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## Third World Personal Insurance: A Mega, Mega Issue and a Responsibility

*Honorable Mention Essay for the Society of Actuaries' Entrepreneurial Actuaries Section 2010 Papers Competition*

by Jay M. Jaffe

### Executive Summary

Personal insurance products in third world environments are both a mega, mega opportunity and a need. This paper briefly explains why there is a problem, identifies entrepreneurial actuaries as one of the most likely groups to find solutions to the issues, and outlines the issues and approaches for solving the issues which must be resolved in order that personal insurance programs in the third world will become a viable business opportunity. In addition to being an opportunity for entrepreneurial actuaries, personal insurance programs in third world environments should be an area in which actuaries feel a responsibility for finding the solutions because we understand the problems and one of the few professional groups which can find the answers.


### The Issue

Actuaries generally work and live in financial and social environments that are either upscale or relatively affluent. But most of the world's population exists without access to insurance or similar programs provided by either the private sector or by governments. Unlike actuaries who are well educated, fed and sheltered, there are billions of people who continue to work and live under subsistence conditions and whose lives fall apart if they become sick and can't work, receive medical treatment or lose their homes and possessions because of natural

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by Jay M. Jaffe

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disasters.

Personal insurance programs (life, health, disability, homeowners, auto, etc.) could be extremely helpful to third world residents because they would provide a much needed buffer against many of the causes that devastate families and communities. However, widely delivering such programs is a complex task because the normal insurance infrastructure doesn't exist in many nations and communities. There is a tremendous opportunity for actuaries to help find some of the solutions needed for making personal insurance available in the third world because we have the skills needed to address some of the most basic problems which limit the development and delivery of personal insurance products.

For example, underwriting will often be impossible when providing personal insurance in third world environments. The collection of premiums will be difficult because checking accounts don't exist. Assessing the validity of claims will require procedures not involving medical or other public records as evidence. And paying claims will need to incorporate an efficient and safe way for the delivery money and services.

## Entrepreneurial Actuaries Needed

Actuaries, particularly entrepreneurial actuaries, should be interested in addressing the problems facing personal insurance for third world citizens because either our employers or we personally will be able to create profitable businesses once we find the needed solutions. Third world markets should be very enticing in which to do business because they are less competitive and have more price elasticity as well as providing a much needed service.

Successfully selling insurance to third world populations isn't going to be easy. There are going to be many attempts and almost as many failures. Who but an entrepreneur would be willing to tackle these types of challenges and uncertainty? And, who is better equipped than an entrepreneurial actuary with a broad knowledge of the insurance business to help address the many issues?

Several decades ago in the United States small insurance companies were formed by entrepreneurs (including actuaries). Some of these carriers continue in operation today but many have been merged into larger companies. Many of the entrepreneurs who formed the companies were handsomely rewarded for the risks they took building successful businesses.

## Solutions

Today actuarial literature and meetings are filled with discussions of very sophisticated topics and methodologies. But being able to deliver

personal insurance to third world citizens is probably a "back to the future" situation rather than a highly technical matter. Put another way, if actuaries are going to help find the solutions to the problems which limit the delivery of personal insurance for third world citizens, we will have to understand that powerful mathematical formulas are going to have to be replaced by a high level of practicality coupled with the use of approaches which are appropriate for a set of living conditions with which most actuaries have almost no familiarity.

So, how can actuaries contribute their expertise and skills to finding the keys for successfully providing personal insurance to third world citizens?

- First, we need to toss out our advanced nation thought processes. You need to start from the basis that nothing or almost nothing is available in terms of data, infrastructure, etc. in third world environments.
- Second, we need to create different benefit packages that are probably more basic than we normally develop in order to meet the most important needs of third world personal insurance markets.
- Third, we need to create a new set of models which is based on the third world actuarial environment where industry or personal data doesn't exist. Perhaps the most basic problem actuaries should address is how to estimate claims for third world personal insurance products and later overlay the other insurance related factors (e.g., expenses) which are included when we price products.
- Fourth, we need to start working with others to conceptualize and develop technologies which are applicable to the environment in which third world insurance consumers exist. For example, we need to collaborate with other experts and organizations to create the premium payment systems which are an integral and vital part of any insurance program. This doesn't necessarily mean discarding technology but, instead, finding the right technology and appropriate level of technology to solve the problem rather than trying to adapt the sophisticated infrastructure used in advanced environments.
- Fifth, we need to redefine risk and reward in third world markets. Should entrepreneurs or other private investors in third world personal insurance markets think in terms of the same financial rewards as in developed environments? What is the role for governments to play in developing personal insurance in third world markets and how should governments be compensated for risk taking?

There are probably many other areas which require new actuarial and business concepts to be identified and solved in order for personal insurance programs in third world areas to operate successfully but those listed above provide a good starting point.

As mentioned above, broad collaborative efforts are going to be needed. Actuaries in advanced economic cultures should assist and help develop local actuarial talent in third world areas but the project should be based on realistic expectations during the time prior to when the local actuaries have sufficient experience and expertise to take over the projects.

The EAS is an ideal group to promote some of the activities needed for personal insurance in third to work. For example, the EAS could:

- promote mentoring relationships between EAS members and actuaries working in third world countries;
- sponsor a colloquium dedicated to addressing the actuarial issues central to creating successful personal insurance programs to assist those entrepreneurs seeking to work in third world environments; and
- make the topic for the 2011 paper competition specific to creating successful personal insurance programs in third world markets as well as encouraging those actuaries (and others) working in third world situations to participate in the contest.

If the EAS sponsors the projects described above, not only will it be helping third world people who need access to insurance products but it will also be assisting many of its members who realistically can only work on smaller scale entrepreneurial projects because they can't comply with the high capital costs required to do business in developed environments.

## Responsibility

The subtitle of this paper not only describes third world personal insurance as a mega, mega issue but also as a responsibility. Helping others is not a requirement to be a good actuary, a good citizen or a successful entrepreneur. But as a group the EAS can lend its support and talents to projects that assist its members and at the same time benefit people in less developed environments who need the very products which EAS members help create and manage in more affluent markets. Of course, the EAS is not obligated to tackle projects in third world countries but if it did so, it would be a nice feeling to know that we found a way to use our talents to make a difference.

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