
Insurance Product Design For the Poor

Dr Jim
Roth

Dominic
Liber



Quindiem
Consulting



What is covered in the session?

This session deals with the core elements in designing a product to sustainably meet the needs of the poorest households.

- YOU ARE THE EXPERTS
- Some points to prime the pumps:
 - Participation – who should be eligible
 - Terms and payment options
 - Benefits
 - Risk management and claims control





Participation

Individual versus Group Cover

- Group Coverage
 - Mostly compulsory
 - Reduces adverse selection
 - Reduces acquisition and admin cost for client and insurer
 - CARD MBA example of group insurance
 - But no normal demand feedback loop
- Individual Cover
 - Mostly elective
 - Initial and/or claims underwriting
 - Higher acquisition costs
 - TATA-AIG example of elective coverage



Household Benefits

- Advantages
 - Quasi “group” cover limits adverse selection
 - Increases numbers
 - Demonstrates value: more people = more claims
 - MFIs: adverse events in family may affect repayments
 - Spirit of microinsurance: reducing vulnerability
- Disadvantages
 - Defining the household
 - Different sizes and compositions
 - Must clearly define dependants
 - Fraud controls





Participation – Exclusions

- Advantage – manage risk and can reduce premium costs
- Fewer exclusions – higher premiums or lower benefits
- SA funeral insurance fewer exclusion preference with lower benefits similar to a finding of Dong Trieu Mutual Aid Fund
- More on this in the risk management section



Terms and Payment Options Long versus Short Term

- Short Term
 - Advantage: actuarial ease for insurer and regulator
 - Disadvantage: limited premiums for insurer
- Long Term
 - Disadvantage
 - Not easily linked to short term loans
 - Low persistency after end of loan
 - Advantage: only long term savings vehicle
 - CETZAM offered 2 months coverage between loan periods





Terms and Payment Options Client Transaction Costs

- Major difficulty in microinsurance because of lumpy income flows especially in rural households
- Weekly collections e.g. Delta Life changed to monthly or quarterly periods
- MFIs link premium collection to loans & savings accounts
- Payments books: contributions made at any time as long as they make up the premium (in essence a savings scheme) but high client transaction costs
- TATA-AIG Endowment policy premium deducted from savings component
- Equity in the case of CARD MBA Mutual insurer



Benefit Design

- Market research driven ...
 - Risks and needs
 - Wants and priorities
- ... and simple ...
 - Imply lower admin costs and hence lower premiums
 - Easy to explain
 - Don't need bells and whistles
 - Easy to claim
- ... even after allowing for exclusions etc





Basket Coverage?

- Integrated insurance policies (e.g. UIIC's UniMicro Insurance Scheme)
 - Hospitalisation expenses
 - Accidental death
 - Permanent disability
 - Temporary disability
 - House fire cover and allied perils
- Sometimes complex benefits not well received
 - Costs of explaining and servicing – too high?
 - Lack of transparency – what is the cost for each benefit?
 - Physical disability products “off putting”
 - Pre-ex exclusions complicated



Form of Benefits

What?



In-Kind (health) Cash (life)

When?



Immediate
Lump
Sum Staggered
payments

- Need to establish value
- Need for rapid payment
- Cashbacks
 - Popular incentive
 - Effective savings
 - ?Paid-up insurance
- Indexation: increasing premium & sum assured





Risk Management and Controls

- Insurable interest - sold not bought
- Political pressure
 - E.g. health insurance
 - SA, India
- Keep products simple for low transaction costs
- Options and choices



- Limit choices of cover
- Moral hazard and fraud
- Possibly fewer controls than other insurance



Benefit Design Considerations

- Health Declarations
 - Controls unwanted claims and limits anti-selection
 - Balance admin costs and exposure to anti-selection
- Deductibles and Co-Payments
 - Reduce claim amounts and incidence
 - But can they afford the co-payment; hidden costs are implicit co-p.
- Exclusions
 - Pre-ex conditions exclusion reduces underwriting
 - Common exclusions: suicide, self-inflicted injury, covariant risks
 - Alternatives to exclusions
 - Reinsurance if available and affordable – but very hard at times
 - Group cover
 - Waiting periods
 - Increasing benefits over duration

