



ASSOCIATION ACTUARIELLE INTERNATIONALE  
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Institute of Actuaries of India



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## *Emerging Risks... Daring Solutions*

## Microinsurance – The Actuarial Contribution

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# Agenda

- ⊙ Microfinance and Microinsurance
- ⊙ The Opportunity
- ⊙ The Need for Insurance
- ⊙ Two Opposing Views
  - It Cannot Work
  - There must be a way.
- ⊙ What Products will work
- ⊙ Credit Insurance
  - Is this market efficient in India?
  - It's long term future.



# Microfinance and Microinsurance

- Finance and Insurance the two great pillars of Financial Services.
- Finance: The problem is to lend money to someone who will pay it back. Industry has boomed because they found a solution to this.
- Insurance: The problem is to find a risk which is:
  - Clearly Defined
  - Uncommon
  - Sufficiently painful to warrant the trouble of insuring.

As yet no simple solution in the Microinsurance area.



# The Opportunity

- ◎ The world is divided up into four group:
  - The Affluent 2.0bn people with incomes greater than USD 1,500pa
  - The Middle Group 2.6bn people with incomes between USD 500 pa and USD 1,500 pa
  - The Poor 1.4bn people with incomes less than USD 500pa

Source:Swiss Re Sigma No 6/2010



## Need for Insurance

- ◎ It is clear that the poor suffer badly from ill health, premature death, early disability.
- ◎ They also suffer badly from natural disasters eg Tsunami in 2008 led to 230,000 deaths in Asia but hardly noticed in the insurance world.

Insurance, with the benefit of pooling, is seen as the most efficient way of alleviating these burdens.



## Opposing View – It Cannot Work

People living on \$2 - \$3 a day cannot afford anything other than:

- Food
- Clothing
- Shelter

Most poor do not understand insurance. They will not voluntarily give over money for insurance.

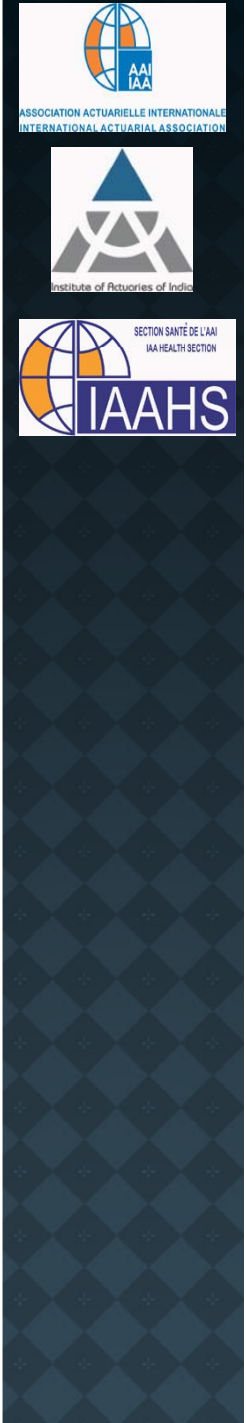
The policyholders are unlikely to understand the documentation presented to them.

Moral hazard in taking money from poor vulnerable people.



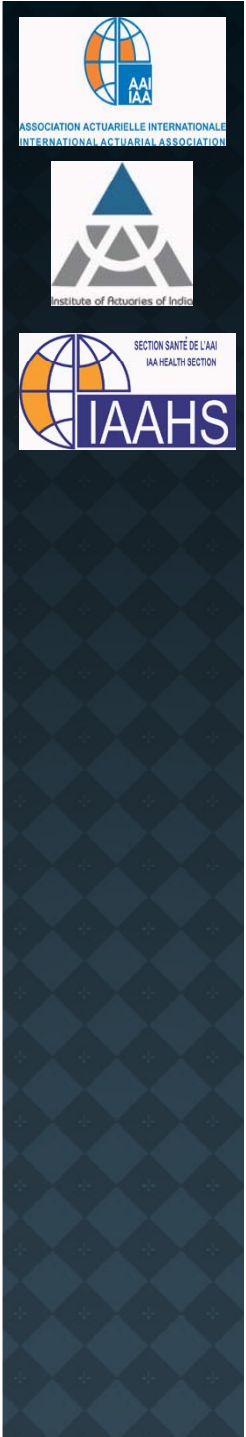
## Opposing View – It Cannot Work

- ⊙ Credible pricing does not exist
- ⊙ Under proper pricing the expenses are too high to make the product viable.
- ⊙ Individual risk underwriting not viable
- ⊙ Individual claims control not viable.
- ⊙ How do you collect premiums ?



## Opposing View – It Must Work

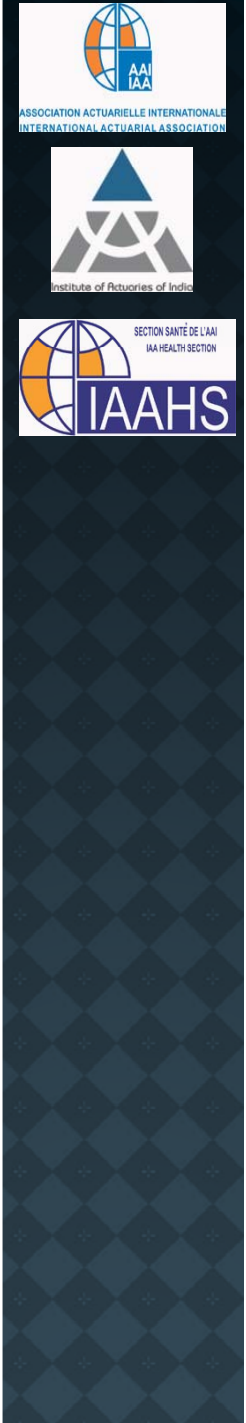
- ⦿ There are some pretty big forces out there who are keen to eliminate poverty and to harness insurance to do this.
- ⦿ Impossible things just get done.
- ⦿ I believe that actuaries have a role to play in this process.





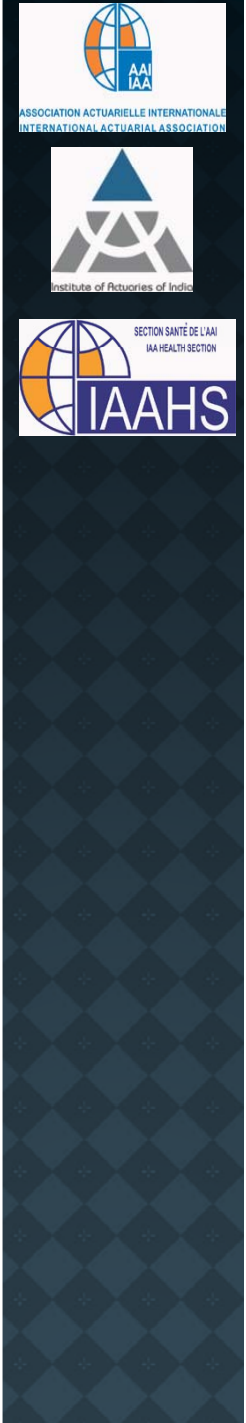
## What products will work under microinsurance

- ⦿ Death cover: In most societies death's are recorded and known. This is not an area where falsification of deaths is likely to be more than in normal insurance.
- ⦿ Long Term Savings: This is a viable product.
- ⦿ Disability Insurance: Definition of disability to difficult to enforce.
- ⦿ Critical Illness: Access to health services difficult making this a difficult benefit to give.
- ⦿ Health Insurance: Access to health services difficult also level of ill health high amongst the poor.



# What products will work under microinsurance

- ⦿ Annuities: Difficulty in verifying survival
- ⦿ Property : Possessions are small and difficult to verify.



# Actuarial Input

- ⊙ Actuaries should be involved in two areas:
  - ⊙ Pricing
  - ⊙ Reserving
- ⊙ In pricing actuaries can do a good job so long as:
  - ⊙ They have some certainty regarding the benefits.
  - ⊙ They have some certainty regarding who is covered.
  - ⊙ They are able to realistically price for such things as the true cost of distribution.
  - ⊙ They get feedback through the control cycle of the progress of the business



# Actuarial Input

## ⦿ Reserving

The other important role of actuaries is in regards to the reserves that should be held for a particular scheme.

Have to have a simple approach and also decide what probability of ruin to accept.

Classic approach is :’If in doubt reserve for it.’

This approach likely to kill microinsurance.

Solvency II likely to kill microinsurance.



# Micro Credit Insurance

- ⦿ How is the baby that has actually been born going ?
  - Healthy enough but with some worrying symptoms.
- ⦿ Health
  - There is a fast growing market with competitive products and competition in providing those products.
- ⦿ Symptoms
  - Lack of clarity in a number of cases regarding the cover and the past experience.
  - Desire to add non key covers eg spouse cover.
  - Disregard for clear risk management issues eg suicide cover.



# The Future

- ⦿ MicroFinance clearly helping people out of poverty.
- ⦿ Credit MicroInsurance compliments MicroFinance and makes the provision of MicroFinance more efficient.
- ⦿ However it is not clear whether MicroInsurance helps you out of Poverty or whether it is one of the first first products you buy when you come out of poverty.

