

Glossary

A cquisition costs	Expenses incurred in attracting customers, including sales force salaries, marketing and advertising costs, and other expenses incurred before a prospect purchases a policy.
Actuary	A person who calculates insurance premiums, reserves, and dividends.
Adverse selection	Also called anti-selection , the tendency of persons who present a poorer-than-average risk to apply for, or continue, insurance. If not controlled by underwriting, results in higher-than-expected loss levels.
Age requirement	Stipulated minimum and maximum ages below and above which the company will not accept applications or may not renew policies.
Agent	An insurance company representative who sells and services insurance contracts for the insurer; the intermediary between the insurer and the policyholder.
Aggregate excess policy	A type of reinsurance in which the reinsurer pays claims that exceed certain value during a specific time period.
Annuity	A contract that provides an income for a specified period of time, such as a number of years or for life.
Anti-selection	See adverse selection .
Asset and liability management	Matching the expected maturity of an MFI's assets to the projected demand for funds, i.e., to ensure adequate liquidity to meet payments on their due date.
B eneficiary	The person who receives a life insurance benefit in the event of the policyholder's death.
Benefit or benefit amount	The amount payable by the insurer to a claimant or beneficiary upon the occurrence of the insured event. The benefit amount should be consistent with the insurable interest. Allowing coverage above the insurable interest creates fraud and moral hazard risks.
C ancellation	The discontinuance of an insurance policy before its normal expiration date.
Cede	To transfer all or part of an insurer's risk to a reinsurer.



Claim	A request for payment under the terms of an insurance contract when an insured event occurs.
Claims processing	The system and procedures that links the occurrence of an insured event with a payout. It is extremely important that microinsurers minimise the time spent in processing claims so that payouts can be made as quickly as possible.
Claims rate	Total claims divided by the insurance portfolio.
Claims ratio	The actual claims divided by the expected claims (or risk premium). Insurers generally prefer for the claims ratio to be less than 100 percent—i.e., actual claims are less than expected claims.
Claims rejection	Payouts should not be made if claims do not meet the required criteria (e.g., insured event occurring after the insurance term), however, through product design and client education, every effort should be made to reduce the likelihood that invalid claims are submitted.
Clawbacks	Commission paid to an agent that the insurer retrieves if the insurance contract is cancelled.
Client education	Since the target market may not understand how insurance works and may have some biases against insurance, the delivery of microinsurance may require a training component to teach clients how insurance works and how it might benefit them.
Commission	The part of an insurance premium paid by the insurer to an agent for his or her services in procuring and servicing the insurance contract.
Complaint and suggestion system	An important fraud prevention strategy, MFIs should have a mechanism and a strategy to actively solicit customer complaints that bypasses their primary point of contact, the loan officer.
Compulsory cover	Insurance that one is required to purchase, either because of government mandate (e.g., third party liability auto insurance) or as a condition for accessing another service (e.g., credit life insurance that is required when one takes a loan). Compulsory cover can control adverse selection and significantly reduce administrative costs.
Contract	See policy .



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Co-payments	Used by insurers to share risk with policyholders and reduce moral hazard, this mechanism establishes a formula for dividing the payment of losses between the insurer and the policyholder. For example, a co-payment arrangement might require a policyholder to pay 30 percent of all losses while the insurer covers the remainder.
Covariant risk	A peril that affects a large number of the policyholders at the same, e.g., an earthquake; or several risks that consistently occur together (at the same time or under the same circumstances).
Cover or coverage	The scope of protection provided under an insurance contract.
Credibility factor	A statistical measure of the degree to which past results make good forecasts of future results. Denoted Z , this factor is used to calculate the credibility risk premium. For MFI life insurance, the credibility factor equals the square root of N divided by 25 000, where N is the number of policy-years of experience.
Credit life	Insurance coverage that repays the outstanding balance of a loan if a borrower dies.
D eath risk	The chance that a borrower will die with a loan outstanding.
Deductible	Also known as excess , an amount that a policyholder agrees to pay, per claim or per accident, toward the total amount of an insured loss. Insurers use this mechanism to share risk with policyholders and reduce moral hazard.
E ligibility	The criteria by which one is able to purchase an insurance policy; intended to control adverse selection (e.g., there may be age restrictions that prevent people above or below a certain age from accessing insurance).
Estate	The assets and liabilities of a person left at death.
Excess	See deductible .
Exclusions	Specific conditions or circumstances listed in the policy for which the policy will not provide benefit payments. Moral hazard is partly managed through exclusions that remove the financial gain from the undesirable action. For example, most insurance policies do not pay benefits if the injury, disability or death is self-inflicted. Exclusions also help to control covariant risk; many policies exclude losses due to wars, riots, and natural disasters or “acts of God.”
Expense ratio	The ratio of a company’s operating expenses to premiums.



Experience	The record of claims made or paid within a specified time period.
Experience rating	Determination of the premium rate for a risk made partially or wholly on the basis of that risk's past claim experience.
F ace value	Amount to be paid out by an insurance policy if either the insured event occurs (of for endowment policies if the policy matures).
FAQ sheets	A list of Frequently Asked Questions used to train field staff how to respond to customer queries; helps to standardise information delivery across branches.
Fraud	Intentional perversion of truth to induce another to part with something of value.
G race period	A specified period after a premium payment is due, in which the policyholder may make such payment, and during which the protection of the policy continues.
H ealth insurance	Protection from illness, accidents and other health-related risks.
I ncurred claims	The claims paid during the policy year plus the claim reserves as of the end of the policy year, minus the corresponding reserves as of the beginning of the policy year. The difference between the year-end and beginning of the year claim reserves is called the increase in reserves; this is added to the paid claims to produce the incurred claims.
Independent	The occurrence of the insurable event should be statistically independent from individual to individual. In other words, the chance of the event happening to one individual is not affected by the fact that it has happened to another.
Insurable interest	The financial loss suffered by an individual when an insured event occurs. If the insured party does not suffer a financial loss, i.e., does not have an insurable interest, there is no need for them to receive a financial benefit.
Insurable risk	The conditions that make a risk insurable are (a) the peril insured against must produce a definite loss not under the control of the insured, (b) there must be a large number of homogeneous exposures subject to the same perils, (c) the loss must be calculable and the cost of insuring it must be economically feasible, (d) the peril must be unlikely to affect all insureds simultaneously, and (e) the loss produced by a risk must be definite and have a potential to be financially serious.



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Insurance	A system under which individuals, businesses, and other entities, in exchange for a monetary payment (a premium), are guaranteed compensation for losses resulting from certain perils under specified conditions.
Insured	The policyholder , the person or entity protected in case of a loss or claim.
Insured event	The trigger event that leads to the submission of a claim (e.g., death of the policyholder).
L apse	The termination or discontinuance of an insurance policy due to non-payment of a premium.
Lapsed policy	A policy terminated for non-payment of premiums.
Law of large numbers	Concept that the greater the number of exposures, the more closely will actual results approach the probable results expected from an infinite number of exposures.
Life insurance	Coverage providing for payment of a specified amount on the insured's death, either to the deceased's estate or to a designated beneficiary; or in the case of an endowment policy, to the policyholder at a specified date.
Life savings	A life insurance product with the benefit linked to the amount of savings that a person has in an account. Popularised by credit unions as a means to promote savings, premiums on this group policy are paid by the financial institution to an insurer based on a multiple of the total value of savings accounts.
Loading	The amount that must be added to the pure premium for expenses, profit, and a margin for contingencies.
M anagement information system	Computerised and manual methods for keeping track of the data required for designing, delivering and monitoring the performance of insurance products.
Mandatory insurance	See compulsory cover .
Market research	Techniques used to determine a) the strength and characteristics of the demand for insurance, and b) information about insurance and insurance substitutes available in both the formal and informal markets.
Moral hazard	A risk that occurs when insurance protection creates incentives for individuals to cause the insured event; or a behaviour that increases the likelihood that the event will occur, for instance bad habits such as smoking in the case of health insurance or life insurance.



Morbidity	The relative incidence of disease.
Mortality	The proportion of deaths to the total population.
Mortality table	An actuarial table, based on mortality statistics over a number of years, showing how many members of a group, starting at a certain age, will be alive at each succeeding age. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation.
Option	When an insurance company gives the policyholder the right to make some choice in the future that the company guarantees to honour. A common type is the continuation option, whereby policyholders can continue an insurance cover after the original period has concluded.
Outsourcing	The practice of subcontracting work to outside individuals and firms.
Partner-agent model	The least risky approach for an MFI to provide microinsurance. The MFI acts as an insurance agent, selling and servicing policies. The insurance company, or partner, manufactures the insurance product.
Payment delay	Average number of days from the submission of the claim to the payment.
Performance ratios	Key figures that are used to track the financial performance of an insurer (see Table 6.5).
Period of investigation	The time period covered in an experience rating exercise; ideally it should be as long as possible. If a previous exercise was conducted then the new investigation should examine the period since the last investigation.
Pilot test	The implementation of a new product in selected branches for an initial period of time to ensure that the product design and implementation strategy works well before rolling it out to all branches.
Policy	The legal document issued by the company to the policyholder that outlines the conditions and terms of the insurance; also called the policy contract or the contract .
Policyholder	A person or entity that pays a premium to an insurance company in exchange for the coverage provided by an insurance policy.



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Policy-years	The average number of policies during each sub-period of an experience rating investigation multiplied by the length of the sub-period in years (e.g., a quarter is $\frac{1}{4}$ of a year).
Portfolio insurance	A method for MFIs to manage death risk by purchasing an insurance policy that would reimburse the MFI for a percentage of the outstanding balance if borrowers die.
Positive selection	The design of an insurance product so that low risk individuals subscribe to it, such as only insuring persons who have been deemed eligible for microenterprise loans since they are presumably healthy enough to run their own businesses.
Pre-existing condition	A physical and/or mental condition of an insured that first manifested itself prior to the issuance of his/her policy.
Premium	The sum paid by a policyholder to keep an insurance policy in force.
Premium rate denominator	To quote the premium as a rate, it is necessary to express it as a percentage of something that has a clear and common meaning to both the MFI and the client. For the outstanding balance products (Credit Life and Credit Disability), the disbursed loan amount is used; for the other products, the denominator is the benefit amount.
Probability	The likelihood that the insured event will occur.
Product manufacturing	The process of determining the product's features, such as the insured event, the waiting period, exclusions, the term, the benefit and the price.
Product servicing	The process of verifying claims and submitting claims requests; all after-sale interaction with policyholders.
Projection to actual analysis	A critical monitoring system to regularly compare an MFI's actual performance to its expected performance.
Proof of loss	Documentation presented to the insurance company by the insured in support of a claim so that the insurer can determine its liability under the policy.
Property insurance	Provides financial protection against loss or damage to the insured's property caused by such perils as fire, windstorm, hail, etc.
Pure premium	See risk premium .
R&D committee	A cross-functional team, which includes representatives from all departments, responsible for shaping and guiding the organisation's product development process.



Random fluctuations	Since insurance involves estimating probabilities, one possible explanation for unexpected claim rates (high or low) is that it is just a natural occurrence that will even out over time; this explanation is particularly applicable to small risk pools.
Ratemaking	The process of estimating the expected costs involved in providing insurance coverage in order to set appropriate premium rates.
Recurring premium	The payment for insurance that occurs in instalments, such as monthly or quarterly payments, as opposed to single premiums , which are paid at the beginning of the term to cover the whole period.
Regulation	Government defined requirements for an insurer, such as minimum capital requirements and necessary expertise; also provides consumer protection through the oversight of insurers, including pricing policies, form design and appropriate sales practices.
Reinsurance	A form of insurance that insurance companies buy for their own protection.
Renewable term cover	Term insurance that can be renewed at the end of the term, at the option of the policyholder and without evidence of insurability, for a limited number of successive terms.
Reporting delay	Average number of days between the occurrence of insured events and the submission of the claim.
Reserves	An amount representing liabilities kept by an insurer to provide for future commitments under policies outstanding.
Risk	The chance of loss.
Risk pooling	The dispersal of losses incurred by a few over a larger group.
Risk premium	The portion of the premium that is used to fund claims and is equal to the expected claims. Also known as pure premium .
Risk-managing financial services	Besides insurance, emergency loans and accessible savings accounts can help low-income persons to manage their risks.
S creening	Also known as underwriting , the process by which insurance applicants are filtered. For example, applicants may be required to sign a “declaration of health” asserting their good health. High-risk individuals may be excluded or charged more.
Settlement	Payment of the benefits specified in an insurance policy.



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Stop-loss policy	An agreement from a reinsurer to cover total claims over a certain percentage of premiums.
Sum assured	See total insured benefit .
T ake up rate	With voluntary insurance, the percentage of possible customers who do purchase the coverage.
Tender offer	A method of objectively analysing prospective insurance partners or consultants whereby the MFI clearly identifies what activities or interventions it requires and then requests qualified candidates to bid on fulfilling those activities.
Term insurance	Life insurance payable to a beneficiary only when an insured dies within a specified period.
Term of cover	The period within which the insured event must occur for a claim to become payable; could be either a fixed term (i.e., one year, five years) or whole life.
Time limit	The period of time during which a notice of claim or proof of loss must be filed.
Total insured benefit	Also referred to as the total sum assured , this is the sum of all individual benefits.
Trend analysis	A method of evaluating the organisation's performance over time to see if key indicators such as profitability and claims ratios are improving or worsening; in analysing trends, careful attention should be given to seasonal fluctuations.
U nderwriting	Process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept the risk. See also screening .
Unearned premium	The portion of a premium that a company has collected but has yet to earn because the policy still has unexpired time to run.
Unit costing	A method of allocating income and expenses, including a proportion of overhead costs, to specific products or services to assess their profitability; may also include disaggregating costs for different steps in the product delivery process to identify inefficiencies.
V erification	The process by which claims are determined as being valid, i.e., for life insurance requiring a death certificate and/or attending the funeral of the deceased. Verification needs to balance two objectives: a) to provide proof that the insured event occurred from two independent parties, b) without causing undue hardship for beneficiaries. Also known as claims validation, claims underwriting or adjusting .



Voluntary cover

Allows consumers to choose the amount, term and type of insurance that they want; contrasted with **mandatory** or **compulsory insurance**.

Waiting period

The length of time a policyholder must wait before one's coverage becomes effective. Designed to control adverse selection; for example with life insurance, a delay between the time when policyholders begin paying premiums and when the coverage is applicable reduces the risk that someone who is about to die will purchase a policy.