

Unpacking Factors behind the (Low) Uptake of Index-Based Insurance: Quasi-Experimental Evidence from Livestock Insurance in Southern Ethiopia

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Abstract:

With increased global climate risks, enhancing resilience among the poor through microinsurance is considered an important tool towards sustainable poverty reduction. Although index-based microinsurance, which should be free from the classical incentive problems, has attracted considerable attention, its uptake rates are generally low among developing countries that have introduced it. To understand factors behind the low uptake, we explore the patterns of purchase and non-purchase of index-based livestock microinsurance in southern Ethiopia. The top two constraints to purchasing this insurance product, as perceived by survey respondents, are the lack of understanding of microinsurance products and insufficient funds at the time of enrollment. We conducted quasi-experimental designs to help improve the understanding of the products and the ability to pay through randomly distributing learning kits and discount coupons to subpopulation. Our detailed econometric analysis revealed that the reduced price significantly increases the uptake due mainly to price effects rather than income effects. On the other hand, the learning kits contribute to improving the knowledge of the products; however, improved knowledge *per se* in turn does not induce greater uptake. We also found that the diffusion of the insurance products is stimulated by learning by doing as well as learning from others. These results indicate the importance of well-designed interventions especially at the initial stage to improve the uptake and coverage of microinsurance products to protect the poor.

Keyword: Index-Based Livestock Insurance, Quasi-Experiment, Uptake, Ethiopia

JEL Classification: D12, G22, O12