Quarterly	Yearly
< GH¢ 5.5	90	0	10
GH¢ 5.5	82	4	14
GH¢ 10	74	4	22
GH¢ 10+	60	10	30

Source: Author's own computation from data.

Table 5.12 shows that significantly high proportion of sampled households, irrespective of the premium level, were interested in paying on monthly basis. Only very few sampled households opted for quarterly premium payments. Specifically about 90 percent of sampled households who opted for a premium level below GH¢ 5.5 Cedis selected monthly payment whilst 10 percent preferred yearly premium payments.

Similarly 82 percent of them prefer to pay GH¢ 5.5 Cedis monthly whereas 4 percent and 14 percent equally prefer quarterly and yearly premium payment of GH¢ 5.5 Cedis respectively. About 74 percent of them prefer to pay a premium of GH¢ 10 Cedis per month whilst 4 percent and 22 percent prefer to pay a premium of GH¢ 10 Cedis on quarterly and yearly basis. Of sampled households who selected the highest premium option of GH¢ 10+, 60 percent prefer monthly payment whilst 10 percent and 30 percent prefer quarterly and yearly payment



respectively. The table below links income level of sampled households to their premium payment frequency.

Table 5.13 Sampled Households Income by Premium Payment Frequency

Income Per Month	Payment Frequency			Total Percentage
	Monthly	Yearly	Quarterly	
GH¢ 150+	77	19	4	100
GH¢ 100-150	72	14	14	100
GH¢ 80-100	94	6	0	100
GH¢ 50-80	83	6	11	100
GH¢ 20-50	83	6	11	100
<GH¢ 20	50	50	0	100

Source: Author's own computation from data.

Table 5.13 illustrates the various income levels of sampled households and the frequency at which they would like to pay their premiums as shown in table 5.12. It was noted that vast majority of sampled households prefer monthly premium payment relative to any other time space. About 77 percent of sampled households in the highest income bracket of GH¢ 150+, prefer monthly payment of premium whereas 19 percent and 4 percent prefer yearly and quarterly premium payment. A comparison of sampled households in the least income category of GH¢ 20 Cedis to those in the highest income range of GH¢ 150+, shows that 50 percent each prefer monthly and yearly premium payment whereas no sampled household was interested in quarterly premium payment in the specified income range. Similarly, of sampled households in the income bracket of GH¢ 100- GH¢ 150, 72 percent prefer monthly payment whereas 14 percent each opted for yearly and quarterly premium payment. Also of sampled households in

the income range of GH¢ 80 - GH¢ 100, 94 percent prefer monthly premium payment whilst 6 percent prefer yearly payment. Lastly, of sampled households in the income category of GH¢ 50 - GH¢ 80 and GH¢ 20 - GH¢ 50, 83 percent and 11 percent each prefer monthly and quarterly premium payments respectively whereas 6 percent and 6 percent prefer yearly premium payment. The table below links the various income levels of sampled households to the various level of premium they were willing to purchase any micro insurance product to indicate a possible reflection of their willingness and interest in making a micro insurance decision.

Table 5.14: Income Level of Households and Premium Levels Interested in Paying

Monthly Income In Ghana Cedis	Premium				Total House holds
	GH¢10+	GH¢10	GH¢5.5	< GH¢ 5.5	
150+	7	7	6	11	31
100-150	1	3	6	4	14
80-100	2	3	5	7	17
50-80	4	6	4	4	18
20-50	4	5	6	3	18
< 20	0	2	0	0	2
Total	18	26	27	29	100

Source: Author's own computation from data.

Table 5.14 shows that out of a total of 100 sampled households, 18 of them at all income levels were willing to pay the highest premium of GH¢ 10+ whereas 26 households at all income levels were willing to pay GH¢ 10. Similarly 27 sampled households were willing to pay a premium of GH¢ 5.5 at all income levels whilst 29 sampled households which constitutes vast majority of them, were willing to pay a premium of below GH¢ 5.5 also at different income levels.

One important conclusion worth making based on the above table is that, sampled households probably want flexibility in the premium that policy providers will likely charge and may possibly invoke the law of demand in making microinsurance decision given that the premium level changes, *ceteris paribus*. Because it can be seen clearly from table 5.14 that the various premium levels sampled households were willing to pay, inversely relates their policy interest and responses.

5.5.3 Insurance types Sampled Households were willing to buy

The table on the next page summarizes the various micro insurance products that sampled households were willing to buy. The study shows that sampled households were interested in four major micro insurance products namely health insurance, life insurance, motor insurance and property insurance.

Table 5.15 Sampled Households Preference for Microinsurance Products by their Sexes

Sex	Preference For Microinsurance Policy				Total Percentage
	Health Insurance	Life Insurance	Motor Insurance	Property Insurance	
Female	33	8	4	9	54
Male	31	5	9	1	46
Total	64	13	13	10	100

Source: Author's own computation from data.

Sampled households preference for microinsurance in the context of this study was captured regardless of differences in their incomes, educational levels and marital status. It is clear from the table that vast majority of households prefer health microinsurance follow by life microinsurance, motor microinsurance and property microinsurance products respectively. Specifically 64 percent of them prefer health microinsurance and this confirms the fact that health risk constitutes the single most important risk facing most sampled households who operate in the informal economy of Ghana. Similarly 13 percent each of households were equally willing to buy life and motor/automobile insurance respectively. Only two percent of households were willing to buy property insurance. One possible explanation for this may be due to the fact that most households resided in rented premises. Again poor households may show no interest in property microinsurance because they own virtually little or no property. It stands to reason

therefore that only very few households who lived in their own houses would be interested in making property microinsurance.

Table 5.16: Educational Level of Households by their Preference for Microinsurance Products

Education	Policy Type				Total Percentage
	Health Insurance	Life Insurance	Motor Insurance	Property Insurance	
No Education	60	0	40	0	100
Primary School	60	0	40	0	100
Junior High School	87	0	13	0	100
Senior High School	68	18	11	3	100
Tertiary Institution	69	15	16	0	100

Source: Author's own computation from data

Most sampled households were interested in health insurance irrespective of their educational background. Specifically, 60 percent of sampled households who had no education were interested in health microinsurance and 60 percent of those who had primary education were also interested in health insurance. Again 87 percent and 68 percent of sampled households who had junior and senior high school education respectively were interested in health insurance whereas 69 percent of sampled households who had tertiary education also showed interest in health insurance.



Similarly, 18 percent and 15 percent of sampled households who had senior high school and tertiary education respectively were interested in life microinsurance whilst quite a significant percentage of sampled households indicated their willingness in buying motor insurance relative to property insurance. Only 3 percent of sampled households with senior high school education were interested in property microinsurance. Again the reason could be due to the fact that most of them resided in rented apartments. The table below links income level of sampled households to the various microinsurance products they were willing to buy. One important explanation for this linkage is that income is one of the essential explanatory variables used in this study.

Table 5.17: Income Level of Households by their Preference for Microinsurance Policy

Monthly Income in Ghana Cedis	Policy Type				Total Percentage
	Health Insurance	Life Insurance	Motor Insurance	Property Insurance	
150+	65	6	26	3	100
100-150	71	8	21	0	100
80-100	82	18	0	0	100
50-80	78	11	5	6	100
20-50	67	28	5	0	100
<20	100	0	0	0	100

Source: Author's own computation from data

Table 5.17 shows that at various sampled households income levels, most of them were interested in health insurance followed by life and motor insurance respectively. Only 3 percent of sampled households in the income category of 150+ Ghana Cedis showed interest in property insurance. Again the obvious reason is that most households were resident in rented apartments. The table below shows the marital status of sampled households linked to the various micro

insurance policies that they were interested in buying. One reason worth advancing for this linkage is that, it is possible marital issues could influence household's decision making process as regards micro insurance products.

Table 5.18: Marital Status of Households by Preference for Microinsurance Policy

Marital Status	Policy Type				Total Percentage
	Health Insurance	Life Insurance	Motor Insurance	Property Insurance	
Divorced	80	20	0	0	100
Married	65	15	15	5	100
Separated	80	0	20	0	100
Single	86	9	5	0	100
Widow/Widower	67	0	33	0	100

Source: Author's own computation from data.

Most sampled households were interested in health microinsurance followed by motor insurance and life microinsurance. One important reason why significant percentage of sampled households were interested in motor insurance relative to life and property insurance could be due to the fact that the state requires all transport owners and operators to undertake compulsory motor insurance for their vehicles.

5.6 Econometric Analysis of the Determinants of Sampled Households Need for Formal Microinsurance

This section presents a thorough empirical discussion of various factors that influence households need for formal micro insurance policy.

5.7 Interpretation of Probit Regression Results For Microinsurance

Table 5.19: Probit Regression Results for Micro Insurance

	Coefficient	Standard Error	t-ratios	P> t	dy/dx
Preformicro					
Children	0.045	0.123	0.172	0.714	0.142
Age	-0.25	0.11	1.38	0.08	-0.012
Education	0.860	0.44	-1.95	0.050*	0.199
Residence	0.750	0.38	1.97	0.050*	0.258
Business	2.130	0.94	2.27	0.023*	0.563
Finance	-0.320	0.72	-0.54	0.658	-0.090
Health	0.727	0.41	1.77	0.076*	0.463
Property	0.75	0.58	1.27	0.032*	0.204
Death	1.358	0.42	3.23	0.001*	0.376
Coping1	-0.270	0.40	-0.68	0.504	-0.084
Coping2	-1.630	1.20	-1.36	0.172	-0.259
Selfinsure	-0.657	0.54	-1.22	0.022*	-0.146
Informallns	-0.390	0.66	-0.59	0.044*	-0.037
Remittances	1.86	0.64	2.91	0.004*	0.409
Other sources	1.719	0.76	2.26	0.024*	0.355
Income	-0.116	0.51	-0.23	0.220	0.057
Cons	-1.52	1.40	-1.09	0.274	

Source: Author's Own Estimation from Data

All variables significant at an α -level of 5% are indicated by asterisk.

With reference to section 4.3.2 of chapter four, where the functional form and the hypothetical variables were explained, the results of the estimated model as indicated in table 5.19 is presented as follows:

$$y = -1.52 - 0.12 x_1 + 1.86 x_2 + 1.72 x_3 + 2.13 x_4 + 0.86 x_5 + 0.73 x_6 + 0.75 x_7 - 0.39 x_8$$

The survey revealed that out of 100 sampled households, only 36 percent indicated their willingness in making micro insurance policy whilst the remaining 64 percent of households were reluctant to buy micro insurance products. The study showed that vast majority of households employed informal insurance (x_8) coping mechanisms to deal with risks they faced. The regression results showed that at a significant level of 5 percent, the coefficient of informal insurance (x_8) given by -0.39, significantly explains the dependent variable.

The negative sign of this variable on the dependent variable means that the more households are bent on using informal insurance mechanisms as risk management options, the less attractive micro insurance option becomes to them. The marginal coefficient of informal insurance is -0.037. This means that if there is a unit increase in the use of informal insurance as risk coping mechanism, the probability of the need for microinsurance is expected to decrease by 0.037. Households equally advanced several reasons for their inability to pursue micro insurance. One such reason was low level of education and lack of awareness about the existence of micro insurance products. From the regression results on microinsurance, the coefficient of education (x_5) is 0.86 and this was significant at level 5 percent. With a positive coefficient of education, it means that households with low level of education are less likely to pursue micro insurance policy relative to households with high level of education. The reason being that, it is possible

households with high level of education may become more aware and interested in buying microinsurance products and may equally have realised the potential value of microinsurance as an instrument for risk management. Additionally, the marginal coefficient of education is 0.199. The implication of this result is that, if the level of education should increase by one unit, the need for microinsurance is expected to increase by 0.199.

Another reason given by households for not pursuing formal micro insurance was low level of income. The data captured income as income from main economic activity (x_1) and income from other sources such as remittances (x_2) and income from the sale of ice water and assorted items (x_3). These three variables have been disaggregated because the data obtained did not specify numerical values of incomes received from remittances as well as the sale of ice water and assorted items by sampled households. However, at a significant level of 5 percent, the regression results showed that income from main economic activity (x_1) was insignificant in explaining the need for micro insurance even though the coefficient was negative.

Additionally, the marginal coefficient of income from main economic activity (x_1) is 0.057 and this means given that there is a unit increase in income, the need for micro insurance is expected to increase by 0.057. The coefficients of other sources of income delineated into remittances (x_2) and the sale of ice water and assorted items depicted by (x_3) are 1.86 and 1.72 respectively. These two variables were also significant at level 5 percent in explaining the need for micro insurance. This means that sampled households with other sources of income such as remittances and the sale of ice water and other assorted items are most likely to buy micro insurance products.

Additionally, the coefficients of these two variables were positive in sign and this means that given an increase in income resulting from remittances and the sale of ice water and other assorted items, it must impact on the need for micro insurance positively. Also, the marginal coefficients of the these two variables given as 0.409 and 0.355 indicate that with a unit increase respectively in these two variables, the need for micro insurance is expected to increase by 40.9 percent and 35.5 percentage points respectively.

Lastly, the study also investigated the main types of risk facing sampled households and this was proxied by health risk (x_6) and property risk (x_7). The coefficients of these two variables were obtained as 0.73 and 0.75 respectively. At a significant level of 5 percent, the regression results showed that health and property risks did explain sampled households preference for microinsurance. The positive direction of the above two variables means that, given the frequency at which sampled households faced these risks, the need for microinsurance must increase. Additionally, the marginal coefficients of health and property risks were 0.463 and 0.204 respectively. The implications of these coefficients are that, given one unit increase in each variable, the need for microinsurance is expected to increase by 46.3 and 20.4 percentage points respectively.



CHAPTER SIX

SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

This chapter summarizes the major findings of the study, provides conclusions and suggests areas of policy interventions.

6.1 Summary and Conclusions

The study has examined the preference for micro insurance services as a hedge against vulnerability to risks faced by sampled low-income households operating small scale businesses in the informal economy of Ghana. The study used a sample of 100 households from the data base of ELAC in Accra, on a survey conducted on households from selected microfinance institutions located within the Greater Accra Region of the Republic of Ghana. The data was mainly qualitative in nature and therefore rigorous quantitative analysis was impossible. However, the study used a regression procedure to explain the direction and effects of the relevant choice variables. The regression was done using STATA 9.0 programme and the descriptive analysis carried out by applying SPSS and Excel soft wares.

The study measured the preference for micro insurance products as a function of major risk types faced by sampled households namely health risk, death risk, property risk and business risk. Also, factors like available coping mechanisms such as self insurance, informal insurance and formal insurance, income and poverty levels as well as the level of education of households were considered. The study found out that households faced numerous risks of which the most common included health, business and death risks. Sampled households mostly employed coping mechanisms such as self insurance and informal insurance policies to reduce their level of

exposure to risks. The dominant coping mechanism used by sampled households was self insurance which includes strategies such as borrowing money, depleting savings and liquidating valuable assets. Specifically, the study revealed that 60 percent of sampled households dealt with risk and economic hardship by means of self insurance. About 38 percent of sampled households used informal coping strategies such as getting helps from associations they belong and relying on assistance from families and friends to deal with risk, whereas no household dealt with risk through formal insurance as a measure for risk management. This finding is in line with Morduch (1999) who stated that most low-income households in developing economies dealt with economic hardships and risks through informal and self insurance planning methods, other than publicly organised and market-priced insurance programmes. Households for instance, may usually deplete their savings, liquidate valuable physical assets, rely on reciprocal gift exchanges, accumulate valuable assets such cows, goats and gold or pursue alternative income-generating activities.

One important revelation of the study is that sampled households were very much aware of their vulnerability to risks and some were willing to pay to safeguard against these risks. The only problem is that currently the risk managing behaviour of sampled households involves ex-post coping mechanisms against adverse shocks and not formal advance payment as an ex-ante activity due mainly to financial inadequacy and also lack of awareness as regards the existence of microinsurance products in the country. Although self and informal insurance coping strategies were the most common risk-management options widely used by the sampled households, their effectiveness is limited because they generally cover only a small portion of the losses involved.

The study discovered that out of a total of 100 sampled households, only 36 of them showed interest in microinsurance products. The remaining 64 households were reluctant in making microinsurance policy. Reasons given by sampled households as regards their reluctance to hold various microinsurance policies are: lack of transparency with insurance contracts, mistrust on the part of insurance sales agents, lack of education and income constraint related issues as well as high upfront premium payments and bureaucratic procedures involved in getting compensations and benefits from formal insurance service providers.

It was also noted that most sampled households especially females, prefer health micro insurance policy. Specifically 33 percent of female sampled households and 31 percent of males prefer health microinsurance products. Altogether, 64 percent of sampled households prefer health microinsurance services. About 13 percent of sampled households prefer life microinsurance whereas 13 percent and 10 percent prefer motor/automobile and property microinsurance respectively. From the regression analysis, it was noted that the level of education of sampled households positively relates their preference for microinsurance products. This means that low educated sampled households are less likely to be very much abreast with the existence of microinsurance products and therefore show interest in microinsurance policy and vice versa. Similarly, the coefficient of informal insurance as the most dominant coping measure used by sampled households in managing risk was negatively related to their preference for microinsurance products. This means that the more households are bent on using informal insurance coping mechanisms, the smaller the probability that they will use microinsurance as risk management option. It also came to light from the regression results that health and property risks positively explained sampled households preference for microinsurance products. This

means that given the degree of occurrence and the extent of damages caused by these risks, household's preference for microinsurance must increase. Lastly, although sampled households with low income levels are likely to face higher risks relative to those with higher income backgrounds, the regression results showed an inverse relation between the level of sampled household's income and their preference for microinsurance products (but insignificant). However, the coefficients of remittances and income from the sale of ice water and assorted items were positive and significantly explained sampled households preference for microinsurance products. This means that the more sampled households obtain extra income from these two sources, the more they are likely to be in the position to buy microinsurance products.



6.2 Policy Recommendations and Implications

The study outlines the following policy recommendations regarding the need for micro insurance products as risk management measure. It was revealed from the data obtained that, vast majority of households dealt with risk through self and informal insurance strategies rather than using formal insurance or micro insurance mechanisms. The study therefore essentially recommends general awareness creation to link households to the existence of micro insurance services and products of financial institutions in the country. The National Insurance Commission of Ghana, as the sole body for supervising and regulating insurance issues in the country, should encourage its members to intensify their awareness programmes and educate households on their various micro insurance products and the benefits of formal micro insurance products as a major way forward in managing risks via radio and television advertisements.

Additionally, the National Insurance Commission in collaboration with the government of Ghana should sensitize insurance companies to organize workshops and seminars targeted particularly at households as a forum and a platform to clear the bad experience notion and the deep seated belief the general public holds that insurance companies always double-cross and swindle policy holders. The government of Ghana is advised to create a monitoring unit through the National Insurance Commission to deal with complaints to be forwarded by policy holders as regards difficulties and undue delays in claiming compensation and benefits by individual policy holders from insurance providers in the country. This way, individual policy holders and the general public alike would become aware that insurance providers are accountable to some powers somewhere and that there is an over all body that monitors and listens to individual complaints in connection with insurance issues.

Again, since the government has an advantage in monitoring public goods, the implementation of the above recommendation as a policy directive enables the government to achieve its campaign against poverty reduction in the country. The study showed that most sampled households faced health risk and therefore it is recommended that the government of Ghana expands and intensifies its campaign programmes on the National Health Insurance Scheme programme (NHIS) to cover more households and also ensure its smooth delivery to households. It is also suggested that the government revises its current premium collection method to serve as precedence for other insurance and microinsurance providers in the country to imitate because the study showed that households want flexibility in the premium policy providers charge. The regression results indicated an inverse relationship between sampled household's preference for microinsurance and informal insurance mechanisms. The study therefore subscribes strongly to

the view that welfare groups and informal associations provide one paramount rationale for the reluctance of households to pursue formal insurance and micro insurance policies. The reason stems from the fact that welfare groups provide financial assistance and compensations to households whenever they are confronted with risks such as death of a major wage earner, loss of property through theft or fire out breaks at both residence and business premises etc. It is therefore essentially recommended that the government of Ghana conducts a research into the activities of welfare groups and informal associations that influence households preference for microinsurance products and if possible such groups and associations be formally registered and their activities expanded to the betterment of households working in the informal economy.

Lastly, the government of Ghana is challenged to re-introduce the adult literacy education through out the country and incorporate into the syllabus risk managing financial services which enable households become abreast with microinsurance as a tool for risk management. Specifically it is recommended that the government initiates radio and television based programmes on microinsurance to enable households appreciate the potential value of microinsurance as an instrument for risk management.

REFERENCES

- Acquah, Paul A. (2003). Banking and Financial Services Symposium, London, June 25th 2003. Commonwealth Business Council.
- Ahuja, R.; Jütting, J., Guha-Khasnobis, 2004. "Are the poor too poor to demand health insurance?" in *Journal of Microfinance* (Provo, UT), Vol. 6, No. 1.
- Alderman Harold and Paxson Christina. (1996), "Do the Poor Insure? Studies in the Economics of Aging, Chicago: University of Chicago Press, pp. 331-357.
- Alderman, Harold, and Christina Paxson. 1994. "Do the Poor Insure? A Synthesis of the *World: Literature on Risk Sharing Institutions in Developing Countries.*" *Economics in a Changing Proceedings of the Tenth World Congress of the International Economics Association, Moscow. Vol 4. London: Macmillan.*
- Ali, Mortuza Md. Kazi (2000). 'Provision of Microinsurance for Microfinance Clients'. *Microfinance Newsletter Issue No 7 pg 2-5 January-March 2000.*
- Besley, Timothy, [1995], "Property Rights and Investment Incentives: Theory and Evidence From Ghana," *Journal of Political Economy*, 103(5), 903-37.
- Besley, T. (1995). *Savings, Credit, and Insurance*. In: Behrmann, J.; Srinivasan, T.N. eds.): *Handbook of Development Economics*, Vol. 3, North-Holland: Amsterdam, pp. 2123-2207.
- Binswanger, Rosenzweig, M. and K. I. Wolpin. 1993. "Credit market constraints, consumption Smoothing, and the accumulation of durable production assets in low-income Countries: investment in bullocks in India." *Journal of Political Economy* 101(2):
- Boeh-Ocansey, O. (2005). *Private Sector Development in Ghana: The Challenges and The Lessons*. Private Enterprise Foundation, Ghana.

- Brown, W. and C. Churchill. (2000). "Insurance provision to low-income households: Part 2: initial lessons from micro-insurance experiments for the poor." Microenterprise Best Practices Project. Bethesda, MD: DAI/USAID, www.mip.org.
- Brown, W. and C. Churchill. (1999). "Providing insurance to low-income households: Part 1: A Primer on Insurance Principles and Products." Microenterprise Best Practices Project. Bethesda, MD: DAI/USAID, www.mip.org
- Brown, W. and McCord, M. J. (2000). 'Virtual Conference on Micro insurance, Oct 9th – Oct 27th, 2000'. USAID Microenterprise Best Practices (MBP) Project, Development Alternatives / USAID 2000.
- Brown, W., C. Green and G. Lindquist. 2000. "A Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products." Microenterprise Best Practices Project. Bethesda, MD: DAI/USAID, www.mip.org.
- Carney, D. (1999). 'Approaches to Sustainable Livelihood'. *ODI Poverty Briefing* No:2 January 1999.
- Care Planet Finance 2002: The Role of Microfinance in African Development and the Commission for Africa: Available at: www.planetfinance.org
- Centre for MicroFinance (CMF). 2005. Fifth Semi-Annual Report on Pilot Testing of Microinsurance Services to Poor Clients of MFIs in Nepal (Kathmandu), Feb
- Churchill. (2002). Potential roles for donors in the development and Promotion of Microinsurance: Social Finance Programme, International Labour Organisation
- Churchill, C. (2003). "Trying to Understand the Demand for Microinsurance," *Journal of International Development* 14, pp. 381-387.
- Churchill, Craig. 2005. "What is Microinsurance? Challenges of Extending Insurance to

- The Low-income Market." CGAP Working Group on Microinsurance. Munich.
- Cochrane, J. H., "A Simple Test of Consumption Insurance," *J. Polit. Econ.*, 99(5): 957-976, 1991.
- Cohen, Monique et al, "Market Research for Financial Education," Financial Education For the Poor Project Working Paper No. 2 (Washington, DC: Microfinance Opportunities, 2006).
- Cohen, Monique, and Jennifer Sebstad, "Reducing Vulnerability: The Demand for Microinsurance," *Journal for International Development*, vol. 17 issue 3 (March 2005), pp. 397-474.
- Cohen, Monique, Michael McCord and Jennefer Sebstad, "Reducing Vulnerability: Demand for and Supply of Microinsurance in East Africa," (Nairobi: MicroSave, December 2003).
- Cohen, Monique and Jennefer Sebstad. 2003. Reducing Vulnerability: Demand for and Supply of Microinsurance in East Africa. Cohen, Monique, Michael J. McCord.
- Cohen, Monique and Sebstad, Jennefer: 2003. "How Poor People Manage Risk", Microinsurance Centre Briefing Note #2.
- Cox, Donald, and Emmanuel Jimenez. 1991. "Achieving Social Objectives through Private Transfers: A Review." *World Bank Research Observer* 5(2):205-18.
- Cox, Donald, and Emmanuel Jimenez. 1995. "Private Transfers and the Effectiveness of Public Income Redistribution in the Philippines. "In Dominique van de Walle and Kimberly Nead, eds., *Public Spending and the Poor: Theory and Evidence*. Baltimore: Johns Hopkins University Press.
- Cox, Donald, and Emmanuel Jimenez. 1998. "Risk-Sharing and Private Transfers: What about Urban Households?" *Economic Development and Cultural Change*



46(3):621-39.

- Cox, Donald, and Emmanuel Jimenez. 1997. "Coping with Apartheid: Inter-Household Transfers over the Life-Cycle in South Africa." Working paper. Boston College and World Bank. Processed.
- Cox, D. and E. Jimenez (1991), "Motives for Private Income Transfers over the Life-Cycle: An Analytical Framework and Evidence for Peru.
- Credit Union Association of Ghana (CUA), 22nd October, 2005.
- Creese, A. and Bennett, S. (1997). 'Rural Risk-Sharing Strategies, Innovations in Health Care Financing'. World Bank discussion paper No. 365
- Czukas, Katherine, Marcel Fafchamps, and Christopher Udry. 1998. "Drought and Saving in West Africa: Are Livestock a Buffer Stock?" *Journal of Development Economics* 55(2):273—305.
- Daily Graphic Ghana, Thursday, July 20, 2006.
- Deaton, A. (1997). Counting the World's Poor: Problems and Possible Solutions. (Mimeo)
- Dercon, S. (1992) "The Role of Assets in Coping with Household Income Fluctuations: Some Simulation Results", manuscript, Centre for the Study of African Economies, University of Oxford.
- Enarsson, Sven and Kjell Wiren. 2005. "MUSCO Malawi Union of Savings and Credit Cooperatives." CGAP Working Group on Microinsurance. Good and Bad Practices. Case Study No. 8. March.
- Fafchamps Marcel and Lund Susan (1997): "Risk Sharing Networks in Rural Philippines" (August 1997). 97-014. Available at SSRN: <http://ssrn.com>.
- Finca International Web Site. (2005). Microfinance and Poverty- www.mcenterprises.org

- Ford Foundation (2000). 'Roundtable on Microinsurance Services in the Informal Economy: The Role of Microfinance Institutions'. Hosted by International 2000. Coalition on Women and Credit and Special Unit for Microfinance of UNCDF, 21 July: <http://www.uncdf.org/sum/reports/papers/roundtablereport.pdf> , 28 June 2001.
- Foster, Andrew, and Mark Rosenzweig. 1999. "Imperfect Commitment, Altruism, and the Family: Evidence from Transfer Behavior in Low-Income Areas." University of Pennsylvania, Department of Economics, Philadelphia. Processed.
- Galland, B. 2005a. "Contribution des ménages a faibles revenus pour la micro assurance Maladie" (CIDR). Draft.
- Gertler, Paul J. and Gruber Jonathan May 1997 NBER Working Paper No. W6035. "Insuring Consumption against Illness" (May 1997). The Progress and Development of Yasiru Mutual Provident Society.
- Glewwe, P. & Hall, G., 1995 P.2. "Who is Most Vulnerable to Macroeconomic Shocks? Hypotheses Tests Using Panel Data from Peru," Papers 117, World Bank Research.
- Guha-Khasnobis, B. and R. Ahuja. (2004). Extending Formal Insurance to the Informal Economy Workers in India.
- Haddad Lawrence and Zeller, Manfred (1996): How Can Safety Nets Do More With Less? General Issues with Some Evidence from Southern Africa.
- Hassan Zaman, 1999 "Microfinance, Risk Management, and Poverty", Synthesis Report Based on Field Studies Conducted by Ron Chua, Paul Mosley, Graham Wright, and, USAID, Washington, D.C.,
- Hatch, John and Laura Frederick (1998). Poverty Assessment by Microfinance Institutions: A

- Review of Current Practice. Microenterprise Best Practices Report. USAID/ Development Alternatives, Inc. 1998.
- Herrera, Carlos and Bernardo Miranda 2004, "COLUMNNA Guatemala: CGAP Working Group On Microinsurance, Good and Bad Practices, Case Study No. 5," (Washington, DC: CGAP, December 2004).
- Hoddinott John and Kinsey Bill (1998): Ex ante actions and ex post public responses to drought shocks: Evidence and simulations from Zimbabwe.
- Holzmann, R. and S. Jorgensen. (2000). Social Risk Management: A new conceptual Framework for social protection, and beyond. Social Protection Discussion Paper No.0006. the World Bank, Washington, D.C.
- ILO, 2006b. Changing the paradigm: Social security as global social investment (Geneva, ILO Social Security Department).
- International Labour Office (ILO). 2000. World Labour Report: Income security and social Protection in a changing world (Geneva).
- ILO/JASPA (1989): International Labour Organization Jobs and Skills Programme for Africa; Quoted in Galarraga and Gogue, 1997 and Boateng, 1998).
- Jacoby and Skoufias (1997). Risk and Insurance: Evidence from ICRISAT villages in South India was taken out of school in response to adverse income shocks to work.
- Jacoby, Hanan, and Emmanuel Skoufias. 1997. "Risk, Financial Markets, and Human Capital in a Developing Country." *Review of Economic Studies* 64(3):311-36.
- Jacoby, H.G. 1994. "Borrowing constraints and progress through school: Evidence from Peru," *Review of Economics and Statistics* 76: 151-160.
- Jalan Jyotsna & Ravallion Martin, 1997. "Are the poor less well-insured? Evidence on

- Vulnerability to income risk in rural China," Policy Research Working.
- Kipnis, Andrew B. 1997. *Producing Guanxi: Sentiment, Se5 and Subculture in a North China Klkzge*. Durham, N.C.: Duke University Press.
- Kochar, Anjini. 1999. "Smoothing Consumption by Smoothing Income: Hours-of-Work Responses to Idiosyncratic Agricultural Shocks in Rural India." *Review of Economics and Statistics* 81(February): 50-61.
- Leftley, Richard. 2002. "An Overview of Insurance Product Design within the Opportunity International Network." Opportunity International, Technical Services Division.
- Lund, Susan, and Marcel Fafchamps. 1997. "Risk-Sharing Networks in Rural Philippines." Stanford University, Department of Economics, Stanford, Calif. Processed.
- Lucas, Robert E. B., and Oded Stark. 1985. "Motivations to Remit: Evidence from Botswana." *Journal of Political Economy* 93(5):901-18.
- Ligon, Ethan, Jonathan Thomas, and Tim Worall. 1997. "Informal Insurance Agricultural Arrangements in Village Economies." University of California, Berkeley, Department of and Resource Economics.
- Lipton, M. Maxwell, S 1992, P.10: Editorial: poverty - are there holes in the consensus? *World Development* 25, 1003-1007.
- Malinowski, Bronislaw. 1922. *Argonauts of the Western Pac\$e*. London: Routledge.
- Mauss, Marcel. 1967. *The GiJZ*. New York: W. W. Norton
- Manje, L. and C. Churchill. (2002). "The Demand for Risk-Managing Financial Services In Low-income Communities: Evidence from Zambia." ILO Social Finance Working Paper No. 31. Geneva: ILO, www.ilo.org/socialfinance.

- Manje, Lemmy. 2005. "Madison Insurance Zambia." CGAP Working Group on Microinsurance. Good and Bad Practices. Case Study No. 10. May.
- Matin, I., D. Hulme and S. Rutherford. 1999. "Financial Services for the Poor and Poorest: Deepening Understanding to Improve Provision." Finance and Development Research, Working Paper No. 9. IDPM, University of Manchester, <http://idpm.man.ac.uk>
- Matul, Michal. 2006. Demand for Microinsurance in Georgia: Qualitative Study Results. Microfinance Centre for Central and Eastern Europe and the New Independent States. Mimeo
- Matul, M. (2005). Demand for Microinsurance in Georgia. Quantitative Study Results
- Matul, M. (2004). Understanding Demand for Microinsurance: A crucial step to develop Marke-led products. KfW Microinsurance Symposium 21-22 October 2004, Frankfurt.
- Mauss, M. 1967. *The Gift: Forms and Functions of Exchange in Archaic Societies*, transl. I. Cunnison. New York. Monaghan, J. 1990.
- McCord et al (2005a). "Microinsurance: a case study of an example of the mutual model Of micro insurance provision – UMASIDA." Nairobi: MicroSave-Africa, www.microsave_africa.com.
- McCord, Michael and Sylvia Osinde, "Reducing Vulnerability: The Supply of Health Microinsurance in East Africa – A Synthesis Report," (Nairobi: MicroSave-Africa, July 2003).
- McKinnon, R.I. (1973) *Money and Capital in Economic Development* Washington, D.C. CGAP, February 2005).
- Millinga, A. (2002). "Assessing the demand for microinsurance in Tanzania". Microsave-

Africa, An initiative of Austria/CGAP/DFID/NUDP.

Monique Cohen, Young Pamela, 2007 "Microinsurance: Exploring Ways to Assess Its Impact," Working Paper (Washington, DC: Microfinance Opportunities).

Monique Cohen and Pamela Young, 2007: Using Microinsurance and Financial Education to Protect and Accumulate Assets: Microfinance Opportunities to be published in Spring 2007 in Reducing Global Poverty: The Case for Asset Accumulation. The Brookings Foundation

Morduch, J. (1991). Micro-insurance: the next revolution? *New York University*

Jonathan.Morduch@nyu.edu

Morduch, Jonathan. (1998c). "Between the Market and the State: Can Informal Insurance Patch the Safety Net?" Harvard Institute for International Development, Development Discussion Paper: No. 621. Cambridge, Mass.: HIID, Harvard University.

Morduch and Sicular (1999). Between the State and .the Market: Can Informal Insurance Patch the Safety Net? *The World Bank Research Observer*, Volume 14. No//2 August 1999, pp.187-207

Morduch Jonathan, 1995. "Income Smoothing and Consumption Smoothing," Harvard Institute of Economic Research Working Papers 1727.

Morduch, J. (1993). Poverty, Economic growth and average exit time. *Economics Letters*,. 59 (3), 385-390.

Morduch. (1999). Between the Market and State: Can Informal Insurance Patch the Safety Net? Forthcoming *World Bank Research Observer*.

Morduch, Jonadian, and Terry Sicular. 1999. "Risk and Insurance in Transition: *Market*

- Perspectives from Zouping County, China." In Masahiko Aoki and Yujiro Hayami, eds., *and Community in Economic Development*. New York: Oxford
- Mosley, P. (1999). *Finance against Poverty Volume 1*. Routledge. Initiative of the Sri Lankan NGO SLPSM Rabobank Foundation and Interpolis. Columbo/Utrecht. August – October. Mimeo.kashf
- Moser, C. (1996). *Confronting Crisis A Comparative Study of Household Responses to Poverty and Vulnerability in Four Poor urban Communities*. Environmentally Sustainable Development Studies and Monographs Series No. 8, Washington DC: The World Bank.
- Paulson, Anna. 1995. "Insurance Motives for Migration: Evidence from Thailand." Princeton University, Princeton, N.J. Processed.
- Platteau. J-P. 1997."Mutual Insurance as an Elusive Concept in Traditional Rural Communities". *Journal of Development studies* vol.33 no. 6. London, England.
- Pollner, J. D. (2001). 'Catastrophe Risk Management, Using Alternative Risk Financing and Insurance Pooling Mechanisms'. Finance, Private Sector & Infrastructure Sector Unit, Caribbean Country Department, Latin America and Caribbean Region, World Bank working paper 2560.
- Ravallion, Martin, and Shubham Chaudhuri. 1997. "Risk and Insurance in Village India: Comment." *Econometrica* 65(0):171-84.
- Robinson, Marguerite S., (2002). "The Microfinance Revolution: Sustainable Finance for The Poor".
- Rosenzweig, M. R., "Risk, Implicit Contracts and the Family in Rural Areas of Low-Income Countries," *Econ. J.*, 98: 1148-1170, December 1988.

- Rose, Elaina. 1999. "Consumption Smoothing and Excess Female Mortality in Rural India." *Review of Economics and Statistics* 81 (February):41-49.
- Roth, Jimmy (2001). "Informal Micro Finance Schemes: The Case Of Funeral Insurance In South Africa". Working Paper No. 22. Social Employment Sector. International Labour Office.
- Rutherford S. (1999b). 'The Poor and Their Money'. Finance and Development Research Programme Working Paper Series; Paper No. 3, IDPM, University of Manchester, February 1999.
- Rutherford, S. 2000. *The poor and their money* (New Delhi, Oxford University Press).
- Sebstad, J and M.Cohen. (2002). *Reducing Vulnerability: The Demand for Microinsurance*. MicroSave-Africa, An Initiative of Austria/CGAP/DFID/UNDP
- Sebstad .J, 2005: Policy Arena reducing vulnerability: The demand for Microinsurance- doi.wiley.com, 2 McCord and Osinde, 2003. 398 M. Cohen and J. Sebstad Copyright # 2005 John Wiley & Sons, Ltd. *J. Int. Dev.* 17, 397–474 (2005) Page 3. Risk Management.
- Sebstad, Jennifer, and Monique Cohen: *Access for all, building inclusive financial system* Washington, DC: CGAP, July 2004. Consultative Group to Assist the Poor (CGAP) Microfinance, Risk Management.
- Siegel, P., Alwang, J., & Canagarajah, S. (2001). *Viewing Micro-insurance as a Risk Management Tool*. Social Protection Discussion Paper 0115. The World Bank, Washington D.C.
- Siegel, P.; Alwang, J. Canagarajah, S (2003). *An Asset-based approach to social risk management: A Conceptual framework*. Social Protection Discussion Paper No. 0116. The World Bank, Washington, D.C.

Siegel et al. 2001. "Viewing Microinsurance as a Social Risk Management Instrument." Social Protection Discussion Paper Series. No. 116. Social Protection Unit, Human Development Network. June

Simkhada, Nav Raj, Sushila Guatam, Mira Misha, Ishwori Acharya, and Namarata

Soriano, E.S., C. Lomboy and E.A. Barbin. (2000). "A Field Study of Microinsurance in The Philippines." ILO Social Finance Working Paper No. 30. Geneva: ILO, www.ilo.org/socialfinance.



Srinivas, Szubert Dorota, 2004, "Understanding the Demand for Microinsurance in Albania: Results of Exploratory Qualitative Study," Mimeo (Warsaw: Microfinance Centre for Central and Eastern Europe and the Newly Independent States, 2004).

Tounitsky, V. 2006. "The market for microinsurance in Ukraine" (Warsaw, Microfinance Center) draft.

Townsend, R. (1995a). How a few politicians and managers of education find policy success and happiness: Part I. In K. Leithwood (Ed.)

1995a. "Consumption Insurance: An Evaluation of Risk-Bearing Systems in Low-Income Countries." *Journal of Economic Perspectives* 9:83—102.

Townsend, R. M., "Risk and Insurance in Village India," *Econometrica*, 62(3): 539-591, May 1994.

Townsend and Lim, 1998: Health Econs In development: Evidence from the United Kingdom and the United States (CDC 1998).

Townsend, Robert. 1994. "Risk and Insurance in Village India." *Econometrica* 62:539-9

UNDP (2000). Human Development Report 2000. United Nations Development Programme UNDP, Oxford University Press 2000.

WIEGO - Women in Informal Employment: Globalizing and Organizing and Ghana Statistical Service, 24th October, 2004. Available at: <http://www.wiego.org/news/events/ghana/phd>

World Bank (1999b). World Bank Development Report 2000. World Bank publications.

Young, Pamela, "Microinsurance: Exploring Ways to Assess Its Impact," Working Paper (Washington, DC: Microfinance Opportunities, June 2006).

World Bank. 2000. "Zambia Poverty Assessment," vol. 5 (Participatory Poverty Assessment). Washington, D.C.

Women's World Banking Ghana (1995, 2000): Available at: <http://www.wwbghana.com>

Wright, G. 1999. Understanding and Assessing the Demand for Microfinance. MicroSave, Prepared for Expanding Access to Microfinance: Challenges and Actors. Paris.

Wright, Graham A. N., "Necessity as the Mother of Invention: How Poor People Insure Against Risk", MicroSave-Africa, Kampala, December 1999

Zeller, Manfred. (1999) On the Safety Net Role of Micro-finance for Income and Consumption Smoothing. Paper presented at the Conference on Social Protection and Poverty, Poverty and Inequality Advisory Unit, Sustainable Development Department, Inter-American Development Bank. Washington, D.C.

APPENDICES

APPENDIX A: Questionnaire Designed for Households

ENTERPRISE LIFE ASSURANCE COMPANY, ACCRA-HOUSEHOLD SURVEY

SECTION A: PERSONAL RECORD

Serial number.....

Q1. Age

18 – 25 [] 26 – 33 [] 34 – 41 [] 42-47 [] 48-52 [] + 52 []

Q2. Sex

Male [] Female []

Q3. Religious status:

Christian [] Moslem [] Tradition [] No religion [] Other (Specify).....

Q4. Marital Status

Single [] Married [] Separated [] Divorce [] Widow/Widower []

Q5 .How many children do you have?

Q6 .Educational level

No Education [] Primary School [] Junior High School [] Senior High School []
Tertiary Institution []

Q7. Household Status

Head of household [] First son of household [] Wife of household []

Q8.Are you the breadwinner

Yes [] No []

Q9 Residential status

Own House [] Family house [] Rented house []

SECTION B: HOUSEHOLDS Risks and risk management strategies

Q10. What type of business do you run?.....

Q11. For how long have you been running this business?

1-5years [] 5-10years [] 10-15years [] 15-20years [] Other (specify)

Q12.How did you finance your business?

Own savings [] Loan [] Other (specify).....

Q13 .If loan, from which financial institution?.....

Q14.Since when have you been with the above institution?

1994- 1999 [] 1999-2002[] 2002-2005 [] 2005-2006[]

Q15. Have any of the following risks happened to you or other household members in the last 10 years (since 1996 till today)?

Tick where applicable

(a) **HEALTH:** Yes No

(i) Illness (include short- and long-term illness) [] [] []

(ii) Injury/accident of family member leading to permanent disability []

(iii) Hospitalization necessary, surgical/therapeutic treatment needed []

(b) **PROPERTY:** (Theft or Fire)

(i) Fire - business premises and/or productive assets [] (ii) Fire – house/flat and/or household durables [] (iii) Theft of productive assets at business premises []

(iv)Theft of household durables []

(c) **DEATH:** (natural or accidental) [] []

(i) Spouse [] (ii) Children [] (iii) Parents []

(d) **OTHER:** (natural disaster)

(i) Earthquake [] (ii) Flood [] (iii) Drought :(Bad weather conditions affecting agricultural production, Livestock disease, etc) []

BUSINESS: (losses due to a sudden fall of commodity price) [] [] []

Q16. How many times has it happened in your household during the last 3 years (since 2002 till today)?

Once [] Twice [] Thrice [] Four times [] Several times []

Q17. On average, how would you evaluate the financial pressure on you created by the risk taking into account the amount of money needed to cope with the risk and difficulty in getting it?

Very small [] Rather small [] Neither big nor small [] Rather big []

Very big [] Hard to say []

Q18. What was the most important coping mechanism you used immediately after the risk happened last time?

(a) **No coping action** (i.e. neglecting the illness, not re-building the stolen assets, etc.) []

(b) **Formal Insurance** []

(c) **Self insurance**

(i) Depleting savings, []

(ii) Selling household assets including jewellery, household consumer durables, land, transport vehicles, etc. []

(d) **Informal insurance**

(i) Getting help from local associations you belong to []

(ii) Getting free of charge help from relatives/friends not to be repaid) []

(iii) Loan [getting help that we have to give back, i.e. borrowing without interest rate, borrowing with low interest up to 5% per month from relatives/friends, borrowing

from microfinance institutions like Citi savings and loans, women's banking, rural banks, credit unions, etc, borrowing from banks, with higher interest more than 5% per month from relatives/friends/moneylenders (Wealthy private persons),

Pledging household assets in pawnshops (including jewellery, household consumer durables, etc.) []

(e) Defaulting on loans []

(f) Other

SECTION C: Insurance – Awareness, Use and Attitude towards Risk

Q19a. Do you know of or heard about any insurance service(s)?

Yes [] **Go to question 19b** Do not know any insurance services []

Q19b what insurance services do you know (heard about)?

Tick where applicable

Insurance services

(i) Health (including illness and accidents) [] (ii) Disability (death and disability) []

(iii) Property [] (iv) Motor insurance [] (v) Life (Burial and funeral Expenses plan) []

Q20. Have you had a voluntary insurance policy during the last 15 years?

No [] **Go to question 21** Yes (used to have or have now) [] **Go to question 22, 23 and 24** Hard to say [] **Go to question 22**

Q21. Why not?

Q22. What was the type of policy or policies you had in the last 15 years or you have now?

(i) Health (including illness and accidents) []

(ii) Life (including death and disability) []

(iii) Property [] (iv) Motor insurance []



(v) Burial and funeral Expenses plan [] (vi) Travel insurance []

Q23. With which insurance company.....

Q24. Are you satisfied with their terms of contract/services?

No [] **Go to question Q25**

Yes [] **Go to question Q26**

Hard to say [] **Go to question Q26**

Q25. Why?

.....

Q26. To what extent do you trust insurance companies?

I Trust them completely [] I trust them [] I have no reason to trust them or not [] I do not trust them [] I do not trust them at all [] Hard to say []

SECTION D: Income profile of Households, capacity to afford insurance premiums, Willingness to buy insurance and pay premiums.

Q28. From which sources did you receive income in the last 12 months?

Self-employment (registered and unregistered)

(i) Trade activities (other than selling self-produced agriculture goods,) []

(ii) Service provision (this includes renting car, equipment, apartment, etc.) []

Agriculture (only income generating)

(iii) Agriculture production (crops, vegetables, fruits, other and its processing) /

Livestock breeding (including selling meat, milk, and other processing) []

Other sources

(i) Sale of ice water, assorted items etc []

(ii) Money received on a regular basis from somebody living and working abroad or in Ghana []

Q29. What is your average monthly income from your business/economic activity?

Tick where applicable

< GH¢ 20 []

GH¢ 20- GH¢ 50 []

GH¢ 50- GH¢ 80 []

GH¢ 80- GH¢ 100 []

GH¢ 100- GH¢ 150 []

GH¢ 150+ []

Q30. What coping mechanism, would you like to use in future in the advent of an adverse shock/risk to mitigate the stress created by the previously used coping mechanism?

Self insurance []

Informal insurance []

Formal insurance [] **Go to question 31**

Q31. Are you willing to buy any product(s) from an insurance company?

Yes [] **Go to question Q32, 33, &34**

No [] **Go to question Q35**

Q32. What type(s) of insurance product(s) would you be willing to buy?

Health insurance (Illness, short - term and long-term disability, etc) []

Life insurance (Education, funeral, pension, etc) []

Property insurance (fire and theft of business or residence) []

Q33. Is there any price/minimum premium at which you will be willing to pay for your decision if you decide to buy an insurance product?

< GH¢ 5.5 Cedis []

GH¢ 5.5 Cedis []

GH¢ 10 Cedis []

GH¢ 10 Cedis+ []

Q34. At which frequency would you like to pay your premium or want your premium to be collected?

Once in a year []

Every month []

Every week []

Every day []

Quarterly []

Q35. Why are you not interested in buying any insurance products from any insurance provider?

I do not need insurance []

I had bad experience with insurance []

I do not trust insurers []

Coverage []

Price (premium) []

Frequency of premium payment []

OTHER:

Q36. What type(s) of microinsurance product(s) would you be willing to purchase in case your perception about insurance changes in the future?

Health insurance (Illness, short-term and long-term disability, etc) []

Life insurance (Education, funeral, pension, etc) []

Property insurance (Fire and Theft of business or residence)

APPENDIX B: List of Insurance Companies in Accra-Ghana

1. Beacon Insurance Company Limited
2. Benefits Insurance Company Limited
3. CDH Insurance Company Limited
4. Donewell Insurance Company Limited
5. Enterprise Insurance Company Limited
6. Enterprise Life Assurance Company Limited
7. Gemini Life Insurance Company Limited
8. Ghana Life Insurance Company Limited
9. Ghana Union Assurance Company Limited
10. Metropolitan Insurance Company Limited
11. Network Assurance Company Limited
12. Phoenix Insurance Company Limited
13. Provident Insurance Company Limited
14. Quality Insurance Company Limited
15. Star Assurance Company Limited
16. State Insurance Company Limited
17. Unique Insurance Company Limited
18. Vanguard Assurance Company Limited



APPENDIX C: List of Broking Companies in Accra, Ghana

1. Akoto Risk Management
2. All Risks Consultancy Limited

Property insurance (Fire and Theft of business or residence)

APPENDIX B: List of Insurance Companies in Accra-Ghana

1. Beacon Insurance Company Limited
2. Benefits Insurance Company Limited
3. CDH Insurance Company Limited
4. Donewell Insurance Company Limited
5. Enterprise Insurance Company Limited
6. Enterprise Life Assurance Company Limited
7. Gemini Life Insurance Company Limited
8. Ghana Life Insurance Company Limited
9. Ghana Union Assurance Company Limited
10. Metropolitan Insurance Company Limited
11. Network Assurance Company Limited
12. Phoenix Insurance Company Limited
13. Provident Insurance Company Limited
14. Quality Insurance Company Limited
15. Star Assurance Company Limited
16. State Insurance Company Limited
17. Unique Insurance Company Limited
18. Vanguard Assurance Company Limited



APPENDIX C: List of Broking Companies in Accra, Ghana

1. Akoto Risk Management
2. All Risks Consultancy Limited

3. Alliance Insurance Brokers Limited
4. Apex Insurance Brokers
5. Ark Insurance Brokers
6. AV international Limited
7. Claim Limited
8. Crown Insurance Brokers
9. Danniads Limited
10. Double D And M Insurance Brokers
11. Dynamic Insurance Brokers
12. Edward Mensah, Wood and Associates
13. First Anchor Risk Management
14. Global Impact Insurance Brokers (Gh) Limited
15. Gold Insurance Brokers
16. Insurance Consultancies International Limited
17. Insurance Planning Services
18. Inter- Africa Brokers Limited
19. International Consortium Brokers
20. KEK Insurance Brokers
21. Lordship Insurance Brokers
22. Manyo-Plange Associates
23. Marine And General Brokers Limited
24. Maxpal Intermediaries
- 25.



DECLARATION

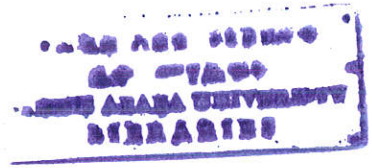
I hereby declare that with the exception of references to other people's work which have been duly acknowledged, this thesis is entirely my original effort and that no part of this publication has been presented for another degree elsewhere.

DECLARED BY:

Name: D.NewLove Mensah


Signature..... 

Date: 23rd, June, 2008

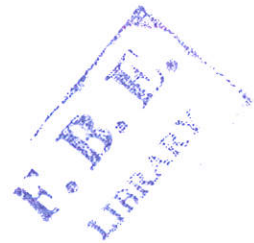


CONFIRMED BY ADVISOR:

Name: Dr. Beyene Tadesse

Signature..... 

Date: 23rd, June, 2008



Place and date of submission: 23rd, June, 2008 /Addis Ababa