

FEATURE STORY | APRIL 10, 2018

Can Insurance Help Low-Income Ethiopians Cope With Risk?



Photo: Binyam Teshome / World Bank

April 10, 2018 - The loss of crop or livestock as well as concerns about illness and accidents are key financial expenses on the minds of low-income Ethiopians.

Unexpected expenses associated with these issues are relatively common. A third of low-income Ethiopian households experienced at least one major health issue in the previous year, often paying for it out-of-pocket.

In rural areas, almost 50% of households experienced some agricultural loss in the previous year. For three-quarters of these households, these financial losses accounted for more than half of their income in a typical year.

Yet even though these crises affect a large number of the population, Ethiopians don't have adequate mechanisms in place to cope with the financial hardship they bring.

"People don't put money aside to deal with risk. Instead, they rely on cash and savings, if they have them, borrow money from family, if possible, or as a last resort, sell livestock to cope with these unexpected shocks," said Craig Thorburn, a Lead Financial Sector Specialist with the Finance, Competitiveness and Innovation Global Practice of the World Bank Group, and the technical lead for a FIRST Initiative funded project that produced the new report [What People Want: Investigating Inclusive Insurance Demand in Ethiopia](#).

"People don't put money aside to deal with risk. Instead, they rely on cash and savings, if they have them..."

Craig Thorburn
Lead Financial Sector Specialist

Informally borrowing money is a common coping strategy as loans from formal financial institutions are expensive and hard to get. However, when a crisis, such as drought, affects an entire community, informally borrowing money from relatives isn't a viable option. And selling livestock may inject rural households with quick access to cash, but this approach ultimately leaves families poorer and less resilient.

Last year, the World Bank Group conducted a demand-research study in Ethiopia to examine risks low-income households face and see whether insurance could be a tool that Ethiopians could tap into to reduce and better manage these financial burdens.

This country-wide survey reached close to 3000 households, totaling 13,000 people, from both rural and urban areas.

"Understanding the needs of underserved populations, including low-income households, is key to developing quality insurance products and expanding insurance markets," Thorburn said. "Without this knowledge, potential insurers wouldn't understand the real and perceived risk of this unserved market segment."

The survey found that people had little knowledge or experience with insurance, and that 50% of surveyed households never heard of insurance. However, people expressed interest in it if insurance products were devised as accessible and inexpensive.

Ethiopians have unserved needs that could be met with affordable products they actually want.

For example, 97% of focus group participants indicated they would buy a proposed prototype crop insurance product if it were available to them, as it would allow them to replace lost income and buy inputs for the next crop cycle.

And for health-related issues, the survey found that while many people fear a high-cost illness, they could manage many basic expenses with their existing resources, with 75% reporting that they were able to fully recover from financial hardship. This indicated that a well-designed insurance product could leverage existing strategies such as savings, and provide peace of mind. Interest in a hospital cash prototype was high, with close to half of participants willing to pay an actuarially sound premium.

This openness to insurance could provide a great opportunity for insurers, particularly if they can customize and tailor their products to suit customers' needs.

While this initial research indicates that low-income households are interested in insurance, it would require insurers, the government and other stakeholders to work together to develop insurance products that are accessible, affordable and appropriately designed for people's needs. Other aspects related to extending the insurance market would need to be considered as well. These include adapting the regulatory framework to motivate insurers to enter this market and devise financial education programs to educate people on insurance.

"Ethiopia provides a significant opportunity for insurers to expand their businesses, the government to improve the overall stability of the low-income population, and low-income people to stabilize their economic status," said Thorburn.

Focus group participants indicated they would be most likely to purchase insurance from formal financial institutions, such as banks or microfinance institutions, which would bring stability and financial capacity. They indicated that they would be less likely to purchase insurance through informal formal groups, such as savings and credit cooperatives or *Edirs*, which are well-ingrained local community-based organizations created to help cover funeral expenses.

The World Bank is working in Ethiopia to create an enabling environment for inclusive insurance.

These survey findings are part of a broader World Bank study that that looked at supporting more inclusive insurance markets in Ethiopia.

This study and the report were done jointly with [MicroInsurance Centre at Milliman](#) and [EA Consultants](#). The study and the report were funded by the FIRST Initiative.

RELATED

WORLD BANK

[Financial Inclusion](#)

[Report: What People Want: Investigating Inclusive Insurance Demand in Ethiopia](#)

[Long-term Finance](#)

EXTERNAL

[MicroInsurance Centre at Milliman](#)

[EA Consultants](#)

PATRICIO V. MARQUEZ | OCT 10, 2021

3 Priorities to Scale Up Mental Health Services Amid COVID-19



DAVID MCKENZIE | OCT 08, 2021

Weekly links October 8: green skills, defending the status quo, generating good jobs, agents vs humans, and more...

FATIH BIROL, DAVID MAI
2021

It's critical to take emissions



[About](#)
[Data](#)
[Research and Publications](#)
[Learning](#)

[News](#)
[Projects and Operations](#)
[Countries](#)
[Topics](#)

FOLLOW US



NEWSLETTER

Enter email to subscribe...



This Site in:

ENGLISH

