International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

INSURANCE

SUPPORTING DEVELOPMENT GOALS AND CREATING MARKETS

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Introduction

In the developing world, far too many people lack access to basic financial services, including insurance. This makes it even harder to escape from poverty, as unanticipated events can have a major impact. This is something IFC is working to change through its partners around the world.

Take the example of Gloria who lives in Ghana and has a part time job as a caterer. First her sister in law passed away and then her 72-year-old mother was admitted to hospital, where she subsequently died. Already facing financial constraints due to her sister in law's funeral, Gloria was going to struggle to pay for her mother's costs.

Luckily, Gloria had signed up for a family life cover, offered by her phone provider, Airtel, and had nominated her mother as the other insured life. Gloria was able to dial the hotline number, report a claim and then send in the relevant documents. A few days later she received the payment into her Airtel Money Account. Gloria and her family used the money to pay for funeral expenses. Gloria praised on the "convenience, ease with processes and affordability" of the product, and she maintained her coverage, nominating her uncle as the other insured life on the policy.

Creating New Markets

While payments and banking typically come first in the development of financial services, insurance has a major role to play in both managing risk and improving resilience and sustainability. Insurance is still under developed in much of the world, despite the great need, and there is a tremendous opportunity to create a market for it, as Airtel has in Ghana.

However, overall penetration, measured by premiums to GDP, in emerging markets is just 2.9%, and in some cases below 1%, compared to over 7% in US and more than 9% in UK. But, there are some positive signs. Growth in insurance premiums continues to outstrip GDP in developing countries, and as GDP per capita continues to grow, at least in local currencies, insurance spending is rising.

The direct benefits of insurance are generally well known, although some groups, particularly women, lower income rural people and those working in informal sector often have less access and less understanding of insurance.

Helping to Mitigate Risk

Insurance is a key tool in providing security and mitigating risks. For individuals and families, it enhances risk management and provides a safety net. Good examples of this are life insurance, providing a payout if the main income earner dies, health insurance, which mitigates the need to pay high out of pocket expenses for medical treatment, and property insurance protecting houses and belongings from events like fire or flood.

Additionally, individuals benefit from motor liability insurance, even if they do not own or drive a car, as they could be killed or injured in a traffic accident. There are other potential additional benefits in ancillary services provided by insurance such as access to health advice or monitoring by phone or internet.

For small businesses insurance can protect stock or property from loss or damage, and improve stability for activities affected by weather such as farming. This enables the business to borrow to finance growth because they will still be able to pay the interest even if the crop fails due to weather, or their shop is damaged by a flood. In this case the insurance proceeds can also be used to buy more seeds or replace lost stock.

As businesses grow many have increasing insurance needs such as insuring their fleet of vehicles or providing health insurance for employees. Insurance makes business more sustainable and allows entreprises to take on more risk. This in turn creates new business opportunities and jobs, which improves the local economy.

There is, however, a wider role which insurance companies can play in supporting sustainable development and the deepening local capital markets. Insurers collect premiums from policyholders in advance of paying the claims, and in cases of long tail business such as liability or life (mortality) insurance, hold the assets for many years. Insurers are typically well capitalized to protect policyholders.

Insurance companies can invest their own funds and the policy holder funds both in real assets, such as housing or infrastructure, and in the wider capital market in government and corporate debt and to some extent in equities. Typically, in developed markets insurers and pension fund managers are major investors and can also use their influence to improve disclosure and corporate governance in the wider market. In turn these investments support wider economic development.

IFC's Experience in Insurance

IFC's insurance practice contributes to creating markets both directly and indirectly. Our investments and advisory work help companies to grow and to offer insurance to previously underserved groups such as lower income populations and women and those in rural areas.

We also contribute to making markets more efficient and increasing choice and value for the consumer, by working with World Bank on the development of new solutions such as parametric index insurance to protect farmers from income instability due to weather related events, and investing in new technologies and business models which make insurance more accessible and affordable and improve customer service.

IFC has made over 30 investments in insurance in developing countries, and invested over $1.8bn. Our current portfolio is valued at around $1bn. We have invested in Asia, Latin America, and Africa and also in global companies operating in many emerging markets. We can leverage our extensive experience in the banking sector of supporting SMEs and women and of microfinance and digital financial services to increase the reach of insurance. Additionally, we can work with the infrastructure, MAS and housing teams to facilitate investment by insurers in those sectors. IFC has helped insurers with demutualization, floating on the stock market via IPOs as well as raising equity and debt, and expanding into new business lines and countries.

Trends in the Insurance Industry

Currently there are some trends affecting the insurance industry where IFC can support insurers in developing markets in their development.

First, many countries are moving to a regulatory regime based on economic solvency. This means that capital requirements will be based on an assessment of the risks the company faces and based on a formula to ensure the company remains solvent to a certain level of probability. The EU has already moved to this type of model with Solvency II, as has Switzerland with the Swiss Solvency Test. For those familiar with the banking industry, it is analogous to Basle 2. Many developing countries are adopting different forms of risk based capital assessment, including South Africa, China, Mexico, Chile, Brazil, Indonesia and Thailand.

Large parts of Africa are also taking steps towards a more risk based regime by 2020. This does not necessarily mean that capital requirements go up, as it depends on the circumstances of the company and the previous regime, however, in some cases this can be an outcome. It does, however, mean that more sophisticated risk management is required, as insurers need to give more careful consideration to their investments and in many cases regulations allow capital credit for a wider range of instruments such as long term subordinated debt.

IFC can support insurers in raising different forms of capital, strengthening risk management and corporate governance. An example would be Leadway in Nigeria, where IFC not only invested in the capital of the company, which provided a strong endorsement, but also worked with management and the Board to improve corporate governance and develop the company's potential from being family owned to attracting investment by major international insurance sector players.

Another hot topic for the insurance industry is the impact of technology. This is both an opportunity and a threat. There are many different aspects of technology that have the potential to impact the insurance industry. The increasing use of digital and mobile both to sell and service policies is already starting to be seen quite widely in both mature and emerging markets.

This is also making claims settlement faster and simpler as photographs can be instantly transmitted, and payments made to mobile wallets. However, use of new "big data" sources whether from social media or other resources available online has the potential to shake up underwriting. The 'Internet of things', whether in semi-autonomous vehicles, factories, or the home, can improve loss prevention by avoiding or warning of potential hazard, whether a stranger in the home or a part about to fail.

Developments in medical technology are also offering more advice and prevention to mobile phone users which may reduce the need for expensive medical treatments and this allow more affordable health insurance. Artificial intelligence can be used in both underwriting and claims and a new generation of ''robo-advisers" may soon be able to offer advice on insurance and saving products at a lower cost to greater numbers of people.

In 2016 $1.6bn was invested in "insuretech" and this does not include investments in other sectors that have an insurance usage. Examples of recent new types of technology driven business models include Zhong An in China, an entirely digital insurer providing short duration insurance cover for events like flight delays in an "insurance on demand" model. Your.MD is providing a way to diagnose illnesses by mobile phones using data from the UK NHS. Neither of these would have been possible with recent technology advances and are changing the way we think about insurance and about going to the doctor.

Conclusion

In addition to investing in insurance companies and intermediaries, IFC also invests in early stage companies, both in fintech and in other sectors relevant for insurance such as health, satellites and artificial intelligence. As well as supporting the development of insurance markets, these early stage companies increase jobs and support the local economy.

With our network of clients and partners around the world, the IFC has the platform and expertise to support the development of the insurance sector in emerging markets and its wider contribution to local capital markets. We have a robust pipeline of new investments in both established and early stage companies and a wide network of banks and other partners with whom we can work to increase access to affordable insurance.

IFC is currently working with insurance companies on pilots to enhance their offerings to women customers. For more information please contact Susan Holliday sholliday@ifc.org or Esther Dassanou mdassanou@ifc.o