



**ESAF Program**  
Expanded and Sustained  
Access to Financial Services

# MANAGING RISK IN THE WEST BANK:

## A REVIEW OF SUPPLY AND DEMAND FOR MICROINSURANCE

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# Abbreviations

ACAD	Arab Center for Agricultural Development
AED	Academy for Educational Development
CAB	Cairo Amman Bank
ESAF	Expanded and Sustained Access to Financial Services Program
ESDC	Economic and Social Development Center of Palestine
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
IDF	Israeli Defense Forces
JD	Jordanian Dinar
LOB	Line of business
MEII	Middle East Investment Initiative
MFO	Microfinance Opportunities
MFI	Microfinance Institution
MoH	Ministry of Health
MoL	Ministry of Labour
MoSA	Ministry of Social Affairs
MSME	Micro-, Small, & Medium Enterprise
NGO	Non-Governmental Organization
NIC	National Insurance Company
NIS	New Israeli Shekel
OPIC	Overseas Private Investment Corporation
PA	The Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PCMA	Palestinian Capital Markets Authority
PIF	Palestinian Insurance Federation
PPRI	Palestinian Political Risk Insurance Project
PMA	Palestinian Monetary Authority
SME	Small and Medium Enterprise
UNRWA	United Nations Relief and Works Agency
USAID	United States Agency for International Development
USD	United States Dollar

**Exchange Rates Used:**

4 New Israeli Shekels/\$1.00

0.7 Jordanian Dinars/\$1.00

(Currency amounts in paper converted to USD using these rates.)

All photos by author except where indicated.



# Executive Summary

The Expanded and Sustained Access to Financial Services program aims to build a more inclusive financial sector that increases the sustainable access to financial services for Palestinian households and enterprises. Among other goals, the project aims to expand access to basic microfinance services for low-income Palestinians in the West Bank.

This research endeavors to lay a foundation for new microinsurance programs in the West Bank. The results will help frame opportunities for new financial products that can respond to the most significant crises, risks, and vulnerabilities of poor urban and rural households.

This report presents the results of an investigation into both the current demand and supply of microinsurance. Microfinance Opportunities (MFO) carried out the demand-side investigation in March-April 2009. MFO's partner in the project, the Microinsurance Centre (MIC), followed with the supply-side study in May 2009.

## Demand-Side Results

MFO's research team gathered data in partnership with two Palestinian MFIs (UNRWA and ACAD) and two commercial banks (Cairo Amman and Al-Rafah). We conducted focus groups and individual interviews with clients of these institutions. Most were economically-active, poor Palestinians, though the banks were included as part of a potentially broader insurance marketing strategy, inclusive of but not limited to MFI-level clients. In total, the sample encompassed 224 individuals.

The research with UNRWA was conducted in the cities of Nablus and Hebron; the sample represented a cross-section of typical West Bank microfinance. The ACAD research took place in the more rural setting of Toubas, where households were somewhat poorer and more tied to agriculture. The Cairo Amman participants, from the Nablus area, were the most affluent of the sample, some operating businesses at the SME level. The Al-Rafah clients came from the Ramallah area and resembled the MFI clients in terms of most economic indicators employed in the study.

All groups showed seasonal variation in income and expenses. Summer months are the most prosperous, when commerce peaks and farmers harvest (farmers also added April as a peak month, when livestock produce offspring for sale). The highest expenses occur in September and January, tied to educational expenses and holidays. The winter months (December-February) also see a dip in income, as commerce slows across the board.

Each client segment was asked to rank the risks they face in terms of impact on their household and/or enterprise. The top two risks in each segment were identical: injury/illness and educational expenses. In sum, the top-five most impactful risks for each segment were:

- UNRWA clients: 1) injury/illness; 2) education costs; 3) unemployment; 4) checkpoint delays/closures, and 5) home construction costs.

- ACAD clients: 1) injury/illness; 2) education costs; 3) checkpoint delays/closures; 4) property damage by Israeli army; and 5) house construction.
- Cairo Amman/Al-Rafah clients: 1) injury/illness; 2) education costs; 3) house construction; 4) marriage costs; and 5) Israeli incursions.

The Palestinian perspective that emerged in the research tended to frame all risks as part of a narrative of oppression related to the Israeli occupation. Some of these connections were clear—e.g. checkpoint delays/closures as a risk to commerce. But participants also pointed to less obvious examples, such as home construction, which can become vastly more complicated and expensive when the Barrier Wall cuts a family's access to their ancestral land. Likewise, the most frequently-cited root cause of unemployment was the occupation, which was seen as limiting access to jobs and choking commercial transportation.

Some risks showed clear seasonality and others did not. Education costs were highest in the months tuition came due—September and January. Unemployment was highest in the winter months of slow commerce, and lowest in summer. The seasonality of illness sparked some debate, but most agreed the winter months were least healthy.

Per industry standards, not all risks cited by participants are insurable. Examining the sample collectively, research produced the following top insurable risks: injury/illness, education costs, death, property loss (commercial), property loss (personal), crop loss, and livestock loss.

Research also examined the coping strategies currently employed to treat top risks. About two-thirds had health insurance, but the most common form was a free government program known as Intifada insurance. Intifada insurance was widely disparaged for restricting clients to government facilities, which cannot treat many specialized conditions, thereby forcing clients to pay out-of-pocket for healthcare at private facilities. We saw a smattering of other forms of health insurance, which tended to be superior. About 20 percent of clients had motor insurance; all other formal insurance was rare.

The “real story” of current risk management in the West Bank was found in informal coping strategies. The most common of these was seeking loans from family and friends. These loans are exchanged widely to treat economic shocks, sometimes in vast quantities (dwarfing formal microcredit), typically interest-free, and usually with a flexible term. ROSCAs are also quite common and assume an important risk-management function because members can “move up,” without penalty, to receive the pot in cases of special need. Other informal coping mechanisms include treasuries maintained by extended families. Formal credit is also an important coping strategy for economic shock in the West Bank, though with interest and more rigid terms, it is typically viewed as a less desirable option to the informal mechanisms.

In moving toward points of entry for microinsurance in this market, we note a prevailing sense that life is becoming riskier and/or worse for Palestinians. Whether this is backed up by macroeconomic indicators or not, the atmosphere may help encourage Palestinians to experiment with new financial services to help improve their economic stability.

Demand research suggested that specific points of entry might include health insurance, education/life endowment insurance, conventional life insurance, commercial/personal property insurance, and crop/livestock insurance. All underscored opportunity as well as challenges in this market.

Research also suggested that delivery of new products will need to focus on developing trust in a population that is somewhat distrustful by nature. Paths to success will likely include: 1) use of familiar MFIs and banks to deliver the products; and 2) specific measures for cultural and political sensitivity (e.g. covering occupation damage). Financial education programs can also make a singular contribution here, helping demonstrate the value of proactive versus reactive risk-management, and helping show that insurance programs are appropriate, affordable, and advisable.

### Supply-Side Results

The West Bank enjoys a lively, but still fragile insurance sector. With almost 70 percent of premiums generated in the compulsory motor and worker's compensation business, the seven domestic and two foreign insurance companies have not yet successfully developed voluntary insurance products. Regulation and supervision are nascent, but rapidly improving.

Apart from some emergent efforts to downscale products, microinsurance is non-existent in the West Bank. However, most major stakeholders are open for new ideas and interested in supporting new insurance services specifically designed to meet the needs of low-income people. Some insurance professionals perceive the development efforts of microinsurance as a chance to improve their general business practices. Insurance companies that expressed high interest in developing new products for the low-income market include NIC, Trust, Arab Life & Accident Insurance and Al-Mashreq Insurance.

As of yet, there is no specific regulatory provision for microinsurance. Given that the insurance supervisor is one of the driving forces behind the current efforts to explore the potential for microinsurance in the West Bank, no major hindrances are to be expected from this side. However, the regulatory environment should be analyzed carefully and some supportive actions should be taken, especially in the area of microinsurance agents.

Two major challenges have been identified that need to be addressed in developing microinsurance: first, as reflected in the demand-side study, public awareness of and trust towards insurance is low. A good deal of this stems from exuberant lists of exclusions as well as cumbersome and lengthy claims processes. These facts have led to a general perception that insurance companies do everything possible to avoid claims payment. Therefore, considerable efforts and long-term engagement, including improved business practices in selling and claims handling, are needed to bring positive change.

Secondly, delivery of microinsurance through partner organizations faces limitations, as no suitable mass organization active with the target population could be identified. With the exception of UNRWA and FATEN, the microcredit organizations are generally small and not yet stable enough to venture into microinsurance delivery. Alternatively, some banks such as

Al-Rafah and Cairo Amman have expressed their interest in becoming microinsurance agents. Cooperatives and trade unions also may be suitable partners for group coverage tailored to the needs of their members.

### Combined Recommendations

The situation in West Bank presents challenges but also undeniable opportunities for the development of microinsurance. One point of entry would be for MFIs and banks to offer credit-life-plus and property insurance—two products directly related to their core business. At the same time, trade unions and cooperatives could jointly explore the potential for group coverage specifically tailored to the needs of the respective client profile. Accident, health, and eventually life and property insurance are all areas of potential development.

The most promising products and partners for insurance companies are summarized below:

**TABLE 1 - SUMMARY OF RECOMMENDED PRODUCT & PARTNERSHIP DEVELOPMENT EFFORTS**

<b>Product</b>	<b>Target Clients</b>	<b>Potential Partners</b>	<b>Remarks</b>
Credit-life-plus	All borrowers at commercial banks and MFIs	Largest MFIs Banks with focus on microentrepreneurs	Existing credit-life insurance should evolve into credit-life-plus.
Commercial small property	Microentrepreneurs with or without an outstanding loan	Largest MFIs Banks with focus on microentrepreneurs Trade unions Cooperatives	Property insurance should be decoupled from credits in order to offer protection even after the loan repayment.
Private property	Low-income home owners	Largest MFIs Banks with focus on microentrepreneurs	
Personal Accident	Members of trade unions or cooperatives	Trade unions Cooperatives	To start, group coverages are most promising
Health	Members of trade unions or cooperatives	Trade unions Cooperatives	To start, group coverages are most promising

In order to facilitate the successful emergence of a microinsurance market in the West Bank, donor efforts should concentrate on the following three points:

1. Training and capacity building for potential agents and partners, as well as insurance professionals, the insurance federation, and supervisors. Delivery channels and their agents have to develop a deeper understanding of the concept of insurance, including opportunities, challenges, and risks involved, before they decide to sell microinsurance. Here, the insurance federation and the supervisor could benefit from capacity building and technical assistance.
2. Building trust and public awareness. A financial literacy campaign would considerably support sales efforts, especially when low-income people are involved.

Trust can be built through improved claims handling, improved sales practices, and eventually through an ombudsman.

3. Improving pricing data. The development of a mortality table and consolidated statistics on accidents are essential in developing both life and accident coverage that are affordable and appropriate to the low-income market.

# 1. Background: The ESAF Project

The Academy for Educational Development's (AED) Expanded and Sustained Access to Financial Services program (ESAF) supports the United States Agency for International Development (USAID) in its efforts to build a more inclusive financial sector that increases the sustainable access to financial services for Palestinian households and Micro-, Small, & Medium Enterprises (MSMEs). Through a variety of interventions, ESAF will continue to identify weaknesses in the financial system at the consumer, institution, and enabling and regulatory environment levels, and work toward alleviating those weaknesses.

Interventions include the provision of financial literacy training, technical assistance on commercial bank downscaling, support for the development of a land registry system, and advice to the Palestinian Monetary Authority (PMA). The program includes a fixed-capital financing mechanism that funds Small and Medium Enterprise (SME) equipment upgrades. In addition, ESAF is assisting with creation of joint ventures and technology transfer and facilitating other forms of capital inflow to profitable businesses that can expand immediately and provide new economic activity and sustainable jobs.

The project also aims to expand access to basic microfinance services for low-income Palestinians in the West Bank. Among these services is microinsurance, the focus of this report and its research.

This research assessed both supply and demand for microinsurance among (mostly) poor urban and rural residents in the West Bank. Collectively, this data will help frame opportunities for microinsurance and other new financial products that can respond to the most significant crises, risks, and vulnerabilities of poor West Bank households.

The research arises through a partnership between two U.S.-based organizations: Microfinance Opportunities (MFO) and the MicroInsurance Centre (MIC). The study began in March 2009 with MFO's investigation of the demand side. The supply-side investigation followed in May 2009. This report represents a synthesis of results from the two phases.

## 2. Introduction – Demand Research

This demand study focused on risk management and the potential place of new microinsurance products within a landscape of risk. Participants were mostly low-income clients with existing microcredit organizations. Hence the goal of the study in the broadest sense was to represent the perspective of poor Palestinians on risk, as a prelude to the introduction of new risk management products.

What we found was equal parts predictable and unique. The findings were predictable in the sense that, like most poor populations around the world, low-income Palestinians saw their lives as inherently risky and fraught with economic hazards. Chief among these were common concerns such as the costs of serious injury/illness, loss of employment, and education fees.

Yet these risks and related shocks came with a twist in Palestine. In the view of the Palestinian participants, nearly every risk pertained directly or indirectly to the Israeli occupation. Serious injuries routinely related to encounters with Israeli soldiers. Jobs were lost because checkpoints or incursions disrupted business. Even the burden of education fees tended to be discussed in the context of the occupation—e.g. “the fees have become difficult to pay as my husband’s business has suffered under restrictions in commerce since the Second Intifada.”

Participants see the occupation as an intensifier of both risk itself and the unpredictability of risk. At the same time, unlike other conflict zones, the threat is not consistent enough to uproot their lives entirely. Instead, their testimony suggests that the threat keeps them perpetually off-balance; they endure daily hassles at checkpoints and await the next closure or incursion from the Israeli Defense Forces (IDF). The routine risks in Palestine run deep, while the threat of catastrophic economic shocks is seen as ever-present.

At the same time, research documented a robust system of indigenous coping strategies for navigating the range of risks inherent to Palestinian life. The population enacts and upholds a remarkably strong financial safety net in the form of collectivized resources. These measures include on-demand interest-free loans from family and friends, emergency treasuries within extended families, and ROSCAs with flexible payouts adjusted by need.

Formal insurance, on the other hand, played only a minor role in the risk management landscape. Beyond government health insurance (widely used but widely disparaged) and motor insurance among some participants with cars, the uptake of formal insurance was scant. Though participants showed an understanding of basic insurance concepts and expressed interest in insurance on a general level, few had pursued it, convinced that the existing providers were too expensive and/or unwelcoming to poor people.

When asked, participants seemed willing to consider new interventions to treat risk, including formal insurance. However, the products will have to cater to the poor in terms of premium levels and service. Moreover, it is clear that opportunities for insurance will be shaped by the potential to trump the strong informal safety net. Simply put, insurers will

have to offer Palestinians more than they can already get—e.g. large interest-free loans from relatives. These will be some of the biggest demand-side challenges in introducing new microinsurance to Palestine.

We found evidence to suggest that the moment may be right for the introduction of new insurance products. There was a strong consensus among participants that life in the West Bank has recently become harder and riskier, particularly in the years during and since the Second Intifada. Some participants cited recent instances of breakdown in the informal safety net—e.g. friends and relatives unable to provide emergency loans when needed.

These attitudes may help broaden minds about new interventions. Formal insurance may be relatively foreign, but circumstances may compel Palestinians to listen more closely to the merits and buy into new products.



## 3. Methodology – Demand Research

### 3.1. Research Design

#### 3.1.1. Key Questions

The research sought answers to the following key questions:

- What are the key risks facing poor urban and rural microfinance households, as well as agricultural-credit households, in the West Bank? What are the impacts of these risks (financial, social, etc.)?
- What (if any) formal microinsurance products are currently available in the West Bank? What client segments do they target?
- Other than formal insurance, what strategies do low-income people in the West Bank employ to absorb shocks?
- What do clients know and understand about risk-mitigation products available in these markets? Are they correct?
- What contextual factors encourage or block access to these products (e.g. culture, gender, ethnicity, class, education level, occupation)?
- What do patterns of household income and expenditures suggest about the capacity to afford insurance in these populations?
- What areas of insurance coverage are of most and least interest to these client segments? Why? Does this vary across different client market segments?

#### 3.1.2. Sources of Information

The primary focus of the investigation was current microfinance clients residing in the West Bank. Microfinance clients were chosen for several reasons: 1) they are generally economically-active and poor, which fits the broad profile of the target market for microinsurance; 2) the microfinance organizations (MFIs) are potential vehicles for the introduction of new microinsurance products; and 3) MFIs generally have the capacity and status to help gather significant numbers of individuals to carry on frank discussions about risks and financial needs in the community.

To invite the bulk of its participants, the project collaborated with two Palestinian MFIs: United Nations Relief and Works Agency (UNRWA) and the Arab Collective for Agricultural Development (ACAD). The UNRWA data collection was centered on two of the largest Arab cities in the West Bank: Nablus and

##### **UNRWA IN PROFILE:**

UN organization serving poor Palestinians in six areas: Relief & Social Service, Education, Health, Infrastructure & Camp Improvement, and Microfinance.

Established in 1991, the Microfinance and Microenterprise Programme (MMP) endeavors to improve the quality of life of small business owners and microentrepreneurs, sustain jobs, decrease unemployment, reduce poverty, empower women and provide income-generating opportunities to Palestinian refugees, and other proximate poor and marginal groups through the provision of credit.

##### Loan Types:

Simple microenterprise, intermediate microenterprise, consumer, housing

Number of Clients: 17,492

Average Loan Balance: \$947

Gross Loan Portfolio: \$16.6M

Total Assets: \$25.4M

Female Borrowers: 20%

Statistics as of 2008.

(Source: interviews; MixMarket.org; un.org/unrwa)

**ACAD IN PROFILE:**

ACAD was established in 1993 to encourage micro-entrepreneurship through small income generating activities among poor and low-income people by providing them with financial and business support services concentrating in rural and/or high poverty Palestinian areas. Particular commitment to serving clients residing in agricultural areas and working in agricultural trades.

**Loan Types:**

Women's enterprise, women's consumer, men's enterprise, men's consumer

<b><u>Number of Clients:</u></b>	1,512
<b><u>Average Loan Balance:</u></b>	\$1,571
<b><u>Gross Loan Portfolio:</u></b>	\$2.4M
<b><u>Total Assets:</u></b>	\$2.8M
<b><u>Female Borrowers:</u></b>	45%

Statistics as of 2007.

(Source: interviews; MixMarket.org)

Hebron. We conducted focus groups and interviews with a diverse range of UNRWA microcredit clients from the two areas, including urban dwellers, residents of nearby villages, and residents of the nearby refugee camps.<sup>1</sup> The project did the same on a smaller scale in the more rural town of Toubas, home to an ACAD branch. Here the intent was to represent the perspective of economically-active Palestinians working in agriculture and other rural trades.

The plan also included a smaller set of focus groups composed of retail bank customers. The intent of these groups was to represent a more affluent segment of Palestinians as part of a potentially broader insurance marketing strategy, inclusive of but not limited to MFI clients, with commercial banks as potential partners.

To this end, we partnered with two commercial banks. The first was Cairo Amman Bank (CAB), a commercial bank with a wide presence in the West Bank, which has confirmed interest in exploring new modes of insurance provision. A second bank partner—Al-Rafah Bank—is a for-profit commercial bank, though a self-identified

“microfinance bank,” so its customer base tends to be less affluent than conventional retail institutions like CAB. In the end, this retail-bank segment of the sample emerged as the most heterogeneous, with CAB clearly more affluent than the MFI clients, and the Al-Rafah clients mostly comparable to the MFI clients.

Across all segments, in addition to the focus groups, research included in-depth interviews to draw out additional detail at the individual level. Most of these interviews were with current and potential insurance clients, though we interviewed key informants with the financial institutions about their client bases as well.

### 3.1.3. Methodology

At the heart of the study was a group of FGDs focused on risks and risk management strategies. The discussions helped define the range and nature of risk, as well as perceptions of risk, in this particular cultural context. The FGDs also explored client understanding of insurance concepts and schemes.

These FGDs were supplemented with selective use of several MicroSave market research tools adapted for application to microinsurance. Those were as follows:

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<sup>1</sup> It should be noted that UNRWA focuses its services on Palestinian refugees, but the organization widely serves both refugees and non-refugees. Our study included a range of clients in both categories. Our surveys did not systematically record the refugee status of participants, but by rough estimation the UNRWA sample would break down as half refugees, half non-refugees.

- Time Series of Risks PRA tool – a discussion of the most impactful risks and how they have changed over the last 10 years.
- Life Cycle Risk PRA tool – a discussion of events that require large sums of money borne out across a typical lifetime.
- Seasonality of Income, Expenditures, Savings & Borrowing PRA tool – a discussion of the ebb and flow of household financial resources over a typical 12-month cycle.
- Seasonality of Risk PRA tool - a discussion of the ebb and flow of top risks over a typical 12-month cycle.

Additionally, we gathered basic demographic data on all participants via a short questionnaire, administered individually with each participant at the end of each focus group session.

**FIGURE 1- FOCUS GROUP PARTICIPANTS IN NABLUS**



The individual interviews were semi-structured and developed loosely around the same major concerns as the focus group discussions. The primary reason for including the interviews in the study was the level of detail they generated on an individual basis. Questioning thoroughly probed the use of and satisfaction with existing formal and informal risk management strategies to cope with shocks and vulnerability. The interviews also generated sample anecdotes of clients' financial obligations (e.g., loan repayments, informal group contributions, formal insurance premium payments, school fees) to help quantify use of financial services and add insight on affordability of insurance premiums.

**CAIRO AMMAN BANK IN PROFILE:**

A full-service bank established in 1960, CAB currently operates widely in Jordan and Palestine (ranked 6th in Jordan and 2nd in Palestine in terms of assets).

**Services:**

Loans, savings accounts, credit cards, investments, remittances

**Net Loan Portfolio:**

\$719M

**Total Assets:**

\$1.179B

Statistics per 2006 Annual Report.

(Source: 2006 Annual Report; [cairoammanbank.com](http://cairoammanbank.com))

**AL-RAFAH BANK IN PROFILE:**

A full-service, for-profit self-identified microfinance bank serving the West Bank.

**Vision:**

"Al-Rafah envisions being one of the financial pillars for the economic development and social security of the Palestinian society by directing its banking services to the active poor and low income Palestinians through commercial profit making banking institution."

**Number of Branches in West Bank:**

Three (Ramallah, Nablus, & Hebron)

**Services:**

Credit (enterprise & consumer), savings, insurance (life), remittances and investment services

**Number of Borrowers:** 1,637

**Average Loan Balance:** \$10,257

**Gross Loan Portfolio:** \$16.8M

**Female Borrowers:** 45%

**Number of Savers:** 1,829

**Total Assets:** \$91.8M

Statistics as of 2007.

(Source: [www.Al-Rafahbank.ps](http://www.Al-Rafahbank.ps); MixMarket.org)

### 3.1.4. Sampling Strategy

The bulk of the focus groups—16 of 28 total—were composed of clients of UNRWA in the Nablus/Hebron areas. These groups were viewed as the heart of the sample because they represented a cross-section of urban and rural economically-active poor residents, tied to perhaps the two most important commercial hubs of the West Bank. For a contrasting perspective, four focus groups were conducted among clients of ACAD in the more rural and agricultural zone of Toubas. The investigation returned to Nablus to conduct four focus groups with more affluent clients of branches of the CAB in that area. The final four focus groups were with clients of Al-Rafah Bank, in two locations: the village of Sinjel outside Ramallah and the city of Ramallah itself.

Selection of participants took place in cooperation with the financial institutions. Essentially, we asked the MFIs and banks to invite a cross-section of typical clients in their particular area.

In the cases of UNRWA and ACAD, this "cross-section" meant borrowers of both entrepreneurial and consumer loans at the micro- level. The cases of CAB and Al-Rafah were somewhat more complicated, in that their client bases were more diverse, including various loan programs, savings, etc. After discussing various options with project researchers, both institutions furnished clients involved with their entrepreneurial loan programs. In the case of CAB, most were business-owners at the SME level; with Al-Rafah, the clients were a mix of micro- and SME-level entrepreneurs.

This institution-based purposive sampling approach was chosen after careful consideration of all options by the MFO researcher and local consultants. The approach is consistent with the methodology used successfully by MFO in similar demand studies around the world. As in those other studies, the process yielded a sample that appeared both diverse and representative of MFI/bank clients in their particular areas.

At our request, the MFIs and banks were able to segregate most of the focus groups into separate male and female sessions. This approach was intended to explore gender differences in perceptions of risk and demand for

microinsurance products. The distribution of male and female groups was based roughly on the reported distribution of clients at the various financial institutions. UNRWA indicated that about 75 percent of clients in both cities were men, so the ratio of male to female groups was 3-to-1. ACAD clients were fairly evenly divided, so the focus groups were 50/50 on gender. The CAB client base and hence sample was skewed toward males, and the Al-Rafah sample toward females.

A total of 20 individual interviews complemented the 28 focus groups. The selection of interviewees was partly random (i.e. arbitrary selection of individuals who showed up for the focus groups) and partly purposive (i.e. we sometimes learned of individuals with particular experiences/background and then requested interviews). We also interviewed four managers of the MFIs/banks for insights on their clients.

In total, the sample encompassed 224 participants.

TABLE 2 - SAMPLE FRAME

	Institutional Partner & Location						
	UNRWA, Hebron	UNRWA, Nablus	ACAD, Toubas	CAB, Nablus	Rafah, Sinjel	Rafah, Ramallah	Total
<b>Focus-Group Type</b>							
<b>Risks and Risk Management Strategies (FGD)</b>	3	3	2	2	1	1	<b>12</b>
<b>Seasonality of Income &amp; Expenditures (PRA)</b>	1	1	1				<b>3</b>
<b>Life Cycle Risks (PRA)</b>	2	2		1			<b>5</b>
<b>Time Series of Risks (PRA)</b>	1	1		1	1		<b>4</b>
<b>Seasonality of Risk (PRA)</b>	1	1	1			1	<b>4</b>
<b>Sub-Total</b>	8	8	4	4	2	2	<b>28</b>
<b>Individual Interviews</b>	5	8	3	2	2		<b>20</b>



## 4. Research Setting & Overview of Participants – Demand Research

### 4.1. Research Sites

As noted earlier, research on the demand side took place in four locations: the urban centers of Hebron and Nablus, the provincial town of Toubas, and the Ramallah area.

**FIGURE 2 - MAP OF WEST BANK & RESEARCH SITES**



The rationale for this range of research sites was as follows: historically, Hebron and Nablus are the most significant commercial centers in the West Bank. Hence these urban areas encompass high concentrations of economically-active poor, microentrepreneurs and SME entrepreneurs that we aimed to represent in this study.

The more rural and agricultural site of Toubas was chosen for the counterpoint perspective of Palestinian farmers. Home to many of the region's more powerful and prosperous families, as well as strong commercial activity, Ramallah was included as part of the sample of commercial bank clients.

Research sites are indicated with stars on the map in Figure 2. Also see Annex for more detailed summaries about each research site.

## 4.2. Overview of Participants

Beginning with the sample of focus group participants as a whole, basic demographic characteristics are summarized in Table 3:

**TABLE 3 - DEMOGRAPHIC SUMMARY - OVERALL SAMPLE**

General/Livelihood		Financial Service Use		Assets	
Gender:	69% male 31% female	Outstanding loan:	55%	Own home:	66%
Age:	41	Savings – formal:	17%	Running water in home:	89%
Education:	Secondary	Savings – informal:	11%	Own agricultural land:	33%
Number in HH:	7	ROSCA member:	36%	Own livestock:	9%
Dependency ratio: <sup>2</sup>	3.78	Insurance – health:	67%	Own olive/fruit trees:	33%
Self-employed (last yr):	59%	Insurance – auto:	20%	Own television:	96%
Wage employed (last yr):	42%	Insurance –other:	9%	Own cell phone:	97%
Farming (last yr):	21%			Own computer:	71%
				Own car/motorcycle:	40%
Average Reported Income:		\$782/month			
MODE Income:		\$500/month <sup>3</sup>			

Overall the sample was skewed toward males, which represents a combination of deliberate sampling strategy and some increased availability/willingness on the part of men, as compared with women. Households were relatively large, as were dependency ratios. Just under 60 percent of participants were entrepreneurs, with 40 percent involved in wage employment and 21 percent farming in the past year.

Over half had an outstanding loan, though all had outstanding loans in the past years with the partner institutions. Savings rates were low—17 percent had a bank account, and only 11 percent claimed to save informally, mostly at home. Over one-third were ROSCA members. Two-thirds had some form of health insurance, but other insurance use was quite low.

Most participants owned their homes, and about one-third owned agricultural land, with corresponding levels of agricultural assets. Most owned a television, cell phone, and computer. Forty percent owned a car or motorcycle.

We now break up the sample in terms of the three major segments: 1) UNRWA clients in Nablus and Hebron; 2) ACAD clients in Toubas; and 3) CAB and Al-Rafah bank clients in Nablus and Ramallah. The statistics appear below, in a comparative sequence, in Tables 4, 5, and 6:

<sup>2</sup> Calculated as follows: average number of household members, minus average number of earners in last year, divided by average number of earner in last year.

<sup>3</sup> MODE Income here and in the other tables is the most frequently reported income figure.

**TABLE 4 - DEMOGRAPHIC SUMMARY - UNRWA CLIENTS, NABLUS & HEBRON**

General/Livelihood		Financial Service Use		Assets	
Gender:	78% male 22% female	Outstanding loan:	55%	Own home:	65%
Age:	40	Savings – formal:	10%	Running water in home:	95%
Education:	Secondary	Savings – informal:	6%	Own agricultural land:	21%
Number in HH:	7	ROSCA member:	32%	Own livestock:	3%
Dependency ratio:	3.49	Insurance – health:	68%	Own olive/fruit trees:	22%
Self-employed (last yr):	60%	Insurance – auto:	20%	Own television:	93%
Wage employed (last yr):	46%	Insurance –other:	7%	Own cell phone:	97%
Farming (last yr):	12%			Own computer:	70%
				Own car/motorcycle:	39%
Average Reported Income:		\$806/month			
MODE Income:		\$500/month			

**TABLE 5 - DEMOGRAPHIC SUMMARY - ACAD CLIENTS, TOUBAS**

General/Livelihood		Financial Service Use		Assets	
Gender:	50% male 50% female	Outstanding loan:	53%	Own home:	82%
Age:	39	Savings – formal:	13%	Running water in home:	60%
Education:	Secondary	Savings – informal:	13%	Own agricultural land:	57%
Number in HH:	8	ROSCA member:	37%	Own livestock:	37%
Dependency ratio:	5.81	Insurance – health:	73%	Own olive/fruit trees:	53%
Self-employed (last yr):	50%	Insurance – auto:	13%	Own television:	100%
Wage employed (last yr):	47%	Insurance –other:	3%	Own cell phone:	97%
Farming (last yr):	70%			Own computer:	70%
				Own car/motorcycle:	27%
Reported Average Income:		\$523/month			
MODE Income:		\$375/month			



**TABLE 6 - DEMOGRAPHIC SUMMARY, CAB & AL-RAFAH CLIENTS, NABLUS & RAMALLAH**

General/Livelihood		Financial Service Use		Assets	
Gender:	59% male 41% female	Outstanding loan:	56%	Own home:	61%
Age:	43	Savings – formal:	33%	Running water in home:	93%
Education:	Above Secondary	Savings – informal:	20%	Own agricultural land:	44%
Number in HH:	6	ROSCA member:	43%	Own livestock:	7%
Dependency ratio:	3.49	Insurance – health:	63%	Own olive/fruit trees:	44%
Self-employed (last yr):	59%	Insurance – auto:	22%	Own television:	100%
Wage employed (last yr):	30%	Insurance –other:	15%	Own cell phone:	94%
Farming (last yr):	13%			Own computer:	74%
				Own car/motorcycle:	50%
Reported Average Income:		\$879/month (\$1068/month for CAB clients only)			
MODE Income:		\$750/month (\$1,250/month for CAB clients only)			

Some differences between the segments should be noted. The first segment of UNRWA clients tends to fall along the averages for the overall sample. This makes sense in that they comprise the largest portion of the sample. The second segment, ACAD clients in Toubas, are somewhat poorer, and the third segment, bank clients in Nablus and Ramallah, are somewhat more affluent. These differences emerge more in income than in asset ownership.

As expected, the Toubas sample shows a relatively high practice of agriculture and ownership of agricultural assets. This segment also stands out for its relatively high dependency ratio. The bank-client (third) segment stands out for its relatively high use of formal financial services, including formal savings accounts and insurance other than health and motor.

As noted earlier, the third segment was the most heterogeneous of the three. The reason was that the CAB clients were by far the most affluent in the sample overall. The Al-Rafah clients were largely on par with the UNRWA and ACAD clients.

The differences between CAB and Al-Rafah clients emerge most clearly in two areas: 1) formal financial service use; and 2) income level. If CAB and Al-Rafah clients are segregated on use of formal savings, the results are 58 percent for CAB and only 11 percent for Al-Rafah. The figures for health, auto, and other insurance for CAB clients are 85 percent, 35 percent, and 11 percent, respectively, as opposed to 43 percent, 11 percent, and 11 percent, respectively, for Al-Rafah clients. On income, the CAB average was \$1,068/month and the Al-Rafah average \$690/month.

## 4.3. Income & Expenditure Cycles

### SEASONAL VARIATION IN INCOME & EXPENSES

#### CASE STUDY #1: RAED

- 45 years old
- Married, 5 children
- Residence: refugee camp, Nablus
- Professional photographer
- UNRWA client

#### Income

June-August are high months because of wedding season and related call for photographers.

High Income: \$2,500/month

November-February are low months, when few have reason to hire him.

Low Income: \$250/month

Notes that restrictions on conducting business in certain villages around Nablus since Second Intifada has reduced his income year-round.

#### Savings

Best months for savings are June-August.

High Savings: \$1,700/month

Notes that this savings does not build over time; it tends to be applied to expenses in the fall. Rest of the year he saves almost nothing, with two exceptions: 1) he has a mandatory savings account to which he contributes as part of loan with CHF; and 2) he is in a year-round ROSCA (\$12/day, 20 people, payout divided between two winners every 30 days).

#### Expenditures

September tends to be the most expensive month, due to Ramadan (this year) and university fees.

High Expenses (Sept):

- \$1,700-2,000 - Ramadan
- \$1800 - one semester's tuition for two children at university (does not include supplies/expenses).
- \$450 - one semester's supplies for 3 children in primary/secondary school.

Low Expenses (Nov-Dec): \$1,000/mo. for HH expenses only.

#### Credit

Says there is no real cycle or predictability to his borrowing. He has two loans outstanding, both for business development: \$840 from UNRWA and \$4,000 from CHF.

Like most areas of the world, participants in these areas see cyclical variation in their financial resources over the course of the year. This information tends to hold great relevance in the design and marketing of insurance products, especially with regard to payment plans.

The various segments were remarkably consistent in terms of the patterns they described, even as the reasons for the variation sometimes diverged.

### 4.3.1. Peak Income & Savings

The widespread consensus was that May-August are the months of peak propensity in the West Bank. These months generally see a spike in income and at least some spike in associated savings.

Generally, this is a time of commercial boom for businesses in the West Bank. People simply tend to buy more and patronize businesses more in summer months. One clothing designer, for example, said his business hums through May and June, producing a summer line that is then snapped up by customers in the summer months. Another respondent, a professional baker, cited these months as the marriage season, which creates high demand for his services. (Weddings were cited by multiple participants across different trades as a driver of commerce in the summer months.)

Another reason for elevated prosperity during these months was noted by government employees. Most take paid vacations during the summer, and often they use this time for additional temporary employment rather than leisure. The result is an extra paycheck and extra cash. Another reason for elevated income/commerce is an increase in visitors to the West Bank during the summer months. A final reason cited is that older children in school are off during these months; they typically pursue seasonal employment and contribute to household expenses.

Many clients noted that these months are the only time of year when they save significant amounts. However, these savings tend to be drained away by the expenses of the fall season (see below). A few participants with

more stable incomes (e.g. government employees) noted that they are able to save some money in the winter months, because expenses are low and the pace of life slows down.

There was mild variation of this seasonality noted among the agricultural workers/farmers in the Toubas area. For them, income tends to peak in April and July-August. The April spike occurs when sheep and goats (the most common livestock in the area) give birth, and the offspring are sold. The July-August months coincide with harvest season in the fields, with cash crops sold off. For participants with significant holdings of olive trees, an additional spike occurs in the months of October-November, when olives are harvested.

Most participants in Toubas suggested that the livestock birthing/harvest months are the only months when they save money.

### 4.3.2. Peak Expenses & Borrowing

(NOTE: This section introduces some of the top economic risks cited by clients in the West Bank. They are treated here only in a cursory way; full detail follows later in the report.)

August-September and December-February were cited nearly universally as the leanest months financially. Perhaps the heaviest burden associated with these months are the school and university fees that come due. University tuition was by far the most significant element of these fees; some families paid the tuition for the year in a single lump sum in September, while others spread the payments out by semester in September and January.

This past year, September was also a holiday season, with Ramadan falling in that month, though in coming years the holiday will be pushed into August.<sup>4</sup> The combination of holiday and school expenses was described as especially draining to households.

In addition to second-semester school fees, January and February generally see a dip in commerce. People simply patronize businesses less, and incomes fall. Participants described it as a mid-winter lull, quite consistent from year-to-year. Compounding expenses during this time are the significant heating costs for Palestinian homes during the winter months.

Related borrowing spikes in these months, especially from formal sources like the MFIs. Borrowing between friends and family tends to be a less viable resource, simply because everyone is spread thin in these months. Explained one participant, a government employee: “You can borrow from me in summer because I work in an extra job, but in the winter do not come close to me!”

Some participants, especially those with marriage-age children, commented that May-July can also be high-expense, high-borrowing months for families that plan a wedding in those months. Weddings of course come along less frequently than expenses like school fees, and participants said that more resources were available to cover weddings. Many families build some savings or assets in advance of a wedding, and a multitude of informal assistance (e.g. generous family loans) tend to be available as well.

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<sup>4</sup> Islamic holidays are complicated to map onto the Georgian calendar because the dates are based on the Islamic calendar, and the dates shift. The date of Ramadan gradually recedes on the Georgian calendar over time. Over the next decade, for example, the date of the holiday will become earlier and earlier, with its start eventually pushed to April on the Georgian calendar.

## 5. The Landscape of Risk in the West Bank

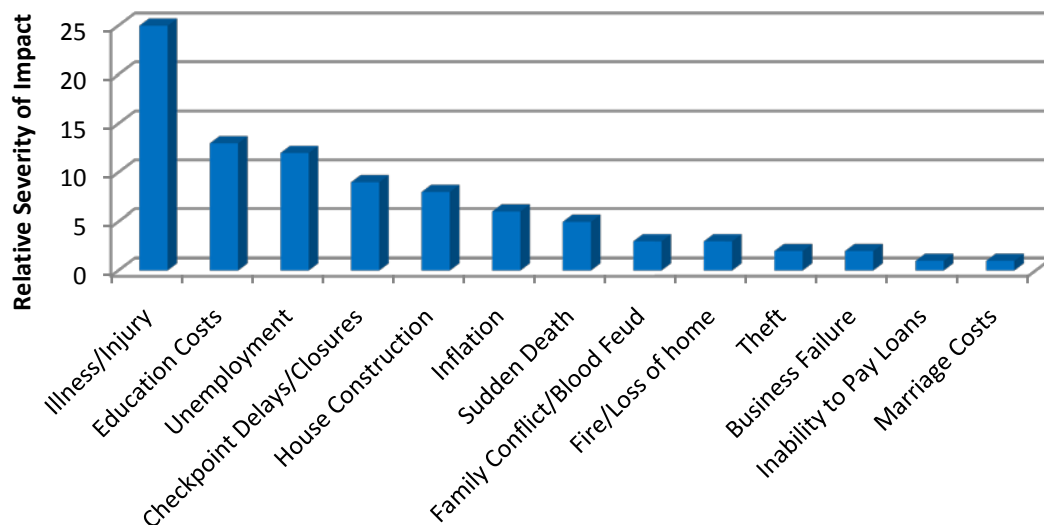
In a core set of focus groups, we asked participants to list the most important risks they face in their lives in the West Bank. We then asked them to rank these risks. We defined “important” in terms of the impact these risks were likely to have on the financial well-being of the household (and/or enterprise, if the family owns one). The results of these groups are presented in the following sections, divided among the three segments identified in the previous chapter.

NOTE: The following graphs and narratives draw on composite calculations that take into account: 1) how often clients cited the risk; and 2) its position as ranked by clients. It is important to note that the graphs capture relative impact, not necessarily relative cost. This is to say, the top risks link to events most likely to cause financial turmoil within a household, which may or may not be the most costly events overall.

### 5.1. Most Impactful Risks – UNRWA Clients (Nablus & Hebron)

As seen in Figure 3, the microfinance clients with UNRWA in Nablus and Hebron cited a variety of risks, but the severity of one risk stood out among all others. Injury and illness was seen as by far the most impactful risk, with twice the composite ranking of its nearest competitor.

FIGURE 3- TOP RISKS, UNRWA CLIENTS (NABLUS & HEBRON)



Both focus groups and interviews were rife with stories about great economic stress and near-financial ruin over medical expenses. A few examples help illustrate:

*Twelve years ago my son had to be hospitalized for one year and a half and it cost me \$50,000. At that time I had very good trade business but now my income is very low relatively and I don't know what I would do if something like that came up again.*

*I am the owner of hairdressing salon, once I needed a surgery that cost me \$4,000 out-of-pocket. In addition to paying the medical bills, I had to close my shop for two weeks. I had to get a loan from UNRWA for \$1,300 just to cover part of my loss.*

*I was in prison for three years and my father was a municipal employee. We had no medical coverage as a family, and he suffered a heart attack. We went to the welfare department to seek assistance for the surgery and did not get any help. The Palestinian Authority also was unresponsive. My father never got the surgery, and now only takes heart medication, for which I am paying over \$60 per month to cover.*

MFO's research on risk globally has shown injury/illness to be at or near the top of most lists. What makes the result somewhat striking, however, is that over two-thirds of focus group participants had current health insurance—far more coverage than any other kind of insurance. Overwhelming, this insurance was the government variety, particularly a program known as “Intifada insurance,” which will be discussed in subsequent sections of this report. What these results demonstrate is that this insurance is failing in the provision of adequate coverage to recipients.

As noted earlier, focus groups were segregated by gender, in order to probe whether men and women held differing views on risk. Generally, the study found little difference in this regard on the most important risks, with a few exceptions. Women, for example, showed somewhat more concern with sudden death than did men—a predictable finding given that men tend to be the breadwinners in this culture. The difference was not uniform or consistent across all the groups, however. Men, on the other hand, showed more preoccupation with family conflict/blood feuds (see discussion below).

### 5.1.1. Discussion: Links to the Occupation

As noted in the Introduction, nearly all risks cited in the West Bank are understood by Palestinians as part of a narrative of oppression related to the Israeli occupation. In reviewing Figure 3, as well as Figure 4 and Figure 6, some of these connections are clearer than others. The fourth risk in Figure 3, for example—checkpoint delays/closures—is a direct function of the occupation.

Other connections are less obvious. Participants, for example, made this connection vis-à-vis home construction, which can become vastly more complicated and expensive when an extension to the Barrier Wall cuts a family's access to the ancestral land on which they planned to build. Likewise, the most frequently-cited root cause of unemployment was the occupation. Many Palestinians in the West Bank lost relatively lucrative jobs in Israel when access to Israeli territory was restricted during and after the Second Intifada. Others lost jobs in the West Bank because the post-Intifada occupation curbed their ability to reach points of opportunity. As any traveler in the West Bank can attest, transportation between most areas is, at best, slow (via the unpredictable checkpoints) and, at worst, paralyzed (during times of heightened violence, e.g. the IDF incursion into Nablus in 2006).

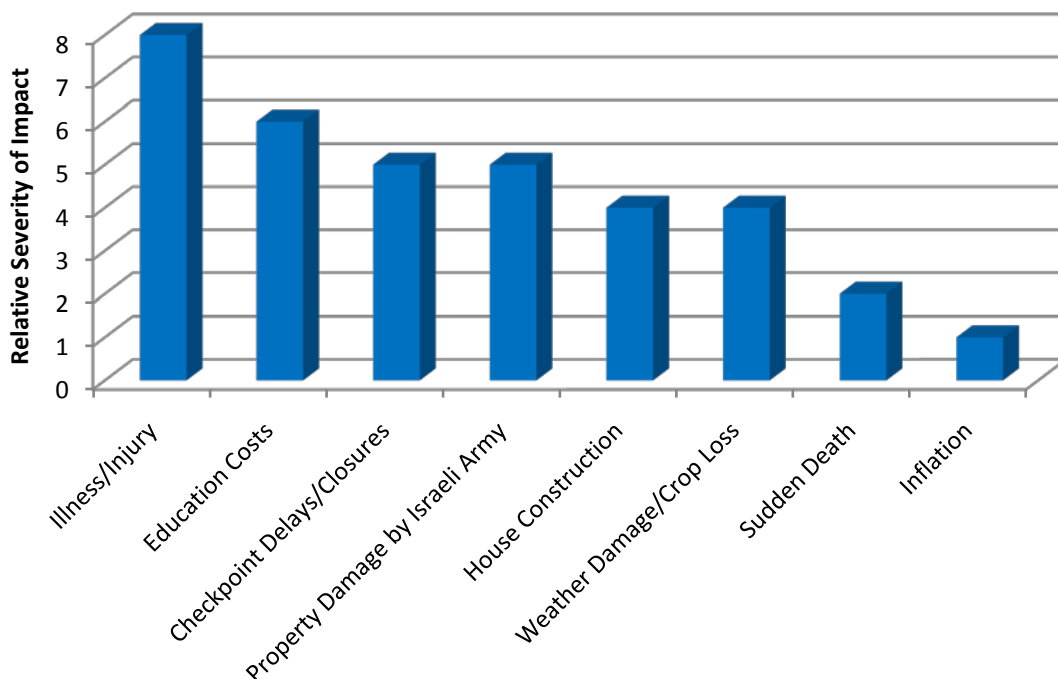
There were exceptions to this characterization—which is to say, risks that few if any Palestinians would suggest relate to the occupation. Family conflict, or what anthropologists would likely term “blood feuds” between extended families, would be an example. These are drawn-out disputes that generally begin with an act of violence between individuals in the respective families. Palestinian culture offers a variety of ways these conflicts may be settled, including comparably violent payback from the offended family. However, the most common means of resolution is financial payoff, when agreement is reached as to punitive damages, and the offending individual/family is expected to pay in full.

Such conflicts and payouts were cited fairly commonly in the focus groups, particularly in the southern West Bank (Hebron). The payouts were quite large in many cases. We heard, for example, from one participant, a taxi driver, who got in a fight with another driver and ended up slashing him in the face with a razor. The payout for this superficial though disfiguring injury was \$15,000, which the participant’s family had to produce in very short order. Additionally, the driver with a razor is permanently banned from using four streets in his small hometown, which one can only imagine hurts his taxi business.

## 5.2. Most Impactful Risks – ACAD Clients (Toubas)

In Toubas, the emphasis on agriculture was expected to produce some differing views on risk, compared with Nablus and Hebron. Figure 4 illustrates the results:

FIGURE 4 - TOP RISKS, ACAD CLIENTS (TOUBAS)



The top five risks offer little divergence from the UNRWA clients. Injury/illness and education costs squarely occupy the #1 and #2 positions. The testimony of these risks largely mirrored the concerns noted in Hebron and Nablus.

Like the UNRWA clients, many ACAD clients had government health insurance, but that insurance failed to cover specialized treatment for out-of-the-ordinary conditions. In those cases, clients were left to fend for themselves at private hospitals, either in the West Bank or neighboring territory. Costs tended to be covered out-of-pocket or via family support. In some cases, community or international charities contributed, as in the following case:

*My son was very sick once he had a surgery in Amman that cost \$13,000. It was covered by donations from a city behind the green line in Israel, and the rest by the king's palace donations in Jordan. But he continues to receive follow-up treatments, and we are paying for that on our own. It is a big strain on the budget for the whole family.*

Education was also a major priority for the population in Toubas. There was a prevailing sense, here as elsewhere in the West Bank, that education of children was the key to turning the population's fortunes around. Phrased another way, the challenges of daily life and especially the occupation were best met by sacrificing for the next generation.

As elsewhere, however, the costs of education, particularly at the university level, were daunting, and available resources were uneven at best. Some families could apply their own income or draw loans from more affluent relatives. Often, however, these resources ran short and some in the younger generation were left to fend for themselves, as in the following example:

*My younger brother works and pays his own university fees. He finds seasonal employment during the summer, and has taken out some loans. He should have graduated a long time ago,*

## STRUGGLES OF A CHICKEN FARMER, TOUBAS

### CASE STUDY #2: AISHA

- Female
- 39 years old
- Married with 8 kids
- Homemaker/chicken farmer
- Nearly completed HS education but interrupted by First Intifada
- Husband works as laborer at Israeli settlement

#### Enterprise Loan Use: Chicken Farm

Currently has \$500 loan from ACAD, and had a loan for that same amount from FATEN about one year ago. A local agricultural cooperative also gave her loans of \$2000, \$2000, and \$4000 over last 3 years (the latter is current). All were used to establish a home-based business: a chicken farm.

#### Setbacks to the Enterprise

In the last two years, she has had three separate outbreaks of avian flu; she estimated the losses for each of these at Losses ranged \$2,500-10,000.

She has also lost significant numbers of birds on several occasions when checkpoint closures prevented her from getting feed (the birds starved). In addition, chickens were recently banned from city limits of nearby towns, which makes them harder to sell.

Notes that she has tried to find livestock insurance, but no one offers it in this area.

#### Income

Net loss on the chicken business in the last 12 months, due to loss of stock. Husband's income in the peak summer months is roughly \$600/month (less than half that in winter months).

#### Key Expenses

Has three kids in university and estimates total annual cost for each (tuition + expenses) at \$2,000. She spend about \$1,200/year on Ramadan.

#### Other Debts

In addition to formal loans, has built following debts over last 3 years: 1) \$7,000 in merchant credit; 2) \$3,500 in loans from family and friends; and 3) \$1,500 in unpaid electrical bills. Says these are related both to business losses and education bills.

#### Savings

None. Part of one ROSCA: \$25/20 people/monthly payout; she uses her pot toward her many debts.



*having to pay back the loans has created a lot of pressure and delayed completion of his studies.*

Weather damage to herds and crops was also discussed by participants in Toubas. The weather in the West Bank can reach damaging extremes, particularly in the winter months, when frosts and heavy rains can damage orchards and vineyards. Livestock disease and death was also an important risk, especially in winter.

**FIGURE 5 - AN ARABLE VALLEY IN THE TOUBAS AREA**



**(PHOTO BY MARWAN HUSEIN, USED BY PERMISSION, 2009)**

Unlike the UNRWA clients, the ACAD clients did not cite unemployment in their top five risks. This is likely because farms tend to continue operating on some level even as disruptions of commerce close down other types of businesses. However, they spoke at length about the occupation vis-a-vis checkpoint delays and property damage caused by the IDF. Many of these discussions related back to livelihood issues.

For example, several farmers noted that truckloads of their agricultural products routinely spoiled, as the trucks carrying them were forced to wait for hours on end at checkpoints in the harvest season (a program of deliberate sabotage by the Israelis, according to some participants). Others noted frequent instances when the IDF simply destroyed homes or businesses, either as part of an incursion or as targeted retribution for the acts of a family member.

Those involved in agriculture also complained bitterly about Israeli control and rationing of water. They alleged that the Israelis only allowed them to draw well water from shallow, rainfall-dependent wells, with strict quotas each year, while nearby Israeli settlements enjoyed unlimited water year-round. They also noted that Israel blocks most international



export of their produce, and only permits export to Israeli markets when Israeli farms cannot produce enough.

Generally, the ACAD clients portrayed their lives as profoundly unbalanced as a result of occupation activity. As one participant noted:

*The most difficult part is when they force all family members including children out of their homes, at night in the winter time. It is very chilly then, so we all sleep wearing heavy clothes as a kind of precaution.*

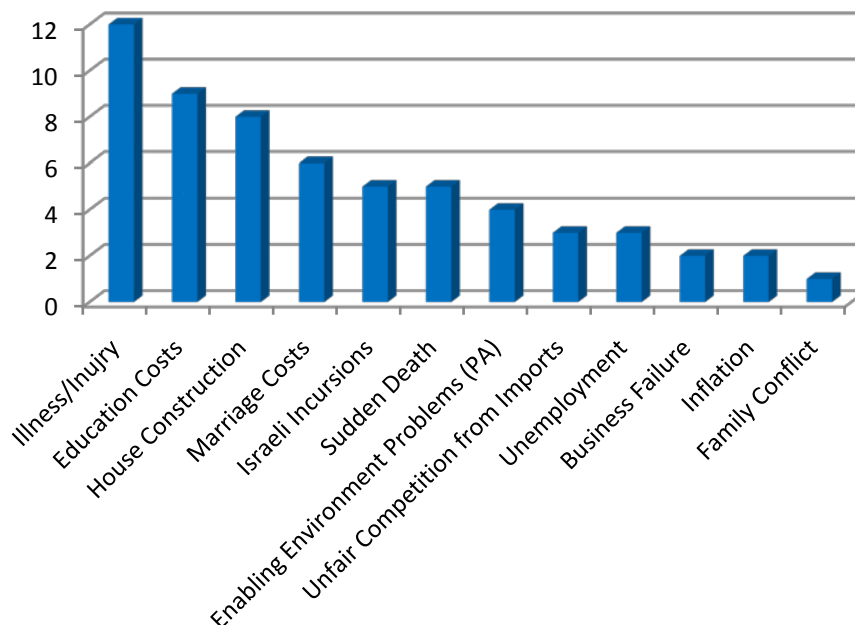
Once again, men and women largely shared views of major risks. The differences were not consistent enough to draw significant conclusions.

### 5.3. Most Impactful Risks – Bank Clients (Nablus & Ramallah)

Among the bank clients, we anticipated some differences in views on risk based on elevated socio-economic status, as compared with the MFI clients. As noted earlier, this segment was not uniformly affluent, so we were uncertain as to how the views would converge. The results for CAB and Al-Rafah clients appear below in Figure 6.

Once again, the top two risks were illness/injury and education costs. The results demonstrate clearly that these risks/costs prevail in more than just the microeconomic spectrum of the Palestinian population.

FIGURE 6 - TOP RISKS, BANK CLIENTS (NABLUS & RAMALLAH)



**FINANCIAL PROFILE OF SME OWNER & CAB CLIENT**

**CASE STUDY #3: MARWAN**

- 47 years old
- From village outside Jenin
- Now lives in city of Jenin
- Married with 6 kids
- Wholesaler of food—owns storefront and warehouse in Jenin.

**Income**

Ranges from \$1,500/month in summer to \$500/month in winter.

**Key Expenditures**

Has two kids in university and third about to start. Total cost: \$4,000-5,000 per child per year. Two other kids in public primary/secondary school, but pays about \$200/month for supplemental tutoring. Holidays in September and November cost him about \$1000 each.

**Loans**

Took out first loan from CAB for \$20K a few months ago, as well as supplemental line-of-credit to use as needed. He had no other formal or informal sources of credit. Decided to seek loan when funds ran short in 2008, which he called “bad year” for business.

**Insurance**

Only has auto insurance.

He has not considered the government insurance because the claim process is too slow and cumbersome—“I’ll die before the benefits kick in!” He prefers to pay out-of-pocket because it’s fast and guaranteed.

He has not considered commercial insurance because he does not think he could afford it.

**Savings**

Only recently opened his first savings account, which is obligatory with loan. CAB takes \$400/month and puts in separate CAB account as guarantee for loan, it will be his to use if he does not default.

**Coping Strategies**

Bank gave him line-of-credit in addition to loan—now uses that to cope with the low income months. Before the loan, his strategy was to post-date checks.

The testimony was strikingly consistent with the other segments. Healthcare costs spiked when the need for specialized care came up; e.g.:

*My brother had open-heart surgery; it cost \$11,000. Although he had a government health insurance, it did not cover the operation so the family paid it all. We took a loan, sold olive oil, sold gold, and borrowed from the extended family. In the end, he died at the end and the family went into debt.*

Discussions on education mirrored similar themes of families taxed to their financial limit, and goals sometimes unfulfilled:

*A friend of mine took a loan amount of \$1,000 for his daughters’ education fees. In the last semester, he had no money to pay the fees, so he pulled his daughters from the university. I had to help him pay the last installment of the loan, because he had nothing left to pay.*

Interestingly, marriage costs appear relatively important here, entering the top five risks for the first time. One might surmise that although this segment may have more resources to apply toward large expenses, their somewhat elevated socio-economic status compels them to host relatively lavish and expensive weddings.

Further down the list, one notes other risks pertaining to business operations which are novel to this segment. Their order in the ranking brings the heterogeneity of this segment into focus.

These risks were discussed prominently in a focus group of CAB clients in Nablus that featured relatively affluent SME owners—easily the most affluent group of the entire study. For them, these risks ranked near the very top of their lists. Chief among these business-related risks was what the group described as politics within the Palestinian Authority (PA) that they considered hostile toward business. The major complaints included high tax rates, and what they saw as unreasonable attempts to collect unpaid taxes from

years past. They also complained about high interest rates for commercial loans, which they saw as rooted in PA policy.

Additionally, this group cited the risk created by foreign imports into the Palestinian economy. These imports have flooded Palestine in the past decade and undercut local manufacturing. Most often these imports come from China, though other countries entered the discussion as well, as in the following example cited by a ceramic tile producer:

*Five years ago, we were producing all kinds of tiles, at a rate of 500 square meters daily. But other businesses started importing cheaper tiles from Italy, and that reduced our production to 200 square meters daily. As a result, our revenues crashed and 100 employees were released.*

On the subject of gender, comparisons were complicated by the nature of the segment. The most affluent SME owners, clients of CAB, were overwhelmingly male. The microcredit clients furnished by Al-Rafah were overwhelming female. There were differences between the CAB and Al-Rafah focus groups, but it is likely that socioeconomic status (i.e. the CAB clients were more affluent) played a greater role in these differences than gender.

## 5.4. The Seasonality of Risks

Certain focus groups asked participants to discuss their most impactful risks in terms of seasonality, or to tease out what times of year particular risks were most salient. Some of the top risks, such as home construction costs and IDF incursions, were unpredictable or year-round, with no seasonal character. Those that did show seasonality are discussed below.

### 5.4.1. Illness

High Months – Participants agreed there was seasonal variation to one's risk of illness, and they agreed that the primary determinant of that risk was the weather. However, they did not agree on the type of weather or time of year that posed the greatest risk. They were split about evenly into two camps: 1) those who felt the change of seasons caused illness, thereby making November and April the most illness-prone months; and 2) those who felt the cold winter months, November-February, posed the greatest risk.

Low Months – Again there was a major split of opinion. Many participants felt the mild summer months (June-August) were the healthiest. Others argued strongly the warmer spring months (March-May), coming on the heels of illness-filled winter months, were the least illness-prone.

### 5.4.2. Education Costs

High Months – As discussed earlier, September and January are months of high education costs, with those costs sometimes spilling over into October and February. These months mark the start of the two semesters that make up the school year. At the universities, tuition is due in full at this time (although some families elect to pay both semesters in September). For primary/secondary school students, parents generally shop for school-related clothes and supplies in these months.

Low Months – In the summer months (June-August) students are off, so no education costs mount. Moreover, many older students get seasonal work during these months, to help defray coming education expenses or assist with general household costs.

### 5.4.3. Checkpoint Delays/Closures

High Months – Some participants pointed out that the long Jewish holidays in April and September lead to a higher incidence of checkpoint closures, which pose both personal and commercial risks.

Low Months – No time of year provides a respite from checkpoint difficulties.

### 5.4.4. Unemployment

High Months – The low commercial season is December-February. Consequently these months pose the highest risk for loss of employment or underemployment.

Low Months – May-August is the high season for commerce in the West Bank. Participants were most likely to remain employed, be hired, or hire others during these months.

### 5.4.5. Marriage Costs

High Months – As noted earlier, there is a distinct and well-defined wedding season in the West Bank: June-August. It follows that the risk of these costs run highest at this time.

Low Months – Weddings taper off in the fall, and are fairly rare the rest of the year.

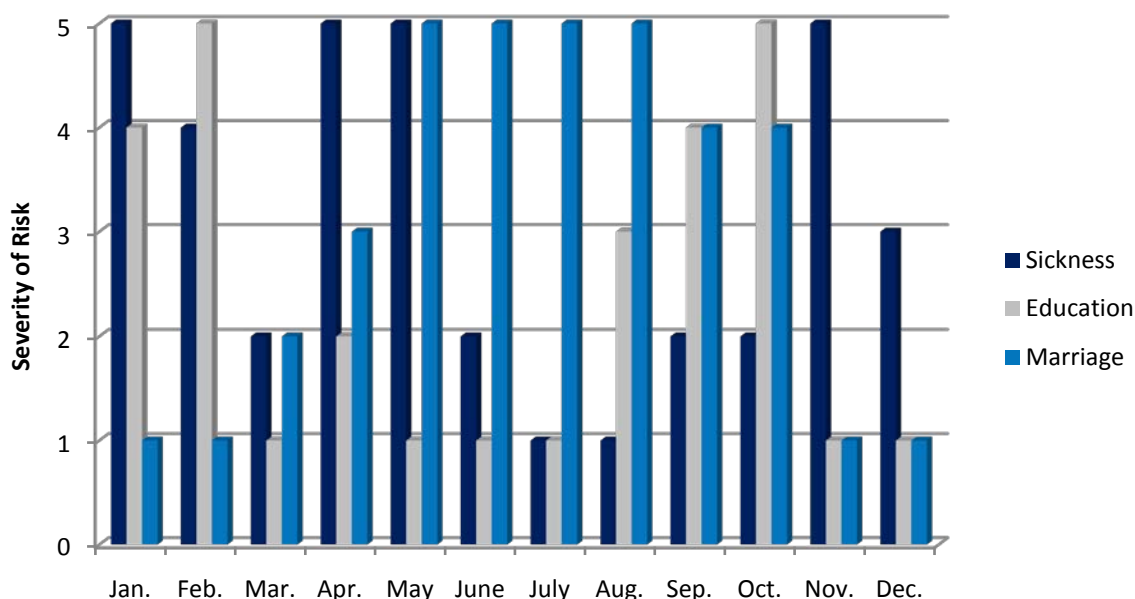
### 5.4.6. Agricultural/Pastoral Loss

High Months – This risk was discussed at length only in Toubas, but there participants agreed that the winter months (December-March) were the most problematic. At this time, the West Bank is subject to damaging rains and frosts that can destroy fruit and olive orchards. The heavy rains can also cause erosion to the agricultural fields that climb the hilly terrain of the West Bank. Participants also agreed that the winter months pose the greatest risk for livestock disease and loss.

Low Months – June-August is the harvest season and also the time of mildest weather in the West Bank. Few losses of crops or animals occur during this time.

A sample seasonality graph appears in Figure 7; participants in Hebron rated severity on a scale of 1-5.

FIGURE 7 - SEASONALITY OF SELECT RISKS, UNRWA CLIENTS, HEBRON



## 5.5. Top Insurable Risks & Estimated Costs

As this investigation is intended to lay a foundation for the establishment of new microinsurance products, we distill the research down to a list of top insurable risks that could potentially be addressed by these products, in accordance with the current standards of the insurance industry.

Many of the discussions centered on what could only be termed “compound risks.” Examples would include the occupation itself (frequently cited as a “risk”). The occupation is not an insurable risk, simply because the range of individual risks it presents is too broad to be served by any single insurance policy (not to mention the potential for overwhelming losses). However, once the occupation as socio-economic phenomenon is broken down and examined, we see that some of the individual risks linked to it (e.g. death, injury, property loss) are potentially insurable. (See also discussion of “Political Risk Insurance” in the supply portion of this report.)

Another example of an uninsurable compound risk would be the family conflicts/blood feuds cited by participants. No insurer will ever issue blood-feud insurance. But the underlying injuries or property damage might indeed be insured, depending on the context of their occurrence. Striking someone with a car (a common root cause of family conflict) might be covered by motor insurance. Injuries inflicted on one’s property might be covered by a homeowner’s insurance policy that included personal liability.

On the basis of evidence gathered in this investigation, the following list of top insurance risks is presented, along with some sample (uninsured) costs cited by clients:

TABLE 7: TOP INSURABLE RISKS &amp; SAMPLE COSTS

Insurance Risk	Example of Uninsured Costs
<b>Injury/Illness</b>	<ul style="list-style-type: none"> <li>• Hospitalization \$1,200-2,000/week in West Bank; \$6,000/week in Israeli hospital</li> <li>• Cancer Treatment: \$20,000/year</li> <li>• Chronic disease (e.g. diabetes): \$1,000/year</li> <li>• Surgery: \$2,000 for eye; \$10,000-15,000 for heart</li> <li>• Specialized Medication: \$25-\$75/month</li> </ul>
<b>Education costs</b>	<ul style="list-style-type: none"> <li>• University: \$2,000-5,000 per child per year (includes two semesters of tuition and all costs).</li> <li>• Private Primary/Secondary School: \$800-1,000 per child per year</li> <li>• Public Primary/Secondary School Costs: \$300 per child per year (clothes and supplies); \$60/month per child if supplemental private tutoring is needed</li> </ul>
<b>Death</b>	<ul style="list-style-type: none"> <li>• \$1,000-1,200 for funeral</li> </ul>
<b>Property loss (commercial)</b>	<ul style="list-style-type: none"> <li>• Participants noted that it would vary greatly depending on the business and the nature of the damage.</li> <li>• One participant had lost \$900 in merchandise after a plumbing problem at his small cosmetics store.</li> <li>• \$10,000 for destruction of a commercial greenhouse.</li> </ul>
<b>Property loss (personal)</b>	<ul style="list-style-type: none"> <li>• \$10,000-100,000 for damage/destruction of a house.</li> <li>• \$3,000-20,000 in property damage and liability in uninsured auto accidents.</li> </ul>
<b>Crop loss</b>	<ul style="list-style-type: none"> <li>• \$2,500 for frost damage to field crops.</li> </ul>
<b>Livestock loss</b>	<ul style="list-style-type: none"> <li>• \$2,500-7,000 for catastrophic loss of chicken flock after outbreak of avian flu.</li> <li>• \$400 per animal for loss of goats.</li> </ul>

The viability of these areas from the supply perspective is examined in the latter half of this report.

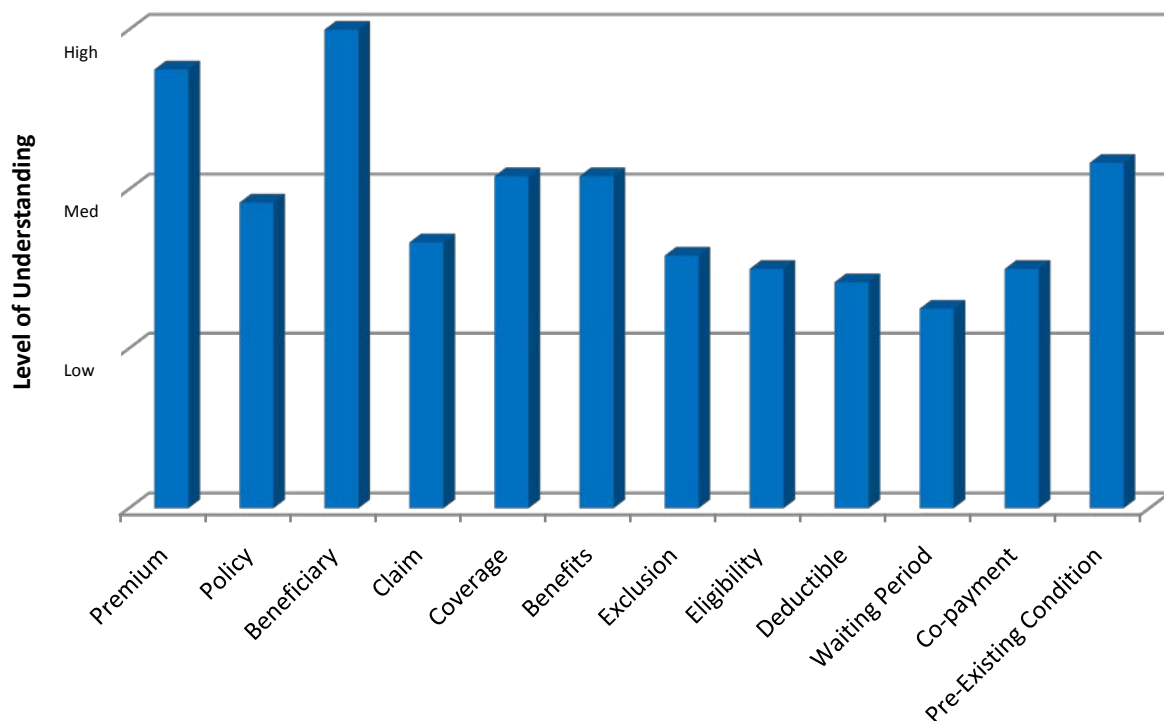
## 6. Current Coping Strategies

### 6.1. Formal Insurance – Understanding & General Attitudes

Focus groups included a series of questions to probe understanding and attitudes toward insurance generally. Most clients showed low-to-moderate understanding of insurance in general. The majority of firsthand experience came from government health or motor insurance, though many participants related secondhand knowledge of other forms of insurance. When questioned, they in fact cited a variety of insurance they knew was available in the West Bank, including some forms nearly or completely absent in the sample (e.g. homeowner's insurance).

Twelve of the 28 focus groups also included questioning on a list of insurance terms. Moderators were asked to rate the group's understanding of those terms on high-low scale; the results averaged across the 12 groups appear in Figure 8.

FIGURE 8 - LEVEL OF UNDERSTANDING ON SPECIFIC INSURANCE TERMS



Many participants openly expressed a desire to learn more about insurance. Generally, they wanted a better grasp of insurance concepts and wanted to be exposed to the available insurance product providers and their products. Suggested vehicles included training courses, workshops, and public awareness campaigns.

In terms of general attitudes toward insurance, there were a great deal of complaints about government health insurance (see discussion below), and quite a few participants mentioned that life insurance was taboo or *haram* in the Islamic tradition (see discussion below). Many said life insurance was also quite expensive, beyond the means of poor people, as was commercial insurance. “One cannot cover daily expenses and buy that kind of insurance,” said one participant. Clients also complained about exclusions for property damage related to the occupation.

Beyond these points, participants were not generally hostile toward insurance. The prevailing opinion was that if products were designed with consumers like them in mind, they would seriously consider buying them. They added that insurance companies new to the region will need to work to win the trust of poor Palestinians.

## 6.2. Formal Insurance – Uptake & Satisfaction

### 6.2.1. Health

The most common form of insurance seen was health insurance. Two-thirds of focus group participants were covered by health insurance, with no other form of insurance close to that level of coverage.

The socioeconomic survey administered in the focus groups did not systematically record the precise variety of health insurance participants had. However, discussion and anecdotes within the groups, as well as the individual interviews, suggest a very high preponderance of government insurance.

There were two varieties of government insurance seen in the sample. The most common form of government insurance was the least expensive one: the Intifada insurance. The program dates to the Second Intifada, and was created by Yasser Arafat as a form of public assistance for individuals who lost their jobs as a result of the Second Intifada.

Since the Second Intifada the program has endured, though there is a great deal of confusion about its current state. Some participants thought the program had been discontinued, while others believed they were fully covered. Many thought the PA had the intention of winding the program down in the near future. In related comments, many thought the Ministry of Health is actively trying to remove people from the rolls by enforcing eligibility criteria. The eligibility criteria were also a matter of confusion; some thought only unemployed Palestinians were eligible, while others thought all low-income Palestinians were eligible.

According to most currently enrolled clients, the Intifada insurance covers all medical conditions and procedures that can be treated at government hospitals. Spouses and children under the age of 16 are fully covered. Everything is free, beyond small co-pays (see box).

Recipients are wholly limited to the government facilities, however, and that limitation is the basis for the prevailing discontent over the insurance. Participants attested that there is much the government facilities cannot treat. Major procedures like heart surgery are beyond the capacity of the facilities; likewise, many advancements in medical technology (e.g. CT scans) are unavailable.



In terms of medication, patients are limited to what is available at the government hospital pharmacies. According to clients, the pharmacies stock only locally-produced pharmaceuticals, and many forms of medication prescribed by doctors are simply unavailable.

The upshot of these restrictions is that many clients or their family members have found themselves in need of life-saving or life-altering surgeries or medication, and simply have no assistance under the Intifada plan. Expenses were borne entirely out-of-pocket.

Many clients disliked and distrusted the Intifada program. One interviewee commented that his opinion of the program was so low that he had dropped his coverage, rather than waste his time filling out the simple forms to keep it up. The shortcomings of the Intifada insurance (along with the one-third of participants who had no health insurance at all) appear to be the basis for much of the concern and anxiety that pushed injury/illness to the top of the list of impactful risks.

There is at least one other form of government insurance with key distinctions from the Intifada insurance. Most participants were aware of the program and referred to it as “the paid government insurance.” (See later discussion of “paid-for” government insurance in supply-side portion of this report.) Some clients had voluntarily taken up this form of the government insurance, while others said they were steered into taking it up when the Ministry of Health cut their eligibility for the Intifada insurance.

Like the Intifada insurance, medical care on “paid-for government insurance” always begins with government facilities. When a need for specialized treatment comes up, however, clients can petition the Ministry of Health for admittance to a private facility—though not Israeli facilities, which are considered the gold standard of medical care in the region. This process was described as burdened with paperwork and slow, up to several month from petition to care, but the petitions are generally granted. Some said the care received at private facilities was fully covered, while one interviewee described a 30 percent deductible on eye surgery he undertook in this manner.

A third form of health coverage, much rarer than both forms of government insurance, was employer-sponsored private insurance. Only a handful of participants working for large

#### **SAMPLE PREMIUMS/COSTS FOR INSURANCE CITED BY CLIENTS**

##### **Health:**

###### Intifada

Premium: none, spouse and children under 16 covered.

Co-Pays: \$0.75 for meds; \$2.50 for hospital visit.

Deductible: none

###### “Paid Government Insurance”

Premium: \$350/year for family coverage.

Co-Pays: none

Deductible: up to 30% on specialized care at private facilities.

###### Employer-Sponsored Private Insurance

Premium: \$6/month for individual (more for whole family).

Co-pay: none, except a \$5 contribution made to worker’s union with each claim.

Deductible: none, including private and Israeli facilities.

##### **Automobile:**

\$325/year for comprehensive coverage.

##### **Commercial:**

\$100/year, covers 60% of merchandise and 100% of physical structure damage.

##### **Life Endowment:**

\$383/every six months; term is 10 years; death benefit is \$25,000; 7 years into plan, 80% of savings/endowment can be withdrawn; 8 years into plan, 85% of savings/endowment can be withdrawn.

##### **Combination Commercial/Homeowners/Health:**

\$1,000/year for broad coverage in all three areas.

organizations had this. The costs were low (see box, previous page), and flexibility to pursue specialized care, even at Israeli facilities, was wide. These were the best deals in insurance documented in the study, cited by employees of such organizations as UNRWA and the Palestinian Broadcasting Company.

A fourth form of health insurance cited by participants was privately-purchased individual policies. These were extremely rare in the sample, limited to a few individuals within the CAB focus groups (generally the larger SME owners). At least one participant said he had government insurance and used their privately-purchased individual policy as a supplement, to cover specialized care (e.g. use of the Israeli hospitals). NOTE: these cases may in fact represent confusion on the part of certain participants, as the supply-side investigation found no individual health policies currently available in the West Bank.

In a further twist on the healthcare landscape, some of the well-insured CAB clients offered up another distinct complaint. While their insurance gave them access to private and/or Israeli facilities, they complained that checkpoint delays sometimes made it difficult or impossible to access care in those facilities.

### 6.2.2. Motor Insurance

Motor insurance is required by law in the West Bank, though adherence varies. In our study, only 50 percent of participants who owned cars said they had valid insurance.

Generally we heard very few complaints about motor insurance. Clearly, some individuals had difficulty affording it, but few complained openly about the cost. Most clients seemed satisfied with the level of coverage they received.

### 6.2.3. Commercial

A very small fraction of enterprise owners had commercial insurance. One example included a small cosmetics store owner, who paid \$100 per year to cover 60 percent of his merchandise and 100 percent of physical structure damage. Exclusions included some natural disasters (e.g. earthquakes), and the policy had no personal liability coverage. Another example was the owner of large food wholesaling business. He paid \$1,000 for a combination policy that fully covered his business merchandise and structure, as well as his home and personal healthcare.

The few individuals who had commercial insurance were generally satisfied with it. Many other enterprise owners expressed a great deal of anxiety about commercial losses and spoke of interest in insurance. Typically, however, they deemed it too expensive. Some expressed interest in a form of insurance that diverges from the conventional commercial type- they wanted coverage against complete failure of an enterprise, rather than property therein.

FIGURE 9 - FOCUS GROUP PARTICIPANTS IN TOUBAS



#### 6.2.4. Life

Life insurance was very rare in the sample—less than 2 percent had it. There were two major reasons cited: 1) the premiums were viewed as out-of-reach for most; and 2) the concept of life insurance is widely understood to be taboo or *haram* in accordance with Islam.

Regarding the latter point, participants were unable to articulate the theological argument against life insurance; they just believed it to be true. This issue has been raised elsewhere in the Muslim world, and has been treated effectively by renaming and repackaging the insurance as something other than life insurance per se, and/or developing products in collaboration with so-called “Takaful” insurance providers (see text box).

It appears that the few companies currently offering life insurance in the West Bank (e.g. Alico, a division of AIG) have made very little effort to deliver or repackage the insurance in this way, despite the issue being quite serious to many Palestinians. For evidence, we can consider the following quote from a CAB client, one of the more affluent participants in the study:

#### OVERVIEW OF TAKAFUL

For generations, Muslims around the world have grown with a mindset that insurance (especially life insurance) is taboo because it contravenes some Islamic tenets. Life insurance as sold in a conventional way was declared unacceptable in 1903 by a group of prominent Islamic scholars in the Arab countries.

The search was on for an acceptable alternative ever since, and not until the 1970's did the debate have sufficient momentum to reach a consensus. In 1985, the Grand Counsel of Islamic scholars in Makkah, Saudi Arabia, Majma al-Fiqh, approved takaful system as the alternative form of insurance written in compliance with Islamic Sharia. The takaful system is a concept of protection for the good of society, a concept that was never an issue in Islam in the first place. The Grand Counsel approved this system as a system of co-operation and mutual help, but the exact method and operation was left to Islamic scholars and insurance practitioners to resolve, develop, and implement.

Takaful industry is still not past its formative years and there are many areas unresolved, especially in life insurance. The key areas to resolve are the global standardization of takaful terminology, the development of an acceptable form of life insurance (family takaful), especially for countries in the Arab regions, and a common consensus for a system to determine profits (or surplus) distributable to participants and shareholders.

(Source: Institute of Islamic Banking and Insurance, London, [www.islamic-banking.com](http://www.islamic-banking.com), 2009).

*I had a life insurance since I was 35. It is about 200,000 USD. I was afraid that my son would not be able to provide a living for his mom after death. God may torture me, but this insurance would protect my wife when needed.*

Only one of the 20 in-depth interviewees had life insurance. That policy turned out to be a life endowment policy from Alico. The clients paid \$383 every six months over 10 years, with a death benefit of \$25,000. Seven years into plan, he could withdraw 80 percent of his savings/endowment build; after eight years, he could withdraw 85 percent. It should be noted that this particular individual was confused as to the nature of the endowment. He thought the 80 and 85 percent figures applied to the death benefit of \$25,000, rather than the much smaller amount built up in savings/endowment.

#### 6.2.5. Combination Policies

As noted above, one participant—easily one of the most prosperous and best insured individuals in the entire sample—had a combination policy that included commercial, homeowners, and health insurance. He paid \$1,000 per year to cover his business merchandise and structure, as well as his home and personal healthcare. He said the health component paid 70 percent of costs for all major and minor procedures, and 70 percent of all medications; he was able to use both private and Israeli facilities. The homeowner's insurance here was the only such case noted in the sample.

### 6.3. The Informal Safety Net

With the industry in its current state, formal insurance touches many but rescues few in the West Bank. An overwhelming conclusion of the research is that the more profound story of risk management is found in informal coping mechanisms. These are a remarkably robust set of strategies that appear to have sustained the population through decades of social and political turmoil.

An interesting facet of these coping strategies is their collectivized nature. Most low-income residents of the West Bank do not insure themselves against risk by building savings or assets on an individual level. Only 17 percent of focus group participants had a formal savings account, and that number was skewed higher by the CAB clients. The figure for UNRWA, ACAD, and Al-Rafah clients combined was around 10 percent. Likewise, the buildup of major assets as self-insurance was limited, with some exceptions. In accordance

with Palestinian customs, most married couples have a cache of gold acquired when they wed (which many declare they would sell in an emergency). About two-thirds of the sample owned a home, and just over 43 percent owned productive land.

When emergencies strike, low-income Palestinians household tend not to look inward for help, but rather outward. They turn to their families and friends, and more often than not, they receive the help they need.

### 6.3.1. Loans from Family & Friends

Overwhelmingly, the top strategy for coping with economic shocks of all kinds is the ex post acquisition of loans from family and friends. These loans are striking in both their frequency and scale. They are also offered interest-free and with open-ended terms; people pay them back when they are able.

An example from the research helps illuminate the role and extent of these kinds of loans. One interviewee recounted the story of how in May 2008, he entered into a dispute with his neighbor over that neighbor's planned construction of a swimming pool on his property. The interviewee noted that he had young girls in his own house, and that having a swimming pool in adjacent property greatly offended his religious sensibilities. He argued back and forth with the neighbor over the idea.

Eventually it became clear that he could block the construction by purchasing a small tract of land between their two houses (which the neighbor would need to carry out the pool plan). In a matter of weeks, he was able to raise nearly \$26,000 by seeking loans from a variety of family and friends. These loans were interest-free and came with no set term, though he noted that friends and family have the right to "call in" the loan at any time if they need the money back.

This was a man who had recently taken out a \$1,680 from UNRWA—so his formal credit was dwarfed in scale by his informal credit. In fact, he added that any formal loans he sought from that point would probably be used to help pay back friends and relatives for the informal loans. This use of small formal loans to help pay back large informal loans is an interesting inversion of the more common scenario in microfinance, when small informal loans are used to back larger formal loans.

Any obvious question raised by these informal loan patterns is where the money comes from. This is to say, if most people are poor, and they save little, how are they able to lend in such large quantities to friends and family?

Research suggests two potential answers: 1) the loans come in small amounts from a multitude of individuals, lest no lender's individual budget be strained; and 2) the borrowers focus to some extent on their wealthier acquaintances and family (e.g. the proverbial "rich uncle"). Interestingly, participants did not mention another expected source of such loans: Palestinian migrants living and earning money abroad. We heard many stories of Palestinians leaving the region to pursue better opportunities in places like the United States, but we heard very little discussion of these migrants as a source of aid, via remittances. (It

should be noted that questioning did not include specific probes as to where friends or relatives as lenders were living.)

### 6.3.2. Merchant Credit

When Palestinians in the West Bank face economic shocks, they also turn to local merchants for store credit, and they often receive such credit in abundance. In many ways, this can be considered an extension of “loan from friends” in that these local merchants generally know the borrowers and might indeed consider them friends.

Once again, an example helps illustrate. One interviewee in Toubas had been working for several years to build her chicken farming business, but her efforts had been undermined by three separate outbreaks of avian flu. Her losses each time ranged \$2,500-10,000. Over that time, she helped offset the losses by borrowing from formal sources includes ACAD, FATEN, and a local agricultural cooperative. Her formal borrowing over the last three years totaled \$9,000. During that same time, however, she borrowed aggressively from informal sources, including \$3,500 from family and friends and \$7,000 in merchant credit, for both household provision and agricultural supplies.

In this case, the interviewee noted that the merchant credit, like the family and friend credit, was interest-free and had an open-ended term. It was not clear that this was always the case with merchant credit.

### 6.3.3. ROSCAs

ROSCAs were quite common in the West Bank, usually identified by the local Arabic term *jameya*, or association. In their operation, they are classic ROSCAs, comparable to others seen around the developing world: a set number of people contribute a fixed sum (e.g. \$100) on a fixed interval (e.g. once per month), over a fixed time period that corresponds with the number of members in the groups (e.g. 15 months for a 15-member group). At each agreed-upon interval, a meeting is held and a lottery conducted, to determine which member receives the “pot” containing everyone’s contribution. Once a member receives the pot, he/she is ineligible to receive it again for the remainder of the term.

The payouts of these groups varied considerably from a few hundred dollars to over \$10,000. Often the groups were organized among friends, although profession also served as the basis for group formation (e.g. ROSCAs among taxi drivers, teachers, or market vendors).

Universally, without a single exception, participants confirmed the pots in their ROSCAs are available to members facing an economic shock, regardless of whether they are picked in the lottery. “Moving up” to receive a pot in this way does not bring a financial penalty to the recipient, as it does in other parts of the world. Hence the ROSCA assume the role of ex ante coping mechanism.



### 6.3.4. “Family Box”/Treasury

Another informal, ex ante coping mechanism noted in the research was a local institution known as the “Family Box” or “Family Treasury.” These are collections taken up within large extended families to help cover sudden or extensive financial needs of individual family members. They were more common in the southern West Bank, e.g. Hebron.

The typical contribution might be a few dollars per month. The sums available to individual family members seemed to vary considerably, but some participants spoke of tens of thousands of dollars accumulated in these treasuries. The funds were said to be available for needs ranging from wedding costs to medical emergencies. It was unclear from research how these funds were managed or where they were kept (e.g. in a bank).

The nature of these payouts seemed to vary. In some cases, such as weddings, they were viewed as loans that the recipient had to pay back, though interest-free and on a flexible term. In other cases, especially those of a more emergency nature, the payouts were gifts within the family, with no expectation of payback.

### 6.3.5. Non-Familial Collectives/Treasuries

Participants also noted a few examples of similar treasuries operated on the basis of an organization other than family.

The most significant example noted in research was a “Treasury Box” operated by a women’s collective in the village of Sinjel. The collective’s 40 members make small contributions to this fund, around \$4 per month. Unlike a ROSCA, there was no regular payout, but the funds could be requested any time for special events or shocks that come up.

The group’s treasurer kept records of all these payouts, which were viewed as loans. Members had to pay everything back, but there was no interest and the terms were highly flexible. People paid when they were able. “Everybody here knows everybody

#### PROFILE OF A ROSCA USER

##### CASE STUDY #4: BASSAM

- 54 years old
- Owns small BBQ restaurant
- Married with 5 kids
- From village outside Hebron, still lives there

##### ROSCA Experience

Involved with 3 *jameyas*; all are composed of friends of his. He was also exposed to the idea of *jameyas* years ago by friends.

##### How They Work

Contributions are low enough that they do not impact his household consumption. The three schemes break down as follows:

- 1) \$5/day, 12 people, pays off \$60 to one member every 12 days.
- 2) \$40/mo, 10 people, pays off \$400 to one member every 10 months.
- 3) \$30/mo, 15 people, pays off \$450 to one member every 15 months.

A raffle determines who gets pot, but a member can always ask for an exception if an emergency or sudden need comes up.

##### Use of Payouts

Bassam sometimes uses his pots for sudden, family emergencies. But he mostly uses them to pay routine, periodic expenses like health insurance premiums, car registration, and doctor bills.

He thinks this is typical in his groups. He notes that most of his fellow group members have no formal insurance beyond Intifada health.

##### Why Not Just Save at a Bank?

Bassam says he is not familiar with banks: “This is the only method I know to save.” Also, the mandatory contributions are very important for him. “If I wasn’t part of a ROSCA, I wouldn’t save anything,” he explains.

Earlier in his life, he didn’t save or do ROSCAs because he had no spare money. An older son is now contributing to HH expenses, which frees up some cash.

##### ROSCAs in Landscape

Very common. Bassam says most see them as a coping strategy for emergencies. He does not view them as equivalent to long-term insurance, but definitely a short-term coping strategy. Adds that many people rely on ROSCAs rather than seeking loans, which they see as hard to get.

else, so they know what people's status is," explained the group's leader. This treasury was also used to pay back the bank when someone defaulted on a loan payment (with the expectation that the defaulter would pay the treasury back eventually).

#### 6.3.6. "Financial Adoption"/Orphan Funds

A final informal, ex post coping strategy noted in the research is a community-based support mechanism to assist orphaned children. The mechanism comes in service especially in cases involving occupation-related death of the parents.

Like the Family Treasuries, research did not reveal precisely how these funds are managed. There seemed to be considerable flexibility in how they were set up or operated. Sometimes a collection was taken up within a particular community to assist local orphans. Sometimes a call went out across the border, to Israeli Arabs of means, to assist West Bank children in these circumstances.

### 6.4. Formal Credit as Coping Mechanism

It is important to add that beyond insurance, informal loans, and informal insurance, formal credit also plays a significant role in risk management in the West Bank. When confronted by an economic crisis, many participants said they would not or do not hesitate to pursue formal loans from the lending institutions operating in their area.

Generally this was considered a less desirable option as compared with the informal sources. When asked to rank their preferred coping mechanisms, a typical sequence was: 1) loans from family; 2) a ROSCA payout; and 3) a formal loan from an MFI. The reasons for these preferences are obvious: the formal loans bring interest payments, while the informal coping strategies do not. Formal loans are typically much less flexible in all respects.

Participants recounted many instances of using formal loans to cope with economic shocks. Sometimes these instances represented diversion of part or the whole of an enterprise loan for non-productive use. However, many if not most of the lending institutions in the West Bank offer consumer loan products in addition to enterprise loans, so diversion was not always necessary.



## 7. Perceptions of Escalating Risk

Those committed to the idea of expanding microinsurance in the West Bank must confront several hindrances. First, as outlined in the previous chapter, a very well-developed system of indigenous risk management exists there, and it has little to do with formal insurance. New microinsurance will need to trump what it is already available informally. Second, while somewhat receptive to the concept of formal insurance, Palestinians in the West Bank harbor some hostility toward foreign institutions, especially unfamiliar and American ones, which by necessity may be involved in the expansion of insurance services.

At the same time, other factors in the West Bank suggest openings for appropriate expansions of insurance products. To be certain, risks are particular and severe, due at least in part to uncertainties of occupation conditions. While the occupation as a whole may not be insurable, many of its disruptive effects may be, at least in part.

Moreover, it became clear in the research that participants perceived a distinct trend in Palestinian life vis-à-vis risk. Focus groups included questioning that asked participants to consider risk over time, comparing the present with various points in time going back 10 years. The overwhelming sense imparted by clients was that life has become riskier, which is to say, worse, over the last 10 years.

Some of the evidence of this perception can be seen below in Figure 10. Looking at four economic risks—education costs, illness/injury, unemployment, and agricultural loss—participants in Hebron described a steep escalation in severity over the last 10 years. (In this particular type of focus group, participants were asked to rate the severity of risks at various points in time on a scale of 1-5.)

In conducting this manner of research globally, we have observed some tendency to idealize the past in all settings—a kind of nostalgia for an imagined “good old days.” This mentality may have played a part in these

### **BUSINESS RISKS & CREDIT USE OVER TIME**

#### **CASE STUDY #5: MAHAMOUD**

- 50 years old
- Married with 5 kids
- Lived in Nablus city his whole life
- Business is manufacture of shoes; it is family-owned business, operated with his brothers.

#### **Business History**

Describes the business as very robust in the past, but much less now. Two factors have undercut business: 1) the occupation, which always limits his ability to get materials in and get products out to the market, and occasionally shuts the business down completely (e.g. Nablus incursion of 2006); and 2) Chinese imports, which have flooded and deflated market.

At height in early 2000s, the business had 13-15 employees; now it has no employees, only himself & brothers.

#### **Loans**

##### Recent Years

Has had 5 loans from UNRWA since 2004. Current loan is \$1700; it is an enterprise loan and used mainly to cover business expenses. He says he is forced to seek loans b/c customers have not paid their bills to him.

Notes that he recently looked into a USAID-sponsored program for enterprise development loans, but he has not applied because the programs only covers equipment purchases. What he needs are loans to help him bridge the downturns in the market.

He had roughly \$14,000 from family and friends in the last two years. Estimates about 2/3 went into business, 1/3 into household expenses.

##### 5 Years Ago

Net income was \$1,400/month, about twice what he makes now. He needed much less credit overall. He never took out formal loans, only occasionally from family and friends. Generally the business supported its own capital needs.

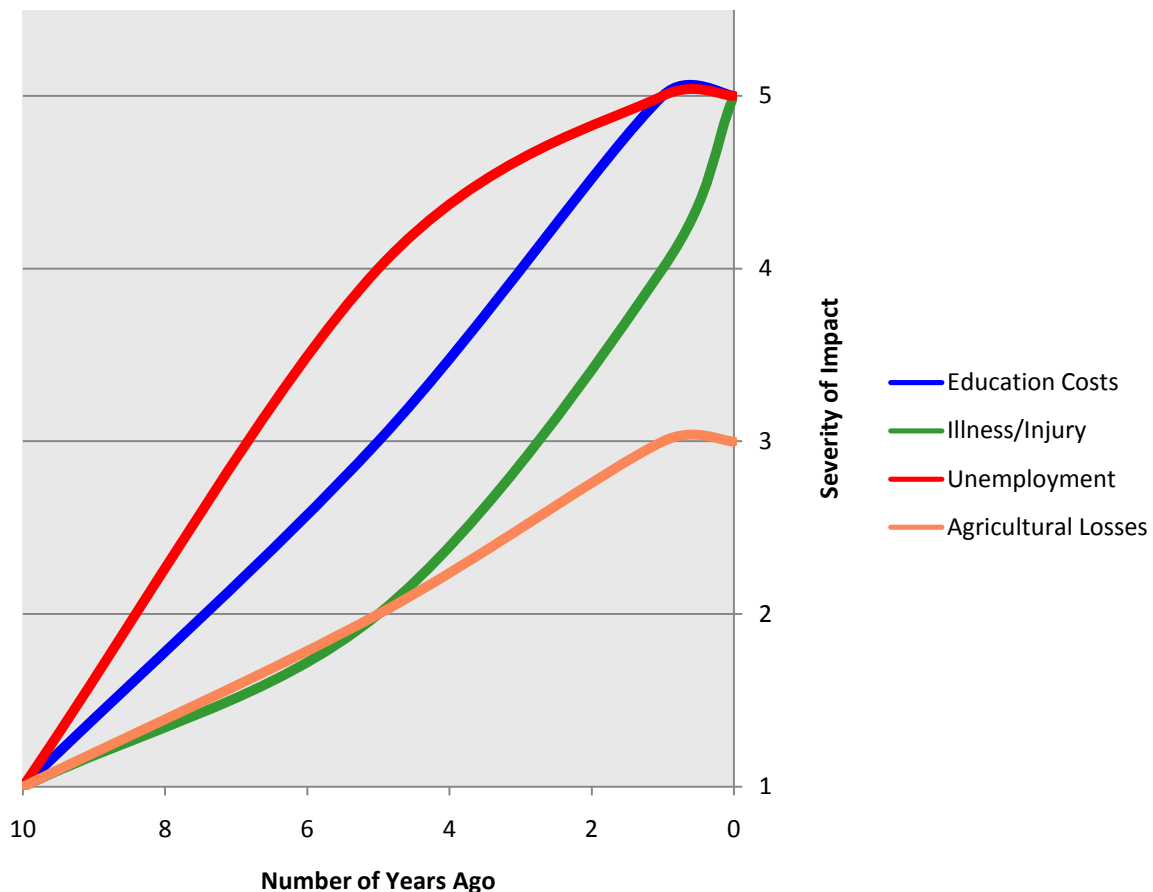
##### 10 Years Ago

Business was even better. He rarely took out loans of any kind for the business or household.

observations, but comments came with enough regularity and emphasis to suggest that there was more at work than nostalgia.

To some extent, the comments are backed up by historical realities of the West Bank over the last 10 years. The starting point in this exercise—10 years ago, 1999—was a time of real optimism and relative peace. It was after the Oslo Accords and a time of considerable growth in the Palestinian economy. Most importantly, it was before the outbreak of the Second Intifada, which disrupted the economy and the transfer of authority from Israel to the PA.

FIGURE 10 - SAMPLE TIME-SERIES OF RISKS, HEBRON



In its first few years, beginning in 2000, the Second Intifada massively undermined the Palestinian economy (cf. World Bank, 2004). Even though the violence has diminished in the last few years, the legacy of those years in the form of tightened Israeli controls continues to disrupt economic development. In 2008, for example, the Palestinian economy showed stagnant growth, despite billions in international aid; observers at the World Bank have linked this outcome to Israel's security measures (Berger, 2008). In addition, the global recession is likely playing some role in the recent economic direction of Palestine, though its relative isolation may be shielding the territory from the brunt of these effects.

These effects and economic pessimism are essentially what participants described to us as their personal experience. Paired with this testimony were a substantial number of stories about breakdown in the informal safety net. Participants related instances when they sought loans from family or friends, and those sources failed them. Family and friends simply could not produce the money to lend, or they did lend the money but requested repayment much sooner than expected. Participants described this phenomenon as new and recent in their lives.

All told, participants took a grim outlook on the Palestinian economy and their ongoing ability to manage risk within it. It follows that those facing this outlook will be more likely to embrace novel ways to improve their standing. As one MFI manager phrased it, “People are hungry and thirsty for new services.”

## 8. Notes on Delivery Systems from a Demand Perspective

### 8.1. Building trust among clients

Participants repeatedly expressed their concerns over new insurance programs becoming an excuse for exploitation by commercial interests, especially foreign ones. Trust does not flow easily in the West Bank, and clients want to trust the institutions that offer them insurance.

Given this atmosphere, wherever possible, the project should aim for microinsurance delivery through familiar MFIs or commercial institutions, as they are likely to achieve the best results. Naturally, these scenarios depend on the willingness and capacity of these institutions to partner with insurance companies and deliver the products (see later discussions in this report).

Another way for new microinsurance programs to build/reinforce trust is to demonstrate cultural and political sensitivity in product design. There are specific hot-button cultural and political issues in the West Bank that should be addressed in any product design or rollout.

A prime example is exclusion for occupation-related damage to property. Such exclusions go beyond fiscal exposure—they are an insult to Palestinian identity. Another example is the afore-mentioned life insurance taboo. Any insurance company that fails to address this issue will reinforce its own foreignness to Muslim culture.

Above all, clients want to feel that insurance providers and products are on their side. This is true of insurance clients anywhere in the world, but the sense of isolation and oppression that prevails in the West Bank makes trust all the more salient.

### 8.2. Financial education

Most Palestinians have had some exposure to insurance, whether through government health, motor, or the experience of people they know. For the majority, however, the core value of insurance has not been demonstrated in a form meaningful to them, which is to say, a bottom line-oriented cost/benefit presentation of insurance concepts and specific insurance policies.

Financial education can impart to potential clients a stronger understanding about risk-pooling. It can demonstrate the bottom-line advantages of proactive coping strategies, in place of the reactive strategies (e.g. loans from family and friends) most common in the West Bank. Financial education programs can delve deep into the details of how the policies work and how they may represent value-for-money to clients. It can also show clients how payments plans have been set up to work in accordance with typical household cashflow cycles. In sum, the programs can help convince clients that the policies are affordable and advisable, thereby countering any inherent skepticism toward insurance.

By and large, Palestinians are shrewd money-managers. It seems likely that new financial services will catch on once they perceive a tangible benefit. As one MFI manager phrased it: “You need to convince them of the value. Usually people are eager to try new things in this part of the world. You just need to give them the key and let them go.”

## 9. Introduction - Supply Research

### 9.1. Objectives

Building on the results from the demand-side study, the Microinsurance Centre (MIC) carried out an investigation of the supply side of insurance in May 2009. The goals of this study were threefold:

1. To analyze the state of microinsurance in the West Bank.
2. To identify potential partners for new microinsurance services.
3. To assess the most important areas for technical assistance in the insurance sector in general and for microinsurance development specifically.

### 9.2. Sources of Information

The research on the supply side centered on interviews with personnel at key institutions and organizations in the West Bank; in particular, the following:

- Seven insurance companies (Ahleia, Al Arabya, Al Mashreq, Arab Life & Accident Insurance, National Insurance Company, Palestinian Insurance Company, TRUST)
- Five microcredit organizations or banks (Al-Rafah Microfinance Bank, Cairo Amman Bank, Faten, Palestine Islamic Bank, UNRWA)
- Four Government bodies (Ministry of Health, Ministry of Labour, Ministry of Social Affairs, Palestinian Capital Markets Authority)
- Two federations (Associations of Banks in Palestine, Palestinian Insurance Federation)
- Six related organizations (Centre for Private Sector Development, Democracy & Workers' Rights Centre, Economic & Social Development Centre, Medical Relief Prevention and Diagnostic Centre, Merlin, ILO)

The preliminary findings were presented on May 20, 2009 in Ramallah at the USAID – sponsored conference, “Microinsurance Opportunities in Palestine.”

## 10. Short History of Insurance Supply in the West Bank

During the Jordanian rule in the West Bank (1948 – 1967), Jordanian insurance companies were active. In the aftermath of the Six-Day War in 1967, most of the Jordanian companies left the West Bank and Israeli companies began offering insurance services. The first Palestinian insurance company was licensed in 1976 under Israeli insurance regulation. After ceding partial control over the West Bank to the Palestinian Authority in 2001, no proper insurance law or regulation existed until 2005.

Insurance companies have been under the supervision of the Palestinian Capital Markets Authority (PCMA) since a new insurance law was enacted in 2005. The PCMA effectively started to supervise the industry in mid-2008. Since 2005, all insurance companies are required by law to join the Palestine Insurance Federation (PIF). The Federation is funded by an annual membership fee of \$3,000 per company and \$1.25 per motor policy sold.

Today, the legal framework in which insurance companies operate is still a mix of Jordanian, Israeli, and new Palestinian<sup>5</sup> law. There is no single currency used in the insurance market. While motor insurance business is generally carried out in Israeli currency (NIS), most other insurance policies are issued in USD. A number of products using Jordanian currency (JD) are also available in the market.

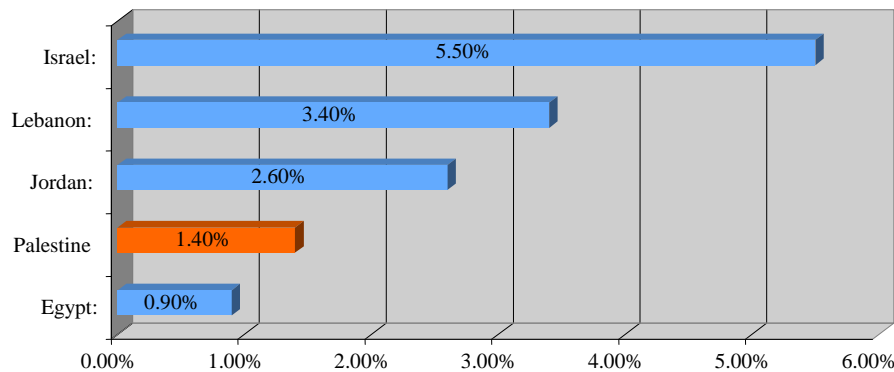
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<sup>5</sup> The local Government in the Gaza Strip does not recognize the Palestinian law as applicable. Even though the Gaza Strip is not covered in the study presented here, this should be kept in mind as some Palestinian insurance companies operate in both the West Bank and Gaza.

# 11. Key Facts & Figures on the Industry

Measured by the premium volume generated, the insurance industry plays only a minor role in the economy of Palestine. Insurance penetration, calculated as total premium to GDP, is estimated to be about 1.4 percent, which is at the lower end of values reported for neighboring countries<sup>6</sup>:

**FIGURE 11 - INSURANCE PENETRATION IN PALESTINE & NEIGHBORING COUNTRIES (PREMIUMS/GDP)**



The comparatively low insurance penetration suggests that there is still ample room for business expansion. While Egypt has lower penetration figures, Jordan and Lebanon show clearly higher shares of insurance in their economy.

As per end of 2008, a total of nine licensed insurance companies operated in the West Bank (see Table 8). This includes composite insurance companies (e.g. those offering life and non-life products under one roof). No reinsurer operates a branch in the West Bank.

**TABLE 8 - INSURANCE COMPANIES ACTIVE IN WEST BANK (END OF 2008)**

Company	Origin	Licence	since	Branches	Employees
Ahleia Insurance Group – AIG <sup>7</sup>	Domestic	L / NL	1994	13	120
ALICO <sup>8</sup>	US	L	1996	NA	NA
Al-Arabya Insurance	Domestic	NL	1975	8	99
Al-Mashreq Insurance	Domestic	NL	1992	7	85
Arab Life & Accidents Insurance	Jordanian	L / NL	1995	6	37
National Insurance Company	Domestic	L / NL	1992	9	145
Palestine Insurance Company	Domestic	NL	1994	8	92
Palestine Takaful Insurance	Domestic	NL	2007	0	19
Trust International Insurance	Domestic	L / NL	1994	9	139

<sup>6</sup> The estimate for the West Bank (including Gaza) is based on the GDP estimate of \$6.641 billion, published on the CIA World Factbook ([www.cia.gov/library/publications/the-world-factbook](http://www.cia.gov/library/publications/the-world-factbook)). Other insurance penetration figures are taken from Swiss Re (2008): Sigma No3/2008 – World Insurance in 2007.

<sup>7</sup> This company is *not* affiliated to the US Insurance company AIG.

<sup>8</sup> ALICO is a subsidiary of the US American International Group (AIG).



In general, insurance companies operate an astonishingly large network of insurance outlets (headquarters and branches combined). The larger insurance companies serve most or all of the following cities:

- Al-Bireh / Ramallah
- Hebron
- Nablus
- Tulkarem
- Bethlehem
- Hewara
- Salfeet
- Gaza
- Jenin
- Toubas

This large network might create considerable inefficiencies, but could also constitute an excellent base for future market penetration. Most regional branches are likely to be in a position to handle more business without incurring much higher costs. Yet, at this stage of research, this is pure speculation, and any such plans would require a more in-depth analysis of individual companies' cost structures.

Almost 800 persons are directly employed and another 230 work in the industry as sales agents. Competition is strong, especially in the compulsory insurance segments of motor and worker's compensation insurance. Allegedly, this competitive pressure has led some insurance companies to undercut the minimum price set by the PCMA, while others explore new niche markets such as property insurance for SMEs.

Compared to the banking sector, the insurance industry's financial position appears weaker, with huge disparities between the strongest and weakest companies. None of the insurance companies had been rated by any of the four major international rating agencies<sup>9</sup> by the end of the year 2008. In the second quarter 2009, three insurance companies are under close scrutiny by the PCMA due to their low solvency margin.

Gross written premiums reached \$94 million in 2008, up by 28 percent compared to 2007, despite difficult economic conditions. Table 9 gives a more detailed view on the premium evolution by line of business.

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<sup>9</sup> Standard & Poors, Moodys, AM Best, and Fitch.

**TABLE 9 - GROSS PREMIUM BY LINE OF BUSINESS (SOURCE: PCMA; MILLION USD)**

<b>LoB</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>% of total</b>	<b>Change (2007-8)</b>
Motor	29.5	36.1	41.5	39.6	42.5	51.3	54%	+21%
Accident	10.0	10.9	13.9	11.4	11.6	13.9	15%	+20%
Health	4.8	5.3	5.3	9.4	9.0	17.9	19%	+99%
Property	3.7	4.9	5.7	6.0	5.6	6.5	7%	+16%
Life	4.4	4.8	4.4	4.5	3.7	3.5	4%	-5%
Marine	0.7	0.8	0.9	1.0	1.0	1.2	1%	+20%
<b>Total</b>	<b>53.1</b>	<b>62.7</b>	<b>71.7</b>	<b>72.0</b>	<b>73.4</b>	<b>94.3</b>	<b>100%</b>	<b>+28%</b>

Motor and Accident insurance clearly dominate the insurance market, accounting for 69 percent of total premium volume. The large majority of products sold in these lines of business are compulsory (see sections, ‘Motor Insurance’ and ‘Accident Insurance’).

## 12. Profile of Insurance Supply by Type

### 12.1. Motor Insurance

The motor insurance products are so far the clear backbone of the insurance industry in the West Bank. Three different products are offered to car owners:

1. Motor third party liability covering bodily injuries of all persons involved in a car accident (passengers as well as victims outside the car). This product is compulsory for all motor vehicles and the cover amount is not limited. The PCMA has set a minimum price for this category, ranging between \$180 and \$250 per year for private cars, depending on the engine force. Enforcement was very low until recently, as the Israeli police force responsible for the West Bank was concerned about security, but not about motor insurance. During the last couple of years, the PA controlled police force has stepped up controls and an estimated 80 percent of all motor cars are insured now (though other estimates vary, and the 80 percent figure was not borne out in our sample for the demand study). Since early 2009, car owners are required to show proof of insurance for the full period to get their annual motor license. The hope is to improve enforcement of insurance coverage by coupling the annual license payment with the insurance payment. However, this practice hurts the lower-income car owners, as they have to come up with a double lump-sum for the car license and the insurance at the same time.
2. Full motor third party liability, including coverage against property damage. Currently, this coverage is offered as a voluntary complement to the mandatory coverage. However, it is expected that this product will be declared compulsory soon.
3. Motor hull is an insurance that comprehensively covers the policyholder's vehicle. As in other markets, this relatively expensive coverage is bought by a small number of individuals only, mainly to insure new, expensive cars.

The stated rationale to set a minimum price for the mandatory motor third party liability coverage is to prevent destructive competition among the insurance companies. The idea is that this will allow them to build a solid capital base and to compete on the level of service, rather than on price. Even though it is a minimum price and not a set price, no insurance company charges higher premiums than the regulatory minimum.

The minimum price strategy by the PCMA has been beset by discontent thus far. Clients complain about lengthy claim processes and numerous exclusions, while insurance company representatives complain about unfair competition by their industry peers who seem to have devised schemes that allow them to undercut the official minimum rate. At the same time, reinsurance companies are said to be pressing for higher premium rates, as they judge the current rate levels too low.

## 12.2. Accident (Workers Compensation) Insurance

Formal sector employees benefit from a law that obliges employers to buy accident insurance for all employees. The Article 116 of the Labour Law No. 7 / 2000 reads: “The employer must have workmen’s compensation insurance coverage against any accident to their employees.” As a consequence, the Ministry of Labour (MoL) is in charge of controlling and enforcing compliance.

This insurance is known as workmen’s compensation in the market and is a group accident product. Even though mandatory, actual uptake is believed to be rather low. At least some employers seem to use a loophole in the regulatory framework to opt out: they claim that buying this coverage is not in accordance with their religious beliefs and are thus exempted. Most interviewees did not believe that religion is the genuine reason, but simply a pretext.

## 12.3. Health Insurance

The health insurance market is comparatively well-developed, especially in terms of outreach, with 70-80 percent of the population benefiting from at least some basic protection. This high coverage ratio was mainly achieved through a loosening of intake rules with the Intifada insurance sponsored by the Ministry of Health (MoH). Initially established during the second Intifada to provide direct victims of the Intifada with at least some basic health services, membership has ballooned in recent years and now reaches about 1 million Palestinians. This massive influx of new members to the heavily-subsidized scheme has put enormous financial strain on the MoH.

Even though the Intifada insurance is almost free, as noted in the demand-side results, members are not happy: they complain about lengthy enrollment processes, poor and limited service, and especially about restrictions on acquiring care for more complex conditions at non-governmental health facilities.

Also as noted in the demand research, the MoH additionally offers a “paid-for” public insurance with broader coverage for roughly \$175 per person per year. All public sector employees, including their direct family members (spouse and kids) are automatically enrolled under this scheme. Even though judged as better value than the Intifada insurance, people criticize the slow admission procedures and the cumbersome referral process required to receive treatment at a non-public facility.

In direct competition to the government paid-for health insurance, several companies offer commercial health insurance for corporate clients with at least 10 employees. Again, the coverage applies to the whole direct family<sup>10</sup>, at an annual cost of \$200-250 per insured person. Commercial health insurance typically covers treatment at public and selected private health care facilities, including Israeli and Jordanian clinics for complex surgeries. In most cases, insured persons get a booklet that lists all affiliated health care facilities. The billing process mainly takes place directly between the health care provider and the insurance company.

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<sup>10</sup> This is: worker, spouse, all kids and sometimes parents if they are below the age of 65.

Commercial health insurance was the line of business that showed the highest growth rate during the period 2007 to 2008. Private companies, organizations, and NGOs increasingly offer their employees private health coverage as part of their benefit package. Three players dominate the field: Trust, NIC, and Al-Mashreq. It is noteworthy that only Trust feels comfortable with their health insurance products and report small profits, while the industry as a whole works at a loss.

In general, big accounts such as universities or municipalities buy a complete insurance package at one single company in order to maximize their negotiation power. For unexplained reasons, insurance companies offer health coverage at very attractive rates, which in the industry average do not cover the costs. Controls are increasing, but insurance professionals believe that fraud is widespread by all parties, including doctors, pharmacies, and hospitals.

Even though some respondents in the demand research believed that there is also private health insurance available for individuals, no insurance company is offering this product at present.

A new initiative to completely transform the health insurance sector has its origins at the MoH. The intention is to declare health insurance mandatory for all Palestinians and create a new health insurance body, run and supervised by the MoH. This new insurance scheme would replace the Intifada-insurance and extend the paid-for government health insurance. Resources to finance this new scheme would come from a 5 percent levy on income of all economically-active workers.

The World Bank, which had a closer look at the proposed scheme, has expressed concern about it. The concern comes not only because a new health insurer would be run and supervised by the same body, but also because the proposed funding strategy looks highly problematic in the current Palestinian economy. The economy features high and rising unemployment rates and an estimated 80 percent of all economically-active people working in the informal sector.

## 12.4. Property Insurance

Property insurance is a standard product and customers may choose from a range of different options. For private households, typical protection starts at a yearly premium of \$100, covering a content value of \$30,000 against fire and burglary. Personal liability and accident protection for family members are also included. For commercial property, insurance starts at annual premiums of \$150. Al-Mashreq Insurance has developed several property products specifically designed to small business categories such as bakeries, restaurants, textile shops, pharmacies, and nurseries, among others. The liability coverage included with the insurance package covers such risks as food poisoning in case of a bakery or restaurant.

As with all insurance products in the market, the list of exclusions is rather long and often confusing. The PIF as well as individual companies have started to realize that everyone would gain from fewer and clearer exclusions.

With regards to property insurance, the issue of war risks and risks associated with the occupation becomes crucial (as reflected in the demand-side testimony). All policies seem to exclude not only war, but also riots, enemy actions, and invasions, among other restrictive clauses. Thus, property policies cover the traditional basic risks such as fire and burglary, but do not provide coverage against losses associated with or directly resulting from the Israeli occupation.

Insurance professionals react very reluctantly to easing these exclusions, especially as they apparently do not get reinsurance coverage for such risks. Hence, including these risks in future microinsurance products may require new and close collaboration with a leading reinsurer in the region and/or partnership with political-risk insurance initiatives (see discussion below).

Ultimately, the evidence suggests that West Bank insurance companies are simply too fragile to be in a position to cover the critical issue of occupation-related damage on their own. In interviews, some of the local insurance companies' CEOs said they had have eye-witnessed the deliberate destruction of rows of cars by Israeli tanks in Ramallah during the Second Intifada and will never accept to take on such risks on their books. However, experience suggests it should be possible to find a reinsurer that accepts coverage of "collateral" property damage related to small-scale incursions and actions, as long as the reinsurer can stay clear of covering larger events like the recent Gaza war.

## 12.5. Agricultural Insurance

Agricultural insurance is the only major product that is high in demand but not offered at all. As in most countries, insurance companies find it extremely difficult to come up with commercial solutions for the risks inherent to farming. At least two insurance companies, NIC and Ahleia, have investigated crop insurance. They say they have been supported in their preliminary studies by Swiss Re, a reinsurance company. Curiously, underwriters at Swiss Re's agro desk denied having done so. In any case, this initiative has not gone far, as premiums are estimated far above what farmers would be willing to pay.

A recent study by ACDI/VOCA (2008), funded by USAID under the AED/SMART project, examined the possibilities of creating an insurance scheme for farm products in the West Bank and Gaza; it concluded that agricultural insurance should be implemented through a phased process. The main propositions are:

- Crop insurance should start on a small scale and later be expanded. Initially, only vegetable production in greenhouses would benefit from a frost insurance protection, as this sector suffers less frequent losses than open-field production.
- Premiums should be subsidized by 50-70 percent, as farmers are deemed too poor to pay the full commercial price. Subsidies could come from Value Added Taxes on farm inputs.
- Claims should be verified by a tripartite committee of insurance professionals, agricultural NGOs, and the Ministry of Agriculture.

Even though most, if not all agricultural insurance schemes worldwide benefit from subsidies in one way or another, this is a dangerous and most often unsustainable practice. It is dangerous because farmers would not pay the true price of risk and thus get a direct incentive to increase their exposure. It is unsustainable because most governments cannot afford to subsidize such schemes over a long period of time, especially if the farming sector is growing (which is one of the purposes of introducing crop insurance). It looks highly unlikely that a cash-strained government such as the PA would be able to provide subsidies over a long period of time, and it is very questionable whether the public funds would be used efficiently in such a scheme.

For frequent loss events, insurance is often not the most efficient tool to stabilize income streams, as it always involves transactions costs for administration and claims verification. In agricultural insurance, these costs are especially high, pushing overall costs for protection up. Under these circumstances, it may prove much more effective to facilitate savings opportunities for farmers. Offering attractive and easily accessible saving accounts to farmers would help them build up reserves and smooth income after a bad harvest or other crop loss.

## 12.6. A Note on Educational Insurance or Savings Products

Educational savings and insurance products are offered by some financial institutions or had been offered in the past. Trust Insurance identified this area as one of potential and offers an educational endowment policy. However, it has not met much success so far. Similarly, Arab Life Insurance has several endowment policies on offer but does not experience high demand for the products. Al-Rafah Microfinance Bank had an educational savings product, but failed to attract sufficient clients and therefore stopped it.

The demand research has clearly shown that education fees are a major cause for concern and financial stress in the lower-income population. Given the fact that several companies have tried to come up with products to address these concerns and failed to attract large numbers of clients, the reasons should be better analyzed. Either the products offered are not marketed effectively, or they are not properly designed to provide good value to customers, or both. It is also possible that respondents in the demand survey complained about the burden of *yearly, short-term school fees*, but are unwilling to make long-term savings to build up reserves for future educational costs.

## 12.7. A Note on Marine Insurance

Marine or transport insurance<sup>11</sup> is not a typical field for microinsurance development. Yet, low-income populations may benefit from proper marine insurance, when, for example, small-scale farmers that have their produce marketed, sold, and shipped through a cooperative. At least one insurance company (Trust), offers marine insurance. Once cross-border transport is eased, this line of business could become more important. Due to the

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<sup>11</sup> Defined as coverage for goods in transit, and for the commercial vehicles that transport them, on water and over land. Commonly "land" type marine is called Inland Marine Insurance and covers articles in transit by all forms of land and air transportation as well as bridges, tunnels, and other means of transportation and communication.

prevailing political situation, many exports from the West Bank are handled by Israeli transport companies, which buy marine insurance at Israeli insurance companies.

Depending on the ownership structure of the goods transported (still owned by the farmer's cooperative or already sold to wholesale traders), marine insurance may directly benefit low-income farmers. Alternatively, farmers might benefit from marine insurance indirectly through better prices from the traders, if they do not have to factor in a risk premium for transport losses.

## 12.8. A Note on Political Risk Insurance

In 2008, NIC launched together with the US government agency Overseas Private Investment Corporation (OPIC) and the US non-profit organization Middle East Investment Initiative (MEII), the Palestinian Political Risk Insurance Project (PPRI). As a first step, the PPRI will deliver political risk insurance to small and medium-sized Palestinian exporters to protect them against losses arising from trade disruption. In a second phase, importers to the Palestinian territories will be able to buy protection, and in a third step, the protection of foreign assets is envisaged. So far, farm products are excluded from this project.



## 13. Illnesses and Causes of Death

Data on illnesses and causes of death is a cornerstone in the development of the insurance (and microinsurance) sector in any context. To date, such data has not been collected centrally or in a consistent manner in the West Bank. On illnesses, public health care facilities report to the Ministry of Health (MoH). Private hospitals maintain their own statistics, but are apparently not required to report their data to the MoH. Mortality rates and causes of death are collected by both the MoH and the Palestinian Central Bureau of Statistics (PCBS). In partnership with the USAID-funded Flagship project, the MoH is revamping their health indicator database and intends to modernize the health information system.

The PCBS periodically conducts a population census and includes topics such as incidence of disability and deaths. Disability is further broken down by causes (e.g. traffic accidents, work injuries, other accidents, and illness) and types (e.g. moving, hearing, visual, and cognition). The published data by the PCBS and the MoH suggest that it would be possible to get death and disability data by gender, age, economic activity, household size, and geographic location. However, insurance companies do not share their claim data within the industry and do not use a country-specific actuarial mortality table. Part of the reason may be found in the fact that there is no actuary resident in the West Bank. Therefore, insurance companies have to rely on the services of actuaries from other jurisdictions, mainly Egypt and Jordan.

Regarding the main illnesses, all interview partners agreed on cardio-vascular disease as the most important. This may relate directly to the repeated mention of worry about the costs involved with an open heart surgery in the demand research. A qualitative ranking of the most important health concerns gives the picture in Table 10.

TABLE 10 - QUALITATIVE RANKING OF MOST IMPORTANT HEALTH CONCERNS

Very important	Important
<ul style="list-style-type: none"><li>• High blood pressure</li><li>• Heart attack</li><li>• Brain strokes</li></ul>	<ul style="list-style-type: none"><li>• Car accidents</li><li>• Injuries related to the occupation</li><li>• Cancer</li><li>• Ophthalmologic diseases</li></ul>

## 14. Key Issues for the Insurance Industry

As it currently stands, the insurance industry faces key challenges as well as opportunities in the West Bank. Most are related to one of the following five areas, which in turn are interrelated.

### 14.1. Public Perception & Trust

The sector has to improve if it wants to grow without forcing people to buy insurance. Trust towards insurance is low in the West Bank due to the significant difficulties in making a successful claim, coupled with extremely slow claim settlement. Industry-wide claim rejection rates are not available, but all major stakeholders (regulator, insurance federation, insurance professionals, and clients) agree that the rate is too high and that measures have to be taken to change the situation. Allegedly, it often takes years to get compensated, and most people perceive this as a deterrent tactic. Quite frequently, cases are taken to the court by insurance companies because they know that courts work for years until they reach a decision. These tactics damage public faith in the whole sector, thus hampering the prospects for growth in voluntary products and especially for the emergence of a sustainable microinsurance sector.

### 14.2. Pricing and Selling

This area also must improve, as current business practice (notably the focus on the motor market) potentially undermines financial incentive to invest in new products. Further, the lack of actuarially-derived mortality tables and accident statistics may lead to prohibitive uncertainty loadings for accident and life coverage, which inevitably reduces the potential market and could prevent the development of attractive coverage for low-income people.

### 14.3. Expanding Quality Profitable Health Insurance

Health insurance is in high demand and has experienced impressive growth rates in the recent past, but it has also generated industry-wide losses. On top of these issues, the regulatory uncertainty weighs heavily on this line of business. There is no doubt that the latter factor has to be sorted out quickly in order to provide incentives for the private insurance industry to review their products and propose new solutions.

For now, private health insurance is only being offered on a group basis, i.e. no individual policies. This makes it harder to develop products for low-income people, as most of them are not part of a pre-existing group that could be insured. As the same time, from the insurer's side, there is very little interest or incentives to develop new health insurance products, as long as the MoH does not specify its plans for a revised government health insurance scheme.

In short, micro health insurance is difficult to develop and provide effectively in the West Bank right now and may not be suited to this early stage of microinsurance development. That may change when the above issues are addressed.

## 14.4. Branch Networks

The rather extensive branch network operated by insurance companies in the West Bank suggest that there is significant potential to increase business and effective outreach without opening new outlets. The existing infrastructure could most likely be used to serve additional market segments, thus increasing efficiency ratios for the whole operation.

## 14.5. New Market Segments

New market segments, such as lower-middle income as well as low-income people are easily the largest business opportunity for growth. These markets should be approached with new, innovative products and service propositions. In order to be successful, a broad public awareness-raising strategy based on the principles and benefits of insurance, as well as its limits, would prepare the ground for healthy expansion. Crucial issues such as the compatibility of insurance with Islam and exclusions related to the Israeli occupation have to be addressed (preferably minimized) and openly communicated.

## 15. Microinsurance Products Currently Available

Microinsurance in the sense of insurance products specifically designed to meet the risk management needs of low-income people could not be identified, which confirms the findings of the demand research. In some cases, lenders include compulsory credit-life insurance with their loan products (Al-Rafah with 1600 borrowers and CAB) (MixMarket 2009). For housing loans and mortgages, CAB not only requires life insurance, but also property insurance on the collateral. All these products cover the outstanding loan amount only and no pricing details are disclosed to the customer.

In both cases, the banks started this practice three to four years ago, and are happy with this arrangement as they have experienced four to six claims so far. The total protected loan amount is unknown and the lending institutions will disclose neither the rate they pay for this insurance nor the rate they charge for this protection. While some customers may believe that this service is “free of charge,” as insurance premiums are folded into the loan interest rates, others may simply be unaware of their protection. Al-Rafah reported that they inform the family of a deceased borrower of the insurance arrangement.

It is noteworthy that Al-Mashreq Insurance explicitly adopted a strategy of downscaling and exploration of niche markets. These efforts have led to numerous property protection products for small business holders such as restaurants, bakeries and garment shops, as well as for families (see section “Property Insurance” above). In terms of protection and premium levels, they are close to what might be commercial microinsurance in the West Bank, although currently these products are marketed only to the middle-income class.

## 16. Current Delivery of Insurance Services

As noted earlier, insurance companies operate a large branch network in the West Bank, a situation that facilitates outreach in territories with generally high population densities. The actual sale of insurance is operated through three different channels: higher management members, sales staff that are employees of the insurance company and external insurance agents. Proper bancassurance<sup>12</sup> has not yet started. The few cases noted above are compulsory group products protecting all borrowers and bought by the lending institution, not the customer. Other, alternative delivery mechanisms could not be identified.

Larger corporate clients are served by higher-management members of the insurance company. Small corporate clients and individuals are either served by agents or employees. Agents work exclusively for one single insurance company, while brokers would work for several insurance companies. To date, no licensed insurance broker is active in the West Bank. It is not uncommon for the sales staff to work in direct competition with agents of the same insurance company.

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<sup>12</sup> Defined as distribution of insurance through a bank's channels.

## 17. Regulatory Environment

### 17.1. Licensing & Minimum Capital Requirements

In the past, insurance companies were able to acquire a single (“composite”) license for life and non-life products. That is no longer possible. However, pre-existing insurance companies were not required to buy new, separate licenses. The minimum capital requirement is \$5 million for a single-class licence (life or non-life), while a company operating in both classes must secure at least \$8 million. Financial statements have to be published quarterly.

In Palestinian insurance history thus far, no insurance failure has led to massive damage for the general public. The PCMA is observing the financial health of operating insurance companies very closely and has currently three institutions on its watch list. One of them might be forced to close. The PCMA seems to be aware of the dangers an uncontrolled exit of a company would represent for the whole industry. Therefore, it aims for a smooth process, protecting all existing claimants and transferring the active portfolio to a healthy insurance company in order to avoid a trust crisis in the insurance market.

### 17.2. Bodies Involved with Regulation

The main government institution involved in and concerned with insurance regulation is the PCMA. Controls have started only recently and significant efforts are currently put into a more effective supervision. The PCMA is also one of the driving forces behind the development of microinsurance in the West Bank.

There are three broad areas where the PCMA may have the greatest potential for impact in the development of the microinsurance industry:

- Encouragement of commercial insurance companies to develop new products, specifically designed to match the needs of low-income people in terms of coverage, conditions, premium payment, and service, including claims processing.
- Initiation or active participation in financial education and public awareness-raising campaigns in order to stimulate the demand for insurance products. Such efforts are likely to benefit the whole insurance industry, and would significantly lower the sales efforts for microinsurance.
- Inclusion of microinsurance into broader financial sector policies. The regulation of agents exclusively selling microinsurance would need special attention in order to allow new, cost-efficient partnerships.

In addition to the PCMA, three other government bodies are potentially involved with some aspect of insurance:

- The MoH, for government-sponsored and administered health insurance schemes.
- The MoSA, for social protection (even though this field is barely developed) and health insurance for destitute families.
- The MoL, which is in charge of unemployed people and thus has to foot the premium for government health insurance. Further, it has to enforce the compulsory workmen's compensation coverage for formal sector employees.

Additionally, other government bodies may become important in terms of delivery channel regulations, if, for example, MFIs and coops begin selling and servicing microinsurance products within regulations that govern them.

Takaful insurance has a special position and is mainly overseen by an Islamic Committee of religious experts for such products. However, the PCMA has to approve the members of this committee, thus trying to ensure that basic rules of financial good practise are observed. At this point, reflective of the demand-side findings, takaful insurance plays only a minor role in the West Bank. There is one takaful insurance company, operating since 2007, which has been set up by a group of traditional insurance companies, but has not yet met large-scale success.

Though not directly regulating, the PIF tries to get involved with regulatory issues. Up to now, the PIF mainly pushed to expand the range of mandatory products (e.g. TPL for lifts and restaurants). Beyond that, the PIF also advocated a reduced list of exclusions in the motor business, deleting “unethical” clauses and pushing insurance companies to settle claims quickly.

### 17.3. Agents

Agents have to be licensed and up to now it has been rather easy to get such a license. The insurance company that hires the future agent is responsible for their training. Both regulators and insurance professionals agree that training has been poor in the past and needs to be improved urgently.

The PCMA is working on a training course for new agents and envisages refresher courses, including re-licensing for existing agents. This is being developed in collaboration with Jordanian and Bahraini insurance professionals. For new agents, the plan foresees an initial training course of three to four weeks.

Today, there is no special provision for institutional agents—e.g. an MFI, as an institution, being licensed to sell microinsurance products. Therefore, all credit officers would have to register as insurance agents, which may prove cumbersome or prohibitive. Fortunately, the PCMA is very open and willing to look into alternatives that would ease these constraints. This is very important, as some MFIs already raised concerns about being regulated by two different bodies.

## 17.4. Product Approval

All new products, not only product lines, must be approved by the PCMA. The review process involves both an analysis of the pricing hypothesis as well as a critical look into the terms and conditions. The PCMA then discusses the findings with the respective company and eventually makes suggestions on how to improve the product. This procedure is still evolving and appears not very standardized, but seems to satisfy insurance companies up to now. Only one complaint was raised, related to a new third-party liability product for lift operators: the PCMA refused a first version as it judged the exclusions too numerous, reducing the real value of protection considerably.

## 17.5. A Note on Pensions

The regulatory environment for private pension schemes is not yet developed. At the same time, there are currently no privately-managed pension schemes or products available in the market. According to a recent World Bank report (2008), the PCMA is “not in a position to propose regulations for pension products or to implement an effective supervisory regime.”

It is advisable that this part of the financial sector become regulated in order to invite all stakeholders to develop and contribute to sustainable pension plans, which could help to mobilize savings and eventually reduce the financial burden of government bodies such as the MoSA. Some large private employers are believed to be interested in offering pension schemes to their employees, and a smaller number of trade unions plan to develop collective pools and funds to assist their members.

Currently, the Palestinian pension system covers public sector employees only. It is administered by several Government Ministries, as well as by the Gaza Pension Insurance Corporation. A law under which private sector employees can participate in the system was drawn up in 2005 but has not been implemented.



## 18. Potential Delivery Channels

Most insurers active in the West Bank already operate a rather extensive branch network, though these branches do not specifically cater to the low-income population. Still, the branches could potentially serve as a base to build a network to market microinsurance products on a large scale. The insurance company Delta Life has chosen that approach in Bangladesh, adding specific micro-agents to its roster of employees.

To be successful with such an approach, special attention should be given to the remuneration structure of the agents, as they should have strong incentives to serve the low-income market rather than the traditional one. Further, the physical location plays a determinant role: the outlet has to be close to the low-income people, in order to overcome physical access constraints and reduce transport costs and time.

Regarding potential partners for insurance companies in the classic partner-agent model, the choice in the West Bank is rather small:

- Large retail networks: inexistent.
- Large transportation companies/networks: inexistent.
- Water/electricity/telephone providers: judged as unsuitable as they do not enjoy a favorable reputation in the general public.
- Postal services: underdeveloped, but some potential in the nearer future.
- Private mail companies: eventually in the nearer future.
- Cooperatives: too small (but eventually potential for group coverage).
- Trade unions: perhaps some (and eventually potential for group coverage).
- MFIs: perhaps some.

Even the standard choice of working with MFIs is less suited to current circumstances (see next section). Trade unions could turn out to be interesting partners, but would require closer analysis. Despite an apparently lively unionist movement, not enough conclusive information could be gathered within the given timeframe. The second-tier aggregators in the trade union sector are likely to be more interested in serving as an information platform for their members than in selling insurance.

A recent study by Bruynse and Grossman (2008), funded by USAID under the AED/SMART project, explored the potential for branchless banking in the West Bank and found that several conditions to initiate the use of mobile phones or point of sale devices for cash transfers are not yet in place. The absence of a national SWITCH and thus a national payment system, as well as regulatory gaps, were identified as critical hindrances. It is therefore questionable whether mobile phone operators could successfully be integrated into a microinsurance network in the near future.

FIGURE 12 - VIEW OF RAMALLAH



## 18.1. Microcredit Organizations

Almost all organizations providing microcredit in the West Bank are members of the Sharakeh network. In its annual publication (The Palestinian Network for Small and Microfinance, 2008), the sector presented itself at the end of 2008 as follows:

- 13 member organizations
- Total active clients: 32,000
- Outreach: 64 branches
- Front office staff: 210
- Gross loan portfolio: \$47.8 million

The potential market for microcredit has been estimated to be between 100,000 and 200,000 clients. Financial self-sufficiency has yet to be achieved, and the whole sector is “spoiled by donor money,” as one interview partner put it. Nevertheless, two larger MFIs are presented and discussed in more detail below.

### 18.1.1.UNRWA

UNRWA’s microfinance division operates in both the West Bank and the Gaza strip, as well as in Jordan and Syria. In recent years, it has successfully transformed into a commercially-driven entity, achieving financial self-sufficiency. UNRWA’s client profile is rather heterogeneous, ranging from microentrepreneurs to rather large commercial entities with property assets up to \$500,000. (See additional details on institution and client base in text

box in demand section.) For the near future, plans include splitting the division off from UNRWA and becoming a licensed MFI; also, ways to introduce savings services are being explored.

UNRWA showed considerable interest in expanding their product range on offer to include microinsurance. Pure credit-life products are not interesting to them, as they do not have major problems with unpaid loans due to death. Offering property as well as accident insurance would be of much higher value. Given the unusually heterogeneous client profile, a partnership with UNRWA could be especially interesting for insurance companies looking for downscaling as well as proper microinsurance.<sup>13</sup> However, the management also pointed out that they already have important internal projects in progress, meaning their capacity to expand into microinsurance may be insufficient at this point in time.

### 18.1.2.FATEN

Palestine for Credit and Development (FATEN) was established in 1995 and served roughly 5,000 active borrowers at the end of 2008. With a gross loan portfolio of \$11.7 million, the average loan balance per borrower was about \$2,400.

FATEN had studied the potential and demand for microinsurance among their client base before the Second Intifada broke out in late 2000, after which the project was abandoned. They believe their clients need credit-life insurance only.

## 18.2. Cooperatives

The cooperative sector is highly fragmented, but gained some revived interest in recent years. According to a joint study by the Palestinian Ministry of Labour and the International Labour Organization (2008), 878 cooperatives were registered as per April 2008, with roughly one-third of them dormant or inactive. Most cooperatives operate in the sectors of agriculture, livestock, housing, handicrafts and services.

The Economic and Social Development Center of Palestine (ESDC) estimates that about 55,000 persons actively engage in cooperatives<sup>14</sup>. The typical cooperative works in agriculture and has about 60 members (range: 20-200). While some farming cooperatives offer several services, including marketing of products, others concentrate on buying inputs only. There is at least one meta-cooperative, composed of 19 agricultural cooperatives with a total of 700-800 members. This meta-cooperative already provides some limited financial services such as credit.

Besides crop insurance (which the ESDC considers as unrealistic), cooperatives and their members could be interested in group accident and health insurance coverage. Further, some

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<sup>13</sup> "Downscaling" here refers to efforts by insurance companies to develop products for clients with less income or smaller businesses than what they already have. This does not have to be microinsurance, but simply insurance products with reduced limits and premium. "Microinsurance" refers to products that are specifically designed for the low-income people, not only in amount of cover and premium, but also with regards to language, subscription and claims processes, premium payment etc. Downscaling has begun in the West Bank (e.g. Al-Mashreq Insurance company), but no companies have gone the full way yet to proper microinsurance.

<sup>14</sup> Personal communication by Mr D. Istanbuli and Mr. A. Al-TaHER

may want to protect their productive assets and infrastructure. Marine insurance could be of interest to those cooperatives that organize the export of members' produce.

### 18.3. The Way Forward for Microinsurance Delivery

The choice of partners for efficient delivery of microinsurance products is restricted to a few. In the banking and MFI sector, the study included a limited number of interviews and identified a handful of promising partners; others will likely be added as this project progresses. Given their core business, the insurance products that complement their services and interests most naturally are property and credit-life-plus insurance.

Protection for both private and small commercial property has come up as a clear demand from the client side. The challenge here will be either to eliminate exclusions related to the occupation and/or to develop an excellent selling strategy. Most probably insurance companies will only agree to eliminate these exclusions if they can get back-to-back reinsurance coverage.<sup>15</sup> Therefore, leading reinsurers in the region should be involved as well.

If partners are serious about bringing high value products to their customers, then it is important to insist on the "plus" of credit-life. Basic credit-life products benefit the lending institutions much more than the customer, but these can be easily transformed into a service that truly benefits both parties.

A product that could potentially meet high success with low-income car owners would be a motor third party liability coverage, payable in monthly instalments. As discussed in the section "Motor Insurance," new legislation requires that insurance coverage dates match the car license period. With yearly payable premiums, this leads to potentially difficult lump-sum payments. A possibility to spread these payments over time would be very attractive to many car owners.

A second pillar of microinsurance in the West Bank could be built through partnerships with cooperatives and trade unions. Depending on their members' profile, group accident and life insurance, health, or property insurance could be successful. One disadvantage of group coverage is that often insurance companies require all members to join. This could be attenuated through a rule requiring that, for example, at least 75 percent of all members have to join. The advantages of group coverage are reduced administration costs and internal risk diversification, two factors that should result in lower premiums compared to individual coverage.

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<sup>15</sup> The term "back-to-back reinsurance" is used to indicate that the reinsurance contract covers the same risks (and thus has the same exclusions) as the original insurance coverage. The terms and conditions for reinsurance are negotiated between the insurer and the reinsurer and may be different from what the insurer offers his individual clients. Often the reinsurer pushes for exclusions that they deem important for their business or the insurance industry, but that may be difficult for insurers to get clients to accept. On the other hand: if insurance companies get coverage through reinsurance for, say, occupation-related damage, then they can easily offer this coverage to their clients, as the insurance company does not take on much risk.

## 19. Donor Activity in the Insurance Sector

Apart from the USAID-funded ESAF program, no significant ongoing activity of donors in the commercial insurance sector could be identified. With the support of USAID, ACDI-VOCA has done a study on agricultural insurance (see section “Agricultural Insurance”), but apparently there is no follow-up activity in this area so far. Portland Trust is involved with the project to set up a political risk insurance scheme for exporters, together with USAID and the Middle East Investment Initiatives (see “A Note on Political Risk Insurance”), but seems to play a minor role. Finally, Planet Guarantee is said to have some dedicated funds for developing microinsurance in the West Bank, but has not yet achieved notable results.

## 20. General Conclusions

Most Palestinians, especially the economically-active poor comprising the majority of our demand-side sample, view their lives as characterized by high risk. Though robust informal mechanisms exist to help cope with this risk, there is some indication that those informal mechanisms are becoming less effective. Most Palestinians seem willing to embrace formal insurance as an alternative strategy.

With the exception of motor and government health insurance, few currently have insurance. This is because the market offers little to low-income Palestinians, and many in turn see the insurance market as serving only the rich. It is a scenario into which well-designed microinsurance could seemingly make a real impact.

A nuanced look from the supply side reveals that the market for commercial microinsurance is in fact rather restricted. Nevertheless, there are undeniably opportunities.

One point of entry would be for MFIs and banks to offer credit-life-plus and property insurance—two products directly related to their core business—which could provide additional benefits to their customers. At the same time, trade unions and cooperatives could jointly explore the potential for group coverage specifically tailored to the needs of the respective client profile. Accident, health, and eventually life and property insurance are all areas of potential development, if the programs are designed and explained.

In sum, product and partnership development efforts should concentrate in a first step on the following lines of business and non-insurance organizations:

**TABLE 11 - SUMMARY OF RECOMMENDED PRODUCT & PARTNERSHIP DEVELOPMENT EFFORTS**

Product	Target Clients	Potential Partners	Remarks
Credit-life-plus	All borrowers at commercial banks and MFIs	Largest MFIs Banks with focus on microentrepreneurs	Existing credit-life insurance should evolve into credit-life-plus.
Commercial small property	Microentrepreneurs with or without an outstanding loan	Largest MFIs Banks with focus on microentrepreneurs Trade unions Cooperatives	Property insurance should be decoupled from credits in order to offer protection even after the loan repayment.
Private property	Low-income house owners	Largest MFIs Banks with focus on microentrepreneurs	
Personal Accident	Members of trade unions or cooperatives	Trade unions Cooperatives	To start, group coverages are most promising
Health	Members of trade unions or cooperatives	Trade unions Cooperatives	To start, group coverages are most promising

For donors interested in the development of microinsurance as well as a general financial sector improvement, at least three broad areas of intervention can be identified:

1. Training and capacity building for potential agents and partners, as well as insurance professionals, the insurance federation, and supervisors. Delivery channels and their agents have to better understand the concept of insurance—the opportunities as well as challenges, and risks involved, before they decide to sell microinsurance. All stakeholders agree that improved training opportunities are urgently needed. Here, the insurance federation and the supervisor could benefit from capacity building and technical assistance.
2. Building trust and public awareness. A financial literacy campaign would considerably support sales efforts, especially when low-income people are involved. Trust can be built through improved claims handling, improved sales practices, and eventually through an ombudsman.
3. Improving pricing data. The development of a mortality table and consolidated statistics on accidents are essential to develop both life and accident coverages that are affordable and appropriate to the low-income market.

The recent USAID-sponsored conference “Microinsurance Opportunities in Palestine,” held on May 20, 2009 in Ramallah, brought various important stakeholders together, all of whom have expressed considerable interest in the topic. There is a clear will to move forward. The momentum gained should be used to push for first actions with positive demonstration effects.

**FIGURE 13 - SECTION OF BARRIER WALL BETWEEN RAMALLAH & JERUSALEM**





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## 22. Annex

Summary profiles of each of the research sites:

### 22.1. Nablus

Nablus is a city in the West Bank located approximately 39 miles north of Jerusalem. Its predominantly-Muslim population of 124,200 includes the three Palestinian refugee camps located within the vicinity. It has a disproportionately young population, with just under half of its residents under 20 years old (PCBS, 2007).

Nablus' major economic activities are industry and commerce. Many residents herd sheep and goats, which feeds into the city's textile, handicrafts, and tanning industry. Olive trees are plentiful, and a major source of income for Nablus is olive oil and vegetable oil exports. Nablus also produces furniture and tiles as well as soaps made from olive oil. Nablus has a direct highway connection to Jerusalem, which made it a major trade center in the past. However, the West Bank closure system has reduced the ability of the Palestinians to move within the area and thus has significantly curtailed commerce (Columbia Encyclopedia, 2008).

After the Arab-Israeli War in 1967, Nablus was controlled by Israel. The First Intifada in the late 1980s and early 1990s illustrated the intensely fraught tensions in the region. Nablus was the site of many violent demonstrations between the Arabs and Israeli occupiers. The Israelis left Nablus in 1995 as part of the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip (i.e. the Oslo Accords) (Knesset, 2009). Since then, the city has been under the control of the Palestinian Authority. However, as aforementioned, the West Bank closure system administered by the Israelis controls the entrances and exits to Nablus, tightly restricting travel and commerce. In 2000, the Second Intifada again brought to the city violent clashes between Palestinians and Israelis, and full-on IDF incursions have occurred as recently as 2006.

Because of the ongoing Israeli-Palestinian conflict, unemployment has skyrocketed in recent years. 2004 data reveals an estimate of 60-80 percent unemployment in Nablus—up from 14.2 percent in 1997 (Columbia Encyclopedia, 2008).<sup>16</sup>

### 22.2. Hebron

Hebron is the largest city in the West Bank, located 18 miles south of Jerusalem. According to Judaism, Hebron is considered the second holiest city after Jerusalem because it is home to the Cave of the Patriarchs, where Abraham and Sarah are buried.

Hebron's population is approximately 159,000—500 of whom are Israeli (PCBS, 2007). Historically, Hebron has had a significant Israeli population that has alternately swelled or

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<sup>16</sup> These were the most recent city-specific unemployment figures available. The Palestinian Central Bureau of Statistics did produce 2007 figures for the whole territory, as follows: full unemployment of 18 percent, underemployment (less than 35-hours/week) of 68 percent (PCBS, 2008).

diminished based on the political situation. An Israeli settlement outside of Hebron is home to 5,000 Israelis (Palestine Facts, 2009). Like Nablus, the population is relatively young, with 55 percent under twenty years old. (PCBS, 2007).

Hebron is the West Bank's most significant industrial center. It is known for its production of stone, marble, textiles and garments, leather, and shoes (Hebron Chamber of Commerce, 2007). Hebron is home to glassblowing, tanning, food processing, and sheepskin coat industries. Vegetables, figs, grapes, wheat, and grains are grown in the city (Columbia Encyclopedia, 2008).

After the Arab-Israeli War in 1948, Hebron was controlled and incorporated into Jordan in 1950. In 1967 after the Six-Day War, Hebron was subject to a territorial dispute between Israel and Jordan. The city was under the control of the Israelis, who subsequently established a number of Israeli settlements outside of the city (Columbia Encyclopedia, 2008). Hebron was the site of widespread violence during the First Intifada in the 1980s. The ongoing Arab-Israeli conflict brought massacres, demonstrations, and uprisings against Israeli occupation. While the Oslo Accords granted limited self-rule to the West Bank in 1994, Palestinian control of Hebron did not actually begin until 1997 (ibid.). That year the so-called Hebron Agreement was signed, which split the city into two sections. H1 consists of 120,000 Palestinians and is under the purview of the Palestinian Authority. H2 is controlled by the Israeli military and has a population of 30,000 Palestinians and the 500 remaining Israeli residents (ibid.).

### 22.3. Toubas

Toubas is a small provincial city in the West Bank, located approximately 52 miles north of Jerusalem. It has a population of 15,500 (PCBS, 2007).

Toubas' major economic activity is agriculture. The area offers plentiful arable land for the cultivation of field crops, fruit orchards, and vegetables. In recent decades, however, agricultural activity has decreased due to scarcity of water for irrigation, and the confiscation of land by military authorities for Israeli settlement camps (ARIJ, 2007). In addition to agriculture, many residents maintain livestock, including sheep, goats, cattle, and poultry. Public services, trade, and labor make up the rest of Toubas' economic activity (Columbia Encyclopedia, 2008).

During the Arab-Israeli War in 1948, Toubas served as the Arab Liberation Army's headquarters for the extent of the war. Like the rest of the West Bank, Toubas was incorporated under Jordan's control after the war. Israel took control of the city after the Six-Day War in 1967. The Israelis left Toubas in 1995 as part of the Oslo Accords (Knesset, 2009). Since then, the city has been under the control of the Palestinian National Authority as an independent electoral district.

While Toubas has not seen as much recent violence as other cities in the West Bank, notable instances in the city include the IDF's assassination of several members of the Palestinian political organization Hamas in 2002 during the Second Intifada. That same year, missiles

fired by an Israeli helicopter killed several civilians in Toubas (Columbia Encyclopedia, 2008).

## 22.4. Ramallah

Ramallah is a city in the West Bank located approximately six miles north of Jerusalem. It has a population of 25,800. The city is also home to the main offices of the Palestinian Authority, making it the political center of the West Bank. Ramallah is home to a state-of-the-art cultural center, theaters for plays and films, and traditional arts and dance festivals (PCBS, 2007). It is also home to many of the West Bank's most affluent families and most of the territory's expatriate community. For these reasons, it is regarded as the most prosperous and cosmopolitan of Palestinian cities.

The city's employment comes mostly from government and municipal institutions, as well as a range of commerce comparable to other areas of the West Bank. In addition, many NGOs, both foreign and domestic, are based in Ramallah and provide jobs to locals.

**FIGURE 14 - HOME OF A RETURNED MIGRANT, VILLAGE OF SINGEL, RAMALLAH AREA**



Like other cities in the West Bank, Ramallah was annexed to Jordan after 1948 until the Six-Day War in 1967. After the war, Israeli military rule governed the city. The Palestinians of

Ramallah were particularly vigorous activists in the First Intifada in the late 1980s and early 1990s. More organized than most areas, Ramallah residents prepared strikes, protests, and demonstrations against the Israeli occupiers. These involved Molotov cocktails and tire burnings. The Israeli forces reciprocated with riot control tactics such as rubber bullets and tear gas. They enforced curfews, restricted movement in and out of the city, and shut down schools and businesses (Columbia Encyclopedia, 2008).

The Oslo Accords in 1995 restored Palestinian authority to the city (Knesset, 2009). Under the PA, economic activity continued and thrived in Ramallah. However, the Second Intifada in the years after 2000 brought more violence and unrest to the city. In 2002, the Israeli military once again took over control of Ramallah and curfews were enforced, business and schools were shut down, and electricity was restricted. According to many reports, the quality of life in the bustling city has rapidly declined since the Second Intifada (Columbia Encyclopedia, 2008).

Part of the research in Ramallah took place in a village outside the city called Sinjel. With several thousand residents, Sinjel more closely resembles a provincial town than what outside observers tend to imagine as a “village.” It is relatively prosperous as well, with many large homes built by residents who emigrated to the United States, earned money in business, and then returned home (see Figure 14).