

Pricing Funeral (Burial) Insurance in a Microinsurance World

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Abstract

Funeral or burial insurance is one of the most commonly sold microinsurance policy sold in developing countries. It pays for the cost of funeral arrangements and forms an important part of protection for low income workers. We consider an insurer selling funeral insurance policies in a low-income market where customers are heterogeneous with respect to their mortality, degree of risk aversion, and their reservation price for insurance. Because death benefits and premiums are low, guarding against adverse selection is tricky because the insurer would have to employ a costly underwriting technology that provides partial information on each applicant's mortality rate at the time of application. We explore the options to reduce adverse selection. In addition we develop expressions for determining premiums in order to maximize the insurer's discounted expected profits.

Key words and phrases: *underwriting technology, demand function, frailty, adverse selection, profit maximization*

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