



# Assessment of Demand for Microinsurance:

Thanh Tri District, Hanoi, Vietnam

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**Microfinance Opportunities**

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**ACRONYMS & ABBREVIATIONS**

FA	Farmers Association
FGD	Focus Group Discussion
MFC	Microfinance Centre
MIC	MicroInsurance Centre
MOH	Ministry of Health
PRA	Participatory Rapid Appraisal
SME	Small- and medium-enterprise
VA	Veterans Association
VBARD	Vietnam Bank for Agricultural and Rural Development
VND	Vietnamese Dong (currency)
VBSP	Vietnam Bank for Social Policies
WU	Women's Union

## **1. EXECUTIVE SUMMARY**

Microfinance Centre (MFC) for CEE and the NIS and the MicroInsurance Centre (MIC) have created a strategic partnership to develop demand-led microinsurance products and investments. Funded by IFAD, the goal of this collaboration is to facilitate the development of the following:

1. Microinsurance services for poor individuals; and
2. Responsible, efficient, and profitable microinsurance products by microfinance providers, insurance firms, and other service providers.

This report concerns market research activities specific to the Vietnamese market. It presents the results from a qualitative research study to complement current knowledge on the need for microinsurance services among low-income households in the Vietnamese market. The study aimed to determine the major risks that the low-income market faces in order to establish how these groups are currently coping with risks, and identify gaps in their risk-management strategies. The study sought to identify opportunities for insurance where coping mechanisms currently used by poor households to overcome economic shocks fell short.

This survey was conducted in two communes in Thanh Tri District, Hanoi city. The two communes are located in the outskirts of Hanoi and practice a combination of agricultural and non-agricultural economic activities, including small enterprise operation and seasonal unskilled labor. In total, the FGDs and PRAs consisted of 112 participants, and individual interviews were conducted with 8 individuals.

Analysis of spending and earning cycles in these communities found spikes in both income and savings in June and October-December, and spikes in expenditures and borrowing in February, July and September. Most of the variation was related to agricultural and business calendars, as well as major holidays such as Tet in February.

The top four insurable risks uncovered by the research were sickness, transportation/labor accidents, funerals, and crop/livestock failures. All bring the potential for serious economic shock for typical families in these communities. Sickness and accidents can be especially damaging to families via the combination cash outlays for bills and long-term productivity loss. At present, the social security provided by the Vietnamese government addresses these risks in very limited form. Some of these risks are more pertinent to families that rely on agriculture (e.g. crop/livestock failures), while others pertain more often to families heavily involved in business and wage labor (e.g. transportation/labor accidents).

The top four uninsurable risks (or economic stressors) noted in the research were purchase of house/land, school fees, marriage of children, and inflation.

Most risks came with some seasonal variation. The risks posed to crops by weather patterns are perhaps the most obvious example. Illness also varied with the weather, with the highest risk in the colder winter months.

The most common ex-ante coping strategies cited by respondents were savings, purchase of livestock (as a form of savings), ROSCAs, and sale of land/major assets. Formal and informal insurance also exists in these communities; however, there is a great deal of skepticism and uptake is limited (except where insurance is mandatory or perceived as mandatory).

Two common ex-post coping strategies were cited: 1) earning extra income through seasonal unskilled labor; and 2) loans. The former has become more widespread as Vietnam's economy has diversified and become less dependent on the economic sector. Loans are available from both formal sources, including the Vietnam Bank for Agricultural and Rural Development (VBARD) and Vietnam Bank for Social Policies (VBSP), and informal sources, including relatives and money lenders.

Research showed that the term "insurance" is not foreign to most respondents in the two communes. They found no difficulty in listing types of insurance existing within the community. At the same time, the findings suggested that local people's technical knowledge of insurance is limited. Many respondents openly wondered whether insurance premiums were affordable for them, whether compensation/benefits were reasonable, and whether the claim procedure is complicated.

Obstacles to the purchase of insurance cited by respondents included: lack of money, lack of understanding of insurance, poor service, and inconvenient sales policies. All respondents confirmed an interest in community-based financial education that would allow them to become more informed on the subject of insurance and financial planning.

In sum, coping with risk is a high priority for most farmer households in the studied areas, and they express interest in participating in appropriate insurance schemes. Product development should focus on the most salient insurable risks such as illness, accidents, funeral expenses, and crop/livestock failure. New entrants into the market must aim to improve on existing insurance in key areas, such as quality of service, convenience of service, and clearly-explained benefits. Financial education should be launched along with the insurance products. Uptake projections must remain moderate. No amount of financial education may impact the 70 percent of this population that is uninterested in insurance because they cannot afford it.



## **2. INTRODUCTION**

Microfinance Centre for CEE and the NIS (MFC) and the MicroInsurance Centre (MIC) have created a strategic partnership to develop demand-led microinsurance products and investments. Funded by IFAD, the goal of this collaboration is to facilitate the development of the following:

1. Microinsurance services for poor individuals; and
2. Responsible, efficient, and profitable microinsurance products from microfinance providers, insurance firms, and other service providers.

Much like the Fund's other finance initiatives, the overarching goal of this work is to contribute to the construction of an inclusive financial system that meets the needs of the poor. All efforts will be focused on the poor and how to help them manage the risks that jeopardize their livelihoods and progress in building assets. As they develop and offer these products, MFIs will also benefit from the technical assistance and knowledge dissemination that will address the needs of the poor.

The project has three components and the following specific objectives:

- *Objective 1—Normative Tools*  
Develop normative tools that facilitate partnerships and promote knowledge management between regulated insurers and MFIs, as well as other potential delivery channels.
- *Objective 2—Action-Research*  
Conduct action-research to build the capacity of local partners to offer microinsurance services in order to create replicable models of microinsurance product distribution.
- *Objective 3—Market Education*  
Prepare potential consumers of microinsurance products to make informed product choices through financial education.

Market research activities will inform the action-research program. Its goal is to help build the capacity of local partners to offer microinsurance services, in order to create replicable models of microinsurance product distribution. Key program activities include:

- (a) Test the technical and normative tools, manuals, and data collection tools in the Working Group on Microinsurance of MFN, which includes the global leaders in microfinance, as well as some members of MFC.

- (b) Finalize the content and design of these tools, reflecting the feedback generated from this peer-review process.
- (c) Develop and manage action-research programs in Vietnam and Armenia throughout the product development cycle, including introductory knowledge dissemination, qualitative demand research, prototype development, quantitative testing of the prototype, pilot-testing the product, roll-out, and finally review and assessment.

### **3. RESEARCH OBJECTIVES, METHODOLOGY & BACKGROUND**

#### **3.1. Objectives**

This report concerns one component of the aforementioned market research activities, specific to the Vietnamese market. It is part of a two-phase exploratory research project:

1. Qualitative research on the demand for microinsurance in low-income Vietnamese markets, and
2. Quantitative research with a sample representative of the northern Vietnamese population to test microinsurance product prototypes and willingness to pay.

This report presents the results from the first phase—qualitative research to complement current knowledge on low-income household needs for microinsurance services in the northern Vietnamese market. The study aimed to determine the major risks that the low-income market faces, to establish how these groups are currently coping with risks, and identify gaps in their risk-management strategies. The study sought to identify opportunities for insurance where coping mechanisms currently used by poor households to overcome economic shocks fell short.

The study also aimed to explore informal risk-coping mechanisms, including mutual aid groups, and the relative importance of savings and credit in managing risks. In addition, the study assessed the ability and willingness of households to pay for insurance in the context of other financial commitments. Where formal insurance is available, it assessed the level of satisfaction with the services. It also explored the potential role of financial education and adaptations for this Vietnamese market. Finally, recommendations regarding appropriate insurance products were sought.

Complementing an existing array of insurance demand studies on agricultural households<sup>1</sup>, the study set out to give special emphasis to the risks faced by urban and peri-urban populations whose primary income derives from sources other than agriculture. Results suggested, however, that most urban/peri-urban households earn their livelihood through a combination of agricultural and non-agricultural activities, making our target population difficult to separate out.

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<sup>1</sup> Hung, Dao Van and Liz McGuinness (2007). *Assessing Opportunities for Agricultural Insurance and Risk Coping Strategies In Dong Thap, Thai Binh and Vinh Phuc Provinces, Vietnam*. Microfinance Opportunities; Mekong Economics (2003). *The Demand for Risk-Managing Financial Services from Poor Women in Rural Areas: the Case of Vietnam*. ILO Project, “Extension of Micro-insurance and Microfinance to Informal Section Women Workers.”

### **3.2. Key Questions to be Addressed**

- What are the key financial risks and vulnerabilities facing the low-income market in the Hanoi area? (Risks include personal, life cycle risks, business or enterprise risks, and agricultural risks.)
- What are the impacts of these risks on low-income households?
- How do low-income households respond to and cope with these risks?
- How effective are these responses?
- What are the biggest gaps between the impact of the risks and household coping strategies?
- What can be done to improve the effectiveness of household responses to risks?
- Which of these gaps can be covered by insurance?
- Do low-income people understand the concept of insurance?
- Are they willing to pay for insurance?
- Would low-income households like to improve their management of household finances through learning?
- How would low-income households like to receive new information?
- When, where and how often would low-income households like to receive training?

### **3.3. Methodology**

#### ***3.3.1. Data Collection Methods***

Primary information was gathered from low-income people in peri-urban areas of Hanoi and from key informants who are knowledgeable about the low-income urban/peri-urban economy. The survey used qualitative research techniques including focus group discussions (FGDs), participatory rapid appraisal (PRAs) and individual interviews.

#### ***3.3.2. Research Areas***

This survey was conducted in two communes in Thanh Tri District, Hanoi city. The two communes are located in the outskirts area of Hanoi and practice a combination of agricultural and non-agricultural economic activities. Household incomes are quite diversified (see section 3.4).

### 3.3.2. Research Tools and Sampling Strategy

Table 1 - Sample Frame

	Commune 1			Commune 2			Total
	Men	Women	Mixed Group	Men	Women	Mixed Group	
<b>Focus Group Discussions (FGDs)</b>							
Risks and Risk Management Strategies	1	1		1	1		4
Client Satisfaction with Insurance (optional)							
<b>Participatory Rapid Appraisals (PRAs)</b>							
Life Cycle Risks	1	1		1	1		4
Time Series of Risk			1			1	2
Seasonality of Risk			1			1	2
Seasonality of Income and Expenditures	1	1		1	1		4
<b>Total FGDs &amp; PRAs</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>16</b>
<b>Individual Interviews</b>							
Loan, Savings and Insurance Use	1	1		1	1		4
1. Case Study on Informal Insurance			1			1	2
Client Satisfaction with Insurance (optional)			1			1	2
Key Informants (Commune Officials)			1			1	2
<b>Total Individual Interviews</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>10</b>

In total, the FGDs and PRAs consisted of 112 participants, and individual interviews were conducted with 8 individuals. The gender breakdown was 71 women and 49 men. All participants were poor or marginally poor. Livelihood breakdown was as follows: 42.5 percent of households had income from agriculture only (cultivation and livestock); 5.8 percent of households had income from business only; and 51.6 percent had income from a combination of agriculture, self-employment, and business.

### 3.4. General Information on Thanh Tri District and the Two Communes

Thanh Tri District is a peri-urban region close to the city of Hanoi, consisting of 15 communes and one town. In addition to agriculture, the local economy is based in industrial production, basic construction industries, and trading

activity. As Table 2 indicated, the poverty rate of the whole district is 3.2 percent, which is relatively low compared to the national poverty rate.

Two communes were selected for this study: Ta Thanh Oai and Vinh Quynh. The distances from the district center to Ta Thanh Oai and Vinh Quynh are 6 km and 3 km, respectively. Economically, Vinh Quynh is just below the district poverty rate (3.06), while Ta Thanh Oai is over twice that rate (6.98). In other words, Vinh Quynh is typical while Ta Thanh Oai is quite poor for the area.

Ta Thanh Oai and Vinh Quynh are both more dependent on agricultural activities than other parts of the district. The percentage of income derived from cultivation is 51 percent at Ta Thanh and 36 percent at Vinh Quynh, compared with the overall district rate of 17 percent. The rate of farmer households for whom agriculture is the main source of income is comparably high: 77 percent in Ta Thanh Oai and 70 percent in Vinh Quynh.

The two communes emphasize different areas of agriculture. Fish farms and livestock are most common in Ta Thanh Oai (81 percent of farming households), while most farmers in Vinh Quynh (60 percent) focus on cultivation. Animal husbandry tends to focus on cows, buffalos, pigs, chickens, ducks, and geese; rice is the main crop in both communes. Vegetables are also cultivated widely in Vinh Quynh, equivalent to about 1/3 of the rice area. Vegetables provide cash income for about 25 percent of farmer households in Vinh Quynh, in the form of morning glories (an edible green like spinach) (March-September), water cress (October-March), and mustard greens (October-March).

In both communes, we see evidence of a dynamic economic landscape, consistent with trends in Vietnam as a whole. In particular, spurred by economic growth, the number of households participating in business, services, trading, transportation, and construction activities has increased in both communes in recent years. To date, there are about 660 and 700 households in Vinh Quynh and Ta Thanh Oai (respectively) involved in these activities. Industrial employment has similarly increased, with a current workforce of about 1,700 per commune. In addition, seasonal unskilled labor provides extra income across both communes, with up to 3,000 individuals from each commune participating each year. Most unskilled laborers are employed in the fields of construction, transportation, and small business.

The following tables provide summaries of basic geographic and economic information for the region:

**Table 2: Basic information on Thanh Tri District and two communes – 2007**

	Unit	Thanh Tri	Ta Thanh Oai	Vinh Quynh
1. Number of communes		16	5	3
2. Number of households		39,672	3,181	4,500
3. Number of people	person	181,140	17,955	21,000
4. Land area				
1.1 Natural area	ha	6,292	836	640
1.2 Agriculture area	ha	3,510	490	327
1.4 Avg cultivation area	M <sup>2</sup> / person	360	450	280
5. Poverty rate	%	3.2	6.98	3.06
6. Average income per head	Million VND /person/year	8.18 (US\$487)	7.3 (US\$435)	7 (US\$417)

**Table 3: Economic structure of Thanh Tri District and two communes – 2007**

	Thanh Tri (district)	Ta Thanh Oai (commune)	Vinh Quynh (commune)
<b>General economic structure</b>			
Total production value (billion VND)	777,90 (US\$46.3 million)	132,86 (US\$7.9 million)	71,7 (US\$4.3 million)
Agriculture (%)	17.0	51.0	35.9
Industry, basic construction, trading & services (%)	83.0	49.0	64.1
<b>Agriculture structure</b>			
Cultivation (%)	41.6	19.0	60
Husbandry (%)	32.4	66.0	25
Fisheries (%)	26.0	15.0	15
<b>Agriculture production</b>			
Buffalos, cows (head)	2.525	234	110
Meat pig	29.230	13.480	3.500
Poultry (head)	214.400	53.000	24.000
Fish (tonne)	3.862	864	150
Rice production (tonne)	15.284	3.200	2.450
Spring-Winter rice cultivation productivity (ton/ha)	4.7	5.84	6.0
Sum-Fall-Win rice cultivation productivity (ton/ha)		4.89	5.0

ha)			
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### **3.5. Seasonality of Income, Expenditure, Saving and Borrowing**

#### **3.5.1. Income**

##### *Highest income months*

The highest income for farmer households is seen in June, October, November, and December. June and October are the harvest seasons of the two crops. November and December are the last two months of the year when many households sell their agriculture products, harvest the last secondary crop, and receive cash brought back by unskilled laborers from Hanoi (there are more jobs at this time of the year and workers generally get paid before the year ends). July, August, and September are also relatively high-income months for households that raise poultry, especially ducks.

For those reliant on monthly salary/wages, income is normally equal for all months of the year. However, December often brings an annual bonus equivalent to a 13<sup>th</sup> month of salary. The period around December also tends to be the most productive time for small-business owners.

##### *Lowest income months*

Lowest income months are February, March, and April, when households are neither harvesting crops nor selling animals (see Table 7). These months and the months before winter are not well-suited to husbandry activities. Some farming households in Vinh Quynh commune are able to sell vegetables during these months, but the extent is limited. Income from unskilled labor is also limited due to a lull in the availability of jobs, and small-business activity tends to be among the lowest of the year. In this region, these months are called “hunger months,” especially for poor households.

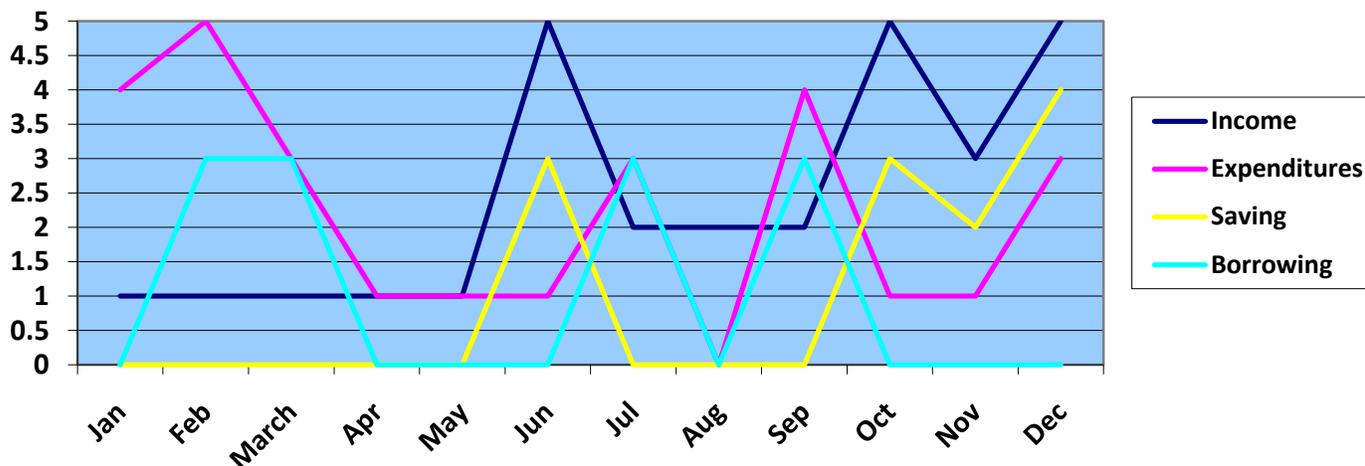
#### **3.5.2. Expenditures**

##### *Months of highest expenditures*

January and February are months that see the most debt payment and contributions for weddings (i.e. wedding season). In February, households also spend more money for Tet celebrations, and by custom also allocate considerable money toward eliminating debt before the start of the New Year. March and July are the months for most production investment. September is also a high expenditure month because of education fees (the start of a new school year means contributions towards school construction, school fees, books and notebooks, learning aids, pupil insurance (see section?????), uniforms, etc.).

Figure 1 below summarizes seasonality of income, expenditures, saving, and borrowing.

**Figure 1: Seasonality of income and expenditures**



*Note: 5 is the highest mark*

### 3.5.3. Saving

#### *Months of highest potential for saving*

June and July are the harvest months during the year, with income that can be applied towards savings. November and December also see an influx of cash from animal sales, as well as payments for unskilled labor and salary bonuses for factory/plant employees. This period also tends to be good for general business activities.

#### *Months of lowest potential for saving*

February, March and April are the months of least saving because farming families generate almost no income. The same is true for households dependent on unskilled labor income or small-business activity.

### 3.5.4. Capital borrowing

Borrowing happens year-round, depending on each household's demand. However, there are certain times of the year when borrowing escalates to meet demands like production investment and compensate for imbalances between income and expenditures.

#### *Months with highest demand on borrowing*

Borrowing naturally relates to income and expenses. February and March are the lowest-income months and also the “hunger months,” with food reserves depleted. Production investments are needed during these months. July is also a low-income month with high investment needs, including those related to animal husbandry. In September household incomes are stressed to cover education expenses for children. Business-owning households normally show higher demand for loans in January and February, as this is considered the time to restock warehouses for the coming year.

#### **4. RESEARCH FINDINGS: RISKS, STRESSORS & COPING MECHANISMS**

A total of 12 group discussions focused on key economic risks and obstacles commonly seen in people's lives<sup>2</sup> in the two communes of Ta Thanh Oai and Vinh Quynh.

For the purposes of this report, these risks are best organized as insurable or uninsurable. The reader should note that additional economic stressors were cited (e.g. separation of parents and children, production investment) but only the top-ranked risks are discussed below.

##### **4.1. Top-Ranked Insurable Risks**

###### **4.1.1. *Sickness***

Sickness was ranked as a top risk by all four groups. In the other eight group discussions in the two communes, sickness and disease were ranked as the biggest risk to local families, only 2 groups ranked it as the second most important risk (*See 4.2.1.*).

Research found this risk to be a common source of negative impact on many families in the community. Respondents commented that it can happen to any family at any time, and cannot be predicted. Poor families are especially vulnerable given their limited resources; they cannot afford periodic medical checks and once they are diagnosed, it is often too late to treat the disease. Moreover, fatal diseases such as cancer were reported to be increasing due to pollution from vehicles and heavy industry, as well as chemical additives (e.g. weight-gain agents for livestock). All told, medical expenses have escalated rapidly in recent years.

Expense is a particular issue with regard to serious, potentially fatal diseases. While everyday illness can be checked and treated at commune level medical centers or district hospitals with reasonable expenditure (up to one million VND [US\$60]), serious disease brings much more potential for adverse impact. First, the disease reduces the earning capacity of the family as one or more wage-earners become debilitated. Second, the emotional stress of a family member's illness can lower the productivity of the whole family. Third, the medical checks and treatment for serious illness can be a huge economic burden, beyond the capacity of the typical farmer in the area. Added to this are transportation costs, as well as accommodation and food for family members who accompany the patient to care for him/her while in the hospital.

According to the respondents, average expenses for long-term care, intensive care, or an operation would fall in the following range:

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<sup>2</sup>Questioning focused on life cycle between an individual's marriage and death.

- Less serious illness: 5-15 million VND (US\$298-892)
- More serious illness: 20-30 million VND (US\$1,192-1,788)
- Fatal illness: 40-50 million VND (US\$2,384-2,980)
- Most costly illnesses: 100 million VND (US\$5,960)

Box 1 below outlines some examples of actual medical expenses incurred by participants in the discussion groups.

***Box1: Examples of Actual Medical Expenses***

**Case #1**

Mr. Dg reported suffering from bronchopneumonia since the year 2000. His treatments have totaled 20 million VND (US\$1,192) to date. Through the same period, his wife has suffered from arthritis of the knees. She has visited many different medical clinics and hospitals, with expenses reaching 25 million VND (US\$1,490) to date. To cover medical bills, the family has taken loans of 35 million VND (US\$2,086) from Vietnam Bank for Agricultural and Rural Development (VBARD) and Vietnam Social Policy Bank (VBSP).

**Case #2**

Mr. C reported that his uncle is suffering from lung cancer and that this uncle had to sell 50 square meters of land for 180 million VND (US\$10,728) to pay for medical treatment over the course of a year, before he died. One of Mr. Chien's aunts has been suffering from liver disease for 20 years. She has received three surgeries and still needs regular treatment. All of her family's income is prioritized for medical treatment, but they have still found themselves needing to borrow more. The family is now in debt of 30 million VND (US\$1,788), with plans to sell an aquaculture pond to pay off the debt.

As the above cases indicate, these expenses exceed the financial capacity of many farming families. The end-result is that many families sell off assets, such as livestock, farm implements, and land, and/or they incur long-term debt (see 4.5).

***4.1.2. Transportation/Labor Accidents***

Similar to sudden illness, transportation/labor accidents can occur unexpectedly to any family. Transportation accidents occur less frequently than other risks. However, according to discussion members, such accidents are increasing due to more vehicles on the roads that cannot handle the traffic, combined with low levels of driving skill. A national helmet law in December 2007 partly reduced serious injuries, but the risk is still rising.

Discussion members also indicated the increasing risk associated with labor accidents. This rise was attributed to a greater number of farmers becoming involved in non-farm employment activities such as construction,

transportation, and other machinery-related jobs (consistent with the diversification of the Vietnamese economy as a whole). Construction-related accidents are most common, especially falls from scaffolds. Labor accidents normally occur to poor household members, as they tend to fill the more dangerous construction jobs.<sup>3</sup>

Box 2 below contains discussion members' estimates of the number of transportation and labor accidents in their local areas.

***Box 2: Estimated Incidence of Transportation and Labor Accidents***

Ta Thanh Oai commune, 2006-08:

- 15 transportation accidents, 2 deaths
- 10 labor accidents, 2 deaths

(Total population 17,955)

Vinh Quynh commune, 2006-08

- 20 transportation accidents, 5 deaths
- 10 labor accidents, 3 deaths

(Total population 21,000)

Effects of such accidents are similar to sickness in terms of detriment to health (up to death) and reduction of labor capacity. These risks are especially acute among working-age people and the primary breadwinners within families. Medical expenses related to accidents are also quite high, equivalent to serious or fatal illness. According to estimates of respondents in Ta Thanh Oai commune, a broken arm/leg might cost 10 million VND (US\$595), with costs escalating from there for more serious injuries (up to hundreds of millions of VND).

Respondents in the Vinh Quynh commune provided the examples in Box 3 of incidents that occurred in their community and the impact/expenses that resulted.

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<sup>3</sup> According to estimate of farmer households in Vinh Ninh hamlet, Vinh Quynh commune, about 70 percent of households have members in the unskilled labor force, with the majority in construction.

**Box 3: Examples of Medical Expenses from Transportation/Labor Accidents**

In Ich Vinh hamlet of Vinh Quynh commune:

- Mr. M's son had a motorbike accident in 2005. Total medical expense was 50 million VND (US\$2,976). He now suffers from mental problems and cannot work to earn his living.
- Mr. D's nephew also had a motorbike accident, in which his leg was broken. He was in the hospital for six months, with total expenses of 22 million VND (US\$1,309). He is now disabled and cannot work.
- Mr. A also had a vehicle accident resulting in head injuries. He required several surgeries costing nearly 100 million VND (US\$5,952). He continues to suffer mental disability and cannot work.

Vinh Ninh hamlet, Vinh Quynh commune:

- Mr. L had an accident in 2003 and suffered a broken leg. He spent 20 million VND (US\$1,190) for treatment, including 5 million VND (US\$298) borrowed from a money lender at an interest rate of 5 percent per month.
- Mr. C's nephew fell from scaffolding and broke his leg. He spent 10 million (US\$595) VND on treatment, all of which he had to borrow. Years later he still has not fully recovered.

These events are shocks for any family, especially at this economic level, with huge unexpected expenses incurred. Most families end up having to sell off assets, increase sales of farm goods, take loans, or sell land to cover the costs (*see 4.5*).

**4.1.3. Funeral Expenses**

According to participants, expenses for a typical funeral runs 10-20 million VND (US\$595-1,192). These sums of money are quite high in this socio-economic context, though participants noted that the financial stress of funerals tends to be mediated by several factors:

- According to Vietnamese custom, most families receive financial support from relatives/family/friends/neighbors in the form of cash envelopes at funerals. An envelope for a funeral might be 30,000 VND per person (US\$2). Relatives or close friends might send 100,000 to 200,000 VND (\$6-12) per person.
- Households in Vinh Ninh hamlet of Vinh Quynh commune report that some households participate in ROSCAs to prepare for these events. Whenever a ROSCA member has a funeral approaching, they receive the payout derived from the contributions of other ROSCA members (*see 4.5*).

- Most of expenses for funerals are not paid in advance, but rather paid after the event. This allows families to employ all the external support presented by friends and family during the event.
- In total, respondents estimated that families on average can cover 30-40 percent funeral expenses via external support.
- Funeral expenses typically are shared among siblings, especially when a parent dies. The shares are not equal (sons normally contribute more than daughters), but all make a substantial contribution.

Though these events may not be huge stressors for families, other adverse effects are seen, including lowered productivity within families over both the short- and long-term. In some cases, families still have to borrow money, which leads to long-term debt. Respondents commented that although support from friends and families ensues at these events, the cost of reaching that point—i.e. the cost of sponsoring an elaborate community event—can be quite high, eating up that same external support.

#### ***4.1.4. Livestock Risks***

Animal husbandry is a primary source of income for farmers in the two communes, especially for those in Ta Thanh Oai. In 2007, animal husbandry in Ta Thanh Oai comprised an 81 percent share of overall agricultural income, with livestock (buffalo, cows, pigs, chicken, and ducks) representing 66 percent and aquaculture representing 15 percent. (These figures in Vinh Quynh were 40 percent, 25 percent, and 15 percent, respectively.)

Given this share of overall income, huge economic losses can occur when animal diseases strike. Common ailments in this region include foot and mouth disease, blue ear epidemic, and bird flu. According to respondents, serious disease is occurring more frequently for the following reasons:

- Increased animal transportation around the country, which spreads disease.
- With some diseases, such as bird flu, both infected and non-infected animals across an entire area must be slaughtered, which is difficult to implement.
- Animal husbandry is more common than ever before, which means denser animal populations in which disease can spread more easily.

According to respondents in Ta Thanh Oai commune, when disease strikes and livestock must be slaughtered under government orders to contain disease, the loss per household ranges from about 5 million to 100 million VND (US\$297-5,952). They noted that the largest animal stocks are usually owned by wealthy households that are more equipped to absorb losses.

The discussion groups in Vinh Quynh provided the examples in Box 4 of losses incurred as a result of animal disease.

***Box 4: Losses Resulting from Animal Disease***

- Mr. D took a loan of 15 million VND (US\$892) from VBSP and combined it with his own savings to invest 35 million VND (US\$2,079) to raise geese in 2007. He lost all of this investment in the bird flu epidemic.
- Mr. C invested 30 million VND (US\$1,782) to raise ducks in 2004, with 10 million VND (US\$595) from a bank loan and one tael of gold borrowed to purchase his stock. He had to slaughter all the birds due to an H5N1 epidemic. He received 5 million VND (US\$297) as compensation from the government (500 birds x 10,000 VND/bird). He still carried the debt of one tael of gold and 10 million VND (US\$595) from the bank.
- A neighbor of Mr. C's made a similar investment in chickens and had to slaughter all of them when disease broke out. His losses were 45 million VND (US\$2,673); he received support of only 3 million VND (US\$179) from the government (10,000VND/head).

Capital investment for animal husbandry typically comes from bank loans; the sums required are quite large for poor households. When animal disease strikes, it often cripples poor families' ability to pay back these loans. A common response is to ask the bank to extend the loan term. When the payments are due, they often borrow money from relatives/friends or private lenders. Subsequently, they might take a new loan from the bank to pay back these previous debts. In this way, after an epidemic, many households become caught in debt borrowed from multiple sources. Other coping measures include cutting back on costs and seeking temporary unskilled jobs. Overall, the debt may last for many years and limit a family's ability to invest in new business opportunities.

***4.1.5. Crop Risks***

In the past, cultivation has been the primary source of income for most farmers, but that has changed with economic trends across Vietnam that have favored the rise of animal husbandry and non-agricultural employment. Nevertheless, sales of rice and vegetables remain key to many household economies. Success in cultivation depends heavily on the natural environment and its attendant risks. Respondents identified the following areas of most significant risk: pestilent insects, damaging cold, and flood.

*Pestilent Insects*

Cultivation activities in the two communes center on rice and vegetables. Insects that threaten rice cultivation include the leaf coil insect and the stem

chisel. Green vegetables are also vulnerable to pestilent insects, particularly leaf insects.

Pestilent insects are a frequent concern and affect entire communities, as nearly every household cultivates. Losses result from having to buy insecticide and reduced productivity. The average cost of buying insecticide is 20,000-50,000 VND (US\$1-3)/sao (360 m<sup>2</sup>) of vegetable or rice. Productivity may be reduced by 30 percent or more. Farmer households in Vinh Quynh commune indicated that in 2006, stem chisel caused a catastrophic 100 percent loss of rice crops. Other adverse effects of insect infestation include damage to the environment and human health, caused by the chemicals in the insecticides.

### *Damaging Cold*

Ushered in by monsoons, damaging cold can occur in many Northern provinces in December, January, and February. Temperatures can dip below 10 degrees Celsius with hoar frost. Such cold spells can stunt the growth or kill nearly all plants. This period is normally used for transplantation of the spring-winter rice crop and for planting winter vegetables. Rice plants can easily die if transplanted during very cold weather. In 2007, 70-100 percent of the rice crops in the two communes were lost on this basis. Many vegetable crops perished during the same season.

After such crop losses, farmer households must spend money on supplies and labor to replant the crop. Net productivity is reduced 40-60 percent. Respondents confirmed that there were major losses of income in 2007. A female farmer group in Vinh Ninh hamlet disclosed that they lost about 3 million VND (US\$179) per sao due to crop loss (water cress) caused by the damaging cold.

### *Flooding*

Floods occur seasonally in July, August, and September each year. The two communes are located in a lowland area where the water drainage system cannot handle heavy rains. The problem is compounded at Ta Thanh Oai by the Nhue River, which runs through the area.

Floods usually occur around rice harvest period, and the waters can kill the plants and cause catastrophic losses. This level of loss, however, is infrequent. Floods can also destroy vegetable crops, especially in Vinh Quynh commune. According to estimates of farmers in Ich Vinh hamlet, heavy floods might take out 70-80 percent of a vegetable crop (mainly morning glory in this case).

During the flood season, crops can be additionally impacted by contamination in the water when the Nhue River swells. The river has been heavily polluted by discharge from factories and plants in the industrial zones of Hanoi. When this water covers the farmland, the rice and vegetables grown there tends to be smaller and lower-quality, making them more difficult to sell at market.

Floods affect other areas of life for the farmers as well. Households near the banks of the Nhue River usually see their homes flooded. Roads are also flooded, making all manner of transportation more difficult. The contamination from this water spreads human disease, including eye ailments, cholera, and allergies; it was also reported to be linked to a high incidence of gynecological disease.

In sum, natural threats to cultivation are diverse and widespread, and income from cultivation is key to many of the households in these communes. Crop loss also affects food security because rice from the two yearly crops is the main food reserve for farming families. Loss also makes it more difficult for farmers to pay back credit used to purchase seed, fertilizer, and insecticide. However, the extent of these losses tends to be less than those caused by sickness or accidents. Most households can draw on their own resources to cope and recover in a fairly short period of time.

## **4.2. Top-Ranked Uninsurable Economic Stressors**

### ***4.2.1. Building a House/Buying Land***

Building a house/buying land was ranked by participants as the second most significant economic stressor in a person's life cycle. Excluding those who inherit a house from their parents, this stress is encountered by most residents of these areas. Similarly, most residents have to buy land for a house, except in families where land is handed down between generations.

Respondents reported that land prices have escalated rapidly in recent years. A typical plot for a house might cost 400-500 million VND (US\$23,840-29,800). Many poor families cannot pay such prices and therefore have to share small plots with their parents. Construction expense for building a one floor house is in the range of 100 -200 million VND (US\$5,960-11,920).

According to discussion members, most families aim to have 60-70 percent of the total expense in hand before starting the house building. Some families are forced to sell off part of their land in order to produce the money needed for home construction. This is a popular coping strategy for poor families in the two communes. However, this approach is not sustainable as the land holdings of families continue to shrink. Another coping strategy is to buy construction materials (such as brick, tile, and bamboo) gradually over many years as the funds become available. Some families use savings in the form of gold or cash to fund house construction, while others intensify their livestock

operations to yield additional income. Shortfalls are often covered with loans from relatives or friends, or sometimes from the bank. Borrowers typically need several years to pay off these debts.

Building a house is a heavy economic stressor, but it is not an unexpected one, like a sudden illness. Most families plan well in advance for the stress of home construction. Nevertheless, the scale of the expense still forces many changes in the way families live; they must limit other expenditures to offset the costs related to the house.

#### **4.2.2. School Fees**

This risk does not cause a sudden heavy financial stress, but rather exists as a long-term stressor in many families. Educational expenses may occur over the course of 20-25 years for families with 2-3 children. Respondents estimated average school fees for children of different educational levels as follows:

- Kindergarten: 3-3.5 million/child/year (US\$179-208)
- Primary school: 2-2.5 million/pupil/year (US\$119-149)
- Middle school: about 3 million/pupil/year (US\$179)
- High school: 3 – 4 million/pupil/year (US\$179-238)
- University: 800 thousand - 1 million/pupil/month (US\$48-60)

These expenses may include school construction fees, tuition, books, notebooks, and uniform, as well as tutoring fees and transportation costs in some cases. Universities and vocational schools may bring additional expenses.

Most education expenses occur at the beginning of the school year in September. Farmer families can most often adapt to the fees for primary/middle/high schools, because the fees are reasonable and anticipated. The most popular coping measures are to sell farm products or to draw from unskilled labor income. However, some families still have to borrow money for this expense.

Education expenses become especially significant for poor households whose children enroll in university/vocational schools. Selling farm goods and drawing on unskilled labor wages are still the main coping measures, but many poorer families still fall short. In those cases, loans are sought. Bank loans are used by many poor families for this purpose. In the past year, VBSP launched a preferable interest loan program for households with children studying in university/college/vocational schools (see 4.5).

In sum, education expenses are a long-term stressor for most poor farmer households. In poor households with multiple children, the stressor becomes heavier. As a result, these households must cut expenses or incur debt to pay the school fees.

#### ***4.2.3. Marriage of Children***

Marriages of children typically involve sizeable expenditures of money, and are events that the majority of households face. Discussion participants estimated expense for a marriage at 20-30 million VND (US\$1,192-1,788) for a daughter and 25-35 million VND (US\$1,490-2,086) for a son. However, like funerals, certain factors help alleviate the cost:

- Marriages are planned in advance and most families are prepared for them. Most families use a combination of strategies, including: a) gradual purchase of needed items, such as food and furniture; 2) sale of farm products; and 3) use of savings.
- Like funerals, most families receive financial support from relatives/family/friends/neighbors in the form of gifts/cash envelopes at marriages. A gift/envelope for a wedding is normally around 50,000 VND (US\$3) per person. Relatives or close friends might send 100,000 to 200,000 VND (\$6-12) per person.
- Also like funerals, households in Vinh Ninh hamlet of Vinh Quynh commune report that some households participate in ROSCAs to prepare for these events (*see 4.5*).
- In total, respondents estimated that families on average can cover 50-70 percent of marriage expenses via external support.
- Most of the expenses for marriages are not paid in advance, but rather paid after the event. This allows families to employ all the external support presented during the event.

Other adverse effects include lowered productivity (due to time and effort in planning and attending the event) and some long-term debt for those families that still have to borrow to cover costs.

Table 4 below summarizes and compares the expense and frequency parameters for some of the top-ranked risks in both insurable and uninsurable categories.

#### ***4.2.4. Inflation***

Inflation emerged as a stressor most strongly affecting participants who are less reliant on agriculture and more dependent on salary/wage employment, small-business activities, and unskilled labor employment.

Respondents report that inflation has been quite high in recent years, especially in the first half of 2008.<sup>4</sup> For those dependent on monthly salary/wages, income has barely kept up the cost of living and other expenses, such as education and medical fees. Moreover, inflation has meant less opportunity for both long-term and seasonal jobs. For example, due to the high price of construction materials, many construction projects have been delayed, which in turn means less unskilled workers are hired. For business-owning households, high inflation has resulted in lower or unstable demand, leading to the contraction of many businesses. One family that specialized in selling chickens, for example, reported a 60-70 percent drop in profit as a result of recent inflation.

The effects of inflation were also reported by agricultural households, although to a lesser extent. For example, as prices have risen, farmers can afford fewer inputs. However, these households are better able to cope because their farming activities center on self-provision of food (rice, vegetables, animals), which is less directly affected by inflation.

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<sup>4</sup> Inflation rate for the first half of 2008 was 18.66%.

**Table 4: Frequency and Expense Estimates for Some Major Events in Life Cycle**

EVENTS	FREQUENCY	EXPENSE (VND)
Sickness	Several serious illnesses over average life cycle, coupled with many minor illnesses	Fatal sickness: 100 million VND (US\$5,960)  Serious disease requiring operation/intensive care: 20-50 million VND (US\$1,192-2,980)  Other intensive care in hospital: 10 million VND (US\$60)
Funeral	NA	15-20 million VND (US\$893-1,190)
Building House		
<i>Buying land if there is no land for house</i>	Normally once. Some avoid this expense by inheriting house from their parents.	Land purchase: at least 400 million VND (US\$23,840)
<i>Land inherited from parents</i>		One floor house (basic construction for poor households): 70-100 million VND (US\$4,167-5,960)
Education Fees	Continually over 20-25 years in families with 2-3 children	Kindergarten: 3-3.5 million VND/child/year (US\$179-208)  Primary school: 2-2.5 million VND/pupil/year (US\$119-149)  Middle school: 3 million VND/pupil/year (US\$179)  High school: 3 - 4 million VND/pupil/year (US\$179-238)  University: 1 million VND/pupil/month (US\$60)
Marriage for Children	Average 2 per family	Daughter: 20-30 million VND (US\$1,192-1,788)  Son: 25 - 35 million VND (US\$1,490-2,086)

### 4.3 Risks by Season of the Year

Table 6 below, organizing risk in terms of the yearly calendar, was compiled with input from the various farmer group discussions. Respondents noted that some types of risks (e.g. illness, accidents) are difficult to organize in terms of season because they are unpredictable and occur year-round.

**Table 5: Seasonality of Risks**

Seasonality of Risks	Months of the Year (Jan-Dec)											
	1	2	3	4	5	6	7	8	9	10	11	12
<b>Human Health Risks</b>												
- Illness	Red	Red	Orange			Orange	Orange					Red
- Transportation/Labor Accidents												
<b>Business Risks</b>												
- Price Inflation												
<b>Agricultural Production Risks</b>												
- Damaging Cold	Red	Red									Red	Red
- Animal Disease		Red		Orange							Red	Red
- Pestilent Insects				Red	Red							
- Rain, Flood							Red	Red	Red			

*Note: Red indicates most intense risk; orange indicates lower intensity.*

#### 4.3.1. Damaging Cold

The coldest weather occurs in December, January, and February. In these months, temperatures can drop below 10 degrees Celsius and cause crops and animals to perish. Some cultivation activities become delayed (such as plowing and transplanted). Cold weather also can alter the way small businesses operate. Agricultural traders typically begin transporting vegetables to Hanoi at 3 or 4 o'clock in the morning, but the weather forces them to leave later.

#### ***4.3.2. Animal Diseases***

February (end of spring) and November-December (end of winter) are the months of highest risk for animal disease. The cold weather in these months is linked to flu outbreaks among animals. In addition, blue ear epidemic has broken out in these months, causing major shocks to many pig-raising households. Most households in Ta Thanh Oai used loans to build their animals stocks; these outbreaks have destroyed many of their investments and left them unable to pay back their loans.

Some animal disease also occurs in April at the transition between seasons.

#### ***4.3.3. Pestilent Insects***

April is the highest-risk month for pestilent insects such as leaf coil insect, stem chisel, and ray nau insect. According to respondents, these insects are seen more with the summer-fall crop than with the spring-winter crop.

#### ***4.3.4. Rain and Flood***

July, August, and September bring the highest risk for rain and flooding. Heavy rain floods fields and roads, and brings pollution that has a negative impact on both crops and humans. Respondents agreed that this is a long-term and frequent seasonal risk.

#### ***4.3.5 Illness***

According to respondents, illness occurs most frequently in December, January, February, and March, which are the coldest winter months. February and March are transition months that create particular vulnerability with temperature changes and high humidity detrimental to human health. Respiratory disease often develops in this season. June and July are summer months with hot weather and present risk for illness. Sun stroke, fever, children's brain disease, and cholera commonly occur at this time.

#### ***4.3.6 Price Inflation***

Since 2007, Vietnam has faced a shifting market and increases in the prices of many kinds of goods. Farmers in the two communes indicated that price inflation has resulted in increasingly higher agriculture input costs. Prices of consumer goods have also increased and have particularly stressed small-business households. Inflationary stress does not follow patterns of seasonality.

#### **4.4. Existing Coping Mechanisms**

##### ***4.4.1. Ex-Ante Strategies, Financial & Non-financial***

###### *Savings*

Most participants shared the opinion that savings are beyond the reach of poor households, because they cannot afford even their basic expenses and most are in debt. In general, it was a difficult topic to explore in this study because it is regarded as private, not to be discussed in groups. Nevertheless, some conclusions were able to be drawn about the different levels and different forms in which poor households practice saving.

Most households have some cash savings that they keep themselves; this amount varies. An average household might have several million VND, and a poor household might have several hundred thousand VND to cover family expenditures. Buying gold as a form of savings is a common strategy, especially after a heavy influx of cash derived from harvest or business activities. Some households put their savings in a “piggy bank.” Compared with farmer households, households more reliant on unskilled labor have a greater possibility of accumulating savings.

Box 5 helps illustrate with some examples of savings.

###### ***Box 5: “Self-saving” by Farmer Households***

- Mr. H and his wife, living in Ta Thanh Oai hamlet of Ta Thanh Oai commune, have a shop. With income from this business, they save by putting money in a plastic pig, usually in 20,000-30,000 VND (\$1-2) increments done every day. At the end of the year, they “operate” on the pig and extract 7-8 million VND (US\$417-476).
- The family of Ms. B, living in Ich Vinh hamlet of Vinh Quynh commune, sells vegetables. Every day she sets aside money from these sales to put in a plastic pig. For example, if the daily income is 20,000 VND (US\$1), she will set aside 4,000 VND (US\$0.23) for the plastic pig. Similar vegetable-selling families reported being able to save about 100,000 VND (\$US6) per month using this method.

In-kind savings is seen mostly in cases of households that plan to build a house. Such households gradually apply their available income over time toward the purchase of construction materials such as brick, tile, bamboo, and wood. This form of saving is suitable for poor households that have difficulty accumulating enough savings to build a house. Another form of in-kind

savings is the building up of rice reserves after harvest, to assure food security of the family.

According to respondents, some households in their communities have bank saving accounts, but the number is limited. Normally, they are wealthy households and/or households with stable and relatively high income, as in salaried positions or owners of substantial businesses. Among these households, a common savings strategy is the purchase of life insurance.

In sum, saving practices are nominal among poor households, which often lack stable income and financial planning. When shocks occur, the utility of this savings is limited. Business-owning households and salaried workers typically have the most opportunity to save. Saving in cash becomes risky in the context of Vietnam's high rate of inflation, so we may see a shift to saving in land.

#### *Use of livestock as savings*

An important subset of savings strategy is the use of livestock as savings. Accumulation of livestock is widely practiced by farmer households to prepare for a major event or expense. When a family intends to build a house, organize a wedding, send children to school, or pay debts, investing in livestock is a common strategy. In addition, income from husbandry is applied to unexpected risks such as sickness, accidents, and crop loss.

Using livestock as a savings strategy is effective for poor households because, while most poor households lack substantial cash savings, nearly all own livestock. In some households, "most of family's expenditures are paid by income from husbandry," noted one respondent. However, this coping strategy generally cannot cover large-scale shocks such as fatal illness or serious accidents.

#### *ROSCAs*

In Vinh Ninh hamlet of Vinh Quynh commune, several households have organized a ROSCA for supporting marriage and funerals (as mentioned in section 4.1). Each ROSCA group has 10-20 members, with each member contributing 10-20 kg of rice converted into cash when a marriage or funeral is approaching. These are the only instances of ROSCAs in the two studied communes. Respondents suggested that ROSCAs had disappeared over time because they are high-risk and unsafe. Also, they became impractical in Vietnam's new market economy.

A related phenomenon seen in the communes were affiliation groups—e.g. "same age association," "same job association," "same veteran association," "daughter-in-law association," etc. These groups typically have 10-20

members, with the objective to create a supportive environment for people with similar backgrounds or at a similar stage in their lives. The groups focus on activities such as meetings where members can exchange ideas and learn from the experiences of others. When a member faces a major event (e.g., marriage or funeral) or experiences a difficult turn in his/her life, the support of the other members may extend into the emotional and material realms. Material assistance includes cash and in-kind gifts (e.g., sugar, milk, fruit etc.). Most of these are not high-value and are purchased via the group budget, which consists of contributions from all members of the group. The level and frequency of these contributions differs from group to group. For example, one group may require a contribution of 100,000 VND (US\$6)/member/year, while another group may solicit contributions by group event, with each requiring 30,000-50,000 VND (US\$2-3)/member. Other groups may require both forms of contribution. Some individuals belong to more than one group. More men than women are involved with these groups. (Among the 128 participants from the two communes, 30 persons were member of such groups, but only two of these were women.)

*In sum, these self-help groups provide more spiritual than material support. However, some members added that participation in these groups creates personal relationships that can be drawn upon for loans and other support in difficult times. Selling assets, cultivation land, or house plot*

Selling assets and property is another strategy used to offset shocks. Typical assets for a poor family include motorbikes, TVs, and furniture, though most are of poor quality because poor households cannot afford high-quality items. The money these items generate in sales is limited. A secondhand TV might sell for 1 million VND (US\$60), a secondhand motorbike for 7-8 million VND (US\$417-476), and furniture for several hundred thousand up to 1-2 million VND (US\$60-120). By contrast, sales of agriculture land use certificates (land rights) or house plots can generate a relatively large sum of money to be applied toward economic shocks.

These coping strategies are not especially common because not all households have assets or land suitable to sell. Moreover, yielding agriculture land or selling house land is recognized as detrimental to the family in the long run. Among other ramifications, it eliminates the use of land as collateral to obtain VBARD loans. Such sales are generally undertaken only in the gravest situations when all other options fail. Moreover, most families try to sell only a portion of their land, thereby allowing them to continue farming or to build a house on the remaining portion.

*Insurance: formal & informal*

Formal insurance exists in these communes, including medical insurance, school pupil insurance, life insurance, forced liability insurance for

motorbike/car owners, and social insurance. Informal insurance was not found in the research. The uptake of these insurance products is very low, with two exceptions: a) school pupil insurance (nearly 100%); and b) mandatory medical insurance for those working in salaried positions at factories or offices.

Medical insurance was discussed as a fairly popular option for people in the two communes, cited as a positive intervention against the medical expenses that nearly everyone encounters. However, the data showed that not many people in fact take up this insurance. According to commune records, in Vinh Quynh, 3,547 medical insurance cards have been issued for children under six, poor households members, and other government-targeted groups (e.g. those who have completed some national service, veterans, Agent Orange chemical victims). In total, these insurance recipients comprise 17 percent of the commune population. In addition, 702 insurance cards were issued for people who bought medical insurance voluntarily, equivalent to 3 percent of the commune population. The comparable numbers at Ta Thanh Oai commune are 1,579 cards for the first group (8 percent of the commune population) and 150 cards for the second group (1 percent of the commune population). Coverage and premiums for the optional medical insurance are described below in Box 6.

School pupil insurance is sold with a premium of 25,000 VND (US\$1.50)/pupil/year, and coverage includes medical check-up expenses and compensation in case of accident, in accordance with regulations issued by the Ministry of Health (MOH). This insurance is advertised and sold through the school system. Officially this insurance is not mandatory, but most farmer households buy it because the premium is low and there is de facto pressure to take it up.

***Box 6: Premium & Benefits for Optional Medical Insurance***

Medical insurance premiums are stipulated by MOH as follows:

- In Hanoi: 320,000 VND (US\$19)/person/year; students: 90,000 (US\$5)/person/year
- Outside Hanoi: 240,000 VND (US\$14)/person/year; students: 70,000 (US\$4) head/year
- Discount of 10 percent for third member of same household
- Discount of 20 percent for fourth member of same household (students not included)

Benefits of optional medical insurance are similar to general medical insurance and include:

- 100 percent reimbursement for one-time medical check-up with invoice below 100,000 VND (US\$6)
- 80 percent reimbursement for out-patient treatment costing 100,000 VND (US\$6) and up, with the rest paid by patient
- 80 percent reimbursement for intensive care, with the rest paid by patient
- MOH has issued a list of high-technology treatments included in medical insurance

Liability insurance is required by law for motorbike and car owners, though respondents indicated that most vehicle owners resist buying it. Normally they buy it only once—at the time of the motorbike/car license application, when the paperwork is checked.

Life insurance and especially education welfare insurance<sup>5</sup> were reported to be purchased only by wealthy families. According to the estimate of an insurance agent from Bao Viet insurance company's Ta Thanh Oai branch, there are only about 200 clients in the commune, and most owned substantial businesses or had salaried employment. Prudential also has a branch in the commune but the client base is similarly small.

At present, there is no insurance for covering labor accidents for unskilled laborers, nor farm insurance covering cultivation or husbandry risks.

In sum, the local farmers have given little consideration to insurance and appear unready to buy it. Farmers' knowledge and attitudes toward insurance as well as obstacles for insurance buying will be discussed in more detail in Section 6.

#### ***4.4.2. Ex-Post Strategies***

##### *Earning extra income – unskilled labor*

In recent years, income patterns for farmer households have changed and diversified, with non-agricultural activities playing a greater role. One of the most common ways to generate supplemental income is unskilled labor in the construction, transportation, small business, and hospitality industries. According to estimates, there are about 3,000 unskilled laborers in the Vinh Quynh commune. Average income is 30,000-50,000 VND (US\$2-3) per day, depending on the job. A job requiring some technical skills might earn 70-80,000 VND (US\$4-5 per day). This income plays an important role in meeting daily expenses for farmer families. In addition, this income is set aside to pay off debts, purchase assets, and invest in cultivation and husbandry activities.

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<sup>5</sup> Education welfare insurance is a product issued for children up to 18 years of age. Parents pay into the plan and build value over many years. When the child reaches 18, he/she receives the full value of the policy to start his/her life.

Though this income rarely covers the expenses of a major events or shocks, it plays an important role in reducing the overall financial pressure of farmer households. Though some jobs are available year-round, they tend to be seasonal in nature, with more work at the end of the year and less work at the beginning of the year.

### *Loans*

Taking a loan is a common coping strategy used by many farmer households towards investments in production and business development. Loans are also used to cover economic shocks and to underwrite major life events (as mentioned in 4.1 & 4.2). Sources for loans include formal sources such as VBARD and VBSP, and informal sources such as the Farmers Association (FA), relatives, friends, and private lenders. See Annex for details of loans available from these providers.

### **VBSP**

VBSP is a formal institution that provides credit to poor households and other groups targeted by government policy. Many of the loans provided by VBSP are for production and business development. In addition, the bank also provides loans for home renovation, loans for education, and job creation loans for migrant laborers. Loan size, term, and interest vary by product. In general, the interest rate of this bank is seen as favorable and relatively low. Most loans are for SME development, agricultural capital, or mortgages (see Annex for details). In practice, both poor and marginally-poor households<sup>6</sup> can acquire loans from this bank.

VBSP has branches at the two communes hence farmer households do not have to go to the head office<sup>7</sup> to carry out transactions. The bank reviews and issues loans in cooperation with the FA, Women's Union (WU), and Veterans Association (VA). Commune authorities and union representatives participate in the loan application process.

Though VBSP loans are used for the specific purposes identified above, they are also issued to support major life events and economic shocks such as sickness, accidents, and production losses (discussed in 4.1 and 4.2). The banks release loans within specific financial periods, which sometimes limit farmers' ability to seek a loan immediately after an unexpected event has occurred. In the meantime, some individuals borrow money from friends, relatives or money lenders, which are then paid off when the bank loan comes through. Loans from VBSP tend to be relatively small, limiting their utility. The term also tends to be limited to one year.

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<sup>6</sup> Identified in accordance with poverty line issued by MOLISA: average income is lower than 260,000 VND (US\$15)/head/month.

<sup>7</sup> The distance from commune center to the VBSP district head office is 6 km.

VBSP collects interest monthly and quarterly. According to local farmers and the bank's clerks, interest payments are not difficult because the installments are reasonable. Loans issued with a one-year term usually involve a one-time collection. With longer loan terms, payment frequency will be agreed upon between the bank and the borrower. The bank has a loan extension policy for households that encounter problems around the due date, especially in cases of serious animal disease spreading through the area. Respondents reported that some households end up having to take credit from relatives, friends, or private lenders to pay back loans.

## **VBARD**

Along with VBSP, VBARD is a very familiar bank within these communities. VBARD differs from VBSP in that it is a commercial bank. With the advancement of a wide branch network across the country, this bank has a significant presence in rural areas and plays a critical role in providing production/business loans for rural households.

Unlike VBSP, VBARD generally disburses its loans directly to farmers without working through mediating partners. Similar to VBSP loans, VBARD loans are provided for business/production development purposes. In practice, many farmer households are still using these loans to underwrite major events and offset shocks.

The VBARD loans bring some advantages over VBSP loans:

- No restrictions on client base. Any household can approach the bank.
- Large loans available to support major events or shocks; loan term is relatively long.
- Though disbursement can take up to a month, farmer households can approach the bank at any time of year—it is not limited to certain lending periods like VBSP.

The biggest obstacle to borrowing from VBARD is collateral requirement, normally a land use certificate. Some poor households, particular young couples who have just left their parents' homes, are not able to meet this requirement. Additionally, VBARD's interest rates are higher than VBSP, currently 1.5 percent/month. As Table 9 and Table 11 indicate, fewer households overall borrow from VBARD than VBSP.

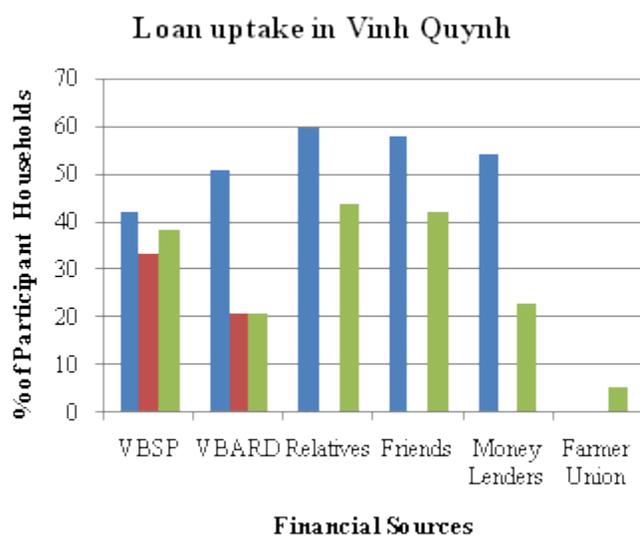
See Annex for details on VBARD loan products.

## **Farmers Association**

In the two communes, farmer households also can acquire loans from the FA. Funding for these loans comes from the Central Level of the FA. All members can approach the FA for business/production development purposes. The interest rate is very low, only 0.3-0.5 percent monthly. However, outreach is limited. In Ta Thanh Oai, only 64 households have loans from this source, totaling 520 million VND (US\$30,952). In Vinh Quynh, these numbers are 80 households and 400 million VND (US\$23,810). Loan size is also small, generally below \$500. Interest and payment plans are similar to VBSP (see table 8).

Like VBARD, these loans are officially for business/production development, but farmer households sometimes use them to cover major events or economic shocks.

See Annex for details on FA loan products.

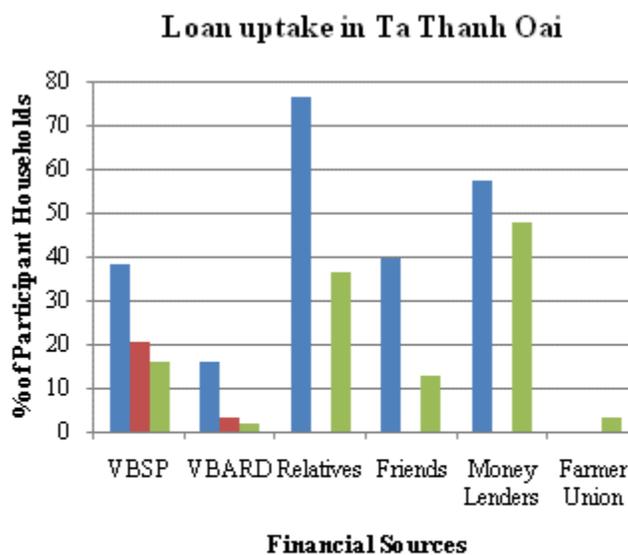


### Friends and Relatives

According to respondents, borrowing from friends and relatives is a common strategy in poor households, especially among siblings and other relatives. Tables 9 and 11 clearly reflect this: 70.1 percent of discussion members have sought a loan from relatives and 41.0 percent have such a

loan outstanding.

According to respondents, when poor households face unexpected shocks or events requiring a large amount of money, they normally seek support from relatives and friends, who are quick to step in and provide it. Even within households that have planned for events like house-building or weddings, borrowing from relatives and friends often will



- % seeking loan from various sources
- % that obtained a loan from formal institutions in 2007
- % with a loan outstanding at time of survey

supplement the savings. It is a form of mutual aid practiced in these communities.

Generally no interest is charged. However, this loan source also brings disadvantages, including a relatively small amount unsuited to major needs. Credit term is also short, and borrowers normally have to find another source to cover this credit afterward. Moreover, availability varies by how much money friends and relatives have to lend at any given time.

### **Money Lenders**

In rural areas of Vietnam, and particularly the Northern provinces, the private lender (money lender) market is shrinking (as opposed to strong growth of formal financial institutions). This trend is reflected in the two communes. However, the private lender market still exists in parallel with other credit sources, meeting the needs of local people, especially poorer households.

The major advantages of money lenders are quick responses and a simple application process, making the loans well-suited to sudden events or shocks. Households pursue such loans to cover unexpected expenses, such as medical costs after accident or illness, and to help cover bank loan payments when a due date approaches. Data in Tables 9 and 11 showed that the number of households using the private lender market is second only to those borrowing from relatives/friends (57.2 percent had taken credit from private lenders and 36.7 percent had such loans outstanding).

Disadvantages from this source are small loan size (private lender wants to ensure repayment) and high interest rates, around 2-3 percent monthly. In addition, the money lenders will only give credit to certain households—i.e. those they deem likely to pay their loans back. In some cases, private lenders ask for collateral such as a land use certificate. Very poor households generally do not seek money lender credit because they know the lenders will reject them in the screening process. Households with more business or salaried income generally have an easier time than agricultural households in acquiring these kinds of loans.

### **General Borrowing Patterns: Agricultural vs. Non-agricultural Households**

Discussion results indicated that most households, other than the most affluent, borrow when faced with an economic shock or other costly event. However, there were reported differences in borrowing patterns between farmer households and business/salaried households. Farming households generally have more demand for loans than other households because of limited cash income. At the same time, farmer households have more difficulty acquiring loans from both formal and informal sources. They are

generally viewed as high-risk borrowers compared to others with more substantial cash incomes.

The majority of loans intended for business and production investment go to business-owning households, as one might expect. For example, of six business-owning households interviewed in Vinh Quynh commune, all six had business loans outstanding with VBARD or VBSP, four of six had loans from friends, three of six have had loans from relatives, and three of six have had loans from private lenders. Farming households also reported demand for production investment loans, especially for husbandry activity, but some found difficulty in being approved for such loans.

**Box 7: Case Study on Credit, ROSCAs & Debt Management**

The D family is a poor household in Thuong Phuc hamlet of Ta Thanh Oai commune. The family has five members, with Mr. Das the only major wage-earner. His wife is suffering from a brain disease and cannot work. His three children are students. The main income sources of the family are agriculture and small business. Their average income is 1.5 million VND per month, which translates to 300,000 VND (US\$18)/person per month, equivalent to 10,000 VND/person/day or \$0.60/person/day (well under poverty threshold of \$1/person/day). Their income has been at this level for at least the past three years.

From 1996 to the present, the family has borrowed from multiple sources including VBARD, VBSP, and private lenders. The first loan from VBARD in 1996 was 5 million VND (US\$298) with an interest rate 1.1 percent per month; the loan term was one year. Mr. D had to provide his land use certificate as collateral. There was a one-time loan capital payment and monthly payments for interest. He invested this loan in a coal business by purchasing coal from illegal mines to sell in the commune. After one year, he managed to make a profit of 15 million VND (US\$893). He paid off the loan and took loans of 5 million VND (US\$298) in the two years following. In total, Mr. D borrowed 15 million VND (US\$893) from the bank (1996-1998) and made a profit of about 50 million VND (US\$2,976). He used this income in part to build his house, valued at 70 million VND (US\$4,167).

At the same time he built the house, his coal business had to be closed due to supply problems. He moved to work as an unskilled laborer in the transportation industry. In 2000, he had an accident and lost a finger. Unable to continue his current work, he became a *xe om* man (motorbike taxi).

In 2004, Mr. D took a loan of 6 million VND (US\$357) from VBSP, with a one-year term and quarterly interest payments, in order to invest in livestock. He bought three sows for 4 million VND and invested the rest in animal feed. After one year, he sold the piglets and received exactly 6 million. He paid the loan back at due date and had a profit of three sows valued at about 3 million VND (US\$179).

At the end of 2004, a serious shock befell his family. His wife became sick with brain disease and entered the cancer hospital (called K hospital) in Hanoi. After four months, the medical expenditures rose to 50 million VND (US\$2,976) and his wife lost her capacity to work. Mr. D sold 50 m<sup>2</sup> of his house land (receiving 20 million VND [US\$1,190]), all his sows (ending the husbandry business), and some other assets. Since 2005, his family has been considered among the commune's poor.

In 2006, Mr. D took a credit of 10 million VND from a private lender with an interest rate of 2 percent/month. He uses this credit to trade in sugar cane. He buys sugar cane from Hoa Binh province and transports it to the commune by a hired truck. He then sells the cane to sugar cane water shops, both whole and retail sale. On average, he makes 3 million VND (US\$179) a month, with a profit of 1.5 million VND (US\$89). This profit is used for family expenses. Each month he manages to save 30,000-50,000 VND (US\$2-3) in a "saving box" for interest payments.

Because the family is poor, all members have medical insurance cards. His wife uses the insurance for medical checks and treatment in Hanoi. Though they do not have to pay for medicine, she is dissatisfied with the medical service she receives with the card. She thinks that the doctors do not pay much attention to people using insurance cards.

Mr. D has been a member of a "veteran association" since 2000. The association has 20 members, and each contributes 100,000 VND (US\$6) monthly for the budget. Every six months, one member will take the whole sum of 12 million VND (US\$714). Mr. D's turn will be in 2009; he will use this to pay off part of his family's debts.

## 5. FINANCIAL EDUCATION FINDINGS

### 5.1. Knowledge and Attitude Toward Insurance

Research showed that the term “insurance” is not foreign to most farmers in the two communes. They found no difficulty in listing types of insurance existing within the community. Also, they were able to list specific target groups for specific kinds of insurance. For instance, respondents knew that children younger than six years old who are members of poor households or policy groups will be granted medical insurance. Respondents also suggested that average households are able to buy optional medical insurance. For life insurance, respondents offered that education welfare insurance products from Bao Viet, Bao Minh, or Prudential companies are only marketed to wealthy families.

At the same time, the data in Table 13 below suggests that local people’s technical knowledge of insurance is limited. Terms like premium, beneficiary, and waiting period are known best. But very few understood technical terms such as policy, benefit, claim, exclusion, eligibility, deductible, co-payment, and pre-existing condition.

*Table 9: Familiarity with Insurance Types/Providers*

Insurance Type	Ta Thanh Oai		Vinh Quynh		Total	
	Number of clients	% of clients	Number of clients	% of clients	Number of clients	% of clients
Medical Insurance	56	88.9	36	66.7	92	78.6
Bao Viet	3	4.8	21	38.9	24	20.5
Prudential	-	-	4	7.4	4	3.4

*Table 10: Knowledge of Specific Insurance Terminology*

Concept	Ta Thanh Oai		Vinh Quynh		Total	
	Number of respondents w/ understanding	% of respondents	Number of respondents w/ understanding	% of respondents	Number of respondents w/ understanding	% of respondents
Premium	14	22.2	19	35.2	33	28.2
Policy	-	-	-	-	-	-
Beneficiary	13	20.6	26	48.1	39	33.3
Claim	1	1.6			1	0.9
Benefits	1	1.6	2	3.7	3	2.6

Exclusion	-	-	-	-	-	-
Eligibility	-	-	-	-	-	-
Deductible	-	-	-	-	-	-
Waiting Period	7	11.1	28	51.9	35	29.9
Co-payment	-	-	-	-	-	-
Pre-Existing Condition	-	-	-	-	-	-

Among the various insurance types, medical insurance is best known—respondents knew the level of premium and the insurance period. However, the majority did not clearly understand all the benefits of using it for medical services, including coverage and level of reimbursement. Many complaints have ensued after using the medical insurance and not receiving the level of benefits they thought would apply.

**Box 8: Testimony on Insurance Knowledge & Use**

*“I had a medical insurance card and have used it twice. Once was long time ago when I got in an accident; I broke my leg and was in a hospital for 10 days. I was reimbursed for my bed/place fee. But I had to pay for the medicine myself. Last year I took one acupuncture treatment in the national traditional hospital for 2 weeks. I did not have to pay anything; the insurance covered it all. I do not really understand why the coverage was different.”*

*(NTH, female, 48 years old, Nhan Hoa hamlet of Ta Thanh Oai commune)*

Respondents were even less informed about the insurance products from Bao Viet, Bao Minh and Prudential companies. Only those who were clients of these companies had knowledge of their products.

Many respondents openly wondered whether insurance premiums were affordable for them, and whether compensation/benefits were reasonable. They also wondered whether the claim procedure is complicated and whether payouts would lose value due to inflation over a long insurance period (e.g., for life insurance). Many stated that uncertainty over these issues have prevented them from pursuing insurance. For example, many farmers expressed a great deal of concern over the inflation/payout issue mentioned above when it comes to products offered by companies such as Prudential, AIA, and Bao Viet. Some respondents had negative opinions of insurance agents and were hesitant to approach them with these kinds of questions.

**Box 9: Testimony on Insurance Agents**

*“...Insurance agents are deceivers. They all try to sell insurance products to relatives/friends. By the time they sell to all their relative/friends, they stop working as an agent. Many people feel guilty after buying insurance products and want to withdraw. There is no Prudential agent in this commune that I know of...”*

*( NQT, male, 48 years old, Thuong Phuc hamlet of Ta Thanh Oai commune)*

Households with different income levels showed different levels of knowledge and consideration of insurance. Most poor and marginally-poor households said they had not considered optional insurance because they had “no money” to pay for it. These same households reckoned that if they did not receive medical insurance free, they would never buy it, even though they know it is useful and necessary for their families. Average and wealthy households generally had at least investigated purchasing life insurance for their family members.

## **5.2. Obstacles for Buying Insurance**

There are multiple reasons local people have not considered or bought insurance:

First, they have or feel they have **no money** to buy insurance. This is the most important reason cited by farmers (71.8 percent). Even optional medical insurance, with obvious benefits and a reasonable premium, was deemed too expensive to purchase for poorer households. The total premium for such insurance for a family with 4 members is 960,000 VND (US\$57), and this is seen as a huge sum relative to daily consumption necessities.

### ***Box 10: Testimony on Affordability of Medical Insurance***

*“My family has four members. My two children are now school pupils who have school insurance. My husband and I do not have insurance. With some hardship, I can buy insurance for myself. But it is not fair for my husband if I only buy insurance for myself. But I cannot afford to buy insurance for both of us...”*

*(Female, 45 years old, poverty marginal household with main income from non agriculture job in Vinh Quynh commune)*

Even more daunting are life insurance premiums from companies like Bao Viet and Prudential; these are seen as affordable only for wealthy households.

Second, **lack of awareness** of the nature of insurance is a barrier. With medical insurance, for example, many people say they do not care enough about their health to seek regular medical care, and they view insurance as a

waste if not used frequently. In other words, if they are not sick, they view the premium as “lost.”

Third, most clients are **not satisfied with the quality of service** they receive. Many farmers complained about the service they received using medical insurance. They felt most hospitals do not pay adequate attention to patients who use medical insurance cards. They receive lower-quality service and wait longer compared to those who pay directly for medical services.

Fourth, concerning the **level of benefit** of medical insurance, farmers complained that medical insurance does not reimburse enough medical expenses. Many costly medicines, they noted, had to be paid for by the patient. Respondents also said that for serious disease, the total medical expenses are normally much higher than total reimbursement from insurance. They also noted that payouts from long-term insurance like life insurance will diminish in value under the nation’s high inflation rates.

Fifth, insurance **sales policies are inconvenient** for many people. For example, with optional medical insurance in 2007, the company only sold insurance to families in which all members were enrolled. In addition, the company only issued insurance for hamlets where at least 30 percent of population had enrolled and for precincts/communes where 10 percent had enrolled. That regulation significantly limited the number of clients. The restrictions were lifted after 2007.

**Table 11: Why do families not use insurance products in your community?**

Reasons	Ta Thanh Oai		Vinh Quynh		Total	
	Number of people	%	Number of people	%	Number of people	%
No money	50	79.4	34	63.0	84	71.8
Unsure of service quality	-	-	21	38.9	21	17.9
Do not see much benefit from insurance	15	23.8	26	48.1	41	35.0
Medical insurance card only available when they have no money	-	-	3	5.6	3	2.6

**Box 11: Testimony on Experience with Formal Insurance Product**

Mr.N is a member of a wealthy household in Nhan Hoa hamlet of Ta Thanh Oai commune. He bought a “saving insurance” policy for his son in 2002 with a value of 31 million VND in the term of 2002 – 2010. Yearly premium is 2,680,000 VND (US\$160), which is 0.4 percent of the total income of his family. After 10 years, he will have paid 26,800,000 VND (US\$1,680) and will get 31 million VND (US\$1,845) (value added is 4,200,000 VND or US\$165). Premium is due annually around October. He does not have difficulty paying this premium. The payment method is very convenient— the insurance agent collects the premium at his house.

The family added partial medical coverage to this policy, which is an option offered by the Bao Viet company. In 2007, his son (the insured) had a surgery in Viet Duc hospital in Hanoi. The total cost of this surgery was 6 million VND (US\$357). He informed the insurance agent, who came to his house to process the reimbursement. All paperwork and claim procedures were completed at that time. The insurance company informed him that his son will be reimbursed within two months, but he does not know how much the reimbursement will be. It has been six months since his son left the hospital.

**5.4. Reported Obstacles in Perspective**

Though the client perspective here is critical, some of their statements on obstacles to insurance require additional context. Lack of money was frequently cited, but the reader should bear in mind that the premium for medical insurance is only 240,000VND (US\$15)/ person/year. Even for farmers, this is not a large sum of money. Business-owning/salaried households might earn 1-2 million VND (US\$60-120) per month, and unskilled worker might earn 50,000VND (US\$3)/day, so the premium remains in reach for nearly everyone.

Researchers’ observations suggest that the biggest obstacle is in fact lack of awareness and understanding of insurance. Many simply do not understand the meaning or necessity of insurance and have not considered the value as a risk-coping strategy in the life cycle; they tend to focus more on immediate benefits. In addition, quality of medical insurance and its associated service remain in doubt. Even the life insurance product from Bao Viet Company, which has one of the better reputations, is subject to many complaints about quality and service. Many existing clients talk of canceling their insurance, seeing only the depletion of their savings as an effect.

**5.4. Demand for Financial Education**

Most of the discussion members have participated in trainings in the past, focused on topics such as agriculture extension, environmental sanitation, and even insurance awareness. However, demand for risk management and other

financial training remained high—in fact respondents were unanimous on the issue. Table 15 below illustrates.

**Table 12: Training subjects needed**

Training subject	Number of people	Rate (%)
1. Investing your money?	64	100
2. How to save more money?	64	100
3. Preparing a budget?	64	100
4. Purchasing insurance?	64	100

Women expressed particular interest in financial and risk management-related training.<sup>8</sup> All agreed that “the more life-like” the training method is, the more effective it will be with participants from farming households. Therefore, the most suitable **capacity development method** probably would employ an active-participation learning model. Female participants in non-agricultural groups preferred to orient the training around receipt of a certificate, while the other female group preferred competition-oriented training with awards for the winning group (they felt certificates do not have any practical meaning for farmers).

**Table 13: Training methods**

How would you like to learn this information?	Number of people	Rate (%)
Training/workshop with VIDEOS, DVD	64	100
Receive material	60	93.8
Study tour	4	6.25

### 5.5. Timing for Financial Training

The most convenient time for training women and men is in the evening on any day of the week. However, in the studied communes, women tend to participate in such meetings more than men. Almost no one expressed a

<sup>8</sup> Women are the financial managers in Vietnamese households and would most likely be the ones to make the decision to purchase insurance. (Conversation between Liz McGuinness and Professor Hung, Aug. 26, 2008)

preference for daytime training courses. Training duration for each session should be two hours or less. The most suitable time is after 7:30 pm, with a session frequency of 2-3/week.

**Table 14: Proposed training calendar**

Training needs	Total number of discussion members	Number of responsive members	Rate (%)
<b>Duration</b>			
1h	111	14	12.6
2h	111	71	64.0
<b>Time</b>			
Morning	111	3	2.7
Afternoon	111	3	2.7
Evening	111	74	66.7

**Location:** 100 percent of discussion members agreed that the hamlet’s meeting hall would be a convenient location.

## **6. CONCLUSIONS & RECOMMENDATIONS**

### **6.1. Conclusions**

- The survey results revealed many different risks/stressors in the life cycles and livelihood activities of these households. About half of the top-ranked risks are insurable, including illness, accidental injury, funerals, and crop loss.
- Existing insurance products are not meeting the diverse demands of these low-income households, and hence uptake is low. The limitations of available insurance products include: low quality of service, unreasonable benefits, inconvenient distribution channels, and a narrow range of products.
- In the absence of appropriate insurance products, households practice a variety of coping strategies. Many who can, earn extra income from unskilled labor; others borrow from formal financial institutions, from other households, or from private lenders at high interest rates. Typically, these coping strategies do not resolve the risks and often lead to heavy debt. For example, participants report that even the least serious illnesses requiring medical care can cost up to twice the annual per capita income for this area (up to \$900, with per capital income in the \$400-450 range). More serious but non-life threatening illnesses might cost up to \$2,000. The common coping mechanism of unskilled labor employment might only generate an additional \$3/day. Loans are available but payments represent an additional expense in precarious financial circumstances.
- Coping with risk is a high priority for most farmer households in the studied areas, and they express interest in participating in appropriate insurance schemes. However, multiple factors, both client-based and provider-based, impede the spread of insurance in this population. First and foremost is the lack of money for premiums. Other barriers include: lack of understanding of insurance, dissatisfaction with the benefits, dissatisfaction with quality of service, inconvenient sales policies, and concerns over the effect of inflation on benefits.

### **6.2. Recommendations**

- The most salient insurable risks in this population are illness, accidents, funeral expenses, and crop/livestock failure. Product development should focus on those areas.
- New entrants into the market must aim to improve on existing insurance in key areas, such as quality of service, convenience of service, and clearly-explained benefits.

- Financial education should be launched along with the insurance products. The population is receptive to such training and has provided clear direction on how it would like to receive training.
- Table 14 indicates that about 30 percent of the surveyed population does not take up insurance because they are not convinced of its value. It is this population that can be reached most effectively with financial education and may become the core client base for any new insurance products. Research also notes that households more heavily engaged in seasonal unskilled labor are more prone to save, and these households may be most likely to purchase insurance.
- Uptake projections must remain moderate. No amount of financial education may impact the 70 percent of this population that is uninterested in insurance because they cannot afford it. At the same time, the Vietnamese field researchers observed the premiums were within reach of most consumers in this area, even some who stated that they cannot afford them, so financial education might again provide an entry point to build clients among this 70 percent.

**ANNEX**

Data on loan sources of Thanh Tri district and the two communes of Ta Thanh Oai and Vinh Quynh  
(5/2008)

	Sources	Outstanding loan (Million VND)	No. of HHs with loan	Target group/loan purpose	Collateral requirements	Interest rate (percent/month)	Loan size (Million VND)	Loan term (year)	Interest & payments
Thanh Tri district	VBSP	30.305	4.032	Poor household	No collateral	0.65	30	-short term ≤ 1	- Medium term: loan recovery periods will be agreed between the bank and the borrower.  - short term loan: one-time recovery at due date  -Interest payment: per month or per quarter
		10.306	1.500	Clean water and environmental sanitation works	No collateral	0.9	4 million/work	-medium term > 1 to 6	
		1.682	236	Student/pupil	No collateral	0.5	15 million		
		12.020	707	Job creation	No collateral ≤ 20 million Mortgage loan ≥ 20 million	0.65	20 million per laborer	- Double the remaining study period	
		2.300	6	Small and medium enterprises	No collateral	0.9	500 million/1 enterprise	Maximum 60 months	

Ta Thanh Oai commune	VBSP	3.271	361	Poor households	No collateral	0.65	7-10 15-20	1	- One installment for loan at due date. - Interest payment: per month or per quarter
		404	51	Clean water & environmental sanitation works renovation/construction	No collateral	0.9	8	1-6	- One installment for loan at due date. . - Interest payment: per month or per quarter
		518	64	Pupil/student	No collateral	0.5	8	Maximum 13 years	- One installment for loan at due date. - Interest payment: per month or per quarter
	FA	520	130	FA member	No collateral	0.3-0.5	3-5	2	- One installment for loan at due date. - Interest payment: per year

Vinh Quynh commune	VBSP	4.000	320	Poor households	No collateral	0.65	5-20	1	- One installment for loan at due date. - Interest payment: per quarter
		300	60	Job creation	No collateral	0.65	5	3	- One installment for loan at due date. - Interest payment: per quarter
		1.200	150	Clean water & environmental sanitation works	No collateral	0.9	4-8	3	- One installment for loan at due date. - Interest payment: per quarter
	FA	400	80	FA member	No collateral	0.5	3-5	2	- One installment for the loan at due date. - Interest payment: per quarter