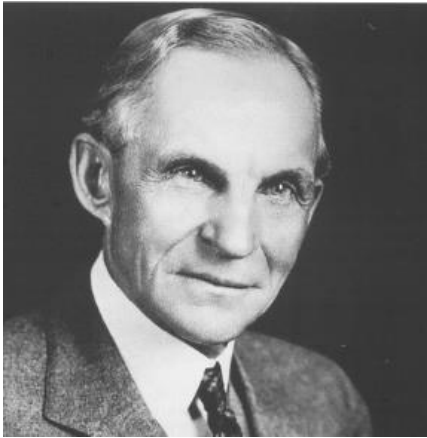


The Role of Insurance in Developing Markets

Frank O'Neill
CEO Africa & Middle East
Swiss Re

(Re)insurance enables entrepreneurial risk-taking



Henry Ford,
referring to New York City in the early 20th century:



“This has only been made possible by the insurers. They are the ones who really built this city. With no insurance, there would be no sky-scrapers. No investor would finance buildings that one cigarette butt could burn to the ground.”

Source: Swiss Re, Introduction to Reinsurance ed. 1995/2000

(Re)Insurance is a catalyst for economic growth

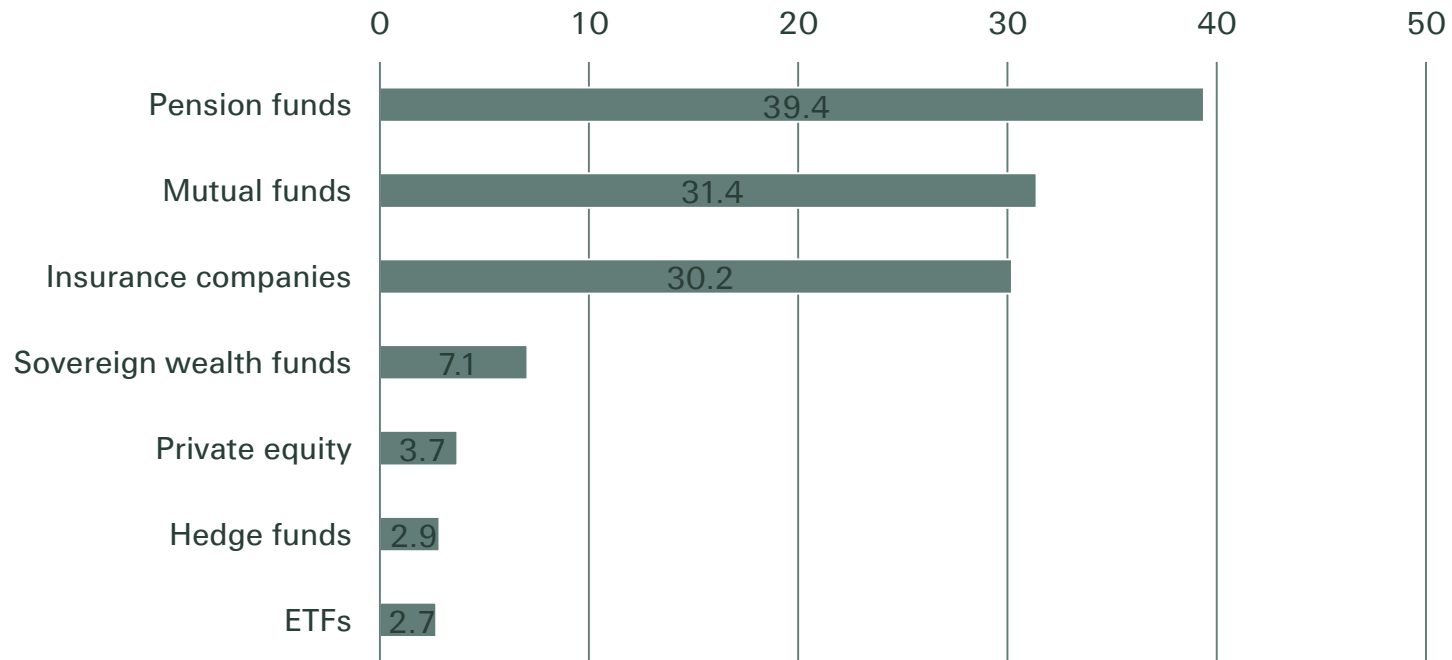
	What (Re)insurers do	Benefit to society	Pre-requisites
Risk transfer function	Diversify risks on a global basis	Make insurance more broadly available and less expensive	Global mobility of premiums and capital
Capital market function (as institutional investors)	Invest premium income according to expected pay-out	Provide long-term capital to the economy on a continuous basis	Ability to invest in real economy (equity, corporate bonds, etc)
Information function	Put a price tag on risks	Set incentives for risk-adequate behaviour	Market- and risk-based pricing



Reinsurers absorb shocks, provide capital for the real economy and support risk prevention

Financial asset holdings of major institutional investors

Year-end 2014, USD trillion

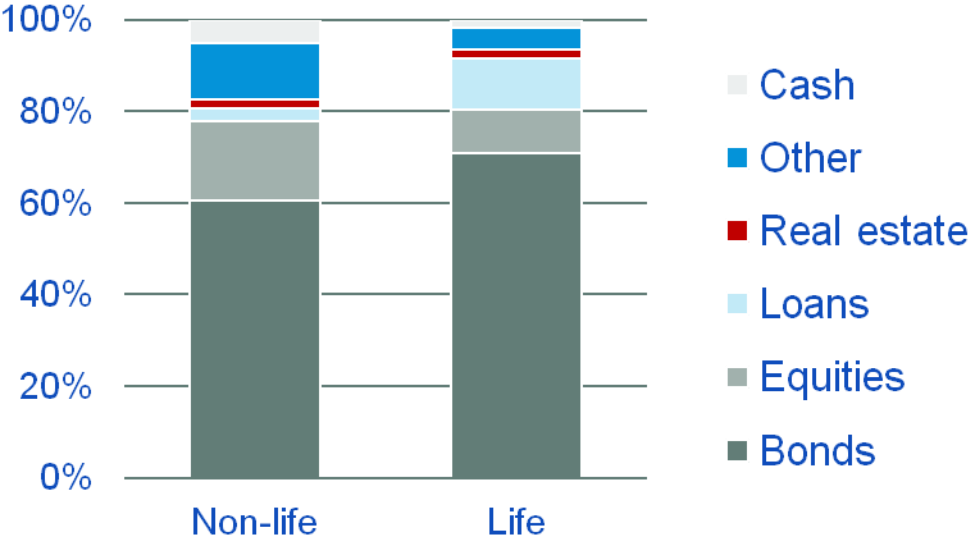


Sources: Pension funds – CityUK and Towers Watson; Mutual funds – Investment Company Institute; Insurers – Swiss Re Economic Research & Consulting (*2012); Sovereign wealth funds – Sovereign Wealth Funds Institute; Private equity – Bain & Company; Hedge funds – Hedge Fund Research, Inc.

(Re)insurers provide long-term capital to the economy

Asset allocations of nonlife and life insurers, 2012

Based on five largest insurance markets*



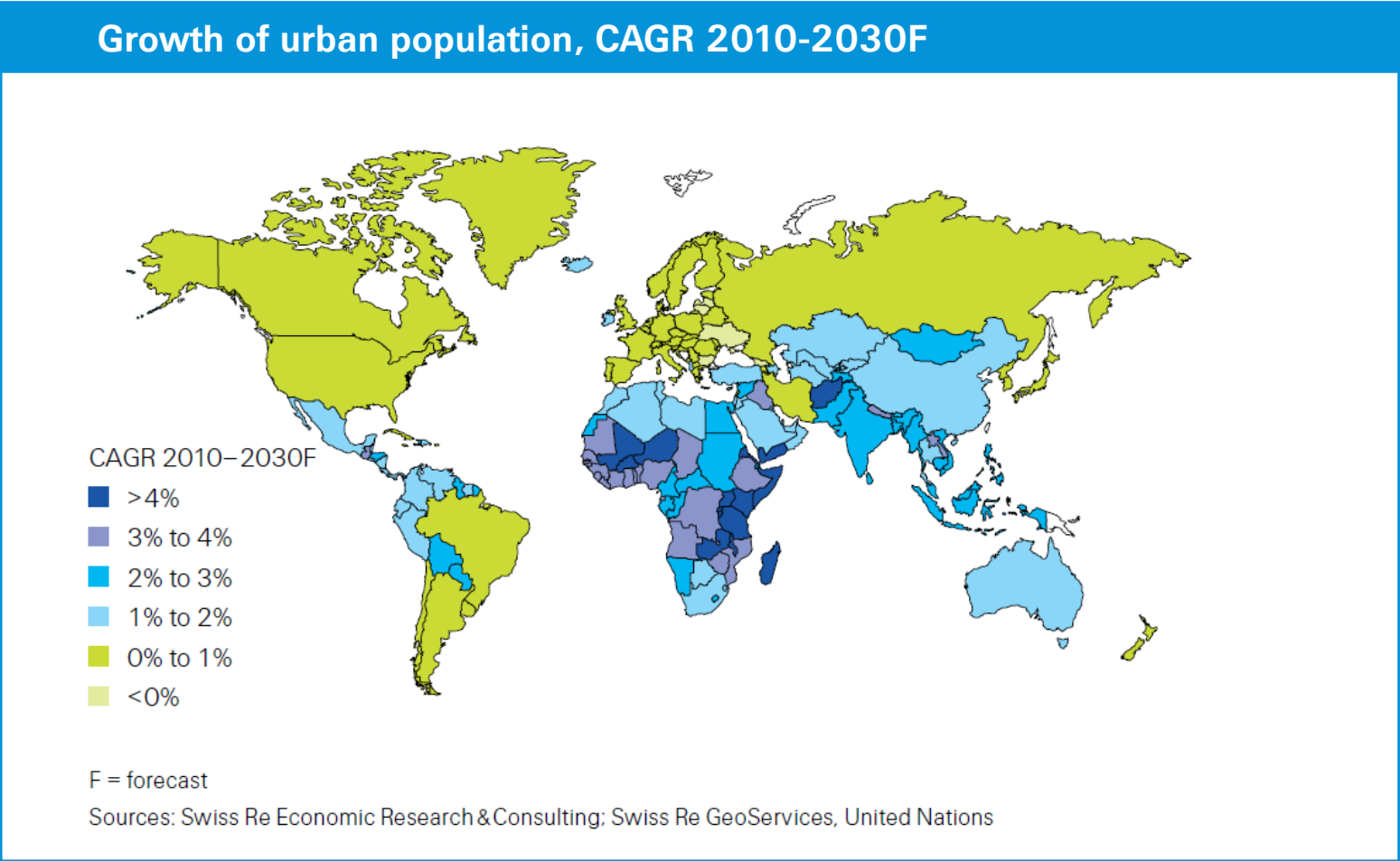
→ Long-tail liabilities and equity capital allow for investments in long-term assets

Source: Swiss Re Economic Research & Consulting *US, Japan, UK, France, Germany`

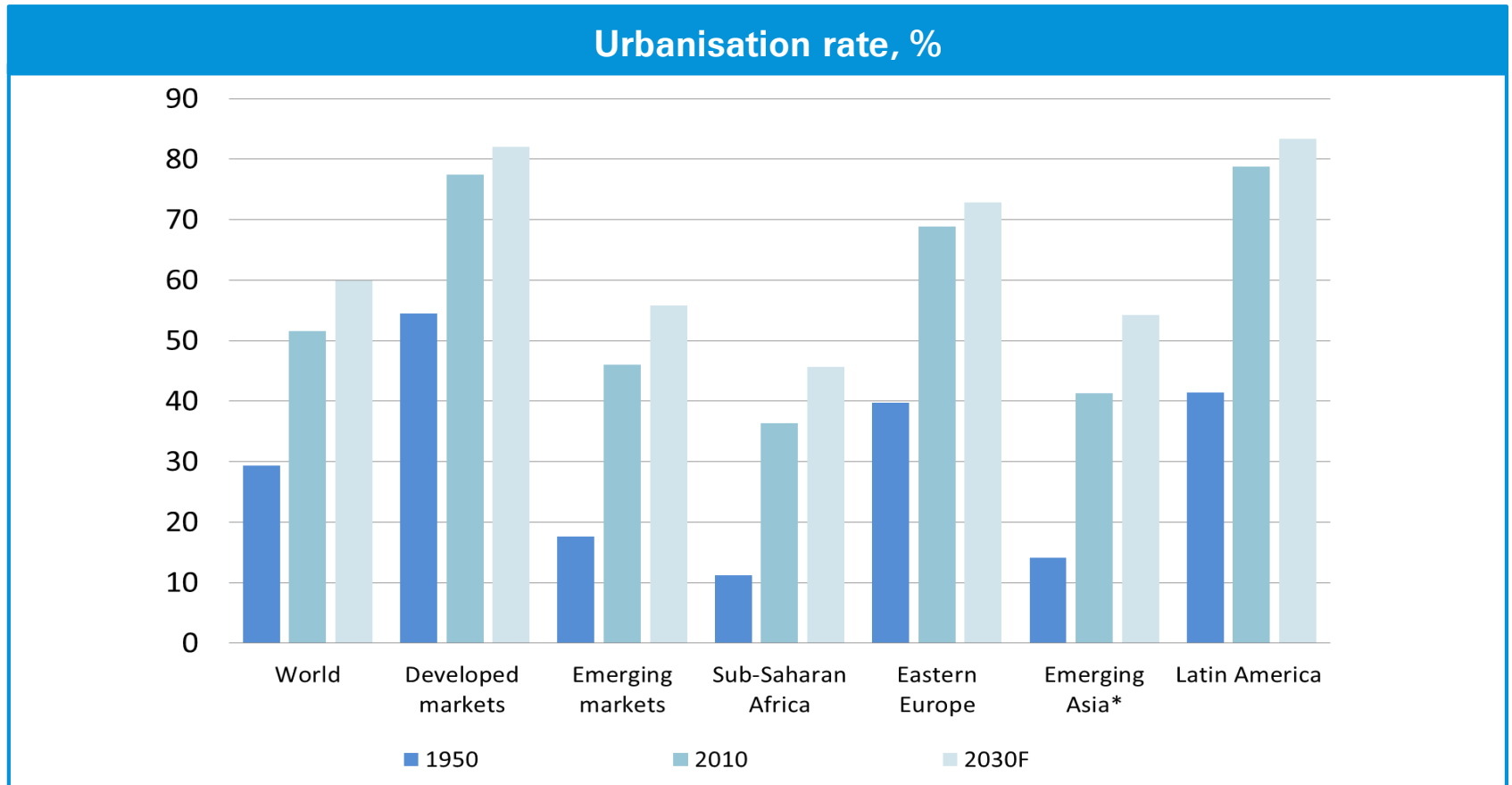
Major drivers behind increasing demand for insurance in Emerging markets



The future growth of urban population will be driven by emerging markets



More than half of the world's population now lives in urban areas



* Emerging Asia includes China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam. F = forecast
Source: Population Division, Department of Economic and Social Affairs, United Nations

Urbanisation and implications for insurance

Economic

- Higher income and wealth drives demand for motor, home and savings products
- Industrialisation and higher concentration drives growth of commercial lines

Social

- Longevity and reduced inter-generational support will create opportunities for old-age health and pension products
- Rise of consumer rights has implications for casualty/liability lines

Infrastructure

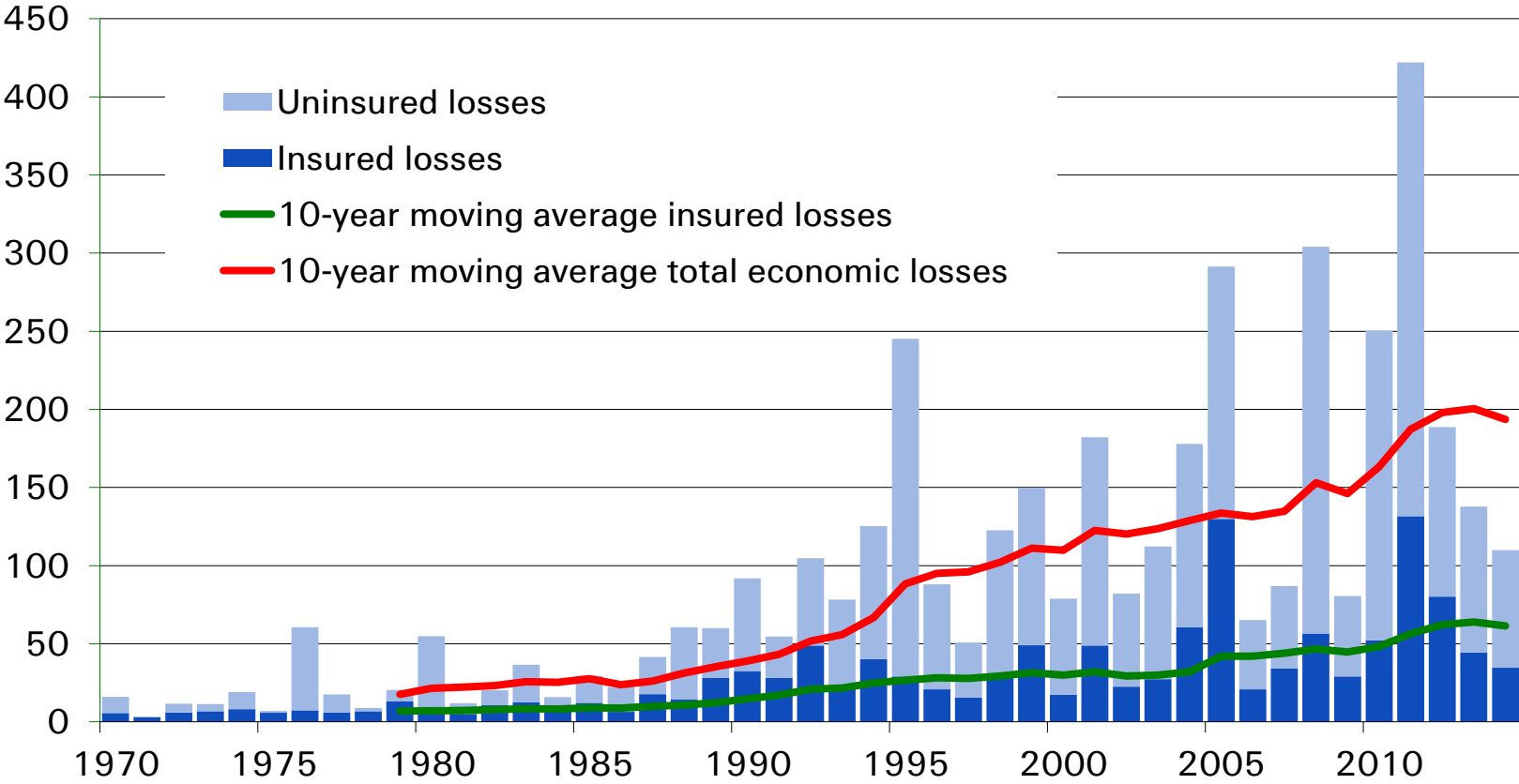
- New opportunity for commercial insurance during the construction phase of infrastructure projects
- Post-construction recurrent insurance demand will likely remain strong, but this will also depend on whether governments act as de facto insurers

Environment

- Many large cities located in areas exposed to multi-natural disasters to create higher demand for nat cat re/insurance
- Increasing awareness of city risk management and the benefit of public-private partnership will open up additional opportunities

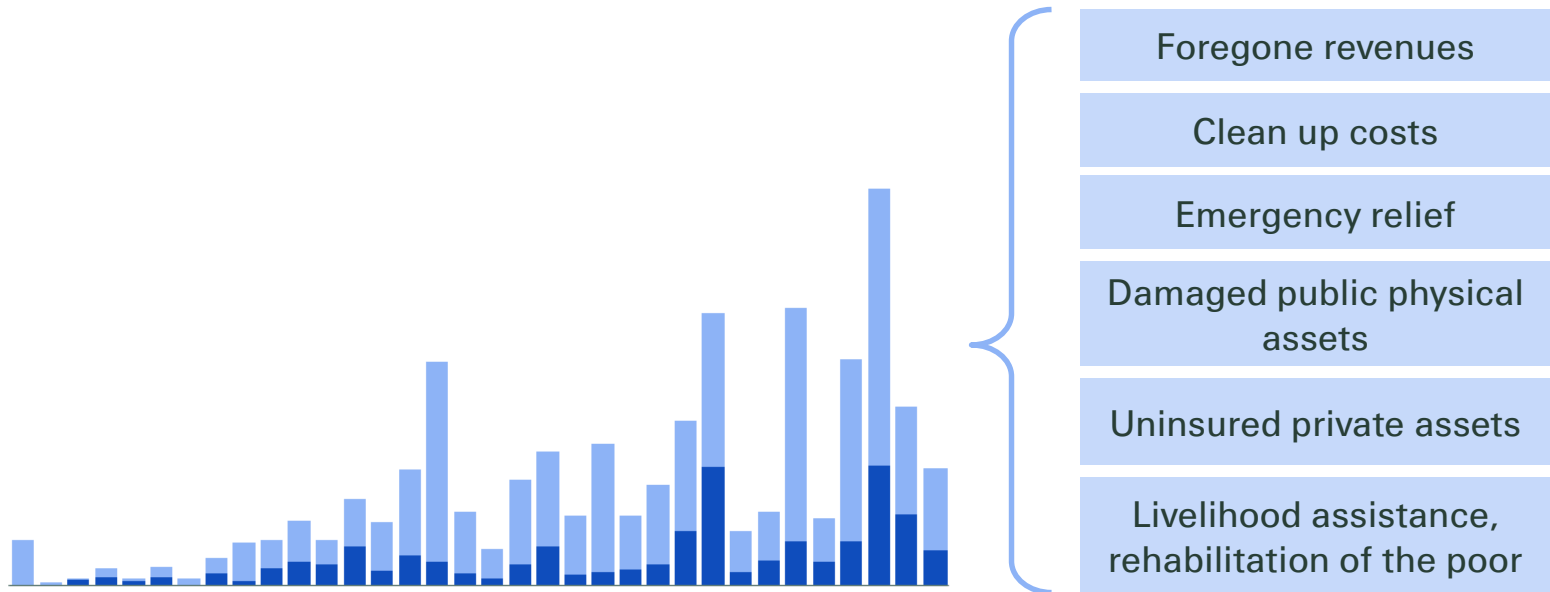
The growing burden of uninsured losses

Natural catastrophe losses 1970 – 2014 (in 2014 USD)



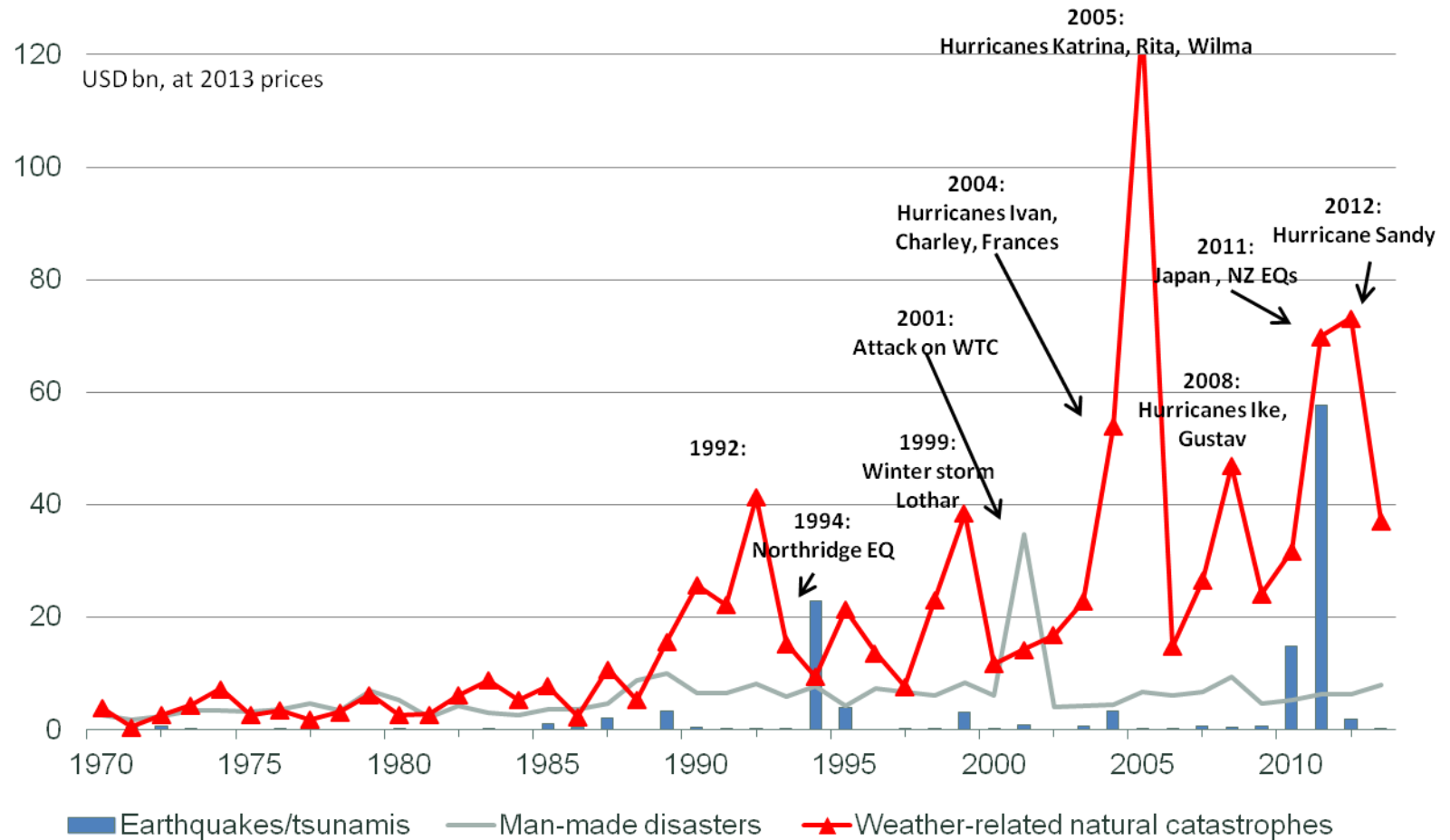
Source: Swiss Re Economic Research & Consulting and Cat Perils.

Disasters place a significant burden on the public sector



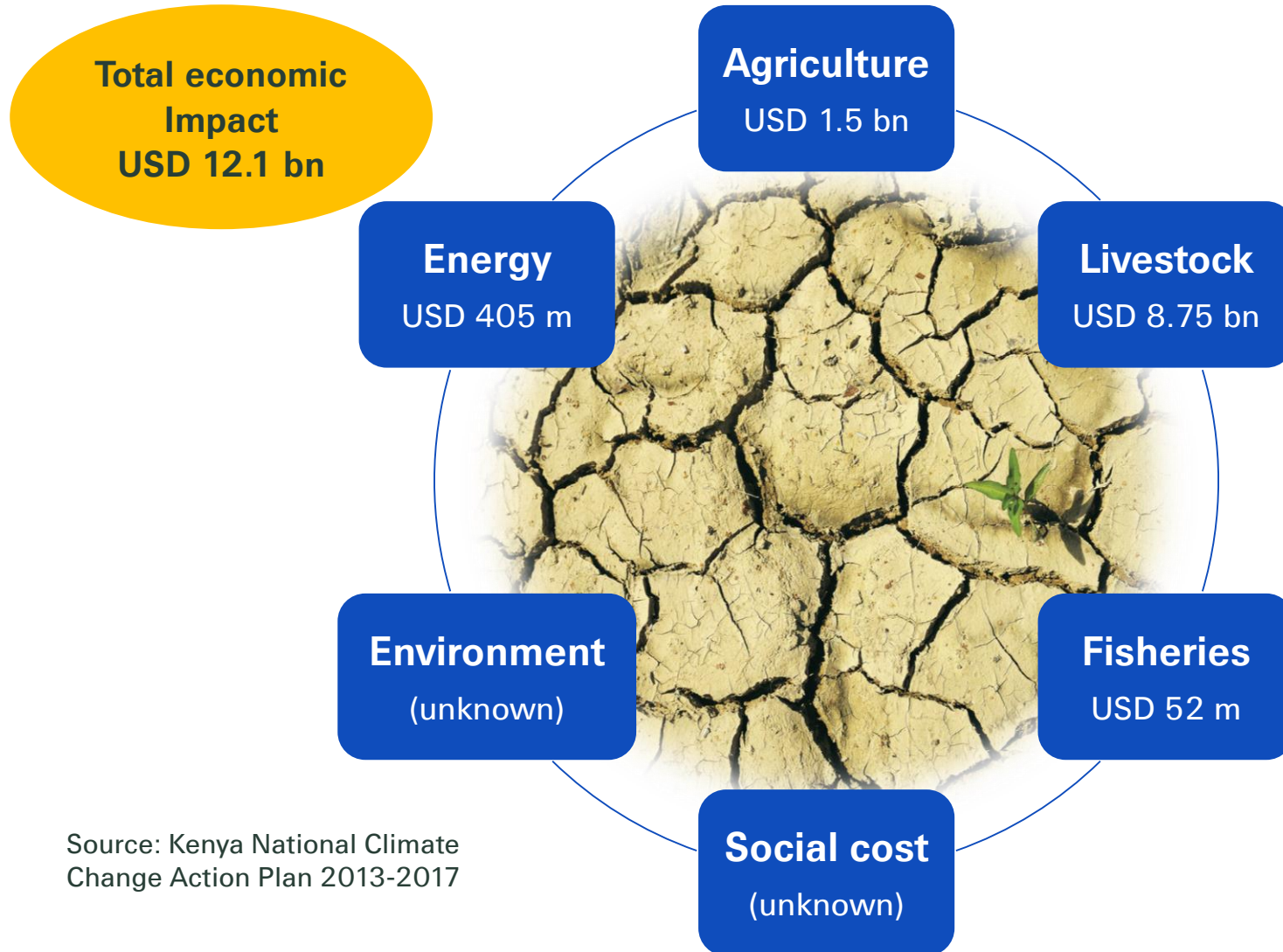
- ▶ **No country can fully insulate itself** against extreme natural disasters, despite prevention and mitigation efforts
- ▶ **Individuals, corporations and governments** – both on national and sub-national level – bear the brunt of economic losses from natural disasters

Insured catastrophe losses 1970–2013



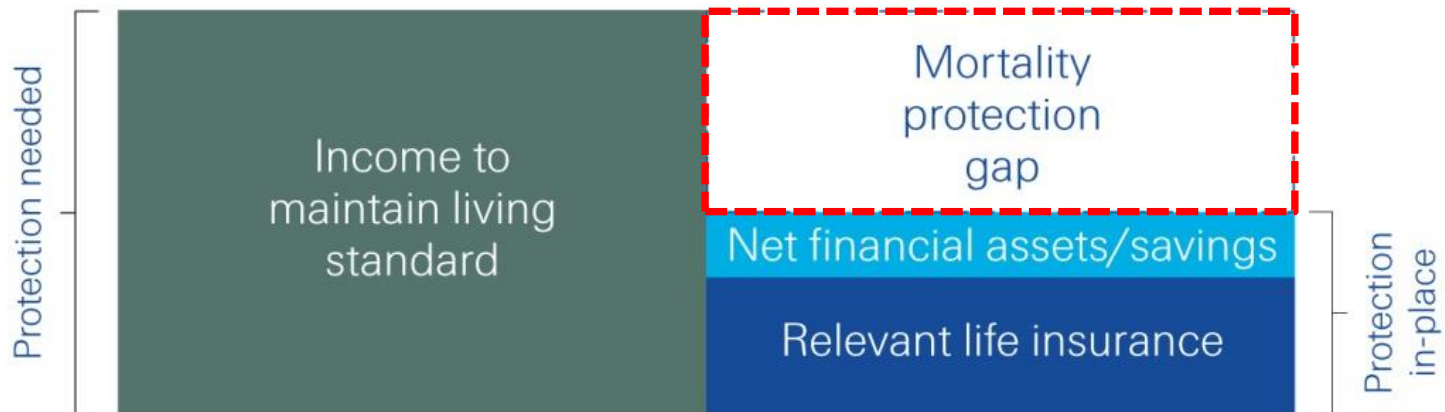
Source: Swiss Re, Economic Research & Consulting

Governments pay the price of shocks: Split of costs from 2008-2011 drought in Kenya



Source: Kenya National Climate Change Action Plan 2013-2017

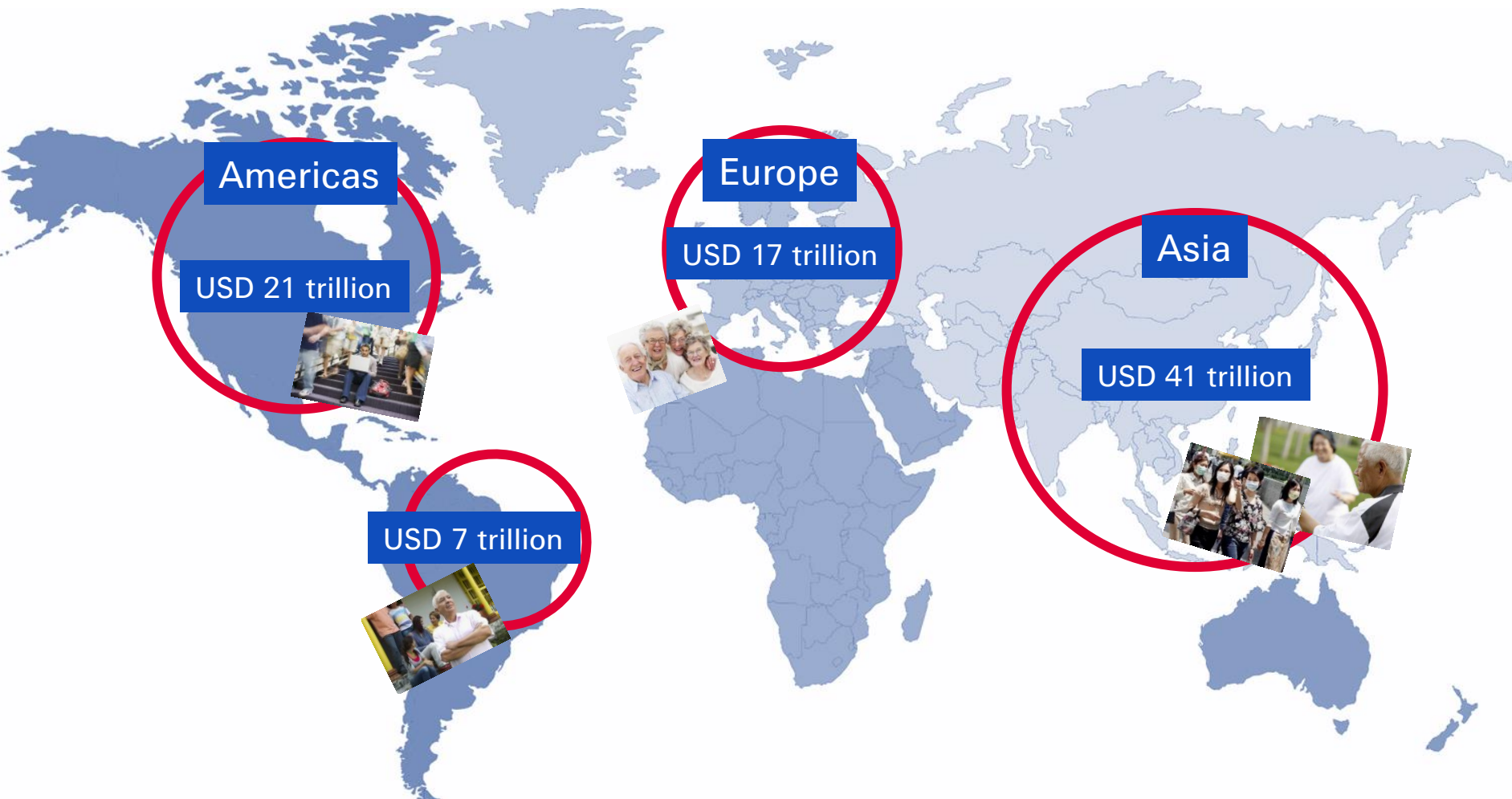
The mortality protection gap is defined as...



Source: Swiss Re

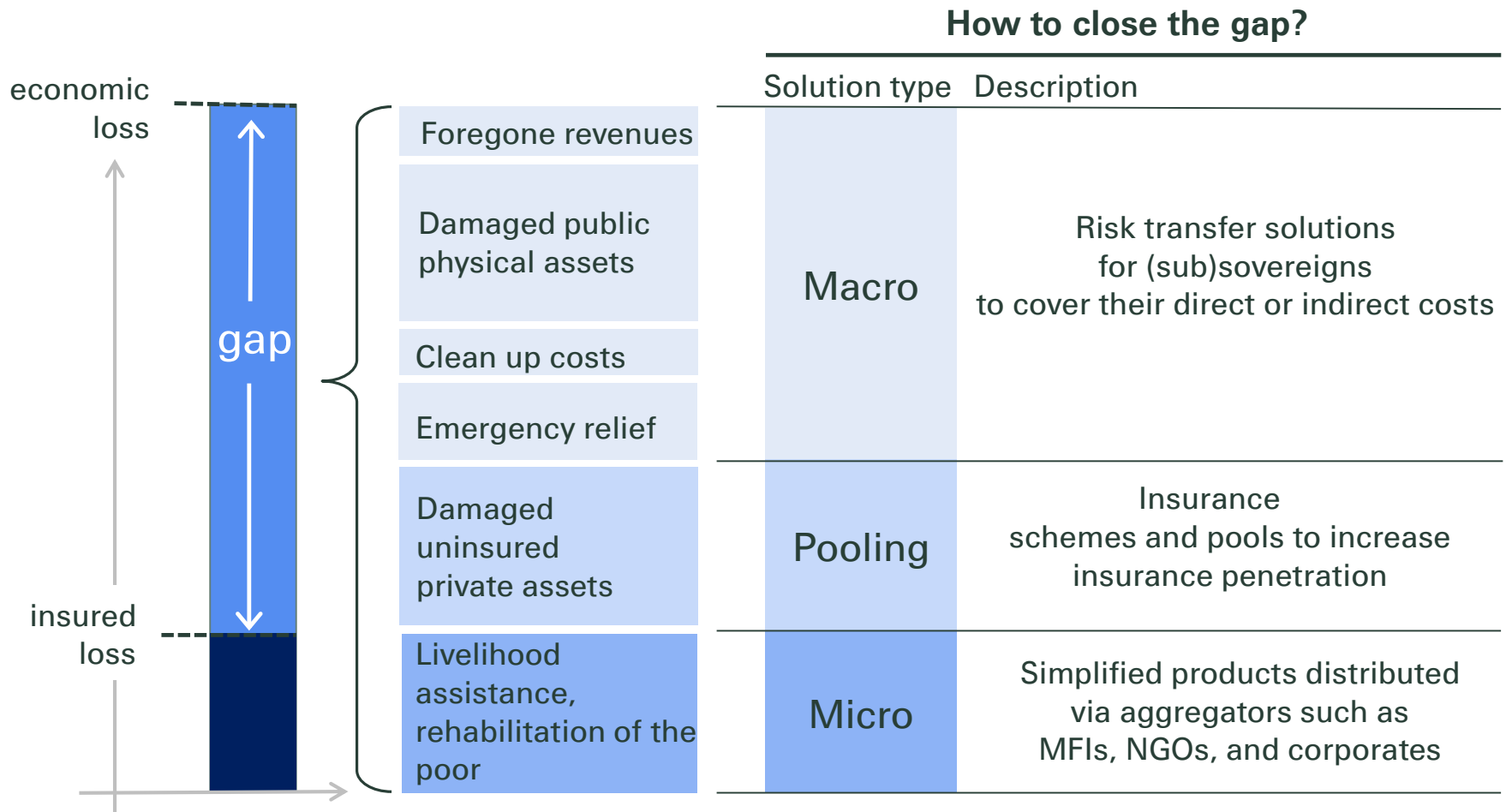
- ... the difference between the protection needed and the protection in-place to maintain dependents living standards following the death of the primary breadwinner

The Mortality Protection Gap USD 86 trillion globally, and growing ...



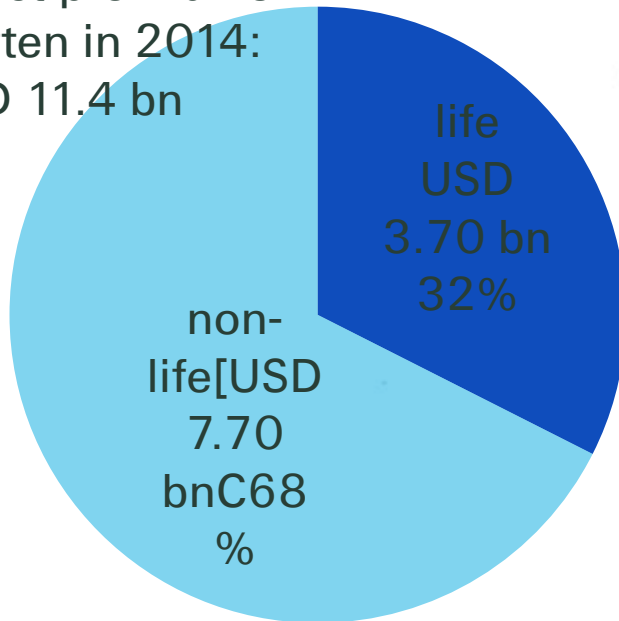
Risk transfer: Efforts required on all fronts

Macro, micro and pooling



The insurance market of sub-Saharan Africa SSA insurance market at a glance

Direct premiums
written in 2014:
USD 11.4 bn

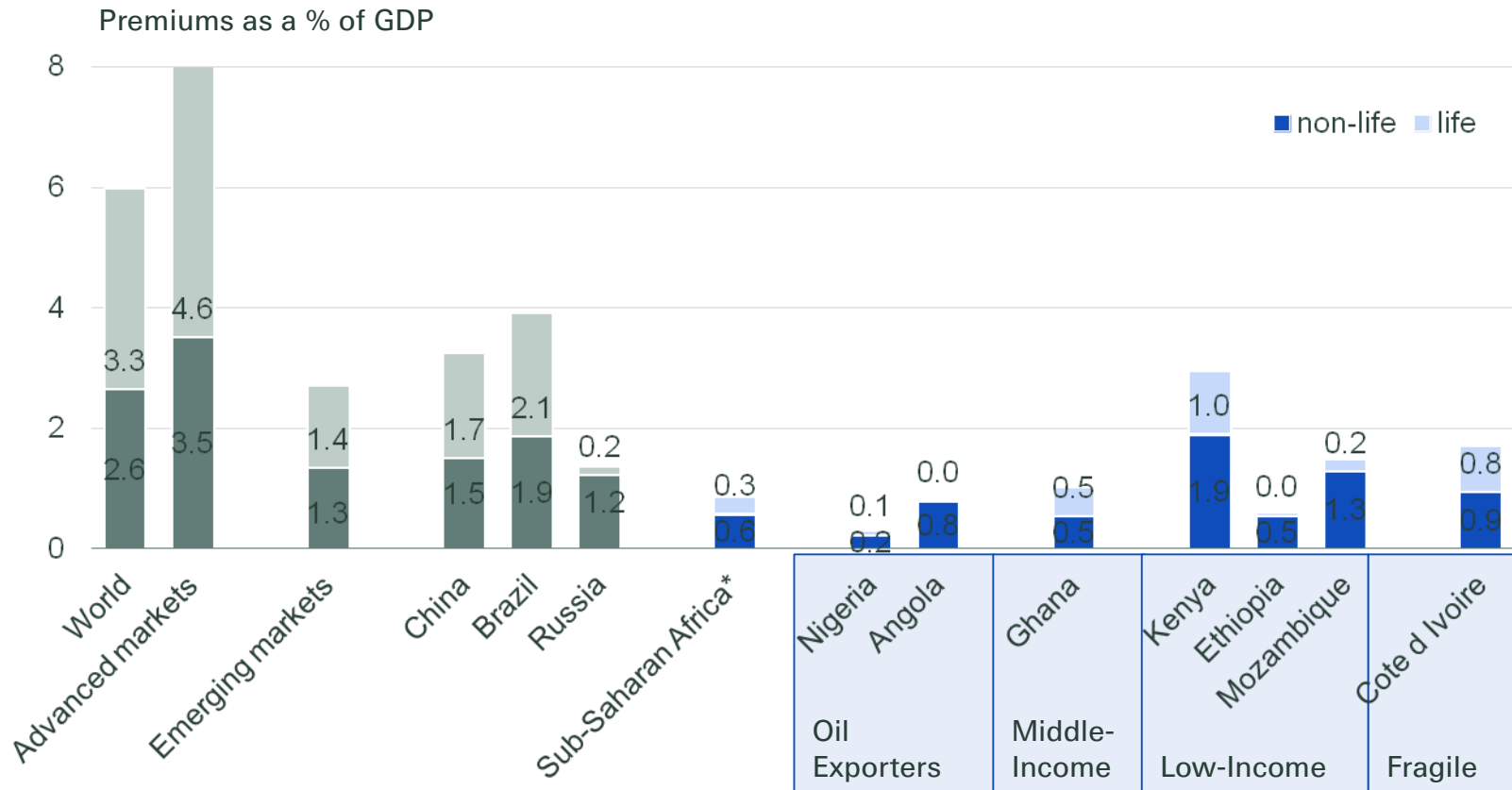


- The SSA insurance markets are in a typical early phase of development, where the main focus lies on commercial lines of business in non-life and group business in life.
- The life market is in most markets very much underpenetrated, but has been growing strongly.

Remark: Premium volumes do not add up to total due to rounding
Source: Swiss Re Economic Research & Consulting, GfK GeoMarketing

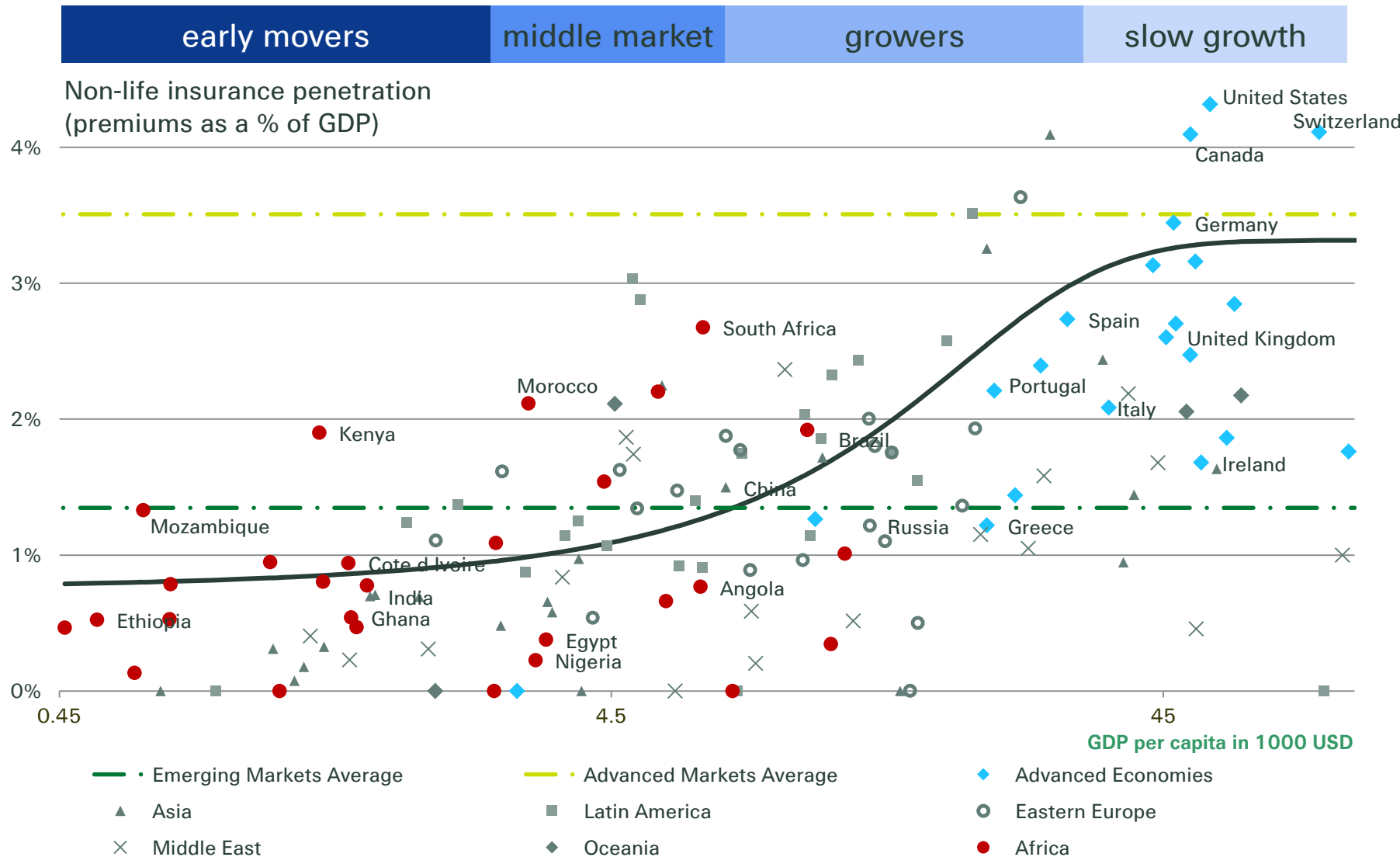
The insurance market of sub-Saharan Africa

Insurance penetration in 2014 is very low when comparing with other regions



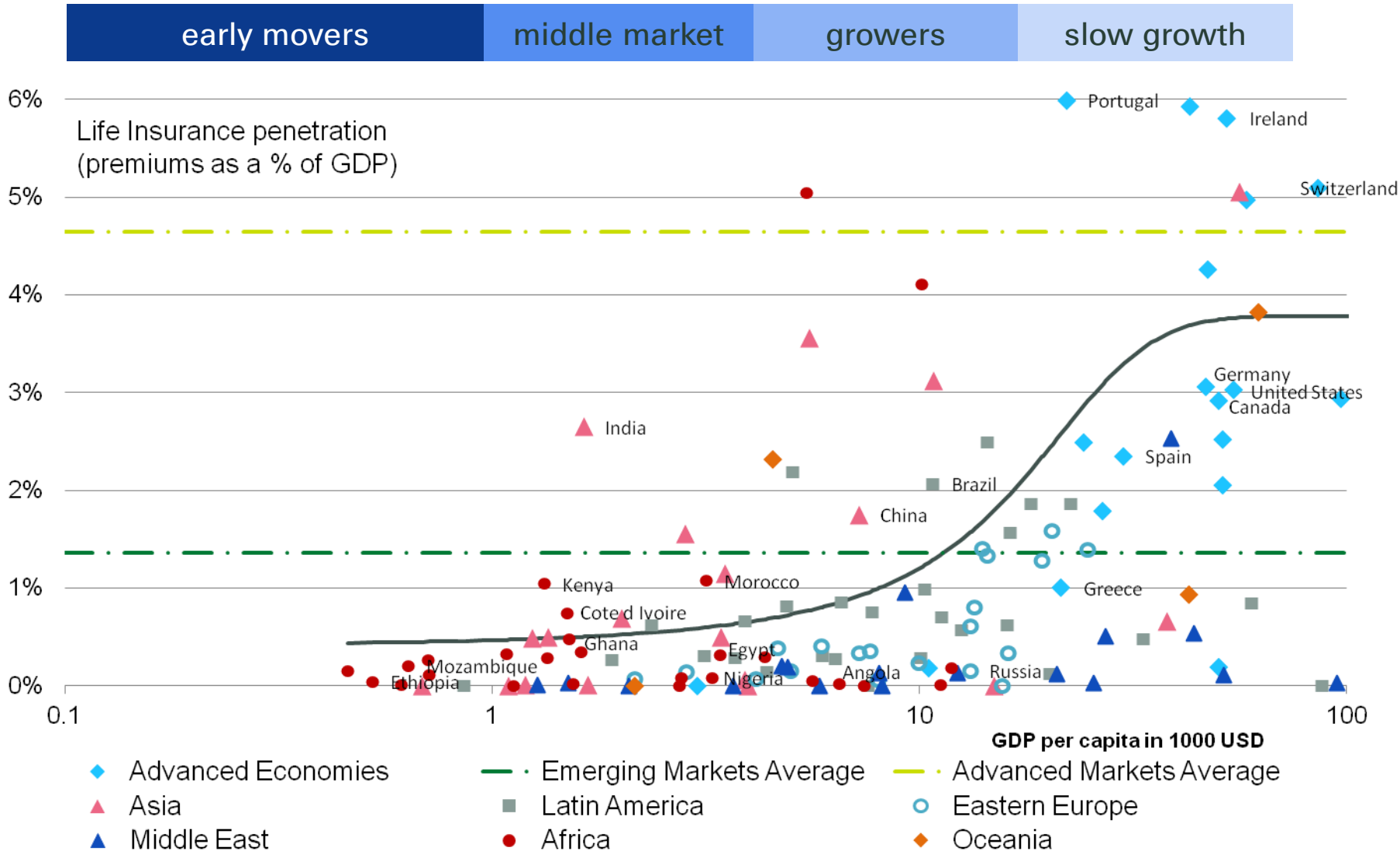
Source: Swiss Re Economic Research & Consulting
 * Excluding South Africa

... but low penetration is expected at the low income levels in SSA



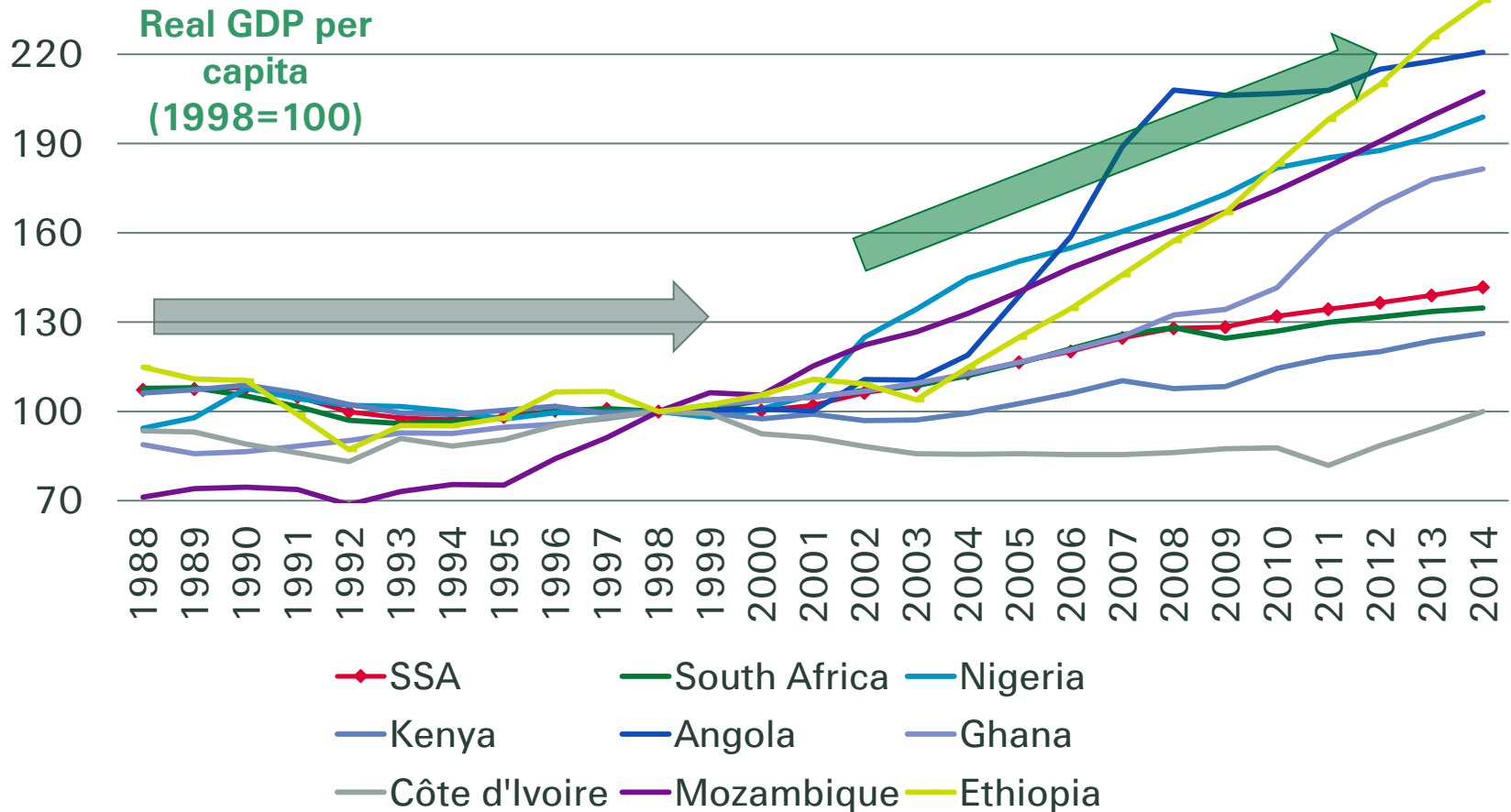
Source: Swiss Re Economic Research & Consulting.

The life insurance S-Curve

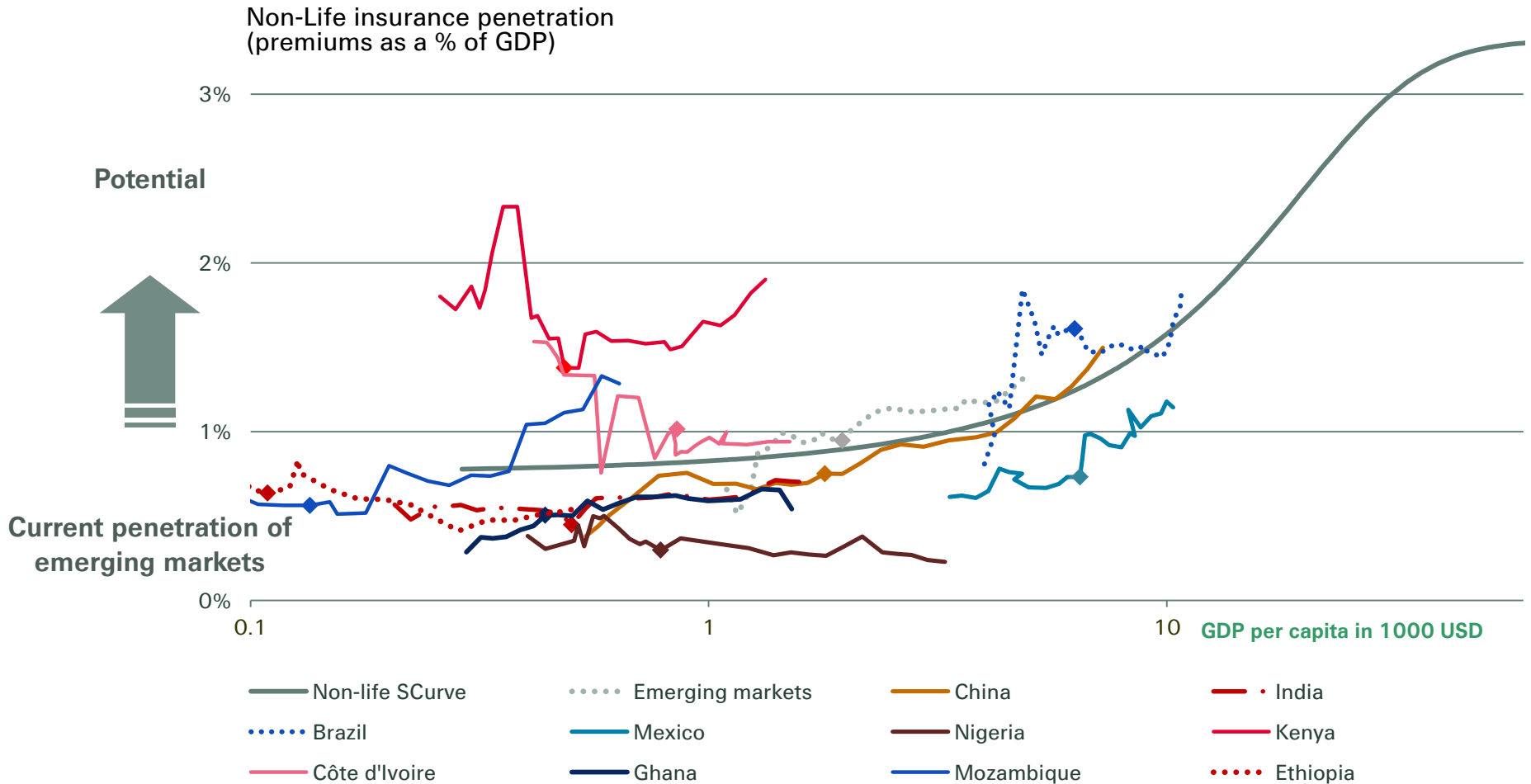


Source: Swiss Re Economic Research & Consulting.

Real GDP per capita in SSA mostly only started to grow around 2000



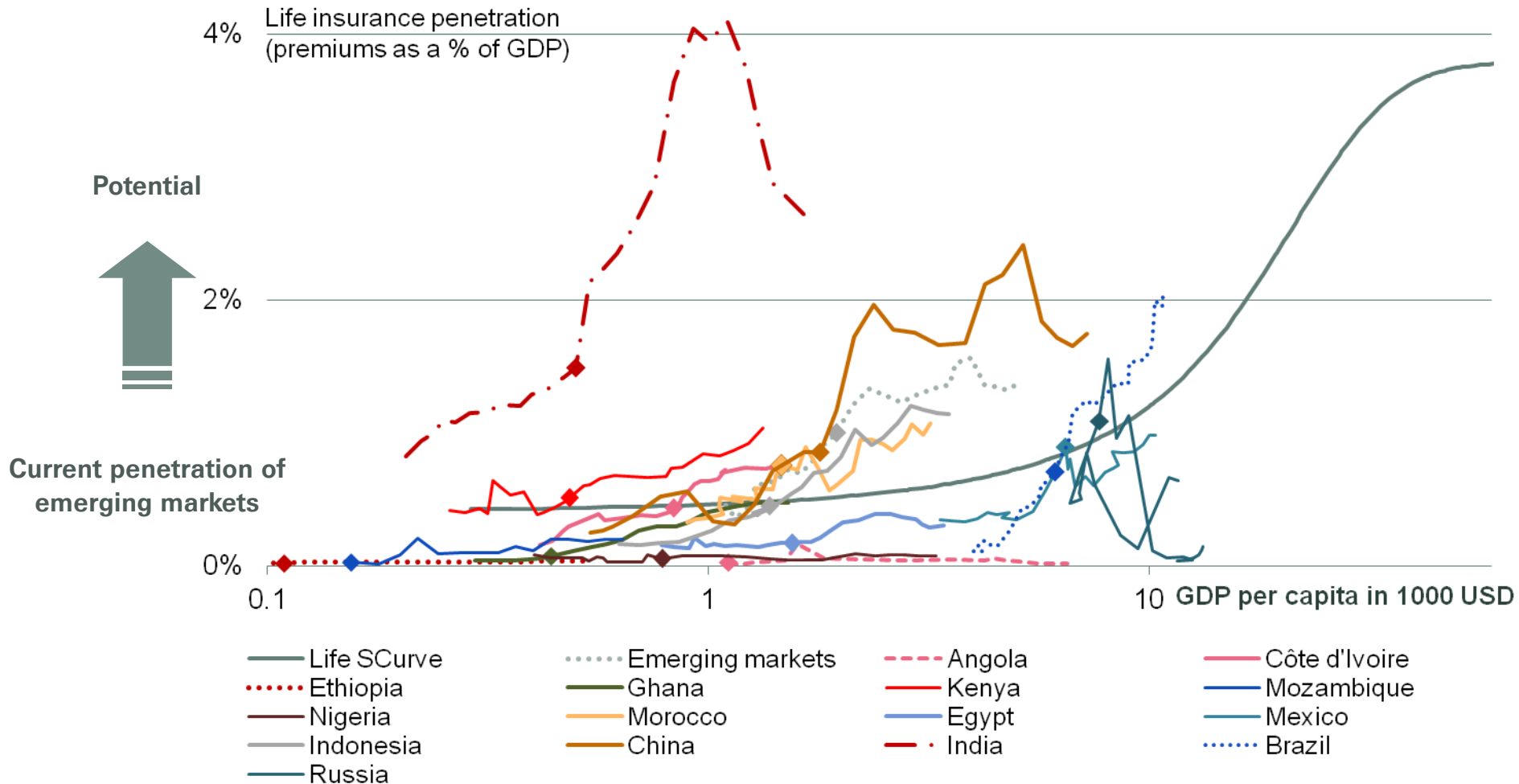
Non-life penetration developments over time: ready to pick up in SSA?



* Data series of penetration start from 1988

Source: Swiss Re Economic Research & Consulting.

Steep growth paths of Asia's life markets highlights catch-up potential of emerging markets



* Data series of penetration start from 1980 onwards except Vietnam: 1996; China: 1982; Hong Kong: 1990

Source: Swiss Re Economic Research & Consulting.



Factors driving insurance pickup: China

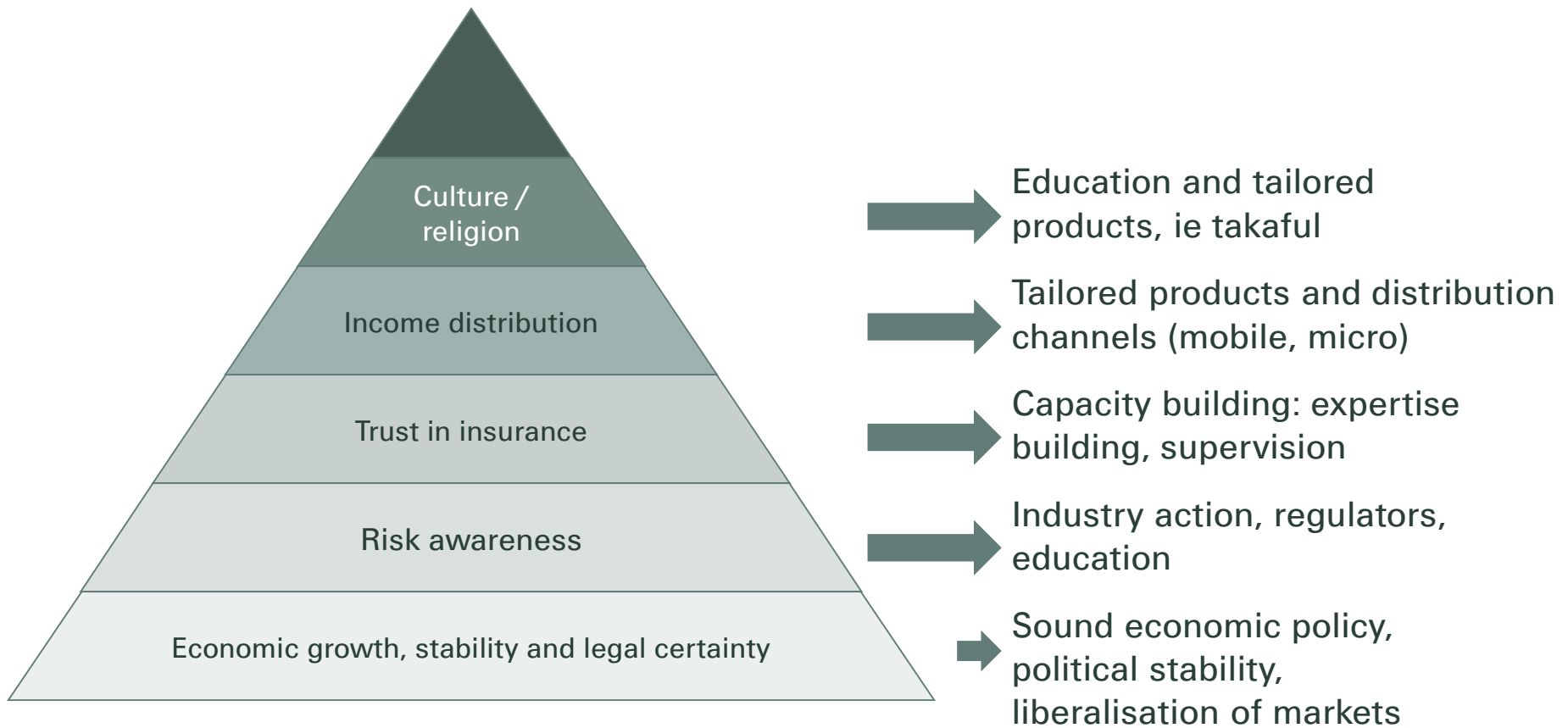
- High GDP growth and sharp increase in household's wealth spurred insurance market growth for the past 25 years.
- Supporting policies that were key for development:
 - Openness of the market since entry into WTO in 2001: foreign insurers spurred risk awareness and insurance knowledge.
 - Directives on the reform and development of the insurance industry in 2006
 - Non-life side
 - Increasing living quality, and particularly automobile sales, which increased from 183 thousand units sold in 1990 to over 23 million in 2014,
 - implementation of Compulsory Motor Vehicle Traffic Accident Liability, have promoted the development of motor insurance.
 - Urbanization process have stimulated large-scale infrastructure, which have benefited non-life business, with urbanization rate more than doubled from 26.4% in 1990 to 54.8% in 2014.
 - Target to ensure national food security with subsidy from central government pushed the growth in agricultural insurance since 2007.
 - Life & Health side
 - Rapid increasing income and emerging middle-income class are major contributors to growth in L&H side because of higher risk awareness, supplemental protection to social security and lacking alternative investment channel.
 - Innovative distribution channel, especially bancassurance, have boosted the development in L&H insurance.



Factors driving insurance pickup: India

- Opening-up of Indian economy in 1991:
growth in trade, investments and growth of middle class
- Supporting policies:
 - Liberalisation of insurance sector in 2000: private sector participation set the stage for strong growth of insurance sector in coming decade.
 - Tax Saving incentives: Life and health insurance is one of the most popular tax saving instruments in India. Demand for tax planning also fueled insurance growth.
- Non-life
 - Strong development of services sector: triggered demand for liability insurance, group insurance and other specialised covers
- Life
 - Favorable Demography: rise in life expectancy coupled with large young population drive demand for protection products
 - High savings rate of >30%: together with rising income levels also supported demand for investment products

How to increase the contribution of insurance to the economy



Many factors drive demand and supply of insurance

General factors

- Economic growth
- Wealth (distribution of income)
- Religion; culture
- Education
- Property rights; legal certainty
- Products offered
- Distribution channels
- Risk awareness
- Insurance regulation
- Trust in insurance
- Price of insurance (cost ratio)
- Capitalisation

Depends on insurers actions, Lobbying possible

Additional factors by insurance type

Non-life insurance

- Compulsory insurance
- Natural catastrophes exposure
- Government role in health & workers' company insurance
- Increasing health costs
- Claims awards

Life insurance

- Economic stability (inflation, currency)
- Savings rate
- Off-shore insurance (Avoidance)
- Tax benefits
- Pension system
- Demography

Source: Swiss Re Economic Research & Consulting

Foreign reinsurers can help to develop the insurance sector in emerging economies

Improvements in customer service and value	Increased competition leads to new products and better quality
Increased domestic savings	A deeper financial system leads to increased domestic savings and higher growth
Technological and managerial knowhow transfer	Import of skills through training and transfers
Improvements of domestic insurance regulation	International companies help to introduce best practise in regulation
Beneficial Domestic Spillovers	High quality employment, societal loss reduction

Source: Foreign Insurers in Emerging Markets: Issues and Concerns, Harold D. Skipper 1997



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