# EXPLORING SAVINGS-LINKED MICROINSURANCE FOR ORPHANS AND VULNERABLE CHILDREN

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***About the Technical Guidance Brief Series***

This Technical Guidance Brief series was commissioned by ASPIRES, through FHI 360, to explore the state of the practice of microinsurance, with an emphasis on orphans and vulnerable children (OVC) households.

The *Evidence Base Report on Microinsurance for Orphans and Vulnerable Children* identified a number of knowledge gaps in the literature that have formed the basis for a series of four technical guidance briefs (TGBs), covering:

- The role of microinsurance in the social protection space;
- The role of public-private partnerships (PPPs) and how government subsidies for orphans and vulnerable children can be leveraged in the microinsurance space;
- The existing state of health microinsurance and how health microinsurance can target orphans and vulnerable children; and
- The potential to link microinsurance benefits to education in order to meet a key need of orphans and vulnerable children.

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Savings-linked microinsurance is a little-known insurance product, particularly in Africa, and its use has never been explored in the context of orphans and vulnerable children.[1] This brief aims to provide insight on the function of savings-linked microinsurance and how it can be leveraged to improve education outcomes for orphans and vulnerable children. The brief will lay out product design features and challenges and apply these to the situation of OVC households.

## What is savings-linked microinsurance?

**Microinsurance** is defined as a low-premium insurance policy aimed at low-income households, primarily in developing countries.[2] An assured sum, the death benefit, is paid-out should the insured event occur prior to maturity. Upon the maturity of the policy, the policy holder receives an amount based on the contributions and claims made. As set out in the first technical guidance brief of this series,[3] microinsurance can complement conventional social protection interventions by strengthening OVC households' capacity to mitigate shocks.[4]

A **savings-linked microinsurance** product combines insurance coverage with a savings account into which a portion of the premium is deposited. Depending on the terms, the policy holder receives additional returns on the accumulated savings equal to an agreed amount or the return on (low-risk) assets.[5] The policy holder can thus receive two amounts, the death

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benefit and the investment returns on the savings. Two examples of savings-linked microinsurance products are Max New York Life's *Max Vijay* and Bajaj Allianz's *Sarve Shakti Suraksha*, both in India.[6] *Max Vijay* offers a savings product with contribution flexibility as well as a death benefit that grows with contributions while *Sarve Shakti Suraksha* offers a guaranteed maturity benefit for savings and insurance cover that pays a fixed amount upon death due to natural or accidental causes.

*Key features which determine savings and insurance benefits.* The design of a savings-linked microinsurance product is influenced by (1) the insurers' view of the importance of insurance compared to savings and (2) how they allocate the customer's contributions across both these instruments.[7] There is thus a trade-off between savings and insurance benefits.

While research on savings-linked microinsurance is limited, Rusconi discusses four savings-linked microinsurance schemes and identifies three distinguishing features of client value and product design in his study.[8] These features are described below:

- **Contribution flexibility** determines how often a policy holder can and should pay the premium. The terms range from monthly to a completely flexible approach. From a consumer's point of view, flexibility is preferred if they have an unstable flow of income. However, enforcing regular contributions may benefit the client's commitment to saving. Despite the low minimum requirement, only around 15,000 of *Max Vijay's* 90,000 customers made contributions after their initial payment, suggesting that the benefit of a completely flexible approach over regular contributions may have been overestimated.

- The **minimum contribution level** is a determining factor in how accessible the policy is for low-income individuals. Although comparing different products is complex, it is likely that the significantly higher uptake of Bajaj Allianz[9] (3 million clients) compared to Max New York Life[10] (90,000 clients) is correlated with the minimum contribution (USD 0.22 vs. USD 27 respectively) after the initial contribution.[11]

- The **surrender terms** outline the flexibility with which individuals can fully or partially withdraw from the policy and/or the savings account. Bajaj Allianz has very generous surrender terms and is therefore considered attractive for consumers. Nonetheless, the scheme might face viability challenges if a significant share of policy holders choose to withdraw in the early months or in large quantities at any other time.[12]

*Simplicity and flexibility in product design.* The balance between simplicity and flexibility is a second trade-off that affects the regulatory framework, and potentially the uptake of the product. Simple products are easier to understand and trust while more flexible products allow policy holders to adapt to changing circumstances in their livelihood. SBI Life Insurance[13] in India, for example, believes that customers value simplicity and straightforwardness. Their success with this design is evident in the number of clients they have been able to reach (one million).[14]

## CONNECTING MICROINSURANCE TO EDUCATION

Savings-linked microinsurance is a relatively new product and, as a result, there are only a few researched programs that link savings to spending on education. Two distinct ways of achieving this objective are identified below:

#1: Linking the maturity benefit to an education investment. This approach was used by the discontinued life insurance endowment product TAMADERA of Allianz Life in Indonesia.[15, 16] Although this product was not linked to a separate savings account, the insurer strongly encouraged spending the maturity benefit on educational expenses. TAMADERA can thus be classified as micro-education insurance rather than savings-linked micro-education insurance. The product highlights the possibility of linking the **maturity benefit** to investments in education. This could be further incentivized by enhancing the pay-out if the benefit is spent on education: a common practice among educational savings accounts.[17]

#2: Linking the savings directly to an education investment. Box 1 presents a short case study on *EduSave*, a savings-linked life microinsurance product offered by Opportunity International and MicroEnsure in Ghana, Malawi, and Uganda. The product is an example of how a separate **savings account** can be used to incentivize investments in education. The product allows users to qualify for school fees insurance when they have saved a certain amount.[24] The saved amount corresponds to a no-cost insurance cover of a defined amount. The insurance cover increases with the amount, encouraging further savings.

The product thus addresses two challenges: (1) low savings rates among poor populations, and (2) the inability of children with deceased or ill parents to pay school fees.[25]

**Box 1: EduSave Case Study**

***A savings-linked microinsurance initiative in Ghana, Malawi, and Uganda***

Opportunity International and its subsidiary MicroEnsure, a UK-based microinsurance intermediary, have developed a savings-linked insurance product called *EduSave*, which offers free insurance for school fees coverage. The product has been introduced in Ghana and Malawi and a similar product has been introduced in Uganda. Unlike a regular **savings-linked microinsurance** product, *EduSave* links savings directly to investments in education by guaranteeing funds for school fees in the event of the death or disability of a parent or guardian.

*EduSave's* product design is simple: once the caretaker saves approximately USD 25 in his or her account, the child automatically qualifies for **school fee insurance** to cover one year of schooling.[18] As more money is saved, more insurance is earned up to a maximum of eight years of schooling. The parent is entitled to name one child as a beneficiary per account. Upon the death or permanent disability of the caretaker, a trusted individual of the parent or guardian's choosing will receive the school fee insurance benefit (equivalent to five times the amount saved) to keep the child in school. The only condition is that savers maintain a set **minimum balance** (USD 25 in 2014) in their savings accounts.[19] Since *EduSave* was launched in 2012 and 2013, the number of clients has steadily increased. Currently more than 100,000 clients qualify and benefit from *EduSave* in the three countries.[20] With the average *EduSave* household comprising more than three children, this means that **300,000 children** have education expenses covered for at least one year, should their parents pass away.[21] Although the *EduSave* initiative is still new and its outcomes and sustainability are yet to be evaluated, it is clear that its simplicity has appealed to clients, creating gradual uptake of the product. In Ghana 6,000 new clients enrolled in 2014, saving on average roughly 100 GHS (USD 30)[22] every month, which is more than the required **minimum account balance** of 50 GHS (USD 25).[23]

## How can savings–linked microinsurance benefit orphans and vulnerable children?

As discussed in the *Evidence Base Report*,[26] there are currently no microinsurance programs specifically targeted at orphans and vulnerable children. Nonetheless, microinsurance has the potential to help households affected by HIV/AIDS mitigate many of the shocks associated with the socio-economic burden of the virus.

Health, life, and burial insurance were identified as the most relevant products for OVC households. Health microinsurance covers the direct and continuous costs associated with medical treatment, burial insurance is used to finance funeral expenses, and life insurance secures income for beneficiaries upon the death of the insured. These insurance products do not address all the challenges faced by orphans and vulnerable children. They are, for example, less likely to attend school than children with parents in otherwise similar living conditions[27] despite the positive returns to education in the labor market and its effect on poverty.[28, 29, 30]

To enhance their impact on orphans and vulnerable children, microinsurance products can be leveraged to promote education. Similar to burial insurance, life insurance offers a one-time payment following the occurrence of the adverse event within the policy term. However, unlike burial insurance, the pay-out associated with life insurance is not linked to a pre-defined expense. This opens up opportunities to tie the insurance benefit to educational expenses.

Microinsurance can also be linked to a savings product. The combination of saving and insurance addresses one of the common reservations against using pure insurance products, which is the absence of long term value creation despite regular premium payment if the policy is not used.[31] A combination of a savings product, which can be tied to an education expense, and an insurance product will therefore have higher client value. Moreover, the evidence suggests that low-income households in developing countries are willing and able to save.[32, 33]

## Savings-linked micro-insurance for OVC households

Savings-linked microinsurance has the potential to address one of the key challenges to educational access in poor regions in developing countries: the high costs of education. Finding alternative financing for this investment is particularly important for OVC households where income flows might be reduced and irregular.[34] Moreover, fewer funds are available for long-term investments such as education because of the immediate character of health care needs.[35] This section lists key concerns when offering microinsurance products to OVC households.

#1: Product simplicity is vital. One of the main challenges of providing microinsurance is the low level of financial literacy among potential clients. Orphans and vulnerable children often live in remote rural areas with little access to and familiarity with formal financial services such as microinsurance. Financial literacy should therefore be an active component of product promotion. According to Allianz, the TAMADERA pilot was discontinued partly because of the limited understanding of the product by potential clients and limited effort on the insurer's part to improve the understanding.[36] Furthermore, skills development not only increases the uptake of financial products but also enhances economic self-reliance and household well-being through increased investments in nutrition, education, and health.[37]

#2: Unstable income flows. Simplicity comes at the cost of flexibility which is required to accommodate the irregular and low income flow that OVC households are likely to experience.[38] Although savings requirements will encourage regular savings, the insurer needs to understand the volatility of income flows for HIV infected households. A product that requires contributions of the same amount every month will be difficult for HIV-infected households to adhere to. The product needs to strike a balance between catering to the contextual needs of HIV-infected households and incentivizing regular saving.

#3: Maintain accessibility by means of low minimum contributions, and a low minimum balance. In order to prevent barriers to entry, the first deposit required to open the account should be affordable and the minimum periodic contributions should also be low. Requesting a large deposit to open the microinsurance policy presents a risk of negatively impacting the livelihood of the household in the short term. A minimum contribution that is set too high may be off-putting and can result in the policy being unaffordable in the long-term.

#4: Short-term benefits encourage long-term saving. The key challenge of savings-linked microinsurance is to sustain savings. A savings product for low-income households needs to balance discipline and flexibility through penalties and rewards. For traditional endowment plans the benefits are only received at the end of the plan in the form of the maturity benefit. By linking the savings to school fees insurance, as was done by *EduSave*, the policy holder will experience short-term benefits which will positively affect long-term saving behavior. Moreover, requiring a minimum account balance to qualify for long-term benefits encourages people not to withdraw the money they have saved.

## Conclusion

Savings-linked microinsurance combines the immediate benefits of insurance with the long-term advantages of savings. In addition to helping mitigate shocks, savings-linked microinsurance can also facilitate long-term investments where savings are earmarked for a child's education in the event of death or disability of a parent or guardian. The product is especially relevant for orphans and vulnerable children, as they are less likely to be enrolled in school following the death of a parent or guardian. A product such as *EduSave* provides an example of how a savings-linked microinsurance product with a focus on education can generate value over the long-term.

Insurers looking to offer such products must understand the specific situation of OVC households and design products that keep them motivated to save. Combining high product flexibility with low contributions and short-term benefits provides sustainability challenges and commercial viability challenges for the insurer. The next technical guidance brief explores the possibilities of public-public partnerships in microinsurance for orphans and vulnerable children to address these challenges.

## Notes

Note: Complete bibliographic information is provided only on first citation to the source. Subsequent citations only include a "Name (year)" reference.

[1] The Evidence Base report identified orphans and vulnerable children as children under the age of 18 who have lost one or both parents to HIV/AIDS, and/or have at least one chronically ill parent, and/or live in a household headed by a chronically ill individual (including child-headed households), and/or are themselves living with HIV/AIDS. This definition is narrower than the one provided by PEPFAR (2012), as it includes children who are directly affected by HIV/AIDS but excludes those who live in areas of high HIV prevalence but do not have HIV/AIDS directly in their home environment. For PEPFAR's current definition, please see: PEPFAR (2012). *Guidance for Orphans and Vulnerable Children Programming*. Washington, DC: U.S. President's Emergency Plan for AIDS Relief (PEPFAR). Available at: http://www.pepfar.gov/documents/organization/195702.pdf

[2] Allianz. (2012). Learning Journey: TAMADERA – Savings and Protection for a Prosperous Future. http://www.microinsurancefacility.org/projects/lessons/tamadera-savings-and-protection

[3] Technical guidance brief #1 discusses the potential role of microinsurance in the OVC social protection landscape.

[4] Also see the *Evidence Base Report* for a more in depth discussion on microinsurance and how it complements social protection interventions.

[5] Rusconi, R. (2012a) Savings in Microinsurance: Lessons from India. Paper No. 14. Microinsurance Innovation Facility. http://www.ilo.org/public/english/employment/mifacility/download/mpaper14_india.pdf

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[7] Ibid.

[8] Ibid.

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[11] These numbers are from 2011, the time Rusconi worked on his microinsurance paper and guidance brief.

[12] Rusconi (2012a)

[13] SBI Lift – Grameen Shakti. SBI Life. Accessed March, 2015 from: http://www.sbilife.co.in/sbilife/content/10_2878

[14] Ibid.

[15] Allianz (2012)

[16] TAMADERA Health Micro Insurance. Center for Health Market Innovations. http://healthmarketinnovations.org/program/tamadera-micro-health-insurance

[17] See for example the South African Fundisa Account: http://www.fundisa.org.za/

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[20] Opportunity International (2013b). *Creating Momentum with the World's Entrepreneurs: 2013 Annual Report.* http://opportunity.org/annual-report/2013

[21] Opportunity International 2014.

[22] Numbers obtained from communications with Opportunity International Ghana.

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[24] Financial Solutions for Sending and Keeping All Children in School, 2013.

[25] EduSave. MicroEnsure. http://www.microensure.com/news.asp?id=235

[26] See the *Evidence Base Report* for a full discussion on the vulnerabilities of orphans and vulnerable children and how life, burial and health insurance have the potential to address the most imminent risks associated with these types of insurance. Technical guidance brief #2 specifically discusses health microinsurance.

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