

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.

A 2014 A.M. Best report states that about 500 million people globally have microinsurance and that there is increasing evidence from numerous academic studies that its impact has been beneficial for the poor in many ways. The report also cites a 2011 survey by the Microinsurance Network that found that 33 of the world's largest insurance companies were involved in microinsurance projects, up from seven in 2005. The report sums up 95 microinsurance projects that cover over one million people in Asia or Latin America or at least 500,000 in Africa. Findings include: About 50 percent of microinsurance projects provide different types of life insurance such as term life, credit life and funeral. Also about 50 percent of the projects receive subsidies that mainly target agricultural and health insurance. The report also notes a 2014 Economist Intelligence Unit survey of insurers that found that 45 percent of respondents believe that the work of international organizations to inform policymakers in the developing world of the value of insurance is top priority.

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 10th International Microinsurance Conference in 2014 brought together some 400 participants from 54 countries. The Latin America and the Caribbean 2014 study, presented at the conference by the Munich Re Foundation and the Microinsurance Network, showed that coverage in the region has grown from 7.6 percent to 7.9 percent between 2011 and 2013, and that premiums now total \$830 million. In addition, 18.3 million clients in Mexico have some kind of coverage. With 15 percent of the population covered, Mexico is a leader. The potential number of clients in the region is estimated to be between 250 million and 300 million, of whom 48.6 million already have some sort of microinsurance. In relation to the total population, this is a much stronger outreach than in Africa and Asia. Another interesting finding of the study was the shift in distribution channels. Microfinance organizations have played a key role in past years, but alternative channels such as utility companies have substantially gained in market share and continue to grow.

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 2016 *sigma* [1] report on world insurance markets found that premiums in emerging countries rose 9.8 percent in 2015, after adjusting for inflation, following 7.6 percent rise in 2014. Growth in developing markets outpaced growth in advanced markets, which increased by 2.5 percent in 2015 after rising 2.6 percent in 2014. Emerging markets accounted for 18.66 percent of total global premium volume in 2015, up almost from almost 18 percent in 2014.

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 from \$828.3 billion in 2014 to \$849.7 billion in 2015, driven by increases in both the nonlife and life sectors. Nonlife sector premiums had 7.8 percent growth in 2015, adjusted for inflation, compared with 8.6 percent in 2014. Life sector premiums grew faster in 2015, up 11.7 percent after inflation, compared with 6.8 percent in 2014.

Insurance In Emerging Markets, 2015

	Direct premiums written, 2015 (1)	Percent change from 2014 (2)	Share of world market	Premiums as a percent of GDP (3)	Pr pe
Total industry					
Advanced markets	\$3,704,063	2.5%	81.34%	8.12%	
Emerging markets	849,723	9.8	18.66	2.92	
Total	\$4,553,785	3.8%	100.00%	6.23%	
Life					
Advanced markets	2,089,765	2.5	82.47	4.61	
Emerging markets	444,052	11.7	17.53	1.52	
Total	\$2,533,818	4.0%	100.00%	3.47%	
Nonlife					
Advanced markets	1,614,298	2.6	79.92	3.51	
Emerging markets	405,670	7.8	20.08	1.39	
Total	\$2,019,967	3.6%	100.00%	2.77%	

- (1) Expressed in millions of U.S. dollars.
 (2) Inflation-adjusted.
 (3) Gross domestic product.

Source: Swiss Re, *sigma*, No. 3/2016.

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Top 10 Emerging Markets By Insurance Density, 2015 (1)

Rank	Country	Total premiums (2)	
		Per capita (U.S. dollars)	As a percent of GDP (3)
1	Macao	\$2,104	1.86%
2	Qatar	1,268	1.54
3	United Arab Emirates	1,102	2.35
4	Slovenia	1,058	5.01
5	Trinidad and Tobago	843	4.44
6	South Africa	843	14.69
7	Chile	630	4.74
8	Czech Republic	592	3.27
9	Mauritius	589	6.43
10	Bahrain	585	2.45

- (1) Based on total insurance premiums per capita. Excludes cross-border business.
 (2) Life and nonlife premiums. Data are estimated for Qatar, United Arab Emirates, Trinidad and Tobago, South Africa and Bahrain and provisional for the Czech Republic.
 (3) Gross domestic product.

Source: Swiss Re, *sigma*, No. 3/2016.

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Resources

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http://www.swissre.com/media/news_releases/global_insurance_industry_grows_steadily_in_2015_amidst_moderate_economic

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

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

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

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

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

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

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

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