

MILK Brief #17:

“Doing the Math” – Calamity Microinsurance in the Philippines¹

Studying MicroEnsure’s Calamity Insurance in Mindanao and Panay

Like many island nations, the Philippines experience some of the world’s most severe weather: monsoons, cyclones, and typhoons regularly buffet the 7,107-island archipelago, devastating low-lying basins with landslides and flash floods. Weather disasters represent a common risk faced by low-income households worldwide: our Client Math Briefs #10 and #15 analyzed the financial effects of floods on households in Ghana and Haiti, highlighting some of the tensions between the needs of end-clients and those of the institutions that lend to them. As the incidence of extreme weather has risen in recent years around the world, poor households are increasingly vulnerable to damages, and the subsequent loss of assets and income can have tremendous financial consequences.

In an effort to help clients protect themselves from serious financial losses due to these risks, MicroEnsure Philippines offers a calamity microinsurance product through the microfinance institution TSKI. The product was developed in close collaboration with the MFI, which identified these risks as critical to their clients. The insurance offers a lump sum of PHP 10,000, or **USD230** in the case of typhoon, flood, earthquake, volcanic eruption, landslide, tsunami, fire or lightning. This simple structure



Floods in Panay and southern Mindanao caused tremendous financial burden to residents in 2011.

differs from other flood insurance products we have studied, such as MicroEnsure’s Obra Pa product in Ghana, in which a client’s outstanding loan amount is deducted from the cash payout. The TSKI product is mandatory: all TSKI’s 193,000 loan clients pay a small premium of USD3.45 per year along with their loan payments. This paper seeks to assess the financial, expected, and service value of this product to TSKI clients who have been victims of flooding.

While there are few existing studies of the value of (non-agricultural) property microinsurance, Morsink et al. (2011) studies the impact of a calamity insurance product covering typhoon damage among low-income households in the Philippines. They find that insurance decreases vulnerability and reduces the chance that households fall into the poverty trap. Specifically, insurance reduces the chances that households will turn to “high-stress” coping strategies such as the sale of productive assets. Thus, insurance can have value not only in easing the burden when a shock occurs, but also in helping to keep low-income families from sliding further into poverty.

In June 2011, a flash flood hit the Davao region on the island of Mindanao, killing 30 people and affecting nearly 25,000 families (National Risk, 2011). One month later, a typhoon caused the Iloilo River to overflow on the island of Panay, affecting 1,090 families. The local government and the Red Cross provided disaster relief on the spot: in the case of Davao, an estimated USD76,000 in food, clothing and financial assistance was provided to the region (NDRRMC Update July 2011). However, the financial support was relatively limited compared to damages. TSKI’s clients and thousands of uninsured were forced to cope with the grave

¹ This MILK Brief was prepared by Barbara Magnoni and Laura Budzyna (February 2013).



financial consequences of the floods. The MILK project partnered with MicroEnsure and TSKI to better understand the value of the calamity insurance for TSKI’s clients who made claims on this insurance after this devastating event. We found that aid and government support was made available to most respondents in our study, but was minimal compared to their needs. The support of friends and family was also limited. The need for an additional and efficient source of funds was evident, and the TSKI product played a crucial role in filling this gap. Long delays (averaging 42 days) did reduce the overall value of the product, leading clients to use more inefficient financing strategies for up-front costs in the meantime. However, the knowledge that the insurance benefit was forthcoming may have helped clients access other sources of funds, including low-cost loans from friends and family, which the uninsured did not access to the same degree. Trusting that the payment would arrive, insured families were also less likely than the uninsured to deplete their savings to cover the costs of repairs, preferring instead to reduce their spending while they waited for the payment. Once received, the product played an important role in helping the insured to recover.

Methodology

We centered our research on two main questions: first, how did respondents with and without insurance cope with the financial consequences of the flood? Second, were the insured ultimately better off financially than if they had not been insured?

In order to answer these questions, the team interviewed 30 TSKI clients in February 2012 who had received the full payout between July and October 2011 after experiencing flood damage. Because of safety and time constraints associated with home visits of claimants who lived in remote rural areas, we held interviews with twenty-five claimants in one location in the Barangay or neighborhood of Matina in Davao City, and the remaining five on Panay Island, at the claimants’ homes.² The team also interviewed 30 people from the same communities who were affected by the flood but who were not covered by calamity insurance. We selected respondents who were active clients of MFIs or Mutual Benefit Associations other than TSKI in an effort to compare groups with similar levels of financial access.



Interviewing a respondent at her home in Panay

While a wholly random selection was not possible, we interviewed all affected clients listed in MicroEnsure’s database of claimants in the specific areas selected for the study and randomly selected non-clients. Our interviews took place five months after the floods, and approximately three to four months after most of the insured respondents had received their claims. Recollection of damages and expenses were still high as many respondents were still recovering and rebuilding.

The insured and uninsured: Who were they?

The two surveyed groups were very similar in many respects, though they also differed on a few critical aspects that likely influenced their capacity to cope with the shock. Both groups were almost entirely female, with an average age of approximately 40 years. Half of the respondents in each group were self-employed, mostly as small-scale shopkeepers. Over 80 percent of respondents in each group were homeowners. Insured respondents had slightly more years of schooling on average than uninsured respondents (11.6 and 10.3 years,

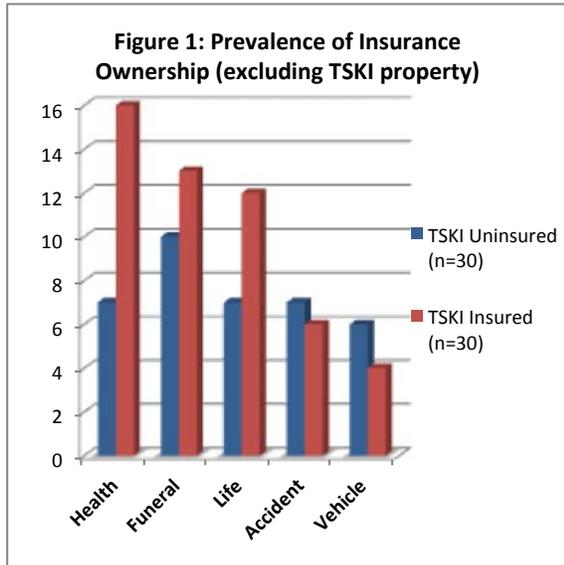
Table 1: Socioeconomic Characteristics of Insured and Uninsured Respondents

	Insured (n=30)	Uninsured (n=30)
Age	40.1	40.8
% women	96.7%	96.7%
Years of schooling	11.6	10.3
Number of children	1.8	2.7
Household size	5.3	5.6
% migrant family member	50.0%	6.7%
Monthly HH income	USD401	USD193
Monthly remittances	USD248	USD7
% own home	83.3%	86.7%
% self-employed	50.0%	53.3%
% receiving remittances	30.0%	3.3%

² Our field team was based in Panay and had greater access to travel to respondents’ homes in Panay than in Davao.



respectively). We found that the insured group had significantly higher monthly household income than the uninsured (USD401 vs. USD193), excluding remittances. Including remittances, this gap was even larger: USD649 for the insured vs. USD200 for the uninsured. Many respondents in the uninsured group were housewives who did not supplement the household income (11 uninsured vs. 3 insured), thus uninsured families were more likely to be dependent on only one male family member's income.



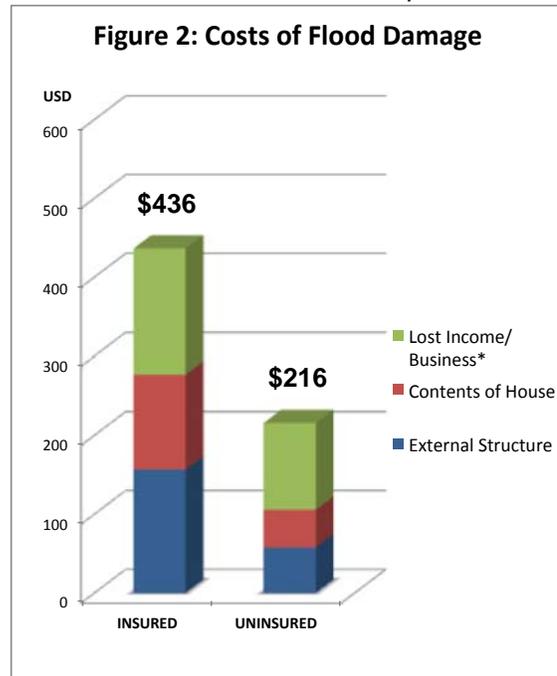
Because these substantial differences in income make it difficult to compare the dollar amounts of costs and financing sources across groups, we will express much of the analysis of flood costs and financing in terms of **percentage of income**.³

Despite the differences in income, the financial lives of both groups are quite similar. As active MFI loan clients, all respondents were regular borrowers, with comparable amounts of outstanding loans (USD93 for insured vs. USD75 for uninsured). Because they were

more likely to borrow from MBAs and cooperatives than the insured, we gather that the type of credit they received differed somewhat, where they had access to *consumer* rather than *enterprise* loans. Interestingly, both groups exhibited high awareness of insurance. Both groups reported the most important factors for choosing a loan were its interest rate (73% of insured and 77% of uninsured mentioned this factor) and the access to insurance (73% of insured and 47% of uninsured). In fact, although no uninsured respondent was covered by calamity insurance, a large majority of uninsured respondents (77%) had some other type of insurance, most commonly health, funeral and life (see Figure 1).

How much did it cost?

The financial costs of the floods were severe. On average, **flood damages amounted to over one month of household income**. Lost business and foregone wages represented the largest portion of the cost, followed by external house damage and destruction of house contents.



The cumulative cost averaged USD436 for the insured and USD216 for the uninsured (see Figure 2).^{4,5} While the absolute cost differed significantly between groups

³ The percentage of income figures will use pre-remittance income as the denominator.

⁴ The reader should be cautious in interpreting the graphs of costs and financing sources in this brief, as they do not reflect *only* the direct effect of insurance purchase, but also the differences between the two groups. These differences include the apparent income differences as well as possible unobserved differences between the two groups (TSKI clients may be different from borrowers of other MFIs in important but unobserved ways). Although we tried to ensure that the insured respondents were similar to the uninsured respondents, observed and unobserved differences between the two groups could account for some of the difference between insured and uninsured in these graphs.

⁵ In calculating the averages for lost income / business, we omitted three outliers. One insured client reported a wage loss of PHP 216,000 (USD4968), and an uninsured client reported a wage loss of PHP 25,260 (USD581), both well outside the range of other reported losses. In addition, an uninsured client reported a business loss of PHP109,000 (USD2507). These numbers skewed the averages and overstated the typical income/business losses.



($p=0.0007$), the financial burden was nearly equal: **losses represented 109 percent of monthly income for insured respondents and 112 percent for uninsured respondents.** Because we selected insured and uninsured families living in close proximity for the study, it is unlikely that this difference is due to location: observationally, neither group was concentrated in more severely flood-affected areas. The income differential between the groups helps to explain some of this difference: we can presume that lost assets and foregone income of the insured respondents were of higher value than those of the uninsured respondents, due to the higher income levels and higher employment rates of the insured.

Lost Wages. A large proportion of losses from the flood were indirect, due to lost workdays and business revenues. In 77 percent of insured households and 83 percent of uninsured households, at least one family member missed work in the aftermath of the flood. Of the insured and uninsured respondents who missed work, uninsured wage-earners remained out of work for a longer period: the insured respondents who missed work reported losing an average of 11 workdays, while the uninsured respondents who missed work report losing an average of 17 workdays. This resulted in an average of USD77 and USD67 in lost wages overall, or 19 percent and 35 percent of monthly income, respectively.⁶ This amount was



A boy indicates the highest point reached by the floodwater: just below the blue paneling. The flood submerged the entire first floor of this Panay home.

relatively low in comparison to the respondents' lost wages in our study in Ghana, where damage to business inventory led to extensive lost income. The insured in Ghana lost 90 workdays and uninsured lost 111 workdays, and the value of forgone income represented 135 percent and 168 percent of the monthly household income of the insured and uninsured, respectively. In the Philippines, damage was concentrated at the household level, while the floods affected business income and inventories less severely.

External Damages. Most respondents - 90 percent of insured and 73 percent of uninsured - suffered external damage to their home, most commonly to the roof, walls and electrical infrastructure. Insured and uninsured households spent an average of USD156 and USD58 on house repairs, representing 39 percent and 30 percent of monthly income, respectively. Of those households that made repairs, the average repair cost was USD181 and USD83, or 45% and 43% of monthly household income, respectively.

Household contents. Many respondents' personal possessions were damaged or destroyed in the flood - 83 percent of insured and 73 percent of uninsured respondents reported damaged household items, especially furniture, electronics and clothing. On average, insured respondents spent USD120 to replace these items, and the uninsured spent USD47, accounting for 30 percent and 24 percent of household income, respectively. It is important to note that these costs reflect only those goods that were actually repaired or replaced: the actual value of items lost and *not* replaced is much greater. For insured respondents, the **total value of lost goods** amounted to

USD770; for the uninsured, the total value of lost goods amounted to USD341. In other words, both insured and uninsured respondents only replaced 16 percent and 14 percent of their lost goods, respectively.

Business Losses. In our sample, 77 percent of insured and 30 percent of uninsured reported that their businesses suffered due to damaged equipment and inventory or blocked transport to and from their

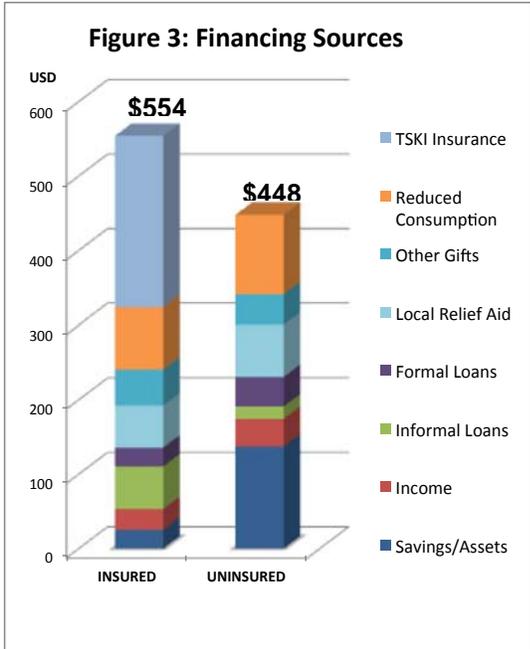
⁶ These figures, as with the figures in the charts, omit the outliers indicated in Footnote 5.



business, clients and suppliers. This compares to 90 percent of respondents in our Ghana study across the board. Overall, the insured estimated an average business loss of USD82, or 20 percent of income; the uninsured estimated USD43 in losses, or 22 percent of income.

How did the insured and uninsured cope with the shock?

Because the insurance payout was designed to arrive several weeks after the flood, the two groups used



similar up-front financing mechanisms. Gifts and informal loans from family and friends did play an important role; however, they comprised a relatively small portion of flood financing compared to other financial shocks we have studied.⁷ Instead, both groups turned to other financing mechanisms, including substantial “belt-tightening” or reduced consumption, though the burden seems to have been greater for the uninsured both in relative and absolute terms. Knowing that a payment was on the way, the insured preferred to reduce consumption rather than tap into their savings. By comparison, the uninsured relied much more heavily than the insured on savings. The insured relied more heavily on informal loans, likely because the pending insurance payment served as collateral.

In total, the insured financed USD554 compared to USD448 by the uninsured, including the claim benefit (Figure 3). For the insured, this total financing represented 127% of the reported total costs (though not likely all of the timing problem - because the insured losses since some repairs were not made). This over-financing reveals that

respondents waited an average of 42 days to receive their payout, they used more inefficient methods to finance immediate costs up front. The uninsured also financed over twice their costs, suggesting even greater inefficiencies for the group that had to scrape together funds from a variety of sources.



A client demonstrates the damage wrought by the flooding of the river.

Gifts and Transfers. In our study (MILK Brief #13) of a life and funeral insurance product, also offered through MicroEnsure and TSKI in the Philippines, we found that family, friends and community networks provided crucial support in coping with the financial consequences of a family member’s death, though they alone were not sufficient.⁸ For funerals, insured families received USD1,057 and uninsured families USD1,102 in gifts and transfers, mostly from family, friends and community following the death of a family member.⁹ In the case of flood, these traditional social support mechanisms

were insufficient, covering USD48 and USD40 respectively and leaving a large portion of the cost uncovered. This is likely because calamities such as floods are perceived to be more common than deaths, and thus family and friends cannot be called upon as frequently. Additionally, in the case of the floods we studied, the whole community was affected. This covariate shock likely limited the capacity of

⁷ See MILK Brief #5: Changing Role of Family Networks in Coping with Risk

⁸ See MILK BRIEF #13: “Doing the Math” - Funeral and Life Microinsurance in the Philippines

⁹ Ibid



family and community who live closest to the flood victims to provide the same level of support.¹⁰ **For this reason, most “gifts” or transfers to flood victims came from relief aid from local government.**

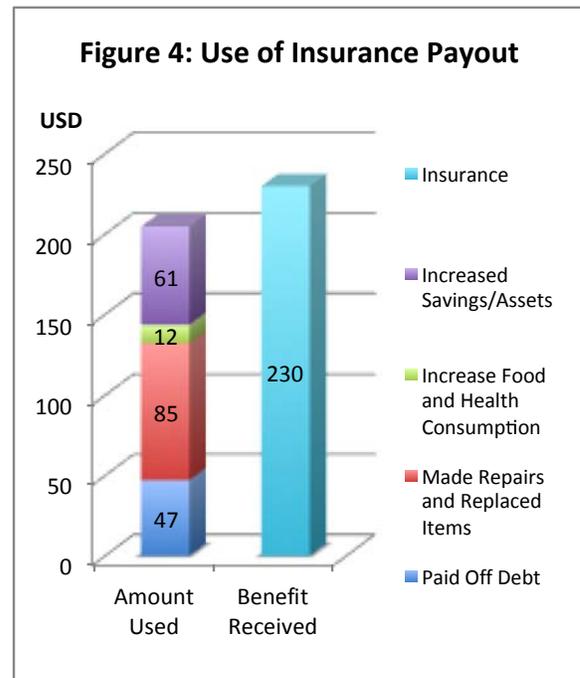
In our sample, 83 percent of insured and 77 percent of uninsured respondents received some type of gift or transfer, averaging USD105 for the insured and USD110 for the uninsured. Over half of this amount came from **local government** relief aid. In the few cases where losses were low, these transfers made a significant difference in the lives of those who suffered flooding. Unfortunately, these were the minority – only for 10% of the insured and 33% of uninsured did the government cover at least half of the costs.

Reduced Consumption. Almost all respondents – 80 percent of insured and 77 percent of uninsured – reported cutting consumption after the flood. Nearly all respondents tightened their food budgets, and one third of both groups spent less on education. In all, spending decreased by USD83 among the insured and USD107 among the uninsured. This belt tightening arguably hit the uninsured much harder than the insured: while the insured decreased spending by **21 percent of their monthly income**, the uninsured cut spending by **55 percent of their monthly income**. As mentioned before, the reduced spending by the insured likely represented a preference to “hold out” until the payment to arrived.

Loans. In our sample, 47 percent of the insured and 40 percent of the uninsured borrowed to cover a portion of the costs. In both cases, borrowing was not the primary response to the financial shock of the flood: the average amount borrowed represented only 19 percent of the total cost for insured respondents and 26 percent of the cost for uninsured respondents. For those who suffered larger damages, however, borrowing was a more commonly used financing mechanism, as gifts and savings were not generally sufficient to cover these higher costs (see examples below). Of those who received loans, the average loan amount was USD177 for the insured and USD141 for the uninsured. Among the insured, borrowing was primarily informal: 43 percent borrowed informally, mostly from family and friends, and only 10% took out formal loans. Our case studies below also suggest that the insured may have had easier access to loans from friends and family **because** they were expecting an insurance payout and knew they would be able to pay the loans back. Among the uninsured, an equal proportion of respondents had informal and formal loans (23 percent each). These were primarily from MBAs and cooperatives, which typically offer fast access to consumer loans.

Savings. Both the insured and uninsured respondents in our sample report using savings (33% and 43% respectively), while the uninsured used a larger dollar amount (**USD48** vs. **USD25**, on average). For the uninsured respondents, who were poorer to start, the flood damage depleted a large proportion of their savings balances, and they were left with only USD23 in average savings. The insured respondents who tapped into their savings accounts still had an average ending balance of USD168. The fact that the insured did not use their entire savings but instead preferred to borrow or even reduce consumption suggests that a resistance to using savings to deal with a financial shock when other mechanisms are available. The experience of the uninsured in the Philippines might offer an explanation: the flood, in effect, swept away the small cushion of savings that the uninsured had, leaving them even more vulnerable to future shocks.

Income. Half of the respondents in each group reported using income to pay for flood costs. The insured dedicated USD28, or 7% of their monthly



¹⁰ This type of “covariate” shock, where the support structure typically used to low-income households to cope with a shock breaks down, is where insurance often has the greatest potential to provide value (Clarke and Dercon, 2009).



income toward flood expenses vs. the uninsured who used USD37, or 19%, of theirs. In both cases, the absolute amount is small relative to the magnitude of the damages.

Asset Sales. Although only two respondents – both uninsured – sold assets in order to pay for flood costs, the magnitude of these sales factored heavily into the analysis. These two sales generated USD2,070 and USD621. Both of these clients suffered losses well above the average – USD2,847 and USD1,045, respectively – which may have explained the need to sell high-value assets. The first such respondent did not borrow to cover costs and had no outstanding loans at the time of the interview, perhaps due to low access to credit. She also had very little savings (USD23), which necessitated the selling of the asset. Similarly, the other respondent who sold an asset, for USD621, had no savings and her only regular source of credit was friends and family, who were only able to contribute USD138 after the flood. In both cases, a large asset sale seemed the only recourse for these individuals, but may have had severe long-term consequences for both (see Morsink et al, 2011).

How did the insured use the payout?

A closer look at the use of the claim benefit suggests that insured respondents used the insurance to bounce back from the effects of the floods. All thirty of the insured respondents received the full USD230 payout an average of **42 days** after submitting a claim. While the insurance payout was substantial, representing 57 percent of the insured respondents' average monthly income and 53% of flood costs, the delay in the claims payment required them to use other financing strategies in the interim.

When asked how they spent this sum (see Figure 4), clients responded that the majority of the payout (around USD85) went toward household repairs and replacement of damaged goods. About a third of clients reported increasing food and health consumption as well, although this only amounted to an increase of USD12 on average.

An average of USD53 went to increase savings and assets; just over half insured respondents report investing the money. In most cases, this cash was reinvested into the client's business. This reflects a conscious choice to either increase or recover productive capital that will generate future income.

A comparatively small sum of USD43 went toward repaying debt. We saw that borrowing was not the primary strategy used to finance flood damages by either group, and accordingly, repaying loans was a comparatively less important use of the insurance payout.

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. The examples below were chosen in part because they involve insured and uninsured respondents with similar income levels. This helps us to make a more direct comparison between the coping strategies used by insured and uninsured respondents, a comparison that is more difficult to make between the insured and uninsured groups as a whole due to the substantial differences between those groups.

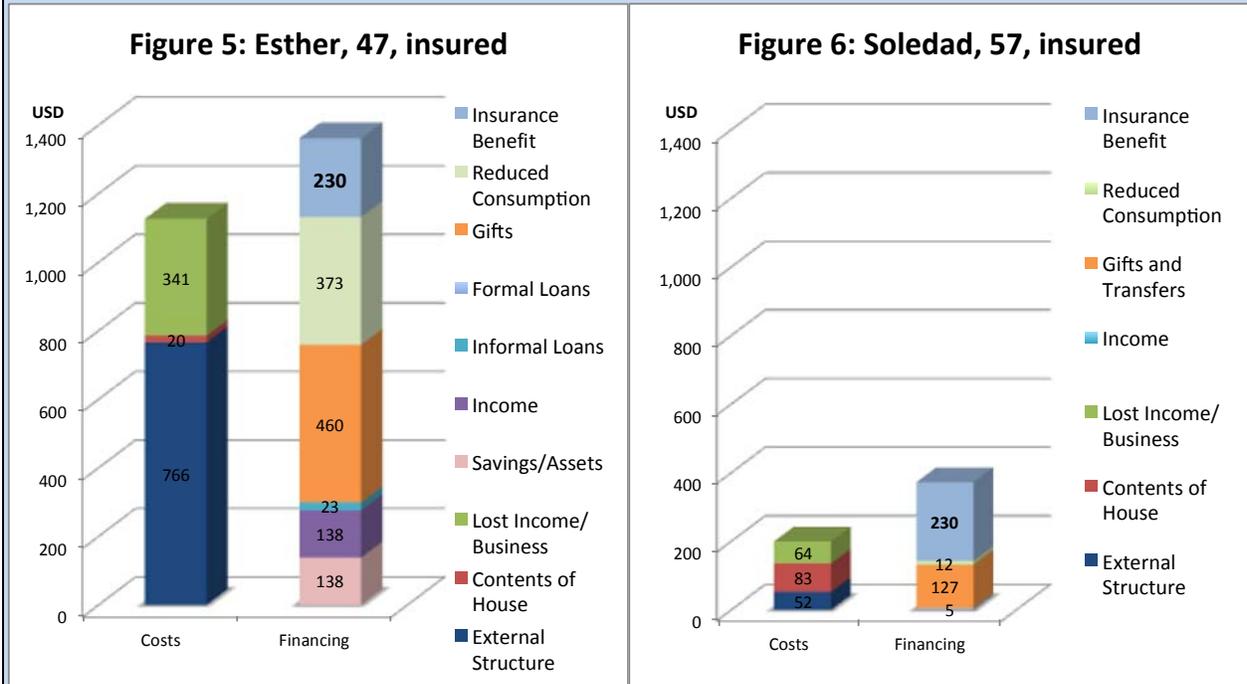
Insured TSKI Clients: Esther and Soledad

Esther is a 47-year old married woman who heads a household of seven people. She buys and sells frozen food to contribute to her household's monthly income of USD242. She owns a bicycle, a TV, a refrigerator and 15 chickens. As a TSKI borrower, she was covered by the calamity insurance. She also reports having life insurance, personal accident insurance, health insurance and funeral insurance, as well as a savings account.

The July 28th flood affected her home tremendously. She spent USD766 to remove waste, repair water damage and replace the damaged electricity system. She also spent USD20 to replace damaged furniture, windows, electronics, and business inventory. She and her husband each missed 15 days of work after the flood, and her business also lost an estimated USD115 in profits. In total, her household



suffered USD1126 in damages.



Esther received the payout of USD230 22 days after she filed the claim. Since her losses were so great, the payment covered only 20 percent of the damages, and Esther’s family had to raise the remaining money themselves. They received a substantial amount of gifts (USD460), one quarter of which came from the local government and the other three quarters came from friends. Esther also reports cutting spending on food and education by USD363. Her family used USD138 of income and borrowed USD23 from a friend. Unlike most TSKI clients, she had to use USD138 of her savings.

Soledad is also an insured TSKI client. She is 57 years old, married, and heads a household of four. She owns her home and her business – a *sari-sari* (convenience) store. She owns a TV, a radio, a cell phone and an electric fan and a pedicab. Her household’s total income is USD198 monthly, and her *sari-sari* store contributes USD69 to this total.

The flood cost her family a total of USD199. After the flood, she spent USD52 on water and waste removal, as well as repairs on the roof, walls, and piping systems (see Figure 6). In addition, she spent USD83 to repair her television, refrigerator and other electronics, as well as to replace food and business inventory. She was forced to leave her house and stay with family for two days, and she and another family member missed a total of three days of work. She also reported that she lost about USD23 in business due to inability to travel and damaged merchandise, adding to a total loss of USD199.

Soledad was able to avoid borrowing to finance her repairs and expenses. Expecting only a USD58 payout, she financed the majority of her loss with **gifts** (a total of USD127 – USD115 from friends and family and USD12 in government transfers), with a slight spending decrease on food (USD12). By the time she received the benefit, 120 days after the event, she had financed most of her costs. As a result, once she received the claim benefit, Soledad was able to use the funds for more productive purposes such as investing in her store, as well as paying for some remaining repairs and replenishing food and household necessities.



Uninsured Respondents: Rocelyn and Emee

Figure 7: Rocelyn, 31, uninsured

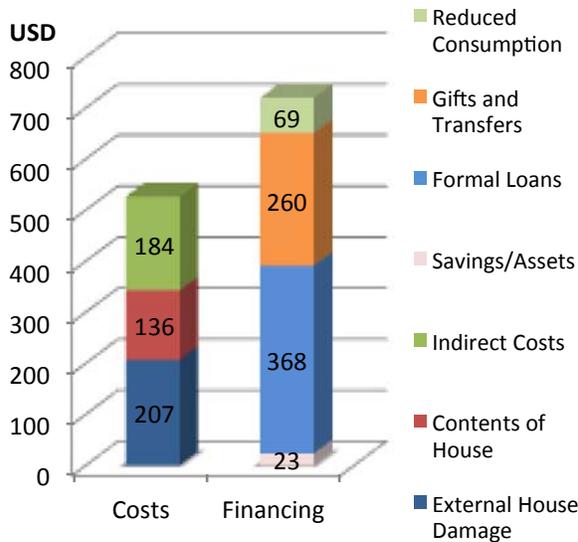
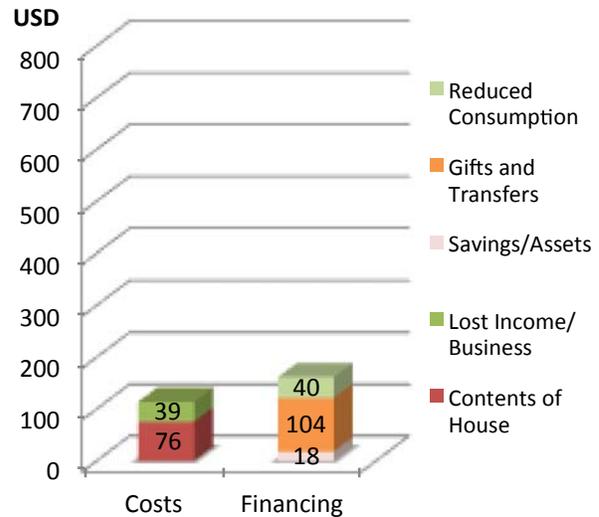


Figure 8: Emee, 28, uninsured



Rocelyn, 31, heads a household of two adults and three children. She owns a trading business, which contributes USD69 to her household’s monthly income of USD253. In addition to owning her home, she also reports owning two cell phones and a refrigerator. She borrows regularly from an MFI (Card Bank) through which she has a compulsory savings account. Although she has no calamity insurance, she does have funeral and vehicle insurance, and reports having a positive opinion of both.

The June 28th flood cost her family USD527. The flood damaged her house’s foundation and walls, costing her USD207. It also destroyed her television and other electronics (which she did not replace), and damaged clothing and household tools (which she did replace), costing her USD136 (see Figure 8). Her husband missed twenty days of work after the flood, losing a USD184 in income for the household. To make these repairs, replace the lost goods, and cover her lost wages, she took out a microfinance loan of USD368. She also received in-kind gifts worth USD81, USD138 of government support, and USD35 in remittances. She reports spending slightly less on food and using USD23 of her savings, leaving her with only USD21 in her account.

Emee, 28, is a housewife living with her husband and four children. She rents her home and owns a TV, a music player, a cell phone, a bicycle and four chickens. The monthly income in her household is USD155. She borrows from an MFI (KMBI), but has no savings account. She does have funeral insurance from a community mortuary and is familiar with health, disability and life insurance.

The external structure of her house suffered no damage from the floods, but she did lose a television (which she did not replace) and other electronics (which she did), costing her USD76 (see Figure 8). Her husband missed 7 days of work, losing USD39 in wages. While her loss was small compared to the other examples, she also resorted to reducing spending on education, health, and food totaling USD40. She received USD104 from the local government and the Red Cross, and she used USD18 of her own informal savings, depleting them entirely. Because the damage to Emee’s home was relatively low, the government and aid relief was sufficient to cover most of her losses. In Emee’s case, due to the relatively limited damage and the availability of relief funds, insurance may have had limited value, although these two factors would have been difficult to predict before the flood.



Was it worth it?

MILK defines client value as a combination of **financial value, expected value, and service value**. One way to assess the financial value of this insurance payout is to compare the premium paid over a client's tenure with TSKI to the payout received after the flood. **From a cost-benefit perspective, MicroEnsure's product has significant financial value** for those who received payouts. Those clients who had been with TSKI for one year had paid in only USD3.45; therefore the USD230 payout represented an enormous return of over 66 times the premium paid. From an expected value perspective, we saw that **the expectation of a payout influenced the way the insured financed up-front costs and the willingness of others to lend to them**: they cut spending in the short term instead of tapping their savings, and they more easily obtained informal loans from friends and family. **Service delivery, and more specifically the timing and information of the payout, determine the product's power to minimize uncertainty and anxiety**. As we saw, insured and uninsured clients used many similar strategies, especially when clients were unsure of *when* they would receive the payout and *how much* they would receive.

Both groups financed more than the total amount of their losses. There are several plausible explanations for this. For the uninsured, piecing together support, including reducing consumption, selling assets and drawing from savings can be inefficient, and can result in over-financing of consumption needs. **The long wait before receiving the insurance payout** – an average of 42 days – caused insured respondents to turn to traditional financing sources to cover the damages in the interim. As clients moved from one short-term strategy to another in an effort to recover from the loss, they duplicated efforts, and appear to have used financing strategies inefficiently. Additionally, the uncertainty and frustration around this delay reduced the value of the product to the insured. However, the expected claim payment allowed insured to use expected benefits as a form of collateral for informal loans.

Insured families avoided formal borrowing and tapping their savings. Very few of the insured responded to the flood by borrowing formally, instead turning to more informal and more flexible loans from family and friends. Because the flood took a toll on clients' ability to work, borrowing informally on more lenient timelines was perhaps a more palatable option. The insured respondents may also have felt more comfortable approaching family and friends, perhaps knowing that they would be able to repay them when the insurance payment came in. However, the "collateral" use of the insurance benefit was made less useful by the lack of understanding by claimants of what was due to them. The average amount that respondents expected to receive was USD123 – just over half of the actual payout- compared to USD 57 in informal loans from friends and family. This suggests that the insured might have been able to leverage larger loans to replace their losses had they known the accurate amount of the claims benefit. Conversely, uninsured respondents often turned to stricter MFI loans in order to pay for damages. Few insured respondents tapped into their savings, while many of the uninsured did, often using up most or all of their financial cushions.

Insured families reduced their consumption in the interim. On average, this group reduced consumption by USD83, over one third of the insurance payment. Clients seemed to prefer to cut spending in the short term, though a quicker payment of this benefit would likely have relived some of the need to cut expenses. For calamity products, it is often difficult to balance the need to verify claims (particularly when road access is made difficult by natural disasters) with the desire to disburse funds quickly. In the Philippines, MicroEnsure relies on weather station information to validate claims. However, other steps in the validation process, such as procurement of pictures and local government certification, often slow the process down.

Gifts from family and friends did not play a large role, and government aid was insufficient. The limited support of friends and family is likely due to the fact that damages were spread across the community; the respondents' families and friends were also affected and unable to help at the same level as they might in the case of a death in the family. Additionally, friends and family may have been less willing to help with an event that is perceived as more frequent and less grave than a loss of life. While the *abuloy* (the traditional Filipino practice of giving cash gifts at a funeral) plays an important role in financing funerals, no similar traditional mechanism or social norm exists for calamities. In the case of



calamities, government and international relief often plays a role, though for our respondents, it was typically small and insufficient to cover all of their needs. This speaks to a legitimate space for microinsurance for this type of risk.

In the Philippines, even in remote rural areas of the country, awareness of insurance is widespread, and impressions are generally positive. This speaks to the level of maturity of the microinsurance market in the country and the prevalent usage of microinsurance by microfinance organizations to complement their credit and savings services. Although our uninsured group lacked calamity insurance, 77% of these respondents had some other type of insurance, whether funeral, health, or life. 18 of the 30 uninsured said that they would buy insurance, although price remained a sticking point for many. This awareness reflects the growing supply of products that have proven themselves to “work” for poor families. Calamity insurance is still relatively new, however, and the analysis above suggests that it might offer great value for low-income families if it can be offered sustainably.

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The MicroInsurance Centre’s Microinsurance Learning and Knowledge (MILK) project 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. For more information contact Michael J. McCord, the project director, at mjmccord@microinsurancecentre.org.