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Barefoot Hedge-Fund Managers

The poor people are usually farmers or they run small businesses, without employment contract and without insurance. Then, any problem or a work incident can have terrible consequences.

The hazards of being poor.

Broadly speaking, poor people are a little bit like the hedge-fund managers, because they take a lot of risks. The only difference is the income level, the fact that a hedge-fund manager is not completely responsible of his losses and a poor people have to raise his capital by his own means.

Poor people generally run small businesses or are farmers. But they don't always have a good access to water, then they are very dependent of the weather.

But many poor people are also casual workers. That means the kind of jobs that you can have just the time of a mission, like a construction project, and paid by the day. The casual workers are the first one to be fired when there is a problem. Then this is a very unstable way to work, compared to regular labor.

More a country is poor, more it is affected by climatic hazard as a drought for example, and the incomes differ a lot from a year to another. This is quite logical because in developed countries, farmers have work insurances and get subventions.

Farmers are also affected by the rise in food and fertilizers prices. This is another source of uncertainty. But the risk for poor people is not limited at food and income: they can also be affected by political violence, crime and corruption.

The World Bank's president Robert Zoellick said in 2009 that the consequences of the crisis were going to be a disaster for poor people who risked to lose their job. To see the consequences of the crisis on the poor people, we can talk about the migrations in India, from small villages to big cities as Mumbai in order to find a work. But this is not lived as a bad thing for Indian people because living conditions and incomes are better than in the villages and it still have a lot of works in the big cities during the crisis. So poor people are not that much unhappy about this situation.

Finally, the crisis increases risks for poor people, but not much that the ones they have to face every day. When, we asked people in Thailand during the 97-98 crisis for example, they told that the big problem during this year have been the drought.

When a modest family have to face a cut of consumption, she not has necessary to make the same sacrifices as extremely poor people who are affected in their primary needs.

The relationship between the Tina's income today and income tomorrow is in S-shape. This is logical because before the theft, the business she ran with his husband worked well. After, his activity was no profitable and then she became poor.

This can cause also big psychological consequences on the mind of people in that case because they have the feeling that they cannot bounce back. Then poor people have to face this kind of psychological problem because they are in danger of disease or death, and that create very stressful state. Then this is more difficult for them to concentrate, to take rational decisions, and to be productive.

Helping each other out

The way poor live is so risky. The way to deal with risk is villagers help each other out. If those who are doing well now help our those who are having a bad time, in return for similar help. Everyone can be made better off by Helping each other out does not have to be charity. A study by Christopher shows both the power and the limits of such informal insurance. He found that the average family owed money by 2.5 other families. The loans were adjusted to reflect the situations of both lender and borrower. For example, When borrower suffered a shock, he would repay less, but when the lender have a hard time, borrower would repay more than he owed. The research on informal insurance show that traditional solidarity networks do help in absorbing shocks. In good times, they would help others and in bad times, others would help them in turn.

Health shocks are very badly insured. In Indonesia, consumption drops 20 percent when a household member falls severely ill. When a family has a bad harvest, or when someone loses his or her job, other families in the village come to the rescue. The family would receives gifts, interest-free loans, and various other forms of assistance but when individuals suffer a health shock, the family is left to deal with it. There are good reasons we may be unwilling to offer unconditional help to our friends and neighbors, we may worry that the guarantee of help might create a temptation to slack off or we call moral hazard moreover, people may claim that they are in need even when they are not

Where are the insurance companies for the poor?

Formal insurance of any kind is a rarity among the poor. Health insurance, insurance against bad weather, and insurance against the death of livestock

which are standard products in the lives of farmers in rich countries are more or less absent in the developing world. The poor face an enormous amount of risk and willing to pay a reasonable insurance premium to insure their lives, their health, their cattle or their harvest. However, it's lack of the firm to organize this kind of insurance in the market even It has international organizations such as world bank and large foundations to invest a huge amount to encourage the development of insurance options for the poor. There are various difficulties with providing insurance which are moral hazard, adverse selection and outright fraud. These are fundamental problems but they are amplified in poor countries where is difficult to regulate insurers and monitor the insured.

Why don't poor people want Insurance?

A low demand for insurance in poor people sector can be due to the government activities, government help. Government helps this sector in a large scale of problem, ie, drought affect.They provide jobs for them and also sometime food distribution as well which generates a misunderstood concept of helping from government. In a small cases, sometimes government can not intervene.

Another possibility is misunderstood concept of insurance or the insurance policy which affect the renewal decision of any kind of insurance by the poor. For example, a woman whose husband died from from the infection which the policy does not cover, the woman does not get insured or any compensation by the company so she cancel the health insurance. This demonstrates misunderstood of insurance policy. However, it is also an agency problem as well, since they cannot explain to these poor to understand the policy.

Moreover, it can be that the poor simply does not want the insurance due to their priority to the small thing is not important. It may not be necessary to them.

Another key problem is that credibility, as for buying insurance company, the customer has to pay the fee in advance therefore the credit of those insurance company is needed to be huge, so that the poor can trusted them.

The last key issue can be due to time inconsistency, as usually poor people does not think about the future in a long term. So, they did not look forward to the bad scenario and also the payout will be in the future. Hence poor people does not want insurance.