

# DiD

Appui technique et investissement en finance communautaire



## Individual versus Group Plan Administrative Costs – The Example in West Africa

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Which would you choose ?

- > A plan where 30 cents of each dollar goes for administration...
- > A plan where 15 cents of each dollar goes for administration...

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- > In other words:
  - > For every \$100,000 of premiums:
  - > The return to the community (claims, dividends, etc.) adds up to:
    - > \$70,000 from individual plans
    - > \$85,000 from group plans
    - > !!! A 15% difference !!!

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## Current industry data shows:

	Overhead as % of premiums		
	Total	Life	Health
<b>Individ. Ins.</b>	22%	23%	22%
<b>Group Ins.</b>	10%	8%	11%
<b>Difference</b>	12%	15%	11%

\* Data from 5 Canadian insurance companies as of 31/12/2004

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## What causes the difference?

- > Product underwriting, selling and marketing
- > IT systems and support structures
- > Product management
  - > Claims analysis
  - > Customer service
  - > Reserves, financial administration



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## Canadian Insurers

	<b>Individual Ins. All Products</b> (% gross premiums)	<b>Line of Business Group Ins. All Products</b> (% gross premiums)
Reserve calculation ( Actuarial Department )	0.25%	0.16%
Technology	2.60%	1.46%
Development and Selling Product ( excluding commissions, including mkt , ) pricing, etc )	8.19%	3.00%
General Management ( Customer Service, claims, reinsurance, financial statement, human res.)	5.58%	6.99%
<i>Customer Service</i>	<b>2.96%</b>	<b>4.85%</b>
<i>Other</i>	2.62%	2.14%
<b>Administrative Exp.- Total</b>	<b>16.62%</b>	<b>11.62%</b>
Commissions	<b>14.75%</b>	<b>4.95%</b>
<b>Total</b>	<b>31.36%</b>	<b>16.57%</b>





## However

- Comparing plans is not always obvious
  - Different lines of business usually cover different kinds of risk (in Canada)
    - Group plans provide mainly health and disability insurance
    - Individual plans provide mainly life insurance
    - Aggregate data may give a false picture of the industry



## Comparing products covering similar risks / casualties:

Sector	Line of Business	
	Individual All products (mainly life) ( % premiums )	Collective (Life only) ( % premiums )
Reserve calculation ( Actuarial Department )	0.25%	0.14%
Technology	2.60%	1.41%
Development and Selling Product ( excluding commissions, including mkt, ) pricing, etc )	8.19%	2.84%
General Management ( Customer Service, claims, reinsurance, financial statement, human res.)	5.58%	4.09%
	<i>Customer Service</i>	<i>3.19%</i>
	<i>Other</i>	<i>0.90%</i>
<b>Administrative Exp.- Total</b>	<b>16.62%</b>	<b>8.49%</b>
Commissions	<b>14.75%</b>	<b>4.25%</b>
<b>Total</b>	<b>31.36%</b>	<b>12.75%</b>

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## Other:

- Terms for individual plans are usually longer than for group plans:
  - Higher reserves → offer higher investment returns
    - 70% of annual premiums - individual
    - 10% of annual premiums - group
    - Expenses may even be partially covered as shown earlier

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## West African example:

→ Under a project involving 6 West African cooperative networks

- Same product in 2 similar cases:
- Only difference was administration:
  - One network use individual method
  - Others use group method

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## Multiple causes

- ~~Underwriting, selling and marketing of the product~~
- IT systems and support systems

### Product management

- ~~Claims analysis~~
- ~~Customer service~~
- Reserves and financial administration



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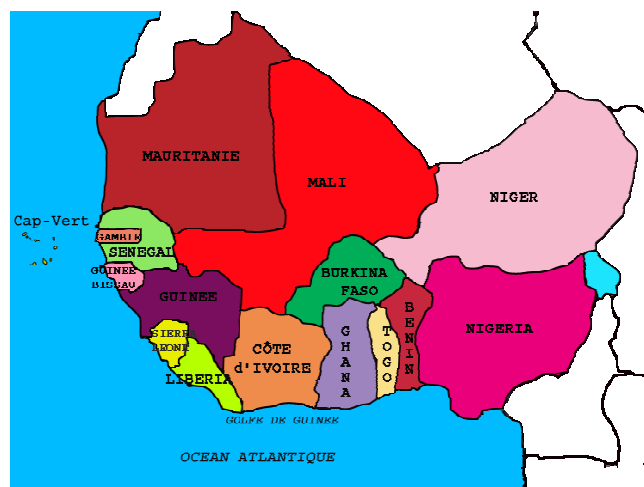


## Participating Networks

- FUCEC in Togo
- RCPB in Burkina Faso
- PAMÉCAS in Senegal
- FÉCECAM in Benin
- Kafo Jiginew in Mali
- Nyèsigiso in Mali

## Financial and Technical Partners

- DID / DFS (CIDA)
- ADA / KBC (LuxDéveloppement)



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## Product Offered

- Reimbursed outstanding balance of loan at the time of death or TPD + 100,000 CFA francs (US \$200) to family of borrower
- Term of 0-60 months (over 50% were for 12 months or less )
- Premium was the same for everyone
- Mandatory for all borrowers in network
- Contract between the administrative unit and the cooperative (MFI)



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## Administration / Legislation

- Administered by an internal unit in each federation
  - Except for one network that already own its own formal insurance company
- Legislation applicable in all 5 countries
  - Legal gaps persist related to determination of actuarial provisions





## Legislation

- ▶ Leaves the impression that the individual method (with prescribed mortality rates) should be used to determine actuarial reserves
  - ▶ In fact intermediary methods are possible – such as an individual - group method
  - ▶ At the present time:
    - ▶ One network uses an individual method (Network A)
    - ▶ Other networks use a group method



## Comparison (Dec 31, 2006 )

	Network A ( <u>Ind. Method</u> )	Network B - Other similar network using <u>Grp Method</u>
Number of Policyholders	27,594	36,311
Amount insured	17.8 billion CFA francs (US \$35.6 million)	18.3 billion CFA francs (US \$36.6 million)
Earned premiums	151 million CFA francs (US \$302,000)	121 million CFA francs (US \$242,000)



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	Network A ( Ind. Method )	Network B ( Grp Method)
Selling of the Product	Same remuneration and selling process	
Underwriting	Same questionnaire	
Claims analysis and processing	Identical Processes Detailed data sent to the administrative unit	
Data processing and transfer	<ul style="list-style-type: none"> <li>Detailed data transferred to the admin unit</li> <li>Detailed data coming from manually-run coop must be <b>manually input by the admin unit employees</b></li> </ul>	<ul style="list-style-type: none"> <li>Detailed data send to the admin unit only for <b>output of data</b></li> <li>Approx. 1500 new policies per quarter</li> </ul>
Determining actuarial reserves	<ul style="list-style-type: none"> <li>Individual method</li> <li>Professional software purchased from private consultant</li> </ul>	<ul style="list-style-type: none"> <li>Individual-group method</li> <li>In-house software is used ( Excel program )</li> </ul>

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## Impact on administrative expenses

- Employees required for support
  - Network A : 4 employees
  - Network B : 1 employee
- 2006:

	Network A (Ind. Method)	Network B (Grp. Method)
Admin Expenses	56 201 232 CFA francs ( US \$ 113,537)	20,789,110 CFA francs (US \$42,000)
Expenses/Premium Ratio	<b>37%</b>	<b>17%</b>

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**2007** - September, 30 \*4/3

	Network A (Ind. Method)	Network B (Grp. Method)
Admin Expenses	50 444 564 CFA francs ( US \$ 101,908)	17 333 448 CFA francs (US \$ 35,017)
Expenses/Premium Ratio	<b>30%</b>	<b>7%</b>

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## Observations

- > Difference is mainly caused by:
  - > Manual input and control of data for manually-run coops
    - > Represents approx. 80% of cooperatives and 15% of people insured in both networks
    - > Approx 1500 new policies / quarter (for Network A)
  - > More expensive software

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## Observations

- Management inefficiencies:
  - Lack of time for proper analysis of results and claims
  - Lack of time to train insurance agents and for verification of computerized data from coops



## Observations

- Sophisticated software to determine reserves is expensive: 10 million CFA francs (US \$20,000) for initial license + annual fees
- Most available software seems not appropriate for micro-insurance (expensive, difficult to manage and requires large support staff)

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## Conclusions

- To offer customers quality products (with a claim/premium ratio of 50% to 75%) expenses must be reduced:
  - We must adapt to the local context and infrastructure (lack of computers, difficult web access in remote locations)

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## Conclusions (continued)

- Education and review of the reserve valuation system may be required
  - Determining reserves: a group method may be as safe as an individual or traditional method → we must educate legislators
  - Statistics: are they really worth the additional cost? Especially if we use community rates ...

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Thank you!!