Profit and microinsurance

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Emerging Consumer

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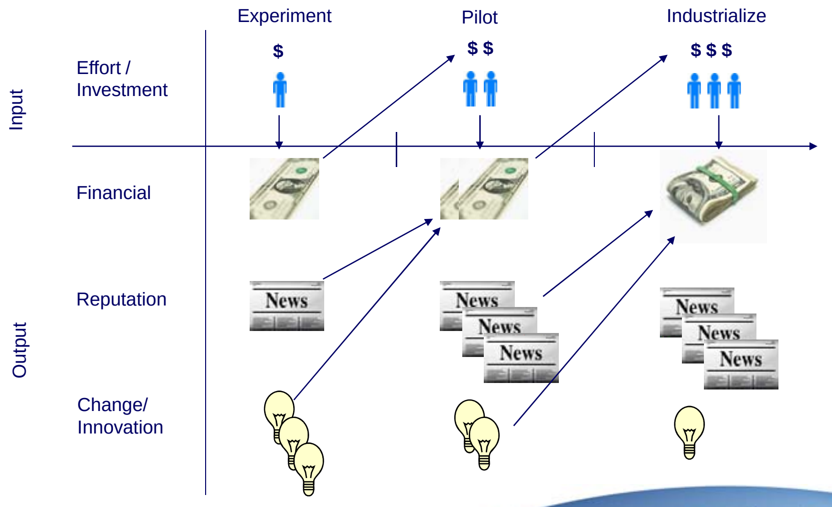
Agenda

- Benefits to the firm: financial profit, innovation, and reputation
- Core financial profit in microinsurance over time
- Profit and client value
- Summary and conclusion

Financial profit is ultimately a key measure of commercial success

- Higher risk-adjusted returns should more easily attract capital
- Insurance returns are underwriting profit and investment income
- Reputation and ability to innovate (i.e. profitable growth, relevance) are among other risks which "adjust" investor decisions
- Improving risk performance also directly improves return performance over time

Risk-adjusted financial returns are improved through microinsurance.



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Direct expenses (operational risk) and commissions are knowable factors

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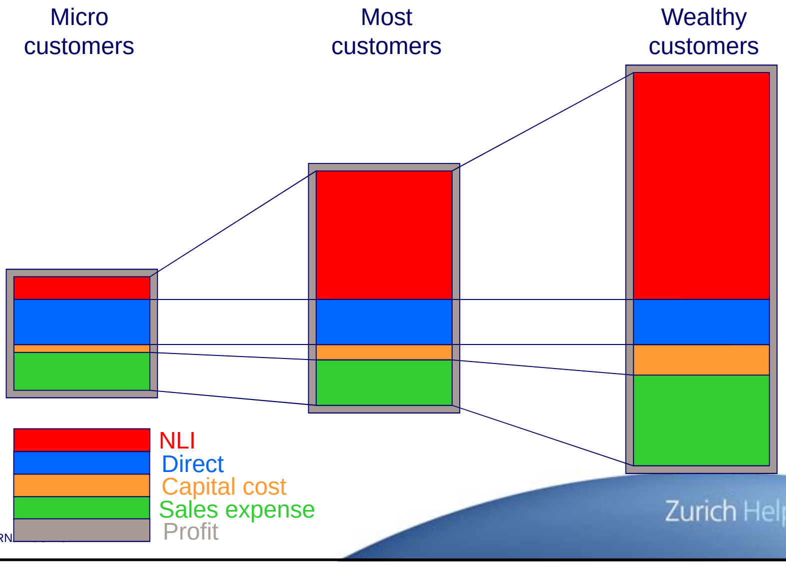

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Innovate over time to gain profit and then to improve market position

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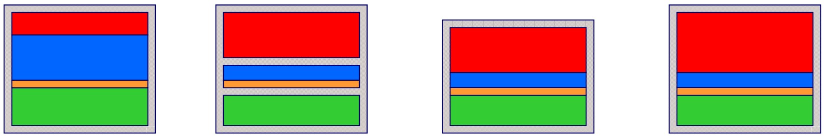
Immediate	Mid term	Over time	



Higher ER →	Lower ER	Lower Rate	Same Rate
Lower LR →	Higher LR	Same ER	Same ER
		Same LR	Higher LR
Acceptable CR	Attractive CR through innovation	Acceptable CR and increase market share	Acceptable CR and increase penetration

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Profit is a measure of business value…

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- If each year 100 people will buy $10 insurance policies with $100 lump-sum payment and projected 10% frequency
  - The insurer expects to collect $1000 and to pay ten claims totaling $1000
- Accident year experience varies from the projection:
  - Year 1: 5 paid claims (5% frequency)
  - Year 2: 10 paid claims (10% frequency)
  - Year 3: 15 paid claims (15% frequency)
- Which year was best / worst for underwriting "business value"?

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… and not a measure of client value.

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- Same portfolio with same assumptions:
  - Year 1: 5 paid claims (5% frequency)
  - Year 2: 10 paid claims (10% frequency)
  - Year 3: 15 paid claims (15% frequency)
- Which year was best / worst for "client value"?
  - For a policyholder with a paid claim?
  - For a policyholder with no paid claim?

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Microinsurance business value and client value are not negatively correlated

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- Aside from extreme cases, profit (or loss) on a portfolio of insurance risks does not materially predict value to individual policy holders
- Insufficient business value will limit investment toward client value
  - Business value and individual client value, however, are also not entirely positively correlated

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Analyzing client value requires the same portfolio view as business value

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- Business value looks at the highly visible portfolio profit

  Revenue
  \- Expenses
  \+ Investment income
  = Profit

- Client value is largely unmeasured in terms of portfolio effect

  Premiums paid
  \- Risks transferred
  \+ Economic activity increased
  = Reduced community volatility

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Profit creates business value in various ways and is not a measure of client value

- Profit can be measured through increased return and decreased risks
- Direct financial profit is earned through scale and efficiency over time
- Business value and client value are not antithetical and tend more towards correlation
- Measures of client value require a portfolio view in order to match with business value discussions

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