Paper/Poster Title	Client satisfaction and product understanding as drivers for insurance renewal - A case study in Mali

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Abstract	200 words max

Agricultural microinsurance are a promising risk management tool for smallholder farmers. However, adoption rates remain low and only a small share of farmers renews their policy after the first period. Yet, it is essential for the sustainability of an insurance scheme to retain a solid customer base. To date, it is largely unknown what drives the decision to renew an agricultural microinsurance policy. We address this question by performing mean comparisons and logistic regressions based on collected primary data on 654 smallholder farmers in Mali who purchased a weather index-based insurance in 2020. Results show low levels of understanding of the product among all clients, but especially among those who did not renew. Besides understanding, client satisfaction had a positive effect on renewal. Due to high basis risk and a high frequency of small payouts, compensation payments and harmful events were decoupled in the present case. That allowed to identify the receipt of a compensation payment as another strong driver for renewal. Yet, we conclude that paying special attention to customers' needs is crucial even if the insurance product is designed with frequent payouts. Also, additional efforts to promote understanding of agricultural insurance among smallholder farmers are recommended.

Keywords	agricultural microinsurance; microfinance; renewal; risk management; rural development.
JEL Code	Household finance: Insurance G52, Agricultural finance Q140

Introduction	100 – 250 words

With increasing frequency of extreme weather events such as droughts and floods, agricultural microinsurance gains importance as a risk management tool for smallholder farmers. Although perceived as a promising tool, adoption rates often remain low and are, thus, a prominent research topic (Platteau et al. 2017). While knowledge on the adoption decision is crucial for insurance providers to successfully attract the target group, it is equally important to keep these early adopters and to build a loyal client base. The share of clients that renews their policy for the next period is coined as renewal rate. It is an important determinant of the sustainability of an insurance scheme. Despite its importance, there is no study assessing the drivers for renewal of weather index-based microinsurance schemes yet. This is stunning as, similar to adoption rates, also renewal rates are low. The decision to renew an insurance policy differs from the adoption decision in that the policy holder already had an experience with the product. Hence, findings regarding the adoption decision do not necessarily hold for the renewal decision. Similarly, it remains unclear so far if

findings on the renewal decision of health insurance (e.g. Dong et al. 2009; Platteau and Ugarte Ontiveros 2021) can be transferred on agricultural microinsurance. The present study aims at identifying drivers for renewing an index-based agricultural microinsurance in order to promote sustainable microinsurance programs.

Methodology	*100 – 250 words*

The present study is based on a cross-sectional dataset on 654 maize farmers from Mali who purchased a weather index-based microinsurance in 2020. The policy insures against droughts and floods based on satellite derived precipitation data and can be contracted via a mobile phone. The data was collected in October and November 2021 which allowed to capture information on whether respondents renewed their policy for 2021. The main season in 2020 was the first year in which the insurance provider OKO Mali issued its insurance policies. This implies that all clients had exactly one period of experience with the insurance product when taking the analysed renewal decision. With a comparatively high renewal rate of 72.5% after the first year, the insurance company is an ideal research subject for the analysis of drivers for renewal of weather index-based insurance.

We performed mean comparisons to identify differences between clients who renewed and clients who did not renew their policy in order to assess differences in personal circumstances between the two groups. Then we looked only at the clients who renewed their insurance policy (n=409) and compared their motivation driving the decision to adopt the insurance and the decision to renew the policy. Based on insights gained from these analyses, logistic regressions were performed on the binary variable on whether or not the client renewed the policy.

Results	*100 – 250 words*

The results show differences between the clients who renewed and those who did not in terms of understanding, expectations and dependence on the insured crop. Our findings also confirm that the adoption decision differs from the renewal decision. While the influence from peers decreased from the adoption to the renewal decision, personal reasons like the feeling of confidence when being insured were more important for the decision to renew. Besides, 35% of those who renewed their policy named satisfaction with the service as an additional motivation to renew. The level of satisfaction with the service was also statistically significant higher for those customers who renewed than for the others.

These aspects were reflected in the regression models. The happier the customer with the insurance service, the more likely s/he is to renew the insurance. Similarly, the understanding of the insurance product has a positive impact on the probability to renew. Yet, the most important driver to renew was whether a client received a compensation payment or not. Due to high basis risk in the first year of the analysed insurance scheme, the compensation payments are not correlated with self-stated harvest losses by the farmers. When considering the yield in the logit regression, it does not show a statistically significant impact on the decision to renew.

Discussion and Conclusion	*100 – 250 words*

Although the strong positive impact of compensation payments on the renewal decision is remarkable, it is in line with previous findings (Cole et al. 2014). Yet, the results further suggest that a compensation payment may even lead to renewal of the insurance in case of low understanding of the product. Despite the fact that the share

of clients that named interest in a payment as a reason reduced from the adoption to the renewal decision, it remained with 27% at a high level. Hence, we confirm positive effects of payouts on renewal rates, but nevertheless, we would recommend to foster financial education to increase product understanding.

Considering the results regarding understanding of the insurance, we emphasize this recommendation. Even though the level of understanding of the insurance product was higher among the clients who renewed their insurance policy, it remained at a rather low level (55% answered all insurance related questions correctly). Similarly low levels of insurance understanding were found to hinder insurance renewal in the health insurance sector (Platteau and Ugarte Ontiveros 2021). Our results regarding the understanding of the insurance product show that this relationship also persists in the agricultural microinsurance sector.

Lastly, client satisfaction proves to be an important driver for renewal. As compensation payments and client satisfaction are not correlated, client satisfaction is most likely determined by other factors that can be influenced by the insurance provider. Thus, they should place special emphasis on addressing their clients' needs.

References

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