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Micro Insurance: A Positive Intervention to Household Income and Poverty Reduction? Experience from Marangu Tanzania

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Abstract
This paper builds on logical and systematic understanding of the micro insurance as a coping strategy towards improved household income and poverty reduction in Marangu Tanzania. The study determines the impact of micro insurance on the welfare of poor families in rural settings. Specifically the study aimed at examining risks that low income households face and strategic measures to mitigate them, it also assess demands for micro insurance among low income households and propose appropriate micro insurance products and mechanisms to relieve household poverty. An in-depth analysis used both secondary and primary data gathered through focus group, interviews, observation and documentary review. Data were analyzed and summarized using descriptive statistics aided by SPSS and MS-Excel. Hypothesis was tested by person correlation coefficient and it was discovered that micro-insurance contributes positively to the lives of people in a way of handling their medical expenses though health insurance, accessing balanced diet, build modern houses, pay school fees and able to save. Micro-insurance were also found to be a powerful tool in protecting the poor and their assets from negative external shocks, compensating the effects of covariate shocks (e.g., natural disasters), they address gender-specific vulnerabilities, and freeing up household capital for investment in small enterprises. Micro insurance offers the potential for significant innovation in public-private partnership arrangements, cooperation across voluntary and private sectors, rural and urban services sector development, and the extension of social protection to underserved populations, for years to come. The study wrap up by concluding that Micro-insurance are a powerful addition to the social risk management product toolbox, and one that is flexible enough to be successfully implemented under a variety of institutional forms or frameworks. Nonetheless, careful attention and expertise are vital in designing micro insurance products and programs as they are considerably more complex than savings and credit programs offered by different organizations.
Keywords: Micro Insurance, Household, Poverty reduction, Social Protection, Marangu, Tanzania

1. Motivation

Africa's development and growth agenda has in recent times been threatened by mass and intractable poverty and social deprivation. Indeed, in the developing world, poverty is fast eroding the little economic gains, with a substantial percentage of the populace being poor. It is estimated that people in Sub-Saharan Africa (SSA) and south Asia are among the poorest in the world (World Bank, 1989). In this light, poverty reduction and poverty-focused growth inducing policies have gained interest in developing economies in recent times amongst governments and multilateral agencies. Poverty itself is a complex multifaceted phenomenon; its complex nature is replicated in many attributes; illiteracy, low economic power, and vulnerability to health problems all of which can be summed up as economic, social and political depravation of the individual/society (ibid).

Poverty leads to the inability function (become insignificant) in society and makes an individual more vulnerable to income, weather shocks and almost any slight shock in society. Developing countries face major challenges in connection with providing comprehensive social protection. The vast majority of persons work in the informal economy, so there are no effective mechanisms to reach them systematically. Since they are self-employed or working in informal businesses, there is no formal employer to make contributions to pension, unemployment or healthcare schemes. Yet, the working poor cannot afford the full cost of social security schemes. At the same time, governments in many developing countries do not have the resources to create sufficient infrastructure (e.g. healthcare facilities) nor pay for the recurring expenses associated with social protection schemes (Shilabeer, 2008). Insurance, potentially, is one of the basic institutions which can provide a defense against social and financial exclusion for people whose existing coping strategies are failing. And if people livelihoods are effectively protected, that should encourage investments amongst lower-income groups and raise overall investment and growth rates (Churchill, 2006). Few have access to formal insurance services. Poor people struggle endlessly to improve their lives. It is a slow and gradual process marked by tentative advances. Continually bombarded with financial pressures, low-income households find that shocks can easily erode their hard-earned gains. The result is that their trajectory out of poverty follows a zigzag route: advances reflect times of asset building and income growth; declines are the result of shocks and economic stresses that often push expenditure beyond current income (Churchill, 2006).

Development experts across the world agree that micro insurance is a dominant tool for poverty reduction as it enables poor households to pool their risks and thereby prevent them from falling deeper into the

poverty trap due to unforeseeable shocks. Today, micro insurance promotion is an integral part of programs to strengthen both financial systems development, and health and social security systems (Reigner, *et al,* 2008). Micro-insurance schemes may cover various risks (health, life, etc.); the most frequent micro-insurance products are: life, health, disability, property and crop micro-insurance. Micro-insurance is recognized as a useful tool in economic development. As many low-income people do not have access to adequate risk-management tools, they are vulnerable to fall back into poverty in times of hardship, for example when the breadwinner of the family dies, or when high hospital bills force families to take out loans with high interest rates. Furthermore, micro-insurance makes it possible for people to take more risks. When farmers are insured against a bad harvest (resulting from drought), they are a in a better position to grow crops which give high yields in good years, and bad yields in year of drought. Without the insurance however, they will be inclined to do the opposite; since they have to safeguard a minimal level of income for themselves and their families, crops will be grown which are more drought resistant, but which have a much lower yield in good weather conditions,(Maleika, 2009).

A 2009 study by the International Labor Organization's (ILO) Micro insurance Innovation Facility and the Micro Insurance Centre, in collaboration with a number of other organizations, identified 14.7 million people in 32 African countries (about 2.6% of the population) who are living under US$2 a day and are covered by micro insurance products. It should be noted that 8.2 million (nearly 56%) of this group live in South Africa, where even the poorest have funeral insurance. In Indonesia they are offered group-credit life products with extra payouts to the beneficiary. In Egypt the sold products are similar products as in Indonesia: a death and disability product on top of micro credits which protects people from falling in the poverty trap when the family head dies or being completely invalid (Allianz, GTZ, UNDP, 2006).In Ghana a coherent picture unfolds with regard to the impact of micro insurance which is pronounced strongest in the health care research question on health care utilization, Dror *et al* (2008).

This study is trying to assess the extent to which micro-insurance program and schemes are administered in Tanzania in order contribute on the levels of poverty reduction and improvement of living standards (livelihoods) among the poor households who are vulnerable to social and economic shocks. The study explores the mismatch and gap occurred in relation to micro-insurance; a copying strategy towards household poverty reduction.

One hypothesis was developed and tested in this research study, that is –

H1: Micro insurance contributes significantly to household income and poverty reduction

Null Hypothesis (H0): Micro insurance has no significant contribution to household income and poverty reduction

Alternative Hypothesis (HA): Micro insurance has significantly contribution to household income and poverty reduction

2.0. Theoretical Literature Review and Conceptual Framework

Adjasi and Osei (2007), described "poverty as pronounced deprivation in well-being" where well-being can be measured by an individual's possession of income, health, nutrition, education, assets, housing, and certain rights in a society such as freedom of speech. It is also a lack of opportunities, powerlessness, and vulnerability. A common method used to measure poverty is based on incomes or consumption levels. A person is considered poor if his or her consumption or income level falls below some minimum level necessary to meet basic needs. This minimum level is usually called the "poverty line". What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines which are appropriate to its level of development, societal norms and values. The prevalence of income poverty is still high in Tanzania. According to the Household Budget Survey of 2000/01 the proportion of the population below the national food poverty line is 18.7 Percent and that below the national basic needs poverty line is 35.7 percent. Comparing these results with those of the Household Budget Survey of 1991/92 there has been a small decline in the proportion of the population below the national poverty lines. Basic needs poverty decreased from 38.6 percent to 35.7 percent and food poverty from 21.6 percent to 18.7 percent. Poverty remains overwhelmingly in rural areas where about 87 percent of the poor population lives.

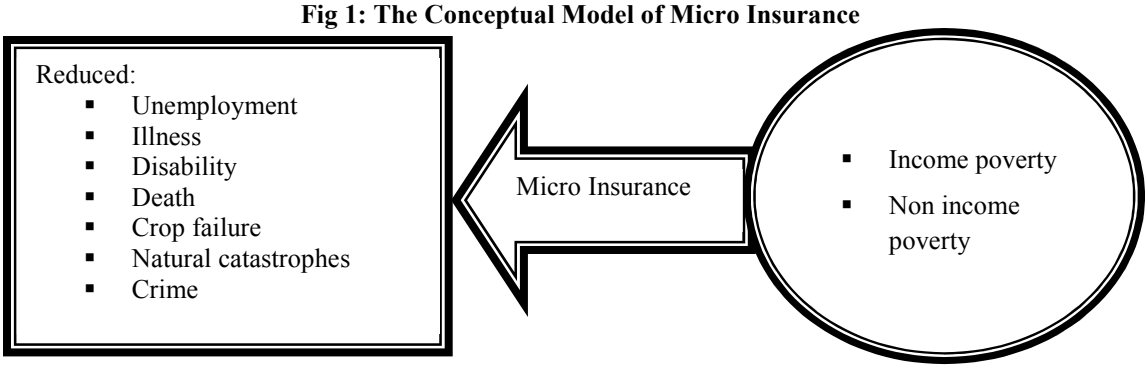
Micro-insurance is the 'protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved' (Churchill, 2006). The central underlying principle pooling of risks, which implies that financial contributions are collected from the members of an insurance scheme, and the loss of one individual is spread among all members in case of risk occurrence. The main difference between micro insurance and regular insurance is that the former is specifically targeted at low-income people, who have limited financial resources and often irregular income flows. Thus, the product design is tailored to meet the needs of these people and financial capabilities.

Hedging means reducing or controlling risk and it is done by taking a position in the futures market that is opposite to the one in the physical market with the objective of reducing or limiting risks associated with price changes (Chakrabarty, 2007). Hedging is a two-step process where a gain or loss in the cash position due to

changes in price levels will be countered by changes in the value of a futures position (ibid). For instance, a coffee farmer can sell coffee futures to protect the value of his crop prior to harvest. If there is a fall in price, the loss in the cash market position will be countered by a gain in futures position.

Conceptually, micro-insurance is a function of income and no-income poverty, which manipulates uninsured risks such as unemployment, illness, disability, deaths, crop failure, crime and natural calamities. The uninsured risks leave poor households vulnerable to serious and catastrophic losses from negative shocks. Welfare costs due to shocks and foregone profitable opportunities have been found to be substantial, contributing to persistent poverty. Micro insurance has the potential to reduce these welfare costs by offering a payout when an insured loss occurs.

Fig 1: The Conceptual Model of Micro Insurance



3.0. Methodological perspectives and Approach

The study was conducted among selected households in some of the villages in Marangu in Moshi Rural District namely Mamba and Marangu Mtoni. The study population consisted of the representative households which were headed by men and women and a sample of 100 households was drawn consisting of 70 males and 30 females randomly selected. Primary data were obtained from the information provided by sample respondents through questionnaires and personal interview, participant observation and documentary review. Secondary data were obtained from the review of different documents, text books, brochures, journals, and papers available from various sources. Data collected were analyzed by using descriptive statistics such as frequencies, percentages and mean in order to summarize and organize data into a meaningful way, and use the sample drawn from the population to draw conclusion about the population after the data have been interpreted to give a clear meaning to the reader. Excel spread sheet computer package was used to summarize data into tables of frequencies and percentages.

4.0. Results and Discussion

The selected sample in this study comprises of hundred households in the study area with their major income earning activity being agriculture. Age groups of those house hold heads ranged from 21 to 64 years old. (35%) of the respondents, were aged between 21 and 34 years, (65%) between 35 and 64 years old. These findings are not supported by Integrated Labor Force Survey (ILFS, 2000 - 01) that youth group concentrated more in formal and informal low- income sectors as compared to the older ones. The possible reasons for youth group to be concentrated may be due to the fact that, most of them after completing their primary education they are not selected to join secondary education and hence find themselves in informal and formal low paying economic activities as their survival strategy. The reason for older women to be concentrated in formal and informal low-income economic activities are household and reproductive roles, together with lack of formal education and training skills which limit them to accesses high paying economic activities. Others being reduced real salaries and employment opportunities for men who had traditionally been the breadwinners (Olomi, 2009), thus these women are forced to subsidize family income expenditure. As for the household income pattern, the study found out that 50% of the interviewed households have low income averaging to fifty thousands (50,000) Tanzania shillings (about 29. 73 US$ BOT,20th October 2014) which is insufficient to meet their daily expenditures, 30% has income averages eighty thousands shillings (80,000), and only 10% of households have the income of an average of 110,000 shillings and their main sources of income being farming, off farm activities and employment as shown in the table 1.

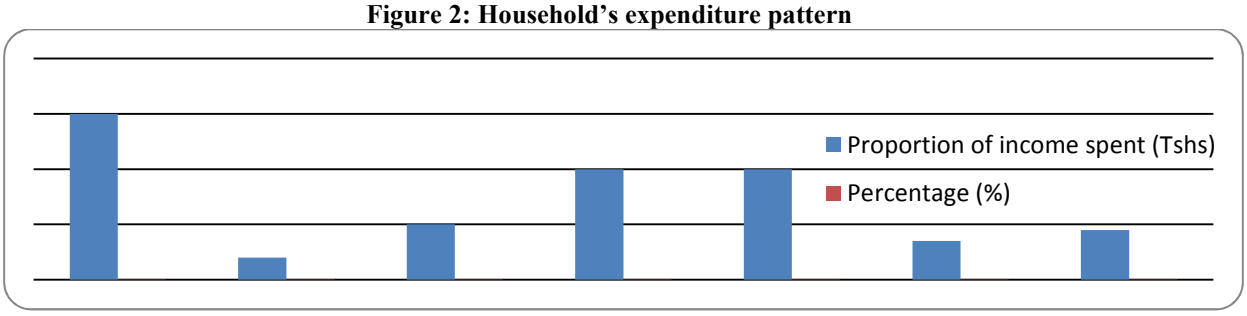
Table 1: Household's income pattern

Size of income (Tshs.)	No of Households	Percentage (%)
40,000-60,000	50	50.00
70,000-90,000	30	30.00
100,000-120,000	10	10.00
130,000-150,000	10	10.00
TOTAL	**100**	**100.00**

4.1. Respondents expenditure pattern

The study findings in figure 2, shows that a large percentage of households income is spent on Food which is 30% of the total income, 20% of income is spent on medical treatments, 10% on clothes, where as 4% on shelter, 20% on school fees, 7% on miscellaneous and few save part of income which is 9%. This means without micro insurance, household's propensity to serve is very minimal as almost all that is earned is consumed, and no future plans.

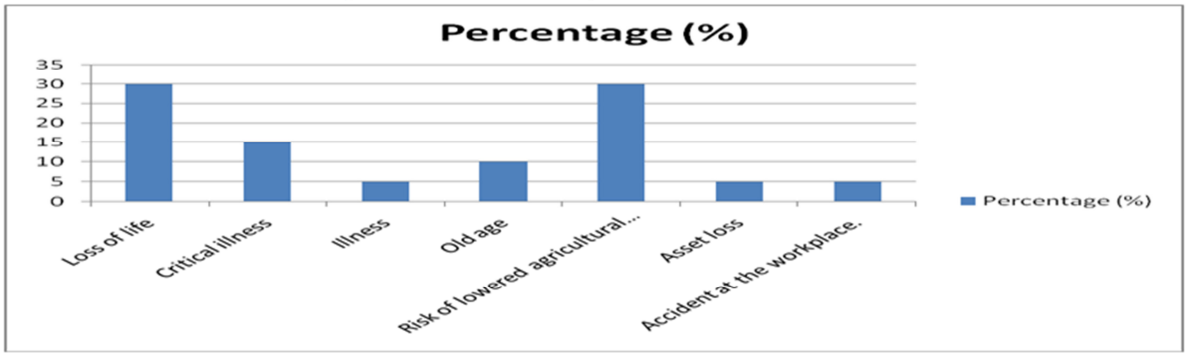
Figure 2: Household's expenditure pattern



4.2. Risks and vulnerability faced by low income households

In respect of the identification of the risks faced by low income households, the study discovered the following insurable risks that are faced by the poor households as shown in the figure 3. **Loss of life**: Most household members contribute to household income, except those too old, young or infirm to work; **Critical illness**: This has the dual impact of loss of earnings/household labor as well as treatment expenses; **Illness:** that reduces the working days and also creates expenses though at a smaller level than critical illness; **Old age**: because there are few income options during old age. In addition, there is some evidence of emerging social trends in which the obligation of the young to take care of the old is weakening; **Risk of lowered agricultural productivity** or returns, such as through low levels of rainfall or natural catastrophes; **Asset loss** especially those assets used to generate income; and **Accidents** among specific occupational groups (e.g., construction workers) usually accidents occur at the workplace and end into causing disabilities.

Figure 3: Risks faced by low income households



From figure 3it is evident that the major risks which pose a great threat to the low income households are loss of life and risk of lowered agricultural productivity (30% of households identified them) followed by critical illness which is 15%,old age 10%.Accident at work place and asset loss rank the last which is 5%.

4.3. Strategies to manage risks /how do poor people Manage Different Risks

The study found out that most poor people manage risk with their own means. Many depend on multiple informal mechanisms (e.g., cash savings, asset ownership, rotating savings and credit associations, moneylenders, etc.) to prepare for and cope with such risks like death of a family breadwinner, severe illness, or loss of

livestock. Very few low-income households have access to formal insurance for such risks. These means include Prevention and avoidance which constitute 40% of the poor households, Preparation which is employed by 30% of the households and lastly coping in which the study shows that 30% of the households are using this method to manage the risks as shown in the table 2.

i) **Prevention and avoidance:** When possible, poor people avoid and/or actively work to reduce risk, often through non-financial methods. Careful sanitation, for example, is a non-financial way to reduce the risk of infectious illness. Using family networks to identify business opportunities is another such mechanism. The imperative to avoid risk often leads to conservative decision making by poor people, especially in business considerations. The current study found out that 40% of the poor households use this method as shown in table 2.

ii) **Preparation:** Poor people save, accumulate assets (such as livestock), buy insurance, and educate their children to handle future risks. For certain risks, informal community systems offer protection. However, such systems generally do not adequately protect against costly and unpredictable risks, such as the debilitating illness of a family income earner. Formal insurance products are beginning to be offered to low-income markets, such as simple credit life insurance, which covers an outstanding loan balance in the event of a borrower's death; but these insurance products sometimes appear to be designed to protect the lending institution rather than its clients. The study shows that 30% of the households are using this method to manage the risks as illustrated in table 2.

iii) **Coping:** *Ex post coping* can result in desperate measures that leave poor households even more vulnerable to future risks. In the face of severe economic stress, poor people may take up emergency loans from moneylenders, micro-finance institutions (MFIs), and/or banks. They may also deplete savings, sell productive assets, default on loans, and/or reduce spending on food and schooling. In general, prevention and planning are far less costly than coping strategies for the individual. The study shows that 30% of the households are using this method to manage the risks.

Table 2: Strategies to manage risks

Strategy used to manage risks	No of households using the method	Percentage (%)
Prevention and avoidance	40	40.00
Preparation	30	30.00
Coping	30	30.00
TOTAL	**100**	**100.00**

4.5. Micro Insurance Products needed by Low Income House Holds (HHS)

Furthermore results identified the micro insurance products which are relevant and highly needed by low income household**s,** Micro-insurance, like regular insurance, may be offered for a wide variety of risks. These include both health risks (illness, injury, or death) and property risks (damage or loss). A wide variety of micro-insurance products exist to address these risks, including Life insurance, property insurance, Health insurance, Agricultural insurance and Livestock insurance**.** One of the few general micro insurance demand studies carried out is by Price Waterhouse (Price Waterhouse: Financial Services to the Rural Poor and Women in India: Access and Sustainability–Demand and Supply Analysis: Client Survey, 1997, New Delhi, pp.11-15). The study findings in figure 4.4 shows that the needs for micro insurance based on major adverse events that a rural household experienced in the previous 10 years. They found that 44 percent of households reported flood/heavy rains, 39 percent drought and 27 percent pest attack. The average value of loss per annum was Tshs. 475, 380/= per annum per household. The mortality rate of a household member was 3 percent. The survey also found that 64 percent of the respondents wanted some form of insurance: 50 percent wanted life cover, 30 percent livestock, while 20 percent crop and other asset insurance. Only 15 percent already had an insurance cover, mostly because it was a condition for getting a loan from the SACCOS.

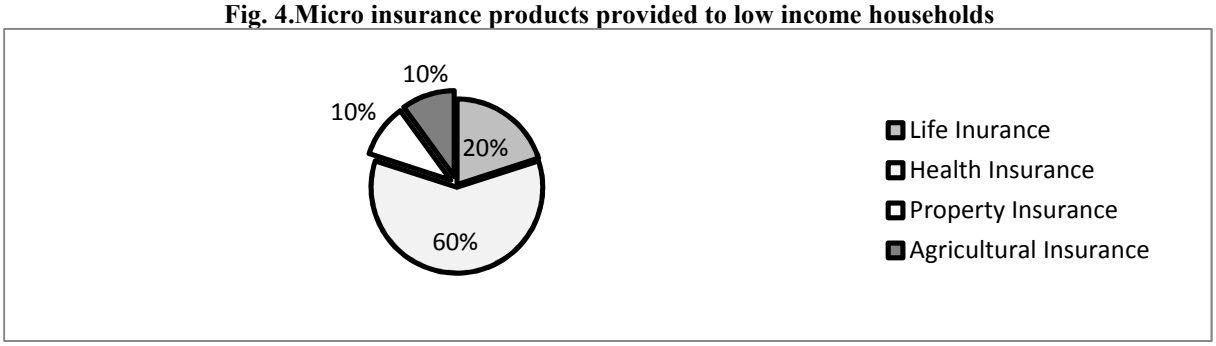
i) **Life insurance** pays benefits to designated beneficiaries upon the death of the insured. In general there are three broad types of life insurance coverage: (i) *term*, (ii) *whole-life*, and (iii) *endowment*. *Term life insurance* policies provide a set amount of insurance coverage over a specified period of time, such as one, five, ten, or twenty years. *Whole life insurance* is a cash-value policy that provides lifetime protection; whereas, e*ndowment life insurance* pays the face value of insurance if the policyholder dies within a specified period. It has a longer time horizon than the term life insurance. These two are not offered widely in developing countries like Tanzania and only 20% of the households are protected.

ii) **Property insurance** provides coverage against loss or damage of assets. Providing such insurance is difficult because of the need to verify the extent of damage and determine whether loss has actually occurred. It is difficult for most MFIs to guard against such moral hazard though it is successfully provided and 10% of the population is protected.

iii) **Health insurance** provides coverage against illness and accidents resulting in physical injuries. MFIs have realized that expenditures related to health problems have been a significant cause of defaults and peoples' inability to improve their economic conditions. While coverage varies, many providers cover for limited hospitalization benefits for certain illnesses, and for costs of physician visits and medicine. Some also make available primary health care services. *Disability insurance* in most cases is tied to life insurance products. It provides protection to the policyholder and family, should any of them suffer from a disability. It is the highly demanded product as 60% of the households are protected.

A number of studies have been completed on the demand for health insurance products in India. In one study by Allianz , GTZ and UNDP (2006), mention that only 10 percent of the entire Indian market is covered by private and public health insurance. They further mention that secluded castes and secluded tribes often exhibit a strong preference for traditional medicine, making their incorporation into formal health provider systems difficult. The study claims that approximately 80 percent of the financing of the Indian health-care system is done through private payment in spite of the existence of free universal health care and public-sector hospitals in all urban areas, it was found that the main reason people used public services was their inability to pay for private health care, although they would prefer it. In rural areas, 70 percent of respondents used only public health-care providers. With severe illnesses requiring long-term or expensive care, 86 percent of all respondents, i.e. rural and urban, used public health care. This figure in part reflects the fact that private hospitals do not exist in rural areas. Twenty-five percent of the patients who enter hospital above the poverty line fall below the poverty line after hospitalization because of their health-care costs. There are several micro insurance products that are needed by poor households such as life insurance, health insurance, property insurance and agricultural insurance. The study found out that health insurance is the highly demanded product whereby 60% of the households require the product, 20% of the households prefer life insurance followed by property and agricultural insurance which is 10%. Figure 4 summarizes the findings.

Fig. 4.Micro insurance products provided to low income households



4.6. Gender and Micro Insurance

The study findings in table 3 below reveals that number of risks faced specifically by women could be minimized through micro insurance. 100% of the households' women proved that micro insurance has helped them to reduce the household poverty and risks. These gender-specific risks include: Risks related to sexually transmitted infections (STI), pregnancy and childbirth; Risks related to economic crisis such as the death of the breadwinner, loss of assets; Protection at old age (less security for women due to informal working conditions, lesser income, and Risks related to hazardous working conditions. Although these also affect men, the number of unskilled laborers is higher among women workers. Women more often work under hazardous conditions: the carpet industry, refuse dumps, garbage tips and recycling industries such as polythene bags/vinyl recycling. The findings are complimented by study from Allianz. A. G, GTZ and UNDP (2006), which has identified the above risks facing women and suggests that some risks due to gender-specific conditions in the society require a comprehensive approach beyond micro insurance, but micro insurance, as one risk management tool complementing others, can have a more immediate positive impact on improving the situation. The following issues need long-term interventions and cannot be addressed by micro insurance alone. *Maternity; Social status of women (Higher priority given to males in the provision of food and care adversely affects the nutrition and health conditions of women and girls); Unequal inheritance laws, insufficient property rights for women, little control over assets; Situation of women after divorce and at widowhood adversely affecting their economic situation (e.g., returning home, leaving all assets with the ex-husband's family) and their social status (e.g., often little mobility for earning money); Low education combined with high presence of women working in the informal economy causing little or no social protection and less access to secure and skilled jobs; and Girls taken out of school in periods of crisis, leading to low education, which affects future professional opportunities and future earnings.*

Table 3: Gender and demand for micro insurance

Gender and risks	Total no of female Respondents	Responses	Percentage (%)
STIs	30	30	100.00
Economic crisis	30	30	100.00
Old age	30	30	100.00
Hazardous work conditions	30	30	100.00

4.7. Impact of micro insurance

We tested one hypothesis to establish relationship that exists between the micro insurance and state of household welfare in terms access to better houses, education health services servings, balanced diet, investment and agricultural productivity among the households in Marangu. The Person Correlation results in table 4 reveal that, at the level of 0.01 there is a positive relationship between micro insurance and access to better health services (at 0.714), balanced diet (0.896), investment (0.652) and agriculture productivity (0.772). Micro insurance is also highly correlated at 0.674, 0.587 and 0.604 with household's ability to pay school fees, access to modern house and servings respectively at 0.01 level of significance. The positive correlation connote that the provision of micro insurance to rural communities predicts a reasonable access to household welfare. With the help of micro insurance programs more and more households are able to handle their medical expenses through health insurance, accessing balanced diet, building modern houses, paying school fees investing and saving. Therefore, at 1% level of significance, we accept the Alternative Hypothesis (HA**)**: Micro insurance has significantly contribution to household income and poverty reduction. This proves the potentiality of Micro insurance schemes and thus there is a need a for various actors to support the increased augmentation and intensification of this sector, as it influences wellbeing of the many households as they are more able to manage risks and break the poverty cycle than persons without insurance facilities.

Table 4: Correlation between micro insurance and State of Household welfare

Household welfare		Micro Insurance	Ability to pay school fees	Access to modern houses	Saving	Access to balanced diet	Improved agricultural productivity	Access to better health services	Investment
Micro Insurance	Pearson Correlation	1	.674**	.587**	.604**	.896**	.772**	.714	.652**
	Sig (2-tailed)		.000	.000	.000	.000	.000	.000	.000
	N	100	100	100	100	100	100		100
**Correlation is significant at the .001 level (2-tailed)									

5. Conclusion and Recommendations

5.1. Concluding Remarks

This study discussed the role and impact of micro insurance in mitigating external shocks on poor households. Micro insurance has been shown to be a powerful addition to the social risk management product toolbox, and one that is flexible enough to be successfully implemented under a variety of institutional forms, including Social Funds. Nonetheless, careful attention and expert technical input is required in designing micro insurance products and programs as they are significantly more complex than savings and credits programs offered by different organizations. Use of risk layering, using different forms of reinsurance to cover the insurer is crucial from a financial sustainability standpoint, and the use of various outreach mechanisms to reach poor households is necessary from an equity point of view. Some micro insurance product types are more easily designed and implemented such as credit life insurance, i.e., loan insurance than others e.g., health insurance. As the micro insurance practitioner community develops further, it will be important to develop performance benchmarks, refine and codify delivery models, and engages in information exchange and shared learning processes. Micro insurance offers the potential for significant innovation in public-private partnership arrangements, cooperation across voluntary and private sectors, rural and urban services sector development, and the extension of social protection to underserved populations, for years to come.

5.2. Recommendations

Low-income households are particularly vulnerable to risk and negative external shocks such as natural disaster; illness/ death of main breadwinner, due to their low asset bases. In the absence of functioning insurance markets, poor people in developing countries have created coping strategies expressed in a number of formal and informal instruments to manage such risks. These include risk-pooling schemes such as funeral and burial societies, income support in the form of credit arrangements, transfers, and consumption smoothing arrangements such as savings and grain banks).

However, such informal and formal approaches offer limited protection, low returns for households, and are prone to breakdown during emergencies. Community-based risk management schemes also rely heavily on personal relations between participants, limiting scalability and geographic spread. Even formal support programs such as food-for-work may be exclusionary, as in the case of female-headed households are often left out of such work programs as they face difficulties in making the required labor contribution.

Formal insurance instruments can offer superior risk management alternatives, provided poor households can access these services. Without insurance, low-income households forego higher-return livelihood strategies for lower-risk avenues that reduce risk. Insurance products assume such risk thus reducing household efficiency losses and protecting assets so that the poor can escape poverty traps. Insurance instruments pool the risks of individuals of a similar risk class, and transfer it to a larger and more diverse group of market participants through the 'hedging' process. Traditional forms of insurance, however, have often been beyond the reach of the poor. Innovations in micro insurance aim at increasing outreach and coverage across lower income tiers.

Micro insurance can be an effective complement to existing menu of social protection programs. A flexible and powerful instrument, micro insurance (MI) reduces vulnerability and mitigates the negative effects of external shocks on poor households. However, micro insurance programs require well-developed institutional arrangements in order to run in an efficient and effective manner.

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