

Why Is the Take-up Rate of Microinsurance so Low?

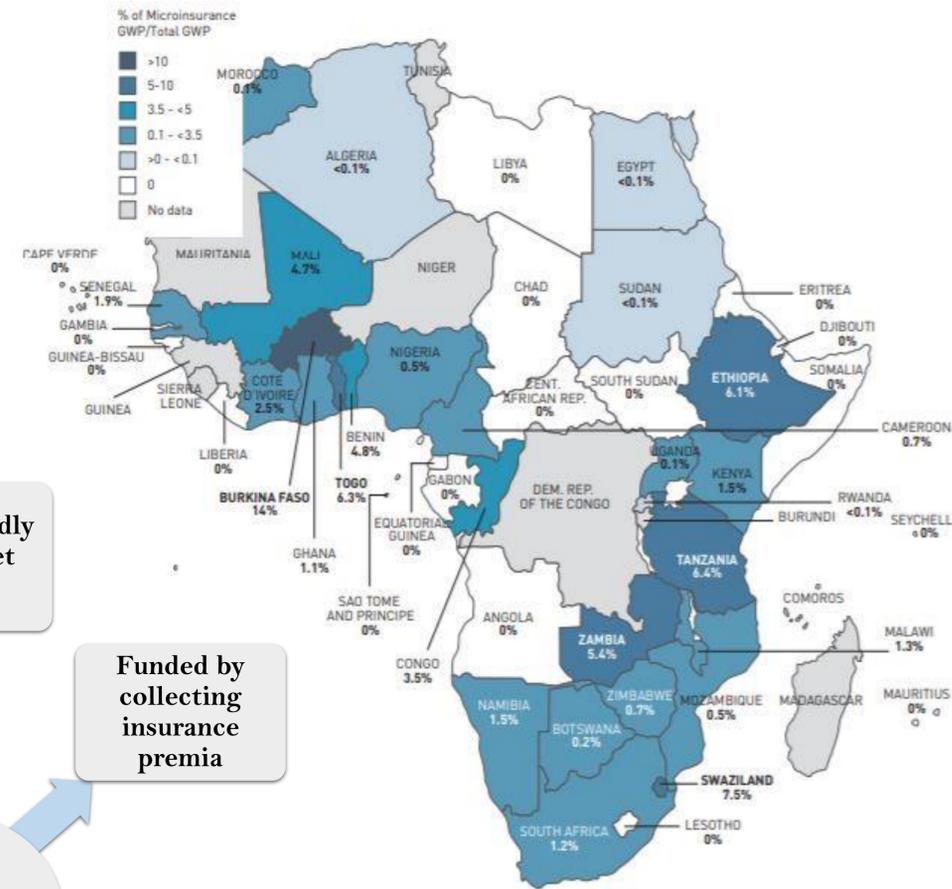
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Research Question

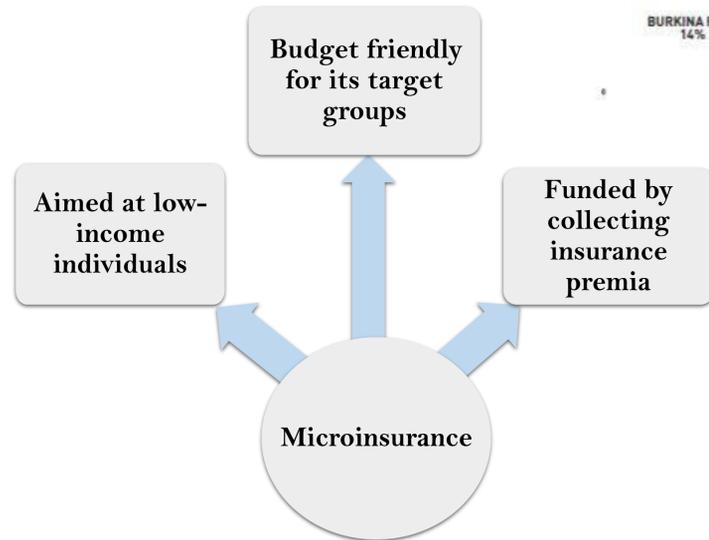
What are the core variables that determine the demand for microinsurance in Africa?

Abstract

The purpose of this research is to strengthen our understanding of the existing barriers towards the development of microinsurance markets in African economies. I review the relevant literature to build an empirical model and use data for 2005, 2008, 2011 and 2014 on a large cross-section of African economies to estimate the model. Results suggest that government spending, regulatory quality and religion are significant in explaining differences in microinsurance take-up rates across African economies.



Source: Microinsurance Center at Milliman



Results and Conclusion

- The factors with the most robust, statistically significant, impact on the take-up rate across microinsurance products are Government spending, Regulatory quality and Religion.
- The negative sign on government consumption spending suggests that the existence of a public safety net can crowd-out the private provision of insurance.
- Regulatory quality and Religion have a positive effect on demand.
- Conventionally, being Muslim is expected to have a negative effect on the uptake of microinsurance but surprisingly, I do not find that effect in my data.
- The factors that underpin the demand for different insurance products are different. For example, the effect of life expectancy is positive for health microinsurance but negative for life insurance.
- Designing effective regulation can spur the development of the market and offer a major risk-hedging strategy that can financially help poor people to cope with risk efficiently.

Model, Data and Methodology

- The relevant literature was reviewed to formulate the empirical model.
- The dependent variable is the microinsurance coverage ratio (**Total**), i.e. the total number of lives and properties covered by all types of microinsurance products as a percentage of the country's total population.
- Explanatory variables: Financial development, GDP per capita, Aggregate savings, Urban population, Primary education, Life expectancy, Inflation, Government spending, Regulatory quality and Religion.
- The model is also estimated for individual insurance covers such as life, credit life, health, property, accident and agricultural microinsurance.
- Panel data for 2005, 2008, 2011 and 2014 on the African economies was collected from the Microinsurance Centre at Milliman and the World Bank's World Development Indicators.
- Two panel data models are estimated: pooled regression and fixed effects (region fixed effects and time fixed effect).

