

***Informal
Micro-Finance
Schemes:
the case of
funeral insurance
in South Africa***

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Social Finance Unit

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Introduction

Funerals are a major life-cycle expense for poor South African households as in other parts of the world¹. In the Grahamstown township, the study site of this paper, located in the poorest province of South Africa, households sampled spent approximately 15 times their average monthly household income on a funeral. Put in perspective, if an American household with a monthly income of \$3 000 spent the same proportional amount on their funerals, they would spend \$45 000.

One common means of funding funerals is through funeral insurance. A myriad of formal and informal insurers compete to sell funeral insurance to low income South Africans. While the workings of formal funeral insurers are well known, those of informal funeral insurers have barely been documented although, in some townships, they cover more people than formal insurers.

There are two main types of informal insurance schemes. The first type operates on a for-profit basis. This type of scheme is typically run by the owners of funeral parlours who sell insurance as a means of selling their relatively expensive products to low income households. The funeral parlours administrate their own informal insurance products. The second type of informal insurance scheme is a not-for-profit scheme that shares many of the features of ROSCAs, rotating savings and credit associations. These schemes are typically formed by people who live in the same neighbourhood. They are run according to rules agreed upon by the members of the scheme. They differ from most ROSCAs in that the pot of funds does not automatically rotate but is allocated on the basis of a particular unforeseen event, in this case the death of a household member. Both types of schemes are not registered with the state.

Two significant trends have emerged in the research and development of new financial services for the poor. The first trend is to examine how the informal sector operates and to try and develop products and institutions modelled on those that exist in the informal sector. Such an approach has been successfully adopted by SafeSave in Bangladesh and MicroSave Africa. The second important trend is a move from an emphasis on credit as the key financial service to looking at other financial services for the poor, such as insurance and saving instruments. This paper builds upon these two emerging research themes and explores what can be learnt from informal funeral insurers in South Africa.

¹ In *Ram Chander's Story*, Mark Tully, long-time BBC India correspondent, describes the wedding of his servant's son (Mark Tully, 1995). What emerges most strongly from Tully's narrative is the author's sense of wonder that his servant, who comes from a poor "sweeper" caste, can provide his child with such an extraordinarily lavish wedding.

Like many other Sub-Saharan African countries South Africa is in the midst of an HIV/AIDS epidemic. Four million South Africans are currently HIV+, i.e. approximately 10% of the population and 22.8% of the country's sexually and economically active population; compared to 1997 this is an increase of 33.8% (N. Bruton, 2000). The need to provide relatively expensive funerals in the face of an AIDS epidemic is putting increasing pressure on poor households in South Africa but also on formal and informal insurers, to the extent that the traditional funeral insurance might even break down altogether, thus depriving the poor of ensuring a decent burial. Important policy questions arise about what funeral insurers, households and the state can and should do to combat the socio-economic effects of the increased mortality rate.

It is impossible to approach these issues without in-depth knowledge of the workings of informal insurers. This paper explores the nature of the products available and puts forward issues for further investigation. It establishes a basis for further research by explaining how these informal insurers operate, why consumers seem to have a preference for them and what the formal insurance sector and public authorities can learn from them.

The field site: A socio-economic profile

The site chosen for the research was Grahamstown. Grahamstown is a small town in the Eastern Cape Province of South Africa (*cf.* the map in *Appendix 1*). According to the 1995 Income and Expenditure Survey, Statistics South Africa, the Eastern Cape Province is one of the poorest provinces in South Africa, as shown in figure 1 (M. Orkin and South Africa. Central Statistics., 1997).

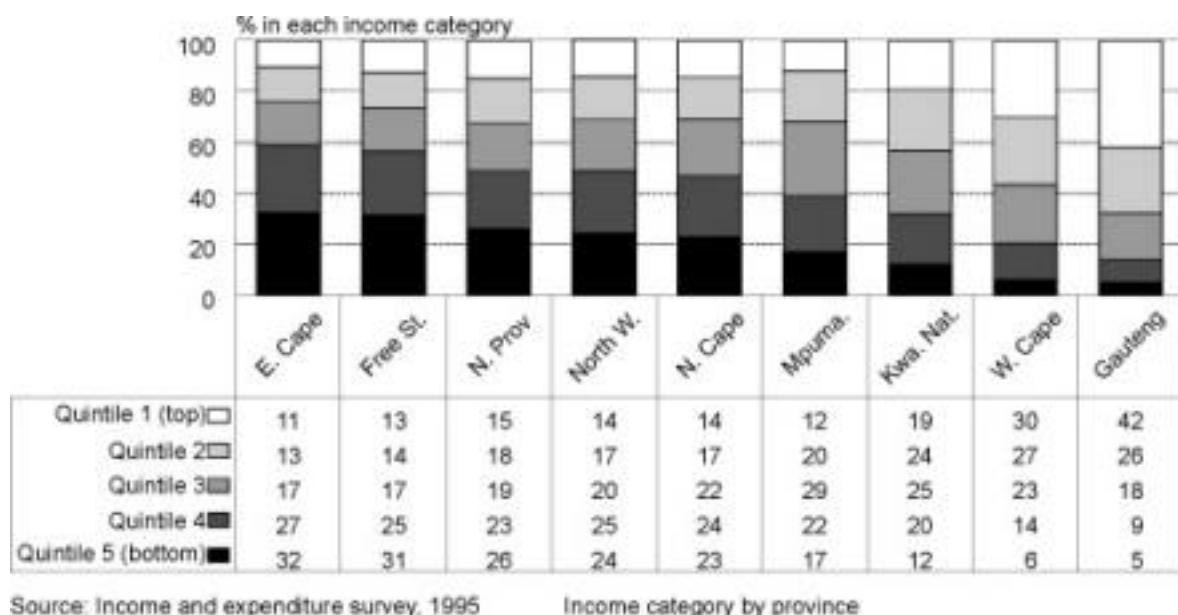


Figure 1: Income by Province

The Eastern Cape is a relatively underdeveloped region. In a report dated January 1999, the South African Institute of Race Relations found the following: 63% of the population were rural; 39% were under the age of 15; over 50% of households lived in informal or traditional dwellings; 69% lived in dwellings without chemical or flush toilets; and of those who were employed almost 30% earned R500 (\$83)² per month or less. In the Eastern Cape, formal education levels among those aged 20 years or more 15% of African males and females have never attended school, 11% of coloured³ males, and 13% of coloured females. In addition, 37% of African males, 34% of

² An approximate 1999 exchange rate of 1 USD = 6 ZAR has been used. While the exchange rate dropped dramatically in the second quarter of 2000 to 1USD = 7 ZAR, the rate of 1:6 was obtained when the research was conducted.

³ A term used to describe a South African person of mixed ethnic origin, including Khoisan, African slave, Malay, Chinese, white, and other descent. The word has been used for over one and a half centuries and numerous Apartheid Acts entrenched its use. The word is often used in parenthesis or with the term "so-called" to denote authorial aversion to racial classifications. Since the residents of the town I spoke to

African females, 38% of coloured males, and 40% of coloured females have not received any secondary school qualifications (more than 7 years of schooling). 84% of Africans and 87% of coloureds have not completed 12 years of schooling (Statistics South Africa, 2000).

The residents of the province suffer from high rates of HIV infection. Figure 2 below presents an overview of the spread of HIV over the last decade in the province. It is based upon tests conducted at antenatal clinics and then adjusted for other factors such as age and sex.

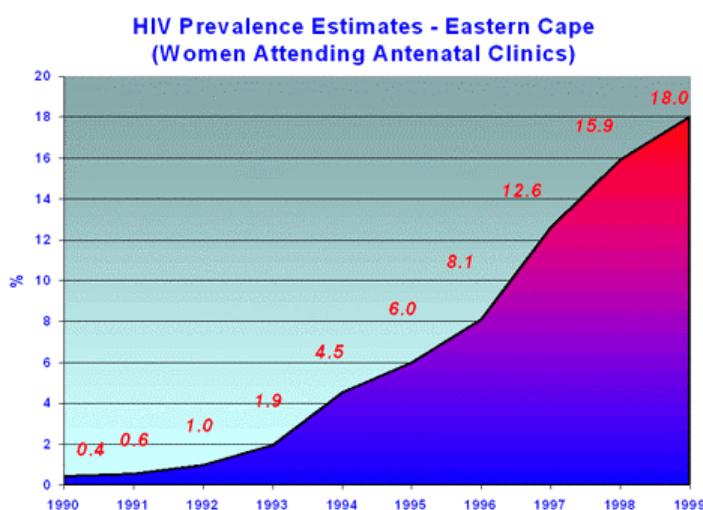


Figure 2 : The Spread of Aids in the Eastern Cape Province (source: Burton)

The town of Grahamstown itself is fairly isolated, the closest major urban centres are Port Elizabeth and East London, approximately 125km and 180km away respectively. As is the case with so many developing countries population estimates of Grahamstown vary widely⁴. The most recent and reliable population figures put the population of the entire town at just over entire 123'000⁵, 15'000 of whom are mostly middle class whites. While population estimates are difficult to obtain, estimates of average income are even more difficult to obtain. There are a number of reasons for this. A central problem is that respondents are unwilling to disclose income, especially when part of the income is obtained from informal and often illegal activity. In previous in-depth case studies⁶, 18 Grahamstown township households provided details of the income and

(including coloured people) used the term openly, and since social and geographic cleavages along racial lines still exist I have continued to use the term.

⁴ For an account of some of these estimates and the difficulties in estimating the black population of Grahamstown see **Williams, Jane and Davies, William J.** *Towards an Estimate of the Black Population in Grahamstown*. Grahamstown: Development Studies Unit Institute of Social and Economic Research Rhodes University, 1989.

⁵ This estimate comes from the town clerk, it is based on a combination of considerations including, rates payments, election figures and water consumption.

⁶ Research conducted for my forthcoming PhD dissertation at Cambridge University.

expenditure of their households. Three households have been excluded from the calculations, as they could not provide accurate information about the income that they generated from their informal activity. The figures in Table 1 are thus based on the monthly income of 15 households consisting of 96 people.

Mean	R412.73 (\$68.78)
Standard Error	78.91346303
Median	R276.03 (\$46)
Standard Deviation	305.6305281
Sample Variance	93410.0197
Kurtosis	0.101581803
Skewness	1.100131124
Range	966.6666667
Minimum	R108.33 (\$18)
Maximum	R 1,075.00 (\$179)
Sum	R 6,191.00 (\$1 032)

Table 1: Per Capita Monthly Income Sample in the Grahamstown Township

During 1999 a large-scale survey of the township was carried out by Møller (Valerie Møller, 2000) from the Institute for Social and Economic Research. Møller conducted a survey among 862 Grahamstown households and found a modal income of between R201 (\$33.5) and R500 (\$83.33) per capita per month.

The poor adopt strategies to secure a livelihood in Grahamstown in much the same way as the poor in many LDCs. They pool income within their households and rely on kin (for details see Mercia Joan Wilsworth, 1980, p. 153-182 and Cecil Wele. Manona, 1991). The distribution of resources within household is not always egalitarian and depends on a range of factors including power relations between members of the household. A member of a household who has access to financial services can use these services for the benefit of other household members who need them but would not ordinarily be able to obtain them. Most of the households in the sample were formed in such a way as to ensure that there was at least one member of the household who had access to a stable source of income. Many respondents spoke of the way in which their households had been reshaped because there were not enough income earners within the households to sustain it. This often involved actions as drastic as sending a child to live in Port Elizabeth with distant, but wealthier relatives.

Figure 3 below depicts the variety of household types found in the author's sample of township residents.

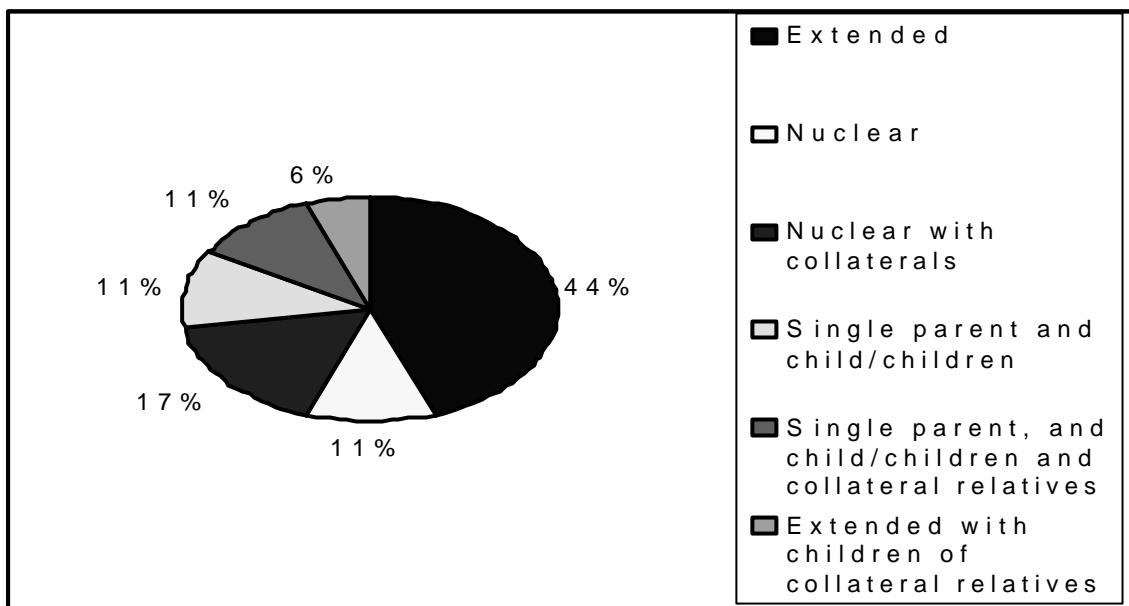


Figure 3: Household types

Poor households in Grahamstown tend to pursue multiple livelihood strategies. Such risk diversifying strategies are followed by poor people in many LDCs⁷.

⁷ For a host of references to studies which demonstrate multiple livelihood strategies see Chambers **Chambers, Robert.** *Whose Reality Counts? : Putting the First Last.* London: Intermediate technology Publications, 1997.

In the words of Robert Chambers (1997, p. 165)),the poor in developing countries do not have) 'employment' in a 'job', in a 'workplace', which is the Northern reality of those with 'work'. Employment, in the formal sense of having a job is a reductionist Northern and industrial concept, and is a subset of livelihood, one means, but only one, by which a livelihood can be secured. For many of the poor, the strategy is fox-like. It is to do many things: to sniff around and look for opportunities, to diversify by adding enterprises and to multiply activities and relationships."

Figure 4 below depicts the sources of income obtained by the sample of Grahamstown township residents.

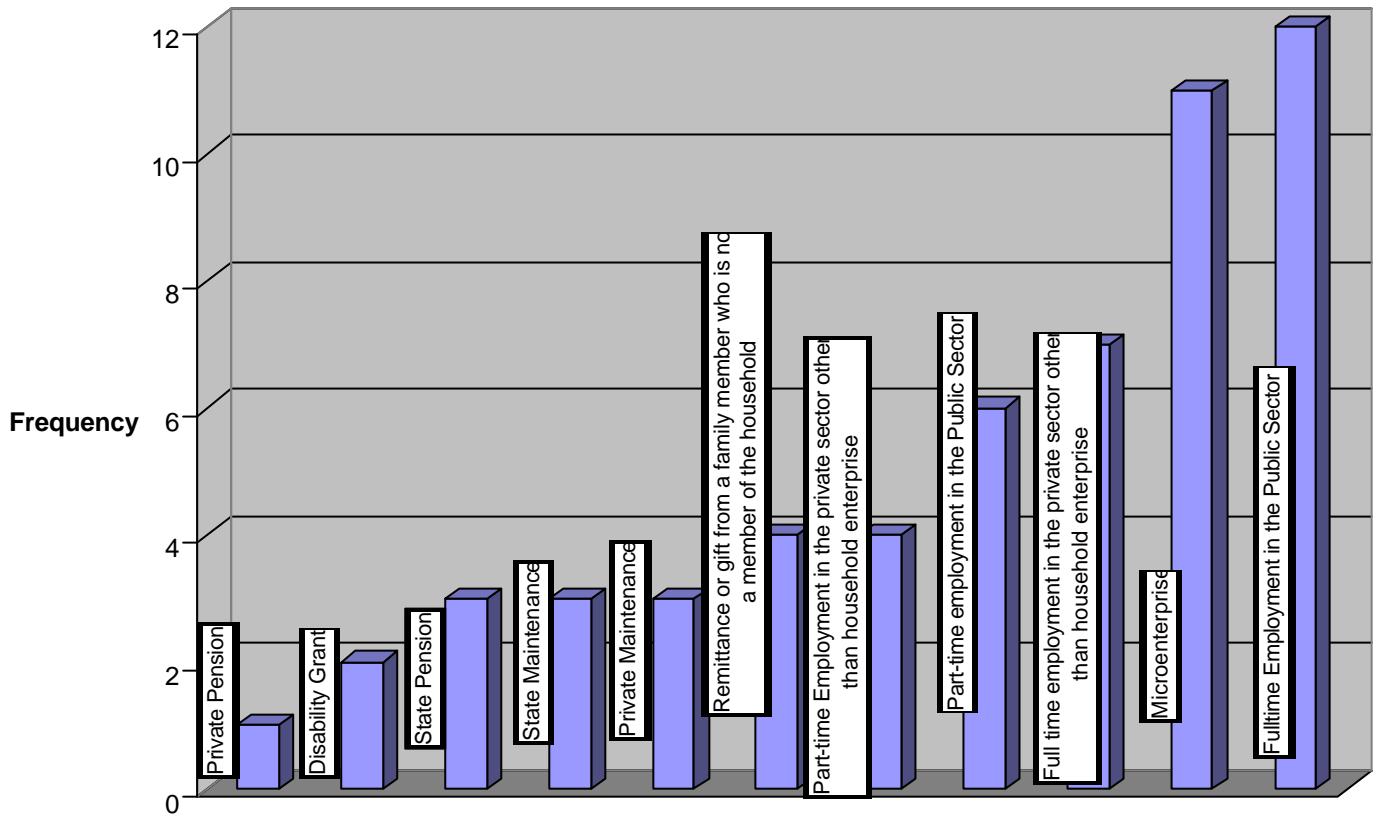


Figure 4: Sources of household income

The intra-household distribution of income along with the fact that households receive income from multiple sources has important implications for their capacity to acquire funeral insurance, as we shall see later.

A township burial

The financial instruments and social capital required to finance a funeral are intimately connected to the elaborate process involved in a township funeral. The information on this process was obtained from in-depth interviews with 12 respondents, 10 of whom were centrally involved in the funeral of a close relative within a period of 3 months prior to the interview.

In all cases, as soon as a person died, the funeral parlour is notified. The funeral parlour manages much of the burial process, most importantly perhaps it takes care of dealings with the state *viz.* obtaining the death certificate; dealing with the corpse if it is in the state mortuary; dealing with the district surgeon, and dealing with the police if murder is suspected. In some cases where the deceased was covered by a formal insurance policy the funeral parlour would help the respondent to obtain payment from the company. These are much appreciated services to households where functional literacy is often in scarce supply. At the first meeting with the funeral parlour a date for burial will be set. If the person arrived between Saturday and Wednesday (inclusive of those days) and if the finances are in order, the funeral takes place the next Saturday. If the corpse arrived on a Thursday or a Friday, then relatives residing in distant places would not have enough time to travel and attend, the funeral is therefore held the following week Saturday.

All respondents indicated that their preference was to have the funeral as soon as possible for two reasons. Firstly, prayer meetings are typically held at the household of the deceased every day until the burial. These prayer meetings are attended by members of the deceased's church, or in most cases, the church of senior women in the household. At these prayer meetings, the household provides refreshment to between 20 and 70 people. In some instances a tent is hired and erected at the household to facilitate the large number of daily prayer meetings prior to the funeral.

Aside from arranging the prayer meetings, the most immediate task is to contact all relatives and other interested parties as soon as possible so that they can attend the funeral. The funeral parlour informs the Xhosa⁸ provincial radio station who then broadcasts the funeral announcements. Close relatives are usually contacted by phone. A few days before the funeral begins, relatives arrive from all over the country. They typically sleep at various households in the neighbourhood of the deceased's household. The household of the deceased feeds all visiting relatives.

⁸ Xhosa is the main language of the Grahamstown township.

On Saturday the funeral is held. It begins with a prayer meeting in the morning held either at the deceased's previous home or in a rented hall. Respondents reported attendance at such meetings as ranging between 200 and 600 people. After the prayer meeting mourners travel to the cemetery in taxis paid for by the deceased's household. At the cemetery the opulence of the funeral is revealed. Some respondents hired red carpets to lead mourners to the gravesite. Others bought arches of flowers to mark the path to the gravesite, some had both carpets and arches. The gravesite is often adorned with poster size photographs of the deceased. Frequently a tent is erected beside the graveside for mourners. All respondents expressed a desire to be able to purchase the most expensive coffin possible. The coffin itself is typically shrouded in wreaths of plastic flowers. Soft music accompanies the recital of eulogies.

After the service at the cemetery mourners return either to the household of the deceased or to a hall hired for the commencement of the funeral feast. The feast begins with mourners ritually washing their hands to symbolise the end of the burial. During the feast either, four to six sheep, or a cow is slaughtered and served together with vegetables, rice and potatoes. Chairs and tables are often rented from local schools for the funeral feast.

As the feast draws to a close, members of the household and close relatives gather together to discuss the social reconstruction of the household. Essentially, what is discussed is who will take over the deceased's various roles in the household. This process of socially reconstructing the household is one of the most important consequences of the funeral. The presence of relatives witnessing the agreed reconstruction imbues the process with authority (Cecil Welile. Manona, 2000).

Occasionally these meetings take a dramatic turn. Four respondents reported that in certain circumstances a female household member had been accused of having murdered the deceased through witchcraft in order to obtain an insurance payout. Two of my respondents were themselves accused of being witches at these meetings. Further enquiries revealed that often when a married male (with a large formal life insurance policy), who is head of the household dies suddenly and unexpectedly, his wife is often accused of having placed a curse on him in order to obtain the payout. The expression used was directly translated as "cashing him in".

In some households an "after-tears party" follows the ceremonial feast. The deceased's household also funds this party, where beer and brandy are consumed. Active church members look askance at "after-tears" parties. Most of my respondents were religious and felt that after-tears parties were disreputable. This elaborate process finally draws to a close when a few weeks after the funeral a goat is purchased and slaughtered.

The price of a township burial

Funerals as elaborate as those in the Grahamstown township do not come cheaply. Township residents with formal funeral insurance tend to incur very substantial expenses. Of the sample of 10 respondents who had paid for a funeral in the last three months, half were chosen because they had formal funeral insurance and half because they did not. The amounts spent on funerals for each category are given in Table 2 below.

Paying for a township burial			
	Without formal Insurance		With Formal Insurance
Mean	R 3,760.00	\$626.67	R 9,640.00
Median	R 3,250.00	\$541.67	R 10,000.00
Standard Deviation	R 1,268.56	\$211.43	R 3,445.72
Kurtosis	-2.681861063		0.84372809
Skewness	0.309782289		0.9951735
Range	R 2,850.00	\$475.00	R 8,500.00
Minimum	R 2,350.00	\$391.67	R 6,500.00
Maximum	R 5,200.00	\$866.67	R 15,000.00
Sum	R 18,800.00	\$3,133.33	R 48,200.00
			\$8,033.33

Table 2: Paying for a township funeral

In each household, the distribution of the funeral costs differed. What figured prominently in all households was the priority given to spending on the coffin and the post burial feast. While most respondents were able to give a breakdown of how they financed the funeral, few were able to provide a very detailed breakdown of precisely how they spent these funds. This was because other parties, for example, an informal funeral insurer, paid for some of their expenses directly. What appears in figure 5 below is thus illustrative of a typical (but hypothetical) set of funeral expenses totalling R6,285.00 (\$1,047.50). The expenses are shown in ascending order of magnitude.

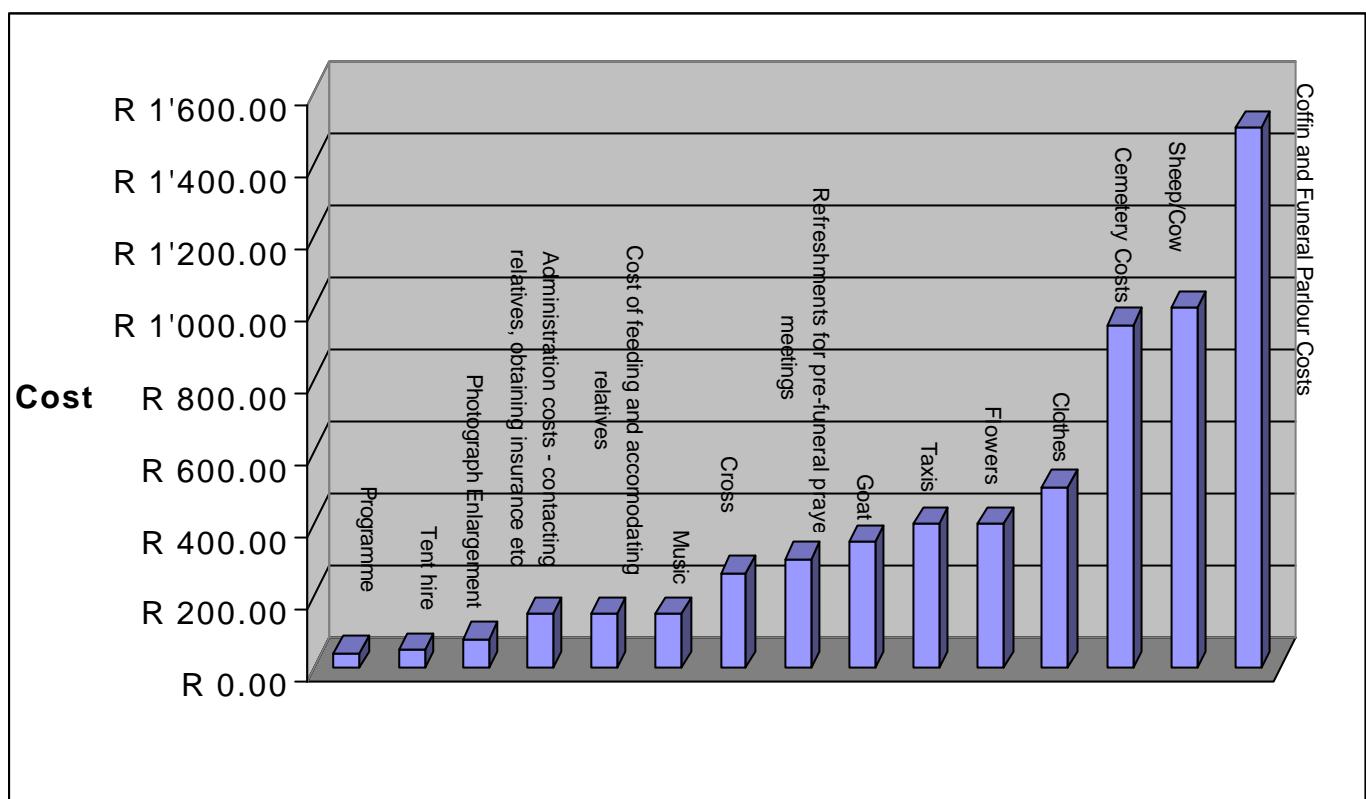


Figure 5: The costs of a funeral in order of magnitude

For a township where the average monthly household income is R412.73 (\$68.78) an outlay of anywhere between R 2,350.00 (\$391.67) and R 15,000.00 (\$2,500.00) is considerable.

Why do township poor spend so much on funerals?

Five broad explanations were given for the large expenditure. The first reason, and a reason common to all respondents, was a belief that the dead (or at least some of them) become spirit ancestors. These spirit ancestors are believed to exert a powerful influence over the fate of the living. All respondents believed that it was necessary to have an expensive funeral to show proper respect for the ancestors. Some respondents stressed the importance of the meeting of close relatives after the funeral in which the household was reconstructed. These respondents felt that the elaborateness of the funeral helped impart importance to the meeting. Thirdly, as one respondent put it "we are poor in life, let's not be poor in death". The respondent believed that by holding an elaborate funeral she demonstrated the dignity of her household. Fourthly, conspicuous consumption was clearly evident. Most respondents felt that mourners were aware of the costs of coffins and would gossip if the coffin was an inexpensive one. Finally, funerals seem to be a rotating social event. If one were to ask middle-aged township dwellers what they did over the weekend, it is quite probable that the response is likely to be that they attended a funeral. Funerals are opportunities to put on one's "Sunday best" and meet friends from distant places that one has not seen for a long time.

While conspicuous consumption was clearly in evidence it would be wrong to reduce all the reasons given for the funeral expenditure into a single desire to demonstrate wealth. Many respondents were quite clear that their funeral expenditure was about restoring dignity to lives.

Financing a township funeral

The process described above raises a number of important financing considerations:

Amount

Households need relatively large amounts of sums to finance the funeral - R2,350.00 (\$391.67) to R15,000.00 (\$2,500.00), but they do not require the full amount from a single source.

Cash-flow

Households need an immediate small payment of cash e.g. R200 (\$33.33) - R500 (\$83.33) to cover the cost of providing refreshments at the twice-daily prayer meetings held each day until the burial. They need the remainder of the cash as soon as possible to ensure that the funeral takes place quickly.

Flexible premium payment

Households pursue multiple livelihood strategies and are often dependent on micro enterprises for income. In respect of insurance, they need to be able to pay the premiums whenever they have them i.e. not at a specific time during this month. As one township informal insurer put it, "people here live a hand-to-mouth existence, you cannot expect them to pay at the same time each month". In addition, many households do not have a member with a formal bank account which rules out such households holding policies that must be paid for by directly debiting a bank account.

Transaction complexity

Given the low levels of formal education in the region it is essential that the terms and conditions of credit and insurance policies are clear and simple. This is particularly important in the case of insurance policies that frequently refer to complex medical conditions in their list of exclusions. Because many people are functionally illiterate, it is crucial that paperwork is kept to a minimum. Since only four of the 12 respondents were able to communicate in English, transactions need to be conducted in the vernacular.

Related to transacting in the vernacular is the more general concern that buyers of financial services need to feel comfortable with sellers.⁹

This is especially important in funeral finance because the buyer is likely to feel distressed by the death of his or her relative. Transacting with people that they know, gives the buyer a sense of security because if the transaction goes wrong they are able to use local recourse to correct the situation. Township residents said that it was, for example, difficult to interact with insurance companies in distant towns if they had any questions about their policies.

Privacy

In respect of buying insurance policies, respondents said that they preferred people outside of their immediate household not to know of their policies for two reasons. Women expressed fear that they would be accused of “cashing-in” their husbands by relatives at the post-burial meeting, and in general most wanted to avoid pressure from distant relatives to distribute any insurance payout.

Coverage

As seen in Figure 3, township residents live in households that do not necessarily correspond with the nuclear family structure. Respondents thus need and wanted insurance cover for their household and not for their immediate families.

⁹ Bouman and Harteveld (1976, pp. 115-116) take note of the experience of rural West Africans attempting to obtain credit from formal banks:

Obtaining institutional credit often implies a day's trip or more to a remote town in unfamiliar surroundings. Institutional credit, particularly where impressive looking banks are involved, carries the aura of aloofness and foreboding. Its splendour, its impersonal approach, its complicated formal and legal procedures rouse the villager's suspicion. The cool, sometimes hostile reception by condescending clerkdom, makes the ordinary man feel timid and ill at ease.

Obtaining finance in the township

Township residents have five non-mutually exclusive means of paying for funerals: they can sell assets, obtain credit, draw on their savings, receive gifts, and they can use insurance.

Selling Assets

Selling assets as a means of paying for funerals is not very common. The principal difficulty with this is the time lag between the sale of assets and the receipt of cash. An additional difficulty is that township residents tend not own much that has value on second-hand markets (old blankets, used furniture, battered pots and pans etc) do not fetch very much. Land ownership in the Grahamstown township is rare because of apartheid legislation which prohibited black ownership of land (Helen Holleman, 1997). Although rare, asset sales are not unheard of. One respondent who had no insurance of any nature, and whose husband had recently died, reported selling the husbands second-hand car. She received very little for the car because the buyer knew it was a distress sale.

Credit

Credit can be obtained from a number of sources in the township and both cash and goods can be obtained on credit. A detailed description of all the sources of credit available to township residents is beyond the scope of this paper but a few need brief mention:

- **Credit from traders** – this includes credit from formal clothing chain stores to buy new clothing for the funeral, as well as a host of hawkers and small shops that sell food on credit.
- **Lending Rotating Savings and Credit Associations (ROSCAs) and Lending Accumulation Savings and Credit Associations (ASCRAs)** – there are a great number of these organisations in the Grahamstown township (*cf.* Wilsworth, 1980). In ROSCAs typically people put their funds into a collective pot and each member takes a turn to take home the pot. ASCRAs are a variant of this in that members save together but only take home funds at the arrival of some agreed upon event, typically Christmas. In the Grahamstown township some of these ROSCAs and ASCRAs lend to non-members. The profits from these loans are then distributed among members together with the payout.

- **Township Moneylenders:** Numerous local moneylenders lend between \$15 (R90) to \$25 (R150) usually on a short-term basis (i.e. on a one-month loan period).
- **Semi-formal moneylenders:** These moneylenders lend larger amounts usually in the region of R600 (\$100) to clients with permanent stable jobs and bank accounts.
- **Formal Banks:** While most banks will not provide loans to unemployed people, they are prepared to provide loans to those with relatively large stable incomes, e.g. teachers or nurses who earn over R2 500 per month. Households often have a member with a relatively well paid job.

Saving

Grahamstown township residents have three principal means through which they can save. As mentioned they can save through ROSCA and ASCRA groups. They can also pay some traders for their goods in advance and receive their goods when they are fully paid for. Such a system is known as a 'lay-by system'. Some commercial banks provide savings facilities to township residents both individually and for ROSCAs and ASCRA to bank their takings.

Gifts

It is common for township residents to receive gifts from friends and neighbours when they have a funeral. Gifts are given at various stages. At the daily pre-burial prayer meetings, a collection plate is passed around. All respondents noted that the monetary gifts were not very significant. What was significant were gifts of labour, for example assistance with food preparation as well as loans of cutlery, crockery and furniture.

Insurance

There are four categories of funeral insurance theoretically available to township residents:

- Formal¹⁰ Assistance insurers
- Formal Friendly Societies
- Informal non-profit insurers
- Informal for-profit insurers

Formal Assistance Insurers

Formal assistance insurers are insurers registered with the Financial Services Board (FSB). These are profit-making insurers that provide funeral cover aimed at low income South Africans. The FSB is charged with (among other things) ensuring that the formal assistance insurers comply with the Long-term Insurance Act.

The FSB 1998 report states that 30 South African insurers were registered to sell funeral insurance to low income households. Twenty of these were surveyed to determine how they would meet the needs of township residents. The results of the survey are presented in greater detail in Appendix 1 and summarised below in Table 3.

¹⁰ Formal in this instance refers to a financial intermediary that is registered with the state and subject to some form of statutory supervision.

Category	Details	What formal insurers offer
Cover size	Need to be able to purchase small amounts of cover	Tend to offer R5000 or more, and only 2/20 offered less than R5000
Speed of settlement	Need immediate payment of some cash because of <i>inter alia</i> the cost of tea at the church service meetings	No insurers pay immediately, they require the receipt of various documents typically including death certificate, claim form, policy document, proof of premium payment and ID. Once these have been checked, only 5/20 promise immediate payment, 4 within 24 hours, 6 within 48 hours, 1 within 3 days, the rest make no guarantees.
Method of payment	Need to pay the premium by cash not only stop or debit order.	3/20 allow for cash payment
	Need to pay when they have the cash not at a fixed time during the month	All of the above allow payment to be made up within 30 days or by month-end.
Beneficiaries	Need cover for their household not their family.	5/20 allow for dependant relatives
Transaction Complexity	Need simple easy to understand policies, literacy and numeracy skills are often limited - difficult to navigate through exclusion.	Transaction Complexity Score ¹¹ Mean - 9.3 Median – 9 Mode – 11 Standard Deviation -1.5 Range – 5 Minimum – 6 Maximum –11 Count –19
	Want to transact in familiar surroundings with people they know.	None of the 20 had an office in the Grahamstown township
	Need to transact in their own language.	None of the forms were available in all 4 language groups, by and large dependent upon agents' linguistic ability
	Many people are not functionally literate.	4 offered assistance, the rest did not specify the option.
Comprehensiveness vs. exclusions	Number of exclusions	Mean -1.65 Median - 2 Mode - 3 Standard Deviation - 1.7 Range - 4 Minimum - 0 Maximum – 4 Count – 20

Table 3: How formal assistance insurers meet the needs of township residents

Formal friendly societies

A similar review was undertaken for formal friendly societies, i.e. insurance schemes that operate on a non-profit basis, often started by churches or trade unions. Like formal assistance insurance, they are registered with and monitored by the Financial Services Board. They are governed by the Friendly Societies Act. A sample of 10 from a total of 37 that provided funeral cover were randomly chosen and surveyed. The results of the survey are presented in Appendix 4.

As with formal assistance insurers, the needs of township household were compared to what is on offer from formal friendly societies, the results of this comparison are presented in Table 4.

Category	Details	What friendly societies provide
Cover size	Need to be able to purchase small amounts of cover	All offer between R700 and R4000, 5/10 sampled offer R2000 or less
Speed of repayment	Need immediate payment of some cash because of <i>inter alia</i> the cost of tea at the church service meetings	No insurers pay immediately, they require the receipt of various documents typically including death certificate, claim form, policy document, proof of premium payment and ID. Once these have been checked on 5/10 promise immediate payment, 1 within 48 hours, 1 within 2 -7 days, 1 within 30 days, 2 pay the undertaker directly.
Method of payment	Need to pay the premium by cash not only stop or debit order.	6 allow for cash payment of premium
	Need to pay when they have the cash not at a fixed time during the month	All of the above allow payment to be made up within 30 days or by month-end.
Beneficiaries	Need cover for their household not their family.	1 allows for dependant relatives other than nuclear family
Transaction Complexity	Need simple easy to understand policies, literacy and numeracy skills are often limited – difficult to navigate through exclusion.	Mean – 5 Median - 5 Mode - 4 Standard Deviation – 1 Minimum – 4 Maximum – 7 Count – 10
	Want to transact in familiar surroundings with people they know.	All offer this
	Need to transact in their own language.	All offer this
	Many people are not functionally literate, needs to be minimal paperwork.	1/10 required literacy
Comprehensiveness vs. exclusions	Number of exclusions	1/10 had suicide as an exclusion

Table 4: How formal friendly insurers meet the needs of township residents

¹¹ See Appendix 3 for the composition of the transaction complexity score.

Informal friendly societies

Informal friendly societies are local township organisations that are owned by members, run on a not-for profit basis and not registered with the FSB. They tend to form in small neighbourhoods and members are often neighbours. A typical example of informal friendly society is presented in Box 1 below.

Box 1 - Township informal friendly society

Ext 2 - Grocery “Umgulelo”

Extension 2 Grocery Umgulelo was started in 1998. All members live in Extension 2, a suburb of the Grahamstown township. The friendly society has 34 members, all of whom are women. To join the society an initial joining fee of R40 (\$6.67) is paid. This is a once-off joining fee. The monthly premium is R10 (\$1.67). Officials are nominated by the members to collect premiums. The nominated officials collect the premium door-to-door and bank cash at the local post office bank. Each member nominates 12 beneficiaries of the scheme. The beneficiaries do not need to come from the members' own household. To overcome moral hazard problems, three months need to pass after a member has joined before she can claim. On the death of a nominated beneficiary the member receives R500 in cash plus all the groceries for the funeral feast (excluding the cow, sheep or other meat purchased for the feast).

It normally takes 3 days to receive a payout from the umgulelo. Claiming is a relatively simple process. The beneficiary, or a member of the household, writes or has someone help her write a letter to the president of the friendly society. These letters are kept as records by the president of the society. The president ensures that the premium has been paid and if all is in order pays the member R500 and convenes a meeting of the society. At this meeting different members of the society are given funds and assigned the task of buying groceries. The buying of groceries is very convenient in that it saves both time and transport costs.

Informal for-profit insurers

The Grahamstown township has two for-profit informal insurers. The owners of these institutions were interviewed. Although technically illegal, one of the insurers, Shoba and Shoba was happy to be referred to by name. The details of his business appear in Box 2 below. The other informal township insurer operated in an almost identical manner.

Box 2 - Informal for-profit township insurer

Shoba and Shoba

The brothers Shoba started their insurance scheme when they purchased a township funeral parlour in 1995. One of the brothers had worked for the municipality and the other had worked for the previous owner of their funeral parlour. The brother leaving the municipality received a large payment from the municipality when he left them. The brothers used this as a deposit to secure a bank loan that they used to buy the parlour. They will finish paying off the loan this year.

Their insurance scheme operates as follows. Members pay a joining fee of R10 (\$1.67) and a monthly premium of R15 (\$2.50). They can nominate up to 10 beneficiaries that need not be related to the main beneficiary, nor do they even need to reside at the same address as the main beneficiary. The main beneficiary qualifies for immediate cover. Shoba underwrites the main beneficiary by observing him or her when s/he applies for membership. To avoid moral hazard problems other beneficiaries must wait 3 months before they can claim benefits. The benefits are only paid if Shoba and Shoba arrange the funeral. This crucial clause ensures that Shoba and Shoba are able to keep the cost of their payout to a minimum.

The benefits members receive on the death of a nominated beneficiary are:

A coffin with a retail price of R350 (\$58.33), along with an immediate payment of R200 (\$33.33 in cash. Shoba and Shoba cover the cost of refrigeration of the corpse (which they collect immediately), all cemetery fees, the radio announcement and they take care of all official bureaucracy. It is difficult to put a price on the cost of the service they provide but it is unlikely to cost them more than R200 (\$33.33) [an employee of the other informal insurer reported the wholesale cost of the coffin as R90 (\$15)].

Their policy has no exclusions. The brothers rely on word of mouth marketing and thus have no marketing costs. The clients bring premiums to them when they have them in cash. The client is issued with a booklet. When a premium is received the booklet is stamped and dated. If a client fails to pay a premium, they are given three months to pay the premium. If they fail to do this then they need to re-join by paying a new membership fee and the waiting period will then re-apply.

In the event of death, the funeral parlour is the first port of call for the remaining relatives. In the majority of cases they recognise the deceased or at least have a person they trust who can confirm the identity of the deceased. Payment of the R200 is immediate. In cases where there is uncertainty about the identity of the deceased they wait for the death certificate.

Their record keeping would be regarded as very poor by the standards of formal institutions. They have no up-to-date record of all the members who have paid premiums (records only reflect joining fees). The onus is on the client to prove that he/she is up-to-date with his/her premiums. This they do by means of a booklet they receive when they join that they have stamped whenever they make a payment. Joining the scheme is a very simple matter. Terms and conditions are on a single sheet of paper written in Xhosa and English, the conditions are explained to the client verbally in Xhosa.

The precise number of clients covered by informal insurers is difficult to measure. An estimate based on the number of clients of the two institutions would be in the region of 55 550.

This estimate is obtained as follows: Shoba and Shoba reported having 1 055 insurance clients. Insurer B reported having 4 500 clients. If each client nominates 10 beneficiaries then the total number of people covered by informal insurers from the Grahamstown township is $10\ 550 + 45\ 000 = 55\ 550$.

Conclusions – what can be learnt from informal insurers

From the operations of the informal insurers described above it is clear why township residents prefer their services. Informal insurers use their intimate knowledge of local socio-economic conditions and local funerals to mould their products and services to fit the contours of their environment. There are, however, general lessons that can be learnt from these informal insurers.

The need for local knowledge emerges strongly. For example, formal insurers tended to design their policies based upon assumptions about family structure that are simply not accurate. Market researchers need to get detailed socio-economic data before they design policies.

Transaction simplicity is key. Transactions with informal insurers were relatively simple processes. In places where levels of formal education and literacy are low there need to be few terms of conditions and exclusions. Long and complex terms and conditions written in a foreign language will not make such a client feel at ease. Terms and conditions need to be kept short and simple and expressed to the client in their own language.

Respondents preferred low value comprehensive policies to high value policies with lots of exclusions. Two reasons emerged for this. Firstly, some respondents with low levels of formal education were not quite sure what the exclusions meant, especially for certain medical conditions and were thus uncomfortable with having a policy and never being entirely confident that they were not breaching the policy terms. Secondly, township residents are poor and many of them are very risk averse as a consequence. It is often the case that when one has very little, one becomes very careful with the little that one has. There is a direct relationship between the number of exclusions and the riskiness of the policy.

Risk averseness combined with the pursuit of multiple livelihood strategies explains why many of the respondents had numerous small policies rather than a large single policy. With many small policies, if one loses a source of household income, one may still have enough to keep paying another policy. Insurers need to be able to offer small amounts of cover as well as larger amounts of cover.

The use of booklets or coupons is very attractive to both insurers and their clients. With booklets each time a client pays a premium his or her booklet is stamped. With a coupon system

the client buys a coupon usually in the form of a stamp. They then stick this into their book. With this system clients felt like they had a secure document with which they could prove premium payment. Such a system is comparatively cheap and easy for insurers to operate.

Insurers need to offer flexible premium payment. Many low income households have irregular income flows, e.g. those who run micro-enterprises. Insurers need to provide a long grace period for premium payment. Although all of the insurers surveyed in the township only accepted a payment once their client had managed to get the full premium payment, it may be worth experimenting with allowing clients to bring in part of the premium whenever they have it.

Dealing with a person from the local community that speaks one's language not only makes the transaction easier but also provides clients with a sense of security. They know that should they have a query they can approach a local person, who lives nearby and who speaks their language. Many formal insurance policies are sold by travelling insurance salesmen whom clients rarely see. Sorting out a problem with a policy obtained from such a company may involve an expensive trip to a distant city or a telephone conversation with a person in a language in which the client is not very comfortable. Dealing with a local person also assists with ensuring fast settlement. One of the major bottlenecks in the settlement process is obtaining a death certificate. A local insurer does not have this bottleneck, as in most cases they know the identity of the deceased.

Finally, informal insurers were able to keep the costs of their own payout down by providing some of the payout in cash and the rest in goods and services that are provided at cost. In the case of the profit making informal insurers, they both first provided a service (in this case a funeral service) for cash and credit. They then looked at using insurance as a means of increasing turnover. In establishing micro-insurers in LDCs it may be worthwhile looking first at those who are already providing a potentially insurable service e.g. funeral parlours or local health clinics. Such enterprises, with their intimate knowledge of the local market, will be able to design or assist in the design of insurance products that fit the contours of their environment. With this understanding of the importance of funerals and the mechanics of informal insurers we need to examine how these institutions are changing in the face of the HIV/AIDS epidemic:

- a) What is the impact of the HIV/AIDS epidemic on the solvency of informal funeral insurance schemes, whether for profit or mutual?
- b) incorporate members with different risk profiles thus reducing co-variance risk? Decrease the payout? Increase the premium? Obtain re-insurance? Increase the number of exclusions?

The state, NGOs and the donors community can help ensure that informal funeral insurers remain solvent through the HIV/AIDS epidemic. A first step in the engagement process could be through the creation of favourable legal framework for the operation of informal funeral insurers. At present there is no legal framework in South Africa that effectively caters for such small and informal for-profit insurers. The reserve and accounting requirements of current legislation are beyond the capacity of these insurers. Simpler legislation may encourage informal for-profit funeral insurers to register. Registration will confer benefits to insurers and their clients. In the long term, clients will come to expect a set of basic fair practices from registered insurers that will make these insurers more attractive to them. Access to informal insurers would be facilitated by the existence of a register. Such a register would also help NGOs and donors to provide assistance to these insurers, for example through training. A register, together with the adoption of a common set of basic practices vis-à-vis reserve requirement, accounting etc. could help facilitate mergers leading to larger funeral insurers with larger and hopefully more diverse risk pools.

How informal insurers and other informal financial institutions are actually operating in areas with very high rates of HIV infection will be dealt with in a further series of studies conducted by the Social Finance Unit of the ILO.

APPENDIX 1 – LOCATION OF THE FIELDSITE



APPENDIX 2 – HOW DO FORMAL INSURERS MEET TOWNSHIP RESIDENTS NEEDS FOR FUNERAL COVER?

Appendix 2 -Directory of Formal Assistance Insurers

(See code sheet pasted after the tables for details of codes)

(Blanks indicate that the information was not readily available/not applicable and/or the company would not disclose the information)

Details	Company	Company	Company	Company	Company
Name	Standard Bank Funeral Plan	ABSA Funeral Plan	Clientele Life Lasting Memory Funeral Plan	HTG Life Shoprite/Checkers	Capital Alliance Family Burial Protector Plus
Postal Address	PO Box 3329 Johannesburg 2000	Private Bag X10041 Randburg 2125	PO Box 1316 Rivonia 2128	PO Box 1265 Durbanville 7550	PO Box 260569 Excom 2023
Phone Number	0860 121 151	0860 117766	(011) 320 3000	0800 025 500	0800 02 0711
Fax Number		(011) 789 9814			(011) 334 9240
e-mail address			services@clientelelife.co.m		
Premium	R30.00	R19.00 standard cover	R18	R18	R11.50 per R2 000.00 Minimum of R45 p/m
Waiting period	3 months, 6 months for parents/in-law accident immediate	3 months accident immediate	3 months accident immediate	3 months accident immediate	6 months accident immediate
Member	R6 000.00	R5 000.00	R5 000.00	R5 000.00	R11.50 per R2 000.00
Spouse	R6 000.00	R5 000.00	R5 000.00	R5 000.00	R8 per R2 000.00
Child under 4 (incl. stillborn)	R1 500.00	R500.00 (0-5 years)	R1 250.00 (0-6 years)	R1 250 (0-6)	R500 Stillborn
Child from 4 to 14	R3 000.00	R2 000.00 (6-20 years)	R2 500.00 (6-14 years)	R2 500.00 (6-14)	R3 per R2 000.00 (children under 25)
Child from 14 to 21	R4 000.00	R2 000.00 (6-20 years)	R5 000.00 (over 14)	R5 000.00 (over 14)	
Student-child 21-25	R4 000.00		R5 000.00 (up to 23)		
Additional premium	R15 per person	R28.50 (between 65 and 70) per person	R42 per parent under 75	none	R14 per R1 000.00
Parents (max. 4)	R3 000.00	R5 000.00	R5 000.00		R14 per R1 000.00
Other dependant relatives	R3 000.00 (max 2)				R14 per R1 000.00 (max 4)
Other benefits/cover				also have term policies available	can add tombstone & accident cover
Method Premium Collection	1	1	1	2	1
Sales Channel	5	4	4	3	2

Details	Company	Company	Company	Company	Company
Name	Standard Bank Funeral Plan	ABSA Funeral Plan	Clientele Life Lasting Memory Funeral Plan	HTG Life Shoprite/Checkers	Capital Alliance Family Burial Protector Plus
Requires literacy	1	2	2	1	2
Level of transaction complexity	11	9	10	6	9
Exclusions - age		over 75	over 75		over 75 parent/in-law over 55 member
War/nuclear explosion	Yes	yes			
Suicide	within 3 months	within 1 year	within 2 years		within 2 years
Overdose	No	yes			
HIV/Aids	within 6 months		complete exclusion		complete exclusion
Method of claims verification	1	1	1	2	2
Difficulty of contacting the insurer after the sale of the policy	4	4	5	1	2
Time before pay-out	48 hours	24 hours	immediate	immediate	within 48 hours
Requirements for pay-out	1	3	3	3	3
Lapsing of policy/grace period	2 consecutive unpaid premiums		3 consecutive months	1 month	1 month

Details	Company	Company	Company	Company	Company
Name	Rentmeester funeral Bridging Plan	African Life Family Burial Plan	Prosperity Solutions	Metropolitan Family Funeral Plan	KGA Life Group Funeral Insurance
Postal Address	PO Box 403 Pretoria 0001	PO Box 1941 Houghton 2041	PO Box 27792 Greenacres 6057	Freepost CB0105 Cape Town 8000	PO Box 884 Bellyville 7535
Phone Number	0800 112 112	0800 112 767	(041) 363 4116	(021) 940 5911	(021) 946 1428/38
Fax Number	(012) 804 0376		(041) 363 2398	(021) 940 6465	(021) 948 4443
e-mail address			market@mail.prosper.co.za	www.metropolitan.co.za	
Premium	R50 (25-45 years)	Minimum of R50 - pay per unit of cover	R18	R16.03 member only R26.06 family	R17.50 Category D
Waiting period	6 months accident immediate 0-3 months: R500 0-6 months: R750	6 months accident immediate	none for principal member 3 months under 55 6 months 55-65 accident immediate	3 months accident immediate	6 months 1 month accident
Member	R10 000.00 and R800 cash for 12 months	Minimum of R1 800.00 (R6) to a maximum of R10 000.00 (R30)	R10 000.00	R5 000.00 natural death R10 000.00 accidental death	R5 000.00
Spouse	R5 000.00		R7 500.00, & R2 500.00 for tombstone	R5 000.00 natural and R10 000.00 accidental	R5 000.00
Child under 4 (incl. Stillborn)	R500.00 (Stillborn) R1 000.00 (0-5)		R500.00 (Stillborn-1) R1 750.00 (1-5)	R1 250.00 natural or accidental	R1 250.00
Child from 4 to 14	R2 000.00 (6-13)		R3 500.00 (6-13) & R1 500.00 for tombstone	R2 500.00 natural or accidental (6-13)	R2 500.00 (6-13)
Child from 14-21	R2 500.00		R7 500.00 & R2 500 for tombstone	R5 000.00 natural and R10 000.00 accidental	R5 000.00
Student-child 21-25	R2 500.00		R7 500.00 & R2 500.00 for tombstone	R5 000.00 natural and R10 000.00 accidental	R5 000.00
Additional Premium	R11 per R1 000.00 per person (66-70 years)		R20 (below 65 only)		
Parents (max. 4)	R4 000.00 maximum		R3 000.00		
Other dependent relatives	R1 per R1 000.00 for brothers and sisters				
Other benefits/cover		Can add memorial & cash bonus	Can add HIV needle stick, accident, trauma, wealth maker & assistance benefits	Options for larger or smaller cover determined by age	Options for larger or smaller cover determined by age and marital status

Details	Company	Company	Company	Company	Company
Name	Rentmeester funeral Bridging Plan	African Life Family Burial Plan	Prosperity Solutions	Metropolitan Family Funeral Plan	KGA Life Group Funeral Insurance
Method of Premium collection	1	1	1	1	through contractor/administrator
Sales Channel	5	5		4	2
Requires literacy	2	2	2	2	2
Level of transaction complexity	11	9	10	8	8
Exclusions				have to be under 64	have to be under 85
War/nuclear explosion					
Suicide	within 2 years	within 2 years	complete exclusion		within 2 years
Overdose			complete exclusion		
HIV/Aids	complete exclusion - have to have HIV test				within 2 years
Method of claims verification	1	2	1	1	1
Difficulty of contacting the insurer after the sale of the policy	2	5	5	4	4
Time before pay-out		immediate		24 hours	immediate
Requirements for pay-out		3		3	3
Lapsing of policy			Have suspension option	3 months	1 month

Details	Company	Company	Company	Company	Company
Name	Avbob	Goodall & Bourne	African People's Organisation Burial Society Term Policy	Peninsula Family Protection Funeral Plan	Bonlife
Postal Address	PO Box 1661 Pretoria 0001	PO Box 1965 Parklands 2121	PO Box 215 Athlone 7760	PO Box 408 Sanlamhof 7532	PO Box 3315 Randburg 2125
Phone Number	(012) 303 1000	(011) 442 5835	(021) 696 9811	(021) 949 8790	(011) 789 2390
Fax Number		(011) 442 5835	(021) 697 0555	(021) 949 8709	(011) 886 4114
e-mail address					bengt@global.co.za
Premium	depends on age and health	R23.30 Bronze policy	R52.70 15-year term policy	R25	R14.67 - have to be member of Bonitas Medical Aid to qualify
Waiting period	6 months accident immediate	3 months accident immediate	3 months accident immediate	6 months accident immediate cancer, heart, TB 1 yr	3 months accident immediate
Member	min R5 000.00 Max R15 000.00	R15 – R5 000.00 (41-45)	R5 000.00	R5 000.00	R9 500.00
Spouse	min R5 000.00 Max R15 000.00	R6 - R5 000.00	R5 000.00	R5 000.00	R9 500.00
Child under 4 (incl. Stillborn)	R1 000.00 for R5 000.00 member cover	R2.20 per child - R1 250.00	R1 250.00	R1 250.00	R750 (stillborn - 1) R1 800 (1-5)
Child from 4 to 14	R2 500.00	R2 500.00 (6-15)	R2 500.00 (6-15)	R2 500.00 (6-13)	R4 759 (6-13)
Child from 14-21	R5 000.00	R5 000.00 (over 15)	R5 000.00	R5 000.00	R9 500.00
Student-child 21-25	R5 000.00	R5 000.00 (up to 26)	R5 000.00	R5 000.00	R9 500.00
Additional Premium	depends on age				
Parents (max. 4)	Max R5 000.00				
Other dependent relatives	Max R5 000.00				
Other benefits/cover		can also choose gold, emerald or ruby policies			disability benefit for main member
Method of Premium collection	3	1	3	1	1
Sales Channel	4	5	2	4	2
Requires literacy	1	2	2	2	2

Details	Company	Company	Company	Company	Company
Name	Avbob	Goodall & Bourne	African People's Organisation Burial Society Term Policy	Peninsula Family Protection Funeral Plan	Bonlife
Level of transaction complexity	7	11	8	9	11
Exclusions - age	over 75			over 64	
War/nuclear explosion					
Suicide	2 years	2 years		2 years	
Overdose					
HIV/Aids	complete exclusion	Complete exclusion			
Method of claims verification	2	1	1	1	1
Difficulty of contacting the insurer after the sale of the policy	1	5	4	5	2
Time before pay-out	48 hours	3 days	48 hours	24 hours	24 hours
Requirements for pay-out	1	1	3	3	3
Lapsing of policy	1 month	1 month	2 months	1 month	7 days

Details	Company	Company	Company	Company	Company
Name	New Era Family Funeral Scheme	Hollard Direct Farewell Solution	First National Bank Funeral Insurance Scheme	Old Mutual Flexi Family Cover	Edgars Club Benefit
Postal Address	PO Box 31890 Braamfontein 2017	Freepost JHZ 534 Randburg 2125	PO Box 1153 Johannesburg 2000	PO Box 66 Cape Town 8000	Freepost JHZ 851 Crown Mines 2025
Phone Number	(011) 403 2170	0860 111 169	(011) 371 2111	(021) 509 9111	(011) 495 6000
Fax Number	(011) 403 2412	(011) 285 5001			(011) 249 2123
e-mail address		direct@hollard.co.za			
Premium	R20 for Plan A	R63 (member under 45)	R33 minimum 90c per thousand	R75 minimum life cover	R9.25 to be Edgars Club member
Waiting period	3 months 6 months parents/in-law & dependents accident immediate	immediate			immediate when you become a club member
Member	R5 000.00	R20 000.00	90c per R1 000.00 if under 64 R15 000.00 maximum	R20 000.00 maximum	R3 000.00
Spouse	R5 000.00	R20 000.00	R15 000.00 max	R20 000.00 max	
Child under 4 (incl. Stillborn)	R1 000.00 (under 1) R1 250.00 (1-5)	R5 000.00 per child	R1 250.00 (1-5)	R5 000.00 (under 6)	
Child from 4 to 14	R2 500.00 (6-13)	R5 000.00	R2 500.00 (6-13)	R10 000.00 max	
Child from 14-21	R5 000.00	R5 000.00	R5 000.00 (14-24)	R10 000.00 max	
Student-child 21-25	R5 000.00	R5 000.00		R10 000.00	
Additional Premium	R8 per person	R18 per person		depends on age	
Parents (max. 4)	R2 500.00	R3 000.00		R10 000.00 max	
Other dependent relatives				max of 2	
Other benefits/cover	offer a more expensive Plan B			Also have a family endowment option	
Method of Premium collection	1	1	1	1	club fee added onto your account 2
Sales Channel	5	1	3	4	4

Details	Company	Company	Company	Company	Company
Name	New Era Family Funeral Scheme	Hollard Direct Farewell Solution	First National Bank Funeral Insurance Scheme	Old Mutual Flexi Family Cover	Edgars Club Benefit
Requires literacy	2	1	1	2	1
Level of transaction complexity	10	10		11	8
Exclusions - age	over 65	over 65			
War/nuclear explosion					
Suicide				within 2 years	
Overdose					
HIV/Aids				reduced benefits within 5 years	
Method of claims verification	1	2	1	1	
Difficulty of contacting the insurer after the sale of the policy	5	2		5	3
Time before pay-out	“Timeously”	48 hours		48 hours	immediate
Requirements for pay-out	1	1		3	3
Lapsing of policy	no grace period				have to pay balance of account

Code Sheet

Cover

- 1 Member, spouse, children under age 4 including still born child, all children up to age 21 plus a child-student up to age 25
- 2 1 plus parents or parents-in-law
- 3 Member only

Additional cover

- 1 parents max 4 other plus other dependant relatives max 2

Method of premium collection

- 1 Directly from bank account
- 2 Pay at office of funeral society or insurance company
- 3 1 or 2
- 4 Direct from salary (in case of union fees)

Sales Channel

- 1 Direct marketing e.g. through insert in newspaper
- 2 Through broker/administrator/shop steward/representative
- 3 Directly through the insurance company/church
- 4 All of the above
- 5 2 and 3 only
- 6 Automatic (in case of unions)

Requires Literacy

- 1 No
- 2 Yes

Level of client transaction complexity

See Appendix 2 for details

Standard measure of cover per premium

Premium/total benefit of standard cover

Exclusions

- 1 Suicide within 3 months, AIDS within 6 months, result of war, invasion, act of foreign enemy hostilities, civil war, military or usurped power or as a result of the effects of radioactivity or nuclear explosion.
- 2 Suicide within 2 years

Method of claims verification

- 1 Requires client to obtain extensive documents
- 2 Insurance company obtains proof or assists the clients in obtaining necessary documents
- 3 Company organises the funeral or gives funeral package

Difficulty of contacting the insurer after the sale of the policy

- 1 Local easily accessible agent
- 2 Telephone/fax/e-mail
- 3 Requires journey of more than 10km within an urban area
- 4 1 and 2
- 5 2 and 3

Requirements for pay-out

- 1 Proof of death, ID document of person claiming benefit, letter of executorship, marriage certificate
- 2 Contract with company/ company payslip/ proof that union dues are paid up
- 3 1 and 2

Appendix 3 – The transaction complexity score

One point is added if in purchasing the policy or obtaining payment, the following is required:

- literacy
- telephone/fax/e-mail
- ID book/s
- a bank account
- payment of premium on a specified day
- a death certificate
- a birth certificate
- a letter of executorship
- a marriage certificate
- a membership card/copy of policy
- proof of payment

Moreover, transactions are rendered more complex if forms are not available in the 4 main South African language groups – English, Afrikaans, sePedi, Nguni – and if assistance is not available in the vernacular.

Lastly, the length of forms also matters (if measured by the number of items to which the potential subscriber needs to respond).

APPENDIX 4 – HOW DO FORMAL FRIENDLY SOCIETIES MEET TOWNSHIP RESIDENTS NEEDS FOR FUNERAL COVER?

Appendix 4 - Friendly Society Directory
 (See code sheet pasted after the tables for details of codes)

(Blanks indicate that the information was not readily available/not applicable and/or the company would not disclose the information)

Details	Company	Company	Company	Company	Company
Name	Tswelopele Funeral Society	NUMSA Benefit Fund	WP Building & Allied Workers Death Benefit Fund	PUTCO	Old Apostolic Church Burial Society
Postal Address	PO Box 9460 Pretoria, 0001	PO Box 260483 Excom, 2023	PO Box 742 Cape Town, 8000	Private Bag 3 Wendywood, 2144	PO Box 270 Linmeyer, 2105
Phone Number	014 - 736 5358	011 - 786 8609	021 - 421 7947	011 - 802 4300	011 - 435 0707
Fax Number					
e-mail address					
Premium	50	2.40	2.90/w artisans 2.18/w semi-skilled	8.4 member contribution 1.13 PUTCO contribution	10
Cover	2	1	3	1	1
Additional Premium		22 over 65 8 under 65			
Additional Cover		1			
Method of Premium Collection	3	4	4	4	2
Sales Channel	3	6	5	6	3
Requires literacy	1	1	1	1	1
Level of transaction complexity	5	4	5	5	4
Standard measure of cover per premium	50/2000	2.4/4000	2.9pw/2000		10/3000
Exclusions	2	0	0	0	0
Method of claims verification	3	1	1	1	3
Difficulty of contacting the insurer after the sale of the policy	4	4	4	4	4
Time before pay-out	immediate	48 hours	immediate	immediate	pay for funeral
Requirements for pay-out	2	3	1	1	3
Months grace allowed in the event of lapsed payment	3	0	3	3	2

Details	Company	Company	Company	Company	Company
Name	SA Commercial Travel Association (Sacta) Funeral Benefit Fund	Durban Leather Workers Death Benefit Fund	Upington Eendracht Begrafnisvereniging	New Apostolic Church Funeral Scheme	Arme Muslim Burial Society
Postal Address	PO Box 828 Cape Town, 8000	PO Box 2000 Durban, 4000	PO Box 204 Upington, 8800	PO Box 25 Southfield, 7880	103 Ottery Road Wynberg, 7800
Phone Number					
Fax Number					
e-mail address					
Premium	Wouldn't disclose	1.00/w per member	10	72/year	7
Cover	1	3	1	1	1
Additional Premium					
Additional Cover					
Method Premium Collection	3	4	2	2	2
Sales Channel	3	6	2	2	2
Requires literacy	2	1	1	1	1
Level of transaction complexity	4	6	4	6	7
Standard measure of cover per premium		4/770	10/726	6/3000	7/funeral covered
Exclusions	0	0	0	0	0
Method of claims verification	1	2	1	2	3
Difficulty of contacting the insurer after the sale of the policy	2	4	4	4	4
Time before pay-out	2-7 days	30 days	immediate	pay undertakers	2-5 hours
Requirements for pay-out	3	3	1	3	3
Months grace allowed in the event of lapsed payment	1	6	0	1	Up to one year

Code Sheet

Cover

- 1 Member, spouse, children under age 4 including still born child, all children up to age 21 plus a child-student up to age 25
- 2 1 plus parents or parents-in-law
- 3 Member only

Additional cover

- 1 parents max 4 other plus other dependant relatives max 2

Method of premium collection

- 1 Directly from bank account
- 2 Pay at office of funeral society or insurance company
- 3 1 or 2
- 4 Direct from salary (in case of union fees)

Sales Channel

- 1 Direct marketing e.g. through insert in newspaper
- 2 Through broker/administrator/shop steward/representative
- 3 Directly through the insurance company/church
- 4 All of the above
- 5 2 and 3 only
- 6 Automatic (in case of unions)

Requires Literacy

- 1 No
- 2 Yes

Level of client transaction complexity

See Appendix 2 for details

Standard measure of cover per premium

Premium/total benefit of standard cover

Exclusions

- 1 Suicide within 3 months, AIDS within 6 months, result of war, invasion, act of foreign enemy hostilities, civil war, military or usurped power or as a result of the effects of radioactivity or nuclear explosion.
- 2 Suicide within 2 years

Method of claims verification

- 1 Requires client to obtain extensive documents
- 2 Insurance company obtains proof or assists the clients in obtaining necessary documents
- 3 Company organises the funeral or gives funeral package

Difficulty of contacting the insurer after the sale of the policy

- 1 Local easily accessible agent
- 2 Telephone/fax/e-mail
- 3 Requires journey of more than 10km within an urban area
- 4 1 and 2
- 5 2 and 3

Requirements for pay-out

- 1 Proof of death, ID document of person claiming benefit, letter of executorship, marriage certificate
- 2 Contract with company/ company payslip/ proof that union dues are paid up
- 3 1 and 2

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Employment Sector – Social Finance Unit

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