



2019 **ANNUAL  
MEETING**  
& EXHIBIT

October 27-30  
Toronto, Canada

## Session 141: Outlook for Insurance Demand in Emerging Markets

[SOA Antitrust Compliance Guidelines](#)

[SOA Presentation Disclaimer](#)

# Outlook for Insurance Demand in Emerging Markets

**CARLOS AROCHA, FSA**

OCTOBER 29, 2019



# SOCIETY OF ACTUARIES

## Antitrust Compliance Guidelines

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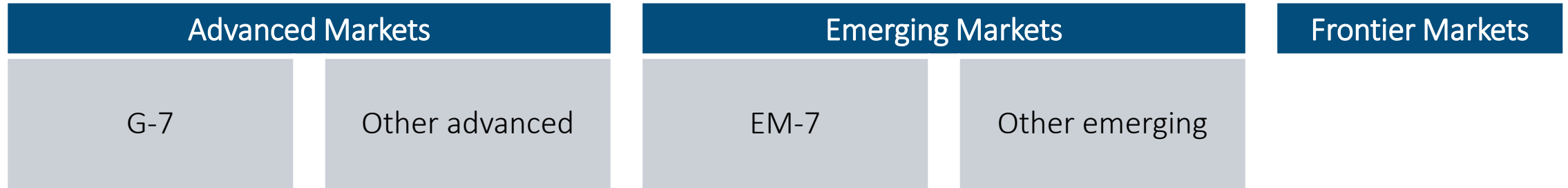
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Emerging markets will power the global economy over the next decade,  
as the economic power continues to shift from west to east countries

# Emerging Markets and the EM-7



# Country classification per the IMF



Emerging markets include economies that currently are, or have been for most of their recent history, middle-income countries with a long established record of access to international financial markets

# Emerging Markets



Brazil



Chile



China



Colombia



Czech Republic



Egypt



Hungary



India



Indonesia



Malaysia



Mexico



Morocco



Pakistan



Peru



Philippines



Poland



Qatar



Russia



Saudi Arabia



South Africa



Thailand



Turkey



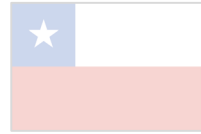
UAE



# Emerging Markets (EM-7)



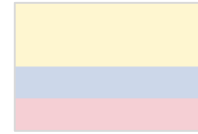
Brazil



Chile



China



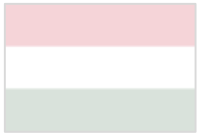
Colombia



Czech Republic



Egypt



Hungary



India



Indonesia



Malaysia



Mexico



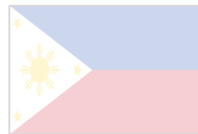
Morocco



Pakistan



Peru



Philippines



Poland



Qatar



Russia



Saudi Arabia



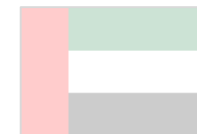
South Africa



Thailand



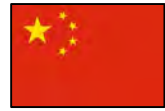
Turkey



UAE

# Population of EM-7 Countries (2019)

(Millions, latest annual change in parenthesis)



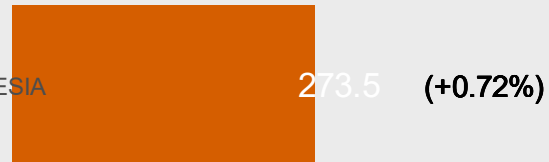
CHINA



INDIA



INDONESIA



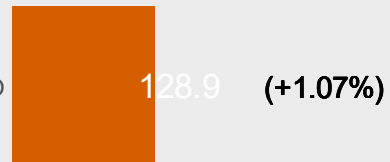
BRAZIL



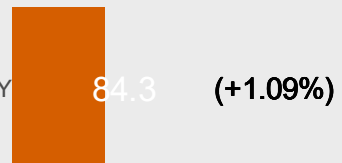
RUSSIA



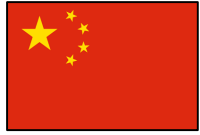
MEXICO



TURKEY



# Aging demographics



China

India

Indonesia

Brazil

Russia

Mexico

Turkey



*Old-age dependency ratio (2020)*

0.170

0.098

0.092

0.138

0.235

0.114

0.134

*Old-age dependency ratio (2050)*

0.436

0.203

0.245

0.362

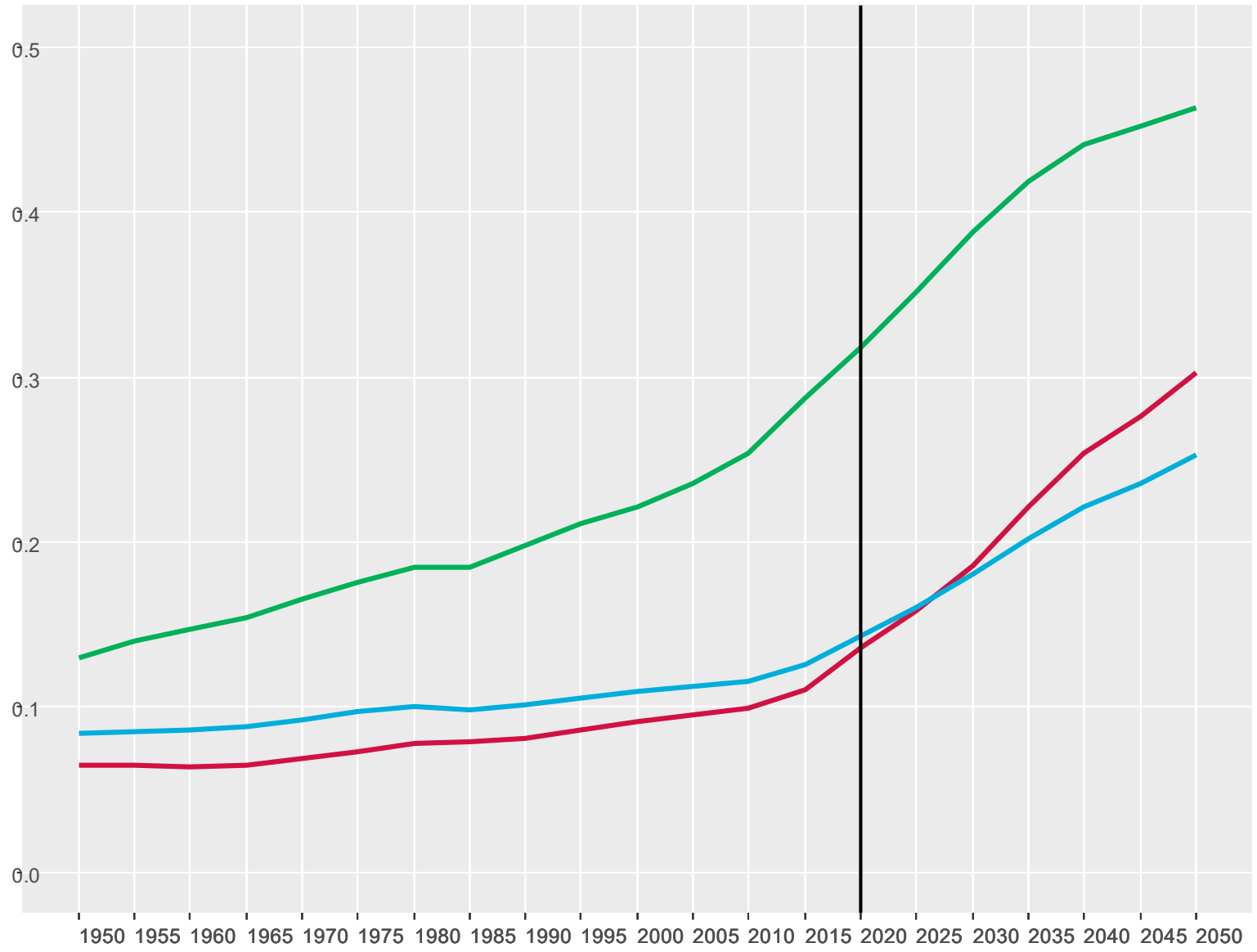
0.381

0.261

0.335

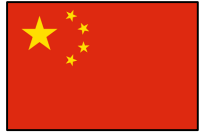
# Old-Age Dependency Ratios (1950-2050)

United Nations Medium Variant Projection



Group: EM-7 G-7 World

# Trade dependency



China

India

Indonesia

Brazil

Russia

Mexico

Turkey



*Exports + Imports as % of GDP (1990)*

24.2%

7.1%

15.5%

15.2%

36.1%

38.5%

30.9%

*Exports + Imports as % of GDP (2020)*

48.5%

23.6%

51.1%

30.0%

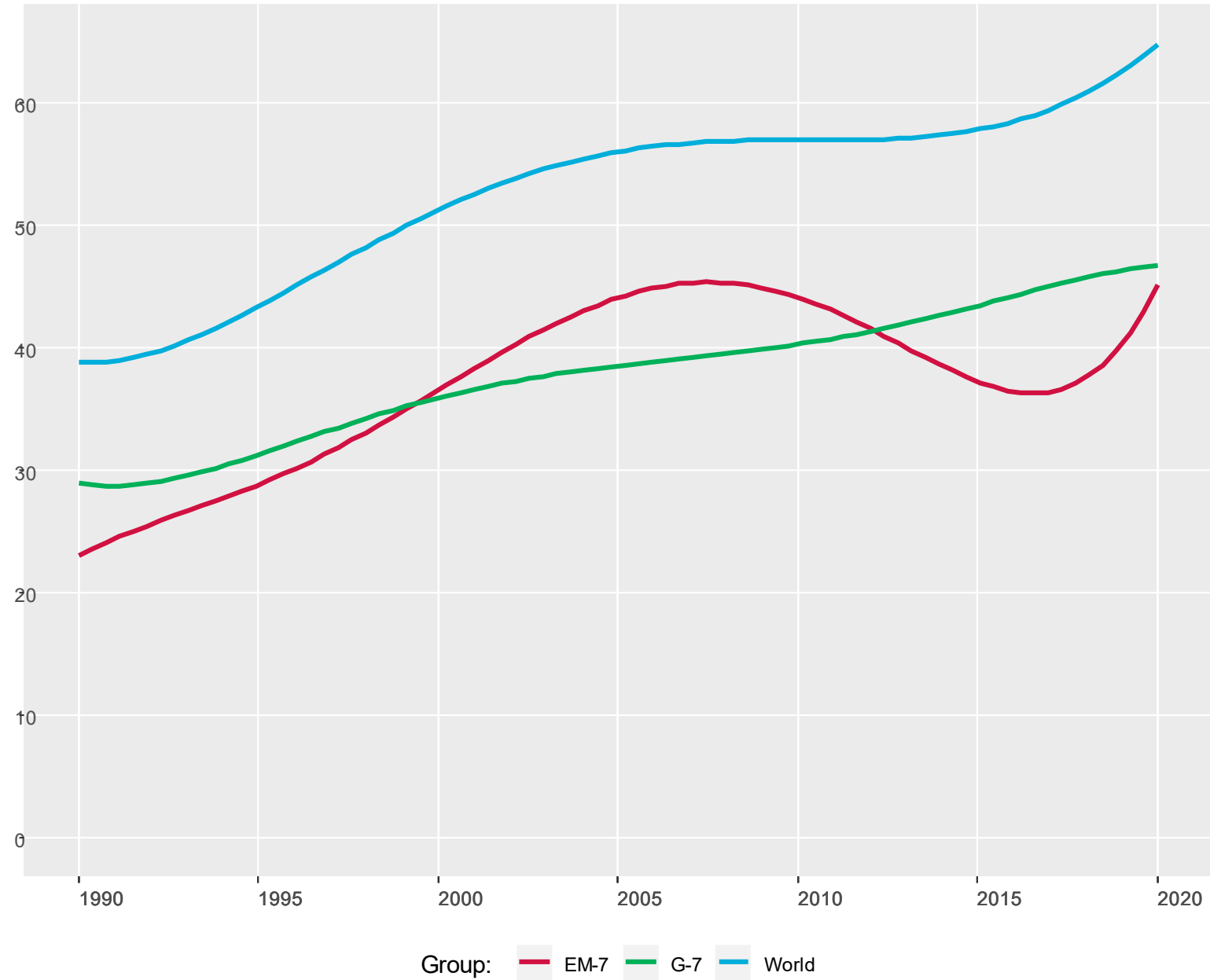
54.5%

79.6%

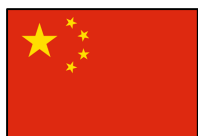
56.9%

# Exports + Imports as % of GDP, PPP (1990-2020)

World Bank Data



# Economic data



China

India

Indonesia

Brazil

Russia

Mexico

Turkey

*Annual change on year ago in GDP*

6.0%

5.0%

5.0%

1.0%

0.9%

-0.8%

-1.5%

*Current-account balance (% of GDP)*

1.4

-1.7

-2.4

-1.7

6.6

-1.7

-0.2

*10-yr interest rates (gov't bonds)*

3.0%

6.7%

7.1%

4.5%

6.6%

6.9%

13.2%

# Competitiveness of the EM-7

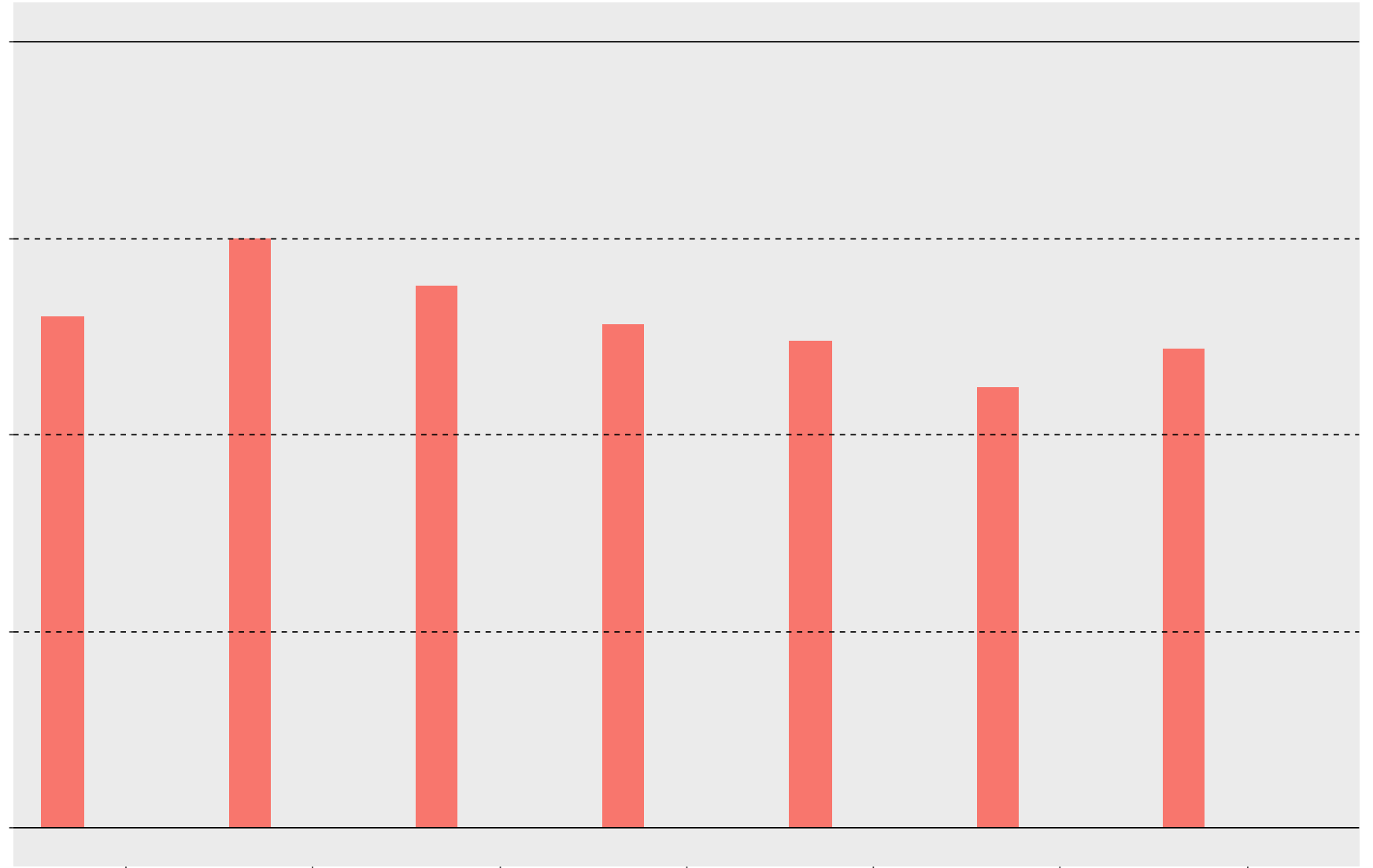




# Global Competitiveness Rankings

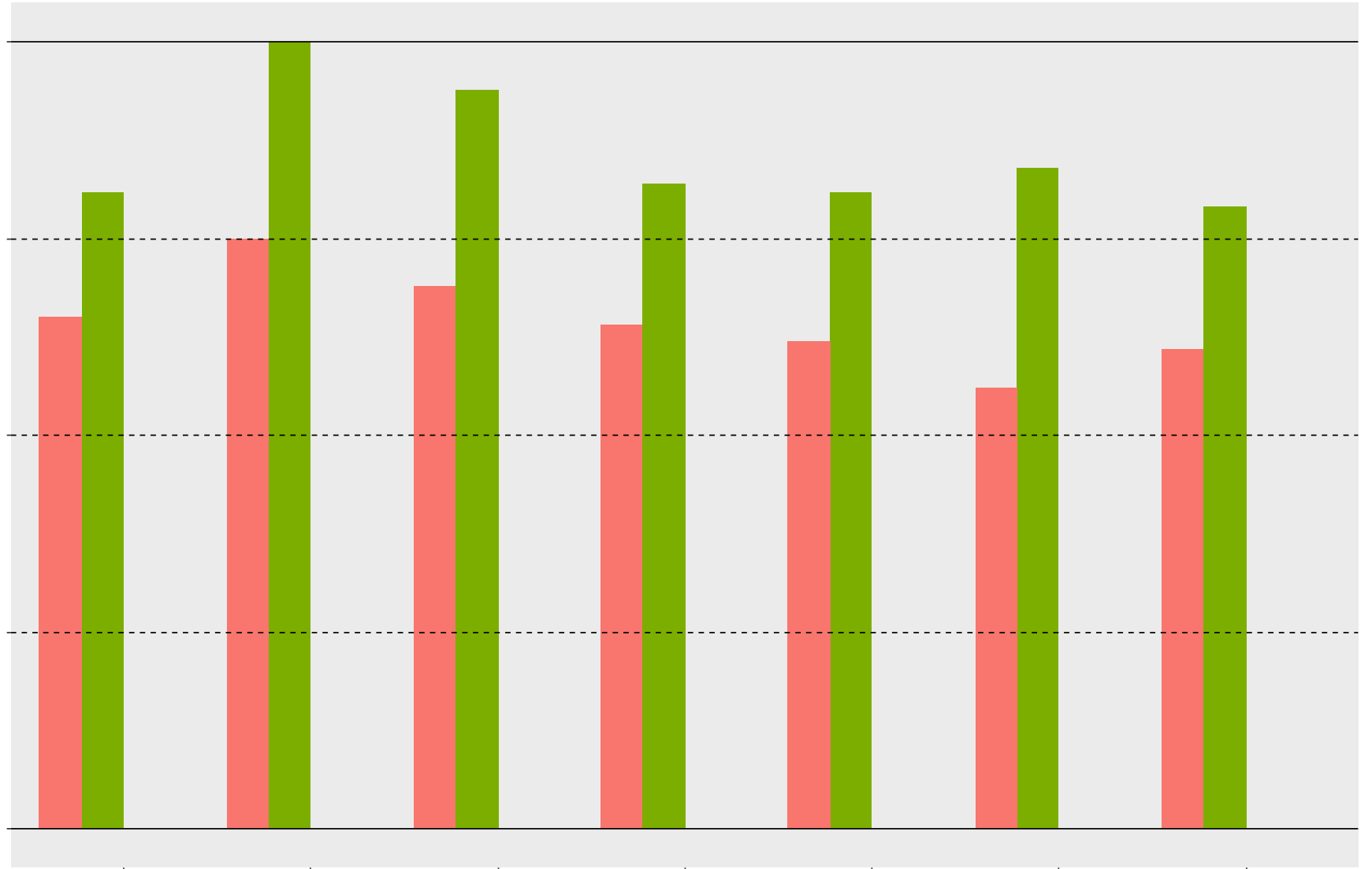
FINANCIAL SYSTEM

- depth
- stability



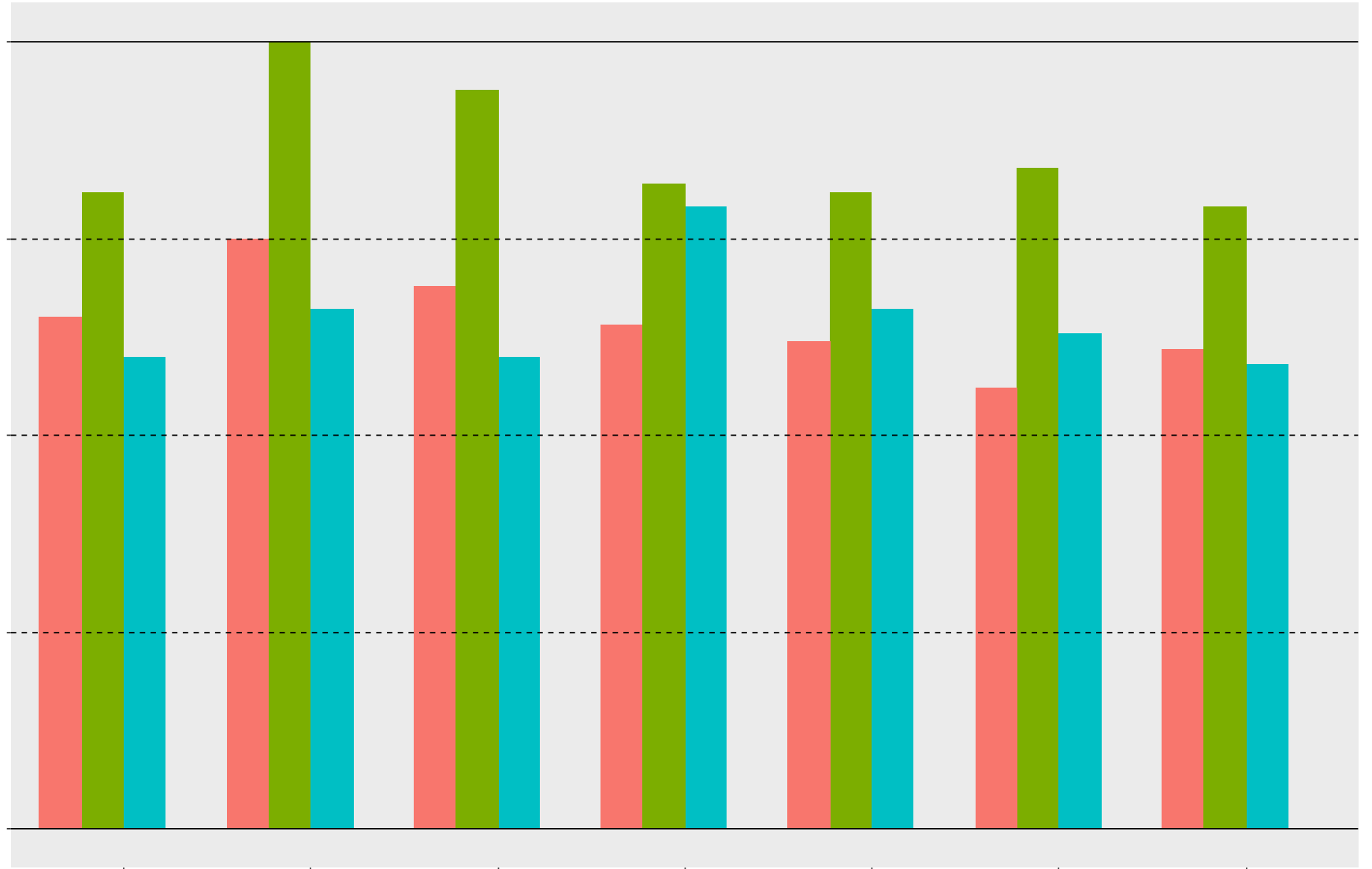
# Global Competitiveness Rankings

- FINANCIAL SYSTEM
  - depth
  - stability
- MARKET SIZE
  - GDP
  - Imports goods + services



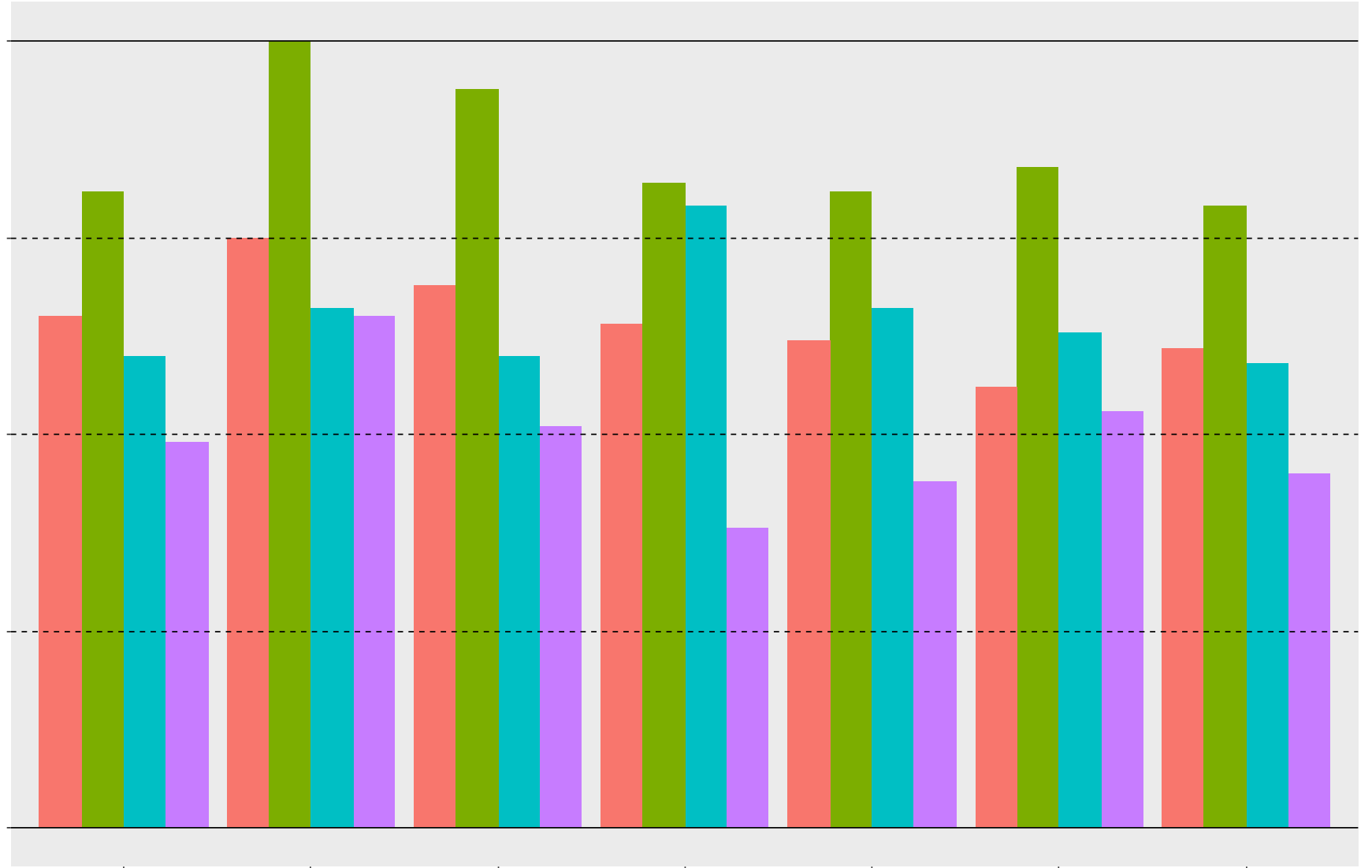
# Global Competitiveness Rankings

-  FINANCIAL SYSTEM
  - depth
  - stability
-  MARKET SIZE
  - GDP
  - Imports goods + services
-  BUSINESS DYNAMISM
  - Admin requirements
  - Entrepreneurial culture



# Global Competitiveness Rankings

- FINANCIAL SYSTEM
  - depth
  - stability
  
- MARKET SIZE
  - GDP
  - Imports goods + services
  
- BUSINESS DYNAMISM
  - Admin requirements
  - Entrepreneurial culture
  
- INNOVATION CAPABILITY
  - Interaction & diversity
  - R&D
  - Commercialization

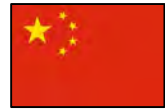


# The insurance sector



# Gross Written Premium by Country in 2018

USD billions (inflation-adjusted annual growth in parenthesis)



CHINA



575

(+1.8%)



INDIA



100

(+9.3%)



BRAZIL



73

(-3.5%)



MEXICO



27

(+3.3%)



RUSSIA



24

(+12.5%)



INDONESIA



20

(+2.9%)



TURKEY



10

(-1.5%)

# P&C and Life GWP as % of Total GWP, 2018



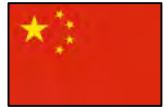
7-INDONESIA

24%



6-INDIA

26%



5-CHINA

45%



4-BRAZIL

46%



3-MEXICO

56%



2-RUSSIA

69%

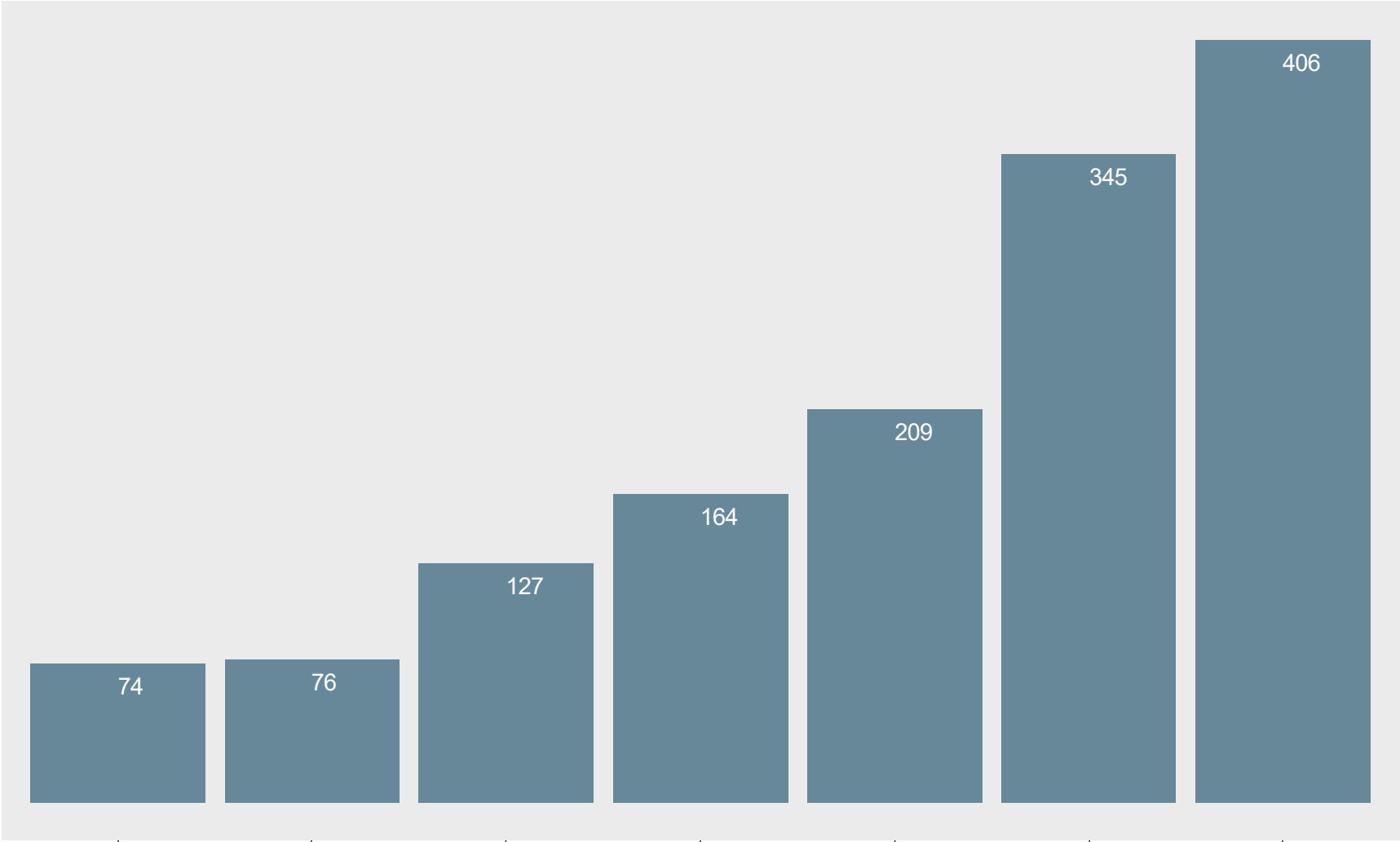


1-TURKEY

87%

class  
Life  
P&C

Insurance Density in 2018  
Gross Written Premiums in USD



INDIA

INDONESIA

TURKEY

RUSSIA

MEXICO

BRAZIL

CHINA

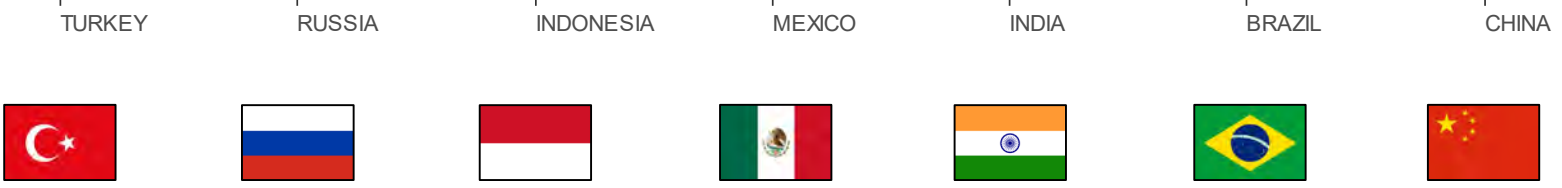
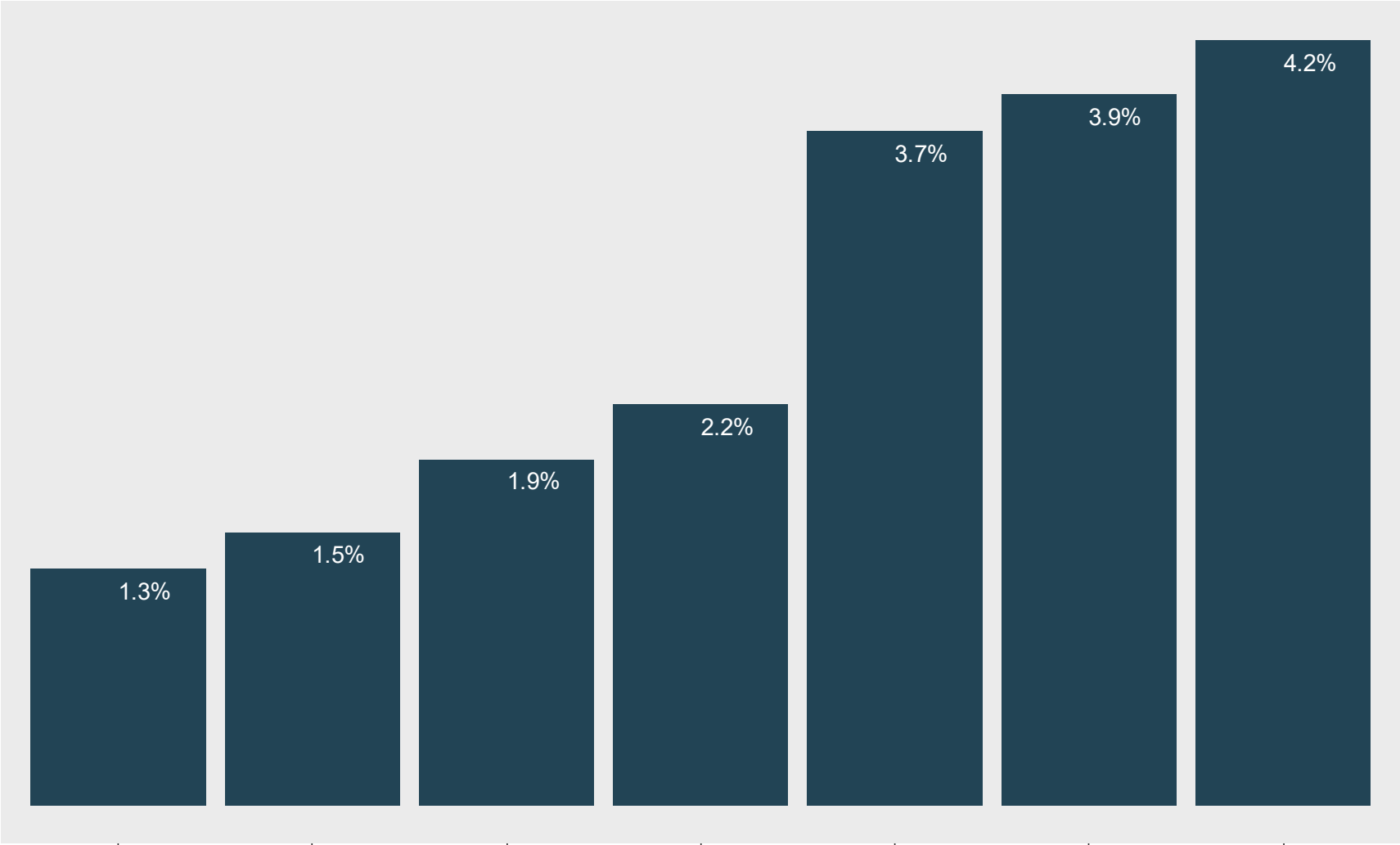


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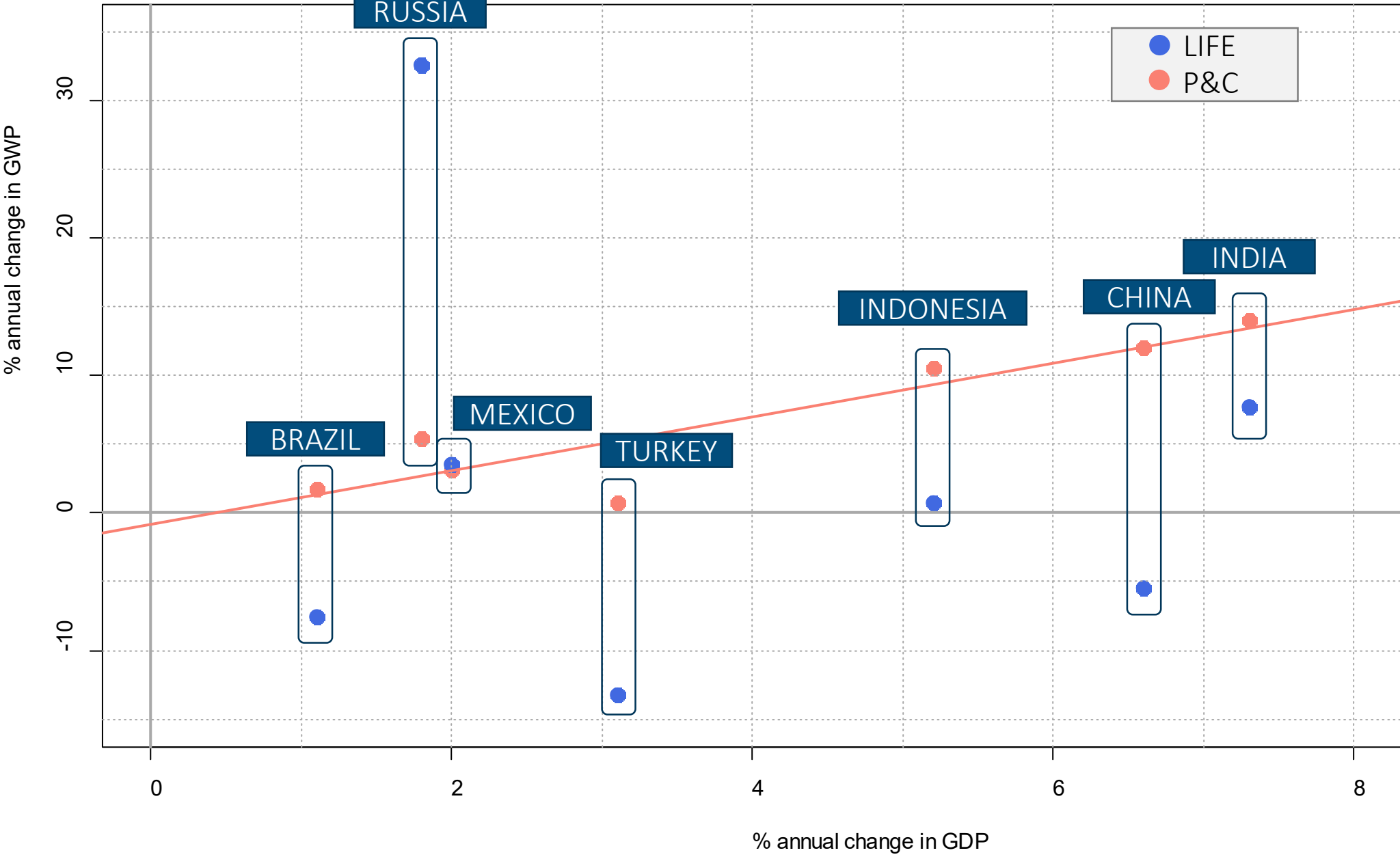
# Insurance Penetration in 2018

Gross Written Premiums as % of GDP



(


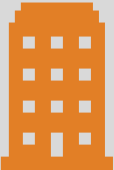



Real GDP Annual Change vs. Real GWP Annual Change,



# Why people don't buy insurance



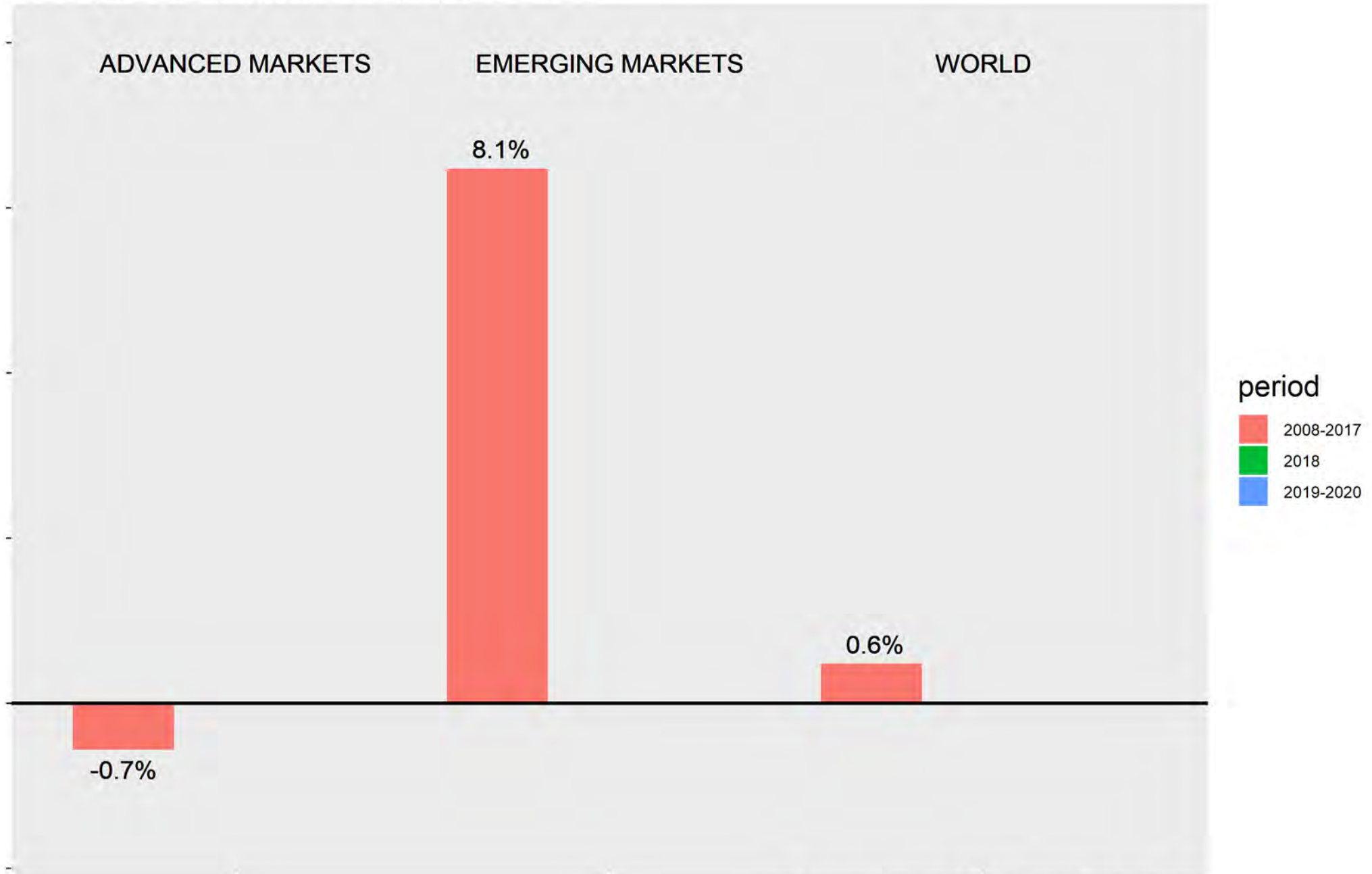
# Reasons people don't buy insurance in EM-7 countries

	High cost	Affordability is the primary reason for underinsurance, especially for low income consumers, but insurers cannot scale premium down due to high transaction costs
	Underdeveloped financial sectors	Insurance is highly dependent on well-functioning financial markets, credit drives the financing of insurance assets, and insurance is needed for collateral purposes, like mortgages
	Weak property right laws	Limited demand for property insurance
	Unenforceability of contracts	Corruption and political risk reduces demand due to the inherent uncertainty regarding the enforcement of policies – this is a prevalent theme in emerging markets
	Consumer behaviour	Limited financial literacy and misperceptions around the role of the state in natural catastrophes

# Real premium growth

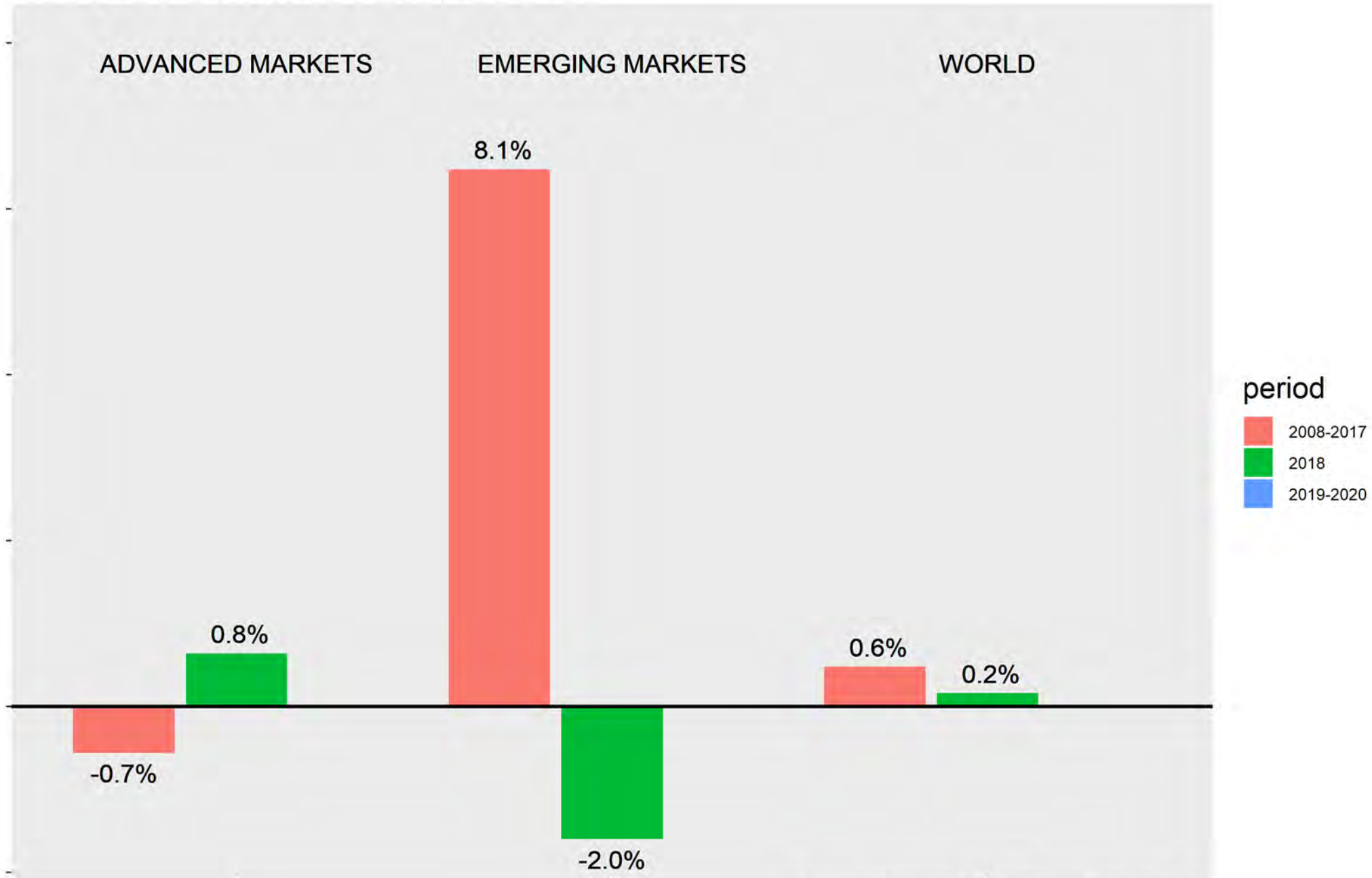


# Real premium growth: Life insurance



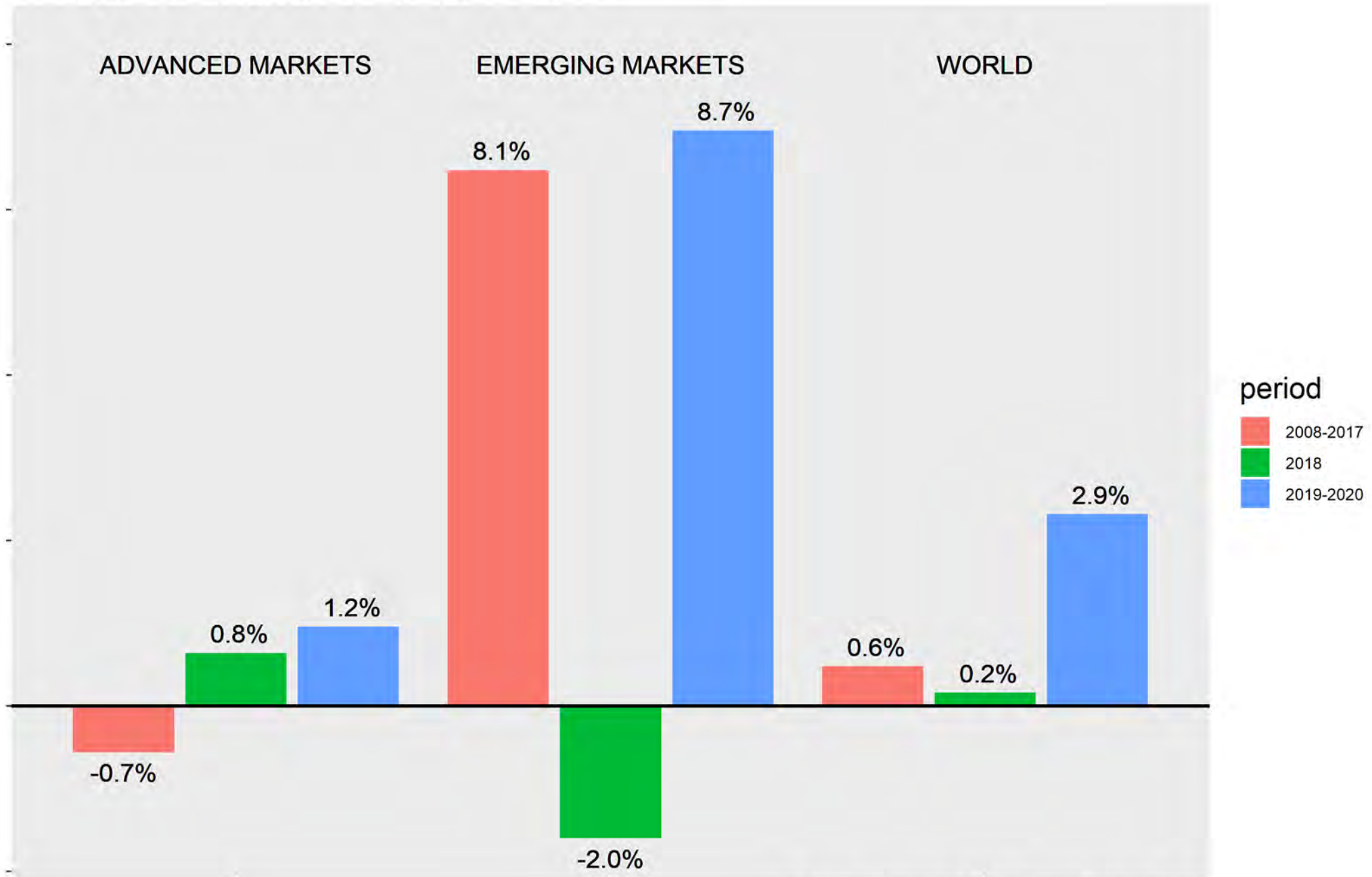
(Source: Sigma 3/19, Swiss Re Institute)

# Real premium growth: Life insurance



(Source: Sigma 3/19, Swiss Re Institute)

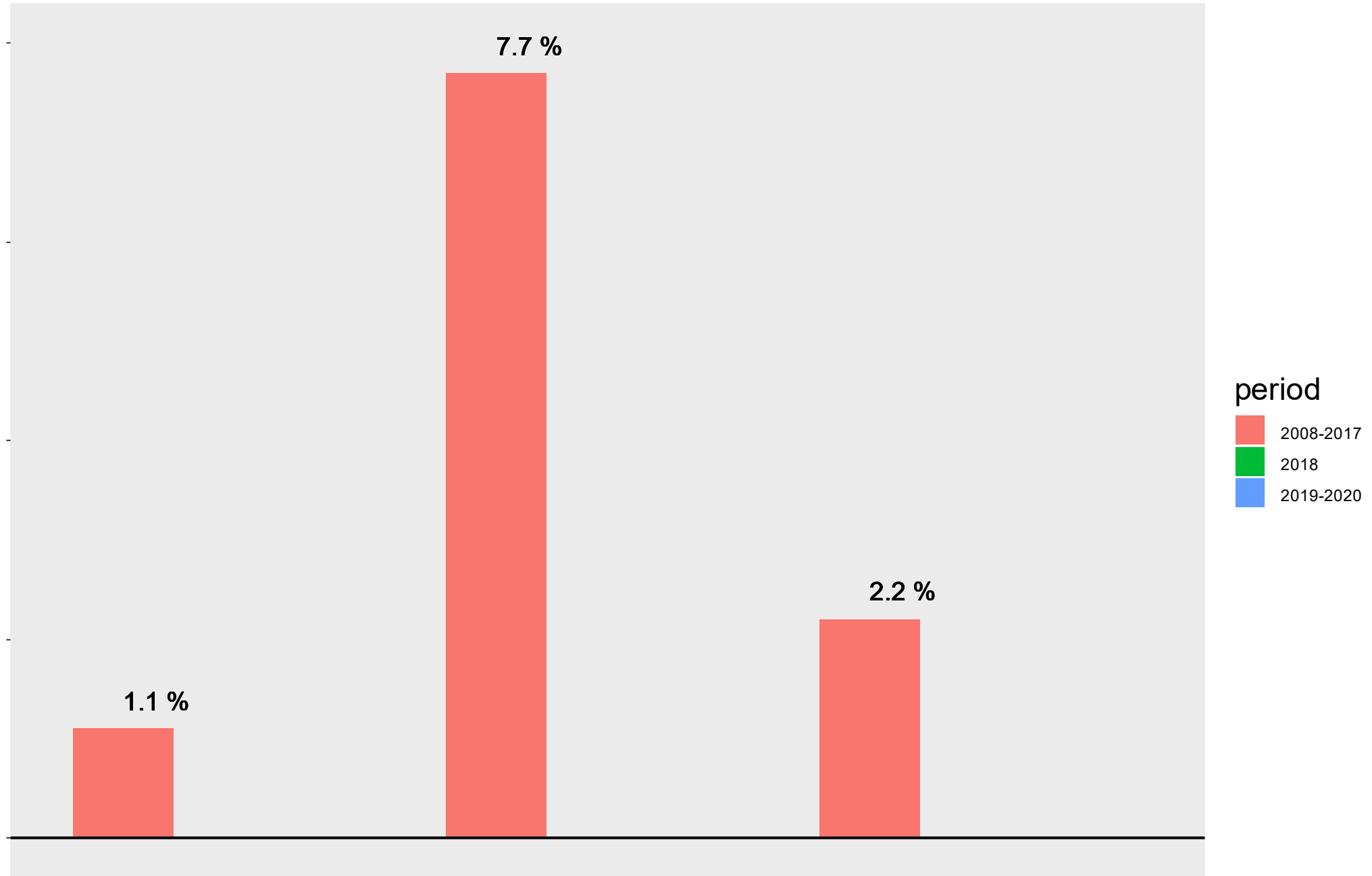
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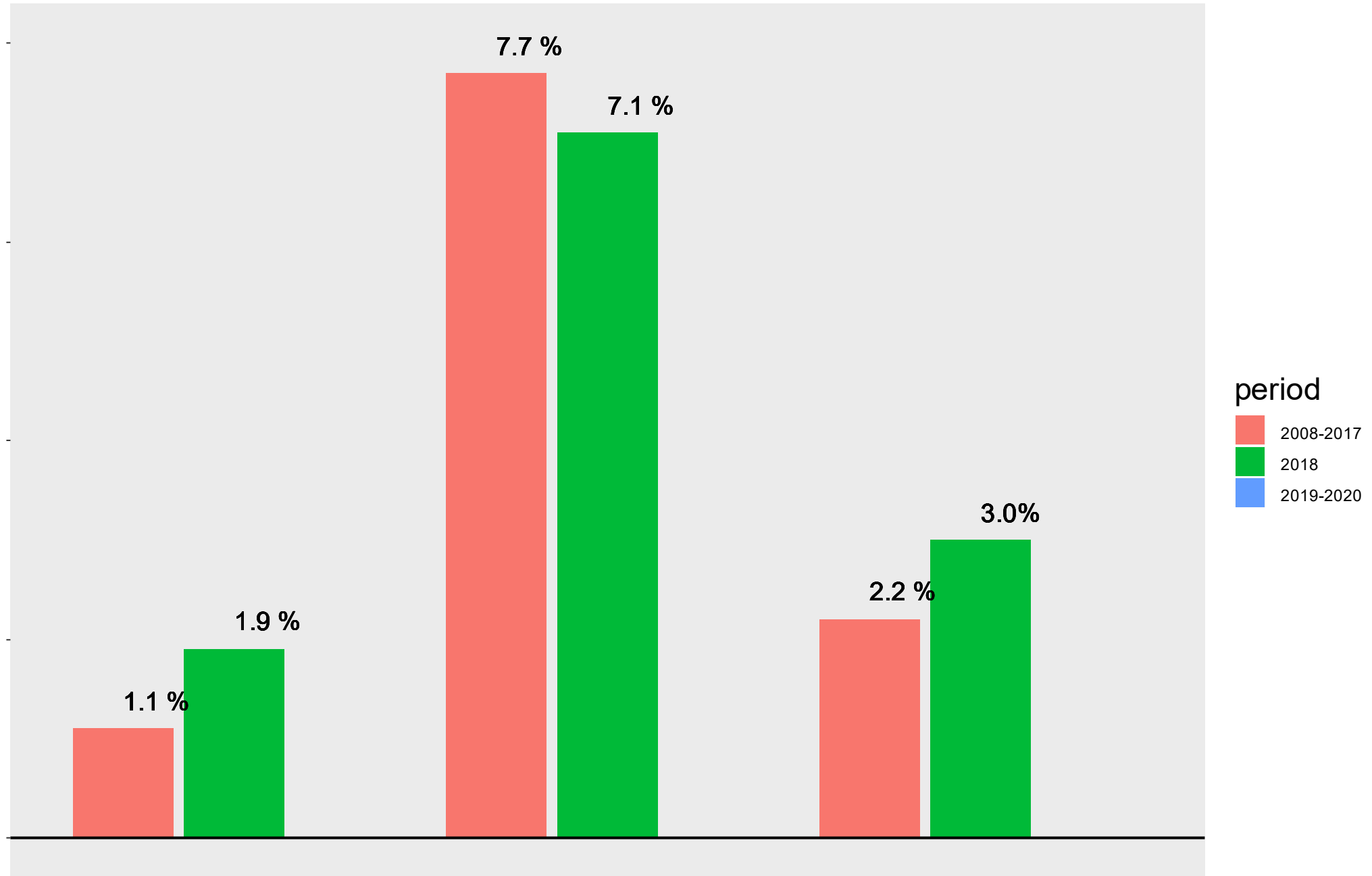
(Source: Sigma 3/19, Swiss Re Institute)



# Real premium growth: P&C insurance

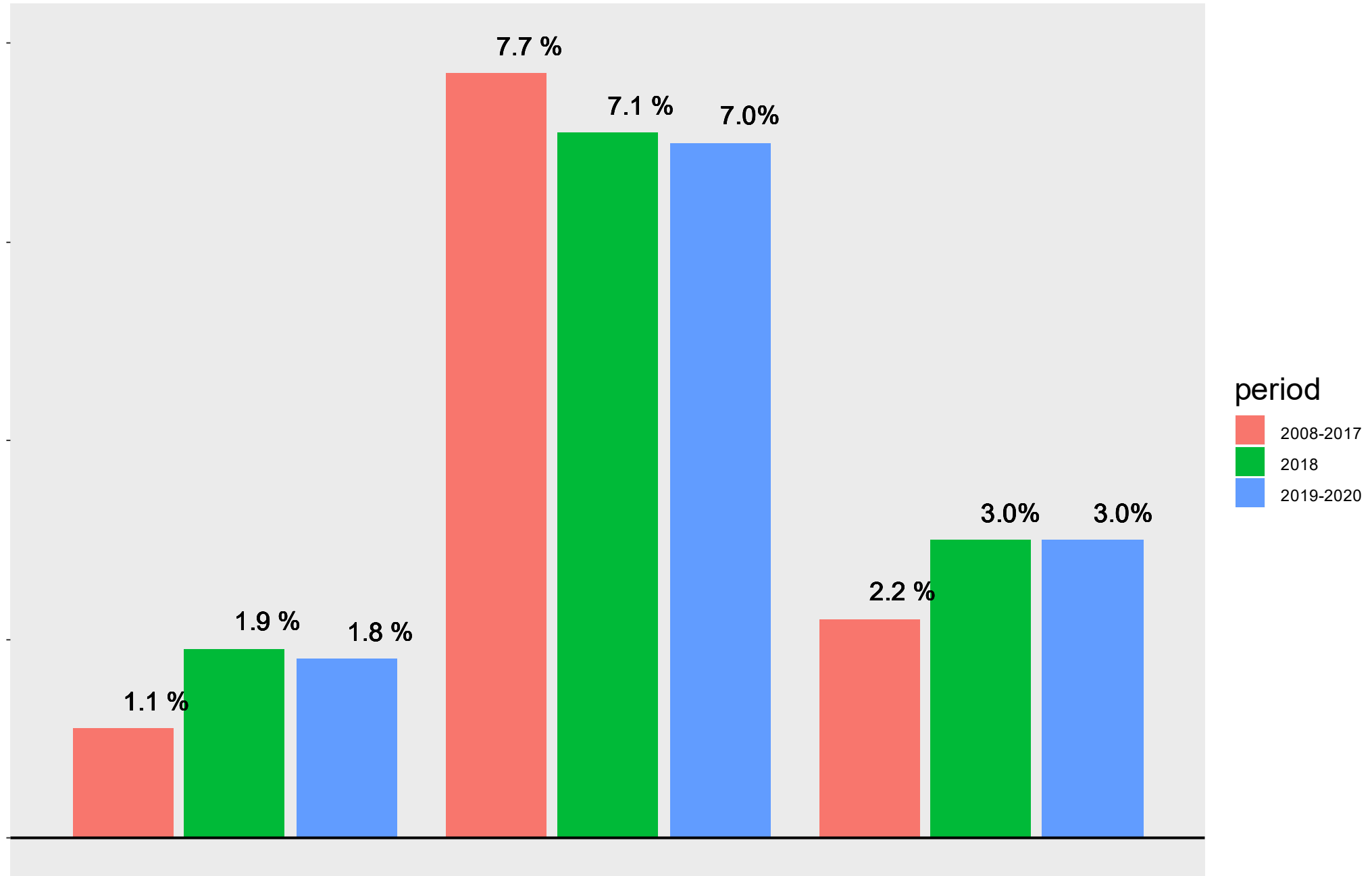


# Real premium growth: P&C insurance



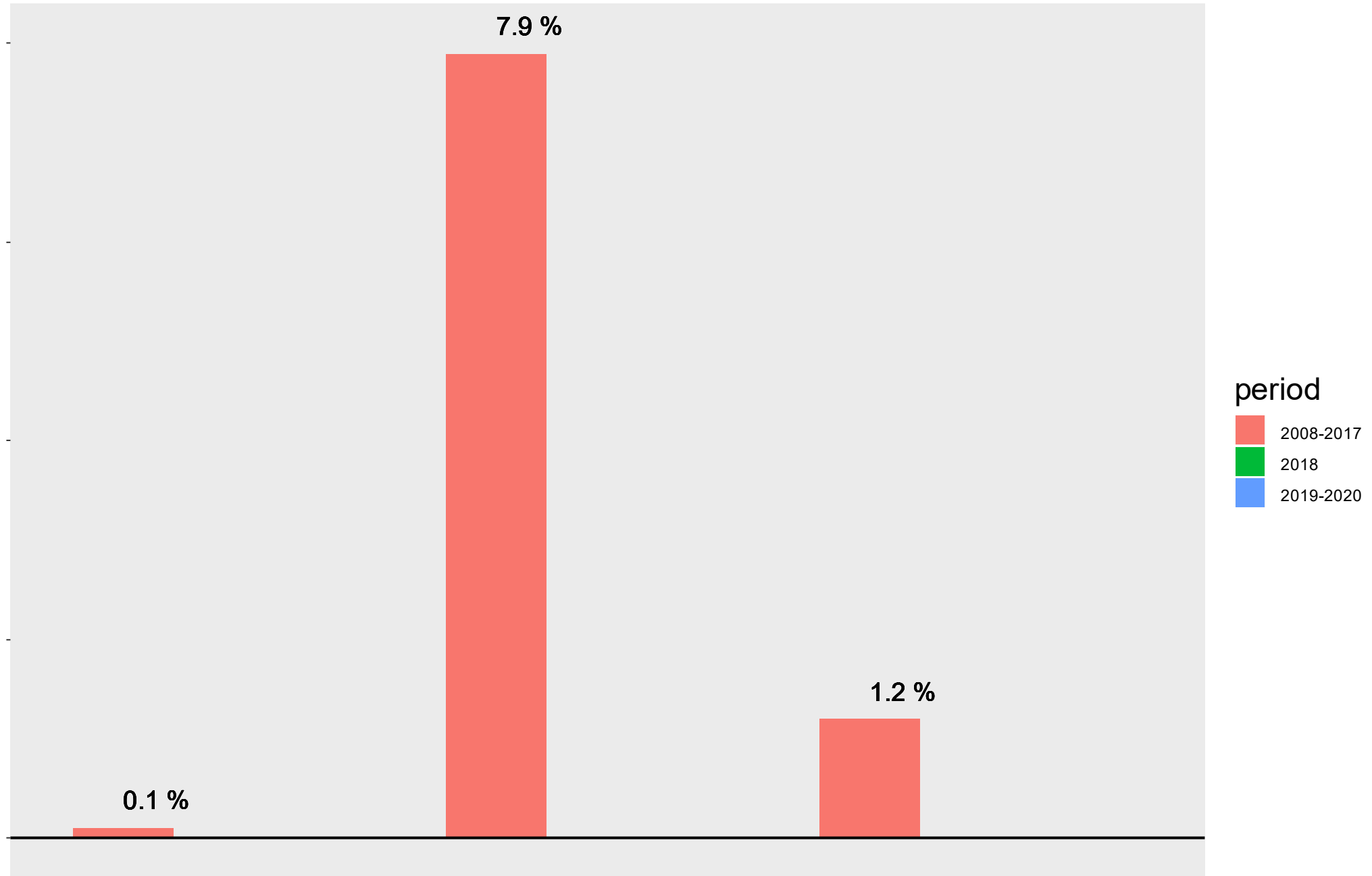
(Source: Sigma 3)

# Real premium growth: P&C insurance

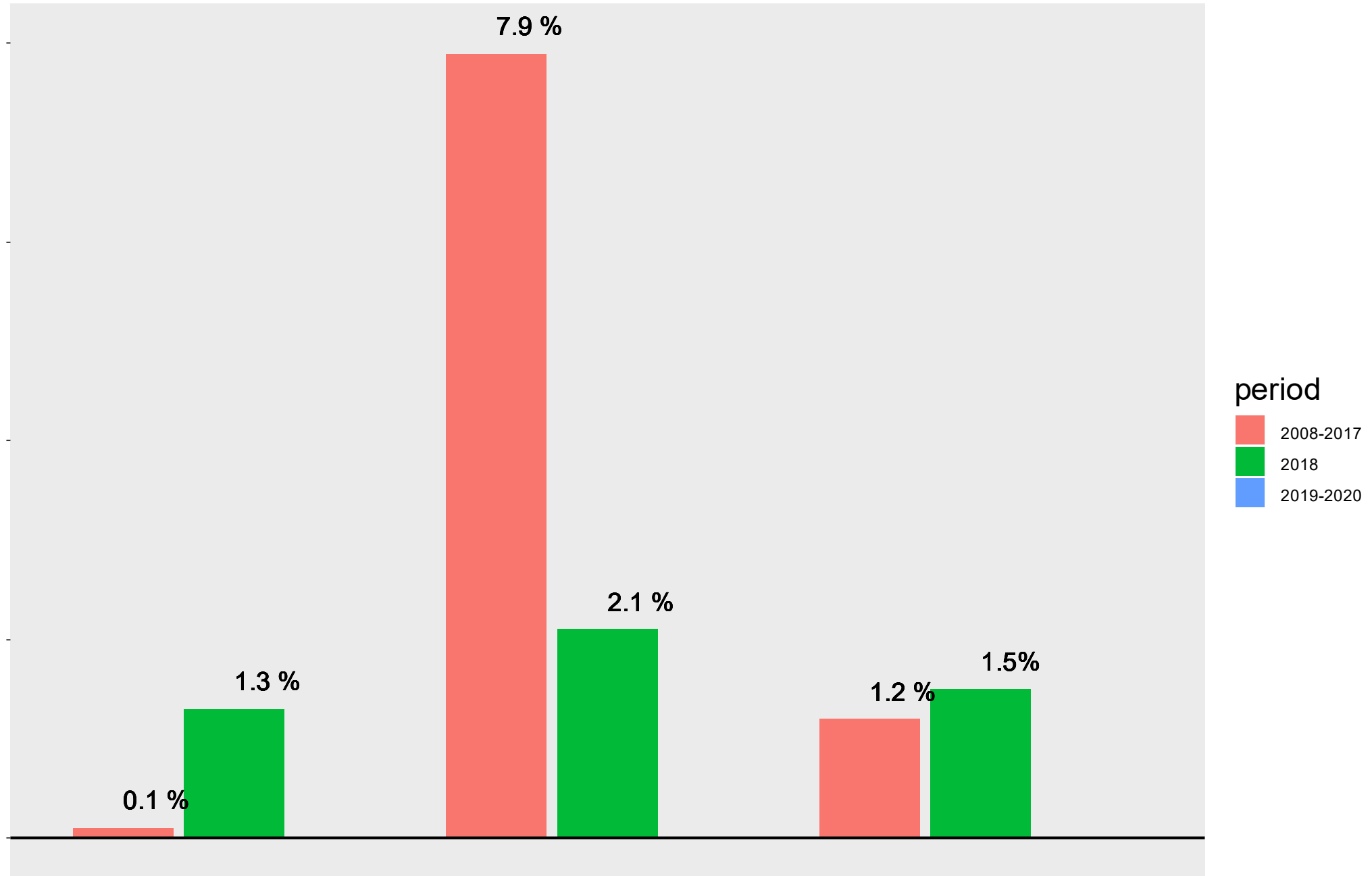


(Source: Sigma 3)

# Real premium growth: Life + P&C insurance

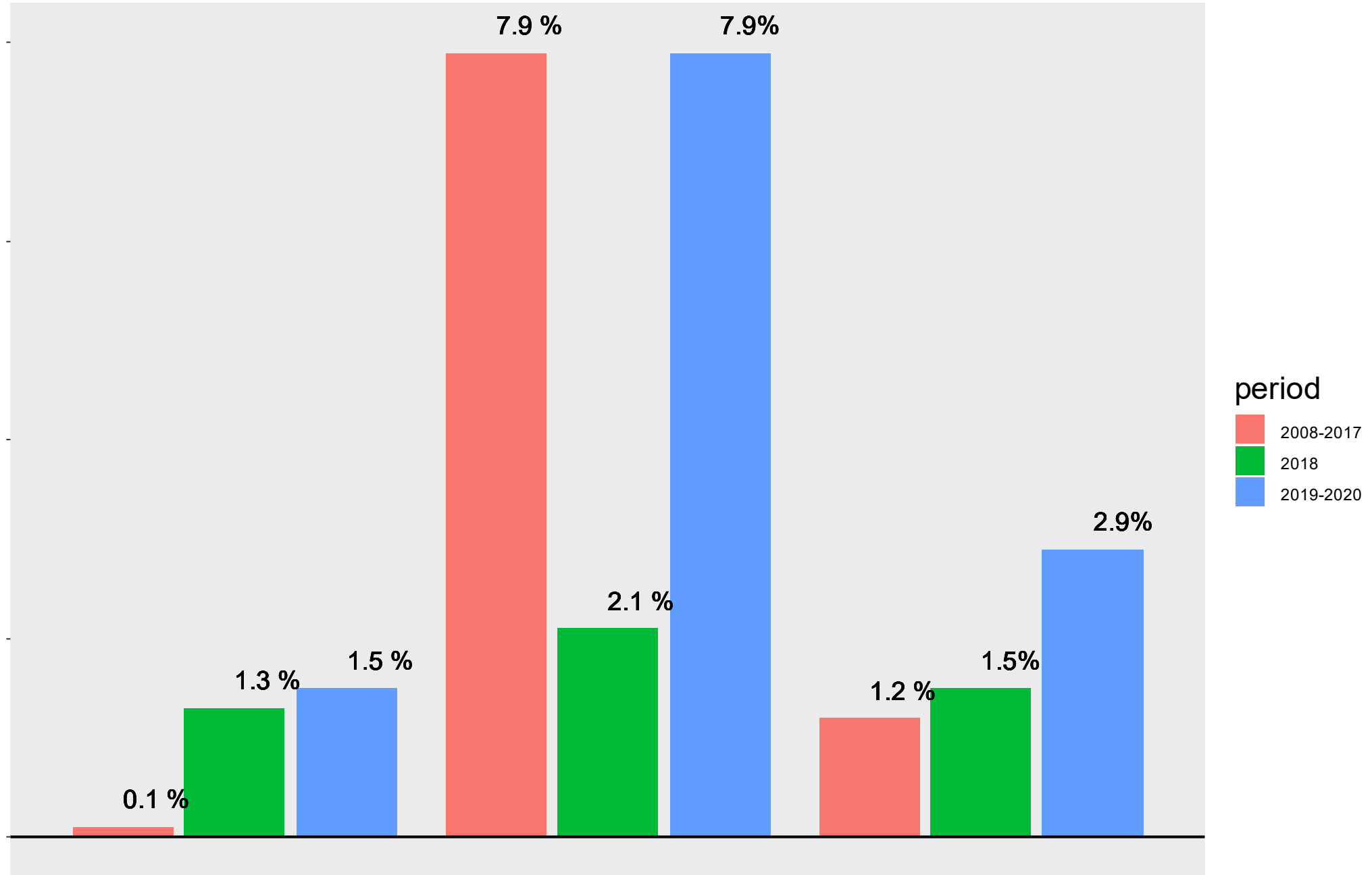


# Real premium growth: Life + P&C insurance



(Source: Sigma 3)

# Real premium growth: Life + P&C insurance



(Source: Sigma 3)

# Outlook for demand



# Outlook



**Brazil** 55% of the regional aggregate

---

## LIFE

- Weak demand for savings products (“VGBL”) in the last 2—3 years
  - Demand for mortality products expected to remain strong in 2019/20
- 

## P&C

- Weak economic growth impacted premium growth
  - Robust growth in voluntary auto insurance offset by a drop in compulsory auto insurance due to a decrease of regulated rates
  - Premium growth expected to return to the 3.5% historical level
-



# Outlook



**China** 11% of the world's market share

---

## LIFE

- Premiums contracted by 5.4% in 2018, after increasing by an average of 14% over the past 10 years
  - Tightening of regulation impacted short-term UL
  - Solid recovery is expected
- 

## P&C

- Premiums grew by 12% in 2018 – strong increase in A&H, agriculture, credit and TPL
  - 59 of 88 insurers reported underwriting losses
  - A&H, agriculture, credit and TPL expected to drive growth
  - Key line will be health, given the “Healthy China” initiative
-

# Outlook



**India** 11<sup>th</sup> largest market in the world

---

## LIFE

- Premiums increased by 9.3% last year
  - Government promotion of financial inclusive schemes is helping insurers to gain access to new customer segments, including the low-income population
- 

## P&C

- Strong economic growth spurred growth in premiums of 14% last year
  - Agriculture, TPL and health insurance expected to outperform other lines
-

# Outlook



**Indonesia** USD 76 annual per capita expenditure in insurance

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## LIFE

- Premiums increased by 0.7% in 2018
  - Like in India, government promotion of financial inclusive schemes is helping insurers to gain access to new customer segments, including the low-income population
- 

## P&C

- Premiums increased by 10.5% in 2018
  - Despite of exposure to natural catastrophes, only ~ 20% of losses are insured
  - US-China trade tensions may impact negatively export and trade
-

# Outlook



**Mexico** A USD 27 billion market

---

## LIFE

- Premiums grew by 3.5% despite the recent soft economic patch
  - Insurers stand to benefit from currently higher interest rates (10-yr gov't bonds pay 6.8%)
  - Government austerity measures likely to reduce premiums as life cover benefits for federal employees are scaled back
- 

## P&C

- Premiums grew by 3.1% in 2018, with a 6.4% boost from A&H business
  - Demand for health products is strengthening
  - The market hardened after the 2017 earthquakes
  - The still unratified USMCA trade deal continues to cloud the investment outlook, which delays foreign investment inflows and large scale projects
-

# Outlook



**Russia** Insurance penetration of 1.5%

---

## LIFE

- Premiums grew by 33% in 2018, with high demand for loans and mortgages
  - The Central Bank tightened rules on the sale of investment-linked and UL products, to bring more transparency
  - Outlook looks promising
- 

## P&C

- Premiums grew by 5.4% in 2018, driven mainly by the rise in car sales
  - Paid claims remained stable, and profitability improved significantly for P&C insurers
  - MTPL, liability and property lines expected to drive robust premium growth in 2019/20
-

# Outlook



**Turkey** A USD 10 billion market with very low penetration

---

## LIFE

- Premiums fell 13% in 2018 after two years of +20% growth, due to poor performance of credit-linked business, a key driver
  - Outlook clouded by expectations of economic slowdown
- 

## P&C

- Premiums grew by 0.7% in 2018, driven by a significant drop in car sales
  - Despite the near-term economic contraction, the insurance sector remains attractive in the long-run owing to energy, infrastructure and new projects undertaken or planned in line of the 2023 Vision
-



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# Session 141: Outlook for insurance demand in emerging markets

**TOM MAO, FSA, CERA**

October 29, 2019



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# SESSION 141 BRIDGING THE PROTECTION GAP IN EMERGING MARKETS

OCTOBER 29, 2019

Tom Mao, FSA, CERA

# Agenda

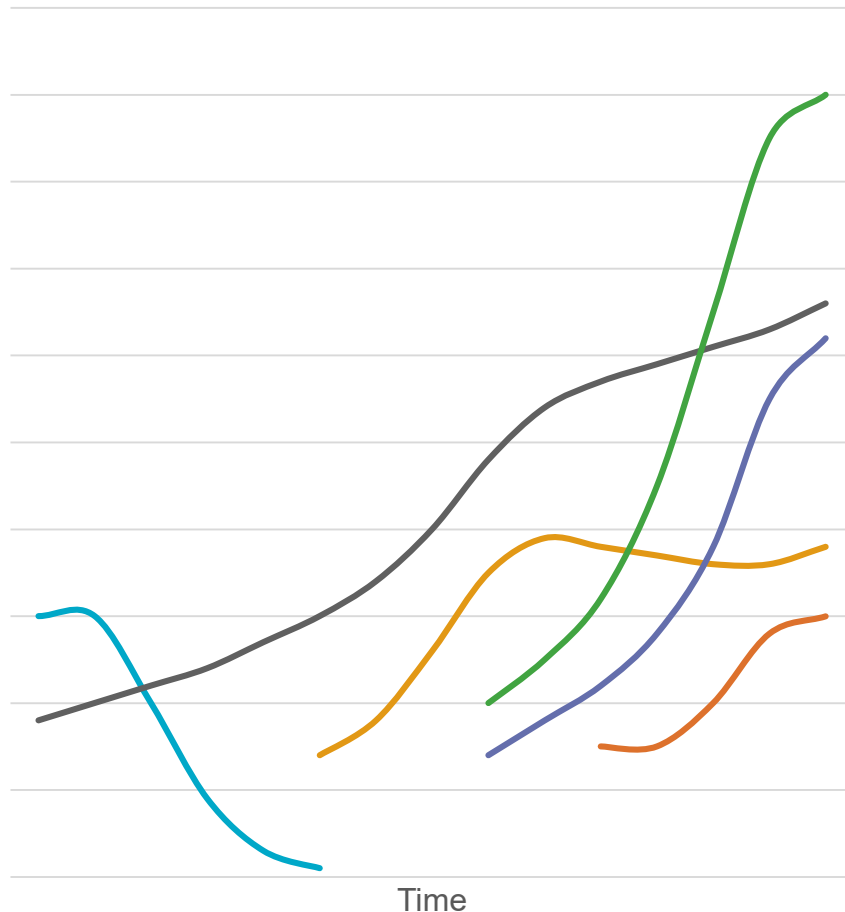
- 1 Business challenges and solutions**
- 2 Chinese insuretech market**
- 3 Chinese insuretech case studies**

# 1 | Business challenges and solutions

# The evolving ecosystem of distribution channels

Partnering with community organizations helped many providers launch into this market segment but the ecosystem has since evolved

Use of distribution channels over time



## COMMUNITY ORGANIZATIONS

Easier to attract and identify new customers through organizations that already interact with them



## MICROFINANCE INSTITUTIONS

Systems and expertise in managing financial operations, customer base and outreach networks, and the trust of their customers regarding money matters



## MOBILE NETWORK OPERATORS

Brand presence and provides mature payment systems for premiums and claims



## BANKS AND AGENT NETWORKS

Bancassurance has significant untapped potential for developing markets



## RETAILERS, UTILITY COMPANIES, AND GOVERNMENT

Contracts in new and unserved markets can help establish the infrastructure for further market growth



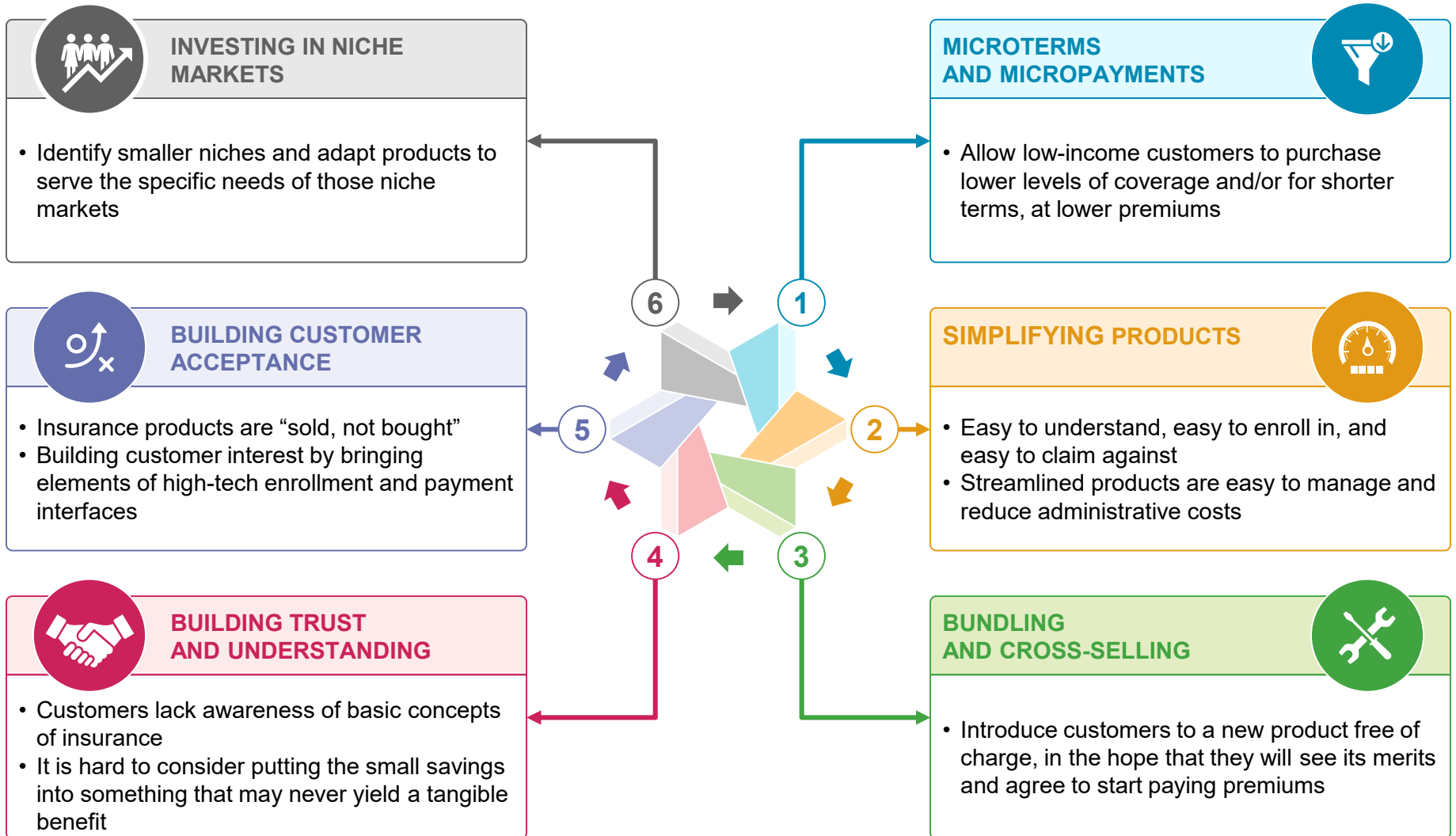
## WORKPLACES

Not a focus in emerging markets because fewer people in the target segment work for formal employers

Source: Center of Financial Inclusion at Accion and Institute of International Finance, "Inclusive Insurance: Closing The Protection Gap For Emerging Customers"

# Product design

Products must be designed with the needs of the segment and cost control in mind

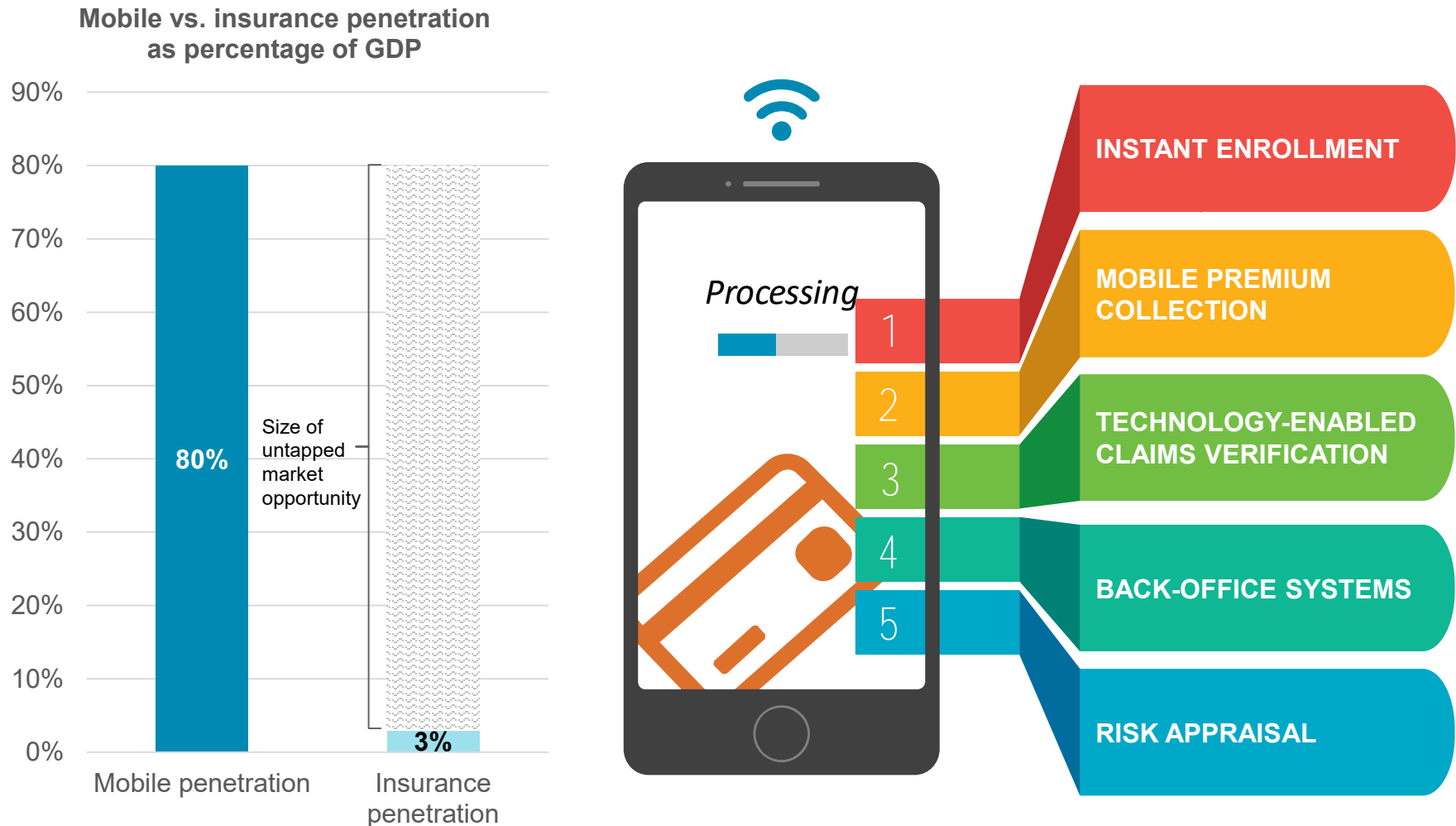


Source: Center of Financial Inclusion at Accion and Institute of International Finance, “Inclusive Insurance: Closing The Protection Gap For Emerging Customers”



# Technology

Providers are using technology to solve both front-end and back-end challenges

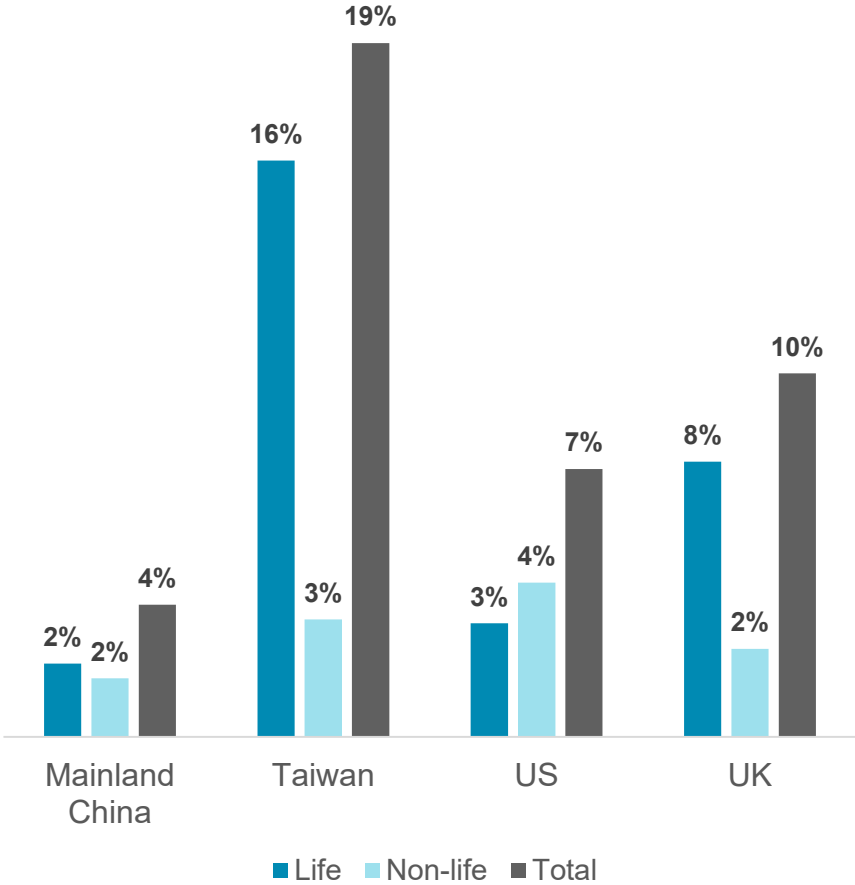


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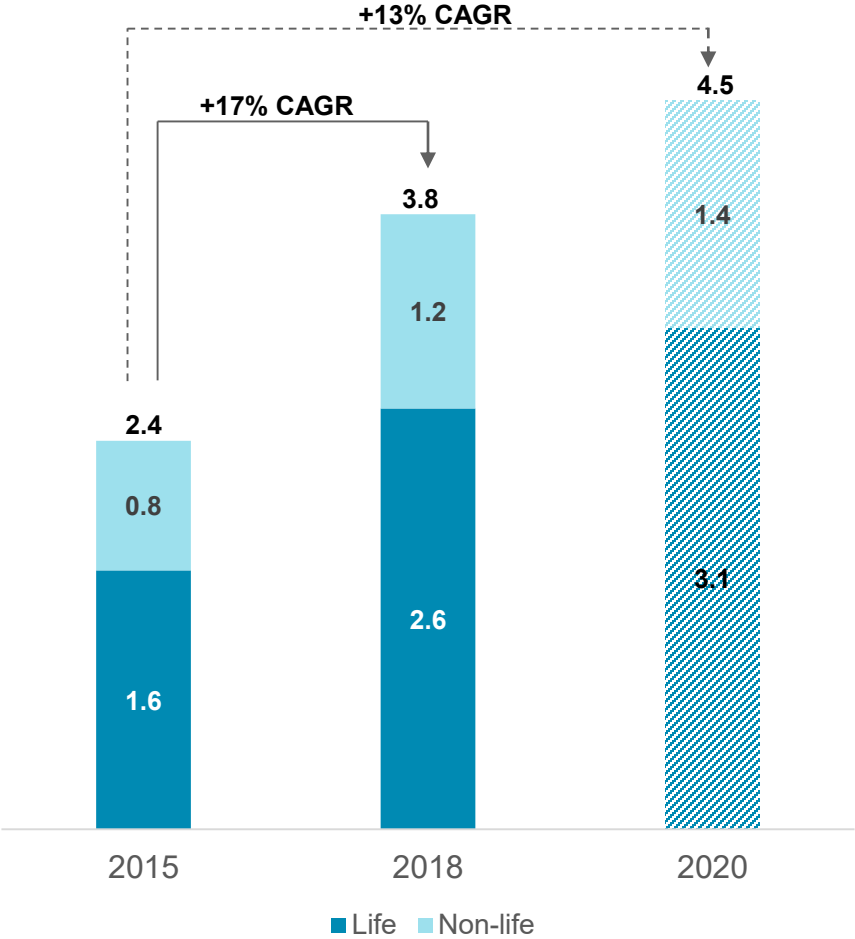
## 2 | Chinese insuretech market

# Chinese insurance market overview

Insurance penetration  
(Premium as percentage of GDP)

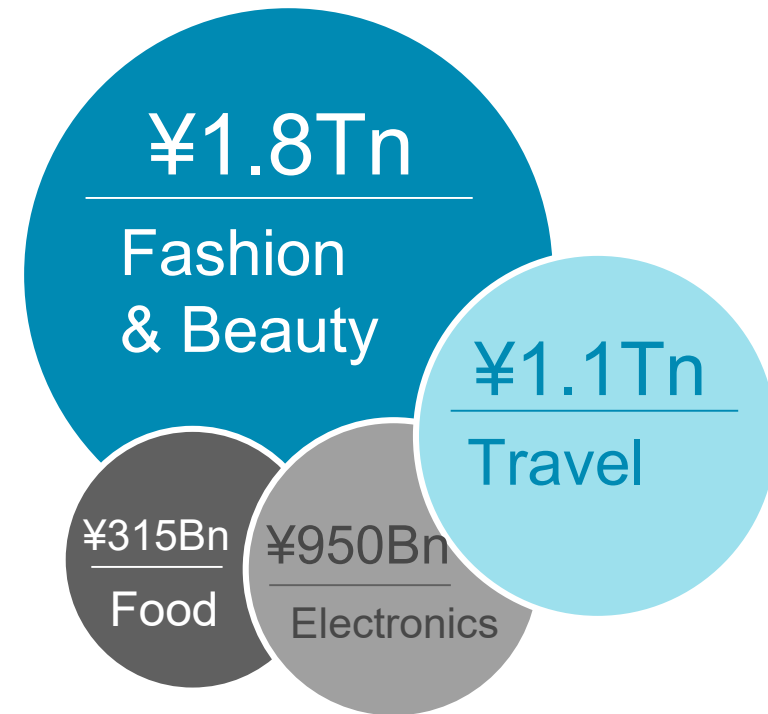
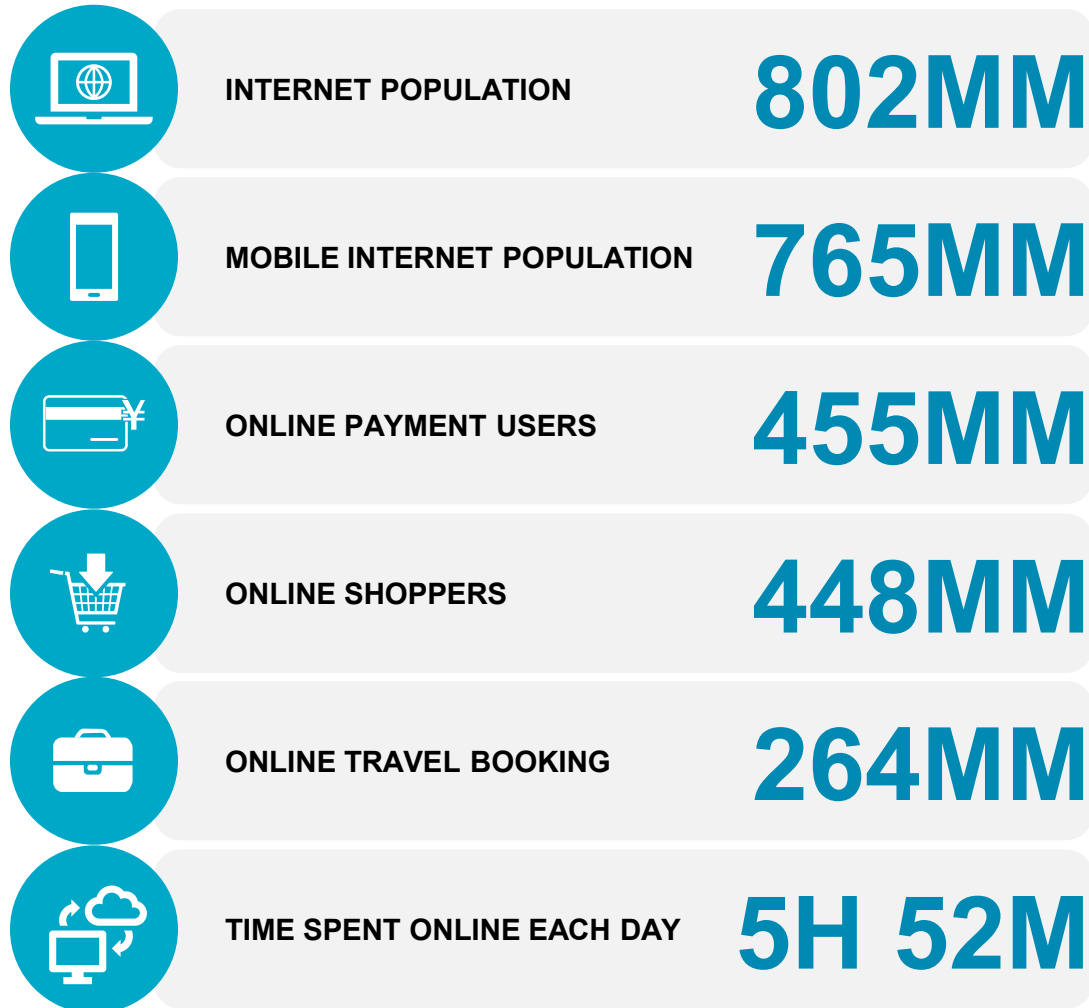


Total insurance premiums (¥Tn)



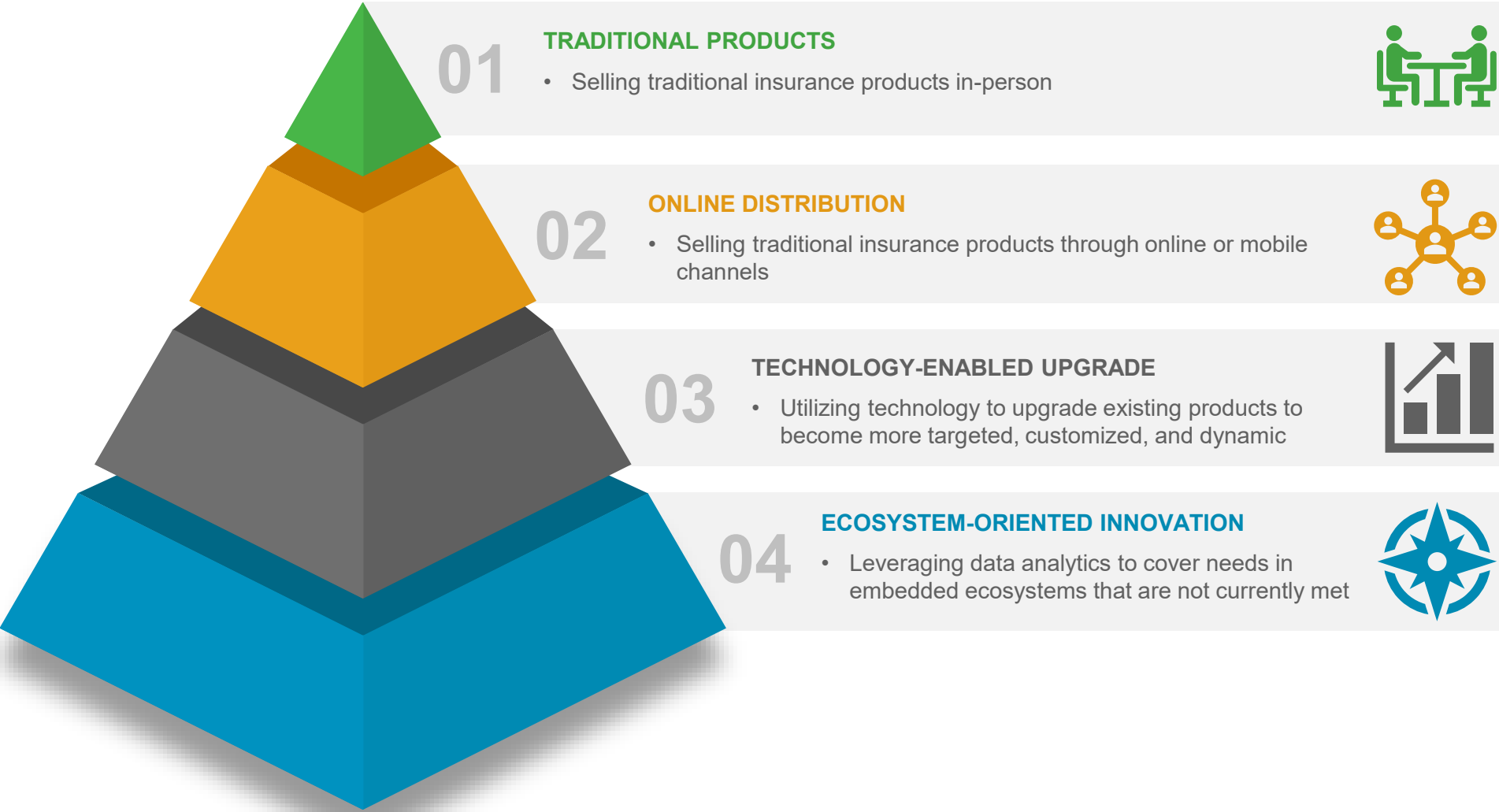
Source: Swiss Re Sigma, China Insurance Regulatory Commission, Oliver Wyman analysis

# Digital penetration



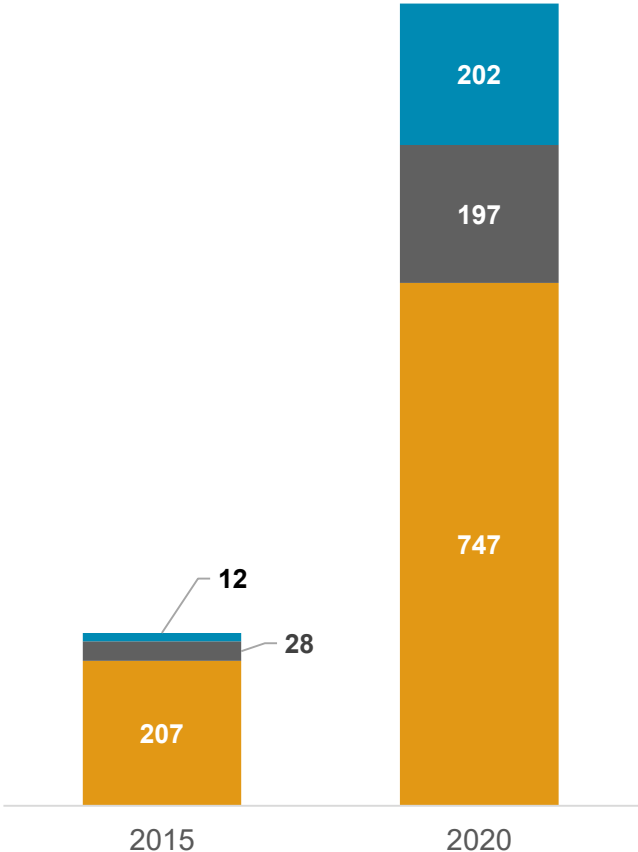
Source: Hootsuite and We Are Social, "Digital 2019 China"

# Market segments and opportunities



# Insuretech market forecast

Chinese insuretech market size (¥Bn)



Source: Oliver Wyman analysis



### ONLINE DISTRIBUTION

Within this segment, non-life products are expected to grow faster than life products



### TECHNOLOGY-ENABLED UPGRADE

Growth expected to be largely attributable to auto and health products from technological advances in areas such as telematics and precision medicine



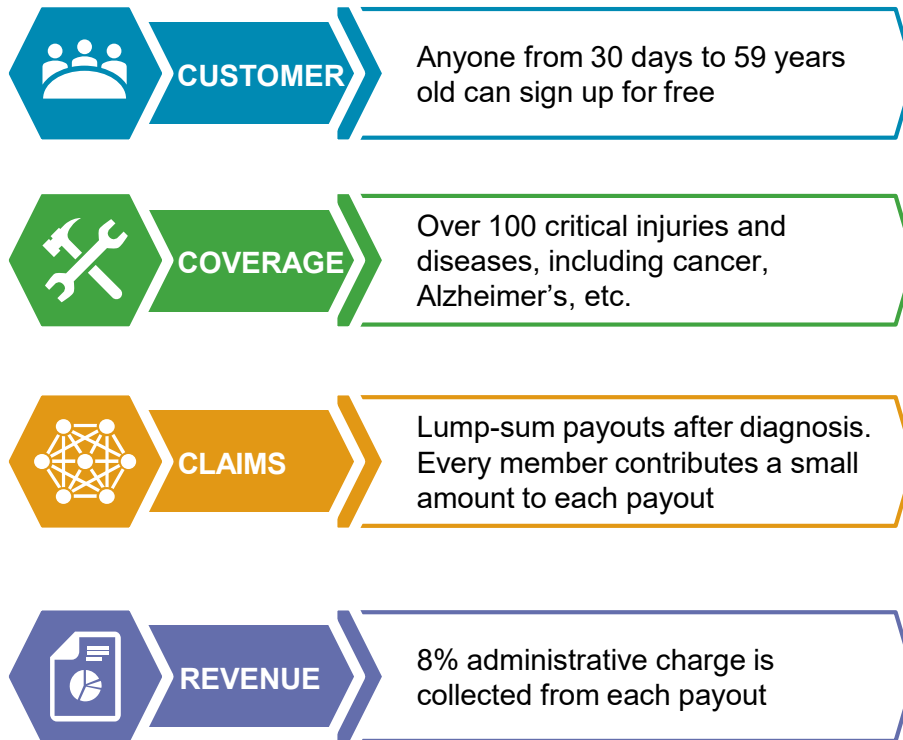
### ECOSYSTEM-ORIENTED INNOVATION

E-commerce and travel ecosystems are expected to be the main contributors in this segment due to their sheer market size and the growing consumer desire to insure against risks related to these ecosystems

## 3 | Chinese insuretech case studies

# Case study #1: Xiang Hu Bao crowdfunded healthcare

## PROCESS



## HIGHLIGHTS

- 1 PARTICIPATION**
  - The program has approximately 50MM participants with a goal of reaching 300MM participants over the next two years
- 2 CONTRIBUTION**
  - The first claim received a payout of ¥300,000, with each participant contributing ¥0.03
  - 18 additional payouts have been made since then and the latest per-participant contribution was about ¥0.01
- 3 CLASSIFICATION**
  - Not classified as an insurance product and is therefore sheltered from insurance regulations for the time being



# Case study #2: Taobao shipping return insurance

## PROCESS



## HIGHLIGHTS

- 1 DYNAMIC PRICING**
  - Insurance premium varies based on the historical return ratio of the buyer, the purchased product and store, as well as the purchase number, etc.
  - Average price is ¥0.4
- 2 SIMPLICITY**
  - Built into the product payment process, a single click is needed to complete the insurance purchase
- 3 INTERACTION WITH ECOSYSTEM**
  - Fully integrated with Taobao
  - Improves customer experience by reducing cost of return
    - Increased average sales revenue by 35%
    - Decreased the average dispute rate by 30%

Thank you for your attention





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