Assessing the opportunity for remittance-linked insurance products in sub-Saharan Africa:

A demand-side perspective of the risk management and resilience needs of remittance senders from South Africa to Ghana, Malawi, and Zimbabwe

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Why remittance-linked insurance?

Remittance-linked insurance products (RLIPs) are insurance products distributed by remittance service providers (RSPs) that cover the risks of either remittance senders or receivers. Previous studies have shown that remittance senders are interested in purchasing insurance for both themselves and their loved ones back home. Insurers and RSPs are increasingly exploring RLIPs as a way to build the resilience of their customers, increase the formal flow of remittances, and differentiate themselves from their competitors.

Figure 1: What are RLIPs, by means of example

What are remittance-linked insurance products?

-By means of example

Simbarashe, a Zimbabwean trader, lives in South Africa and supports his elderly parents living in Zimbabwe. His parents are **dependent on the money he sends home** for food, education and property maintenance costs.

The RSP though which he remits **offers insurance** that covers both senders and receivers. Simbarashe has purchased **hospitalisation insurance** for himself and **burial insurance** for his parents back home

Scenario 1

Simbarashe falls ill and is hospitalised for five days. During this time, he was not able to earn an income

Since Simbarashe has a hospitalisation insurance product for himself, he is paid out a set amount per day that he was hospitalised. Because of this, he is still able to send remittance home to his parents despite not having earned an income over the past five days.

Scenario 2

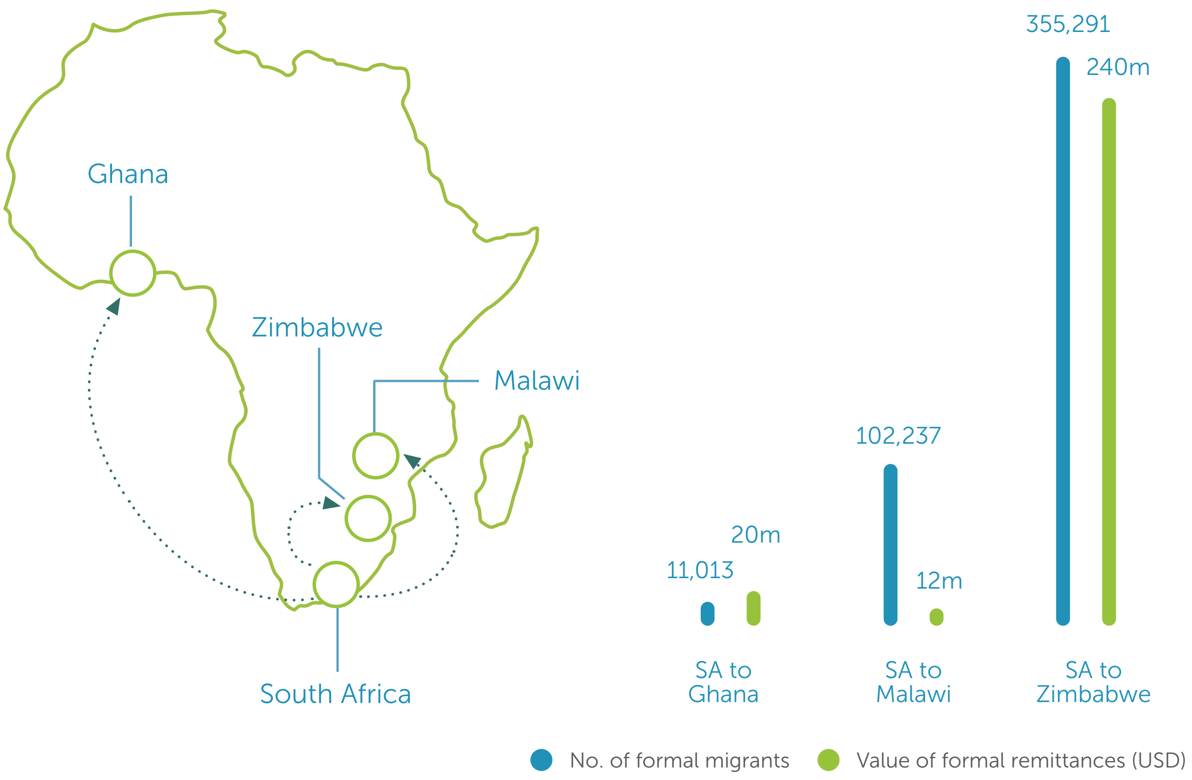
Simbarashe's father passes away suddenly

Since Simbarashe took out a burial insurance product for his parents and pays the premiums on their behalf via the RSP, he is paid out a set amount to cover the costs of his father's burial. Because of this, he suddenly doesn't have to come up with the funds himself.

Remittance corridors:
South Africa to Ghana, South Africa to Malawi and South Africa to Zimbabwe

The large number of migrants and the value of remittances within sub-Saharan Africa (SSA) mean that there is great potential to impact livelihoods in the region through RLIPs. In 2016, an estimated USD14.9 billion flowed between countries in SSA. This research focuses on remittances coming from South Africa (SA), the second-largest remittance-sending country in SSA[1]. In 2016, USD 2 billion in remittances originated from South Africa. This study focuses on three remittance corridors: South Africa to Ghana, South Africa to Malawi, and South Africa to Zimbabwe. The number of migrants and the value of remittances for each corridor are presented in Figure 2.

Figure 2: Size and value of three remittance corridors



Source: UN Bilateral Migration Matrix, 2017 & FMT, 2020

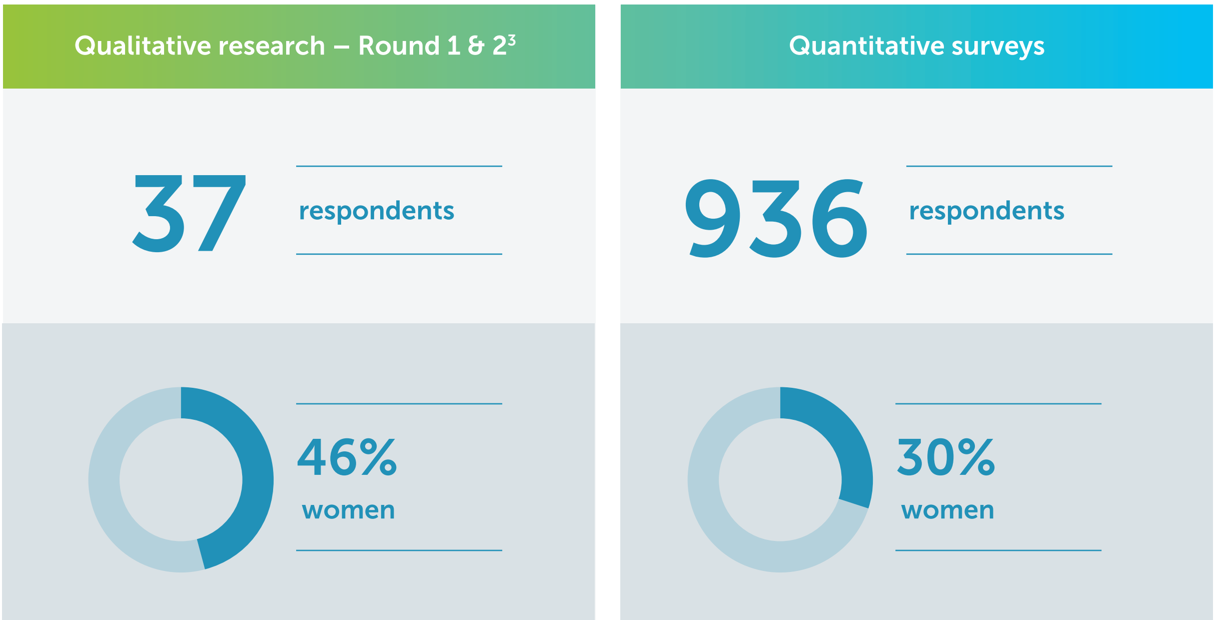
While RLIPs have the potential to improve the resilience of RSP customers within SSA, little is known about the actual insurance demands and needs of intra-African remittance senders and receivers.

[1] The largest sending country in SSA is Cameroon, which had formal remittance outflows of USD2.3 billion to other SSA countries in 2016 (World Bank, 2016).

Research objective and methodology

With funding from FSD Africa, Cenfri partnered with two RSPs that operate in SSA with the objective of better understanding the insurance needs and demands of remittance senders, as well as their perception of receivers' insurance needs and demands. To achieve this objective, we used a mix of qualitative interviews and quantitative surveys between March and November 2021, with senders remitting from South Africa to Ghana[2], Malawi and Zimbabwe. The sample used is outlined in more detail in Figure 3.

Figure 3: Breakdown of survey and interview respondents



[2] It is important to note that the Ghanaian quantitative sample is not representative and is small, which means that there are small sample limitations and results should be interpreted with this in mind.

[3] Round 2 of the qualitative interviews with additional senders from Ghana and Zimbabwe were still underway during the completion of this note and therefore are not included in the findings.

Remittance senders and their remitting patterns

The quantitative survey and initial round of qualitative research provided a picture of the demographics, sending habits, intended use of remittances, and receiver identities of the remittance senders in the sample group.

Similar sender profiles across the corridors. Most survey respondents were male and only had citizenship of the country they were sending to. Most of the respondents had fulltime employment, while the others were either self-employed or had a part-time job. Senders who send to Malawi and Ghana were on average a decade younger than those who send to Zimbabwe.

Most respondents send to only one or two groups of people – usually parents, spouses, siblings and/or children. Across all three corridors, respondents most commonly send to their parents, followed by their siblings, then spouses and then children. Most respondents remit to only one or two of these receiver groups, with some remitting to one person who then distributes the funds locally and other senders remitting to each person separately.

"I send money to my family members, specifically my parents. I send whenever I have the money."

– Sender from South Africa to Ghana

Differences in remittance frequency and value across the corridors. Respondents who send to Ghana and Zimbabwe commonly remitted on a monthly basis, while the Malawian respondents reported remitting on a weekly basis. When remitting, both Ghanaian and Malawian respondents reported remitting slightly more money per transaction than the Zimbabwean respondents, although the amount sent per month was in a similar band in all of the corridors.

Senders often know what the money sent home is used for. Senders across all three corridors have an idea of what their remittances are being used for back home – although the extent to which they discuss what they money is sent for varied across the corridors. Senders are often asked to remit for specific needs and events. The most common events remittances were used for include education costs, health events, funerals and burials.

"No, no I don't usually discuss what they must use the money for. If I get money this side, I must just send them their money monthly."

– Sender from South Africa to Zimbabwe

"I want the money to be used for things that protect or improve my family's lives."

– Sender from South Africa to Malawi

Money is sometimes pooled together by family members before remitting. Remittance senders are not always alone in supporting their families and sometimes other family members also remit money home. According to our research, these additional senders are most commonly the senders' siblings. We found in some instances that siblings live together in South Africa and will pool their remittances to send all at once. Covid-19 also played a role in the pooling of money, as not every sibling had to stand in line to send money if they pooled their money together, thus lowering their risk of getting Covid.

Risks facing senders and their financial product demands

The quantitative surveys assessed the risk events that senders were most concerned about happening to themselves, as well as to those back home, and their demand for specific financial products that would help manage these risk events.

Senders' concerns for themselves and willingness to purchase financial products

Figure 4 sets out the main risk concerns of senders and their willingness to acquire insurance products to mitigate these risks. The colours represent the intensity of concern and willingness to pay. A number of risks were tested with senders, and the top four concerns are shown below.

Figure 4: Overview of senders' concerns and product demands for themselves

Senders' concerns about self are broadly comparable across corridors. Although the rankings of risk events differ slightly across the corridors, the top three concerns were:

- **Events related to passing away:** Senders are concerned about costs relating to their death, such as the costs associated with funerals or getting their body back to their home country. They are also concerned about leaving their family without financial support in the event of their death.
- **Health events**: Respondents are concerned about the costs of visiting a hospital, doctor or clinic if they become ill or injured, and the subsequent impact it has on their ability to send money back home. They are also concerned about loss of income if they become incapacitated due to illness or injury.
- **Losing their job or income:** Respondents' ability to remit home depends on their financial stability. They are concerned about losing their job or income and the negative impact this will have on the remittances they can send home.

Sender risk event concerns are often linked to the negative impact the events may have on remittances. Senders expressed concern about a number of risk events that happen to themselves, but ultimately they were most concerned about how these risk events impact their loved ones back home – either through negatively impacting their ability to send money back home or through requiring their loved ones back home to incur costs.

In case of emergencies, senders use savings, turn to family and friends or use informal mechanisms. When respondents face financial emergencies, they most often turn to informal rather than formal coping mechanisms. Across the corridors, almost no respondents used insurance, and very few borrowed from registered financial institutions. Instead, the main coping mechanisms were borrowing money from friends or family, using their savings or turning to informal institutions for credit.

Reluctance to seek healthcare unless sufficiently urgent. Respondents who send to Zimbabwe and Malawi reported that they will delay seeking medical attention until they either consider the illness "serious" or they are too ill or injured to work. To cut costs, respondents will first go to lower-tier health facilities, such as clinics or traditional healers, and only to a doctor or a hospital if they deem it absolutely necessary. Costs such as travel and childcare are also barriers to respondents seeking medical care.

Senders' product preferences are similar across corridors. The risk events that senders are most concerned about broadly match up to what they would buy insurance to cover, although ratings of products differ. The risks that senders would be most willing to purchase insurance products to cover are as follows:

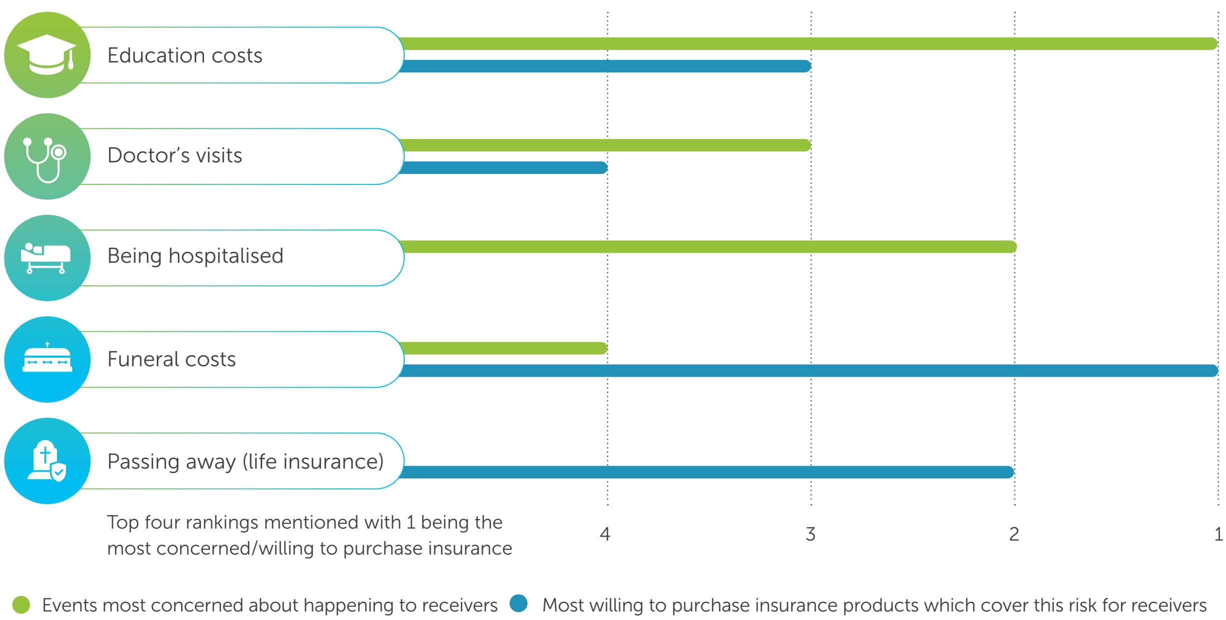
- **Health costs:** Respondents across the corridors were most interested in products that cover doctors' and/or hospital costs.
- **Costs incurred from passing away:** Respondents were interested in products that covered either their funeral or burial costs in the event of their death, including some interest in a product that covered the costs of repatriating their body back to their country of origin.
- **Loss of income due to loss of job:** Respondents noted that they would be interested in a product that covers the loss income due to losing their job.

However, respondents in the Ghanaian corridors generally more hesitant towards formal financial services. Our research found that Ghanaian senders are extremely concerned about the trustworthiness of financial products and service providers. They emphasised that they would want to read the terms and conditions in detail and would want to see that insurance in particular has worked for those around them before they consider it for themselves.

Senders' concerns for receivers and willingness to purchase products to cover them

Figure 5 sets out the main concerns senders have about those they send remittances to, as well as their willingness to acquire insurance products to mitigate these receiver risks. The colours represent the intensity of concern and willingness to pay. A number of risks were tested with senders, and the top four concerns are shown below.

Figure 5: Overview of senders' concerns and product demands for receivers



Respondents concerned about similar risks of remittance receivers across corridors, with differences in prioritisation. Respondents are most concerned over three types of events impacting those they remit to:

- **Education:** For senders, the cost of continued education for children and siblings back home is a major concern.
- **Health events:** Respondents are also concerned about the cost if those back home fall ill or are injured and need to seek medical attention – whether it be just a doctor's visit or being hospitalised.
- **Funeral costs:** Respondents are concerned about covering the costs of receivers' funerals.

Senders use savings or turn to family and friends to cope with receivers' emergencies. Similar to their own risk events, senders are unlikely to turn to coping mechanisms from formal financial services, including insurance and formal loans. Instead, they turn to savings, friends and family when an emergency requires additional remittances to be sent. Interestingly, respondents are more likely to use their savings for receivers' emergencies than for their own.

Education costs including school fees integral to keeping family members in school. Senders are often expected to send money for the education of children or siblings back home. These costs include school fees as well as other related costs such as travel or stationery. Respondents voiced concerns that children will be taken out of school if the family cannot afford it, and Zimbabwean respondents are particularly concerned about girls leaving school early.

Senders concerned about chronic conditions and health emergencies. When remittances are sent for health expenses, they are usually for older family members' chronic health conditions. This is mainly because it is also easier for senders to anticipate and plan remittances around older family members' health events. However, respondents are also concerned about their children and siblings experiencing medical emergencies, such as getting injured or contracting malaria.

Mismatch between key risks senders are concerned about happening to receivers and products they would be willing to purchase for them. Interestingly, the events that senders were most concerned about happening to receivers did not necessarily correspond to the key risks that they would be willing to mitigate through the purchase of a financial product. The major receiver risk events that senders noted they would be willing to take up products to cover for are as follows:

- **Costs related to a family member passing away:** Respondents across the corridors are willing to purchase insurance products which cover costs associated with receivers passing away, such as funeral or burial costs, as well as life insurance for receivers.
- **Education costs:** Respondents preferred a product that would cover children's education back home; either the fees, additional costs, or both.
- **Health costs:** Respondents are interested in products that cover doctors' fees or the cost of being hospitalised.

Opportunities to manage risks

The research study identified that there are a number of insurance and savings products that can help remittance senders meet their resilience needs. These most desired products by senders are detailed below.

Opportunities to manage senders' risks

Respondents are interested in products that address passing away and health events. While respondents were most interested in seeing how they could manage these two risks, there were several different types of insurance products that could meet these needs:

Funeral or burial product: which covers the risks of senders' funeral or burial, including the costs associated with repatriating a sender's body for some corridors

Income cover: which would cover the loss of the receivers' income due to the sender's death

Health cash-back voucher: which would entitle the sender to a health voucher which could only be spent on health-related expenses

Hospital cash: which pays out a certain amount for each day the sender is in hospital

Opportunities to manage receivers' risks

Senders indicated that they would be willing to purchase products that help their loved ones back home to become more resilient. The risk events that senders are most willing to cover include the death of receivers, health costs and education costs.

Funeral or burial product: which cover the costs of the receivers' funeral or burial

Health savings product: which is a savings product labelled for discretionary health expenses

Hospital cash: which pays out a certain amount for each day the receiver is in hospital

Education savings product: which is a savings product labelled for discretionary educational expenses

Important product design considerations

Our qualitative research rendered several important design considerations for RSPs and insurers when designing RLIPs:

Clarity on insurance product terms: The terms and conditions of the products must be clear, concise and easy for the senders and/or receivers to understand. Avoid overwhelming them with unnecessary information but ensure that they understand how to submit a claim and what is required. Additionally, the pay-out process must be clear and must have explicit timelines which must be proactively communicated.

Premium amount and payment method: Microinsurance products that tend to have lower coverage amounts and premiums are best suited to the realities of migrants and remittance receivers. Premiums should be collected per remittance sent; these should be small amounts and should be at the senders' discretion, as opposed to being automated. If the product is a savings product, then the savings amount and intervals should be dictated by the sender.

Open channel of communication: Should senders or receivers have any questions or concerns about the insurance product, there should be an open and clear communication channel with the RSP and/or the insurer. There should be options for both a call centre and an SMS line.

Appeal to key underlying concern of senders: When marketing insurance products to remittance senders, the RSP/insurer should appeal to their key underlying concern, which is the wellbeing and resilience of their loved ones back home. The RSP/insurer should therefore make the link to how this product will either:

- ensure senders are able to send money home despite facing an unexpected risk event, or
- ensure that receivers do not incur out-of-pocket expenses when unexpected tragedies, such as death, happen to senders

Partnering with a trusted insurer: The remittance senders will view the insurance product as a product of the RSP, as opposed to a product of the insurer. It is therefore vital that the RSP partners with a trusted provider who will honour its claims. It is also important to consider that remittance senders in general highly mistrust formal financial service providers, excluding the RSP the sender uses.

Consider offering a basic loyalty insurance product with ability to upsell: Offering an insurance loyalty product to senders will differentiate the RSP from its competitors. The product should offer clear benefits to senders, but one could also design it so there is also a paid-for version that offers greater benefits. If the value of the loyalty product is clearly demonstrated, there is potential for upselling another product that offers greater benefits.

Consider offering a savings wallet: Senders want to be able to ensure that their loved ones back home are resilient, and many expressed interest in a targeted savings product. This type of product can help remitters manage their money to meet remittance recipient needs and send more money when unexpected risk events or expenses come up. A savings wallet provides flexibility that an insurance product does not offer.

From our work, remittance senders expressed a clear interest in products to strengthen their resilience and that of their families, and we see that a number of insurance and savings products could play this role. However, for these products to be successful, the design must be specific to the consumer and the context.

Should you be in interested in working with us on RLIPs, please contact us at kate@cenfri.org or zillah@fsdafrica.org.

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