

Insuring Low-Income Households

**What Are The Factors Influencing Life Insurance Take-Up?
Why Endowment Life Insurance Isn't Suitable?
Why Do Disclosures Matter?**

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Factors Influencing Life Insurance Take-Up

Behavioral Considerations

Saliience



Life insurance is not anywhere on top of priority list for low-income households.

Optimism



Anticipating a positive future, a fundamentally human mental model impedes insurance take-up.

Loss Aversion



The premium paid towards risk insurance is often perceived to be wasted if the risk does not materialise.

Cultural Context



Insurance As Investment

The history of how life insurance was popularised in India impacts its perception as a savings/investment product



Social Proof

Insurance is often bought and sold between friends and neighbours through agents who are well-known to the community. Hence, it is sometimes an obligation or favour to a known agent, sometimes mimicking someone else's life insurance purchase and sometimes a means to enhance one's own social capital.



Reliance On Social Ties

People often rely on extended family and friends for support in times of need, and insurance is mostly not used as a risk mitigation tool even in other pressing contexts like health or old age.

Market Landscape

Low Insurance Literacy

Low awareness and literacy about life insurance makes it a push product that insurers have to hard sell to customers.



Agents as Access Points

Customers trust local agents more than distant insurance companies. Insurers, therefore, incentivise agents to hard sell life insurance for hefty commissions.

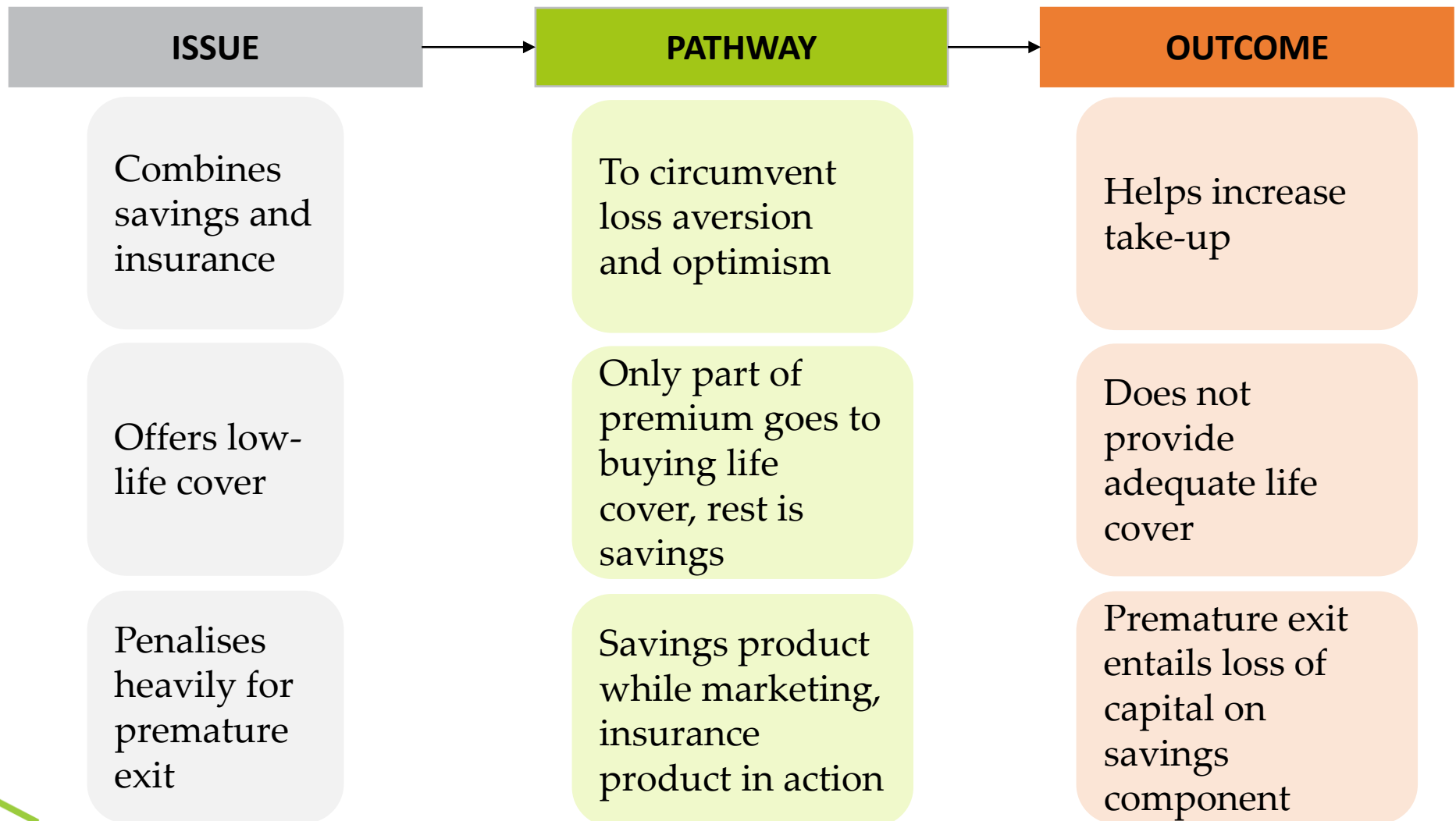


Bundling

Stand-alone life insurance is often difficult to sell, especially among the low and middle-income segments. Bundling insurance with savings or investment eases take-up.

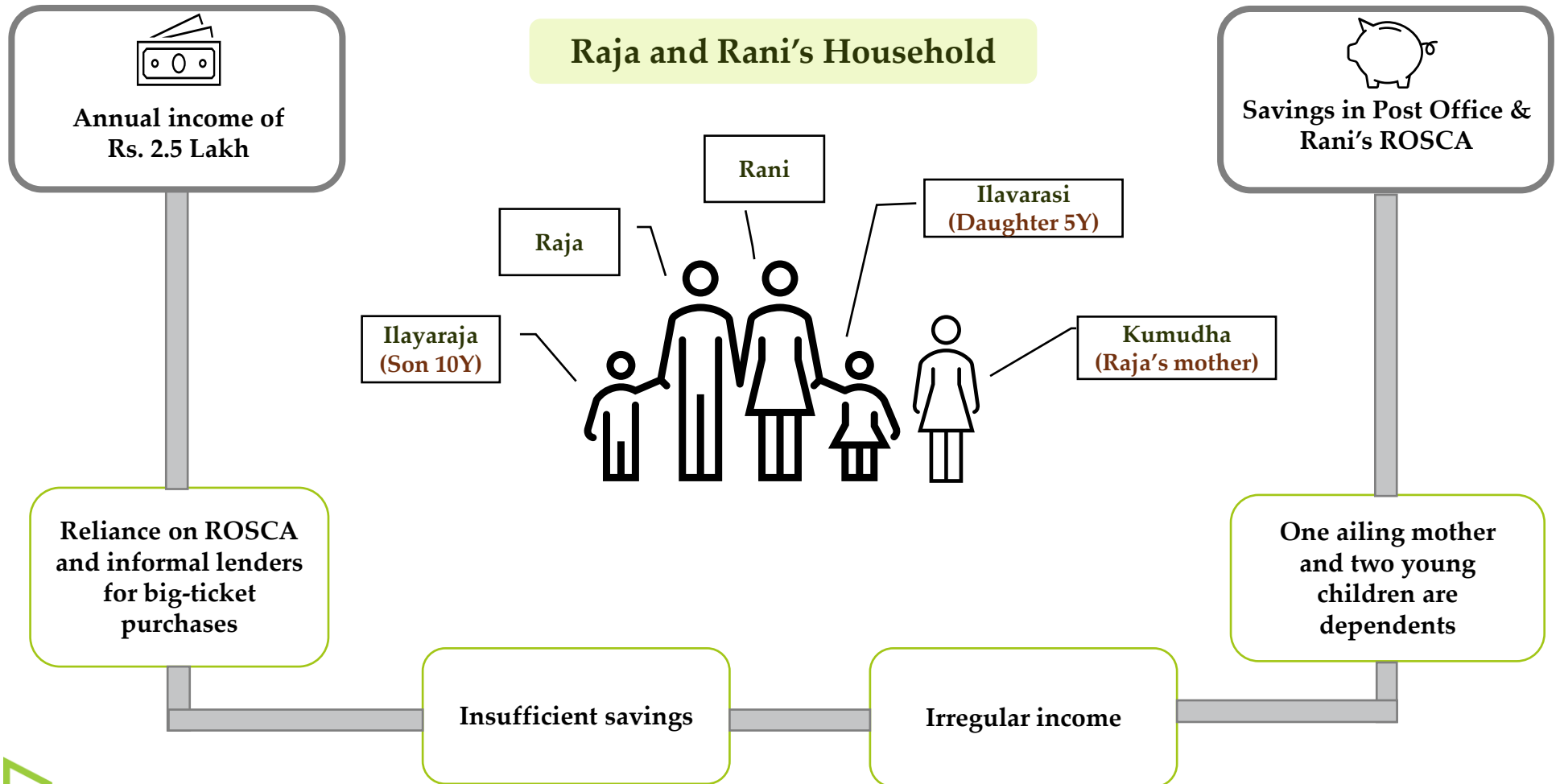


The Problem – Bundling Gone Amiss



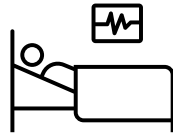
Raja and Rani's Experience with Life Insurance

The Household of Raja and Rani

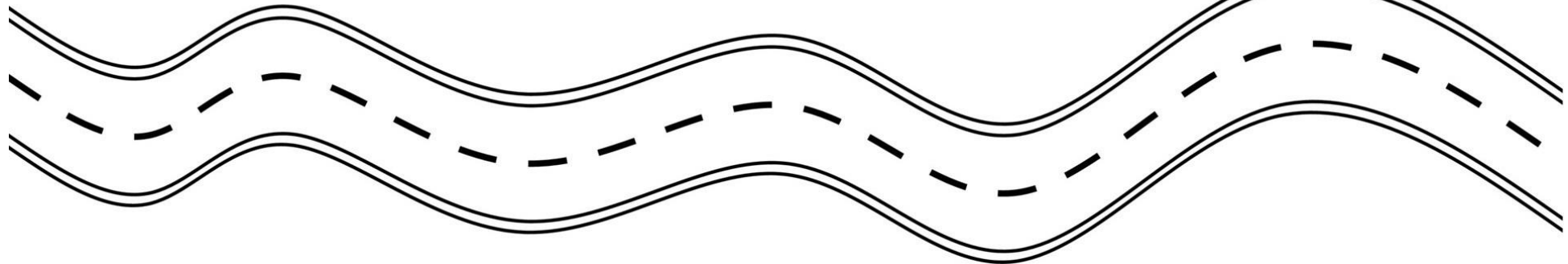


A Walk through Hypothetical Scenarios

Hospitalization
of family
member



Policy maturity



Choice of Product



Death of
policyholder

Present Day: Life Insurance Purchase

A relative, who is an insurance agent, pitches an endowment life insurance plan to Raja and Rani



Insurance Agent (A relative)



Life insurance purchase decision

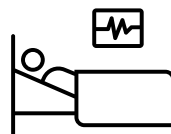
	Option A	Option B	
Cash Flows	Raja and Rani buy endowment plan	Raja and Rani buy PMJJBY* from PO*	Raja and Rani start PO RD*
Yearly outflow	Rs. 8,859	Rs. 436	Rs. 8,400
Life cover	Rs. 1,00,000	Rs. 2,00,000	NA
Survival bonus	Up to Rs. 32,400	Nil	NA
Term in Years	12	1 (Annual Renewal)	NA

Scenario 1: Health Shock

5 years later: Raja's mother, Kumudha, has fallen sick and requires hospitalization



Raja's mother



Hospitalization expenses of
Rs. 30,000

Option A

Option B

Financial outcomes	Endowment plan	PMJJBY	PO RD
Amount paid till date	Rs. 44,295	Rs. 2,180	Rs. 42,000
Surrender value/ accumulated savings	Rs. 24,000	NA	Rs. 48,788
Life cover	Expires	Active	NA

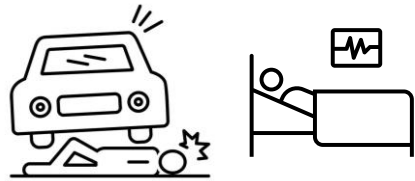
As per a WHO report (March 2022), high OoPE on health is impoverishing around 55 million Indians annually, with over 17 % of households incurring catastrophic health expenditures yearly.

Scenario 2: Income Shock

7 years later: Raja meets with an accident and requires hospitalization before passing away



Raja



Hospitalization expenses of Rs. 50,000

Eventual death resulting in life insurance policy claim/ withdrawal of savings

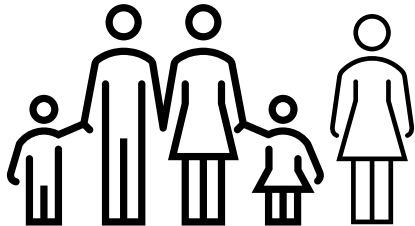
Option A

Option B

Financial outcomes	Endowment plan	PMJJBY	PO RD
Amount paid till date	Rs. 62,013	Rs. 3,052	Rs. 58,800
Death claim/ accumulated savings	Rs. 1,15,000	Rs. 2,00,000	Rs. 72,592

Scenario 3: Household holds product till maturity

12 years later: Endowment policy matures



Raja and Rani's Household



	Option A	Option B	
Financial outcomes	Endowment plan	PMJJBY	PO RD (10 years) + FD (2 years)
Amount paid till date	Rs. 1,06,308	Rs. 5,232	Rs. 84,000 (for 10 years)
Maturity value/ accumulated savings	Rs. 1,32,400	NA	Rs. 1,30,290 (Maturity proceeds of Rs. 1,13,000 from 10-year PO RD invested in a 2-year FD)
Return on Investments (in %)	2.8%	NA	5.5%

Option B Outperforms

	Option A	Option B	
Financial Shocks	Endowment Plan	PMJJBY + PO RD	
	Paid into product	Return from product	Paid into product
Health Shock in the 6 th year	Rs. 44,295 -ve% Rs. 24,000	Rs. 44,180 3.9% Rs. 48,788	
Income (Death) Shock in the 8 th year	Rs. 62,013 17% Rs. 1,15,000	Rs. 61,852 42% Rs. 2,72,592	
Maturity at end of 12 years	Rs. 1,06,308 3.5% Rs. 1,32,400	Rs. 89,232 5.5% Rs. 1,30,290	

Endowment Products - Unsuitable for LIHs

Regular payment commitment for savings or insurance over long period is inconsistent with the irregular and insufficient income flows of Low-Income Households (LIHs).

Endowment products provide inadequate life cover to LIHs who face higher life risk.

The premature surrender terms severs life cover and entail capital loss on their already meagre savings

The return on savings is minimal considering the risk of capital loss due to premature exit for LIHs.

Dvara Research Study on Life Insurance Disclosures

“Can information disclosures influence life insurance purchase decisions for low-income households?”

Study Overview



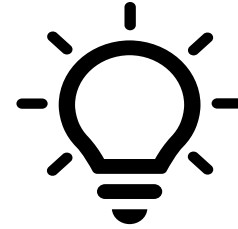
Problem Statement

Endowment plans are unsuitable for low-income households.



Solution

To disclose complete, accurate, easy to understand, and comparable information



Outcome

Steer households towards making better life insurance purchase decisions

Study Intervention

Three disclosure types prepared for three groups* consisting of 100 respondents each

Group 1



Inaccurate disclosure for an endowment policy



Presented **only** endowment policy with assumed returns of 4% and 8% and without surrender terms

Group 2



Accurate disclosure for an endowment policy



Presented **only** endowment policy but with returns based on past average returns and surrender terms

Group 3



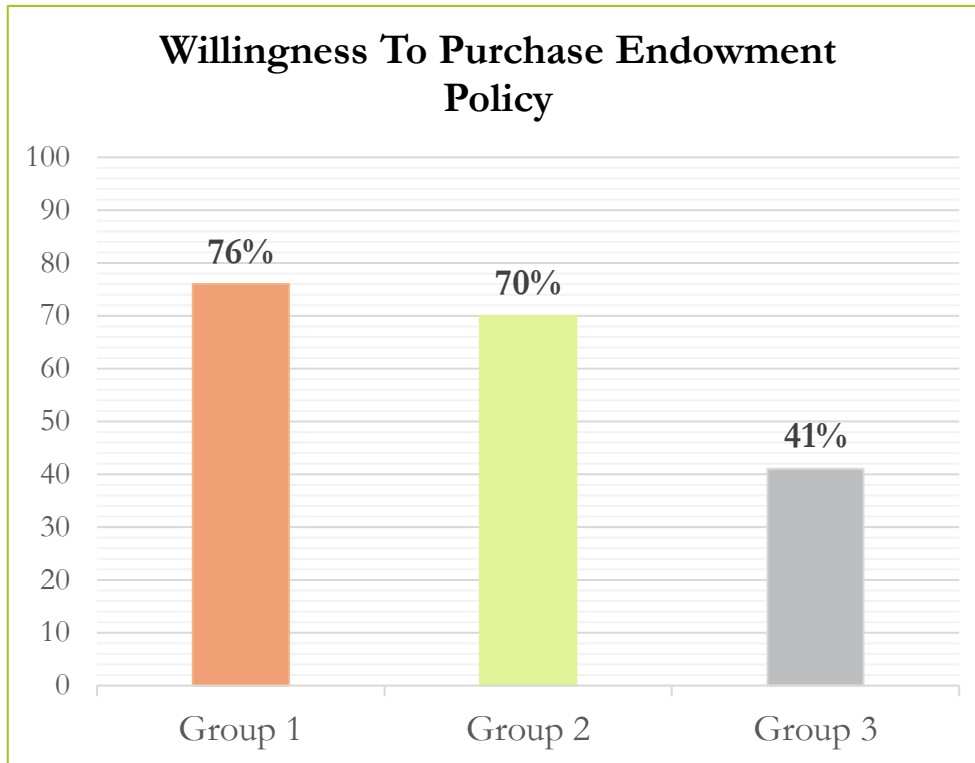
Accurate & comparable disclosure



Presented an endowment policy **and** a comparable option (**bundle of PMJJBY + Post Office R.D**)

*Groups were comparable on location, household income, and a basic understanding of life insurance

Study Results



Showing a **comparable alternative** *reduced* odds of buying an endowment plan by **72%**

59% of those who did not want endowment *wanted* the **alternative insurance-cum-savings bundle**.

Bundles circumvent **loss aversion** and **optimism bias**.

Insurance considered an **investment**

Unsuitable for LIHs

Product gap in the market

How Can Better Disclosures Help?

Disclosures Should



Facilitate Understanding

Customers who are complete novices to the product should still be able to understand enough to make informed decision



Enable Comparison

Disclosure formats should be amenable to comparison between different products



Engender Transparency

Provide all pertinent information, particularly downsides, in a clear and transparent manner

Good Disclosures Can

Help households become aware of both upside potential and downside risks. In endowment products, customers should be made aware of the possibility of capital loss due to non-payment of premiums.

Help compare what they are paying for in relation to other products. In this case, how much does bundled savings and insurance cost as opposed to a pure risk term life insurance.

Avert unsuitable purchases owing to skewed incentives of intermediaries. In this case, the front-loaded premium commission paid to the agent would make consumer aware of perverse incentives, if any.

Instill trust and confidence in low-income customers about their engagement with formal finance.