The poor often face unique challenges. The underprivileged of the developing world are no different. These unfortunate people often have to take extreme risks when it comes to their personal economics. The chapter starts with a story about a poor family trying to make ends meet in Bandung Indonesia. They had a client give them a bad check and they had to bribe the policeman to arrest him. The total cost to recover their money was 4.5 million rupiah and they only recovered 4 million rupiah. The family unfortunately suffered another business disaster and this caused the couple to have a large amount of money tied up in product no one wanted. The couple eventually divorced and the wife to move in with her mother. This story while sad is not the only one like it.

The problem is that the poor are much more sensitive to economic calamity. The author makes a good point about this is when he notes that a friend of his says that the poor are like hedge fund managers, they live with extreme amounts of risk, which is illustrated by the story above. The only difference the author notes is that unlike the hedge fund managers the poor carries all the risk. Some of the risks faced by poor farmers include susceptibility to weather due to lack of irrigation, variable world market. Many poor are also day laborers. They have no reliable source of income and are also susceptible to market fluctuations more so than others. Other risks faced by the poor of
the developing nations are health, political violence, high crime rates and corruption.

With so much risk in their daily lives that threaten their survival the poor have naturally have attempted to reduce these risks by a couple strategies. One is for workers to look for work outside their village in more urban areas, but this casual labor doesn't actually help to create stable economic growth because the casual labor is always the first to be cut when necessary and casual labor jobs have no stable length. The poor have also been diversifying their work in an attempt to prevent wage reductions or earnings. This only adds to the problem because so many people have this reaction that they compete with each other further lowering the demand for labor which can lead to wages going down even more.

The family and/or communities as a social unit is also a way to spread risk. For example, in India when a woman moves to her in-laws’ village this creates a link between the two families and villages. These two families are then able to call upon each other when they are in trouble. These are all ways in which risk can be spread from an individual to the community. Banerjee states that this idea of helping each other out may help reduce individual risk, but becomes problematic when discussing the entire network of lenders and borrowers in a situation like the one posed above. Family units still suffered a drop in consumption when they experienced any type of shock.

Health shocks are the most difficult to insure in most developing places. This is mostly because of a problem insurers call moral hazard. Insurers guarantee certain things to its clients and clients then use the services that were guaranteed for. In the case of health, insurers consider this to be a moral hazard because the addition of insurance into a persons life may “create a temptation to slack off,” (p.146). People may
claim they are in need of a doctor when they are actually perfectly fine. This is costly to
insurers because doctors visits are not cheap. The community idea may work well when
sharing resources like food and water and maybe some lending, but when it comes to
health it requires a much more elaborate social contract because of the complex
dimensions to health and its associated costs.

The need to manage risk to support development has led to some creative ways
in which companies and NGO’s attempt to provide modern insurance in developing
nations. The emergence of microcredit has created a race to build a microinsurance
market. With billions of people across the globe uninsured even small profits per policy
could create a high return (p. 147).

In the area of health insurance microfinance institutions (MFI) have attempted
to create a health insurance policy that offers maternity, hospitalization, and accident
benefits. One MFI, Indian SKS, offered a mandatory health insurance program for
anyone taking a loan. This program capped the benefits and paid hospitals directly in
order to reduce fraud. The premium was not enforced until after the first renewal of the
loan. As a result many of their customers paid off the loan and had free insurance and
decided not to renew the loan (p.148). This resulted in a decline in customers and was
not a sustainable endeavor.

Another form of insurance attempted in the developing world is agriculture
related insurance. The most common form being weather insurance. The weather
insurance pays out of a region suffers below average rainfall which potentially leads
to crop loss. As with the health insurance attempt the insurance was offered through
a reputable MFI in order to gain trust. However, sign up rates were extremely low (p.
Another program set up through Oxfam and the World Food Program teamed up to provide weather insurance. Under this model farmers could barter their labor in order to purchase rain insurance (Tina Rosenburg, *Will Work for Insurance*).

Private insurance programs deal with several problems. First, there is a lack of knowledge concerning insurance in the developing world. That lack of knowledge contributes to a lack of credibility with insurance agencies (p. 153). In order to combat this problem NGOs, MFIs and governments need to work toward educating people in the developing world on the benefits of insurance. Secondly, when selling insurance companies must team with NGOs and established MFIs to gain credibility and access to the market.