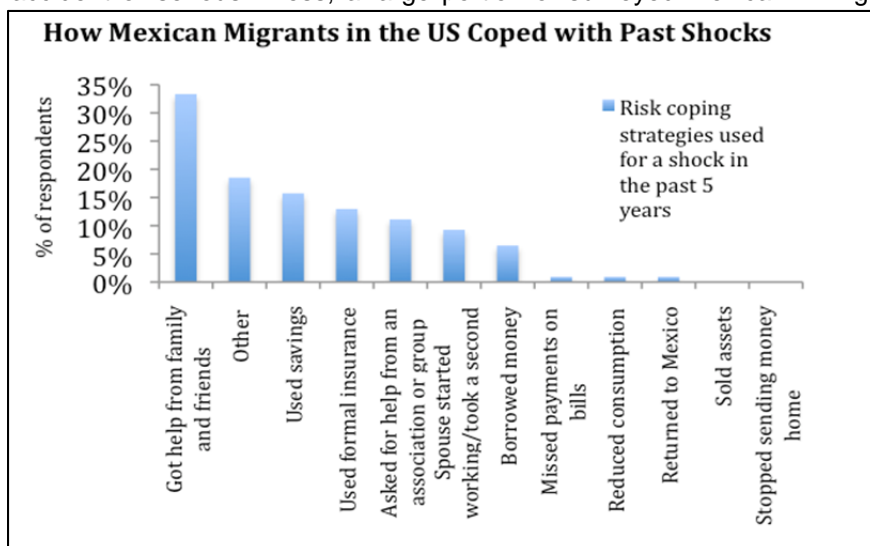


MILK Brief #5: Changing Role of Family Networks in Coping with Risk

Poor households use a variety of tools to cope with risk, including formal and informal savings, loans, risk-sharing, asset sales, and cash and in-kind transfers from family members, communities, governments, and NGOs. Traditionally, informal social networks at the family level have played a particularly significant role in helping the poor cope with risk (Fafchamps and Lund, 2003; Angelucci et al., 2009). This brief examines the importance of family networks and ways in which recent demographic trends indicate a weakening of these networks and emergence of new gaps in risk-coping ability which formal insurance products may be able to fill.

Traditional role of families in risk coping

Traditionally, families have been relied on as among the most important risk-management and risk-coping options for low income people. Existing research points to the importance of these mechanisms, particularly for idiosyncratic risks and particularly in rural areas. A study in the rural Philippines found that informal risk-sharing is prevalent in the form of loans and gifts between families and friends (Fafchamps and Lund, 2003). A randomized evaluation of the PROGRESA cash transfer program in rural Mexico found that members of an extended family share risk with each other but not with households that have no relatives in the village (Angelucci et al., 2009). Even among communities where ties to families may tend to be weaker (such as migrant populations), families can play a significant role. When faced with an accident or serious illness, a large portion of surveyed Mexican immigrants in New York City received



help from friends and family (33%); formal tools such as savings, borrowing, and insurance were less common (Magnoni et al., 2010).

In some contexts, community networks have traditionally played similar roles to families (Dercon and Krishnan, 2003). While this brief focuses on the changing role of families, many of the trends discussed are also applicable to effectiveness of these community networks (where they exist).

Weakening of networks

For many, family networks have weakened in recent years, and there are trends toward further weakening in the future. Changing **family patterns**, including a sharp decline in fertility rates since 1950 that is expected to continue in the future, an increase in childbirth outside of marriage,¹ and increased rates of divorce² may lead to a decline in the support provided by families. A parallel trend of **aging** populations in low-income countries, including longer life expectancies leading to larger numbers of elderly people, is increasing the risks suffered while risk-coping capability diminishes. Greater proportions

¹ Globally, the median percentage of extramarital births rose to 29.2% in 1994-2005 from 7.1% in 1970-1980 (United Nations, 2010a).

² From the 1970s to the 1990s, the median rate of divorce in developing countries with data available increased from 7 to 12 divorces per 100 men and from 5 to 15 divorces per 100 women (United Nations, 2004)



of the population are elderly, and they are living increasingly long lives but receive less support from their families in facing the health and other risks associated with old age (Apt, 2001; De Silva, 2003).

International migration has increased drastically in recent years (see table). Another significant trend is an increase in **rural to urban migration** and growth of urban areas. Urban areas comprised 45% of the population in less developed regions in 2009; this number is expected to increase to 66% by 2050 (United Nations, 2009b). While many migrants support their families and/or help to mitigate shocks with remittances³, remittances tend to decline over time⁴ (Agunias, 2006; Suro, 2005).

| | 1950 | 1990 | 2010 | 2050 |
|---|-------------|-------------|-------------|-------------|
| Fertility Children per woman in less developed regions (United Nations 2010b) | 6.07 | 3.39 | 2.67 | 2.19 |
| Aging Percentage of the population over age 65 in less developed regions (United Nations 2010b) | 3.9% | 4.5% | 5.8% | 14.7% |
| Migrants Number of international migrants worldwide (United Nations 2009a) | | 156 million | 214 million | |
| Net Emigration Number of emigrants minus number of immigrants per year in less developed regions (United Nations 2010b) | 0.6 million | 2.4 million | 2.5 million | 1.6 million |

Migration may break down social networks of families (Bedford et al., 2009). The study of Mexican migrants in the United States found, when asking migrants how they planned to cope with a future shock, that migrants who had been in the United States for more than 9 years were significantly *less* likely than more recent migrants to rely on friends and family, return to Mexico, or borrow money, and were significantly *more* likely to use savings or have a spouse work (Magnoni et al., 2010), most likely because employment opportunities, and access and ability to save improve the longer migrants stay in their host country.

Implications for microinsurance

These trends and the implications they have for the effectiveness of family networks in coping with risk must be considered when analyzing the value of microinsurance. When family networks offer less support in managing risk, public alternatives and safety nets are not always available to take their place, leaving a gap that formal microinsurance products can fill. Insurance, pensions, social safety nets, composite insurance and savings products, or other tools may be useful in filling the gaps left by weaker family networks. While savings and credit can be useful in helping an individual manage risk, these products are unlikely to be sufficient (especially for large shocks), and insurance may play an increasingly valuable role (Clarke and Dercon, 2009). However, the potential for adverse selection, the possibility that riskier populations (such as the elderly) will be more likely to purchase microinsurance, must also be kept in mind when thinking about the sustainability of a program that addresses these trends.



The MILK project's client value work focuses on the **added** value of microinsurance, taking into account the fact that many people still rely on social safety nets (including families), but also remaining mindful of the fact that the roles of families and other social networks are changing. Over the course of our research, MILK will explore the effectiveness of microinsurance as an alternative or complementary tool to social networks and its ability to fill the gaps left when those networks weaken.

³ Further, remittances may be more useful in helping families cope with covariate shocks (such as a poor growing season) than family networks within the same geographic area, because migration diversifies income sources.

⁴ Remittances sent by Samoan and Tongan nurses who migrated to Australia did not decline, while other migrants' remittances showed a sharp decline after 15 years (Connell and Brown, 2004)



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Microinsurance Learning and Knowledge (MILK) is a project of the MicroInsurance Centre that is working collaboratively to understand client value and business case in microinsurance. Barbara Magnoni leads the client value effort and Rick Koven leads the effort on the business case. Contact Michael J. McCord (mjmccord@microinsurancecentre.org), who directs the project, for more information.