

Microinsurance and Emerging Markets

THE TOPIC

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A growing number of insurers are tapping into markets in developing countries through microinsurance projects, which provide low-cost insurance to individuals generally not covered by traditional insurance or government programs. Microinsurance products tend to be much less costly than traditional products and thus extend protection to a much wider market. The approach is an outgrowth of the microfinancing projects developed by Bangladeshi Nobel Prize-winning banker and economist Muhammad Yunus, which helped millions of low-income individuals in Asia and Africa to set up businesses and buy houses. Microinsurance products vary in type and structure but are generally distinguished by high volumes, low cost and efficient administration. Microinsurance policies may be offered along with a small loan, with premiums a small percentage of the loan amount.

Microinsurance is characterized by high-volume, low-cost and ease of administration. There are various types of microinsurance programs. One option relies on parametric triggers, which enable rapid payouts based on measurable factors, or parameters. Parametric policies take into account known and observable characteristics. For example, a policy for farmers might be based on the amount of damage a certain kind of crop would be likely to sustain in a given area in specific conditions. When conditions reach the trigger point, for example, 100-mile winds in a specific location or a defined amount of rainfall, policyholders in the designated area automatically receive compensation. By not having to rely on individual claims adjusters to inspect damages and decide the amount of losses claims can be settled quickly, thus allowing claimants fast access to funds that they might need to keep their business going. A 2010 study by Swiss Re found that credit life, which pays off the outstanding principal and interest of a loan if a borrower dies, was the most dominant microinsurance product, but that insurers were increasingly designing products that provide more comprehensive life and property protection to low income people.

Microinsurance is often distributed in cooperation with microfinance organizations, rural banks, savings and credit cooperatives, and humanitarian organizations providing nonfinancial services. Insured crops and livestock can be used as collateral for loans to buy better equipment or otherwise improve the farmer's yields, ultimately raising the standard of living.

The Microinsurance Network is a nonprofit global organization of microinsurance industry experts comprised of 80 institutional members from over 40 countries committed to promoting the development and delivery of valuable insurance services for low-income people. According to the Network's *Annual Report, 2016* [1] the World Map of Microinsurance shows that over 280 million people worldwide are covered by at least one microinsurance policy.

Microinsurance Projects

American International Group Inc. (AIG) was one of the first companies to offer microinsurance and began selling policies in Uganda in 1997. It was soon joined by other large insurers including Swiss Re, Munich Re, Allianz and Zurich Financial Services. Today some 60 insurers have microinsurance projects in place. Recent developments include:

- Microinsurance providers are played an important role in covering losses from Typhoon Haiyan, which devastated the Philippines in November 2013. By the end of the December 2013, microinsurance providers had paid claims to fishermen, farmers, vendors and others totaling \$1.9 million, according to A.M. Best.
- In June 2013 the Microinsurance Facility of the International Labor Organization held a forum in New York to discuss the potential for microinsurance to protect the poor in such diverse countries as Peru, Kenya, South Africa, and India, while providing opportunities for insurers.
- In July 2012 the Chinese government launched a national microinsurance program, based on the success of a four year trial program in rural areas.

International Microinsurance Conference

The 12th International Microinsurance Conference [2] held in December 2016 found that innovative technology applications play an important role in microinsurance. Currently mobile network operators are providing coverage to 40 million people in Asia, where nine times out of ten, mobile microinsurance is a person's first experience with insurance. Mobile microinsurance products should strive to be simple, transparent with minimal or no exclusions, and have a simplified claims process. Examples are hospital plans in Pakistan and livestock insurance in India. Other topics discussed were climate change and disaster risk prevention, microinsurance in Sri Lanka, and the special needs of women in developing countries. Also examined were the main growth drivers behind the rapid development of the Asian microinsurance market. The three main elements were identified as an enabling regulatory climate, using mobile network operators as distribution channels, and the creation of public/private partnerships.

The Microinsurance Consortium, which formed the Blue Marble Microinsurance group in early 2015, is committed to launching 10 microinsurance ventures over the next 10 years and will deliver solutions to address the risk management needs of the underserved. Blue Marble Microinsurance has identified several potential strategic partners and is in advanced discussions to establish these relationships. Those partners will include companies with expertise in distribution, technology and social impact issues, as well as donor organizations and government and quasi-government entities. The venture will provide innovative technology-enabled platforms, achieve sustainability through adequate levels of profitability and advance the role of insurance in society. The group aims to develop the business services necessary to achieve scale and profitability in the market including unique distribution methods, local partnerships, product development and impact services such as measuring and monitoring social impact. It is currently evaluating opportunities in Latin America, Africa and emerging Asia, with the initial venture to be launched in 2015. The consortium behind Blue Marble consists of American International Group Inc., Aspen Insurance Holdings Ltd., Guy Carpenter & Co. LLC, together with Marsh & McLennan Cos. Inc., Hamilton Insurance Group Ltd., Old Mutual plc, Transatlantic Reinsurance Co., XL Catlin and Zurich Insurance Group.

Insurance in Emerging Markets

With limited growth prospects in the insurance markets of developed countries, insurers see emerging

economies as presenting significant potential for growth and profitability. Premium growth in developing countries has been outpacing growth in industrialized countries. Swiss Re's 2017 *sigma* [3] report on world insurance markets reported that premiums in emerging countries rose 13.5 percent in 2016, after adjusting for inflation, following a 9.8 percent rise in 2015, driven by increases in China. Growth in developing markets outpaced growth in advanced markets, which increased by 0.7 percent in 2016 after rising 3.2 percent in 2015. Emerging markets accounted for 19.7 percent of total global premium volume in 2016, up from 18.7 percent in 2015.

Swiss Re identifies emerging markets as countries in South and East Asia, Latin America and the Caribbean, Central and Eastern Europe, Africa, the Middle East (excluding Israel), Central Asia, and Turkey. Emerging market premiums rose to \$933.5 billion in 2016 from \$851.5 billion in 2015, driven by increases in both the nonlife and life sectors. Nonlife sector premiums had 9.6 percent growth in 2016, adjusted for inflation, compared with 7.9 percent in 2015. Life sector premiums grew faster in 2016, up 16.9 percent after inflation, compared with 11.7 percent in 2015.

Insurance In Emerging Markets, 2016

	Direct premiums written, 2016 (1)	Percent change from 2015 (2)	Share of world market	Premiums as a percent of GDP (3)
Total industry				
Advanced markets	\$3,798,652	0.7%	80.3%	
Emerging markets	933,536	13.5	19.7	
Total	\$4,732,188	3.1%	100.0%	
Life				
Advanced markets	2,110,534	-0.5	80.6	
Emerging markets	506,482	16.9	19.4	
Total	\$2,617,016	2.5%	100.0%	
Nonlife				
Advanced markets	1,688,119	2.3	79.8	
Emerging markets	427,054	9.6	20.2	
Total	\$2,115,172	3.7%	100.0%	

(1) Expressed in millions of U.S. dollars.

(2) Inflation-adjusted.

(3) Gross domestic product.

Source: Swiss Re, *sigma*, No. 3/2017.

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Top 10 Emerging Markets By Insurance Density, 2016 (1)

Rank	Country	Total premiums (2)	
		Per capita (U. S. dollars)	As a percent of GDP (3)
1	Macao	\$2,329	1.86%
2	Bahamas	1,984	8.69
3	Qatar	1,288	2.00
4	United Arab Emirates	1,102	2.87
5	Slovenia	1,084	5.00
6	Trinidad and Tobago	849	4.43
7	South Africa	763	14.27
8	Chile	644	4.77
9	Mauritius	608	6.40
10	Czech Republic	592	3.13

(1) Based on total insurance premiums per capita. Excludes cross-border business.

(2) Life and nonlife premiums. Data are estimated for Chile, Czech Republic and the United Arab Emirates.

(3) Gross domestic product.

Source: Swiss Re, *sigma*, No. 3/2017.

[View Archived Tables](#) ^[5]

Resources

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[1]

http://www.microinsurancenetwork.org/sites/default/files/Microinsurance%20Network_%20Annual%20Report%202016.pdf

[2]

<http://www.microinsurancenetwork.org/sites/default/files/files/Key%20insights%20from%20the%2012th%20IMC.pdf>

[3] http://www.swissre.com/media/news_releases/nr20170705_sigma_3_2017.html

[4] <http://www.iii.org/table-archive/21416>

[5] <http://www.iii.org/table-archive/74460>

[6] https://www.allianz.com/static-resources/en/responsibility/_media/documents/microinsurance-quarterly_update_20120330.pdf

[7] <http://www3.ambest.com/bestweek/bestweekreports.asp?rt=ir>

[8] <http://www.lloyds.com/News-and-Insight/News-and-Features/360-News/Emerging-Risk-360/Microinsurance-Spreading-the-word>

[9] <http://www.munichre-foundation.org/home/Microinsurance.html>

[10] http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2012Microinsurance/Microinsurance_Compndium+Vol+2.htm

[11] http://www.swissre.com/r/sigma6_2010_en.pdf?19=930&44=43825354&43=612122&32=10792&7=61212

[12] http://media.swissre.com/documents/sigma5_2011_en.pdf

[13] <http://www.zurich.com/insight/microinsurance/>