INSURANCE DEMAND AMONG LOW-INCOME HOUSEHOLDS AND THE ROLE OF MARKETING COMMUNICATIONS

Raxmonberganov Surojbek Uktamboy o‘g‘li
Tashkent State University of Economics, Faculty of Evening and Master Education
surojbekrax@gmail.com
https://tsue.uz/page/faculty-evening-ducation-graduate-studies
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Abstract: As poverty falls in Uzbekistan, the main risk shifts from being poor to falling back into poverty. An illness, a lost harvest or the death of an earner can undo years of progress, and insurance is the instrument built for exactly this. Yet insurance reaches very few of the households that need it most. This paper asks why demand does not form among low-income households, and what marketing communications can and cannot do about it. It draws on international studies of insurance take-up and on a survey of 453 respondents in Uzbekistan carried out by Toshpo‘latova. The paper argues that price is not the real barrier. The barrier is that households cannot check what they are buying before they buy it. It also argues that the strong role of word of mouth in this market is not a marketing failure to be fixed, but the channel through which any useful message will have to travel.

Keywords: insurance demand, low-income households, poverty reduction, insurance penetration, marketing communications, trust

Introduction

Uzbekistan has cut its poverty rate sharply in recent years, and the state programme on poverty reduction sets further targets for the period ahead [5]. This changes the problem rather than ending it. A household that has just risen above the poverty line is not safe. It is exposed. One illness that needs paid treatment, one lost harvest, one death or injury of the person who earns, and the household is back where it started, often with debt as well.

Insurance exists to absorb shocks of this kind. In Uzbekistan it does not reach the households most exposed to them. Gross written premiums were 0.52 per cent of gross domestic product in 2021, and fewer than ten per cent of homes were insured against fire, lightning, explosion, aircraft damage or natural disasters [4]. The market is growing fast, but that growth comes mainly from compulsory lines and corporate contracts, not from voluntary cover bought by ordinary households.

This paper asks why demand does not form in this group, and what part marketing communications play. These two questions are usually kept apart, with poverty and social protection treated as one field and insurance marketing as another. Keeping them apart makes it easy to assume that poor households do not buy insurance because they cannot afford it, and that this is therefore not a marketing question at all. The evidence below does not support that assumption.

Literature review

The clearest test of the price assumption comes from Cole and colleagues, who ran a series of randomised field experiments on rainfall insurance in rural India [1]. Demand did respond to price, as expected. The important finding is the other one: take-up would still not have been widespread even if the product had offered a payout ratio as good as a United States insurance contract. Price moves demand a little. It does not create a market. What held demand back were three things that have nothing to do with price: lack of trust, shortage of cash at the moment of purchase, and low salience, meaning the risk simply did not feel present.

Weedige and colleagues looked at the same problem from the side of understanding, surveying 300 middle-class consumers in Sri Lanka [2]. The sample matters: these people could afford cover. Insurance literacy still predicted whether they intended to buy, both directly and through trust, perceived benefit and attitude. Where households can pay and still do not buy, the reason lies somewhere other than the budget.

Kiwanuka and Sibindi tested the channel, surveying 391 users of digital insurance platforms in Uganda [3]. Both digital literacy and the adoption of insurance technology raised insurance inclusion, with adoption mattering more. What their adoption measure actually contains is more interesting than the result. It was built from how easy the platform was to use and how useful people found it, and the usefulness questions asked whether buying was simple, whether the policy could be checked afterwards, and whether the provider became more transparent. In other words, what looks like technology adoption is really about whether the channel explains the product.

For Uzbekistan the World Bank reached a similar conclusion. It linked low penetration not to price but to a narrow product range, a lack of new distribution channels, low financial literacy and weak consumer protection, which together weaken public confidence in private insurance [4].

One thing is missing from this literature when it is applied here. In Uzbekistan the mahalla and extended family have long shared risk informally. A low-income household is therefore not choosing between insurance and nothing. It is choosing between a formal contract it cannot check and an informal arrangement it has used and seen work.

Data and method

This paper is based on a comparative review of international studies together with survey evidence from Uzbekistan. The survey data are taken from Toshpoʻlatova, who collected responses from 453 people through Instagram and reported them in a study of marketing activity in insurance organisations [6]. The survey covered age, which insurers respondents used, how much they spent, where they got their information about insurance, why they chose a particular company, and what problems they met when claiming. Other sources are the World Bank assessment of the national financial sector [4], the state poverty reduction programme [5], and the reports of the National Agency of Perspective Projects [7]. The methods used are comparative analysis, grouping and generalisation, and logical analysis.

The limits of this survey must be stated clearly, because they shape what can and cannot be concluded from it. The respondents were recruited through Instagram, and about 94 per cent of them were under 27. This is a young, urban, digitally connected group. It is not a sample of low-income households, and nothing here should be read as though it were. There is also an inconsistency in the published study between the age figures given in the text and those shown in the chart, which is another reason to treat the detail with care.

The survey is still useful, but for a particular reason. This is the group most exposed to digital advertising and most able to search online. If formal marketing channels do not dominate even here, they are very unlikely to dominate among older, poorer and less connected households. The survey therefore sets an upper bound rather than describing the target group.

Analysis and results

Four results from the survey bear on the argument [6]. Seventy-three per cent of respondents said they learn about insurance companies from relatives and acquaintances, against nineteen per cent from advertising and eight per cent from websites. Forty-nine per cent chose their company because the price was affordable, twenty-eight per cent because the service was good and twenty-three per cent because the company seemed reliable. On spending, 54.7 per cent paid only 20,000 to 40,000 soʻm for insurance services. And among problems with claims, 64 per cent pointed to the amount of paperwork required, 25 per cent to long delays in payment, and 11 per cent to payment being refused because the event was not covered by the contract.

The first result is usually read as a failure of advertising, and the usual conclusion is that insurers should advertise more. That reading is wrong, and the reason can be seen in the other three.

Take the price result together with Cole and colleagues. Their experiments showed demand responding to price while price cuts alone failed to build a market. That is hard to explain if price is the real constraint. A better explanation is that price is the constraint people can describe, because it is the only part of the product they can read. A household that cannot compare exclusions, waiting periods, claims procedures or the financial strength of the insurer has one number in front of it, and decides on that number. The 49 per cent figure measures the limits of understanding as much as the limits of the budget. This matters, because the two explanations lead to opposite policies. A budget problem calls for subsidy. An information problem calls for explanation.

The spending figure supports this. More than half of respondents spend between 20,000 and 40,000 so‘m. This is not the spending pattern of people buying meaningful protection against a serious loss. It looks like the pattern of people buying the cheapest available option, which is what happens when price is the only thing being compared.

The claims result points to the second problem. Insurance is bought before it can be tested, and for most policyholders it is never tested at all, because no claim is ever made. The claim is the one moment when the promise is checked. On this evidence it is also the moment when the product is hardest to use. In a market where three quarters of information travels through relatives and acquaintances, one household‘s difficult claim does not stay with that household. It becomes what the whole circle knows about insurance. The network that carries information also carries verdicts, and it carries them further than any advertisement reaches.

This is why the word-of-mouth result should not be treated as a failure. Trust here belongs to the network, not to the brand, and a company cannot advertise its way into it. The useful parallel is the Uganda finding that what mattered was the channel‘s ability to explain the product and let people check it, rather than the technology itself [3]. The equivalent in Uzbekistan is not a platform. It is the mahalla, the workplace and the bank the household already uses.

Three conclusions follow for marketing communications aimed at this group. Communication should aim at understanding rather than persuasion, because a household that does not understand the contract has nothing to be persuaded about and will fall back on price. Fear-based messages are the wrong tool, since they raise the perceived risk of the event without reducing the perceived risk of the contract. And credibility should be borrowed from institutions the household already trusts rather than claimed directly, which is the logic behind selling insurance through banks, employers and community structures in comparable markets.

Conclusion

As the poverty rate falls, the households just above the line become the group most exposed to falling back and least protected against the events that cause it. Insurance is the instrument designed for that exposure. Its failure to reach this group is therefore a question for poverty policy as well as for the insurance market.

The evidence gathered here suggests the barrier is verification rather than price. Households do not buy because they cannot establish in advance that the promise will be kept, and where an informal alternative already exists and has been seen to work, a formal contract has to clear a higher bar than simply being available. Marketing communications help only when they build understanding and borrow credibility from institutions that already have it. Communications that do neither will not create demand in this group, however much is spent on them.

Two steps follow. The survey used here reaches a young and digitally connected group and cannot speak for low-income households directly, so a household survey covering different income levels and including people who are not online is needed before this argument can be tested rather than inferred. And the effect of the channel could be measured directly by comparing take-up and renewal rates for insurance sold through banks, employers and community structures against insurance sold through agents and advertising.

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