PNG Microinsurance Initiative: Demand Research
Exploring the Microinsurance Market in Papua New Guinea

Port Moresby, Papua New Guinea
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Agenda

1 Background
2 Strategy
3 Market Research
4 Results
5 Next Steps
The background

- Overall low insurance penetration with a focus on the urban areas
- 85% of the workforce active in the informal economy
- Formal insurance specifically for the low income market in PNG is all but non-existent
- Potential large and untapped market
- Partnerships are key to provide the required distribution scale for microinsurance and provide low income-clients with valuable insurance products in an efficient manner
- Little understanding of rural risk mitigation and market demand for formal insurance
- Microinsurance is part of the wider national financial inclusion agenda
Insurance premium as % of GDP: PNG has one of the lowest insurance penetration in the world

Source: Swiss Re Sigma - No. 2/2011: World insurance in 2010
Agenda

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5. Next Steps
Strategy: Working through established milestones

1. Client Need Analysis
   - Qualitative Research on risk exposure and existing risk mitigation mechanisms
   - 3 study sites (Porebada, Kimbe, Kokopo)
   - Carried out by Tebbutt Research, close involvement of partner orgs.

2. Presentation of Findings
   - High level presentation
   - Detailed data will be shared with key partners

3. Partnership Formation
   - Workshop on MI partnerships
   - Best practices
   - Support from other MI-fellow
   - 25.05.

4. Prod. Develop. & Pricing
   - Workshop of product development and pricing
   - Building on research findings
   - 29.05.

5. Pilot Preparation
   - Partnerships formation (MoU) with help of MI-fellow
   - Roles & Responsibilities clearly assigned
   - Implementation of necessary training

MAKING INSURANCE WORK FOR THE POOR
The Strategy. Successfully launching Microinsurance is not a quick-win

Micro-insurance

1. Market Research
2. Evaluation & Preparation
3. Product Design
4. Pilot Test
5. Roll Out

MAKING INSURANCE WORK FOR THE POOR
Building a Business Case for Microinsurance

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The microinsurance market research

How was it done?
• In close cooperation with the strategic partners
  ➢ Nationwide Microbank
  ➢ East New Britain Savings Loan Society
  ➢ Pacific Assurance Group
  ➢ PAC MMI
• Partners were instrumental in selecting study sites and conduct of actual research
• Research carried out by Fiji based firm Tebbutt research
The microinsurance market research

What did it set out to achieve?
4 basic questions:

• What risks do households face?

• How do you currently manage these financial risks?

• How do you feel about risk mitigation, including insurance?

• What kind of opportunities are there for developing and marketing formal microinsurance products?
Market research in a very diverse environment: A strategic selection of study sites to ensure the usability of data
The methodology

- Focus group discussions (FGDs) to develop an understanding of the role and the impact of risks and financial concerns in the daily life of the potential clients.
- 20 Focus Group Discussions conducted.
- Groups took account of regional characteristics.
- 10 participants per FGD.
- Use of questionnaire for income and expenditure data.
- Information collected at household level.

**Participants**

- Porebada
- Kimbe
- Kokopo
The study sites ...

... detailed information is available on each location
Good morning, I am Lawrence and I speak for the people.
What risks do households face?
Overall causes of financial stress

1. Sickness/Hospitalisation
2. Death
3. Education

Results
Primary financial concerns at regional level

**Porebada**
- Death
- Sickness
- Education
- Bride Price
- Natural Disaster

**Kimbe**
- Sickness
- Death
- Education
- Compensation
- Bride Price

**Kokopo**
- Sickness
- Death
- Natural Disaster
- Bride Price
- Land Issue

**Common Themes:**
Sickness/ Hospitalisation and Death are the top 2 ranked risks in all three locations.
How much does it cost them?

Results

Take away: Regional differences. Limited intercomparability

Porebada

Kimbe

Kokopo

- Death
- Sickness
- Education
- Bride Price
- Compensation
- Unexpected Pregnancy
- Natural Disaster
- Land Issue

Take away: Regional differences. Limited intercomparability
How do they currently manage these financial risks?
Porebada: How do you pay for ...

Education, Health and gen. Investments are generally privately funded

Funeral expenses are predominantly funded by the community

Family events include issues such as bride price but also compensation payments. They are mainly community funded

Results
Kimbe: How do you pay for ...

Education, Health and gen. Investments are generally privately funded

Funeral expenses are predominantly funded by the community

Family events include issues such as bride price but also compensation payments. Near match between private and communal funding

- Own money
- Family/Friends
- Money Lender
- Bank
Kokopo: How do you pay for ...

Funeral expenses nearly equally funded from private and communal sources.

Education, Health and gen. Investments are clearly privately funded.

Family events such as bride price but also compensation payments. They are mainly privately funded.

Results:

- Education, Health and gen. Investments are clearly privately funded.
- Funeral expenses nearly equally funded from private and communal sources.
- Family events such as bride price but also compensation payments. They are mainly privately funded.

Bar chart showing funding sources for various categories:
- Own Money
- Family/Friends
- Money Lender
- Bank

Categories include:
- Death
- Education
- Health
- Family Events
- Investments
Overall fortnightly income/expenditure trends indicate excess income. Other explanations?

![Bar chart showing fortnightly HH expenditure/income in PGK for Porebada, Kimbe, and Kokopo.](chart.png)
Where does all the money go?

We asked the people in the Focus Group Discussions:

- What do you do when you have extra cash?

**Additiona Expend.**
- “We buy beer for entertainment”
- Food for the family
- Support family members in need

**Savings**
- For emergencies and investments
- Informal/ Penny Box (esp. women)
- Bank account mainly used for monthly expenditure rather than savings

**Invest**
- Store goods
- Customary Obligations
What role do banks play?

Overall

85% of all participants have a bank account.

Porebada

67% have a bank account

Kimbe

82% have a bank account

Kokopo

100% have a bank account

85% have a bank loan

22% have a bank loan

15% have a bank loan

34% have a bank loan

Note: results not representative of overall population. Selection bias.
The highly banked study population does not necessarily reflect choice and satisfaction of the people

<table>
<thead>
<tr>
<th>Explanatory Factors</th>
<th>Product Functions</th>
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<tbody>
<tr>
<td>• High percentage of banked population due to both particular exogenous and study specific factors.</td>
<td>• Banks are nearly exclusively used for the following for:</td>
</tr>
<tr>
<td>• Majority of participants in Kimbe active in organised agricultural schemes that mandates access to a bank account. No/ limited choice of service provider.</td>
<td>➢ Receiving wage</td>
</tr>
<tr>
<td>• Kokopo participants partly drawn from existing ENBSL customer base.</td>
<td>➢ Keeping money safe</td>
</tr>
<tr>
<td></td>
<td>➢ Transfer of money to family and friends</td>
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</tbody>
</table>
Ask Lawrence: What do you think of banks and their services?

Overall

“Sometimes we are either ashamed or afraid to ask about their services. Will they like us? We are also confused about what questions to ask them.”

“I think these microbanks, if we look through their policies and understand them, they will be able to help us with our problems unlike XXX whom we have approached so many times and they do not help.”

“They discourage people to open an account. There are a lot of people who want to save their money but they cannot open a bank account. It seems the country belongs to the rich and the poor get nothing.”

“For us operating business, banks are the most convenient way because customers expect payment through bank system.”
Ask Lawrence: What do you think of banks and their services?

"I do not trust the bank with my savings - they deduct too many fees and in order for them to look after my money we have to pay them."

"Social obligations such as bride price are like a bank. That’s where my money goes. When my turn comes, people will pay me back with interest."

"If I go, they will not give me a loan. They have stopped all loans to farmers."

“They charge too many fees. I do not want to be robbed by the bank.”
What do you do when there is not enough at hand...?

1. Draw on immediate family and friends
2. Community/ wantoks
3. Informal savings/ “small banks in the house”
4. Sell assets
5. Workplace, Shops

Informal Mechanisms

“It’s normal in our community. When incidents occur we stand in and help. We give for their benefit and they give in return.”

“Sell sago, chicken or kerosene to get money in an emergency.”

“They charge 50% interest. But we have to go with it because at time when we are needy they are there for us. It hurts, but we have no choice.”
How do you feel about risk mitigation, including insurance?
Ask Lawrence:
Traditional system of mutual support

"The whole village helps. It also gives us a sense of strength and pride."

"This solution will never fail in our village because of the strong unity we have."

"I make sure that I save enough money to help and assist me in the future. I am a shy person and feel ashamed to go around asking for money."

"It is like an investment because we should bare in mind that one good turn deserves another. Even when the timing is not good, you are still obliged to help."

"In emergency situations it can be difficult to get money quickly."

"You mentioned failure? We do not see failure in helping one another."
Ask Lawrence: What do you know of formal insurance?

"We are all women living in the village. We don't even have a fair idea of what insurance is."

"We really don't know if it is only for the town people because that is how it is seen at the moment."

"Some of our villagers are working and they use the insurance, but never bother to inform the rest of us. They do not only underestimate what we can do but it is also very rude."

"We want insurance but cannot afford it. If you start something which serves the grass roots, I think it can be a valuable asset to the community."

"A lot of us would rest at ease, knowing that our families are covered, our parents are covered, because there is a lot of money in the village."

Less than 5% of all participant had insurance
# Key Takeaways: Risk Mitigation

## Traditional mutual help
- Traditional forms of risk mitigation and reciprocal help are strong to very strong in all study areas.
- Less prevalent in urban populations, but still highly influential.
- Women take on the main role in all households to plan for emergency situations. Often they also have control over household expenditure.

## Formal Insurance
- General interest in insurance services and overall positive response.
- Very low level of understanding of insurance concept by all participants. A completely new concept to many.
- Perception that insurance is only for the wealthy with regular and with regular income.
What kind of opportunities are there for developing and marketing formal microinsurance products?
"The insurance people need to use simple language and no fancy words where it is hard for us to understand because we don't understand this percentage words and all."

"It takes too long in emergencies. Before the final paperwork is done, the patient could be dead. So before we pay for medical fees, we pay for the funeral coffin."

"If no claim than no return. Its like putting the money in the toilet and flushing it and there it is."

"No one has come up with a scheme to suit the village life."

"There is too much paperwork."

"We think it is too expensive for us and we do not have a clear idea and fair understanding of these products."

"Ask Lawrence: What is holding you back?"
Ask Lawrence: What are your ideas for insurance?

"Insurance should have a local office, so it doesn't just disappear like xxx insurance. As a result of that, most people quit their insurance policy."

"No one has come up with a scheme to suit the village life."

"We want cover for medical emergencies. People struggle to get their money together quickly enough."

Flexible payments for people who do not have regular fortnightly salary

"Maybe all the community ladies here can agree together to form a group so that we can do a fortnightly payment to something like insurance. The normal way we keep our customs should remain, but we will have extra spending cash at the time of need."

No upfront payments for medical cover

"No one has come up with a scheme to suit the village life."

Results
Some key overall take-aways:

<table>
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<tr>
<th>Product</th>
<th>Promotion</th>
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<tbody>
<tr>
<td>• Simple/ understandable</td>
<td>• Radio</td>
</tr>
<tr>
<td>• Quick delivery</td>
<td>• Word of Mouth</td>
</tr>
<tr>
<td>• Sickness/ Hospital</td>
<td>• Church</td>
</tr>
<tr>
<td>• Death</td>
<td>• Newspaper</td>
</tr>
<tr>
<td>• Natural Disaster</td>
<td>• Mobile Phone</td>
</tr>
<tr>
<td>• Group based?</td>
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<table>
<thead>
<tr>
<th>Placement</th>
<th>Price</th>
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<tr>
<td>• Easy access (physical and language)</td>
<td>• Affordable</td>
</tr>
<tr>
<td>• Minimize transaction cost</td>
<td>• Accommodate for irregular cash flow</td>
</tr>
<tr>
<td>• Permanent Presence</td>
<td>• …</td>
</tr>
<tr>
<td>• Building of trust</td>
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Next Steps:

### Products
- Create & price relevant and valuable products based on feedback from demand research

### Partnerships
- Develop an effective, lasting and value adding partnership for microinsurance delivery based on a partner agent model.
### Next Steps:

<table>
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• Best practices  
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• Roles & Responsibilities clearly assigned  
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**Dates:**
- 25.05.
- 29.05.
Thank you!