



The Aga Khan Agency for Microfinance

The Micro-economics of Micro-insurance - the example of Pakistan

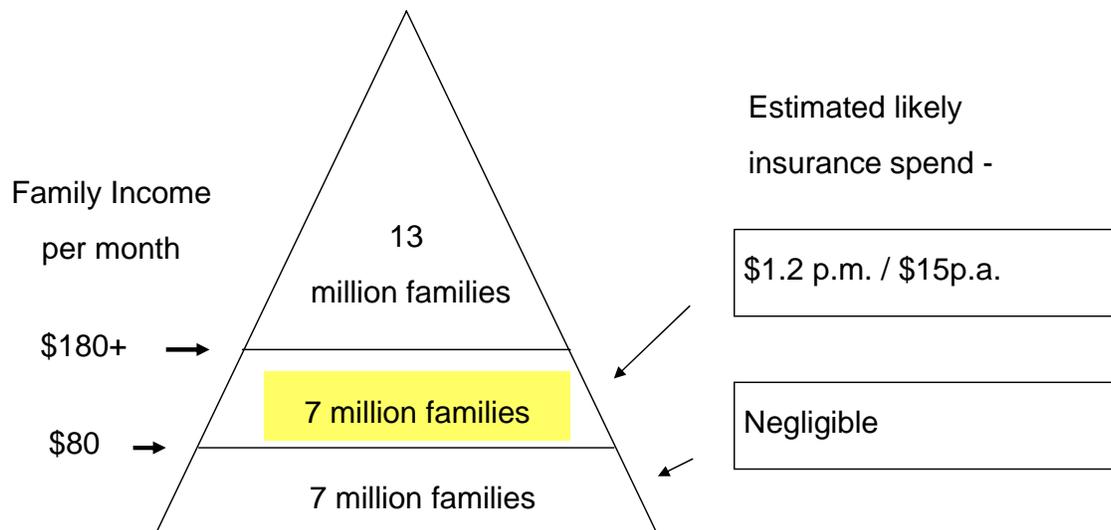
Theme 4 - Group versus Individual Insurance

Micro-insurance Conference 2007
November 15th, Mumbai



The Pakistan Micro-insurance Market

Our Target Market - The Second Lowest Family Income Quartile



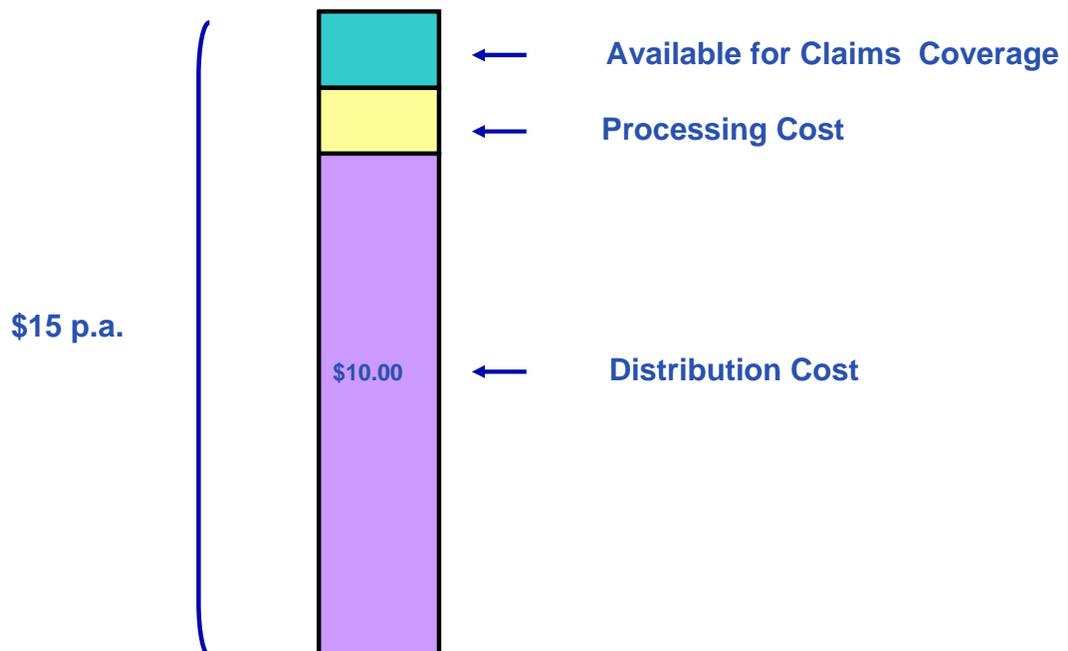


How to distribute products at such low levels of premium?

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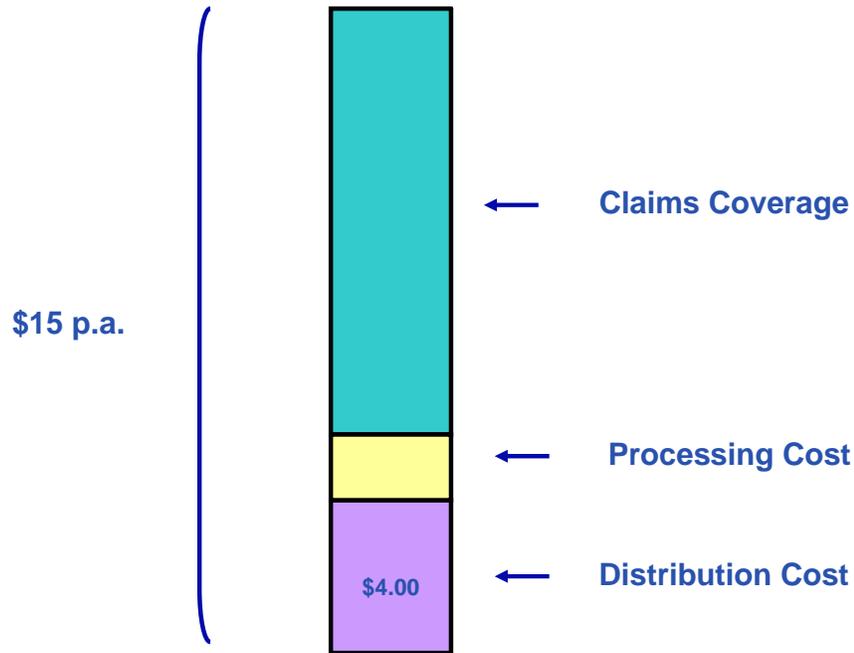
Costs of distributing a simple term life – individually sold and serviced monthly



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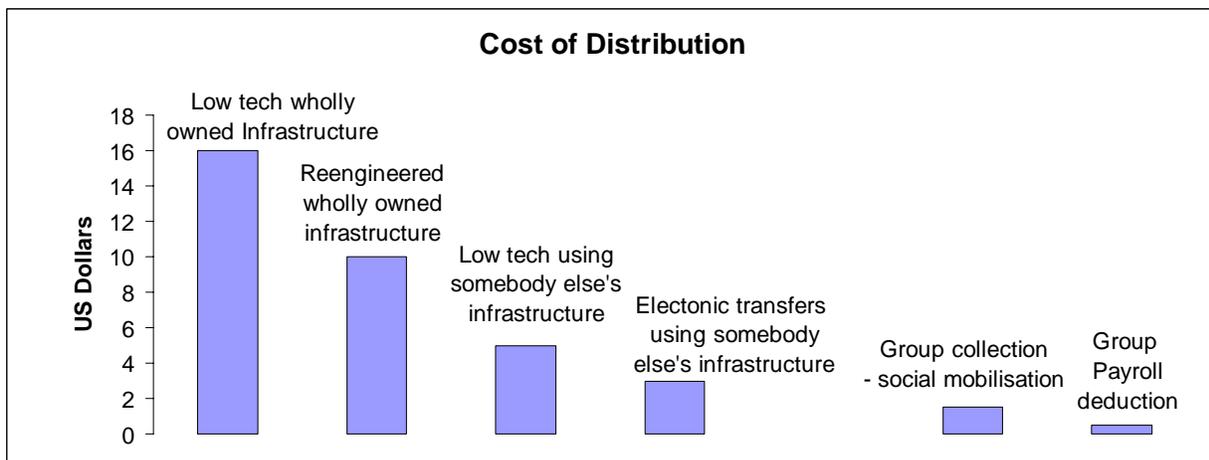
Whereas to give value to clientthe required cost structure should be.....



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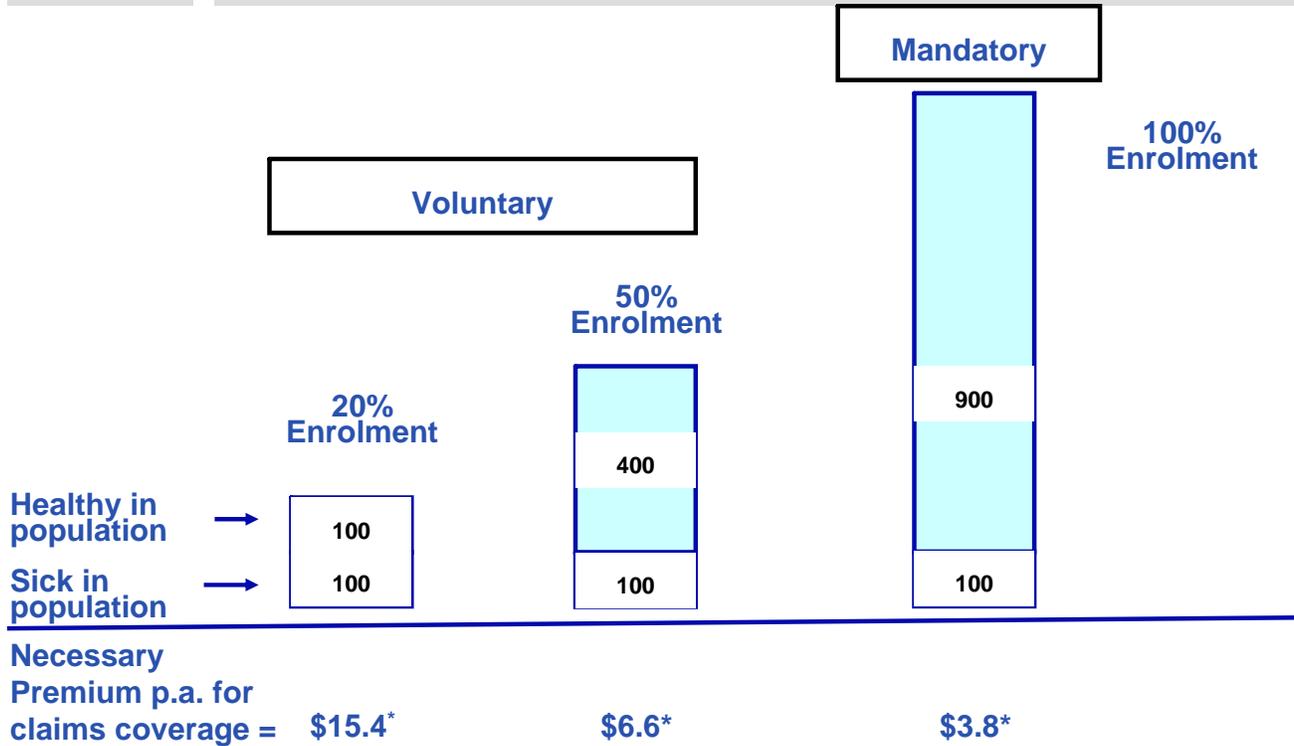
Distribution Business Models – Individual versus Group



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The Actuarial Advantages of Group Insurance – particularly important for health insurance



* Assumes 2.5% incidence rate amongst the healthy

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What products is the market most anxious to pay for?

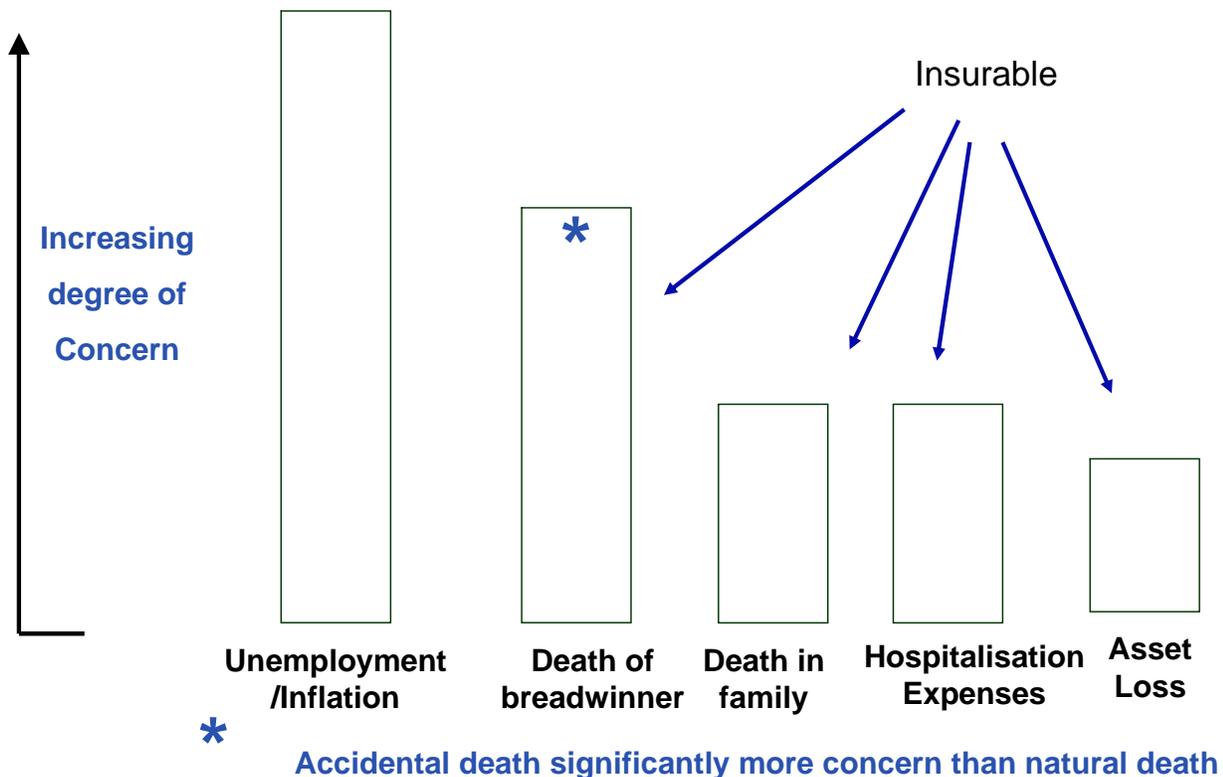


Does the most popular product choice influence the Group versus Individual debate?

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What products are required? - Life's Unmanageable Concerns





.....But willingness to pay is also important

- **The time horizon of our market is very short**
 - Only 1/3 of our market save, the others do not manage to save.
 - Of these savers, the median savings duration is 11 months,
 - and median savings balance is \$130 dollars
 - Less than 5% of savers manage to maintain a savings balance for 5 years or more
- **Our market needs to perceive there is a significant chance of use of the premium within the premium payment period**

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Probabilities and Anxieties*

- **The example of a young couple starting a family (they will have four children in next ten years)**
- **Death of breadwinner or spouse**
 - **5%** chance that this will occur in next ten years, but more likely later than sooner
- **Death of a member of family (including death of child)**
 - **53%** chance that a death will occur in next ten years, each time accentuated with childbirth /infant child events
- **Unmanageable hospitalisation expenses**
 - **85%** chance that such an event will occur in next ten years, each time accentuated with childbirth /infant child events

* Grateful acknowledgement is given to Messrs Firoz Hirji and Denis Garand for their assistance in developing the information for this slide

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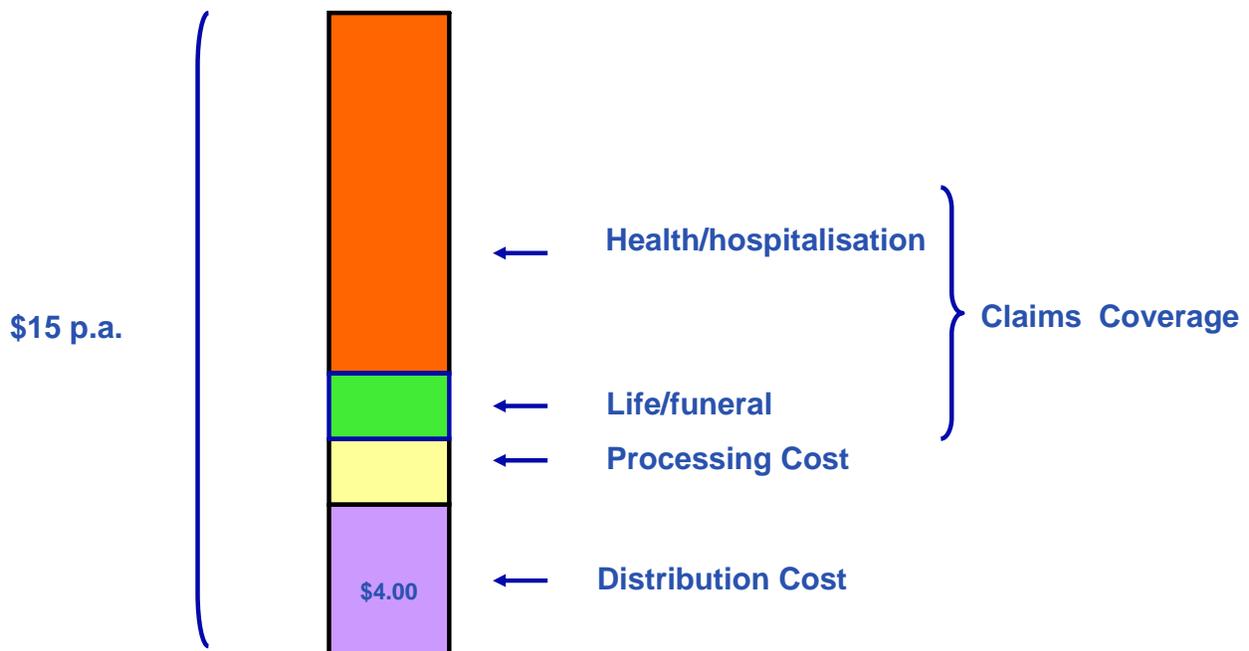
There is a lot of anxiety over visits to a hospital

- But they visit hospital as outpatients 4-5 times a year
- 30% chance one member of the family will be hospitalised during each year, more often than not as a consequence of one these outpatient visits
- They need the relief from the anxiety that a hospital visit may lead to unmanageable expenses - they therefore seek healthcare earlier

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Product choice



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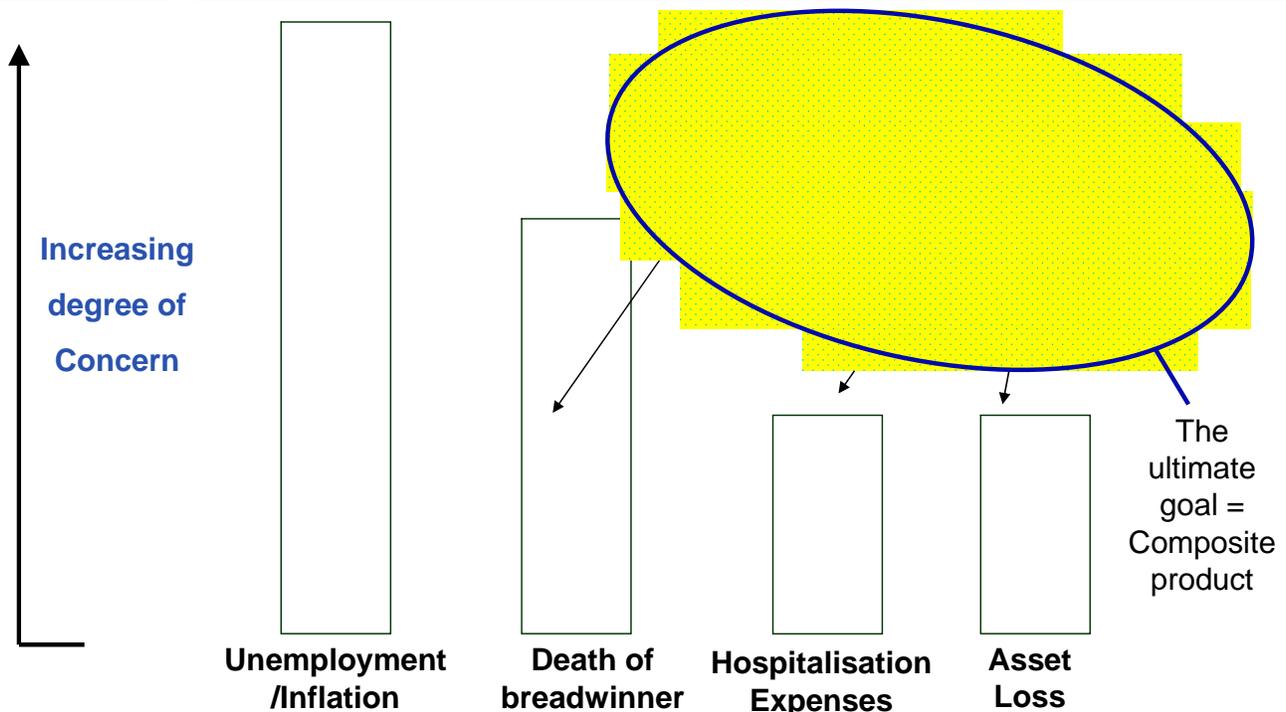
The economic case

- The choice of health,
- plus the favorable economics of group over individual being most accentuated for health
- Points to group insurance being the cost efficient, affordable way forward.....
- To which can be "tacked on" some life/funeral insurance at no additional distribution/premium collection cost

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The grouping not only of persons but of hazards



Same sale and service cost for each single hazard policy as for the composite

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Microinsurance viability – largely dependent on health and group insurance

Preliminary Estimate of Pakistan microinsurance market by hazard - US \$140 million - 2023

