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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 9th International Microinsurance Conference, held in November 2013 in Indonesia, brought together some 400 participants from nearly 60 countries to discuss the challenges and opportunities in microinsurance. ?The Landscape of Microinsurance in Asia and Oceania,? a new study released at the conference by Munich Re Foundation and Deutsche Gesellschaft für International Zusammenarbeit (GIZ), revealed that the number of insured low-income people in the region has increased by over 30 percent from 2010 to 2012. The study estimates that more than 170 million people now benefit from microinsurance.

The conference was hosted by the Munich Re Foundation and the Microinsurance Network, with the support of the Indonesian Financial Services Authority; the Indonesian Insurance Council; Deutsche Gesellschaft für International Zusammenarbeit, on behalf of the German Federal Ministry for Economic Development and Cooperation; the Georgia State University?s Center for the Economic Analysis of Risk; the World Bank/IFC; and the PharmAccess Foundation.

Insurance in Emerging Markets

China is the largest emerging market country, based on insurance premiums written (including life and nonlife business), with $278 billion in premiums written in 2013, followed by Brazil, with $89 billion, and India, with $66 billion, according to Swiss Re. When measured by insurance density, however, the Bahamas ranked first, with $1,839 in premiums per capita (including life and nonlife premiums).

The rise of microinsurance reflects global insurers' increasing interest in emerging markets. With limited growth prospects in the insurance markets of developed countries, which are largely saturated, 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 2014 *sigma* [1] report on world insurance markets found that premiums in emerging countries rose 7.4 percent in 2013, after adjusting for inflation, following a 7.1 percent rise in 2012. Growth in developing markets outpaced growth in advanced markets, which increased by 0.3 percent in 2013 and 1.7 percent in 2012. Emerging markets accounted for 17 percent of total global premium volume in 2013, up from 16 percent in 2012.

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 $728 billion in 2012 to $788 billion in 2013, driven by strong growth in the nonlife sector. Nonlife premiums have been rising by more than the annual average emerging market economic growth rate since 2006. Life sector premiums had 6.4 percent growth in 2013 compared with 5.2 percent in 2012, when growth in the sector was constrained by declines in the two key markets, China and India.

INSURANCE IN EMERGING MARKETS, 2013

($ millions)

	Direct premiums written, 2013	Percent change from 2012 (1)	Share of world market	Premiums as a percent of GDP	Pr pe
Total industry					
Advanced markets	$3,853,267	0.3%	83.0%	8.3%	
Emerging markets	787,674	7.4	17.0	2.7	
World	**$4,640,941**	**1.4%**	**100.0%**	**6.3%**	
Life					
Advanced markets	$2,200,249	-0.2	84.4	4.7	
Emerging markets	407,842	6.4	15.6	1.4	
World	**$2,608,091**	**0.7%**	**100.0%**	**3.5%**	
Nonlife					
Advanced markets	$1,653,018	1.1	81.3	3.5	
Emerging markets	379,832	8.3	18.7	1.3	
World	**$2,032,850**	**2.3%**	**100.0%**	**2.8%**	

(1) Inflation-adjusted.

Source: Swiss Re, *sigma*, No. 3/2014.

View Archived Tables [2]

TOP TEN EMERGING MARKETS BY INSURANCE DENSITY, 2013 (1)

		Total premiums (2)	
Rank	**Country**	**Per capita (U. S. dollars)**	**As a percent of GDP (3)**
1	Bahamas	$1,839	8.4%
2	Slovenia	1,309	5.6
3	South Africa	1,025	15.4
4	United Arab Emirates	872	2.0
5	Czech Republic	760	3.8
6	Qatar	697	0.7
7	Trinidad and Tobago	688	4.0
8	Chile	664	4.2
9	Bahrain	557	2.1
10	Mauritius	552	5.8

(1) Based on insurance premiums per capita. Excludes cross-border business.
(2) Life and nonlife premiums. Data are estimated except for Chile.
(3) Gross domestic product.

Source: Swiss Re, *sigma*, 3/2014.

Resources

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