

Life Microinsurance as a Risk Coping Mechanism for Canadian Households

AALIAH CHRYSTELLA JOSEPH
LAPS/ECON 4089
RESEARCH SEMINAR IN ECONOMICS
YORK UNIVERSITY

ABSTRACT

Life microinsurance is used in many developing countries to deal with the costly expenses that are associated with a death in the family. However, there is little knowledge of whether and how it can be used in the context of a developed country. This paper looks at how life microinsurance can be used as a risk-coping mechanism for Canadian households.

If introduced in Canada, it has the potential to be successful as long as individuals are willing to pay the proposed premiums. Normally, households spend anywhere between \$0 and \$10,000 on funerals. So, offering this product would mean that individuals would not have to use up all their savings or go further into debt to cover the costs.

BACKGROUND

- Funerals are expensive because society places pressure to spend a lot of money on it.
- Households have three options to deal with these costs; self-insurance, informal arrangements or a market based insurance.
- Life insurance would help to cover the balance of any outstanding loans, and provide the family left behind with a lump sum to get by.
- Developing countries have used microinsurance as a way to help deal with these unexpected events.
- In 2018, about **22 million** Canadian households owned life insurance.

 66%


WHAT IS MICROINSURANCE?

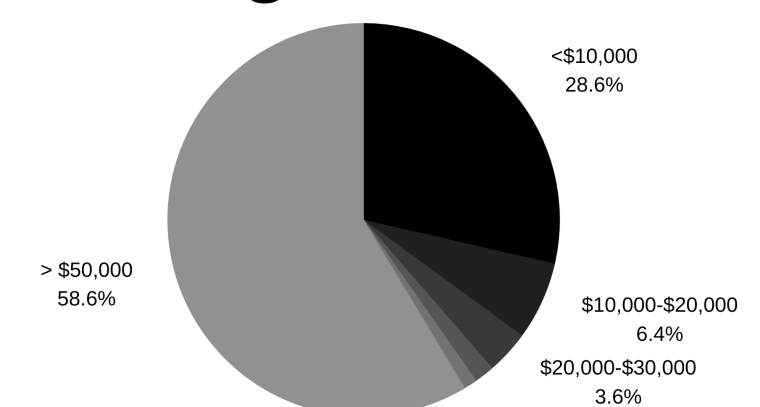
- Microinsurance is not a downsizing of a traditional insurance product.
- It is a **specially designed product** that is appropriate, accessible, affordable and simple.
- It is meant for a **specific market segment** (low-income individuals), **used for protection against tragedies** (illness or death) and **in exchange for regular payments**.
- Most of the research on this topic has taken place in developing countries, so there is little knowledge of how it could be used in developed countries.
- But we can use the ideas to design a product to meet the needs of Canadians and to identify a potential market.

APPROACH

This project uses data collected by the Risk and Insurance Studies Centre (RISC) at York University and literature on microinsurance in developing countries to compare the similarities and differences in the risks faced by those individuals and their risk management strategies.

FINDINGS

- Families **without life insurance** spend anywhere between \$0 and \$10,000 on funerals. 
- Households deal with these expenses by **using cash on hand, household savings and reducing non-essential expenditures**.
- Most households have at least \$50,000 saved for future expenses.
- Canadians have a **positive attitude** towards insurance and are **willing to purchase** the premiums offered.
- Individuals are willing to purchase a \$10,000 coverage and \$50,000 coverage if it was offered in Canada.



SUMMARY

Life microinsurance has the potential to be successful in Canada as long as individuals are willing to pay the proposed premiums. It would prevent families from going further into debt, from using all of their savings or having to find other ways to pay for the expenses associated with the death. It would also help cover the expenses in full and on time, alleviating stress and worry.