Microinsurance Learning and Knowledge

MILK Brief #16: "Doing the Math" - Life Microinsurance in Mexico[1]

Studying Compartamos' Life Microinsurance in Mexico

Death commands a unique reverence in Mexican culture, and funerals are often important social events, especially in rural communities. From the wake to the burial to the lifting of the cross and the cuaresma,[2] the scale and complexity of these funerals can generate hefty costs for low-income families to shoulder, especially when they are left vulnerable by the loss of income earned by the deceased. While communities typically pitch in with cash and food, solidarity does not cover all costs especially in poor communities or in cities where social ties are few. Life microinsurance has evolved from a value diferentiator to a necessary add-on to microcredit in Mexico, yet product quality varies and little is known about its true role in helping clients or their families cope with death.


Photo 1: A beneficiary in mourning attire recalls her mother's funeral.

The MILK Project partnered with the MFI Compartamos Banco in Mexico, using its Client Math methodology to explore some of the open questions about the value of a life insurance product for low-income clients. Compartamos includes a life insurance benefit with all of its Credito Mujer loans and offers additional voluntary coverage for clients who wish to purchase higher coverage. The study explored the role of this microinsurance product in helping low-income families cope with the financial consequences of a death, seeking to understand how the insurance product fit into the range of tools available to those families.

Life and funeral products are the most common types of microinsurance both worldwide (Roth et al., 2007) and in Mexico, where approximately 13.9 million lives are covered by life microinsurance and 8.7 million by credit-life insurance (McCord et al., 2012). Nonetheless, very little is known about how these products work in the lives of low-income clients.[3] Against this backdrop, MILK is working to better understand the value of life and funeral microinsurance through a series of Client Math studies of different types of products covering these risks. MILK's study of a funeral microinsurance product in Colombia[4] found substantial value in the way the product made coping with the death seamless. That product was cashless (providing a standard funeral "package" from an affiliated funeral home) rather than requiring the family to pay up-front while waiting for reimbursement, and also included the services of a "family assistant" to help organize the funeral. In this way, families were relieved of the burden of both financing the up-front costs of the funeral and planning the funeral at a time when they were particularly vulnerable. MILK's study of combined funeral and life insurance in the Philippines (Magnoni et al., 2012b) found that while the funeral coverage complemented, and possibly competed with, the strong role of community support, the life component (paid after the funeral) was important in helping families recover the deceased's lost income, often by investing in productive assets or activities. We also found that slow payments of claims significantly eroded the value of this support, which was needed soon after the funeral to help families get back on their feet. The present study helps to shed light on the differences in value that may arise when a benefit is provided quickly and in cash, at two different levels of benefit.

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[1] This brief was written by Derek Poulton and Barbara Magnoni (January 2013).

[2] The lifting of the cross is a procession that relatives make to leave a cross with flowers and candles on the deceased's grave, nine days after death. The cuaresma, not to be confused with Lent, is observed by more pious Catholics and involves Requiem prayers 40 days after the death.

[3] Life insurance and other products covering low-frequency events are particularly difficult to study using experimental techniques, because they require very large sample sizes and/or long time periods for enough people to have experienced the shock. See MILK Brief #6: Research design for measuring the client value of microinsurance (Morsink et al., 2011).

[4] MILK Brief #8: Doing the Math: Cashless funeral microinsurance in Colombia (Magnoni et al., 2012a).

Overall, the product helped pay both funeral costs and replace some lost income. Though the product is sold as life insurance, clients used a large portion of benefits to pay for or finance funeral costs. The remaining benefits were primarily used to save, return to prior consumption levels, make up lost consumption (such as delayed payment of school fees), or replace the deceased's lost income. Most claims were paid quickly, allowing families to borrow interest-free mostly from friends and family and then promptly pay back those loans, providing relief not only to the beneficiaries but to their support networks as well. Clients who voluntarily purchased additional coverage tended to spend more on the funeral, borrow more, and use more of their claim benefit to replace lost income. We also find evidence that lack of insurance led some families to use burdensome financing strategies such as taking formal loans (usually at high interest), liquidating savings, or selling valuable assets. In some cases the family could not access financing and held a very modest funeral.

Methodology

The primary aim of this study was to better understand the financial tools available to those with and without insurance as a means to identify the value of this microinsurance product. Using MILK's Client Math methodology, we interviewed 32 family members of insured Compartamos clients as well as 36 uninsured families in the same communities who had suffered similar shocks. Respondents were visited in their homes or at Compartamos service centers, answered a 40-minute questionnaire, and received a small gift for their time. Our surveys began with an exploration of the full cost of the funeral, followed by questions about how this cost was financed initially (before the insurance benefit was received). We then asked the beneficiaries of the insured about the insurance benefit, how it was used, and what they would have done without insurance. The surveys ended with questions about both the insured's and uninsured's perceptions of insurance.[5]

The life insurance product studied is very simple: it provides a cash payout to the designated beneficiary upon the death of a current borrower during the 16-week loan cycle or a three-week grace period immediately after the end of the loan cycle. Payment of this benefit is made promptly (when possible within 48 hours of receiving all claim documents). The loan balance is insured separately by Compartamos, and beneficiaries are only responsible for any payments in arrears of the deceased client. The first USD 1,160 of coverage is included in the loans of current borrowers (automatic), and clients have the option of purchasing up to seven additional USD 1,160 modules of cover for USD 4.40 per loan cycle, or USD 0.31 weekly,[6] typically with their weekly loan payment. The insurance is available to clients of all ages, though new clients and clients over 70 can only purchase one module of additional cover. The only exclusions are suicide or when the beneficiary is responsible for the client's death. About half of clients purchase additional voluntary coverage, though almost all of them purchase only one additional module. Of our insured sample, 12 received coverage from the automatic module only, another 17 from the automatic plus one additional voluntary module, 2 from the automatic plus two additional voluntary modules, and one from the automatic plus three additional voluntary modules.[7]

Table 1: Socioeconomic statistics of the two groups

Sample	Insured n=32	Uninsured n=36
Deceased age (average)	55.0	50.7
Deceased gender (% women)	100.0%	52.8%
Respondent age (average)	36.9	41.9
Respondent gender (% women)	78.1%	55.6%
Respondent education (average years)	9.3	8.9
Respondent income (average USD)	$231	$231
Respondent debt (average USD)	$636	$388
Household income (average USD)	$506	$323
Deceased lost income (average USD)	$189	$205
Deceased debt at death (average USD)	$506	$115
Household size (average)	5.0	5.0
No. of children (average)	1.8	1.3

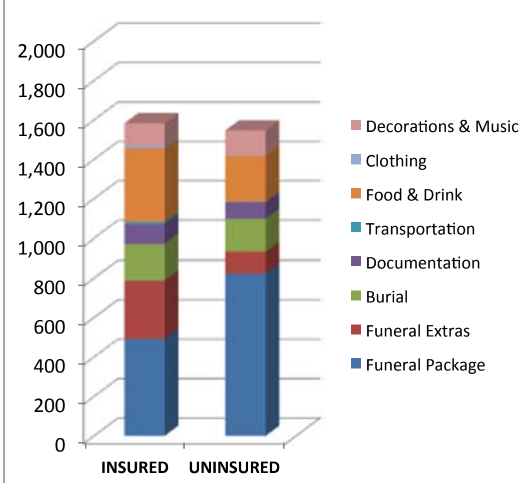
[5] For a description of the Client Math methodology, see MILK Brief #9: What is Client Math?
[6] Weekly rates are financed with interest.
[7] Two beneficiaries (with 2 and 3 additional modules respectively) received slightly lower payouts, likely because arrears had to be settled before receiving the final benefit.

Insured and Uninsured: Who are they and how did they cope with the shock?

Insured and uninsured respondents were similar in many ways, but had some meaningful differences. Respondents from both groups were close family members of a recently deceased person. Most respondents were the deceased's daughter, though other relatives were also interviewed. Insured and uninsured respondents were chosen from the same low-income communities in Puebla, Veracruz, and Chiapas.[8] The only major and statistically significant differences between the two groups were in household income, respondent's outstanding debt, and deceased's outstanding debt.[9] However, household income data may have been skewed because in some cases respondents did not know their family members' income and they were not available to clarify. Popular sources of credit for both groups included moneylenders, MFIs, community groups, and retail stores like Elektra and Coppel. Interestingly, no respondent in either group mentioned friends and family as a common source of borrowing. While all respondents had some access to credit, the insured respondents (and their deceased relatives) were more highly leveraged than the uninsured group. Insured respondents had on average USD 636 in outstanding loans vs. USD 388 for uninsured respondents, and the deceased clients had on average USD 506 in debt (including some Compartamos loans) versus only USD 115 for uninsured deceased.

Total funeral costs varied widely among all respondents, but were roughly equal on average between insured and uninsured groups. Although totals varied widely (from USD 516 to USD 3,491 for the insured group and USD 239 to USD 3,868 for the uninsured group), insured respondents only spent USD 36 more than uninsured respondents on average—USD 1,583 vs. USD 1,547 (see Figure 1[10]). In fact, insured respondents spent USD 125 less than uninsured on basic funeral elements (excluding decoration, music, food, etc.) and beneficiaries with just basic coverage spent USD 152 less on direct funeral expenses than uninsured families—even though uninsured families had lower monthly household income. This pattern likely reflects the fact that the benefit amount of basic coverage through Compartamos falls below the value of an average, basic funeral.[11]

Figure 1: Average Funeral Costs



In a combined regression of all respondents, the average funeral cost did not vary significantly by gender or age of the deceased, urban or rural residence, level of insurance coverage, household income and expenses, or deceased income.[12] The only factor significantly correlated with total funeral costs was the deceased's outstanding debt. Yet when insured and uninsured respondents are separated, all of the tested socio-economic factors become statistically insignificant, while household income and the deceased's outstanding debt remain highly significant for the uninsured group. For each additional USD 10 of household income, the family spent USD 12 more on the funeral. Furthermore, for each additional USD 10 of deceased's outstanding debt upon death, the family also spent USD 12 more on the funeral. This analysis seems to indicate that insurance equalized access to a quality funeral for Compartamos clients, while uninsured families' funeral spending depended heavily on their socio-economic status.

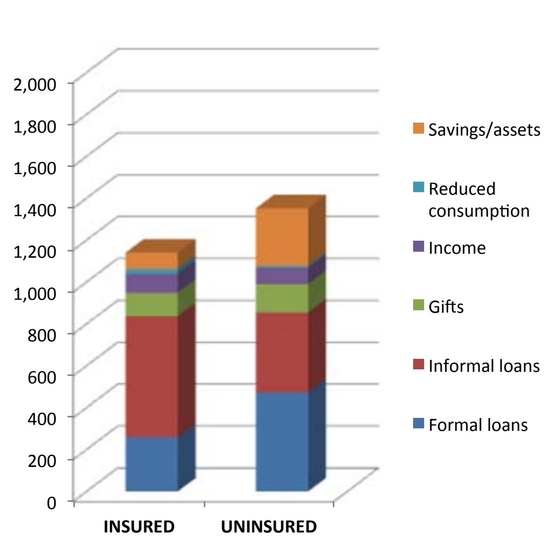
[8] A difficult security environment combined with the small number of client deaths within 6 months of the survey date forced the MILK team to survey in geographically disperse areas. This, however, ultimately contributed to a greater diversity of cases.
[9] Household economic data were subjected to an independent two-sample -test with a 95% confidence interval.
[10] The reader should interpret with caution the graphs of costs and financing sources in this brief, as they do not reflect *only* the direct effect of insurance purchase, but rather the combined effect of insurance purchase and 'being the sort of person who buys insurance.' Although we strive to find insured respondents who are similar to uninsured respondents, it may be that certain kinds of people are more likely to have insurance coverage, which may account for some differences between insured and uninsured in these graphs.
[11] The benefit amounts were determined in a market study eight years ago, and prices have since increased considerably.
[12] Results of a multivariate linear regression of total funeral costs against several socio-economic factors.

Funeral costs such as coffin, plot, embalming, and burial (including "extras" that may have not been part of a formal package) formed the largest chunk of costs (62% for insured and 71% for uninsured). Documentation was a relatively small and equal burden for both groups, unsurprising given the simplicity of claim requirements for the insurance. The USD 15 extra that insured families paid in documentation was likely for bribes to obtain the death certificate quickly, as some respondents reported doing. This contrasts with our Client Math study in Iloilo, Philippines, where insured families spent on average USD 60 more on documentation than their uninsured counterparts (Magnoni et al., 2012b).

Lost income was a serious burden for many respondents, but debt was usually resolved. In addition to direct funeral costs, the deceased's lost income was a significant burden for the surviving family of both the insured and uninsured, at USD 189 monthly for the insured group (29% of total household income) and USD 205 for the uninsured (33% of total household income). However, lost income also varied widely, from deceased individuals (including Compartamos clients) who contributed no income, to those who contributed 100% of household income. Deceased relatives of both insured and uninsured families had substantial debt outstanding upon their deaths (USD 506 insured and USD 115 uninsured), but most was MFI debt (either with Compartamos or elsewhere) that was insured separately. Other debts (USD 77 insured and USD 24 uninsured on average) were minimal and easily resolved.

Insured families relied more on informal debt, while uninsured families turned to formal debt and savings to pay for the funeral. Though insured and uninsured families financed similar amounts of the funeral cost, their strategies differed significantly (see Figure 2). Excluding the insurance benefit, insured and uninsured families raised USD 1,140 and USD 1,352, respectively. On average, the life insurance benefits were paid after eight days, and insured families needed to finance their costs up front albeit for a short time. Insured families, with the expectation of receiving a significant life insurance benefit, were able to cover major costs through borrowing, mostly informal loans from family and friends, supplemented with a small portion from MFIs or a funeral home. No insured families turned to bank loans. Uninsured families used more formal debt (including 28% of them calling on banks), and also liquidated much larger chunks of savings and assets (USD 274 vs. USD 77). In three cases, the uninsured family also sold productive assets (a banana field, a trailer, and a pig). The uninsured were probably unable to borrow informally from family or friends, given the uncertainty of payback after losing a valuable contributor to household income. This finding differs from our Client Math study in Bogota, Colombia, where despite the urban setting (where communities are not closely linked) and high funeral costs, most uninsured families relied on large loans from relatives (USD 1,232 on average) (Magnoni et al., 2012a). This may reflect the higher income level of the families interviewed in Colombia. Both groups relied in smaller portions on cash and in-kind gifts (mostly coffee, bread, and other sundries) as well as household income and minor reduction in consumption. Unlike in Iloilo, Philippines, where traditional donations covered the majority of costs, community support in Mexico is largely symbolic and rarely comes close to covering the cost of a funeral. Some small traditional communities are the exception, however. In Tepanco, Puebla, one man commented that there is a custom in his village of each family contributing cash gifts, which quickly add up.

Figure 2: Average Financing Sources



Insured families with higher coverage used greater amounts of informal debt and savings to pay for the funeral. Compartamos clients may purchase up to seven modules of additional coverage, the most common coverage is the basic (USD 1,160) and one additional paid module (for a total sum assured of USD 2,320). In our sample, economic status does not appear to influence this decision; in fact, deceased clients who purchased USD 2,320 of coverage had slightly less personal income than those who acquired only the basic module, and the same pattern follows for the respondents' own income and their total household income.[13] Nonetheless, access to higher coverage enabled those families to use much more informal debt and savings, and slightly less formal debt, to finance the funeral (See Figures 3a and 3b). Since many respondents claimed that low interest rates and reducing trouble for their friends and family were important factors for borrowing, this ability to borrow large amounts and pay them off quickly (or use their savings, then top them up again) was likely a relief to those families. It is also interesting to note that on average, insured families of both coverage levels typically paid off all informal debts, but retained a portion of formal debt—probably because the formal loans had longer duration and may have carried restrictions on pre-payment. Figures 3a and 3b display, for one and two modules of coverage, average funeral financing sources and average insurance benefit uses, showing the flow of funds before and after claim settlement.

Higher coverage enabled slightly more expensive funerals and a large income boost. Since most (63%) Compartamos clients in the sample had purchased additional coverage, the average claim payout exceeded basic funeral costs significantly. Figures 3a and 3b below illustrate how beneficiaries of one module (3a) and two modules (3b) financed their shock and what they ultimately used the insurance benefit for. Some of the surplus created by the larger insurance benefit was used for larger funerals. On average, beneficiaries who received higher coverage spent USD 218 more on the funeral (USD 1,613 versus USD 1,395)—primarily on funeral basics, burial, and refreshments. Beyond the reported uses, an average of 35% of the total insurance benefit was unaccounted for. While we cannot say with certainty how beneficiaries used this money, the unaccounted portion amounts to, on average, three months of the deceased's lost income, and may have been a useful cushion for adjusting to the loss of the deceased's income, for those families who relied upon that person month to month. In other cases, the money may have been kept to pay for education or other expenses.

Figure 3a: Financing & Insurance Usage: 1 Module Holders

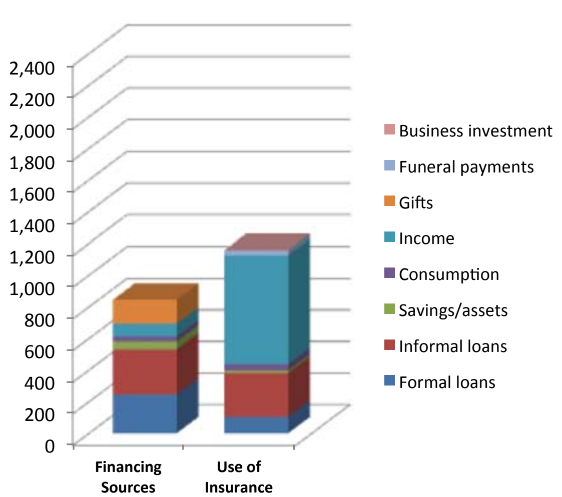
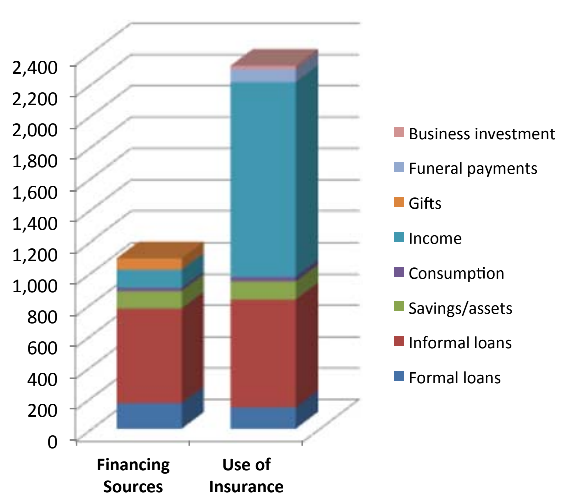


Figure 3b: Financing & Insurance Usage: 2 Module Holders



The three beneficiaries with three or more modules of total coverage (including the automatic coverage) demonstrated mixed behaviors. One individual who received USD 3,089 in benefits spent USD 1,795 on the funeral, one who received USD 3,480 in benefits spent just USD 1,332 on the funeral (using the rest to support income), and the highest recipient of USD 3,861 spent USD 3,450 on the funeral (including

[13] This is consistent with the findings of a recent randomized control trial of microinsurance demand in Compartamos based on 1.8 million clients. Analysis of such data finds a small difference in purchase between homeowners (assumed to be wealthier), 53% of whom bought additional modules and non-homeowners (assumed to be lower income), 48% of which bought additional modules (Bauchet, et. al., 2013).

USD 1,544 on food and drink alone!).[14] In terms of the proportion of benefits spent on the funeral, there is little variance based on coverage level. Those with just basic coverage used 36% on the funeral, those with one additional module used 39%, and two respondents with two additional modules of coverage used 36% towards the funeral. The highest benefit recipient can be considered an outlier, spending 89% of the benefit on the funeral. These behaviors appear to reflect the tension between a sense of duty to spend the benefit on the deceased, and the need to spend it on other household priorities such as replacing lost income or increasing savings.

A Closer Look at Select Respondents

The data above offers some insight into the overall responses from our interviews. But averages often obscure the nuances that individual stories can offer. Our interviews tell individual stories that shed further light on the trends highlighted above.

Figure 4: Alva (42), Insured

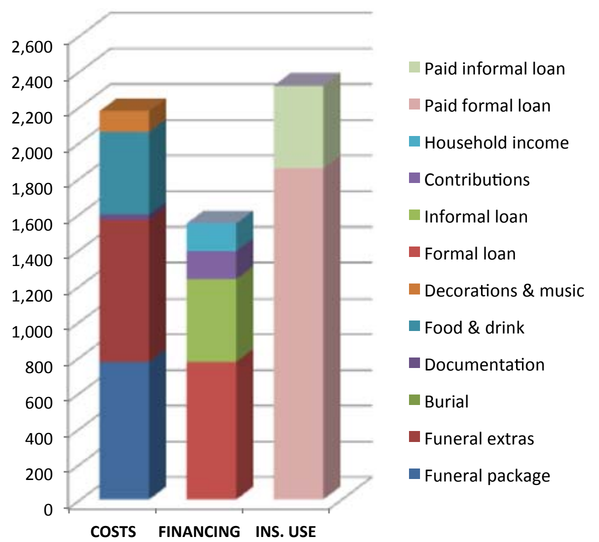
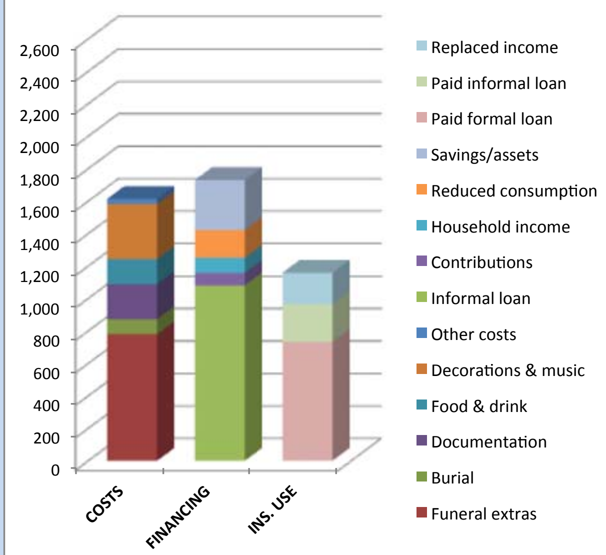


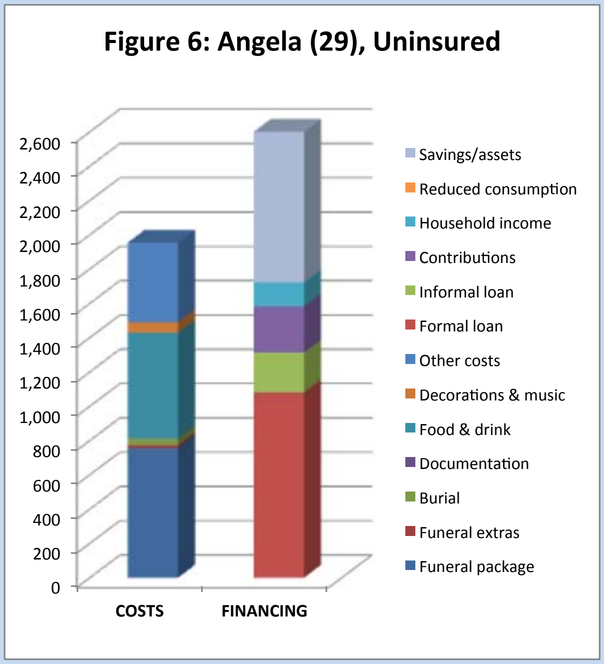
Figure 5: María (45), Insured

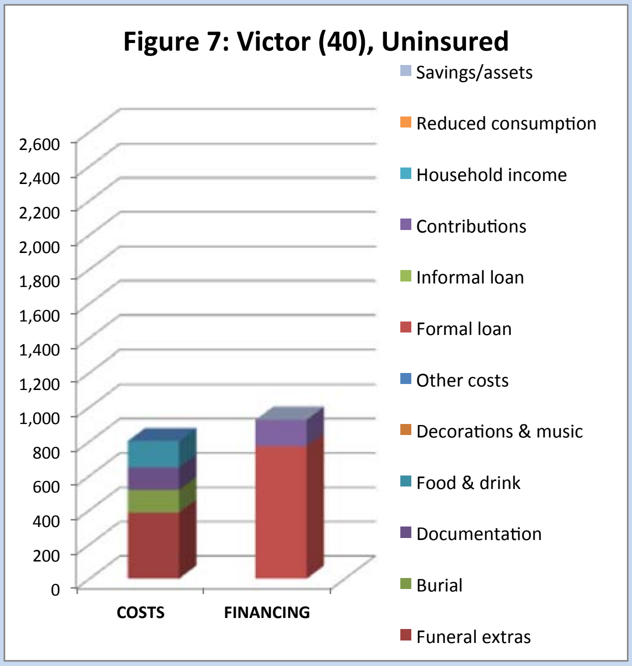


Two insured families used their benefits to pay off short-term funeral debt and to boost income. Alva is a 42-year-old housewife who lives with her husband, another adult, two children, and an elderly relative in their own home. Their household income was only USD 93 per month, and she had USD 463 in loans with a retail store at the time of interview. When her 53-year-old mother-in-law Leonor died, funeral costs added up—including a USD 772 funeral package, USD 792 in additional funeral costs, and another USD 463 in food and drinks. The life insurance benefit of USD 2,320 (one basic and one additional module) covered all costs, but it took her 13 days to assemble the necessary documentation, and two days later Compartamos paid the claim. To finance the funeral meanwhile, she relied mainly on credit—USD 772 from the funeral home, and USD 463 from friends. Small portions were financed with contributions or household income. Two weeks later Alva used the insurance benefit to pay off all debts incurred for the funeral, as well as Leonor's loan payments in arrears with Compartamos.[15] Without insurance, Alva said she would have used savings or sought more help from friends and family. Alva did not work and depended on her mother-in-law's income, so the additional module of insurance could have offset the loss of Leonor's USD 93 monthly income had she not been behind on payments. Still, Alva felt that the insurance helped her save money in financing a dignified funeral.

[14] The total benefit was somewhat lower than their coverage, likely because they had to settle arrears with Compartamos Banco prior to receiving their benefits. This would have been discounted from their final claim benefit value.
[15] Compartamos' loan insurance does not cover payments in arrears.

Our second example (Figure 5) is 45-year-old María, a microentrepreneur who lives with her parents, partner, and one child in a rented home. She contributes USD 232 of the USD 324 household income, which they exhaust in food, education, and utilities each month. At the time of interview María had USD 232 in formal loans and USD 309 in other debt. She says low interest and flexible payments are the most important factors for taking a loan. When her mother Elvia died, this low-income family struggled to pay USD 1,614 in funeral expenses. Lost income was also a major cost— María missed a week of work and USD 85, in addition to her mother's USD 309 monthly income. To finance the funeral, María borrowed USD 1,081 interest-free from relatives and a funeral home operator and used USD 309 of her own savings, then used in-kind donations, reduced consumption over four weeks, and household income (including that from a new job that brought in a meager USD 31 per week) to pay the rest. Luckily the claim payment arrived just eight days after the death, and she used most of it to pay down informal debt—USD 734 to embalmers and USD 232 to other relatives. The rest helped boost lost income. She says that without insurance, she may have had to resort to a moneylender at high interest. María considers that the insurance helped her save money overall. Given the large portion of already low household income that her late mother contributed, María surely could have benefited even more from an additional USD 1,160 module of coverage. Given the multiple up-front financing sources she used, cashless funeral coverage may have also been more appropriate and reduced stress for her as well.





Uninsured families relied heavily upon formal debt for basic funeral costs; acquiring additional services depended on availability of savings, assets or income. Uninsured respondent 29-year-old Angela (Figure 6) lost her mother Felicitas to sudden illness. Angela lived in her own home with her partner, two children, and an elderly relative. Angela makes ends meet with USD 77 monthly earnings selling bread and her partner's USD 216 income. At the interview date she had USD 695 in loans and USD 23 in savings with a popular retail store, plus USD 154 in other debt. She borrows regularly at the store instead of at cheaper alternatives, because she values convenient payment times, low requirements, access to savings, and reducing trouble for friends and family. In addition to funeral costs of USD 1,490, Angela also spent USD 463 to transport her mother's body from Tuxtla to Tapachula and USD 200 in hospital bills.[16] Angela pieced together multiple financing sources to meet these costs. She borrowed USD 463 interest-free for a month at the funeral home, USD 232 interest-free from friends, USD 695 at 66% annualized interest with 78 weekly payments from a bank, and USD 232 from another source at 87% annual interest with six monthly payments. To cover these debts, Angela also used USD 232 of

[16] These are not included in the total costs since they are indirectly related to the death.

her savings, and "not knowing what else to do," sold her banana field for USD 680 which was significantly more than she needed to complete her immediate financial needs. She also paid a small portion of costs with household income, and personal and local government donations. She claims to know little about insurance, which she believes is for rich people. Still, she would consider buying life or health insurance, as they "help avoid having to sell belongings or use savings."

The second uninsured example illustrates how some families, without access to either insurance, assets, or informal loans, simply had to skimp on funeral costs. 40-year-old Victor (Figure 7) works as a civil servant and lives in a rented home with his partner, two children, and his widowed father. He lost his mother Maria at 64 years of age. Victor earns USD 386 per month in addition to other household members' USD 463. Previously his late mother contributed another USD 154. Victor currently had USD 1,544 in loans (from the funeral) and USD 394 in savings at the same retail chain as Angela. Although the family had a substantial surplus income each month, a large portion of this goes toward paying off the retail loan. Victor's family arranged a relatively modest funeral for USD 803. He also lost USD 39 from three missed days of work. To pay the direct costs, he took a two-year, USD 772 microfinance loan with USD 31 weekly payments—adding up to 204% annualized interest. Still, he preferred to borrow from the MFI because it is fast, while he considers borrowing from family or friends to be embarrassing. He also reports receiving USD 154 in flowers from relatives. In this case we find a respondent that is not among the poorest, but already highly leveraged and unwilling to use his hard-earned savings (probably intended for another purpose) on a funeral. A basic funeral or life insurance policy could have helped this family avoid over-indebtedness at exorbitant interest rates.

Was it worth it?

For low-income Mexican families, insurance helped beneficiaries tap into social networks, which offer only partial, temporary, and conditional support for funerals. Most respondents relied on some form of support from family, friends, and neighbors. Yet for both groups, in-kind donations (usually food or flowers) and cash gifts were mostly symbolic (the case of Tepanco is one exception). Borrowing from these networks depended on the respondent's ability to pay back quickly. Insured respondents, with a guaranteed source of repayment, were able to borrow more, using the insurance benefit as "collateral" according to the level of coverage they had. Uninsured respondents, unsure of how to pay back informal debt, resorted to expensive formal debt, savings, or even asset sales. Given these trends, ***there is a large untapped potential for funeral and life microinsurance as well as funeral provision plans in Mexico***.

Insurance was a more effective way to prepare for the cost of the shock than savings. The first USD 1,160 of coverage is automatically included with any Compartamos microloan, and thus factored into the interest rate paid. Additional coverage comes at a moderate cost—USD 4.40 per loan cycle[17] for each USD 1,160 module, equivalent to an annual premium of approximately USD 12. The insured families were unlikely to have been able to save enough to cover the funeral, and so, for them, the insurance provided great value (given that the shock occurred).

Photo 2: A client's daughter explains how insurance helped them repay her brother, who put up front much of the money for their mother's funeral.

Fairness offers value and predictability. Compartamos' life microinsurance offers two fundamental added values. The first is the separation of loan insurance from life insurance. Compartamos automatically insures its clients' loans under a separate policy, and surviving relatives are only responsible for payments in arrears at the time of death. This leads to greater equality and fairness in the payment of claims, in contrast to our study of funeral and life

[17] In reality, Compartamos "Crédito Mujer" loan cycles are 16 weeks long, but the insurance covers 19 weeks as a buffer to allow for delays in loan renewal for continuing clients.

microinsurance in the Philippines, where deducting outstanding debt from the benefit led to a disadvantage for some clients' families.

Speedy claims help clients further leverage their insurance benefit as collateral for informal borrowing. The second added value is the speed with which claims are usually paid. Compartamos strives to pay claims within 48 hours (though delays do occur) of receiving complete documentation—which includes only the beneficiary's ID and the client's death certificate, and a copy of the policy for additional modules (the basic coverage policy is kept at the local office). The average processing time for claims is currently 17 hours[18] from receipt of all completed claims documents. While the average time before receiving a payment in our sample is nine days after death, including five days average time between death and claim reporting, this still compares favorably with similar products, such as MicroEnsure's combined funeral and life product in the Philippines. Anticipated insurance payments often serve as a form of collateral for informal borrowing, but when borrowing from similarly low-income friends or family, short repayment times are key and can help justify larger amounts. By paying quickly, Compartamos' life microinsurance enables beneficiaries to borrow extensively from friends and relatives who otherwise might not feel comfortable lending large amounts for more than a few months, and then pay them back quickly. This helps beneficiaries avoid social tension, costly formal debt, savings liquidation, and selling productive assets.

Photo 3: A simple burial plot.

Basic insurance coverage does not encourage "bigger box" spending, and poorly defined benefits could cause stress. One concern that is raised in questioning the value of funeral insurance is that it will lead families to simply buy a "bigger box," or spend more on the funeral than they would have without the insurance. Case et al. (2008) found evidence of this trend in South Africa, while Hougaard & Chamberlain (2011) refute this theory, observing that funeral costs are high regardless of whether the deceased had funeral insurance and that people will "beg, steal, or borrow" if needed to pay for the funeral. While our study cannot prove that insurance or any other factor caused any change in spending, we observe that despite a significant income gap, insured families spent little more on funerals than uninsured, and families with just basic coverage actually spent less than uninsured respondents. Given the equally pressing needs of paying the funeral and making ends meet after losing a breadwinner, many families with basic coverage likely skimped on the funeral to boost their income. Tension between funeral usage and income boosting needs may have caused some stress and guilt for some beneficiaries, who reacted defensively to survey questions about their use of the benefit. A common refrain was, "Everything I received I used for her, it was her money."

Photo 4: An elaborate mausoleum.

Additional coverage gives beneficiaries the option of a bigger box, and/or a bigger cushion. In terms of the proportion of benefit spent on the funeral, there is little variance based on coverage level. Those with just basic coverage used 36% on the funeral, those with one additional module used 39%, and two respondents with two additional modules of coverage used 36% towards the funeral. The highest benefit recipient can be considered an outlier, spending 89% of the benefit on the funeral. Thus while the proportional level of funeral spending to insurance benefits may reflect the pressure beneficiaries feel to use the money for the deceased, insurance usage ultimately depends on the beneficiary's priorities. Insurance can finance a bigger box—or a bigger income cushion, or simply a

[18] Since the Client Math study Compartamos has made major efforts to improve claims payment times.

bigger fiesta.

Cash benefits, especially when paid quickly, have both positive and negative implications for value when compared to cashless products. Our Client Math study of the cashless funeral microinsurance in Colombia (Magnoni et al., 2012a) found significant value in the cashless component of the product. The process of financing the funeral became much more seamless, as most of the costs were discounted and covered up-front by the funeral package, and personal services facilitated the organization of a funeral. Yet such a product might have had pros and cons for our Mexican respondents. While cashless service could reduce the stress of arranging and financing a funeral, it also takes away some choice over the elements (flowers, candles, music, etc.). Given the symbolic importance of death rites in Mexican culture, these choices may be very important to clients. In any case, the cash benefit was arguably most useful for temporarily replacing some of the lost income of the deceased. At 55 years of age on average, they earned USD 189 monthly, and the 78% who lived with the respondent earned on average USD 181 monthly, or 40% of household income before their death. Thus, from a demand point of view, a cash benefit (or combined funeral and cash life benefit) may be more appropriate for economically active individuals, while simple funeral coverage may be more suited for older individuals such as the late relatives (at 64.9 years old on average) of our Colombia respondents.

MFIs and other institutions can build demand for microinsurance by offering simple, affordable, and reliable products. In general, the experience with life microinsurance seems to have positively influenced insured respondents' views about insurance in general. All of them said the insurance was a good decision, and 66% believed it helped them save money. They also were more likely to name advantages of insurance and less likely to name disadvantages (See Figures 8 and 9). Interestingly, the insured were much less likely to believe that insurance reduces worry about the future. This suggests that while the cash benefit helped recover lost income temporarily, they still had concerns about making ends meet long term.

Figure 8: Advantages of Insurance

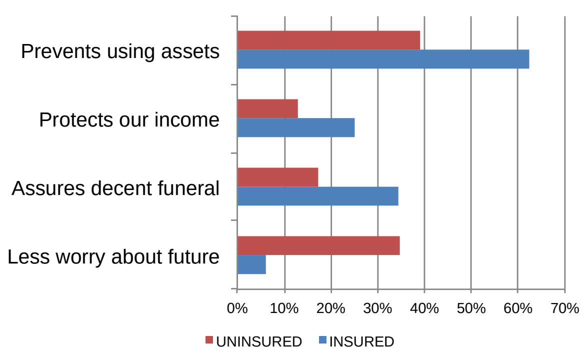
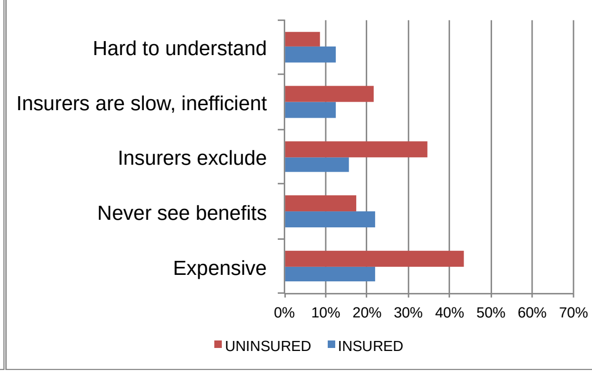


Figure 9: Disadvantages of Insurance



Among uninsured respondents, there was little knowledge about insurance or willingness to learn. About 28% claimed to know nothing about insurance, 17% said health or property insurance were useful but life insurance was not, and the rest did not respond at all. Only 17% said they would be interested in purchasing insurance, almost all of them citing health, the other 39% declined and the rest did not respond. Among those who expressed no interest in purchasing insurance, 35% said it was too expensive, and 26% said they did not trust insurance companies. This lack of knowledge proved costly for many families, who relied on high-interest loans and savings withdrawals to finance the funeral. While retail lenders used by many uninsured respondents also offer microinsurance, these products are usually more expensive and offer less value due to multiple exclusions. Which Mexican providers will fill the gap for non-microcredit clients who need life insurance thus remains to be seen. With an appropriate and efficient business model, MFIs (with their greater social focus) could seize this opportunity to expand their focus beyond credit. The case of Compartamos offers an interesting illustration of this potential.

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.

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