Editor’s Preface

In this volume Mirko Bendig contributes to the empirical literature on households’ participation in microfinancial services with applications to various forms of microinsurance schemes in Sri Lanka and Ghana. Microinsurances are seen as options, especially for low-income households in developing countries, to reduce the vulnerability or protect these households from the expenditures associated with potentially catastrophic shocks. Therefore, this analysis of the determinants of households’ participation in microinsurance schemes is of particular relevance for development research and policy.

The first two essays are concerned with the interdependencies between participation in different microfinancial services. In the first essay, Bendig argues that a household’s decision to take up loans, savings products and insurances are interrelated for various reasons, i.e. whether the participation in microinsurance schemes substitutes each other or is reinforced by the use of other forms of microfinancial services, such as microcredits or microsavings. Therefore, the participation in microinsurance schemes and other financial services are simultaneously estimated using household survey data from Ghana. Hence, the essay addresses the shortcoming in previous academic papers to investigate participation in one type of microfinancial services separately from the use of other services. Furthermore, the essay is the first to estimate the determinants of micro life insurance participation in a sub-Saharan African country, which allows a detailed analysis of the characteristics of the user and non-user of micro life insurance.

The second essay investigates the cumulative participation in microfinancial services using household survey data from Sri Lanka. Here, Bendig assumes that low financial capability leads to a household’s limited ability to respond to risk, to its use of a less diversified range of microfinancial services and thus generating a higher level of vulnerability. To demonstrate the cumulation in the use of microfinancial services, the essay estimates the determinants for the three different types of microfinancial services by separate probit models for each financial service on household survey data from Sri Lanka, followed by an ordered probit model to determine the factors affecting a household’s decision to participate in no, only one, two or all three different types of microfinancial service. In this way, Bendig finds, in contrast to the Ghanaian case and other academic contributions, that microfinancial service uptake is not seen as an additional risk in Sri Lanka.

In the third essay, Bendig focuses on the question whether micro life insurance participation is also motivated by the desire to leave bequests. Although
Bendig presents, analogous to the first essay for Ghana, the determinants of the participation in micro life insurance, the essay extends the literature in this field significantly by taking explicitly into account whether the bequests are intended or strategic. Interestingly, the essay finds that households’ micro life insurance participation correlates with measures of intended bequest motives for protection reasons in Sri Lanka. By doing so, this finding indicates to what extent micro life insurance may contribute to the security of low-income households. This is of particular interest for development research, as the risk of death is – besides health – identified as the most severe hazard in insurance demand research for developing countries.

The fourth essay investigates different sequential steps of the household’s microinsurance participation decision and the joint analysis of micro life, health and other forms of microinsurance participation using the same Sri Lankan data set as in the two previous essays. Bendig argues that members of an MFI have better access to and are more likely to participate in microinsurance schemes due to unobservable characteristics of their MFI membership. Furthermore, the essay argues that the participation in one microinsurance type is reinforced by the availability of other types of insurance by estimating the determinants of a household’s decision to participate in different types of microinsurance using multivariate probit models. By doing so, Bendig shows that the decision to buy health and life insurance are positively correlated with each other.

These essays all make important contributions to the empirical literature on households’ participation in microfinancial services and especially various forms of microinsurance schemes in developing countries, so that I am pleased that this book has been included in our series of studies on economic development.