



INSURANCE AS A SOCIAL ENTERPRISE

NICHOLAS ACTUARIAL SOLUTIONS

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This white paper advocates the effective delivery of insurance through a social enterprise model to as an alternative to the traditional proprietary for profit insurance business model, with the ultimate objective of delivering maximum social benefits. This is a succinct, conceptual summary. We welcome discussions and collaborations.

Nicholas Yeo | FIA, FASM, FSA, FSAS | Founder & Actuary
nicholas.yeo@n-actuarial.com | +6 012 502 3566

INTRODUCTION

Insurance is key to risk management. It has significant positive social impact. A social enterprise seeks to maximise long term social benefits. It shall deliver insurance effectively, and any profits earned shall be utilised to generate social benefits. This contrasts with traditional proprietary for profit insurance which maximises shareholders' return on capital, typically with focus over a shorter time horizon.

AN EXAMPLE

There are many ways to set up insurance as a social enterprise. Below is one possible way:

1. Establish as a for profit, stock company with nominal equity held by a socially responsible and benevolent party. We do not advocate the establishment of non-profit organisation for this purpose.
2. Undertake to voluntarily prohibit rights issue, transfer of equity to another party and any dividends payout. All profits shall be retained in the social enterprise and utilised to generate further social benefits.
3. Managed by a professional manager.
4. Funded via issuance of social debt instruments, structured with contingencies which would enable admissibility under solvency capital calculations, with inflation-linked yields but no risk premiums.

KEY FEATURES

Competition – the enterprise shall compete with other insurance providers to the extent that such competition delivers long term social benefits.

Barriers to Entry – the enterprise shall encourage and support entry of similar social enterprises which increase overall long term social benefit.

Investments/Asset Liability Management – monies shall be invested in impact investments to generate social benefits. Asset liability matching shall be managed at a holistic, social level.

Management – embraces and implements social enterprise concept. Shall not cut corners in business conduct and risk management practices.

Capital Providers – upside social benefits should enterprise succeeds, downside is in the form of default of the social debt should enterprise fails. Traditional capital market instruments and proprietary reinsurance shall be avoided to maximise potential.

Distribution Channel – direct to consumers with aim towards maximising consumers' experience. To maximise potential, traditional channels such as agents, brokers and bank channels shall be avoided.

Financial Model – diligently underwritten risks to ensure that marginal revenue exceeds marginal costs. The enterprise shall not have aggressive financial targets such as breakeven period, market share or revenue growth, but rather a realistic, attainable and sustainable business plan. Higher customer retention rates, as well as lower levels of adverse selection and moral hazards are expected.

BACKGROUND

"Insurance as a Social Enterprise" is our first issue of succinct white paper. Our objective of issuing succinct white papers is to enable our thought leadership to reach a wider audience, and make a larger positive impact. Our white papers are publicly available and we do not claim any proprietary intellectual property on the contents.

"Insurance as a Social Enterprise" is a concept we promote to proliferate insurance business models, thus ultimately creating value to the society. We are not opposed to traditional proprietary for profit insurance, in fact we support them through various initiatives. We merely believe that there are many possible models to deliver insurance effectively.

ABOUT US

Nicholas Actuarial Solutions is founded as a platform to collaborate with like-minded businesses and individuals to make a difference. Our interests are wide and varied, with our core focus being the actuarial field.

Our mission is to develop and implement novel and cutting edge solutions to make our clients more successful.

It is our vision to achieve global recognition of our thought leadership and innovative solutions in the actuarial field.

Contact us:

E: nicholas.yeo@n-actuarial.com

T: +6012 502 3566