

THE INFORMALITY OF INSURANCE PRACTICES: AN ATTEMPT OF ANALYSIS

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Abstract

Keeping aside the false idea which stipulates that there is a non-existence of an insurance culture in Africa, this study therefore seeks to analyze the informal insurance practices of self help groups. The main observation is that, it is a real insurance system characterized by the high interaction between economic and socio cultural factors. The structural dualism observed is due to the formal insurance market imperfections or failures, state failures and socio cultural factors. However, the improvement of incentive frame of the formal component will lead a less disappearance of the informal component than the reduction of intensity of the involvement of poor excluded from formal insurance markets.

Résumé

S'inscrivant en faux contre l'idée selon laquelle il n'existe pas une culture d'assurance en Afrique, cette étude analyse les pratiques informelles d'assurance et montre qu'elles sont essentiellement basées sur les réseaux de relations sociales (famille, amis) et sur la composante micro assurance des tontines. Elle débouche sur le constat selon lequel il s'agit d'un véritable système d'assurance caractérisé par une forte imbrication entre les facteurs économiques et socioculturel. Le dualisme structurel qui en résulte tient aussi bien à l'imperfection des marchés formels d'assurance et aux carences de l'Etat providence qu'aux facteurs socioculturels. Toutefois, l'amélioration du cadre incitatif de la composante formelle entraînerait moins une disparition de la composante informelle qu'une réduction de l'intensité d'implication des exclus dans les circuits formels d'assurance.

Introduction

The Insurance system in Cameroon has relatively been diversified since a decade. The informal insurance services, despite their acceptance that are just trying to be effective with the works of (Foko, 1998) and (Ngassam, 2005) constitute into financial informal cycles an important component, particularly in rural area, where there are the only alternative for the population in the state of advance precariousness. In matter of protection against risk, (illness, death, fire, stealing, etc.), they would have in the western province of Cameroon alone a contribution that would be equal, if not superior to that of the National formal system, all branches included (Ngassam, 2005). The attempts to develop insurances markets in rural area in Cameroon as in most African countries have been centered on agricultural insurance. The fundamental preoccupation of all the actors of the development was about looking at ways and means to endow the agricultural sector with an insurance component which absence would compromise the growth of the agricultural sector. These attempts have witnessed a controversial success, not to say disappointing. One of the reasons given to explain that situation was that African peoples were not endowed with a spirit of foresight and because of that, the practice of insurance was strange for them.

Researches in the domain of rural insurance have resulted into insurance practices for those populations (Ngassam, 2005). There would then exist a potential which valorization would depend on the incentive system and the adopted approach. What is more, the access of poor people to insurance services still remains difficult, if not impossible. The precariousness in which an important part of the population live, the

absence of proximity insurance services the abusive behavior of insurance companies, as well as the lacking of the State providence would pouch the latter to adhere more and more to these circuits. The health insurance, until now neglected by the formal sector starts to draw the attention of governmental authorities and the actors of the private sector of microfinance. This has been practical since about a decade in Cameroon by the bubbling forth of health mutuals. One of the aspects of the present debate is about the necessity or not to integrate microfinance into portfolios of micro banks, or make them an autonomous component. Without taking a stand, we think that the success of such an enterprise is based on the analysis of the structures and practices of insurance existing in rural area, and the behavior of populations who obey to rules worth understanding, if we want to implant durable insurance services, effective and at the same time target their transformation. This is the objective of this paper, organized into six sections: the first section has centered on introduction, the section two defines the concept of insurance and proceeds by the elaboration of a typology of risks in rural areas. That typology helps to catch a glimpse of risks management strategies by rural populations in section three. The section four analyses different strategies of risk management by using teachings drawn from the theory of financial repression. The section five analyses the practice of insurance under the light of the theory of contract and the section six is reserved for the conclusion.

The Concept of Insurance and Typology of risks

The Concept of Insurance

The Larousse Dictionary defines insurance as a feeling of security, inner conviction or certainty. The insurance also point to a promise or a guaranty which makes

something sure therefore, a security. That guaranty can then be materialized by a verbal or written agreement between two parties, the insurer and the insured. The insurer guaranties to the insured in return for a prime or a subscription the payment of an agreed sum in case of the realization of a determined risk. During the signature of the contract, the insurer and the insured agree upon the events, taken by the insurance policy and guaranteed by the insurance of a prime paid by the insurer to the insured. The insurance contract is supposed built on the good will, the trust, and the honesty both of the insurer and of the insured. The insurer is then supposed to inform in an exact and complete manner the insurer, in answer of a certain number of interrogations necessary for the fixation of the amount of the prime. So false declarations done by the insured can lead to the rupture of the contract. When one of the events mentioned on the contract happens, the insurer indemnifies the insured. That indemnification is most often financial. The act through which a company commits to cover a damage is materialized by a policy. The insurance policy is the contractual document which governs the relations between the insurer (the insurance company) and the insured. This contract fixes in particular the list of guaranteed events along with eventual exclusions. However, the insured has a number of obligations that are among others on the eventual preventive measured in order to minimized the risk, the declarations deadline for the insurer in case of a sinister, the amount and the condition of payment of the prime, the realizations possibilities of the policy, the duties of the insurance company and the payment deadline for indemnification.

Types of Risk

The definition of insurance given in the preceding development can then help us to make a typology of risks according to their insurability. The insurability of a risk here designates the easiness with which it can be covered by an insurance contract. We can then differentiate production risks and risks on the live.

The production risks are linked to the climate (drought, flooding) in the market (falls of prices, absence of market, perishable agricultural product), at the biological environment (attack of insects and destroyers, perishable cultures) and at the physical environment (earthquakes, etc.). The risks on the live include diseases, death, funerals, fire (of houses, of movable goods) stealing, lost of job, birth, etc. However, this classification is only operational, particularly in the context of underdeveloped economies where the distinction between household good and factor of production is not easy.

The diseases risks are manifested by expenditures incurred to bring care to insured victim of the disease. The death risk occurs when the insured deceases after a disease or an accident, leaving his offspring when he has, under the responsibility of a partner with limited resources.

The birth is considered also as a risk in the Bamileke context. In effect, the birth of a child, although giving way to joy, has as side effect the fact that it threatens the household food security. Women who are the important pillar of the food security of the household, because of their multiple occupations, stay almost inactive during pregnancy and some months after delivering, which compromises the food availability to the household. The situation of risk is more accentuated when it is a twin pregnancy which

engenders a particular ceremony said of twins; having as aim to avoid their disappearance.

Risks that are most often met and covered by informal financial circuits (tontines in rural and poor milieus have been recorded in the western part of Cameroon and classified by Ngassam (2005) according to their increasing degree of importance are among others: death (78.1 percent) diseases (11.1 percent) birth (7 percent) stealing (3.7 percent)

The Strategies of Risk Management

In order to discuss the question of risk, it would be first of all important to define the risk and differentiate it from uncertainty. That distinction is important, insofar as rural citizens, in their desire to protect themselves from unhappy events adopt behaviors that make them to transit from a state of uncertainty to that of risk in order to take corrective measures Knight (1921) was the first to try making a distinction between risk and uncertainty. Centering his reasoning on the criteria of reasonability and probability of occurrence of an event, he defines risk as a set of events with a known probability of occurrence. That probability can be objective or subjective. The uncertainty however corresponds to a set of event with an unknown and non measurable probability of occurrence. However the measurable or non measurable nature of probability has moved Kreps (1990) to highlight that in the absence of measuring criterion, a person could attribute in a subjective manner the probability of occurrence to an event which then becomes subjective, and it is that subjective character of the probability which becomes

the central element of distinction between risk and uncertainty. Uncertainty corresponds to information on the possible events, taking into account the fact that they aren't alone and others can happen.

African populations in general adopt attitudes that make them to pass from situations of uncertainty to situations of risk through the interpreter of divination through specialists or by a subjective approach. Let us highlight that our endeavor here is not to verify the effectiveness of these practices, but to show instead how they influence the economic behavior of those practicing them. We can distinguish in the management of risk, ex-ante and ex post strategies.

*The Es Ante Priori Management of the Risk Strategy.*¹

The ex ante management of the risk is based on preventive behaviors which are guided in this logic by an important principle very common with economists: treat causes and not effects. In effect, Dione (1994) notices in the Senegalese society that the populations manifest in discretion their will to recall back material and living things to enter into communion with different elements of their visible and invisible environment through interpreter of a symbolic system particular to each group. Besides, this attitude is perceptible in Bamih-ke lands and other tribes of Cameroon that we know relatively better. These populations turn permanently to individuals who are reputed for their knowledge of secret divination and their space and suggest to them elements of their environment with which they most ally to succeed in all enterprise or else avoid the occurrence of unhappy events. In doing so, we transit from uncertainty situations to risks

¹ This paragraph is inspired of the reading done by Deschamps (1970) and Ndione (1994) of the Dakar's urban economy. The description of the practices that they make is applied easily in the Cameroonian context and particularly the Bamiléké context

situations, because the probability of occurrence of events are more or less known and eventual preventive measures taken. These preventive measures have important implications on the economic behavior of these populations in view of the expenditures they engender and which would surpass by far those that could be spend on a formal insurance policy: the skulls cult in Bamileke land illustrates this. In effect, to undertake a certain businesses or, after consultation and agreement of specialists of divination in case of bad handling of the businesses, disease or accident whatever of a family member, skulls buried underground are unearthed and consulted. They offer them ointment or food either to prevent or to calm the wrath of the deceases or attract their favor on their offspring. Goats, bags of salt, palm oil jerry cans, drinks, etc. are ingredients that enter into the arsenal of expenditures to incur for a ceremony relative to the cult of skulls that would protect them as they believe from an eventual accident or would contribute to the success of their business.

Into west African desert zones, ceremonies are carried out to avoid the late coming back of rains which absence is a major cause of famine. All these steps contribute to the strategy of preventive management of risks which translates the will these people have to be integrated to the evolution of the world like co-actors, to its creation. With the people of Senegal, preventive insurance carries a quit different form. The presence of a he goat in a compound, says Dione (1994), materializes the protection of the whole compound, of the people and goods that are there against aggressions, and acts of sorcerers.

So the mystification and utilization of symbols for protective or valorization purposes constituted a discreet and deeply witnessed process. Religious-magic practices

lived in African societies are founded on the principle according to which unhappy events, are the consequences of the rupture of a bridge between the person and the different elements of the space. Treatments brought throughout the different practices described above consist of reconcile the individual with his physical and social space, to create solidarity and complicity links.

The Ex Post Management of the Risk Strategy

Whenever compatibility and solidarity links are created between the individual and his visible and invisible space are broken permanently or definitively, that is whenever a production or live risks is realized, corrective measures are taken. Implicit and explicit mechanisms of protection which seems to have retained little the attention of the researchers are put in play.

Implicit mechanisms of risk management²

In the implicit management of production and live risks, households turn to social relations networks. Dimittri (1996) quoted by Ngassam (2001) estimates that in the context of risk management, household insurance needs are satisfied implicitly through social relation networks (relatives³, friends and acquaintances) and mutual aids that prevail into social groups of developing countries. These systems operate as true insurance societies, managed by the group or the community, to face urgent situations. The social network relation is defined as the set of people inside a community with whom an individual entertains relationships that guaranty him a certain insertion and social security. The social relation network here plays the role of insurer in the social covering by bringing to the bound or the insured victim of a certain woe multiform help: health

² The practice of saving and credit are part of the implicit mechanisms of risk management. For more details on this aspect, see Ngassam (2005)

³ This refers to the enlarged family, made up of parents, uncles, aunts, cousins, brothers, etc.

assistance, death and funeral assistance, birth assistance, handwork assistance, assistance to those losing their job, assistance to elderly or victims of fire, etc. A survey carried in the west Cameroon on bereavements and funerals reveals that more than 15 percent of expenditures engaged during the funerals of a relative derive from gifts and supports of social bounds. Social placement that are done daily are strongly personalized and seems to be right far from rational relations of exchange founded on the profit method that characterizes the formal model of insurance. They are assimilated to tacit insurance contract, passed between an individual victim of a sinister and all the member of the community, from whom he receives an assistance that can be material or financial. This multiple tacit insurance contracts are based on the reciprocity principle, on affective relationships and love. They can be broken when the individual who has been helps after a disaster, does not do the same when another person, member of his network or community becomes victim. Into these forms of verbal contracts, gifts of an individual can be assimilated to a prime or an indemnification. The value of the prime and the indemnity respectively given to and received from the community depending on the density of the network of social relations of the insured. The offspring of a death person will benefit from his social capital that plays an important role into the relief of a family following the defeat of the chief. Compensated sinister are interchangeable; that is why an assistance brought during the illness can be compensated by one or many assistances during death, funerals or birth. The maintenance of the social relation network is for many the surest and most effective way to be protected against live uncertainties. Insurance services are largely on the competence of the social relation network. In other word, the insurance of many individual is their relation network. These network qualities

allow them to be more effective in some other area than the formal insurance market, most often confronted to the problem of moral hazard and adverse selection.

In short, insurance contracts based on the social relation network present advantages on those of formal insurance companies. These advantages are relative:

- At the length of contracts which is long enough
- At the altruism, because founded on love and affection,
- The control of members is facilitated by the relational and physical proximity,
- The loyalty that prevails is for members of the community a social norm.

However, these contracts are not without inconvenient. Ekert-Jaffe (1997) reveals that the relations network (particularly the family), can fend off to apply sanctions when the terms of loyalty and reciprocity are violated. The reduced size of the social relation network can limit the field of competence available and forbid returns of scales.

Explicit mechanisms of risk management

Into tontines, an explicit system of covering of the risk are about what parties of a tontine usually call "the woe bank", "emergency box", "help fund", "trouble funds", in pidgin English "Mail Ngwa"⁴ in the Nde.

The observance of tontines has help to identify practices that are close to the western modern of insurance practice, with the difference that in most cases, they are non profit activities. They consist of dropping into regular intervals of time (generally the year) a sum of money democratically retained by the group (the amount ranges between three to fifty thousand CFA Francs) which is called insurance prime, in order to benefit from insurance from other members when an event determined of common acceptance

⁴ « Maa Ngwa » in the vernacular means money collected and lost, to signify that one should not expect the reimbursement of this one.

occurs. That contribution called "emergency box" which is considered to quote the terms of the members as "a form of live insurance" is practiced by more than 60 percent of the interrogated members Ngassam (2005). In most cases, the amount of contribution of a cycle is finished in function of that of primes given during the preceding cycle. Subscriptions are payable into one or five parts with a mean of four. However, in order to be compensated, the members, during the realization of the risk, have paid the totality of the amount of prime initially subscribed by the adherents. The majority of groups for which contributions are obligatory impose sanctions for late comers. The amount of collected primes during a cycle can be inferior to the amount of damages to pay to different members. In this case, the problem of liquidity that results can be resolve into two ways: the first consists of withdrawing funds from the saving account to cover the damage of different victims of disaster. The amount of these funds is after share fairly among the members of the group with a deadline ranging from few days to some weeks, to remove that amount that will then be poured into the saving account. In absence of withdrawing funds from the saving account, the members because of the weekly character of the meetings, are called to contribute to the high of the deficit amount fairly distributed among themselves. In that case where the amount of collected primes during a cycle will be superior to the amount of damages, it would be taken notice of, for the calculation of the prime each member will pay during the following cycle.

Some tontines agree on a fix amount of prime, independently of the fact that all the subscriptions can exceed the amount of damages. This amount is generally calculated on the basis of a contribution of five thousand CFA Francs. In this case, the surplus can de destined to aliment the saving account.

In this system, only one prime of given insurance by the member helps to indemnify many risks at the time. The amount of different indemnities corresponding to different types of risks are voted by the members and kept in the general orders. The amount each member must pay is then extremely variable in function of the realization frequency of risks with the desired covering and the size of the group. Subscribed insurances have for many a social character, with predominance of decease and illness risks, with a justified upsurge partly by the malfunctioning or the absence of an effective system of social protection in rural and out-of town milieu. However, we cannot think that micro insurance born only from formal insurance services, and less that they are an answer to a situation of crises and of social mal structuring. In case of illness, fire, stealing and birth, subscribed primes cover members only, whereas in case of death, it covers adherents, and their relatives. Agreements so done are close to contracts that are for the more verbal, based on the mutual trust between the insured (the member) and the insurer (the rest of the group)

In tontines of urban area relatively more rich, a payment system of the prime is adopted which is close to the system described previously. It consists of the payment of an amount which varies from thirty thousand to one million CFA Francs (insurance for life). The verbal or written contract passed between the member and the rest of the group which plays the role of insurer is renewed from cycles to cycles by tacit renewal, and for the whole life. Funds then contributed and not affected to indemnification can be borrowed to the members, and the interests of these borrowings help to indemnify disaster victims, and maintain, if not increase the amount owned "emergency funds" available. In case for example of the death of a member, a sum of money is affected to

the financing of the funerals⁵ (buying of the coffin, transportation of the corps, financing of the ceremonies and mortuary rites, etc.), the other is given to the partner still alive for the caring of the family.

If the explicit informal insurance contracts present also advantages on formal contract, we can realize that the length is relatively short, motivations to increase the general wellbeing, the altruism, the honesty, the loyalty and the control of members are less strong, that which increase the probability to develop opportunist behaviors. What is more, the reduced seize of the group can limit the available competence field and forbid returns to scale. In return, members are relatively more inclines to apply sanctions than in the case of mechanisms controlled by relation networks.

The Dualism in the Insurance Sector: Between Economic Logic and Socio-Cultural Logic

Developments that proceeded have helped to legitimize the existence of informal insurance circuits in developing countries. That acknowledgment helps to highlight the dualism of the insurance sub sector. This dualism would be close to the one observed on the financial bank system of developing countries. It is characterized by the juxtaposition of a formal insurance system said modem and imported, based on the western capitalist for profit making and of informal insurance system, local, based partly on traditions, customs, and non profit.

That coexistence makes us to formulate a conflicting hypothesis regarding the simultaneous existence of these two components. The financial dualism in general is the object of a controversy between theorists of development. For the ones, as McKinnon

⁵ In the milieu of big business men of great cities of Cameroon, these financial expenditures on « emergency box» exceed most often five million CFA Francs.

(1973) and Hugon (1996), informal financial circuits owe their existence on the financial repression, of an insufficient financial inter mediation (Eboue, 1990). For the others, they owe their existence on socio cultural factors (Servet, 1985), (Foko, 1998). Without however taking a stand, we adopt an intermediary position, at least for what concerns the insurance activity.

Economic Logic as Source of Dualism

The economic dualism holds at least from three categories of factor namely: the insufficiency of non bank financial intermediation, the contractual process and the imperfection of formal insurance markets.

The insufficiency of non bank financial intermediation

The dualism in insurance as a consequence of the insufficiency of non bank financial intermediation can be justify when looking at the geographical covering of formal insurance companies, the types of services the company offers, as well as the conditions of access to the company. The economic crises of the 1980s has weakened many insurance companies. Those concerned were mostly urban populations and the users of the automobile insurance branch. Even if it has little affected unfortunates of rural and urban population, it is important to notice that this has carried a bad image of insurers, vis-à-vis potential insured. This has had as consequence the reinforcement of the skepticism and the distrust of potential urban and even rural vis-à-vis insurance companies.

Besides that distrust, formal insurance companies have been characterized by a heaviness and slowness in the procedure of indemnification of disaster victims which most often are not done by long and expensive projects. These companies have showed a lack of ethical by profiting from the ignorance of potential clients who contract in a complete ignorance of their rights and duties as insured.

Formal insurance companies for moral hazard reasons, adverse selection and co various risks have seems since independences not to be interested into insurance in rural zones, and unfortunates of the rural zone, that which justify their weak presence in those milieus. The first live insurance strongly solicited by households in Cameroon came just in 1974. One had to wait until 1996 to see other companies enter that branch, which has helped Cameroon to number nowadays ten companies in the branch, among which seven, agreed, operate mainly into urban zone. However, insurance companies all branches involved, remain implanted into urban centers, with general agents in charge of selling vehicle insurance policies. They offer therefore very little insurance options to face different risks that poor people are exposed to, if we exclude live insurance, reserved to urban populations relatively rich. They services are therefore not adapted to poor and marginalized costumers. It is important however to stress that health mutual are growing fast in Cameroon, but we cannot as for now say a word on their effectiveness. Formal insurance companies operations are carried on heavy sum of money which amount is located at least at eight thousand CFA Francs per month for private enterprise workers having subscribed to group insurance contract.

The lacking of State providence can also justify the recourse to informal practices. Sunk into a severe economic crises, the State has adopted since 1988 the structural

adjustment which in his budgetary equilibrium restoration part has been concretized by a reduction of public expenditures of social character. The state has proved to be little interested in the fate of the poorest and the more vulnerable, it has proved incapable to erect the social protective nets which were part of its sovereign functions.

To face these imperfections of formal insurance markets and the lacking of the sovereign State, the micro finance, to quote Dandekar, is part of informal financial infrastructures at the rescue of unfortunates, which are permanently insecurity both on the social and custom plan because of the failure or absence of social protective nets from the State on the one hand, and on the other hand because of the inadequacy between formal insurance services and the needs of the rural clientele.

The contractual process

One of the difficulties linked to the exercising of the insurance activity is due to the problem of information asymmetry (moral hazard and adverse selection). Formal circuits compared to informal circuits present a number of advantages which make the execution of contracts easy the execution of contracts that are less formalized but relatively more effective. The control is more effective, the mutual knowledge of the members encouraged by the rational and physical proximity increases the aptitude of each member to discern good risks from bad and the behavior of each party by the interpreter of interaction into various contexts limiting opportunist's behaviors. Into formal circuits, the contractual process and the contracts are relatively more formalized, generating therefore important transaction costs and constitutes a form of usage exclusion. Transaction costs associated to individual insurance contracts destined to poor people geographically skinned about would be extremely more expensive for insurers

animated by the search for profit. These costs are: ex ante, engaged in the moment of the signature of the contract of the collection of the complete information on individuals and their activities, of the census of the state nature to come, of the writing of the contract taking into consideration all the contingences. They are also ex post, that is necessary after signature. They help to insure the execution by a third part, to make the bargaining in case of negotiation to correct the divergences, to finance the recourse in case of conflict and the sure costs of commitment establishment (lawyers...). The consideration of the costs in the establishment of a live insurance policy would make the amount out of the reach of a population mainly poor. The execution of contracts is generally long because of the procedure heavily bureaucratized and legislated.

The market imperfection

Formal insurance companies, in their search for profit are guided in their geographical covering by the concern of profitability. They are in their functioning, confronted to the problems information asymmetry on which we will come back in detail in the next section. In effect, the insured potentials process information on the incurred risks that are not known by them. Facing that imperfection of the formal insurance market, the informal market plays a great role. The exchanges of services are made there in nature, but also in cash, the scale of operations is restricted, the entry is easy, services are most often done in nature and are exchanged out of the juridical setting and are based on personal relations or on communal solidarities.

The Cultural Logic as Source of Dualism

If the malfunctioning of formal circuits of insurance circuit is perceived as a cause of the flight of the formal insurance circuit, we should not however expect a complete

and immediate disappearing of the circuits if the inciting setting of the formal system were rearranged. In effect, it remains difficult, in view of the behavior of the economic situation of people who independently of the fortune, of their level of instruction and of efforts put in the formal sector are jointly implicated into these formal and informal circuits. It is particularly difficult to distinguish two distinct groups of client for formal and informal circuits. In other words, the same category of people, particularly in urban areas use these two institutions to protect themselves from risks. Each sub system or type of circuit would offer services that present specific characteristics, even if one can sometimes observe that the same type of services (live insurance) are jointly offer by the two. The informal circuits are specialized in the financing of risks as deaths, funerals, births and gifts that have difficulties to be exchange in the strict respect of the laws of the market. These are non merchant services that are part of socio cultural logics of those practicing them. To recall the importance of the cultural component, let's agree with Delafosse, quoted by Deschamps (1970) that no institution exists into black Africa, either in the politic or economic domain, that doesn't lies on a religious concept or has religion as its corner stone.

In the African context and Cameroonian in particular individuals have as protector (insurance) the death persons who watch on the conduct of their descendent, to provide them with advices, make remarks to them and require offerings. Dreams, and/or divinations through specialists are the principal means of communication. The organization of funerals, of sacrifices, of offerings, the organization of death ceremonies in strict conformity with the tradition constitutes for many individuals the best possible form of insurance, that which relegate at the second rang the other forms said external to

the African system of thought. These forms of insurances, by their nature, make hardly the object of a merchant exchange.

In these societies, the different disasters that befall individuals are mostly the consequences of bad relations between the death and the living, than the consequences of the malfunctioning of social protective nets.

For many members of the tontine, the absence of a protection against unforeseen events corresponds to part of their existence which is then threatened. The constant exchanges of services and of forces are done between the living and the death, considered as true keepers of customs, watching over the conduct of their descendents that they thank or punish following the fact that rites and laws have been observed or not. The faithfulness to traditions, the respect of elders and deaths, the accomplishment of ceremonies are constantly under their control.

Theory of Contracts and Informal Insurance

During the last two decades, a part of the development of the economic analysis has been consecrated to the study of contracts. Contracts are reciprocal engagements which, by instituting mutual obligations, help to insure the coordination between agents (Brousseau 1996). One of the essential characteristics of contracts stands on the fact that those rules emanates from the will of contractors at first free and autonomous that they willingly deny part of their liberty as hand worker, even accept to be dictated their conduct by a third (the social relation network or the members of the tontine), for they have to be coordinated with others. The concept of contract helps to explain, in the setting of traditional economic reasoning, the existence of all individuals and collective

arrangements for coordination. When it comes to contracts, it is implicitly question of bilateral questions implying of that fact a small number of actors.

On the contrary laws, conventions, and institutions (etc.) would result from the "signature" between free individuals individualists and rational of contracts allowing them to improve their wellbeing. They serve to coordinate communities more large.

So contracts and insurance conventions are of commune essence, but the concern for simplicity and modeling explains the attention bore by economics to the problematic of contracts. A contract, just like a convention helps first of all to define procedures trough which the actions of insurers (social relation networks and tontines) and of the insured(member of the community or the association) become compatible. For that a contract of informal insurance can be complete if it defines in a precise manner the behaviors to adopt in a given situation. In return, a contract of informal insurance uncompleted or a convention institutes a prescription right which gives to a party (generally the tontine and social relation network) the right to decide for the behavior of contractors, here the members.

Again, the contract, according to Brousseau (1996) puts in place mechanisms destined to insure that the parties are cooperative and are respecting the prescriptions of the mechanism of compatibility of actions, and that they must optimize their behavior therefore.

If implicitly, theories of contracts are centered on the analyses of inter individual relations, the usage of their concepts can be extended to the deepening of the analysis of informal relations of insurance between the individual and his social relation network on the one hand, and between the individual and a group of people with whom he entertains

in the setting of a tontine on the other hand. These applications will help us to deepen renewed the analysis of certain phenomenon linked to the informal insurance activities.

The Specificity of Informal Insurance Contracts

In explicit insurance contracts, when an individual (insured) and his social bounds (insurers) exchange services or help themselves mutually in order to cover themselves against risks, there is a problem of coordination engendered by possible opportunisms (pre or post contractual of parties.) the exact nature of services offered as well as the moment and the place of realization of these services are evident because, contrary to the hypothesis retained in the case of formal insurance, it doesn't exist a complete catalogue, and specifying the exact nature of risks that can be the cause of an indemnification (Brousseau 1996). As soon as social bounds decide to interact, the definition of the exact nature and the modalities of their services are no more necessary. This doesn't make a central problem, because most of the transactions are not written in the length and the conditions in which they are realized can change. The problem of contract completeness is not therefore posed when it comes to informal insurance contracts. These contracts are based on the spirit of solidarity, and the social relation network which is always spontaneously spread out to assist an individual, independently of the origin of his disaster and the precautions taken. In these cases, it is not necessary to precise behaviors to adopt by each party in function of each context that could occur in the future. The essential advantage of this solution is that it does not require any prevision capacity, and as it engenders few or no transaction costs, for there is no need to imagine the optimal behaviors in each of the possible contingences and contractually specify these solutions. The economy of informal implicit insurance systems can qualify as conventions

economies. Amblar (1998) defines a convention as a collective procedure, identifiable by its conformation, a set of references socially constructed and which helps to guide assistance costs as all other conventions, constituting an order overhanging individuals and groups, which principal function is to ensure a convergence of practices by creating agreement. So, it can be qualified to social phenomenon and interpersonal, presenting permanence, continuity and stability. Implicit insurance practices are founded on a system of reciprocal expectation on the behaviors of social bounds, constructed for that purpose. The assistance and behavior of social bounds in case of unhappy event need not to be known in advance, or be written or arranged in order to be obtained.

However, that regularity of the convention does not exclude its evolvement. So it is maintained only by the virtue of a "collective consensus" , which internal equilibrium varies in function of contradictory pressures of which they are submitted, (Amblar, 1998). In that perspective, the solidarity or insurance convention represent an autonomous system of which it is possible to describe the dynamism. Our ambition here is not to carry a deep analysis describing the evolvement of implicit insurance conventions. From our stand point, we know that the implicit insurance system is base on a set of recognized conventions difficult to consider as congealed. It is important to recognize that a greater part of conventions that govern our daily live, even the deepest or the most unadvised, undergo a number of constraints and evolve consequently (Amblar, op cit.)

The Specificity of Explicit Informal Insurance Contract

When an individual adhere to a tontine (insured) concludes a contract with the rest of the group (tontine), there is a problem of coordination engendered by the possible

opportunisms (pre or post contractual) of the parties, contrarily to the implicit system. There exist into tontines a complete catalogue of usage specifying the exact nature of risks that can be the cause of an indemnification. As soon as social bounds decide to contract, the definition of the exact nature of risks and the modalities of their indemnification are known by all and consigned in the General Order of the association. These insurance contracts more or less formalized are inscribed in the length and the conditions in which there are realized can change. However, the limited rationality of the parties and the uncertainty of all transactions make implicit insurance contracts incomplete and generate therefore opportunists' behaviors which are themselves generators of transaction costs.

The problem of 'adverse selection' is posed in tontines in many ways and can result into weaker rate of adhesion or make some risks non insurable. It can be, without being exhaustive, the difficulty to distinguish "good risks" from "bad risks" ⁶, speculative attitude of some members who pay their contributions only when one of their sick person becomes into a critical and serious state. It can also be admitted sick persons who pay primes the following day, or the day of their admission and claim some days later the indemnification by the tontine.

The moral hazard is manifested in an ex ante or ex post manner. The ex ante moral hazard, relatively rare is being manifested when the insured member does not take a prevention/precaution or takes additional risks. The ex post moral hazard is manifested when the member creates or simulate unhappy events in the form of untrue declaration of

⁶ (Those members who have already lost all the persons whose death would give right to an insurance indemnification or members of good health who can feel that the amount of contribution is high) "bad risks" (potential members who have, as some find pleasure in saying "many people to burry" that is those whose insured parents and relatives trough them are still alive or frequently sick.)

sickness, or death of a relative who is not part of the people covered by the subscribed insurance contract. These cases, it is worth reminding, are current in tontines and justify why sickness risks are relatively little insured into groups.

To palliate to these difficulties, the group (tontine) put into place a number of measures, some being inherent to their mode of organization. In effect, the information on different members is obtained at least cost through the proximity effect and the interaction between members into multiple and varied contexts that help all to better know and control themselves (Ngassam, op cit). In groups, mechanisms of social control limit the manifestations of opportunists' behaviors by the help of sanctions. However, to encourage the subscription of good risks, the substitution principle is admitted. This means that a member who does no more have his natural parents can designate a member of his enlarged family (uncle, aunt, elder, cousin, etc.) who would have contributed to his education into whatsoever manner, and as thankfulness for his services, as his father in order to benefit from indemnities and assistances relative to his death.

The control is being manifested into tontines through collective presence clauses to the obsequies (in case of the death of a member) or of delegation of member, in case of sickness of a member, or death of a relative of the member. In virtue of these clauses, when a member is sick, death or has lost an insured relative, the group delegates' representatives to give the compensation prime to the sinister member. This principle helps to assess the exactitude of the facts that have occasioned the exit of funds from the box. This aspect of control is so pertinent that the visits end by a report of delegated members of the group. In addition to these visits, in case of sickness, members are required to present a health book signed by a physician exercising in a hospital officially

recognized. More that the control, explicit mechanisms of denunciation of bad risks are frequent. For instance, good risks that derive from speculative subscription are quickly denounced by bad risks, that which slow down at times this attitude and help to maintain constant the rate of insurability of the members in the group. Regulations, are part of the measure arsenal at the disposal of tontines to count opportunists attitudes. The subscription obligations, penalties to late subscriptions, costs that members who bypass the regulations most undergo are generally enormous and superior to the cost of insurance prime. They constitute among others reductions of saving and borrowing possibilities, following the lost of the quality as a member, of the marginalization and/or the social exclusion. Speaking about social exclusion and all the inconvenient it has, 'Deschamps (1970) stresses that "ancestors arrange the relations between members of the group..." the conformism is total and individual excesses condemned in advance. The cohesion, the good order, the participation to the live of the community an at his ceremonies, a certain equality of material conditions, the respect of each one are so assured by the superior power always attentive (that of the ancestors). [...] the isolation of the individuals unconceivable. Its vital force is in constant relation whit that of the ancestors and the other members of the group. The greatest calamity consists of being removed and reduced by then to a deficient existence without a protection, vowed to the void'. in the overall, for the tontine, procedures of control by interaction are effective and cheap. Tontines are so endowed with a great capacity to reduce transaction costs.

Into explicit and informal contracts of insurance, when it becomes impossible to foresee the different futures, or when it seems that the cost of implementation of a contract becomes prohibitive, a quite different solution can be envisaged. Instead of

defining a priori, the set of behaviors to adopt in the future, parties decide to specify actions to undertake only during the execution of the contract. In order to ensure the compatibility of its action while avoiding a slowest process of permanent negotiation, she attributes to one of the parties a prescription right which gives her authority to decide on the behavior of all the parties as the agreement goes on.

Conclusion

The objective of this study was to identify and analyse informal insurance principle inside social layers expelled from formal insurance systems and identify the motives that govern them. This analysis has helped us to assess the great diversity of practices in presence, which confirms the dynamism of the studied system. After having identified the types of risks, we have distinguished ex ante and ex post strategies of risk management.

Ex ante strategies of risk management are based mainly on the divinatory processes which transcribe as revealed by Ndione (1994) the will of the populations to make material and living things to inter into communion with the different visible and invisible elements of their environment, through the channel of a symbolic system common to each group.

Ex post strategies on their part are implicit and based on the social relation networks (family, friends and acquaintances) and explicit, that is tontines through their micro insurance components. The specificities of these implicit and explicit strategies are that they help to limit transaction costs.

The analysis of these different practices on the dualism angle has shown that the existence of informal market of insurance are both explained by economic factors,

notably of the imperfection of insurance markets than of socio cultural factors. It has also help to see that the different portion of the market were not as congestions as we think, for individual use both formal and informal markets in function of the needs they search for. However, the amelioration of the inciting setting of the formal market would cause little a disappearance of the informal component than a reduction of the intensity of implication of expelled from informal circuits.

The proximity between these insurance practices and the lessons drawn from the institutional economy has revealed that the specificity of implicit insurance practices lie on the fact that economically speaking, they reveal conventions during explicit practices of which the more visible component is the tontine micro insurance is close to contracts.

These insurance contracts more or less formalized are inscribed in the length and the condition in which they are realized can change. The limited rationality of parties and the uncertainty make these explicit informal insurance contracts incomplete, that which generate consequently opportunist behaviors. These opportunists' behaviors engender transaction costs which these groups succeed to attenuate relatively better, that which make an advantage on the formal insurance system.

We can at last recognize that processes pretended useful that we have develop fir long in the implantation process of insurance services for poor people does meet only partially that of population always at the search for new means to insure their socio economic inclusion. The analysis of insurance practices has revealed the difficulties of a fragmented and partitioned process, incapable to understand the reality. This report invites us to brake with the tendency that consist of universalizing the concept of micro

insurance, and of taking into account the economic and socio cultural dimensions of the insurance system in under developed countries, particularly in Cameroon.

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