

# Background on: microinsurance and emerging markets

## Insurance Industry

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## Overview



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. Products vary in type and structure but are generally distinguished by high volumes, low cost and efficient administration. Policies may be offered along with a small loan, with premiums that are a small percentage of the loan amount.

The Microinsurance Network is a nonprofit global organization of microinsurance industry experts comprised of 80 institutional members from more than 40 countries committed to promoting the development and delivery of valuable insurance services for low-income people. According to the Network's *Annual Report 2017*, while emerging markets account for around one-fifth of total global premium, they represent 80 percent of the world population, pointing toward an enormous potential for growth. The Network's *World Map of Microinsurance* shows that almost 290 million people worldwide are covered by at least one microinsurance policy.

Innovative technology applications play an important role in microinsurance. 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.

## The history of microinsurance



Microinsurance 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.

There are various types of microinsurance programs. Some rely 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.

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.

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 many innovative microinsurance products have been developed to protect the working poor against the financial impact of losses.

## Blue Marble Microinsurance Group



The **Blue Marble Microinsurance** group was formed in early 2015. The group aims to provide socially impactful, commercially viable insurance protection to underserved populations.

The consortium behind Blue Marble consists of American International Group Inc., Aspen Insurance Holdings Ltd., Assa, Axa, Hamilton Insurance Group Ltd., Guy Carpenter & Co. LLC, together with Marsh & McLennan Cos. Inc., Old Mutual plc, Transatlantic Reinsurance Co. and Zurich Insurance Group.

Blue Marble's first venture was launched in October 2016. The program provides affordable crop insurance against drought and excess rainfall to smallholder farmers in Zimbabwe. The program employs a customizable index product that can adapt to different soil types, crops, seed varieties and farming practices.

A **second venture** was launched in October 2018. This time, Blue Marble partnered with Nespresso to create a weather-index microinsurance solution for coffee farmers in Colombia.

## 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 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. Swiss Re's 2020 **sigma** report on world insurance markets reported that premiums in emerging countries rose 6.6 percent in 2019, after adjusting for inflation, compared with 1.9 percent in 2018, and were mainly China-driven. Growth in developing markets outpaced growth in advanced markets, where premiums increased 2.1 percent in 2019 after rising 3.5 percent in 2018. Emerging markets accounted for 18.5 percent of total global premium volume in 2019, compared with 21.3 percent in 2018.

Life sector premiums rose 5.6 percent in emerging markets in 2019, after inflation, following a 2.0 percent decrease in 2018. In advanced markets, life premiums rose 1.3 percent in 2019 and 3.9 percent in 2018. Nonlife sector premiums in emerging markets rose 7.7 percent in 2019, adjusted for inflation, compared with 6.9 percent in 2018, while nonlife premiums rose 2.7 percent last year in advanced markets after increasing 3.1 percent in 2018.

Swiss Re expects premiums for life insurance to stagnate in 2020 in emerging markets in response to the COVID-19 pandemic, except for emerging Asia, and recover in 2021, particularly in China. The downturn in 2020 will affect emerging markets in Europe the most. Nonlife premiums are expected to grow 3 percent in 2020 in emerging markets, compared with declining 0.1 percent in total markets. Total premiums in emerging markets are expected to grow 7 percent in 2021.

## Insurance In Emerging Markets, 2019



	Direct premiums written, 2019 (1)	Percent change from 2018 (2)	Share of world market	Premiums as a percent of GDP (3)	Premium per capita
<b>Total industry</b>					
Advanced markets	\$5,130,924	2.1%	81.54%	9.63%	\$4,66
Emerging markets	1,161,675	6.6	18.46	3.25	1
<b>Total</b>	<b>\$6,292,600</b>	<b>2.9%</b>	<b>100.0%</b>	<b>7.23%</b>	<b>\$8</b>
<b>Life</b>					
Advanced markets	\$2,298,700	1.3%	78.82%	4.25%	\$2,05
Emerging markets	617,566	5.6	21.18	1.73	5
<b>Total</b>	<b>\$2,916,267</b>	<b>2.2%</b>	<b>100.0%</b>	<b>3.35%</b>	<b>\$37</b>
<b>Nonlife</b>					
Advanced markets	\$2,832,224	2.7%	83.88%	5.39%	\$2,60
Emerging markets	544,109	7.7	16.12	1.52	8
<b>Total</b>	<b>\$3,376,333</b>	<b>3.5%</b>	<b>100.0%</b>	<b>3.88%</b>	<b>\$43</b>

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

(2) Inflation-adjusted.

(3) Gross domestic product.

Source: Swiss Re, *sigma*, No. 4/2020.

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According to Swiss Re, China is the largest emerging market country based on insurance premiums written (including life and nonlife business) with \$574.9 billion in premiums written in 2018, followed by India with \$99.8 billion and Brazil with \$72.8 billion. However, when measured by insurance density, the Bahamas ranked first, with \$1,963 in premiums per capita (including life and nonlife business).

## Top 10 Emerging Markets By Insurance Density, 2018

(1)

Rank	Country	Total premiums (2)	
		Per capita (US\$)	As a percent of GDP (3)

Rank	Country	Per capita (US\$)	As a percent of GDP (3)
1	Bahamas	\$2,453	6.20%
2	Slovenia	1,336	4.94
3	United Arab Emirates	1,303	2.92
4	Trinidad and Tobago	853	4.40
5	South Africa	840	12.89
6	Chile	747	4.60
7	Czech Republic	666	2.77
8	Bahrain	520	1.83
9	Malaysia	518	4.77
10	Slovakia	478	2.31

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

(2) Life and nonlife premiums. Data are estimated for Bahamas, Bahrain, Chile, Malaysia, Slovakia, South Africa and the United Arab Emirates.

(3) Gross domestic product.

Source: Swiss Re, *sigma*, 3/2019.

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## Additional resources



Allianz, [Emerging Consumers A.M. Best](#), [The Potential of Microinsurance Blue Marble](#) Lloyd's of London, [Insurance in developing countries Microinsurance Network](#) Munich Re Foundation, [World Map of Microinsurance](#) National Association of Insurance Commissioners, [Microinsurance](#) Swiss Re, [Global Partnerships](#)

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