Insurance: Supporting Development Goals & Creating Markets

Insurance promotes personal and business stability and growth. IFC is helping insurers to build new markets.

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. IFC is working to increase participation in insurance through its partners around the world.

PROVIDING FOR EMERGENCIES

Take the example of Gloria, who lives in Ghana and works part-time as a caterer. Her sister-in-law passed away, then her 72-year-old mother was hospitalized and died. Already experiencing budget constraints after 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. She had named her mother as the other insured person. Gloria dialed the company's hotline, reported her claim, and submitted the relevant documents. A few days later she received payment via her Airtel Money Account. She and her family used the money to pay the funeral expenses. Gloria praises the "convenience, ease with processes and affordability" of the product and maintained her coverage with her uncle as the other insured person on her policy.

CREATING NEW MARKETS

While payments and banking typically come first in a nation's development of financial services, insurance can help manage risk and improve resilience and sustainability. Insurance is still underdeveloped in much of the world, despite the great need for it. There is a tremendous opportunity to create a market for it, as Airtel has in Ghana.

Overall penetration, measured by premiums to GDP, is just 2.9 percent in emerging markets, and in some cases is below 1 percent. This is compared to over 7 percent in the US and more than 9 percent in the UK.

However, there are some positive signs. Growth in insurance premiums continues to outstrip GDP in developing countries. 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 to and less understanding of insurance.

MITIGATING RISK

Insurance provides security and mitigates risks. For individuals and families, it enhances risk-management and provides a safety net. Good examples of this are life insurance, which provides 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, which covers houses and belongings lost in events such as fires or floods.

People benefit from motor liability insurance even if they do not own or drive a car; anyone could be killed or injured in a traffic accident. There are often more benefits in ancillary services provided by insurance companies, such as access to health advice or monitoring by phone or internet.

For small businesses, insurance can protect stock or property

MITIGATING RISK, CONTINUED…

from loss or damage. It improves stability in jobs affected by the weather, such as farming. Policies enable businesses to borrow to finance growth, because they are still able to pay interest even if a crop fails or their shop is damaged by a flood. In these cases, insurance proceeds can also be used to buy more seeds or replace lost stock.

As businesses grow, many have increasing needs for insurance—such as protecting a fleet of vehicles or providing health insurance for employees. Insurance makes businesses more sustainable and allows enterprises 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 that insurance companies can play in supporting sustainable development and deepening local capital markets. Insurers collect premiums from policyholders before paying claims. In cases of long-tail policies, such as liability or life (mortality) insurance, companies hold the assets for many years. Insurers are typically well-capitalized to protect policyholders.

Insurance companies can invest their own funds and their policy-holders' funds in real assets, such as housing or infrastructure, and in wider capital markets in government and corporate debt and (to some extent) in equities. In developed markets, insurers and pension-fund managers are major investors; they can use their influence to improve disclosure and corporate governance. These investments support wider economic development.

TRENDING IN THE INSURANCE INDUSTRY

Some trends in the insurance industry offer opportunities for IFC to support insurers in developing markets.

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 a company faces and on a formula to ensure that 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, these new requirements are analogous to Basel II 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. In some cases, this can be an outcome. It means that more sophisticated risk management is required. Insurers must 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's Experience in Insurance

IFC's insurance practice fosters new markets directly and indirectly. Our investments and advisory work help companies grow and offer insurance to previously underserved groups, such as lower-income and rural populations and women.

We also help to make markets more efficient, increasing consumer choice and value, by collaborating with the World Bank on new solutions. Parametric index insurance, for example, protects farmers from income instability related to weather other unpredictable events. With the Bank, IFC invests in technologies and business models that make insurance more affordable and which improve customer service.

IFC has invested over $1.8bn and made more than 30 investments in insurance in developing countries. At present, our portfolio is valued at around $0.7bn. We have invested in Asia, Latin America, and Africa and in global companies that operate in emerging markets. We draw on our experience in the banking sector—supporting SMEs, women entrepreneurs, and microentrepreneurs and providing digital financial services—to increase the reach of insurance. We also work with our own infrastructure, manufacturing, agriculture and housing teams to facilitate insurance investment in these sectors. IFC has helped insurers with demutualization, floating on the stock market via IPOs, raising equity and debt, and expanding into new business lines and countries.

TRENDING IN THE INSURANCE INDUSTRY, CONTINUED…

IFC can support insurers in raising different forms of capital and in strengthening risk management and corporate governance. For example, IFC invested in the capital of Leadway in Nigeria, which provided a strong endorsement. We also worked with management and the Board to improve corporate governance and develop the company from a small, family-owned firm to an attractive investment for international insurance-sector players.

CHANGING BY TECHNOLOGICAL DISRUPTION

Another hot topic--an opportunity and a threat--for the insurance industry is the impact of technology. In 2016, $1.6bn was invested in "insuretech."

Companies are increasingly using digital technologies to sell and service policies in mature and emerging markets. Changes include:

- Technology is making claims settlement faster and simpler, as people can instantly transmit photographs and payments.
- Big data—whether from social media or other online sources—is proving it has the potential to shake up underwriting.
- The Internet of Things (IoT), whether in semi-autonomous vehicles, factories, or the home, are improving loss prevention by warning of hazards, such as back-up cameras or machine-failure warnings.
- Health insurers are offering mobile users advice that may reduce the need for expensive treatments and make health insurance more affordable.
- Artificial intelligence is being used in underwriting and claims.
- A new generation of robo-advisers will soon be offering insurance advice, enabling companies to sell products at a lower cost to more people.

Examples of recent, technology-driven business models include China's Zhong An, an entirely digital insurer providing short-duration insurance coverage for events such as flight delays in an "insurance on demand" model. Your.MD is providing a way to diagnose illnesses by mobile phone using data from the UK National Health Service. Neither product would have been possible before recent advances. They are changing the way we think about insurance and going to the doctor.

CONCLUSION

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

With a global network of clients and partners, IFC leads in expanding the insurance sector and its contribution to local capital markets. We have a robust pipeline of investments in established and early-stage companies and a wide network of banks and partners with whom we work to increase access to affordable insurance.

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Creating Markets, Creating Opportunities