

Endowment Products: Experience from South Asia

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Overview of presentation

- 1) Introduction to the insurance providers
 - a) Delta Life in Bangladesh
 - b) TATA AIG in India
- 2) Endowment product design
- 3) Adaptations for the low-income market
- 4) Advantages of endowment products
- 5) Disadvantages of endowment products
- 6) Conclusions



1a) Delta Life

- Founded in 1986 by Shafat Ahmed Chaudhuri, actuary and visionary
- Privately owned (now listed on the stock exchange)
- Has not received any donor money
- Got involved in microinsurance in 1988 primarily for socially responsible reasons; set up Grameen Bima as a project
- Delta primarily offers endowment policies
- One of the largest life insurance companies in Bangladesh



1a) Delta Life

- Microinsurance pioneer
- Targets workers in the informal economy (same market segment as well-known Bangladeshi MFIs)
- Relies on the direct sales model with door-to-door collection of premiums
- Grew dramatically in mid-1990s (40,000 new policies issued in 1994; 450,000 new policies issued in 1998)
- Provided loans to policyholders



1a) Delta Life

- Flawed lending methodology resulted in huge loan losses (approx \$2 million)
- Outgrew its capacity, including administrative systems, MIS and internal control
- Experienced serious problems with fraud and lapsed policies
- Was going to spin off microinsurance into a non-profit entity when...
- 2002 actuarial assessment indicated that it was actually profitable
- Underwent (and perhaps still undergoing) a painful reengineering process



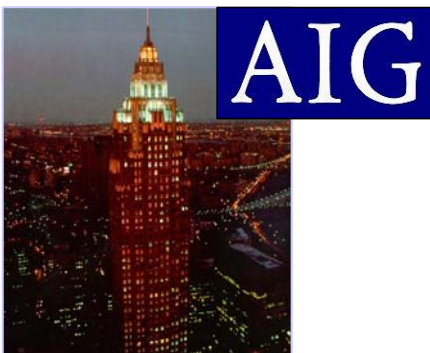
1a) Delta Life



1a) Delta Life



1b) TATA AIG Life Insurance Co. Ltd.



The leading US-based international insurance and financial services organization. The US's largest underwriter of commercial and industrial insurance. Over 97,000 employees and turnover US \$108 billion.



India's largest forex earner serving India for 123 years. A family of over 90 diversified companies accounting for 1.9% of India's GDP. Over 260,000 employees, revenue at \$11 billion and turnover 1.9% of India's GDP.



1b) TATA AIG Life Insurance Co. Ltd.

- Set up as a joint venture life insurance company in 2001 (TATA Group holds 76%)
- Started microinsurance in 2002 as a response to the government's mandate
- Initial MI operations with TBF (an MFI)
- Recipient of a matching grant from DFID to provide insurance to landless labours and develop a scalable and replicable MI delivery and sales model



1b) TATA AIG Life Insurance Co. Ltd.

- Front-end team increased from 1 person in 2001, to 3 in 2003, to 28 staff members in 2006
- Offers both group and individual MI policies
- Covered over 140,000 low-income women in 2005 through group term life policies
- Individual policies:
 - Growing at 100% y-on-y
 - Between Dec 05 and Nov 06, covered over 32,000 new lives
 - Offer term as well as term return of premium products (TROP)



1 b) TATA AIG Life Insurance Co. Ltd.

- First in India to design and offer life insurance products under new MI regulations
- TROP products designed to provide supplementary livelihoods to low-income women who are the grassroots distribution channel
- Key features of marketing:
 - Audiovisual for awareness in target market
 - MI service offices with mobile offices for servicing
 - Integration of higher premium business



2) Endowment product design: Delta Life


	Biennial Plan	Endowment (with profits)
Term (years)	10	10 and 15
Eligibility requirements	Age 18 to 45 (10 year plan) or 18 to 40 (15 year plan)	
Rejection rate	2% of new proposals 10% of revival cases	1% of new proposals 10% of revival cases
Product coverage	Sum assured US\$85 to \$1,650	
Other Benefits	After two years, eligible to borrow up to 90% of cash value for one year at 20% per annum	
Method of Benefits (maturity)	20% of sum assured paid after years 4, 6, 8, and balance plus bonus at maturity	Payment of sum assured, plus bonus
Method of Benefits (death)	Payment of sum assured, plus bonus if policy is in force	
Limitations	Lapse within two years (for 15-year policy), or one year (for a 10-year policy) forfeits total deposit amount	
Premiums per payment (per 1000 sum assured, 15-year term)	Y=114.5; HY=58.4; Q=29.8; M=10.3	Y=63.3; HY=32.3; Q=16.5; M=5.7



2) Endowment Product Design: TATA AIG Sampoorna Bima Yojana (Limited Pay Term with Return of Premium)

Sampoorna Bima Yojana

PROTECTION FOR DEATH AND RETURN OF PREMIUM PLAN!



MICRO INSURANCE PLAN

Tata AIG Life brings you a way to stay protected from unforeseen events.

TATA AIG LIFE A new look at life



जीवित हैं तो आमदनी से घर के खर्चे तो निकल ही जाते हैं

माइक्रोइन्शुरन्स आपके भविष्य की आमदनी को करे सुरक्षित हर कदम!

TATA AIG LIFE

18-60 years

Limited period pay
Non Forf. options

100% return
of base premium


Annual \$6.7 at
Age 30 for
SA of \$225



2) Endowment Product Design: TATA AIG Ayushman Yojana (Single premium assured return plan)

Ayushman Yojana

STAY PROTECTED WITH ALL YOUR MONEY BACK AND MORE!



MICRO INSURANCE PLAN

Tata AIG Life brings you a way to stay protected from unforeseen events.

TATA AIG LIFE A new look at life



पारिवारिक ज़िम्मेदारियों के लिए बचत ज़रूरी है!

माइक्रोइन्शुरन्स आपकी अमूल्य बचत को सुरक्षित करे हर कदम!

TATA AIG LIFE

18-60
years

Policy loan option

125% return
of base premium

\$67 at
Age 30 for
SA of \$225 for
10 years



2) Endowment product design

Key similarities:

- Voluntary, individual products
- Long tenure products with various premium payment options
- Both companies introduced endowments to cater to policyholders who want more than pure risk covers

Key differences:

- Delta uses community pricing
- TATA AIG design strives to minimize lapses
- TATA AIG offers non participating products



2) Endowment product design

Product adaptations by Delta:

- Introduced a biennial plan to payout 20% of the sum assured every two years (for a ten year policy)
- Introduced daughter's marriage endowment to mature when the daughter turns 18 years old
- Overall: Terms have gotten shorter, premium payments less frequent and access to savings more frequent



2) Endowment product design

Product adaptations by TATA AIG:

- Introduced two variants of the TROP product
 - Ten pay with Fifteen year benefit period
 - Single premium with ten year benefit period
- Offer premium loan on the single premium version
- Reduced paid up after three years on the ten pay product
- Levelled commission structure to reward agents for retaining policyholders



3) Key adaptations for the low-income market

- Separate division within the insurance company
- Culture of social responsibility
- Distribution system: barefoot agents
- Agents responsible for relationship management, including premium collection
- Primary contact in person
- Not all agents are officially licensed
- Less screening requirements for policyholders
- Fewer documentation requirements for claims



4) Advantages of endowment products

- Provide the low-income market with savings discipline and illiquidity
- Combine savings, insurance and credit to enhance risk management
- Allow policyholders to accumulate assets over time
- Overcome a key complaint about term insurance: no claim, no benefit
- Cater to the heterogeneity of rural markets by providing choice of products with different features
- Makes MI more sustainable for the insurance company as case sizes are higher
- Low anti-selection risk as ratio of SA to premium is lower than a pure term
- Greater incentives for agents



5) Disadvantages of endowment products

- Difficult to deliver through microfinance institutions – Conflict of interests
- Vulnerable to macroeconomic instability
- Require good investment opportunities for insurer
- Potential for mis-selling, especially to the low-income market
- High expense ratios (more than 40 percent of premiums go to pay administrative expenses)
- Problems with lapses and small surrender values
- Agent collection process needs to be closely monitored for potential fraud



6) Conclusions

- There is a need to offer long-term savings/insurance vehicles but...
- The products currently available do not provide sufficient value to the policyholders
- Innovations are required to bring down the costs of delivering and servicing endowment products to the poor so that companies can increase the benefits
- Innovative products that accommodate clients' unpredictable cash flow should be developed
- Other ways of meeting clients' needs for savings discipline, illiquidity and risk cover should be explored



Thank You!

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