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Effect of partner–agent model practice on microinsurance client value: Insight from microfinance institutions in Tanzania

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Abstract: In absence of formal microinsurance to protect low-income people against natural and man-made disasters, the partnership between insurance companies and microfinance institutions (MFIs), also known as the Partner–Agent Model (PAM), is gaining global recognition from governments, practitioners, and donors for its potential role to deliver microinsurance. Although the model is still nascent in Tanzania, it has significantly increased microinsurance outreach. However, while the microinsurance landscape has been extensively studied, the effect of PAM practice on mandatory microinsurance client value has not received much attention. Therefore, this study examines how the PAM practice affects microinsurance client value dimensions. Surveys were used to collect quantitative data from 229 managers of MFIs involved in PAM, randomly selected from 10 regions in Tanzania. The study applies structural equation modeling, particularly the regression analysis, to examine the effect of PAM practice on the appropriateness, accessibility, affordability, and responsiveness of PAM microinsurance services. Study findings indicate that though the PAM practice has a statistically significant positive effect on microinsurance client value, the client value does not score well on its four dimensions. Improvement and regulation of PAM practice is recommended to foster microinsurance client value.

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PUBLIC INTEREST STATEMENT

The partnership between insurance companies and MFIs, also known as the Partner–Agent Model (PAM), is gaining growing recognition from governments, practitioners, and researchers for its potential role to expand microinsurance services to low-income people. However, for decades, several pertinent questions remained unanswered: Does microinsurance offer client value? Specifically, does it match low-income people who experience the most risk exposure? Are microinsurance services easily and conveniently accessible at costs that low-income people can afford? The purpose of this study was to address these questions. The findings offer new insight regarding insuring low-income people against natural and man-made disaster risks. It found that the Partner–Agent microinsurance delivery model practice is positively related to the design of microinsurance products that are affordable, convenient, easily accessible, which also match clients' risk exposure. MFIs are therefore encouraged to partner with insurance companies to offer microinsurance services with value to their clients.

Subjects: Finance; Banking; Credit & Credit Institutions; Insurance; Business, Management and Accounting; Risk Management; Entrepreneurial Finance

Keywords: partner–agent model; appropriateness; accessibility; affordability; responsiveness; microinsurance; client value

JEL classifications: G21; G22

1. Background and objectives

Low-income people in developing countries are the most vulnerable to natural and man-made disasters such as fires, drought, floods, epidemics, loss of agricultural crops and livestock, and permanent disability or death (Gertler & Gruber, 2002; Loayza, Olaberria, Rigolini, & Christiaensen, 2012). Globally, natural disasters are responsible for 42% of total economic losses among low-income people (UNISDR, 2015). Disaster shocks push 100 million low-income people below the poverty line annually (Mills, 2014). In sub-Saharan Africa, drought and floods alone account for 70% of low-income people's economic losses (Shiferaw et al., 2014). In Tanzania, more than 3 million low-income people have been affected by various disasters in the past decade, causing an estimated loss of Tsh 218 billion (Mkama, 2015). Low-income people are highly susceptible to disasters but are the least protected by formal insurance. Their traditional coping mechanisms (microsavings, sale of land and livestock, borrowing from moneylenders, friends, and relatives) (Magnoni & Zimmerman, 2011; Roth, McCord, & Liber, 2007; Wipf, Kelly, & McCord, 2011) offer less protection for significant/large disasters (Churchill & Cohen, 2006; Morduch, 1999) and impoverish them further. However, there has been an emergence of microinsurance schemes, some of which are embedded in loans offered by microfinance institutions (MFIs) (Dalal & Morduch, 2010; Roth et al., 2007) or are provided (to MFIs' clients) in partnership with insurance companies through a Partner–Agent Model (PAM) (Brown & McChord, 2000; Roth et al., 2007). PAM seems to offer a sustainable and reliable option for protecting the poor, but its contribution to client value is less known.

Microinsurance is a mechanism designed to protect low-income earners against risk including accident, illness, death in the family, or natural disasters for regular premium payments proportionate to the likelihood and cost of the risk involved. It operates like conventional insurance except that it is aimed primarily at the informal sector, which tends to be underserved by mainstream insurance companies (Ali, Mahmood, & Gul, 2014; Farooqui, 2013) as well as the poor whose incomes fluctuate considerably and have limited financial reserves. It differs from conventional insurance in terms of the size of the premium and the insured amount as its premiums and/or coverage limits are typically low and paid in sporadic installments because of the irregular income streams of the insured. In addition, microinsurance policies are generally written in simple language to be easily understood by low-income people who may have limited education and financial literacy (NAIC, 2017). Microinsurance is not confined to any specific product, product line, or a specific type of provider. It covers a wide variety of risks—basically any risk insurable and appropriate in terms of affordability and accessibility to low-income households (NAIC, 2017). Microinsurers have increasingly turned to innovation to tailor products to accommodate the protection needs of their low-income target market, mostly vulnerable to natural or man-made disasters, and to provide insurance packages in collaboration with MFIs, which are closer to the clients, hence the establishment of PAM.

PAM has been gradually gaining global recognition from governments, practitioners, and donors as an alternate, informal microinsurance delivery approach to expand microinsurance services to low-income people (Roth et al., 2007). In Tanzania, PAM has enabled the delivery of a variety of mandatory microinsurance products including credit life, saving life, endowment life, health, and crops microinsurance (Brown & McChord, 2000). The PAM is a partnership between an insurance company ("partner") and an "agent", which is typically a microfinance institution company, non-government organization, or cooperative organization. The "agent" is responsible for delivery and marketing of microinsurance products to clients, but the "partner" retains all responsibilities for designing, pricing, and underwriting products so as to expand microinsurance services that offer

value to low-income people (Heenkenda, 2016; McCord, 2006; Shil, 2013). Though the PAM is still a nascent microinsurance delivery model in Tanzania, it has enabled the expansion of mandatory microinsurance coverage to low-income people from 2 percent in 2007 to 19 percent in 2012, such that 92 percent of those insured are covered by mandatory microinsurance (Hougaard, Vos, Bowman, Mahori, & Bester, 2012; Kamuzora, 2012; Roth et al., 2007). However, the PAM practice and PAM-based microinsurance client value have not yet attracted much academic inquiry.

PAM practice is a set of expected organizational activities to achieve the shared partnership objectives (Min & Mentzer, 2007). In terms of theory, PAM practice consists of five facets: (i) collaborative product design between the agent and the partner during microinsurance product design, (ii) business information sharing between the agent and the partner (Prahalad & Hamel, 1990), (iii) integration of parties' respective core competencies, (iv) transfer of specialized knowledge (Hancox & Hackney, 2000), and (v) parties' compliance to contractual obligations. Compliance to contractual obligations consists of the insurance company's cooperation in case of contractual and operational dispute settlements (Ahimbisibwe, Nangoli, & Tusiime, 2012; Lambe, Spekman, & Hunt, 2002; Williamson, 1979).

Previous studies (Cohen & Sebstad, 2005; Giesbert & Sterner, 2011; Matul, Tatin-Jaleran, & Kelly, 2011; McCord, 2006; Okoampah, 2009) have explored the role of PAM practice in reducing loan default risk for microfinance institutions and determined the role of PAM practice in creating awareness among low-income people regarding voluntary microinsurance. The studies also focused on the evaluation of the effect of PAM practice on the affordability of voluntary microinsurance (Churchill & Cohen, 2006; Gertler & Gruber, 2002). However, these studies were done outside Tanzania and do not examine microinsurance value holistically (i.e. based on all the four dimensions of client value, namely appropriateness, accessibility, affordability, and responsiveness) and their findings contradict each other. While Gertler and Gruber (2002) argued that PAM intermediation in product delivery hinders affordability, Churchill and Cohen (2006) contended that PAM practice reduces operational costs such as advertisement expenses as microinsurance products are promoted through the existing MFI's networks of clients.

While the effect of PAM practice on microinsurance outreach is well documented, little is known about its effect on microinsurance client value dimensions. Therefore, the main objective of this study was to examine the effect of PAM practice on the appropriateness, accessibility, affordability, and responsiveness of mandatory microinsurance. Specifically, we ask: To what extent do the PAM practices affect the appropriateness, accessibility, affordability, and responsiveness of mandatory microinsurance?

We use four theories: the core competencies and partnership and alliance, the transaction cost theory, and the information asymmetry theory. While the core competencies theory predicts the improvement of microinsurance value if partners and agents act in their respective areas of specialization, it omits challenges in managing the PAM toward the attainment of mutual objectives. Thus, the partnership and alliance theory and information asymmetry theory are used to bridge this theoretical gap. Moreover, the PAM is governed by a contract specifying obligations of both the agent and the partner to mitigate future disagreements (Goo, Kishore, Ras, & Nam, 2009; Ntanyi, Rooks, Eyaa, & Qian, 2010). However, despite the contractual obligations, because of limited human cognitive ability and information imperfection or information asymmetry regarding each party's integrity, an MFI cannot predict with certainty whether the prospective partner may become opportunistic later (Ahimbisibwe et al., 2012; Williamson, 1979). The core competencies theory and the partnership and alliance theory and the information asymmetry theory overlook the potential influence of parties' human opportunistic behavior and bounded rationality on PAM effectiveness. Therefore, the transaction cost theory is used to complement them in this regard.

Data for our study came from a survey of 472 managers of MFIs in 10 regions of Tanzania. The MFIs were chosen because they were involved in the PAM for more than three years. PAM is an

emerging microinsurance delivery model in Tanzania, yet it has enabled the expansion of microinsurance coverage to low-income people from 2 percent in 2007 to 19 percent in 2012, wherein 92 percent of those insured are covered by mandatory microinsurance (Hougaard et al., 2012; Kamuzora, 2012; Roth et al., 2007). However, while the effect of PAM practice on microinsurance outreach is well documented in Tanzania, little is known about its effect on microinsurance client value dimensions, hence the motivation for this study.

The results show that the PAM practice in Tanzania is still unsatisfactory; however, they also provide empirical evidence that the PAM practice has a positive effect on microinsurance client value dimensions, i.e. appropriateness, accessibility, affordability, and responsiveness. The findings establish that improvements in PAM practice lead to improvement in microinsurance client value dimensions.

Our paper provides three contributions. First, it provides a theoretical contribution by showing the theories complementarities in providing a complete explanation of the effect of PAM on client value. Second, the paper provides a policy contribution encouraging the enhancement of PAM through regulating PAM to limit the monopolistic behavior of microinsurance companies and enhance the participation of MFIs in all dimensions of PAM; and, third it puts forward managerial implications such as increasing awareness among clients regarding microinsurance performance indicators.

The rest of the paper is organized as follows: Section 2 provides a literature review. Section 3 gives an overview of microinsurance in Tanzania and provides the methodology used in the study. This is followed by results and discussion in Section 4. Conclusion and implications are provided in Section 5.

2. Literature review and hypotheses

The dependence relationship between PAM practice and microinsurance dimensions was explained by four theories, namely the core competencies theory (Hancox & Hackney, 2000), the partnership and alliance theory (Lambe et al., 2002), the transaction cost theory (Williamson, 1979), and information asymmetry theory (Akerlof, 1970). PAM practice entails pooling together agent and partner's respective competencies in designing insurance products to provide appropriate, accessible, affordable, and responsive microinsurance to clients (Churchill & Cohen, 2006; Heenkenda, 2016). Therefore, the core competencies theory predicts the improvement of microinsurance value if partners and agents act in their respective areas of specialization where their competencies lie.

The partnership and alliance theory holds that alliances engender the complementarity of resources and collaborative provision of customer value end products. Consistent with this theory, while the partner (insurance company) has the professional and technical skills of designing microinsurance products, it has limited understanding of the low-income market segment, whereas the agent (MFI) has experience of working with low-income people and understands their risk exposure but has limited skills to design a variety of suitable microinsurance products (Rendek, 2012). Therefore, the collaborative microinsurance product design through PAM is likely to enhance microinsurance client value that either the partner or the agent could not easily achieve alone (Ahimbisibwe et al., 2012; Lambe et al., 2002).

However, though the PAM is governed by a contract specifying obligations of both the agent and the partner in order to mitigate future disagreements (Goo et al., 2009; Ntanyi et al., 2010), the transaction cost theory and the information asymmetry theory posit that the limited human cognitive ability, the bounded rationality, and the information discrepancy regarding party's integrity render MFI managers unable to predict with certainty whether the prospective partner may become opportunistic later (Ahimbisibwe et al., 2012; Williamson, 1979). The information discrepancy between the partner and the agent may lead to inadequate pricing of microinsurance products or the offering of products that do not match clients' needs.

2.1. PAM practice and microfinance institutions

MFIs' existing pools of clients and their experiences in managing and distributing financial services to low-income people make them a potential delivery channel of microinsurance services to low-income people through PAM (Churchill & Cohen, 2006). While insurance companies (partners) have expertise in insurance, MFIs (agents) have information and networks of clients that would reduce insurers' operating costs—such as labor, transaction, distribution, and advertisement costs—as partners use agents' staff and offices to deliver microinsurance services (Rendek, 2012).

2.2. PAM practice and mandatory microinsurance appropriateness

Appropriateness refers to matching the most important risk management need of the targeted population. It is conceptualized as product customization to contextual risk exposure (APP1), level of benefit (APP2), coverage inclusion (APP3), and the provision of additional non-insurance services (APP4) (Matul et al., 2011). Building on the core competencies theory and the partnership and alliance theory, the collaboration between the partner and the agent enables negotiation on the design or refinement of mandatory microinsurance products that are customized to clients' contextual risk exposure (Lambe et al., 2002). Additionally, PAM practice overcomes information asymmetry that could lead to the provision of untailored microinsurance products. Moreover, the complementarity of competencies allows the agent and the partner to concentrate on their respective areas of specialization to offer value to clients (Wang, Lo, & Yang, 2004). It is argued that information, new skills, and methodologies of adding value to the service, i.e. idiosyncratic resources, are developed by and shared among the agent and the partner over the duration of the alliance. These idiosyncratic resources lead to improved ways of serving clients, provided that both the agent and the partner are committed to their respective contractual obligations (Lambe et al., 2002). Therefore, through the PAM, the collaboration between the partner and agent during the process of product development, refinement, and delivery, as well as the sharing of business information, transfer of operational knowledge between parties and their commitment to contractual partnership obligations in serving MFIs clients are likely to influence the design and refinement of mandatory microinsurance products according to clients contextual needs with added benefits (Armendariz de Aghion & Morduch, 2010; Matin, Hulme, & Rutherford, 2002; Radhawa, Gallardo, & Goldberg, 2006). Therefore,

> **Hypothesis 1:** The PAM practice has a positive effect on the appropriateness of mandatory microinsurance.

2.3. PAM practice and mandatory microinsurance accessibility

Accessibility of mandatory microinsurance services is conceptualized as product choice option (ACC1), product awareness (ACC2), service proximity (ACC3), and flexible premium payment (ACC4) (DeAllegri, Bridges, & Sauerborn, 2006; Matul et al., 2011). The collaboration between the agent and the partner regarding features of the required microinsurance products is likely to lead to the design and refinement of mandatory microinsurance products that are simple and easy to understand considering that most of low-income people are illiterate. Given that agents have information about their clientele, the collaboration may foster negotiation for the development of diversified products to offer choice options at premium and payment arrangements that low-income people, particularly MFIs clients, can afford. Moreover, as agents are located in clients' localities, the PAM brings microinsurance closer to clients (Churchill & Cohen, 2006). The exchange of business information, knowledge, and skills between agents and partners is also likely to overcome information asymmetry and lead to developing more effective methodologies to better serve clients. If both agents and partners commit to their contractual obligations, the PAM synergistic complementarities of their respective core competencies—consistent with partnership and alliance theory, core competencies theory, and transaction cost theory—are likely to influence the provision of accessible mandatory microinsurance (Ahimbisibwe et al., 2012). Therefore,

> **Hypothesis 2:** The PAM practice has a positive effect on the accessibility of mandatory microinsurance.

2.4. PAM practice and mandatory microinsurance affordability

Affordability is one dimension of microinsurance client value. It is examined in terms of value for money at a premium that prospective low-income people can afford to pay. (Matul et al., 2011). Affordability is conceptualized as premium to income ratio range (AFF1), claim ratio range (AFF2), hidden or incremental charges (AFF3), and cost control mechanisms (AFF4). According to ILO guiding principles (Matul & Kelly, 2012), a premium not exceeding 2% of client income and a claim ratio within the range of 50 to 90% are some of criteria for a microinsurance product to be considered affordable. On one hand, it is argued that a claim ratio of less than 50% suggests that either the clients' claims are rejected—not paid or clients do not claim at all because of lack of awareness of their entitlements—hence depriving them of their benefits. On the other hand, a claim ratio of more than 90% suggests high operating costs on the part of the insurance company, which may lead to reviewing and increasing premiums chargeable to clients as additional and hidden costs (Matul et al., 2011). In this regard, Thornton et al. (2009) posit that transaction costs such as claim processing costs may increase the cost of mandatory microinsurance and make it unaffordable for low-income people given their limited capacity to pay. By comparison, in PAM, partners use agents' infrastructures already located in clients' localities to reach them in their environs (Meyer, 2012). As such, product sales campaigns, premiums collections, and claims settlements are carried out through the agent already existing network of clients and facilities hence reducing operation and transaction costs (Churchill & Cohen, 2006). Therefore, drawing on the partnership and alliance theory and the transaction cost theory, the PAM practice is likely to reduce clients travelling and claims processing costs as MFIs bring claims closer to the clients. The PAM is also likely to reduce insurer's transaction and operation costs of serving the low-income market, which could raise the premium and other incremental costs charged to clients. Therefore,

Hypothesis 3: The PAM practice has a positive effect on the affordability of mandatory microinsurance.

2.5. PAM practice and mandatory microinsurance responsiveness

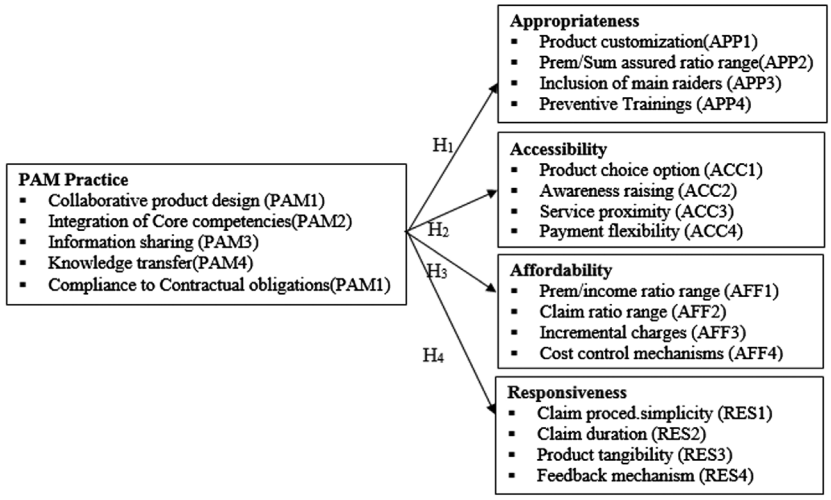
Microinsurance responsiveness is examined based on claim procedures simplicity (RES1), claim settlement duration (RES2), product tangibility (RES3), and feedback mechanisms (RES4) to clients (Cohen & Sebstad, 2005; Collins, Morduch, Rutherford, & Ruthven, 2009; Matul et al., 2011). With reference to ILO guiding principles (Matul & Kelly, 2012), claims settlements are considered timely if primary benefits are paid in less than 7 days while other payouts must be completed within 2 weeks. Additionally, the 1-3-5-day claims settlement model for life insurance is recommended. According to this rule claims for indemnity must be settled within 24 h upon notification if the body is not yet buried at the time of validation; within 3 days upon notification and complete documents if the body is already buried at the time of validation, and within 5 days upon notification for difficult claims (Matul et al., 2011). Claims settlement is the moment of truth and trust in insurance. The length of time it takes to settle claims affects the product value in terms of responsiveness (Matul et al., 2011). The study in India (Roth et al., 2007) found that MFIs providing in-house mandatory microinsurance could pay benefits rapidly when they partnered with an insurance company where claims could take several months to be settled if not rejected. However, Collins et al. (2009) argued that, to safeguard their reputations to their clients, MFIs have been negotiating with their partner insurers to improve mandatory microinsurance responsiveness by legitimizing previously rejected claims and reducing claim settlement delays. Moreover, the contractual relationship binding both parties to their obligations is likely to affect the responsiveness. Additionally, from the theoretical framework point of view, close collaboration and exchange of skills between agents and partners, complemented by their respective core competencies, influences innovative methodologies of timely response to clients' shocks. Therefore,

Hypothesis 4: The PAM practice has a positive effect on the responsiveness of mandatory microinsurance.

2.6. Conceptual framework

Figure 1 below presents the conceptualization of the relationship between PAM practice and microinsurance client value dimensions.

Figure 1. Conceptual framework of the study.



3. Methodology

3.1. Brief overview of microinsurance in Tanzania

Microinsurance is an emerging phenomenon in the Tanzanian insurance market with 3.9% coverage, or about 1.99 million of its population (MIC, 2014). There are several delivery channels of microinsurance services in Tanzania, including microinsurance companies partnering with mobile communication providers (e.g. Tigo Bima offered in partnership with Golden Crescent and Microinsure insurance companies); and microinsurance companies partnering with banks and MFIs or savings and credit cooperative societies (SACCOS) i.e. the PAM. The first and most common microinsurance product to be sold through PAM in the microinsurance market in Tanzania was the credit life microinsurance. A more recent phenomenon that has provided significant growth to the long-term assurance market is funeral and personal accident products that are embedded in retail MFIs, typically microcredit (Hougaard et al., 2012). We focus on MFIs as the target population for this study given their central involvement in PAM and their closeness to the clients (low-income earners), and thus data related to their involvement in designing microinsurance products, pricing, and response to clients' inquiries are appropriate in assessing the effect of PAM on client value.

3.2. Data and sample

This explanatory study sought to test the hypotheses through a deductive reasoning approach to examine the effect of PAM practice on mandatory microinsurance client value dimensions. The cross-sectional survey strategy using a structured questionnaire was applied to collect primary and secondary quantitative data from 229 out of 472 managers of MFIs (MFI—NGO, MFI—companies and SACCOSs) involved in the PAM for more than 3 years to ensure the availability of reliable data (Matul et al., 2011). The sample size was selected from 10 regions, namely Dar es Salaam, Arusha, Mwanza, Mbeya, Kilimanjaro, Morogoro, Kagera, Dodoma, Shinyanga, and Costal Region, as these regions are prone to disaster risks (URT, 2011) and account for 41% of all MFIs involved in PAM for at least 3 years.

The list of 472 MFIs (agents) involved in PAM in their respective regions was obtained from five (5) life insurance companies, namely Alliance Life Assurance, Jubilee Life Insurance Company Limited, MicroEnsure Company Tanzania, Sanlam Life Insurance (T) Limited, and Bumako Insurance Company Limited. This list of these life insurance companies was obtained from Tanzania Regulatory Authority (TIRA). Table 1 below provides the number of respondents from MFI-NGO, MFIs companies, and MFIs SACCOS categorized by regions.

Table 1. Distribution of respondents by regions

Regions	MFI-SACCOs	MFI–NGO	MFI Co.
Dar es Salaam	52	1	4
Arusha	30	1	3
Mwanza	25	2	3
Mbeya	25	–	2
Kilimanjaro	19	–	1
Morogoro	15	–	1
Kagera	13	1	1
Dodoma	10	–	1
Shinyanga	10	–	1
Pwani	7	–	1
Total	206	5	18

3.3. Variables

3.3.1. Independent variables

The PAM practice (PAM) is an independent abstract construct that is conceptualized as an organizational way of carrying on activities to achieve the partnership's shared objectives (Min & Mentzer, 2007). It is operationalized by five measures or indicators that were derived from the theoretical and empirical literature review, that is, collaborative product design (PAM1), information sharing (PAM2), integration of core competencies (PAM3), knowledge transfer (PAM4), and compliance to contractual obligations (PAM5).

Collaborative product design (PAM1) refers to the collaboration between the partner (insurance company) and the agent (MFI) during microinsurance product design. This study sought to capture respondents' opinion on the extent of collaboration between partners and agents during microinsurance product design (Lambe et al., 2002).

Information sharing (PAM2) refers to business information-sharing between the partner and the agent. This study sought to investigate the extent to which the partner and the agent share business skills and experiences regarding attributes of microinsurance services in a timely, accurate, adequate, and reliable manner (Prahalad & Hamel, 1990).

Integration of core competencies (PAM3) refers to the integration of partner's and agent's respective core competencies. The study sought to investigate the respondents' opinion on the extent of complementarity of partner's and agent's competencies in their respective business specializations in order to exploit synergies (Lambe et al., 2002).

Knowledge transfer (PAM4) refers to the transfer of microinsurance-related knowledge from insurance companies to MFIs' staff members who offer microinsurance services to clients (Hancox & Hackney, 2000).

Compliance to contractual obligations (PAM5) refers to the partner's compliance to the terms and conditions agreed upon in the partnership contract stipulating each party's obligation in case of disaster occurrence (Ahimbisibwe et al., 2012).

The abstract construct measures discussed above were measured on a five-point Likert Scale: *1 = not at all, 2 = to a small extent, 3 = to a moderate extent, 4 = to a great extent, and 5 = to a very great extent.* This measurement approach was previously used by Min and Mentzer (2007) and Bergam, Gross, Bery and Shuck (2014).

3.3.2. Dependent variables

Four microinsurance client value dimensions, namely appropriateness (APP), accessibility (ACC), affordability (AFF), and responsiveness (RES), used by previous studies (Matul et al., 2011) are dependent abstract constructs of this study.

Microinsurance appropriateness (APP) operationalization, borrowing from previous studies (Matul et al., 2011, Sahu, 2012), is based on product customization to contextual client's risk exposure, level of benefit to clients measured as the ratio of premium to sum assured, extent of coverage inclusion (borrower, spouse, children) and the provision of additional non-insurance services.

Microinsurance accessibility (ACC) was operationalized as product choice option, product awareness, service proximity, and flexible premium payments consistent with previous studies (Churchill & Cohen, 2006; DeAllegri et al., 2006; Matul et al., 2011).

Microinsurance affordability (AFF) was measured based on premium to income ratio range, claim ratio range, hidden or incremental charges, and cost control mechanisms. According to ILO guiding principles, the premium not exceeding 2% of client income and a claim ratio within the range of 50 to 90% are some of criteria for a microinsurance product to be regarded affordable (Churchill & Cohen, 2006; Matul et al., 2011). Microinsurance responsiveness (RES) was measured based on previous studies' operationalization (Cohen & Sebstad, 2005; Collins et al., 2009; Matul et al., 2011), that is, simplicity of claim procedures, claim duration, product tangibility, and feedback mechanisms to clients.

3.4. Analysis

After data editing, coding, and tabulation, several descriptive data analysis methods (mean, standard deviation, frequency distribution, skewness, kurtosis, scree plot) were used to measure the central tendency, variability, divergence from normality and to present the data in their respective categories. Furthermore, multivariate analysis methods including the Confirmatory Factor Analysis (CFA) and the Structural Equation Modeling (SEM), particularly the regression analysis, were used to validate the study constructs and to test the hypothesized relationship between the PAM practice and microinsurance client value dimensions. The next section presents the study findings.

4. Results and discussion

4.1. Characteristics of respondents

The characteristics of respondents were categorized into respondents' MFI affiliation, sex, managerial position in the MFI, age, and their level of education. Of 229 respondents, 206 were SACCOSs clients (89.96%), 18 clients of MFI-companies (7.86%) and 5 clients of MFI-NGOs (2.18%). Out of the 229 respondents, 180 (78.6%) were males while 49 (21.4%) were female. It was also observed that the majority of respondents (47.61%) were between 40 and 45 years old, followed by 31% with ages ranging between 30 and 39 years old. Regarding respondents' level of education, 113 respondents (49.34%) had a bachelor's degree followed by 52 respondents (22.71%) with a diploma level. The respondents' characteristics are indicated in Table 2.

4.2. Descriptive analysis results

4.2.1. Status of PAM practice

The PAM practice was evaluated based on collaborative product design (PAM1), integration of core competencies (PAM2), information sharing (PAM3), knowledge transfer (PAM4), and compliance to contractual obligations (PAM5). While 76.9% of respondents posited that the collaboration between MFIs and insurance companies during microinsurance product design is minimal, 67.2% of them contended that there is a minimal integration of MFIs and insurance companies' core competencies in the course of an MFI-Insurer partnership. Moreover, 59.4% of respondents observed that there is a low level of business information sharing between MFIs and insurance companies, while 91.7% of

Table 2. Respondents' characteristics

Variable	Measure	Frequency	Percent	Cum. percent
Type of MFIs	MFI-SACCOS	206	89.96	89.96
	MFI-NGO	5	2.18	92.14
	MFI-Company	18	7.86	100
	Total	229	100	
Sex	Female	49	21.4	21.4
	Male	180	78.6	100.00
	Total	229	100.00	
Age	Less than 25 years	2	0.87	0.87
	Between 25 and 29 years	26	11.35	12.22
	Between 30 and 39 years	71	31.00	43.22
	Between 40 and 45 years	109	47.61	90.83
	Above 45 years	21	9.17	100.00
	Total	229	100.00	
Education	A-Level Education	6	2.62	2.62
	Certificate	17	7.42	10.04
	Diploma	52	22.71	32.75
	Bachelor's degree	113	49.34	82.09
	Postgraduate diploma	29	12.67	94.76
	Master	12	5.24	100.00
	Total	229	100.00	

them belittled the transfer of microinsurance-related knowledge between MFIs and insurance companies' staffers. Also 56.3% observed that insurance companies do not comply with PAM contract terms and conditions. On average, 73.6% of respondents observed that there was an unsatisfactory partner–agent model that had led a number of MFIs to change their partners or to revert to their original in-house model.

4.2.2. Status of microinsurance appropriateness

The majority of respondents (63%, that is, 1 & 2) observed that microinsurance products were not tailor-made to prevailing risks, whereas 87% of them had not received any disaster risk preventive training. On the contrary, there was evidence of a recommended range or premium to sum assured ratio by 88.6%. The worst situation was observed on product inclusion wherein almost all respondents (99.6%) contended that the product coverage or inclusion was below average or poor. On average, 63.3% of respondents rated the current microinsurance products inappropriate for clients' risk exposure protection.

4.2.3. Status of microinsurance accessibility

Accessibility was examined based on clients' options of microinsurance products, clients' awareness of the products, microinsurance service proximity to clients and the flexibility of premium payment. While more than 80% of respondents had no options for products, only 26.1% were satisfied with the effort of insurance companies to create MFI clients' awareness of microinsurance products. Moreover, proximity of microinsurance services was rated satisfactory by 51.5% of respondents, whereas only 48% of respondents rated the payment for premium as flexible. On average, the results indicate that only 22.1% of respondents observed that microinsurance services were accessible.

4.2.4. Status of microinsurance affordability

Microinsurance hidden charges, mechanisms to control for claim fraud, premium to income ratio, and claim ratio range were the measurement items of the affordability construct. On average, 58.9% of respondents perceived microinsurance products as affordable. Specifically, the findings in regard to premium to income ratio indicate that 90% of respondents indicated that the products are affordable, with fewer hidden charges (71.6%). However, only 49% of respondents appreciated the adequacy of insurers' mechanisms to controlfor fraud during claims settlement process.

4.2.5. Status of microinsurance responsiveness

Responsiveness was examined based on claims procedures in case of shock, claim processing duration from date of submission to claim settlement and product tangibility, the policy documentation and feedback mechanisms such as clear client grievance reporting mechanisms. On average, the majority of respondents (88.9%) expressed dissatisfaction with microinsurance responsiveness. Specifically, while microinsurance claim procedures were appreciated by only 24.9% of respondents, claim processing time was the most dissatisfying aspect of responsiveness according to 97.3% of respondents, followed by product tangibility (92.1%), and feedback mechanisms (90.4%).

In a nutshell, study results from descriptive analyses indicate that PAM practice in Tanzania is still unsatisfactory and leads to marginal client value as it scores low on its four dimensions. The descriptive analysis results are presented in Table 3.

4.2.6. Structural model—Standardized estimates

Table 4 and Figure 2 present the standardized model fit and structural estimates, respectively, indicating the strength of the hypothesized relationships between PAM practice and the appropriateness, accessibility, affordability, and responsiveness of mandatory microinsurance services.

4.3. Econometric results and discussion

The standardized structural estimates in the structural model in Figure 2 indicate the effect of PAM practice on microinsurance client value dimensions, namely appropriateness, accessibility, affordability, and responsiveness. Regarding hypothesis one (H_1), the results indicate that PAM practice has a statistically significant positive effect microinsurance appropriateness, $\beta = 0.31$ ($p < 0.001$). It is further established that the PAM practice has a statistically significant positive effect on microinsurance accessibility, with $\beta = 0.17$ ($p < 0.05$), consistent with hypothesis two (H_2). While the structural model standardized estimates presented in Figure 2 indicate that microinsurance affordability is statistically and positively affected by the PAM practice, at $\beta = 0.34$ ($p < 0.001$) consistent with hypothesis three (H_3), the results also support the hypothesized dependence relationship between PAM practice and microinsurance responsiveness. They indicate that PAM practice has a statistically significant positive effect on microinsurance responsiveness, with $\beta = 0.40$ ($p < 0.001$).

The first hypothesis (H_1) stated that the PAM practice has a positive effect on the appropriateness of mandatory microinsurance. Our results show support for this contention ($\beta = 0.31$, $p < 0.001$). The results provide empirical evidence that the cumulative effect of the improvement in collaborative product design, integration of core competencies, information sharing, transfer of knowledge between the partner's and agent's staff members and the partner's compliance results into the improvement in product customization to client risk exposure, the level of benefit, coverage inclusion, and non-insurance services. These findings, while consistent with the core competencies and partnership and alliance theory, they are also supported by Banthia et al. (2012), who argued that PAM practice creates a customer value.

The second hypothesis (H_2) stated that the PAM practice has a positive effect on microinsurance accessibility. The results in Table 2 support this hypothesis ($\beta = 0.17$, $p < 0.05$). Contrary to Okoampah (2009) in Ghana, who established that PAM practice had not contributed to creating awareness on the various products available for their clients, the study results are consistent with the core competencies and partnership and alliance theory. The results imply that the cumulative effect of the

Table 3. Descriptive (percentage) analysis results

Construct	Item Code	Items Description	Not at All	To a small extent	To some extent	To a moderate extent	To a great extent
PAM practice	PAM1	Collaboration between MFIs and insurance companies during microinsurance product design (PAM1)	38.9	38.0	11.8	11.4	0.0
	PAM2	Integration of MFIs and insurance companies core competencies (PAM2).	40.2	27.5	19.7	8.3	4.4
	PAM3	Business information sharing between MFIs and insurance companies (PAM3).	22.3	37.1	33.2	7.4	0.0
	PAM4	Transfer of microinsurance knowledge between MFIs and insurance companies staff (PAM4).	68.1	23.6	3.9	0.0	4.4
	PAM5	MFIs and insurance companies compliance to PAM contract terms and conditions (PAM5).	14.8	41.5	21.0	6.1	16.6
	Average percentage		36.8	36.8	33.6	17.9	6.7
Appropriateness (APP)	APP1	Customization of microinsurance products to the borrower's most risk exposure (APP1)	14.8	48.0	18.8	14.0	4.4
	APP4	Conducting disaster risks preventive trainings to clients (APP4).	72.5	14.8	7.4	1.7	3.5
	Code	Items description	Poor	Below Average	Average	Above Average	Very Good
	APP2	Microinsurance premium to sum assured ratio rank (APP2).	6.1	5.2	15.7	10.0	62.9
	APP3	Loan-imbedded microinsurance inclusion rank (APP3)	86.5	13.1	0.4	0.0	0.0
	Average percentage		44.9	20.4	10.6	6.4	17.7
Construct	Item Code Items Description		Not at All	To a smallextent	To some extent	To a moderateex-tent	To agreat extent
Accessibility (ACC)	ACC1	Client choice among offered microinsurance products (ACC1)	56.3	24.0	10.5	2.6	6.6
	ACC2	Client awareness of microinsurance benefits and limitations (ACC2)	39.3	34.5	14.8	3.9	7.4
	ACC3	Microinsurance service proximity to clients (ACC3)	24.5	36.2	17.9	10.9	10.5
	ACC4	microinsurance premium payment flexibility (ACC4)	15.3	33.2	22.7	20.5	8.3
	Average percentage		33.9	33.9	31.9	16.5	9.5
Responsiveness (RES)	RES1	Claim procedures (RES1)	23.6	27.9	23.6	15.7	9.2
	RES2	Claim duration (RES2)	75.1	14.8	7.4	2.6	0.0
	RES3	Product tangibility (RES3)	65.9	22.7	3.5	0.9	7.0
	RES4	Feedback mechanisms (RES4)	61.6	19.2	9.6	8.3	1.3
	Average percentage		56.5	21.4	11.0	6.8	4.3

(*Continued*)

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Table 3. (*Continued*)

Construct	Item Code	Items Description	Not at All	To a small extent	To some extent	To a moderate extent	To a great extent
Affordability (AFF)	AFF3	Microinsurance hidden charges (AFF3)	46.3	25.3	1.3	13.5	13.5
	AFF4	Adequacy of mechanisms to control fraud during claims (AFF4)	26.2	24.5	13.1	10.5	25.8
	Item Code	Items Description	Poor	BelowAverage	Average	Above Average	Very Good
	AFF1	Microinsurance premium in relation to the borrower's income (AFF1b)	9.6	0.0	0.4	7.4	82.5
	AFF2	Microinsurance claims ratio range (AFF2)	17.9	14.4	30.6	16.2	21.0
	Average percentage		25.0	16.1	11.3	11.9	35.7

Table 4. Goodness-of-fit indices for structural model

Goodness-of-fit index	Recommended indices	Observed results
Chi-square (χ^2)		278.224
Degree of freedom (DF)		177
χ^2/DF	≤3	1.572
CFI	≥0.90	0.975
GFI	≥0.90	0.900
NFI	≥0.90	0.934
TLI	≥0.90	0.970
RMSEA	≤0.08	0.050

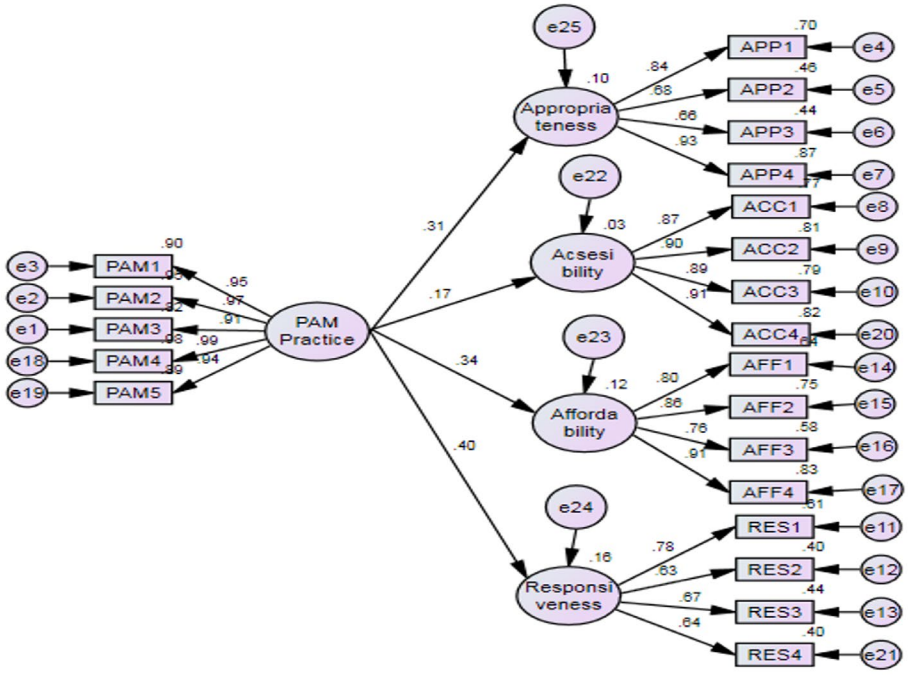

Figure 2. Standardized structural model estimates.

improvement in collaborative product design, integration of core competencies, information sharing, transfer of knowledge between the partner's and agent's staff members and the partner's compliance led to the provision of microinsurance product choice options, product awareness, service proximity, and flexible premium payment.

The third hypothesis (H_3) stated that the PAM practice has a positive effect on microinsurance affordability and this prior assumption is supported by the results ($\beta = 0.34$, $p < 0.001$). Contrary to Thornton et al. (2009), the study findings provide evidence that PAM reduces insurers' operational costs, which would inflate premiums charged to clients. Along with the transaction cost theory, the findings were consistent with Churchill and Cohen (2006) who argued that PAM enhances microinsurance accessibility in clients' vicinity. It was further revealed that though PAM delivery model delays claim settlement compared to in-house mode (Roth et al., 2007), the former enables the payment of high claims that an MFI could not afford through the in-house model. Therefore, the results provide empirical evidence that the cumulative effect of the improvement in collaborative product design, integration of core competencies, information sharing, transfer of knowledge between the partner's and agent's staffers and the partner's compliance results in the decrease in

premium to income ratio range, claim ratio range, hidden or incremental charges, and improved cost control mechanisms.

The fourth and last hypothesis (H_4) stated that the PAM practice has a positive effect on microinsurance responsiveness. Specifically, the hypothesis holds that the cumulative effect of the improvement in collaborative product design, integration of core competencies, information sharing, transfer of knowledge between the partner's and agent's staff members, and the partner's compliance lead to simplified claim procedures, reduced claim settlement duration, product tangibility, and adequate feedback mechanisms to clients. The hypothesized dependence relationship is supported by the study results in Table 2 ($\beta = 0.40$, $p < 0.001$), consistent with the partnership and alliance theory.

5. Conclusion and implication

This study's results, consistent with the four theories informing this study, corroborate the four hypothesized relationships between PAM practice and microinsurance client value, and provide a number of contributions, as detailed in this section. Based on the multivariate analysis, the structural model results indicate that the current unsatisfactory PAM practice in Tanzania is consistent with the level of microinsurance client value, which still scores low on its dimensions. From these findings, the study provides three main contributions: theoretical, managerial, and policy implication. From the theoretical perspective, the findings of this study provide an understanding of PAM-based microinsurance, as PAM is a nascent microinsurance delivery approach in Tanzania. Moreover, while the four theories informing this study are managerial theories widely used in outsourcing, this study has proven their application in insurance and microfinance sectors. Apart from providing empirical evidence of the effect of PAM practice on microinsurance client value dimensions, this study, contrary to previous studies, has determined the holistic dimensions of client value.

From the managerial perspective, this study has revealed the limited client awareness of microinsurance performance indicators and revealed managerial challenges that hinder PAM practice and, hence, impede microinsurance client value. With these findings, as PAM practice presents a promising delivery model for microinsurance outreach, insurance companies should improve their PAM practice to promote low-income people uptake of microinsurance.

From the policy perspective, despite the fact that 92% of insured low-income are covered through mandatory PAM-based microinsurance, the current Microinsurance Regulation, 2013 focuses on voluntary microinsurance leaving PAM-based microinsurance unregulated. This may, among others, explain the low level of microinsurance client value as insurance companies monopolize the discretion on the modalities of PAM practice. It is therefore recommended that, as PAM microinsurance delivery model covers a sizeable share of insured low-income people who are generally marginalized by formal insurance, policy makers in the insurance sector may need to regulate the PAM-based microinsurance in order to limit the monopoly exercised by microinsurance companies and enhance microinsurance responsiveness, appropriateness, and accessibility, hence improving microinsurance client value.

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