Rethinking endowment plans for low-income consumers

While bundling insurance with saving is attractive, the key challenge is to sustain saving. Two Facility partners, Cooperative Insurance Company [1] in Kenya and Max New York Life [2] in India managed to reach persistency levels of only 30 to 40 per cent, not enough to create value for customers. A savings product for low-income people needs to strike a balance between discipline and flexibility through penalties and rewards. Low-income households need to experience short-term benefits in order to stick with policies in the long-term. What traditional endowment plans (with inflexible payment structures and opaque lapse and surrender conditions) offer is the opposite: penalties in the short-term and rewards in the long-term.

Endowment plans emphasize the insurance benefit. Focusing on the savings element instead, by lowering the insurance cover or providing tangible benefits such as bonuses for achieving savings goals, might be appealing. There is a clear need for medium-term savings instruments and savings is generally better understood than insurance. If trust is established through an entry savings product, cross-selling opportunities for insurance can be created.

According to analysis done by the Facility for Cooperative Insurance Company [1] a non-lapsable five-year savings-linked insurance product with a low life insurance benefit and favourable mix of rewards and penalties should break-even in the sixth year. The business case for this type of product hinges on investment income earned on savings that are invested. At scale, the interest income can be substantial enough to offset operational costs.

To learn more about the design and evaluation of CIC’s savings-linked product, see its Learning Journey [1]. Click on READ MORE under Project Lessons to see all the lessons.