



Uncovering behavioral barriers to using insurance to support resiliency in Mexico

Insurance coverage could help millions of smallholder farmers in Mexico mitigate the impact of potential emergencies and maintain greater financial stability. Yet it's rare for lower income farmers to have insurance. We created recommendations for communicating about insurance in a behaviorally informed way which can help to alleviate behavioral barriers to accessing insurance and filing claims.

Summary

Households with low incomes navigate many challenges daily. On top of making day-to-day decisions with often insufficient resources, they're also more vulnerable to threats from potential emergencies.

In Mexico's agriculture sector, these threats include natural disasters and pests, which in addition to potential medical emergencies, can impact a farmer's crop yield and devastate their finances for the year.

Insurance coverage could help millions of low-income households mitigate the impact of such threats and maintain greater financial stability when emergencies occur. However, it's quite rare for farmers, particularly lower income or smallholder farmers, to buy insurance. In the microinsurance market, which serves the low-income and rural community in Mexico, only 15% of farmers are covered¹—and most of this coverage is part of loans, so the insurance protects the bank more than the farmer. In addition, of the few farmers who have insurance, many have trouble reaping the benefits by filing a claim.

The Savings Banks Foundation for International Cooperation (SBFIC), within the scope of a project funded by Germany's Federal Ministry for Economic Cooperation and Development (BMZ), works to strengthen the agricultural sector and promote rural development in Mexico by offering adequate financial services and harnessing new technologies. It identified insurance as a key means to improve financial resiliency among low-income Mexican farmers, and sought insights into why farmers might not take-up insurance.

ideas42 collaborated with SBFIC, using a behavioral lens to learn more about how farmers think about insurance and uncover the behavioral barriers to insurance uptake. We then created recommendations for communicating about insurance in a behaviorally informed way which can help to alleviate behavioral barriers to accessing insurance and filing claims, allowing SBFIC to better support the financial stability of Mexican farmers.

Highlights

- ▶ Few small farmers are insured properly, even though they are at high risk for emergencies and catastrophic losses.
- ▶ Misinformation and bad experiences as relayed anecdotally by other farmers lead small farmers to be wary of buying insurance.
- ▶ Providing insured farmers with a simplified process for how to file claims could help farmers receive the benefits of their policies.

¹ Microinsurance Network & Munich Re Foundation. (2015). The Landscape of Microinsurance in Latin America and the Caribbean: A Changing Market. 1-46.

Identifying barriers to insurance use

Farmers know better than anyone the potential risks that could harm them or their crops and the impact these risks have on their finances. They or people in their communities have likely experienced firsthand pests of different varieties, droughts, diseases, hail, floods, robbery, accidents and other issues, and they know these and other risks can happen again without warning.

We conducted a series of interviews across two rural communities in Mexico to learn more about farmers' experiences with risk and mitigating impacts.

Most of the 18 farmers that we interviewed noted that insurance products could be helpful when emergencies arise, if well-designed for a small farm's needs. Yet most also said they didn't have insurance. Our questions probed deeper into this gap and revealed various different barriers to obtaining insurance:

1. Often when farmers faced an economic emergency in the past, they asked for help from friends, family, and institutional lenders. Even if farmers do have some sort of insurance, in cases of emergencies **they tend to rely on familiar solutions** that have helped them in the past.
2. Farmers **easily recalled bad experiences** that other small farmers or they themselves have had with acquiring and claiming insurance, and therefore were more likely to have a negative perception of it. One farmer said: *"I've heard there are a lot of fake insurance companies. I knew someone who had insurance, paid monthly, and when something came up that made him want to file a claim he didn't get an answer from the insurer. Later he found out that the insurance company was fraudulent and that he was paying for nothing!"*
3. Farmers **would recall considering getting insurance in the moments when they were going through a difficult time** (such as a family member being ill) when it's too late to cover that problem in the moment.

Through our analysis we learned that, while small farmers tended to have heard about insurance products and have a general idea of how they work, there seem to be two major sources of confusion that prevent them from fully taking advantage of insurance products. The technical jargon of insurance (policy, premium, etc.) is not familiar or clear to farmers and created added confusion to an already confusing topic (being confused about insurance is not particular to rural farmers, but is widespread). Reinforcing the confusion, the process for reporting a claim and validating insurance is not clear or easily recalled by farmers when they are required to report an incident. By failing to report according to the insurance policy, farmers risk losing their corresponding benefits. One participant shared that "Many (fellow farmers) don't know that there's a deadline by when they have to report the incident to the insurance company to get the money."

It's important to note that we also found structural barriers—deterrents which behavioral science alone won't solve. For example, some farmers indicated that there was a lack of insurance products that directly cover their needs, and others noted the cost of insurance was too high. Our recommendations focus specifically on addressing the contextual and behavioral barriers, but structural obstacles are crucial to take into account to design better insurance products for small-farmers (and our behavioral designs would be even stronger when paired with structural changes).

Recommendations to mitigate behavioral barriers

Using these uncovered insights, knowledge of the context, and applied behavioral design, we created a series of simple and low-cost recommendations for SBFIC and financial education providers to apply to their classes and communications about insurance to support farmers' financial health by encouraging insurance take-up:

- 1. Simplify technical terms:** Feeling confused about the jargon used in insurance generates a sense of inadequacy—"if I can't understand it, then it's not for me." Technical explanations are difficult for anyone to process and remember. Although it's tempting to include as much detailed information as possible, simplification makes it easier for people to make decisions and take action.
- 2. Use relevant analogies:** Use analogies that are relevant to the farmer's context when introducing confusing or technical concepts. For example, compare an insurance "policy" to the other types of contracts (such as car or truck rentals) they have signed in the past.
- 3. Provide practical advice on how to claim benefits:** Provide people with relatively easy-to-follow guidelines to claim their insurance benefits. An example of a rule of thumb for submitting claims is: "when you sign a contract, save the name and number of who to call if there is an incident in your contact list." Or, better yet, providers could create a simple checklist or "cheat sheet" for submitting a claim that can be easily accessed and followed.
- 4. Illustrate with examples:** Using hypothetical cases can illustrate when it is most important to get and use insurance. For example, in the case of a catastrophic loss such as droughts insurance is essential, but when buying a cellphone the cost of losing or breaking it is not too high, and so insuring it is less critical.
- 5. Share testimonials:** Sharing testimonials from farmers who have had positive experiences using insurance, as these stories tend to be shared less frequently, can help. These stories could include why the person decided to get insurance, when they needed it, and how they were able to obtain the benefits.
- 6. Consider timing:** It is very important to time any training or outreach to a farmer's context and when they will be more receptive to new information, like after harvesting when they will be experiencing less scarcity in time and resources (cognitive bandwidth, finances, etc.).

Takeaway

We provided these behaviorally informed recommendations to SBFIC to inform a financial curriculum and the design of communications about insurance products that supports farmers.

While many farmers recognize the value of insuring their farms, getting and using insurance is far from simple. Applying behavioral insights to communications and education about insurance, as well as addressing structural barriers to like adequate coverage and costs, can boost the resiliency of smallholder farmers in Mexico.