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PROSPECTS AND CHALLENGES OF MICRO INSURANCE INVESTMENT IN SOUTH WEST ETHIOPIA- BENCH MAJI ZONE

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Abstract

In developing countries micro insurance has a great potential of covering large number of people through market based risk transfer solutions and public private partnership. As a result , this will enables to get high revenue since there are large number of population which appeals for these products. Because, it is one of the most useful means of reducing the vulnerability of the poor from adverse effects of different hazards. Even though, micro insurance is one of essential means of risk transfer and has great untapped market , its investment prospect and challenges in developing economies particular to South West Ethiopia Bench Maji Zone is not well investigated and even the products were not provided like some parts of the country. As a result , this study investigated major prospects and challenges of micro insurance investment as per the current socio- economic and political conditions of Bench Maji Zone.

The study adopted a mixed research approach .The data was collected from 90 respondents through self-administered questionnaires and 15 top management through in-depth-interview. Descriptive statistics and logistic regression analysis were used to analyze the survey result. The results of study shows that education level and insurable assets are statistically significant prospect at 5% and 1% respectively. Whereas, transaction costs ,lack of delivery channel,

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availability of infrastructure has statistically significant challenges at 5%. However, monthly income improvement and financial illiteracy are not statistically significant prospect and challenges of micro insurance investment in Bench Maji Zone respectively. Finally the study suggests measures that should be taken by different stakeholders in general, and insurance companies and micro finance institutions in particular like; aggressively expanding innovative delivery channels, should work more cooperatively, conducting awareness creation , bargaining with their respective association and searching nongovernmental support.

Key word: Micro-insurance investment , prospects, challenges, logit

1. Introduction

1.1 Background of the study

The most important purpose of insurance is to act as a risk transfer mechanism, to provide peace of mind and protect against losses. Those risks that can be transferred will be handled by; assumption, combination, shift or loss prevention activities. In order to minimize the overall risk, an insurance scheme enables a large number of individuals to pool their risks into a large group (Ali, 2000). Hence, micro insurance has the same sense. It is defined as the provision of insurance services to low income people, or protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use micro insurance, where it is available, as one of several tools to manage risks (IAIS, 2007).

Consequently, micro insurance is considered as one of the most useful means of reducing the vulnerability of the poor from the adverse effects of disease, theft, violence, disability, fire and other hazards. It protects against unforeseen losses by pooling the resources of many individuals to compensate for the losses of a few individual. As event more uncertain insurance becomes the most cost-effective form of protection (Brown and Churchill, 1999).

The study concentrated on insurance companies that provide conventional insurance service in Bench Maji zone and Omo micro finance institution. There was no study conducted on the investigation of major prospects and challenges of micro insurance investment at industry level and zone wide. Furthermore, the empirical studies conducted in other countries may not be applicable in Ethiopian context since; each country differs in their socio-economic, financial, regulatory and political conditions. Therefore it needs further investigation particular to Bench Maji zone. For these reasons, the current study has brought remedy for those problems by making survey and in-depth interview with insurance as well as micro finance institution's personnel and top management of those institutions respectively.

1.2. Statement of the problem

According to McCord and Churchill, (2005) with almost more than half of the world's six billion people living on less than two dollar a day, as a result alleviation of poverty has become the biggest challenge to the human society. Every individual who earns less than two dollars per day is considered low-income earner (UNDP, 1998). Consequently, the world fight against poverty gained energy, with various development actors suggesting the use of different instruments to alleviate poverty in which micro insurance was mentioned as one of the instruments and its key role is to give protection to an individual or a community against monetary losses suffered and arising out of unforeseen circumstances. Initially the low income target market had generally been ignored by mainstreamed commercial and social insurance schemes and had no access to appropriate products. Today there is increased emphasis on micro insurance as one driver of alleviating poverty and especially in developing countries where majority population earn less than two dollars a day.

However, the greater parts of people living in developing economies bear the financial burden of catastrophes themselves, without access to insurance or government assistance. This fact is shown by very low insurance diffusion and their service is restricted to few wealthy individuals and companies in their economies. Hence, the need for such a safety net is much greater, mainly at the poorest levels where vulnerability to risks is much greater and there are fewer opportunities available to recover from a large loss (Brown and McCord, 2000; Irukwu ,2010).

In Africa the reality shows that, micro insurance is clearly in need. According to Roth et al,(2007) only 0.3 % of poor are covered by micro insurance. There are different challenges that to be taken as major reason for the under development of insurance to poor density, these are; fewer delivery channels, fewer major insurance companies, and the popularity of community based organizations were the major factors. Similarly, in the case of sub-Saharan countries, micro insurance is mandatory due to their vulnerability to different risks (Apt, 1990; Churchill, 2006; Owusu, 2007; Giesbert et al., 2011; Leppert et al, 2012).

Similarly in Ethiopia, micro-insurance is at infant stage. According to recent estimates, out of the total potential market only 2.6% is reached by the existing micro-insurance schemes. The current value of premiums received in most African countries (including Ethiopia) constitutes few of its potential (Smith, and Chamberlain, 2010; Shifa, 2012). Ethiopia is the second most populous country and has been growing at twice the rate of the Africa region over the past decade, averaging 10.6% of the Gross Domestic Product (GDP) yearly between 2004 and 2011, compared to 5.2 percent in sub-Saharan Africa .But, the insurance industry is one of the least developed measured by insurance density and penetration (World Bank, 2012).

In Ethiopia particularly in Bench Maji zone insurance companies and micro finance institution are not providing this service by taking in to account its great potential benefits for poverty reduction. Hence, it is worthwhile to see the prospects and challenges of micro insurance investment in Bench Maji Zone.

In connection with research studies that have been conducted on micro insurance, there are different studies in different level of economies. In developed economies studies are more of concerned with one or some products especially life insurance products’ demand determinants (Li et al., 2007; Nesterova, 2008; Celik and Kayalli, 2009). In contrast, in emerging and developing economies, relatively there is better coverage in investigating on micro insurance(Alam et al., 2010; Kakar and Shukara,2010;Huber,2012). But, the studies conducted on investigation of major prospects and challenges of micro insurance were not enough.

While, we see the case in developing economies, majority of the studies have on a few specific micro insurance products and on the landscape of micro insurance, especially in Africa. Despite, some of those studies tried to point out the prospects and challenges of micro insurance Investment as per their countries context(McCord etal.,2005;Rothe et al.,2007;Link and Wirz,2007;Yinusa and Okuru,2009;Amit,2010;Leazerman et al., 2010; Miadevos et al.,2010;Waly,2010;Bendig and Arun,2011). Hence, some of those prospects and challenges need to be investigated further instead of making an inference to Ethiopia, particularly in Bench Maji Zone since, those countries' financial, socio-economic and political system are not the same.

Similarly, in sub-Saharan countries, most of the studies are on the demand determinants and related issues, even though few studies tried to investigate some determinants of micro insurance demand had been taken as prospects and challenges of micro insurance practice, but most of those studies concentrated on few micro insurance products (Jutting and Ahuja, 2003; Akotey et al., 2011; Harms, 2011; Achah and Owusu, 2012; Kaume and Komenon, 2012; Mohammed and Mukhtar, 2012). Consequently, it needs further investigation by including other micro insurance products and by taking in to consideration the current socio-economic and political system in Ethiopia.

At last, in Ethiopia, there are different studies on micro insurance since recent years ago. But, there are a few studies that tried to point out prospects and challenges of micro insurance investment which is not statistically tested with the exception of reporting what they have got from the research participants to the knowledge of researchers (Smith and Chamberlain, 2010; Araya, 2011; Shifa, 2012). Thus, it needs further investigation by testing empirically their level of significance beyond reporting what they have from the research participants .The other studies that conducted in Ethiopia was on the demand related issues that attempt to test, some of the variables significance as determinants of micro insurance demand (Norton et al.,2010; Clarke and Kalani,2011; Tadesse and Victor,2012, Melaku et al. 2014). Consequently, it needs further investigation beyond investigating demand determinants by considering the existing prospects and challenges of micro insurance investment in Bench Maji Zone.

To sum up, as it is already stated above the main problems that study addressed were major prospects and challenges of micro insurance Investment at industry level and zone wide which were not well investigated. In addition, the study conducted in other countries was as per their respective socio-economic and political conditions, therefore, this study will investigate as per the current conditions of Bench Maji zone. For this reason, the current study has brought remedy for those problems by making survey and in-depth interview with insurance as well as micro finance institution‘s personnel and top management of those institutions respectively in Bench Maji zone.

1.3. Objectives of the study

In the framework of the problems highlighted above, the study has the following broad objectives.

1.3.1. General objective

The broad objective of this study is to investigate major prospects and challenges of micro insurance investment in Bench Maji Zone.

1.3.2 Specific objectives

To achieve the broad objectives of the study the following specific objectives are stated as follows.

- ☞ To identify major prospects of micro insurance investment in Bench Maji Zone
- ☞ To distinguish major challenges of micro insurance investment in Bench Maji Zone.
- ☞ To identify the main reasons for not tackling challenge and utilizing opportunities of micro insurance investment in Bench Maji Zone

1.4 Hypothesis and Research Questions

1.4.1. Hypothesis

In order to attain the aforementioned objectives, the following seven hypotheses are devised based on the empirical evidence reviewed under chapter two.

$H_{1:}$ Level of income is considered as a prospect for micro insurance investment in Bench Maji Zone.

$H_{2:}$ Level of education is considered as a prospect of micro insurance investment in Bench Maji Zone.

$H_{3:}$ Asset endowment is considered as a prospect for micro insurance investment in Bench Maji Zone.

$H_{4:}$ Lack of infrastructure is considered as a challenge for micro insurance investment in Bench Maji Zone.

$H_{5:}$ Transaction cost is taken as a challenge of micro insurance investment in Bench Maji Zone.

$H_{6:}$ Lack of delivery channel is taken as a challenge for micro insurance investment in Bench Maji Zone.

$H_{7:}$ Financial illiteracy is taken as a challenge for micro insurance investment in Bench Maji Zone.

1.4.2 Research question

In addition to the aforementioned hypothesis, the following research question is devised.

☞ What are the main prospect and challenges of micro insurance investment in Bench Maji zone?

2. Literature Review

2.1 Theoretical Review

2.1.1 Major Player of Micro Insurance in Ethiopia

There are different stakeholders that are involved in micro insurance. The market of micro insurance operates at different levels. There are public actors, such as governments, policymakers and regulators/supervisors at macro level. There are the supportive institutions and intermediaries whether corporate or individual, at meso level. Private actors operate at micro level, including insurance providers which are regulated or unregulated, and healthcare providers. Furthermore, there are the present and potential policyholders, the low-income households (IAIS, 2007). Hence, in Ethiopian context also, there are different major players in these industry, like governments, policymakers and regulators/supervisors (i.e national bank of Ethiopia) at macro levels. Whereas from the perspective of meso and micro level, there are the supportive institutions and intermediaries; like; corporate insurance companies , donors and SACCOs and MFIs, in terms of client bases, are leading the delivery of financial services to low-income households respectively.

Governments and policy makers takes their role to keep or safeguard the interest of the nation, i.e the clients at macro level. Besides profit, commercial insurers are driven by several other motivating factors for providing micro-insurance: a large and diversified risk pool, investment reputation, market intelligence, and market innovation that can be applied to other investment activities .In the long term, the combination of first mover advantage and sustained growth in developing markets can lead to strong future investment prospects. At micro level MFIs, SACCOs, Iddirs, However donors played the most important role in the development of micro-insurance by providing funds, capacity building and technical assistance.

2.1.2 Regulatory Frame Work on Micro insurance In Ethiopia

The Ethiopian legal system is based on a system of proclamations ,regulation, directives and codes. Some years ago the licensing and supervision of insurance investment proclamation is the main piece of legislation constituting the insurance regulatory framework, several other pieces of legislation also form part of the framework and help to determine who may write insurance (Smith, and Chamberlain, 2010).

At this moment new insurance proclamation approved for insurance business with proclamation number 746/2012 .Furthermore, in 2015 NBE has issued one directive SMIB 1/2015 regarding micro insurance business that deal with licensing , license renewal and product approval for micro insurance providers.

This directive is issued for the purpose of promoting micro insurance in sound and prudent manner .It is required for creating, enabling conditions for licensing, license renewal and product approval. It defines micro insurance as an important strategy to provide risk protection for vulnerable and low income people.

Under SMIB directive #1/2015 definition, the following are main micro insurance products which allowed by NBE:-

As life insurance product:-

» term insurance for insured policy holders or family members of the holder,
» accidental death and /or disability of insured policy holder or family member
» credit life
» medical expense
» investment linked
» other categories of micro insurance that may be authorized

Under general micro insurance:-

- loss of / damages to property, including crops and livestock, on an indemnity basis only
- credit linked coverage
- saving linked coverage
- weather index insurance
- other categories that may be authorized by NBE.

Article 5(1) shows the micro insurance business insurer can be conventional(mainstream)insurance providers without separate license to deal with micro insurance products, however to deal with the product, licensed insurers should :-

- have renewed insurance business license
- achieve composite risk assessment rating of at least 3(CRA-3)in the recent on site examination
- needs micro insurance approval from NBE prior to commencement of the operation
- establish a separate unit that exclusively runs and manages the micro insurance operations

To deal with micro insurance exclusively, insurer shall fulfill the setted precondition based on sub article 5.2. on general precondition, capital requirement, organizers and project manager, pre-application phase, application phase, etc.

As per article 5.3, micro finance institutions may carry on credit life micro insurance without obtaining authorization from NBE, but in order to engage in other than credit life micro insurance business:-

- they should establish a separate unit, that runs and manages the micro insurance operations.
- have renewed micro finance business license
- achieve capital adequacy, asset quality, management and earning and liquidity (CAMEL) rating of at least 3(CRA-3) in the recent on site examination.
- needs micro insurance approval from NBE prior to commencement of the operation

2.1.3. Theoretical framework

There is no general theory of micro insurance that provides a unifying framework for the study of prospects and challenges of micro insurance in commercial insurance industry,to the knowledge of researchers . Because of this, the study tries to view some assumptions which is nearer to the concept of micro insurance investment.

The academic discussion on uncertainty has gained thrust and both imperfect information and its resulting market failures have been included into contemporary microeconomics, since the 1970s. Despite, not widely discussed in academic textbooks until now, uncertainty is the foundation of insurance theory. There are two major assumptions with respect to the consumers (users of insurance in this study context) are made in the theory of uncertainty .First, the expected utility theorem is assumed to hold. It states that utility functions have the expected utility form (as per Neumann-Morgenstern utility function), i.e. aggregate utility is equal to the sum of the probability weighted utilities of each possible outcome. Second, individuals are assumed to be risk averse (Mas-Collel et al., 1995).

Due to risk aversion, individual is willing to trade risk for certainty because it derives additional utility from a certain outcome (Dionne, 2000). Hence, risk averters' need to offset or reduce uncertainty of conditions by incurring some costs to gain a balanced utility from a certain occasion or outcome). More generally, Schlesinger (2006) , also argue that if the price for insurance is fair, i.e. the premium equals the expected indemnity payment of the insurance company, the individual prefers certain outcome over any other outcome with non-zero variance (which means without perfect offset).

Mossin's theorem (1968) further explained that if all preceding assumptions hold, the individual is fully insured. Hence, since the expected satisfaction of the total balanced with the probability of every individual outcome and they are willing to trade off risk for certainty without expecting absolute recover, individual will be fully covered with insurance. Consequently, this is an opportunity for micro insurance investment , since there is large number of individuals in lower income households which have high exposure for risks in their daily life. On the other extreme, from those of risk lover's perspective, they don't like to be insured; because they need to face by themselves and this will be a challenge for micro insurance investment.

Loewenstein et al. (2001) argue further , even if the price is not equivalent i.e. the insurance company gets higher return , the individual might still go for insurance because of potential non-pecuniary benefits (e.g. peace of mind) from being insured. Directly hinging on the assumption that insurance policies are fairly priced is the assumption that insurers themselves are risk neutral towards risk or are able to perfectly diversify the risks they are insuring.

In order to strengthen Lowenstein et al.' (2001)'s argument ,Roth & Athreye (2005) claim that insurance companies are indeed risk neutral towards micro insurance related exposures as these are dwarfed by the size of their overall portfolio. On the other hand, Churchill et al., (2006) argue that , some risks are by definition more diversifiable than others: a very high degree of diversification can be reached for life and accident insurance while polices insulating farmers from draughts or natural disasters bear a great deal of covariant risk. Hence, the price of premium becomes different as per their levels diveresfiabilty, and this may becomes a challenge of affordability which ultimately challenge of micro insurance practice.

2.2. Empirical Review

Link and Wirz, (2007) have investigated the reasons for under insurance of the poor in south east India. They pointed out in their finding especially, transaction cost is the major factors that affects the under insurance and that to be taken as a challenge since insurance companies have used direct sales method.

They have cited from different studies concerning transaction costs' influence on micro insurance investment like, Morduch (2002) who indicated transaction costs are often preventing micro insurance from being provided by commercial insurance companies. Another studies that have been cited by the study was Ahuja et al., (2005), he stated that, transaction cost prevents the potential demand from expressing itself in the market. Further the authors cited from McCord (2002) that micro insurance causes higher transaction costs than conventional insurance at almost every stage of insurance transaction. Selling insurance to the poor is costly due to the large amount of low premium contracts servicing insurance, handling, and controlling claims and paying out benefits is equally more costly. Therefore, transaction costs can be considered as a challenge of micro insurance investment, since it affects affordability of micro insurance product.

Alam et al., (2010), identified the main factors that affect willingness to pay for weather index based micro insurance and to test its commercial viability. They noted that the economic status (income level) and level of education are positively related to the consumers' willingness to pay for whether index based micro insurance and that to be taken as a prospect for micro insurance investment , if they are prevalent in a given society. Even though, they tried to see indirectly some prospects and challenges, they are more of concerned on consumer's willingness on whether index based micro insurance determinants in addition to investigating on one micro insurance product only.

Huber, (2012) identified and evaluated socio economic determinants of micro life insurance demand. The probit regression results of this study indicated the economic status (income level), education level and house hold wealth (insurable property) have positive influence on the take up and demand of micro life insurance. This means, their prevalence are good prospects for the micro insurance investment . He investigated different determinants of micro life insurance, though he based only on one micro insurance product.

Over all, the studies conducted in emerging economies are more of concerned on one micro insurance product, although there are some studies on more than one micro insurance. In addition, the studies that have been conducted in this economy can't enable us to make inference to developing economies especially, to Ethiopia, due to socio economic, cultural and political difference.

When we come to developing economies, researchers tried to see different related empirical evidence. These are studies conducted by; McCord et al.,(2005), Roth et al., (2007), Yinusa and Okuru,(2009),Amit,(2010), Leazerman et al., (2010), Miadevos et al.,(2010),Waly,(2010) , Bendig and Arun,(2011), Akotey et al., (2011), Achah and Owusu, (2012), Kaume and Komenon, (2012), and Mohammed and Mukhtar, (2012).

McCord et al., (2005) noted that lack of infrastructure and delivery channel are the major hindrances for micro insurance demand and practice in Lao People's Democratic Republic. Hence, the prevalence of infrastructure and delivery channels can be prospects for the investment of micro insurance. The study used only the qualitative data that can't enable us to make an inference to the general population. Rothe et al., (2007) examined the landscape of micro insurance in various developing countries. The finding confirms that, lack of infrastructure (health facility), lack of delivery channel and market barriers (absence of active sales agent, and absence of client centered micro insurance) as the major challenges of micro insurance investment in those countries.

Yinusa and Okuru, (2009) are another researchers who investigated the determinants of demand for micro health insurance in Botswana. The finding of this study is contrary to other studies' finding concerning the level of education and income's impact on the micro health insurance demand. They noted that, the house hold's income and education level have negative effect on micro health insurance demand. Amit, (2010) investigated micro insurance's role on risk protection and other related issues of developing countries. The result confirms that lack of infrastructure, lack of delivery channel and market barriers (lack of trust on micro insurance investment profitability and mismatch between micro insurance products and demand) are the major challenges. Hence, the prevalence of infrastructure and delivery channel will be regarded as prospects of micro insurance practice. Even though, he pointed out various challenge, their significance level is not tested and it can't enable us to generalize to the total population due to the qualitativeness of the study.

Leazerman et al., (2010) pointed out lack of infrastructure and delivery channel as the main challenge of micro health insurance practice. They investigated from the perspective of one micro insurance product and they didn't tested independent variable's significance level. Consequently, this results an inability to make an inference. Miadevos et al., (2010), stated that education level has strong relationship with the usage of insurance.

Waly, (2010) identified challenge of micro insurance in Egypt from developing economies. He indicated that, level of improved education has good prospect. In addition, he stated that transaction cost, lack of delivery channel and market barriers (lack of data on clients and on relevant products) as major challenges of micro insurance in Egypt. Comparatively, they tried to see from both, i.e. from challenge and prospect than the aforementioned reviewed studies. However, the study didn't make any significance test. Another related study was conducted by Bendig and Arun,(2011) on the determinant of micro life and health insurance participation in Sri Lanka. The probit regression result of the study indicated that level of education and insurable property has positive and significant effect on micro life and health insurance demand. Hence, they have positive effect on micro insurance practice, despite the study was only on two micro insurance products. Akotey et al., (2011) examined factors which influence the demand for micro insurance service among the informal sector workers of Ghana. They stated that level of income and education are positively related to the demand for micro insurance service, but the level of education is not statistically significant. In addition, they pointed out the prevalence of delivery channel positively and significantly affect micro insurance demand. In reverse sense, lack of delivery channel is a challenge of micro insurance practice. Kaume and Komenon, (2012) examined the determinants of micro insurance demand Cot devour. The finding indicates that the availability of insurable property (monitory values of livestock) positively affects the demand for micro insurance.

In general, the studies conducted in developing economies are not tested significance level and they are more of concerned on one micro insurance product. Consequently, the studies that have been conducted in these economies can't enable us to make inference to developing economies especially, to Ethiopia particularly south west Ethiopia Bench Maji Zone, due to financial, socio economic, cultural and political differences.

In Ethiopia there are few studies had been conducted on related issues since recent years. Some of the studies are conducted by; Smith and Chamberlain, (2010), Araya,(2011),Shifa, (2012)and Tadesse and Victor, (2012), Melaku et al.,(2014).

Smith and Chamberlain, (2010) analyzed the major challenges of micro insurance investment in Ethiopia. The result indicated that lack of infrastructure (limited health service), market barriers (limited experience to date with retail and life investment) and lack of delivery channel (unsupportive environment of intermediaries) are major challenges of micro insurance investment in Ethiopia. Although, study pointed out major prospects and challenges from the supply, demand and regulatory frame work perspective, but those prospects and challenges' significance level are not tested. In addition, the study used only qualitative study that can't enables us to make an inference to the total population.

Similarly, another study that has been conducted by Araya,(2011) who doesn't tested the significance level of those factors noted that lack of infrastructure ,transaction cost and lack of delivery channel(lack of rural branch network) are key challenges of weather index micro insurance. Despite, he investigated many factors, but his investigation was only on one micro insurance product i.e. weather index micro insurance. Shifa, (2012) investigated the landscape of micro insurance by exploring opportunities and challenge. Similar to Smith and Chamberlain, he stated that lack of infrastructure (on whether data) and lack of delivery channel are main challenges of micro insurance practice. Notwithstanding he stated several factors, the same to the aforementioned studies in Ethiopia he didn't tested the significance of those factors and used only qualitative study to investigate the issue. Hence, this can't enable us to make generalization to the population. Tadesse and Victor, (2012) noted that lack of delivery channels is main challenges of micro insurance demand. Despite, they identified different factors, but they didn't test the significance level and they are more of related to demand determinants. In addition, due to the qualitativeness of the study, it can't enable us to generalize to the population.

Over all, the studies conducted in Ethiopia majority of them are qualitative in their nature related to this subject. Hence, such type of study can't enable us to make an inference to the total population. In addition, some of the studies conducted are on one micro insurance product only.

2.3 Conclusions on the literature review and knowledge gaps

There are no universally accepted findings to the prospects and challenges of micro insurance investment /practice, since countries differ each other by their economic, financial, political systems and operating environments. Thus, in this study researchers examine the major potential prospects and challenges of micro insurance investment in South West Ethiopia, particularly in Bench Maji zone insurance industry and related stakeholders, and also test various variables effect (such as income level , educational level , insurable property ownership(asset endowment),transaction costs, lack of delivery channel, lack of infrastructure and financial illiteracy) .

3. Research Design and Methodology

3.1. Research Methodology

Concurrent mixed research approach was used, so as to achieve the main research objectives of the study. The approach has immense benefits that averts drawback of using only one approach.

3.2. Research Design

Under this study, researchers used exploratory and explanatory research design for the qualitative and quantitative aspects of the research respectively.

3.3. Model Specification

To examine the prospects and challenges of micro insurance investment in Bench Maji Zone, researchers adopted the logistic regression model which used by Mohammed and Mukhtar,(2012) with little modification by including additional variables. Therefore, the following model used in estimating the parameters for the variables in this study:

$$Yi = \beta 0 + \beta 1X1i + \beta 2X2i + \beta 3X3i - \beta 4X4i - \beta 5X5i - \beta 6X6i - \beta 7X7i + \varepsilon i \quad \ldots\ldots\ldots$$

Equation 1

Where Y_i is the micro insurance investment desire i , with i = 1, β_0 is a constant term, β is coefficients for the respective variables X_{it}s are k explanatory variables and ε_i is the disturbance term .

Where:

Y=1, if the respondent's answer has shown the need for micro-insurance investment and 0 if otherwise.

X1= Level of Income (LI)

X2= Level of Education (LE)

X3= Insurable Asset (IA)

X4= Infrastructural availability (ISA)

X5= Transaction Costs (TC)

X6= Delivery Channel (DCh)

X7= Financial Illiteracy (FI)

ε_i = Error term.

The equation that account for individual explanatory variables which are specified for this particular study is given as follows.

$$MIID_i = \beta_0 + \beta_1 (LI)_i + \beta_2 (LE)_i + \beta_3 (IA)_i - \beta_4 (ISA)_i - \beta_5 (TC)_i - \beta_6 (DCh)_i - \beta_7 (FI)_i + \varepsilon_j \text{ .....Equation 2}$$

3.3.1. Variables definition and measurements

3.3.1.1. Dependent variable

The dependent variable of this study is micro insurance investment desire. Regarding its measurement it is dummy variable, which is supposed to take binary result. Hence, based on the Logit regression model it is indicated as Y=1, if the respondent's answer will support micro-insurance investment need and 0 if otherwise.

3.3.2.2. Independent variables

Income Level

Based on empirical evidence the improvement of poor household income level is a prospect for micro insurance investment. For this study we measured this variable using dummy variable 1 for income level improvement, otherwise 0. Therefore, the first hypothesis of this study stated as;

$H_{1:}$ Level of income is considered as a prospect for micro insurance investment in Bench Maji Zone.

Level of Education

The results of different empirical evidence shows the improvement of educational level as a prospect for micro insurance investment. It is measured using lickert scale. Therefore, this hypothesis stated as;

$H_{2:}$ Level of education is considered as a prospect of micro insurance investment in Bench Maji Zone.

Insurable Property

Empirical evidence shows the availability of insurable property ownership (asset endowment) is a prospect for micro insurance investment. It is measured using asset owned. Hence, third hypothesis of this study stated as;

$H_{3:}$ Insurable asset is considered as a prospect for micro insurance investment in Bench Maji Zone.

Infrastructure Availability

In most empirical investigation, the availability of infrastructure is the indicator of prospect for micro insurance practice and investment. Different empirical evidences indicated that lack of infrastructure is the major hindrance for micro insurance demand and investment. Hence, the lack of infrastructure availability is major challenges for the investment of micro insurance. Thus, the absence of infrastructure is a challenge for micro insurance investment. For this study we measured this variable using dummy variable 1 for lack of infrastructure , otherwise 0.As a result, fourth hypothesis of this study stated as;

$H_{4:}$ Lack of infrastructure is considered as a challenge for micro insurance investment in Bench Maji Zone.

Transaction Cost

Most empirical evidence like argued that transaction cost is the major factors that affects insurance and that to be taken as a challenge since insurance companies have used direct sales method, unlike in the partner agent model . Hence, transaction cost has a negative impact on micro insurance practice that to be taken as a challenge for micro insurance investment. It is measured using lickert scale. As a result, the fifth hypothesis is stated as;

$H_{5:}$ Transaction cost is taken as a challenge of micro insurance investment in Bench Maji Zone.

Delivery Channels

Based on empirical evidence, lack of delivery channel is the major obstacle for micro insurance demand and investment (McCord et al., 2005; Rothe et al., 2007 ;Amit, 2010; Leazerman et al., 2010; Waly, 2010 ;Akotey et al., 2011; Smith and Chamberlain, 2010; Araya,2011 ;Shifa, 2012 ;Tadesse and Victor, 2012;).

Hence, the above empirical evidence shows that there is an inverse relationship between lack of delivery channel and micro insurance investment. It is measured using lickert scale. The sixth hypothesis was stated as;

$H_{6:}$ Lack of delivery channel is taken as a challenge for micro insurance investment in Bench Maji Zone.

Financial Illiteracy

The results of different empirical evidence show the improvement of financial literacy has positive and significant effect on micro insurance investment ,but on the extreme financial illiteracy is a challenge for micro insurance investment. It is measured using lickert scale. Therefore, seventh hypothesis of this study stated as;

$H_{7:}$ Financial illiteracy is taken as a challenge for micro insurance investment in Bench Maji Zone.

3.4 Source of Data and Method of Data Collection

3.4.1. Source of Data

The source of data for this research was primary source.

3.4.2. Method of data collection

The methods of data collection used were structured questionnaires and in-depth interview. Another method of data collection was used in-depth interview in order to get qualitative data that supported the quantitative data gained through other method of data collection.

3.5. Target Population of the Study

The target population of this study was taken from two major categories of financial institutions. These are insurance companies and micro finance institution.

3.6. Method of Data Analysis and Interpretation

The collected cross sectional data is analyzed using logit model and descriptive statistics by the help of statistical tool like Stata and SPSS. After the analysis process finalized, researcher interpreted based on empirical evidence and existing situations.

Result Analysis And Interpretation

4.1.Logistic regression model results

4.1.1.Test of logistic regression

Test of logistic regression model were made using the following tests, such as model specification , goodness of fit , multicolliniarity and heteroscedasticity. As a result their result shows as the model have no problem related to specification error on model, model fitting problems for data/variables, correlation problems among independent variables and absence of constant error among explanatory variables.

4.1.2 Regression Analysis and interpretation

The binary logistic regression model with coefficient result is interpreted as change in log of odds for a unit changes in x, other things remain constant. Based on the regression result presented below in table 4.1:-

MIID = 1.058284 +.7281022MII+.7957796ELI +1.973836IA -5.175227ISA - 2.797686TC – .9538899DCh-.4619877FI

Even though our analysis and interpretation relies on odds ratio, we have presented models coefficient as follows. Transaction cost ,lack of delivery channel and poor infrastructural availability found to be negatively related to micro insurance investment and they are statistically significant at 5%. Whereas education level improvement has positive relationship at 5% significance level as a prospect for micro insurance investment. With regard to insurable asset, it is strongly significant at 1%, and it has positive relationship as a prospect for micro insurance investment. In this study monthly income improvement and financial illiteracy are not statistically significant as a prospect and challenge for micro insurance investments, even though they have positive and negative relationship respectively.

Table 4.1Binary Logistic regression with coefficient

```
Logistic regression                               Number of obs   =         90
                                                  LR chi2(7)      =      83.25
                                                  Prob > chi2     =     0.0000
Log likelihood = -19.326109                       Pseudo R2       =     0.6829
```

MIID	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
MII	.7281022	.6984672	1.04	0.297	-.6408683	2.097073
ELI	.7957796	.3342206	2.38	0.017**	.1407192	1.45084
IA	1.973836	1.146299	2.59	0.009*	-5.220541	227271317
ISA	-5.175227	2.495801	-2.07	0.038**	-10.06691	-.2835477
TC	-2.797686	1.352271	-2.07	0.039**	-2.472841	5.448089
DCh	-.9538899	.4609091	-2.07	0.038**	-1.857255	-.0505247
FI	-.4619877	.4328588	-1.07	0.286	-1.310375	.3864001
cons	1.058284	3.384447	0.31	0.755	-7.691678	5.575111

*Significant at 1% and less, **significant at 5% and less, ***significant at 10% and less (tolerable)

Source: Researcher's estimation.

The odds ratio is the proportion of the probability of event occurs to the probability of the event do not happen. That is the ratio of probability that the given variables to be a prospect and challenges for micro insurance investments to probability they do not.

Table 4.2Binary Logistic regression with odds ratio

```
Logistic regression                               Number of obs   =         90
                                                  LR chi2(7)      =      83.25
                                                  Prob > chi2     =     0.0000
Log likelihood = -19.326109                       Pseudo R2       =     0.6829
```

MIID	Odds Ratio	Std. Err.	z	P>|z|	[95% Conf.	Interval]
MII	2.071146	1.446628	1.04	0.297	.5268348	8.1423
ELI	2.216168	.7406891	2.38	0.017**	1.151101	4.266697
IA	3.051069	.0585838	-2.59	0.009*	.0054044	3.43293
ISA	.0056549	.0141136	-2.07	0.038**	.0000425	.7531072
TC	.40665	22.18623	2.07	0.039**	.158683	232.3137
DCh	.3852396	.1775604	-2.07	0.038**	.1561005	.9507305
FI	.6300301	.2727141	-1.07	0.286	.2697188	1.471673

*Significant at 1% and less, **significant at 5% and less, ***significant at 10% and less (tolerable)

Source: Researcher's estimation

Explanatory power of the model as to what extent the dependent variable has explained by independent variables was checked using pseudo R^2 value of the model presented under table 4.1and 4.2. Hence, in this model the pseudo R^2 value obtained is about 68.29% and this value is quite high .

The following analysis and interpretation presents with the intent of addressing hypotheses and specific objectives. This is followed by a discussion of the results of different method of data collection's findings to the research objectives. Hence, the specific objective 1 has addressed together with hypothesis 1, 2, and 3 .

Level of income

Regarding monthly income improvement table 4.1and 4.2are presented. Table 4.1and 4.2reveals that the income level improvement of poor household is not statistically significant. The results imply that improvements of income level of lower income society are not statistically considered as good prospects of micro insurance investment . This is may be due to the assumption that as the income level of the poor household increases they are more of inclined to general insurance. In contrary, the results of in-depth interview and descriptive statistics reveals that the improvements of income level of lower income society are considered as good prospects of micro insurance investment , because the improvement of income level are assumed to increase the affording capacity of poor people.

Educational Level

As per table 4.1 and 4.2 results, the p-values of statistical measurement connotes that educational level as to be statistically significant at 5%. This implies that the improvement of lower income society's educational level is considered as a prospect of micro insurance investment Bench Maji Zone. Besides, this table has presented the results of odds ratio coefficient of this variable (educational level) .It shows there is positive relationship with micro insurance investment as a prospect. This in turn, implies the odds of micro insurance investment increase 2.2 times as the educational level of the poor society increases by one level.

The results of in-depth interview shows that the improvement of lower income society's educational level is one of the main prospects of micro insurance investment as per most interviewee's. Because, the improvement of educational level enables them to easily understood the awareness creation and the impact of increasing the need for protecting their subordinates through insurance (Li et al.2007). Hence, the improvement of this educational level is regarded as a prospect of micro insurance investment.

Insurable property

Based on regression result presented under table 4.2 the outcomes of p-value shows as the availability of insurable property statistically significant at 1%. So, the availability of insurable property in the lower income society is a prospect for micro insurance investment. Whereas, table 4.2 shows its positive relationship. It connotes that as insurable property increase by one unity, the odds of micro insurance investments increase by 3.5 times.

Moreover, the in-depth interview results presented under table 4.12 shows that presence of insurable property as one of the main prospect of micro insurance investment as per most interview participants view. Because, the availability of insurable property triggers owners need for protection from unexpected weather problems and related risks through insurance(Li et al.2007). Hence, its availability is viewed as a prospect of micro insurance investment.

Furthermore, the respondents of this study with open ended questionnaire and in depth interview mentioned additional prospects. These are the availability of large un served market (clients), issuance of legal frame work for micro insurance business ,having better lesson from micro finance institution on how to access lower income society, little bit improvement on insurance awareness ,presence of some informal delivery channel like idder, presence of potential insurable property, improvement of educated people that can easily accept about the risk management, government's initiation towards community based health insurance, improvement on income level of middle and low income household have indicated as prospects of micro insurance investment. These implies more of those prospects related to stakeholder’s participation and interaction by all major players of micro insurance, i.e macro, meso and micro level role players. For instance, informal/cultural societies, like idder and iqqub, governments, financial institutions, electronics media, educational institutions and insurance companies and other stakeholders.

In order to address specific objective 2 and hypothesis 4 up to 7 the outputs of survey and in depth interview has used.

Infrastructure Availability

Table 4.1 and 4.2 indicated logistic regression p-values for lack of infrastructure as it is statistically significant at 5. This implies that, lack of infrastructure is considered as challenge for micro insurance investment. As a result, absence of infrastructure impede the smooth functioning of micro insurance operation.

Concerning its absence effect, table 4.2 again reveals the odds ratio coefficient as to be negative relationship with micro insurance investment . Its ratio implies that the odds of micro insurance investment decrease.0056 times , as lack of infrastructure becomes more every time. Likewise, respondents added their similar view on the presence of infrastructure as a challenge for micro insurance investments on open ended question. This implies that lack of infrastructure decrease significantly micro insurance investments and as a result it becomes a challenges.

Transaction Cost

As per most empirical evidence presented on second chapter , micro insurance causes large transaction costs than conventional insurance comparatively at every stage of insurance transaction. This is due to the large amount of low premium contracts and in addition servicing insurance, treating and controlling claims and paying out benefits is equally more costly. Hence, its prevalence is a big challenge for micro insurance investment . The hypothesis that has framed based on the empirical evidence tested relying on the output of binary logistic regression under table 4.1 and 4.2.

According to table 4.1and 4.2's out put the statistical measurement of transaction cost shows significant at 5%. It implies that transaction costs are taken as statistically as a significant challenge of micro insurance investment. Concerning its effect as per odds ratio on table 4.2; it shows that, it has negative relationship with micro insurance investment. This implies the odds ratio of micro insurance investment decrease approximately by .41 times, as fear of transaction costs increase by investor. Besides, in-depth interview result shows that, as there is high fear on transaction costs and this as a result hinders micro insurance investment with fear of low profit from the business.

Delivery Channel

As per the outcomes of binary logistic regression study table 4.1 and 4.2 hypothesis 6 was examined by using p-values statistical measurement. They show that lack of delivery channel as to be statistically significant at 5%. This implies as there is lack of delivery channel that to be taken as a challenge of micro insurance investment.

Whereas the odds ratio of lack of delivery channel presented on table 4.2 shows that as it has negative relationship with micro insurance investments. This in turn implies that, the odds of micro insurance investment decrease by .63, as the lack of delivery channel becomes more. Besides, open ended and in depth interview result of study strength this fact. This signifies that, as there is a challenge that emanated from lack of delivery channels to address micro insurance service to the poor household with more cost effective mechanism.

Financial Illiteracy

Accordingly, table 4.1and 4.2depict that financial illiteracy was examined by using p-values statistical measurement. They shows that financial illiteracy is not statistically significant. But, based on open ended questionnaire and in depth interview result, it has great gap, hence it is perceived as one of impeding factor for micro insurance in this zone.

The in-depth interview result of the study has mentioned more than those four challenges as the obstacle of micro insurance investment and open ended questionnaire. It shows that fear of micro insurance business profit, good governance problem, absence of active sales agent, donors support **,**the prevalence of religious beliefs of relying on God's protection, limited experience to date with retail and life business, lack of capacity, coordinated effort, know how to operate ,organized data on potential clients , skilled manpower on the area ,trust on micro insurance business profitability. This implies that most of them associated with those three major role players of micro insurance in Ethiopia.

Absence of commitment to use the existing potential prospects , fear of profitability, lack of knowhow on identification of major prospects, knowhow, how to utilize prospects, skilled manpower , lack of due attention to provide and high probability of frauds expectation are mentioned as main reason for not to utilize the prospect of micro insurance investment in Bench

Maji Zone. This implies, majority of the reasons are related to institutional factors rather than external factors.

Whereas, insufficient capacity to tackle and invest ,negligence of top management in devising strategies to tackle challenges, lack of understanding , commitment, knowhow on identification of major challenges and how to tackle them. The result of majority of them implies they are related to their institutional capacity and their concern for the business.

5. Conclusion and Recommendations

The investigation of micro insurance prospects and challenges has too crucial benefits for insurance as well as micro finance institutions.

In light of the aforementioned methodologies, major finding of this study has summarized as follows:- educational level improvement of poor households are found to be statistically and practically significant. This implies , an improvement in level of education is coupled with a better desire to protect dependents and safeguard their standard of living , as a result it becomes a prospect for micro insurance investments.

Insurable property availability is strongly significant at 1% as prospect of micro insurance investment and it has positive relationship with micro insurance. This denotes that, customers are more inclined to be insured for risk aversion and peace of mind to enhance its utility by sharing their risk for groups by scarifying some amount. Statistically income level of lower income society improvement are not viewed as prospects of micro insurance investment. But, practically as per respondents view on in depth interview it shows as a prospect.

In addition to the aforesaid prospects like presence of large un served market, issuance of legal frame work for micro insurance business ,having better lesson from micro finance institution on how to access lower income society, little bit improvement on insurance awareness ,presence of some informal delivery channel like idder and government's initiation towards community based health insurance are mentioned as another prospects of micro insurance investment. Absence of commitment to use the existing potential prospects , fear of profitability, lack of knowhow on identification of major prospects, knowhow, how to utilize prospects, skilled manpower , lack of due attention to provide and high probability of frauds expectation are mentioned as main reason for not to utilize the prospect of micro insurance investment

High fear of transaction cost which can reduce the potential profitability of the business, lack of infrastructure that hinders from providing service and as well which can increase risk probability and lack of delivery channel that hampers provision of micro insurance product and service are statistically significant challenges of micro insurance investment. Financial illiteracy is not statistically significant, despite it is practically significant as we have observed from in depth and open ended questionnaires analysis. This signify that financial illiteracy is practically significant challenges, though it is not statistically significant. Fear of micro insurance business profit, good governance problem, absence of active sales agent, donors support **,**the prevalence of religious beliefs of relying on God's protection, limited experience to date with retail and life business, lack of capacity, coordinated effort, know how to operate ,organized data on potential clients , skilled manpower on the area ,trust on micro insurance business profitability are another challenges that micro insurance investment will have. Insufficient capacity to tackle and invest ,negligence of top management in devising strategies to tackle challenges, lack of understanding , commitment, knowhow on identification of major challenges and how to tackle them are mentioned as main reason not to tackle the aforesaid challenges.

Generally to engage quickly in this zone on micro insurance investment, there are various drawbacks. If these constraints are not resolved, there may not be satisfactory changes on the overall micro insurance investment and as well as changes of large un served market of the zone.

5.2 Recommendation

Based on finding the following main recommendations were suggested for effective and well organized micro insurance investments in Bench Maji Zone.

Insurance companies and micro finance institution should aggressively work to expand their delivery channel to reach on untapped market easily with more innovative channels , such as partner agent model and others in order to reduce the challenge of delivery channel and to reduce transaction costs.

They should bargain with their respective association and search nongovernmental support to address infrastructure problem and build their capacity. In order to bring societies understanding to the desired level, insurance companies and micro finance institution should further enhance public's awareness and financial literacy by using different approaches. For example, even though it is expensive, it has a long term benefits beyond micro insurance business to have one TV and radio program as South West Ethiopia-Bench Maji Zone.

They should create strong link to co-operatively work on different areas, like sharing experience each other on how to run the insurance business for micro finance institution and on the reverse, sharing experience on how to access poor households for insurance companies in order to fill their gap each other to utilize untapped market of micro insurance business, since the new micro insurance business directive(SMIB # 1/2015) had let them to engage in such business as per sub article 5.1 and 5.2 for insurance companies and sub article 5.3 for micro insurance .

They should avoid fear of micro insurance business profitability because most businesses have no profit at inception stage. But latter they will harvest more from its direct and indirect benefits. Because, there are large un served markets, where there is high probability of being profitable , hence they should exert their maximum effort.

In order to upgrade insurance and MFI understanding on the subject matter they should make survey with some period interval either by their employees or with academicians/researchers to identify the existing reality about the potential business and practice on the subject matter.
Government should enhance this sector by providing different incentive as they did for microfinance institutions on the provision of credits to low income society, like tax exemption because the development of this sector has various benefits on poverty reduction.

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