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DETERMINANTS OF MICROINSURANCE UPTAKE AS A SOCIAL PROTECTION TOOL OF THE MARGINALIZED: A CONCEPTUAL FRAMEWORK

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Abstract: *The provision of social protection that will reduce the risk exposures of marginalized communities in the Philippines has remained a major challenge of the Philippine Government. This enormous responsibility is coupled with the limited and/or unresponsive insurance products that will reduce the effects of unforeseen or catastrophic events to the lives, properties, and source of income of these marginalized communities of the society. The objective of this paper is to propose a conceptual framework that includes the determinants that influence microinsurance uptake as a social protection tool of marginalized communities in the Philippines. These determinants include socio-cultural, demographics, financial literacy, and government intervention. This paper is intended to further the research on designing microinsurance products and policy frameworks that are responsive to the needs of marginalized communities to help them secure a social protection that will enable them to become sustainable in the aftermath of both man-made and natural risks.*

Keywords: *Marginalized Communities, Microinsurance, Philippines, Social Protection, Sustainable*

Introduction

According to the 2015 Philippine Poverty Statistics, more than 26 million Filipinos remain poor with almost half, or a little more than 12 million, living in extreme poverty and lacking the means to feed themselves. This number of poor Filipinos represents almost 4 million families comprising of about 3 to 6 members. Usually, these families are either informal settlers in highly urbanized areas or residents in other parts of the country which are deemed very isolated. Because of scarcity in funds and inaccessibility of their locations, these Filipinos are very much exposed to various hazards such as health, accident, natural calamities and man-made risks.

As early as 1997, the Philippine government has introduced various measures to address the insufficiency of risk mitigating programs for the poor that will involve the participation of the private sector.

- 1997 National Strategy for Microfinance. This government strategy is envisioned to strengthen the public-private partnership in the promotion of feasible microfinance market. The mandate of the government is to provide a very crucial role in institutionalizing policies and framework that will create a very healthy microfinance market. The private sector will be encouraged to participate in playing a major role. The government on the other hand will provide efficient and enabling markets that will support the private sector. In hindsight, this national strategy is purposefully developed in order to provide access to financial services to those who have no or limited access to financial products and services particularly the poor.
- RA 8425, otherwise known as Social Reform and Poverty Alleviation Act, was enacted into law in June 30, 1998 to promote and recognize microfinance as a tool to alleviate poverty. The law has tasked the People's Credit and Finance Corporation (PCFC) as the lead agency to spearhead the promotion and management of financial resources, both local and foreign to provide microfinance services exclusively for the poor.
- Medium-Term Philippine Development Plan (MTPDP 2001 to 2010). This vital measure was conceptualized and launched to recognize the need to make available to the poor risk mitigating programs. The MTPDP clearly states that it is highly crucial to protect the poor to help them win the battle against poverty. It highlights the need for the private sector to participate and become active in developing sustainable risk mitigating programs that are targeted to the poor people.

Despite these Government's initiatives to reduce the poverty level through various programs, the problem remains unsolved. Multi-sectoral studies found out that the difficulty of poor Filipinos to rise above their deprivation is traceable from lack of savings to help them cope up with financial problems. This observation has led to conceptualizing microinsurance as a partner of microfinance in the fight against poverty.
In 2010, the Government through the Department of Finance-National Credit Council (DOF-NCC) with the cooperation of the private sector has introduced the National Strategy for Microinsurance and the Regulatory Framework for Microinsurance.

The National Strategy for Microfinance has expressly underscored the need to have feasible and highly participative microfinance market with the active involvement of both the public and the private sectors.

Additionally, the Regulatory Framework for Microinsurance has established policies and regulatory guidelines to promote a safe and sound microinsurance market in order to encourage the participation of the private sector.

The introduction of these initiatives is aimed at ensuring the access of poor Filipinos to different risk mitigating programs through the conduct of financial literacy programs with emphasis on microfinance, cooperative, and microinsurance.

Microinsurance therefore has been identified by the Philippine government as an important measure to help those who have limited or no access to formal financial instruments like insurance, to have an alternative scheme. This concept falls within the social protection characteristic of microinsurance which practically targets the poor similar to how public and social insurances work. Ramn and Ankolekar (2014), highlighted the potential roles of microinsurance towards a socially inclusive social protection system of a country. Additionally (Jacquier et al., 2006), made reference to the locus of microinsurance where there is an obvious overlap between microinsurance and social protection. This means that microinsurance products and services can become part of the social protection systems.

Methodology

The main objective of this paper is to develop a conceptual framework that analyzes the determinants that influence the uptake of microinsurance as a social protection tool of marginalized communities in the Philippines. This research has used literature review to understand the influencing factors and design a conceptual framework as applied in the Philippine setting.

Literature Review

Socio-cultural factors.

These factors have been included as determinants to insurance demand in many studies conducted in different locations. The findings however are conflicting.

Religion

One of the variables included in the socio-cultural determinants is religion. Religion has been acknowledged as a critical factor that influences the perception of consumers affecting their lives particularly on issues regarding wellbeing and safety (Ifejionu & Emmanuel, 2013) and on evaluating consumer behaviors on dubious practices (Vitell & Paolillo, 2003). It is considered as one of the fundamentals in teaching morality in almost all civilizations (Bowen, 1998) that impacts the beliefs and attitudes on a particular aspect through its set of guidelines (Bailey & Sood, 1993) that identifies and enlightens the consumers on the kind of products and services in the open market that their religious affiliations forbid, require, reject or encourage (Mittelstaedt, 2002 & Boone, et al., 2013).

In modernist Islamic faith, it is believed that insurance does not conform to their religious practices since an insurance contract is based on uncertainty which is seen as a challenge to replace the will of Allah (Ifejionu & Emmanuel, 2013). Additionally, insurance similarly contradicts to religious beliefs that God will never abandon His children in times of catastrophic events, thus, there is no need to buy insurance. Zelizer (1979) noted that the religious individuals' apprehension to buy life insurance is due to the fact that this results in distrust in God's protective care.

The study conducted by Park & Lemarie (2013) revealed that the consumption of non life insurance is negatively affected in countries where majority of the population belong to the Islamic faith. This was further affirmed by Gitau & Sile (2016) in their study conducted in Kenya that religious belief has an adverse effect on the demand of insurance. In another research prepared by Souiden & Jabeur (2015), it was found that Islamic beliefs affect the purchase intention of people such that when people have higher Islamic beliefs , the less likely that they will purchase insurance or if they have lower Islamic beliefs, the higher the intent to purchase insurance will be. In affirmation, people who are religious are expected to favor lower social insurance coverage than individuals who are secular (Scheve & Stasavage, 2006).

On the contrary, a study made in Nigeria by Badru et al. (2013) found that religious affiliations have no effect on the patronage of insurance. Similarly, Islamic beliefs have no effects on the demand for life insurance products (Ifejionu & Emmanuel, 2013). Likewise, some religious beliefs can persuade the consumption of (life) insurance (Eck & Nizovtsev, 2006).

The gap in so far as religion as a determinant to insurance demand is concerned is so glaring. The conflicting findings as to the effect of religion in the uptake of insurance as a tool to manage the risks of unforeseen events including the new locale and religious affiliations of the respondents of this study have hypothesized that:

H1a: Religion affects the intent to purchase microinsurance.

Culture

Aside from religion, culture is believed to affect the intent to purchase insurance. The cultural uniqueness of a particular country affects the appreciation of its population on how to manage risks (Douglas & Wildavski, 1982). The response of consumers to insurance solicitations depends on their cultural belief (Treerettanapun, 2011) which can significantly influence insurance penetration (Park, et al., 2012). If truth be told, there are certain cultural determinants that can affect the pervasiveness of insurance (Park, et al., 2002).

In India, people face the risk of losses in a very loving way which is aligned to the prospect theory which explains that insurance is meant to answer for losses thus; Indians uptake to insurance is lesser (Ito & Kono, 2010). Consequently, a study conducted in Kenya disclosed that certain cultural beliefs, attitudes and taboos negatively affect the demand of insurance (Gitau and Sile, 2016). Specifically, in his research on the impact of culture and non life insurance consumption in 82 countries Treerettanapun (2011), indicated that non life insurance consumption is high for nations that have low level power distance, high degree of individualism and high level of uncertainty avoidance. Power distance was likewise found to have strong relationship with life insurance uptake.

H1b: Culture affects the uptake of microinsurance

Demographics

Age

Eling et al. (2013) narrated that age as a factor in microinsurance demand in particular is vague. However, in a study conducted in Nigeria, age significantly affects the attitude towards insurance such that the older age group (56 to 65) have more positive attitude towards insurance rather the younger age group (45 and below) (Yusuf et al., 2009). The findings of various studies have found that life insurance consumption has a direct relationship with age (Yusof et al., 2009; Liebenberg, et al., 2010). Yusof et al., (2009) explained that as people's attitude towards insurance improves as they aged.

On the contrary, the study of Gine et al., 2008 disclosed that age has negative effects on microinsurance demand. In confirmation, research works done empirically by Hau (2000); Savvides (2006); Leibdenberg et al., 2010) have found that age has indirect effect in the uptake of life insurance.

H2a: There is a relationship between age and the demand for insurance.

Gender

Gender is considered in many studies as part of the demographic determinants in the uptake or demand of insurance. A study made in Slovak Republic that analyzed gender's influence on decision making in so far as life insurance demand and consumption are concerned revealed that gender has no role in the decision making process (Pastorakova & Janikova, 2013). Additionally, the research of Emamgholipour et al. (2016) concluded that there was no significant relationship between gender and the demand for health insurance. Similarly, Curak et al.'s (2013) study yielded that gender has no correlation with the demand for life insurance.

In contrast, gender was found to have direct and significant positive influence with insurance patronage (Kiriglia et al., 2005). The same finding was affirmed and stressed by different studies that a relationship and close association between gender and insurance patronage exists (Fofie, 2016; Bloom, 2004; Backingham, 2007; Pauly & Herring, 2001; Propper, 2000; Temple, 2002; Trujillo, 2003).

In particular, studies completed by different authors with regard to the risk aversion attitudes between men and women revealed that women are more risk averse than men (Eckel & Grossman, 2008; Croson & Gneezy, 2009). This is practically because of women's motherly characteristic to protect the household against risks resulting to higher tendency to subscribe to insurance products (Giesbert, et al., 2011).

H2b: There is a relationship between gender and the demand for insurance.

Level of education

The general objective of education is to increase the knowledge of people to help them understand the complexities of life that will help them make decisions for the betterment of themselves and for the society as a whole. Having said this, people who are more educated should have better understanding of risk management and threats of being financially unstable, thus, the more likely for them to purchase mechanisms to become more averse to risks (Outreville, 2006; Park & Lemaire, 2011). There were however inconsistencies on the findings of many researches made by different authors.

Various literatures have emphasized the positive significant contribution of education to insurance demand. According to Savvides, (2006); Lin & Grace (2007); Nesterova (2008); Yusuf et al., (2009); Curak & Gaspic (2011), individuals who have obtained higher education have better understanding on how insurance works resulting in higher acceptability of life insurance. This was seconded by Hau (2000) in confirming the positive effects of higher education to people's insurance consciousness which will encourage them to be more objective in buying insurance and equip people with the keenness to be reliant to financial products to secure their dependents (Baek & Devaney, 2005).

H2c: The higher the level of education, the more likely for individuals to purchase microinsurance.

Income

Unknowingly, the Maslow's Hierarchy of Needs emphasizes the need for insurance. It is in fact the second most important need after basic and physiological needs. The safety needs which include protection of the body, employment, resources, morality, the family, health, and property very clearly promote the need for insurance products for every household. With this as reference, income should never be a hindrance to buy insurance since the truth remains very clear that insurance is a need and not a want as illustrated in the pyramid of needs.

This protection in the form of insurance will help households particularly those belonging to the poor and the vulnerable manage the ill- effects of both man-made and natural risks and hinder the enormous effects of the poverty cycle (Nwanko, 2011; Holzmann & Jorgensen, 2001; Siegel et al., 2001).

The paramount importance of insurance has been inculcated in the minds if the poor which means that meager income should never be a factor to buy insurance. The progress of microinsurance has strongly supported the promotion of financial products for the poor and finally solved the dilemma that only moneyed individuals can afford insurance. In fact, Morduch (1995) concluded that poor households who are more likely to have credit restrictions in the future are very much willing to sacrifice current income and insure in order to have less risk in the future.

H2d: There is a relationship between income and the demand for microinsurance

Financial Literacy

One of the most complex financial products that many consumers purchase in their lifetime is insurance (Tennyson, 2011). Because of its complexities, consumers need to be educated in order to understand the contractual terms and conditions, product features, consumer rights and responsibilities, and the financial soundness of the insurance product (Tennyson, 2011) in order to come up with a decision to purchase insurance as a tool for risk sharing (Masood, et al. 2015).

Financial literacy is considered as a critical aspect in promoting awareness of financial products and services such as banking, credit, and insurance to the public most particularly the poor who are not within the radar of financial literacy programs for the longest time (Kafela, 2010; Cole, 2015; Masood, et al., 2015). This in turn has led to the non- recogition of the value that these financial services can provide to the poor (Cole, 2015). Thus, there is undoubtedly a need to come up with mechanisms to cascade the usefulness of insurance to those who are considered illiterate or less educated (Churchill, 2007) in order to address the issue on financial illiteracy of consumers (Ganesh, 2015).

Additionally, financial literacy programs provide the necessary knowledge that will help consumers come up with informed consumption decisions (Tennyson, 2011), essential knowledge to become financially responsible (Faboyede, et al., 2015) and capablitities to have personal financial decision due to the fact that financially educated people have more leverage to make use of their financial knowledge in savings, microcredit, and insurance (Refera et al., 2016).

In his study on financial literacy and consumer choice and health insurance Bauhoff, et al. (2013) found that low financial literacy prevents the poor from accessing health insurance programmes supported by the government. Furthermore, the study of Ioncica, et. al. (2012) conducted in Romania revealed that the low interest in the purchase of insurance was mainly attributable to the misconception on the role and importance of insurance. This was further affirmed by the studies of Perez (2013); Dalkilic & Kirkbesoglu (2015); Mubashiru & Musah (2014); Tadesse & Brans (2012); Chaudry & Nabeel (2013) that the low demand, uptake and utlilization of insurance was due to the lack of extensive knowledge and low awareness of consumers on how insurance works including the benefits attached to insurance products. Additionally, in their study on barriers to microinsurane adoption, Cole et al. (2011) revealed that households that have higher financial literacy were more possibly have insurance policies.

On the other hand, the study of Mahdzan & Victorian (2013) revealed that financial literacy is immaterial in the determination of the demand for life insurance. Moreover, the findings of Bonan et al. (2012) and Dercon et al. (2012) found that insurance literacy and education have no impact and significant effect on insurance demand.

H3: The higher the financial literacy, the greater is the microinsurance demand.

Government Intervention

The government has critical roles to play in the insurance industry in general. In the case of the Philippines, the entire insurance industry and pre-need industry fall under the jurisdiction of the Insurance Commission (IC). The Insurance Commission which was created in 1949 by virtue of Republic Act 275, is mandated to regulate and supervise the insurance and pre-need industries in accordance with the provisions of the Insurance Code and the Pre-Need Code of the Philippines. They are likewise, as part of their functions, promulgate and implement policies, rules and regulations governing the operations of entities engaged in insurance and pre-need activities as well as with benevolent features, adjudicate claims and complaints involving loss, damage or liability incurred by an insurer under any kind of policy or contract of insurance or suretyship, and review and approve all life and non-life policies and pre-need plans before sale to prospective clients. Additionally, the IC shall promote growth and financial stability of insurance companies, professionalize insurance services and develop insurance consciousness among the general populace, establish a sound national insurance market, and safeguard the rights and interest of the insuring people (insurance.gov.ph).

In their study conducted in Nigeria, Badru et al. (2013) listed government regulation as one of the factors that influenced the patronage of insurance. The viability of Islamic insurance in particular relies on government intervention and facilitation of the systems to establish policies or regulations that will enable the high uptake of insurance by consumers who are considered low income (Rom & Ramhan, 2014).

On the part of microinsurance in particular, the Government has a bigger role to perform to support its development (Cole, 2015). It is very important that the government, as part of its regulatory powers, to make certain that microinsurance is congruent to the other social protection programs in place despite the notion that government intervention may be counterintuitive to the usually fierce and independent microinsurance players (Wiechers, 2013). This government intervention guarantees financial stability and consumer protection (Wiechers, 2013) since it is the role of the government to provide financial protection and enhance the quality of life of the poor as part of improving their sustainability (Rom & Ramhan, 2014).

The importance of the regulatory power of the government in the area of microinsurance as a safety net for the poorest and vulnerable is emphasized in the study of Akter (2012) in Bangladesh which found that the (un)regulatory arrangement on the supply of microinsurance, which excludes accountability and rights of the consumer, will the vulnerability of the poor. This explains the power of Government's intervention in so far as policy formulation and regulatory function in insurance in general and microsinsurance in particular, to promote and align the same as a social protection mechanism intended for the poor and the vulnerable. This is so because governments across nations are becoming more aware that as insurance is not universal it has excluded those who should be socially covered with risk intervention tools (Green & Penning-rowsell, 2004). The government is likewise required to take part in a key leadership role in areas such as providing data to be used to develop legal and regulatory frameworks that will enable the private sector to be more innovative and achieve insurance penetration (World Bank, 2005).

Moreover, because of the inability of both microinsurance and social protection to stand alone to be sustainable and more efficient in its desire to reach the excluded segment of the population, the Government must link microinsurance and other social protection components in the national social protection strategies in order to make a developmentally rational, consistent, well-organized and equitable system (Jacquier et al., 2006).

H4: Government intervention positively affects the promotion of microinsurance as a social protection tool to alleviate poverty

Social Protection

Article 22 of the Universal Declaration of Human Rights (1948) and Article 9 of the International Covenant on Economic, Social and Cultural Rights (1976) have internationally recognized social protection as a human right. Additionally, more than 110 nations have also enshrined in their very own constitutions that social protection is indeed a basic right of its constituents.

In the Philippines, Article XIII, Section 1 of the Constitution clearly States that the state through the Congress shall give utmost priority and enact measures that will among others protect and enhance the right of all the people including reducing social inequalities.
Interestingly as universally defined, social protection is a fundamental human right and is now viewed as essential components to reduce poverty and promote sustainability, equality and decency. It is also considered to have a crucial role to attain the objectives of the Millennium Development Goals (MDGs).

However, social protection programs remain elusive to more than 50% of the world's population (Jacquier et al., 2006) as the poor's vulnerability has become a daily reality (Cohen and Sebstad, 2005). Vulnerability is increased by exposures to risks which deteriorate the poor's socioeconomic capability, which in turn reduces their ability to cope up and become resilient (Traerup, 2012). Hinkel (2011) further defines that vulnerability covers the functions of exposure, sensitivity and the capacity to adopt of an entire system as the concept applies not only to an individual level but also includes the society and institutions.

However, a study conducted in Thailand found that social protection schemes may not be able to fulfill its objective to uplift the lives of the poor out of poverty due to the fact that the allocated government spending per person is less than the poverty line (Chalamwong & Meepien, 2012).

Various microeconomic researches and impact assessments in Ehtiopia in its programs in social protection found out that microinsurance payouts that are predictable is a significant step towards the country's poverty alleviation and this has concretized the belief that the poor need microinsurance (Tadesse & Brans, 2012). In India, the study of Kishor (2013) stressed that microinsurance complements other financial services including social security, thus, there is a clear need for India to include microinsurance in their strategy to reduce poverty. This was further explored by Geetha and Viayalakshmi (2014) in India such that in the event that social measures are either not enough nor not distributed equally, microinsurance can take part the essential role as an instrument to comprehensively facilitate reduce poverty, inequality and vulnerability. Moreover, microinsurance offers innovative partnerships between the government and the private sector and collaboration among voluntary, rural and urban groups for the development and extension of social protection to the underserved population in the coming years (Yarumba and Kazungu, 2014).

Lastly, microinsurance can be viewed not just a business that is intended solely to make profit because if it is rightly done, it can absolutely make profit and perform its social development role at the same time. The social development role is fundamental to alleviate those that are at the bottom of the pyramid (Moura, 2010).

H5: There is a correlation between microinsurance and social protection program as a tool to promote sustainability among marginalized communities

Microinsurance

In general, insurance products and services are intended to transfer the risks brought about by both man-made and natural hazards from an individual or an entity to another.

But since there is a misconception that insurance offered by commercial insurers are expensive and only for the moneyed consumers, or people need a lot of money to insure, insurance is only good for those who have big businesses or valuable properties (Manje and Churchill, 2002), the poor and the vulnerable have relied to informal risk mitigating measures like community based insurance system (Schneider, 2004) or worst do not have any other means to help them cope and become risk averse.

This misconception has led to the conceptualization of microinsurance as an offshoot to microfinance primarily to offer insurance products and services that are affordable, the contractual obligations of both the insured and the insurer are non legalistic and lesser technical to make it more understandable to the intended market. Moreover, it should be made accessible to those who are really in dire need of protection. In general, microinsurance is intended for persons disregarded by commercial, traditional and social insurance systems (Churchill, 2007). Microinsurance has been proven and noted as a key tool to help the poor, which are considered to be more vulnerable than any sectors in the society, mitigate risks proactively that will enable them to cope up and not to fall in the brink of chronic poverty and vulnerability (Akotey & Adjasi, 2015; Bakhtiari, 2013, Kishor, 2013). The poor are more prone to sickness due to the type of hazardous working environment they are exposed to, the kind of nutrition they consume, and have no or little knowledge in dealing with financial organizations, thus, the intent of microinsurance to provide the poor an avenue to be covered with an insurance policy (Bakshi, 2016). In essence, microinsurance is a solution intended for the poor (Roy, 2015) who lack the financial capacity to cope up with risks such as health related emergencies, death, natural and catastrophic hazards, agricultural risks, accidents and its related shocks (Dror & Jacquier, 1999, Dercon, 2005). Microinsurance will make certain that the poor will be given greater insurance access and inclusion in the financial system (Imey & Ikechukwu, 2017) due to the fact that uninsured risk was found to have serious repercussions on the welfare of the poor that can cause persistent poverty (Townsend, 1994; Dercon, 2004; Aftaab-ul-Maroof, 2014).

For countries like Ghana and Sri Lanka that are unable to provide social protection programs to the whole population, microinsurance provided by private entities perform the role of essential mechanisms to reduce people’s vulnerability (Arun & Steiner, 2008). Microinsurance therefore entails social protection (Chummum, 2014).

It was also found in various microeconomic studies and impact assessments in Ethiopia's social protection programs that the poor want microinsurance and this is an important step toward reducing poverty (Tadesse and Brans, 2012).

H6: Microinsurance as a social protection mechanism positively affects the sustainability of the marginalized communities

The Proposed Conceptual Framework

The proposed conceptual model is a result of literature reviews from various research papers conducted in different locales. The model will be further used in the Philippine setting where microinsurance is increasingly recognized as a supplement to social protection mechanisms.

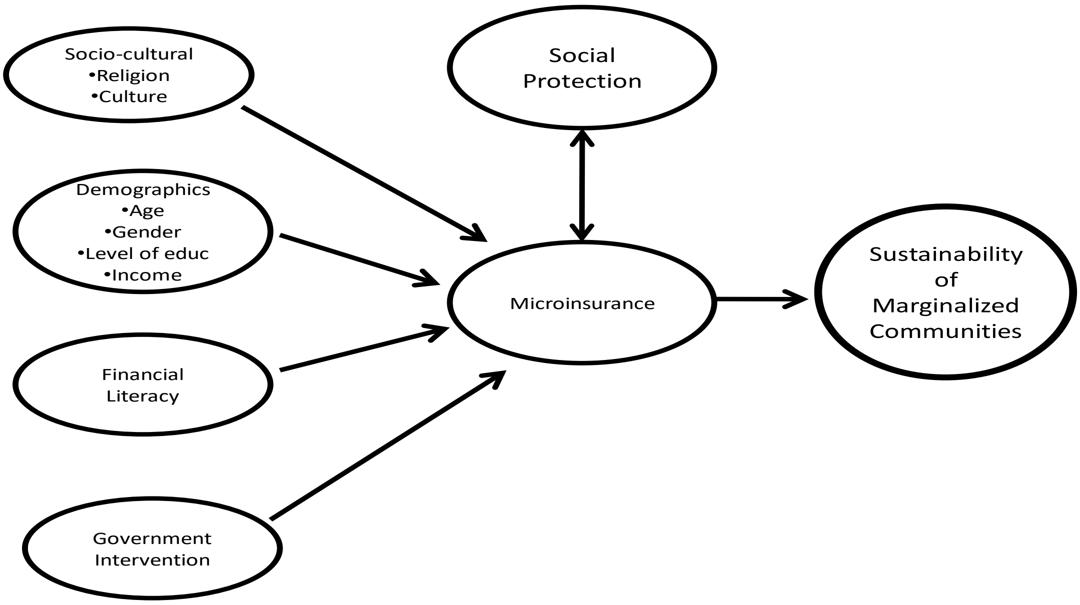

Figure 1: The Proposed Conceptual Framework

The proposed conceptual framework as indicated in Figure 1 identifies the hypothetical relationships enumerated below:

H1a: Religion affects the intent to purchase microinsurance.

H1b: Culture affects the uptake of microinsurance

H2a: There is a relationship between age and the demand for insurance.

H2b: There is a relationship between gender and the demand for insurance.

H2c: The higher the level of education, the more likely for individuals to purchase microinsurance.

H2d: There is a relationship between income and the demand for microinsurance.

H3: The higher the financial literacy, the greater is the microinsurance demand.

H4: Government intervention positively affects the promotion of microinsurance as a social protection tool to alleviate poverty

H5: There is a correlation between microinsurance and social protection program as a tool to promote sustainability among marginalized communities

H6: Microinsurance as a social protection mechanism positively affects the sustainability of the marginalized communities.

Conclusion

The global challenge to eradicate poverty, address inclusiveness, and promote sustainability has captured the attention of international development agencies, policy makers, non government institutions, and even domestic governments. The thrust to provide social protection programs that will directly address the needs of the poor, the marginalized, and the vulnerable is becoming a priority with the increasing incidence of both man-made and natural risks. It can be noted that the poor continues to suffer when a calamity hits the community and no insurance coverage of whatever type (commercial or microinsurance) is available to help them minimize the effects of these unfortunate events.

It is therefore incumbent upon governments to design through sustainable microinsurance programs that will involve the private sector, the government on the one hand, and the end users though a financial literacy programs that will address socio-cultural and demographic hindrances in their understanding of the beauty of microinsurance as a social protection tool.

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