

# **INCLUSIVE AND SUSTAINABLE GROWTH OF THE INSURANCE INDUSTRY IN DEVELOPING COUNTRIES**

**BY  
AMARAKOON BANDARA**

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# Outline

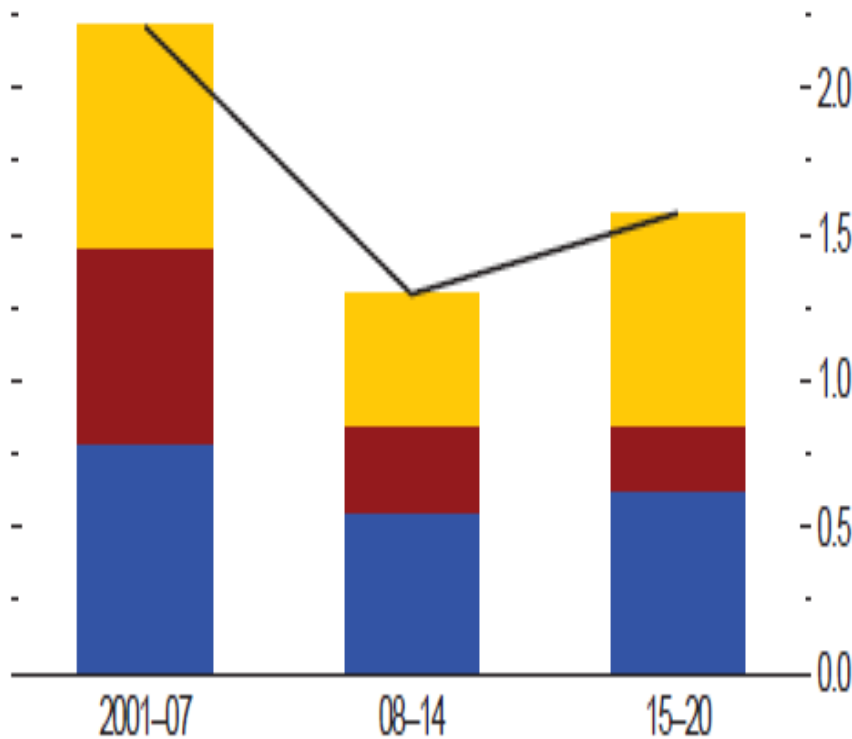
- Definitions of Inclusive and sustainable growth
- Status and trends in the global economy and the Insurance Industry
- Opportunities
- Challenges
- Recommendations

# Some Definitions

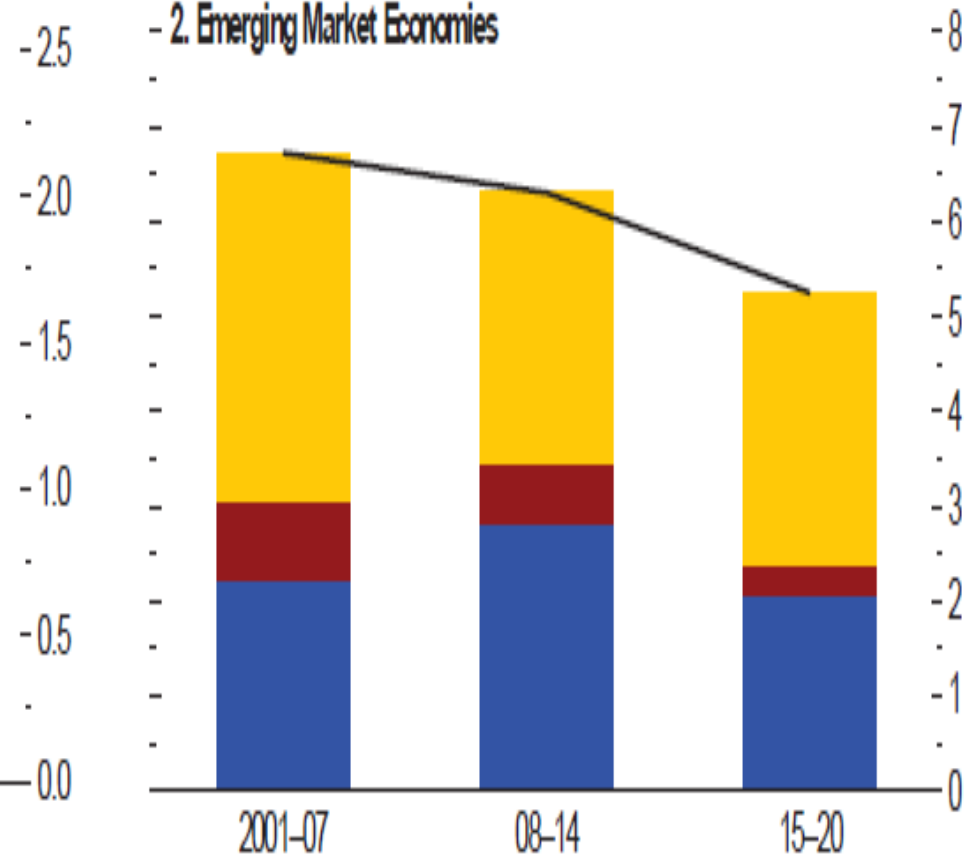
- **“Inclusive growth”:**
  - equitable opportunities for economic participants
  - benefits incurred by every section of society
- **“Sustainable growth”**
  - realistically attainable *growth* that a company could maintain without creating other significant economic problems, especially for future generations.

# Evolution of Potential Output Growth and its Components

1. Advanced Economies

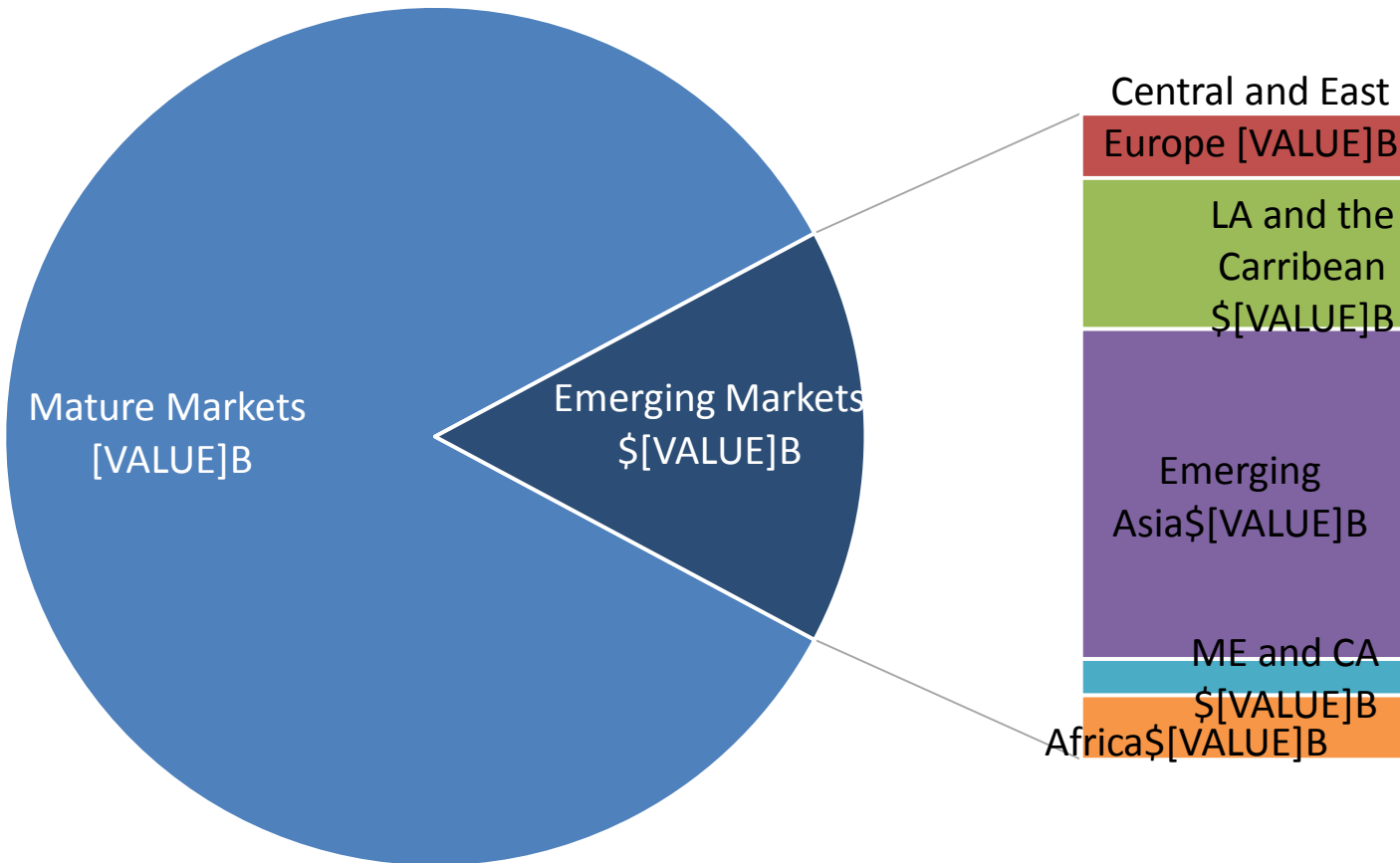


2. Emerging Market Economies



— Potential output growth  
■ Capital growth  
■ Potential employment growth  
■ Total factor productivity growth

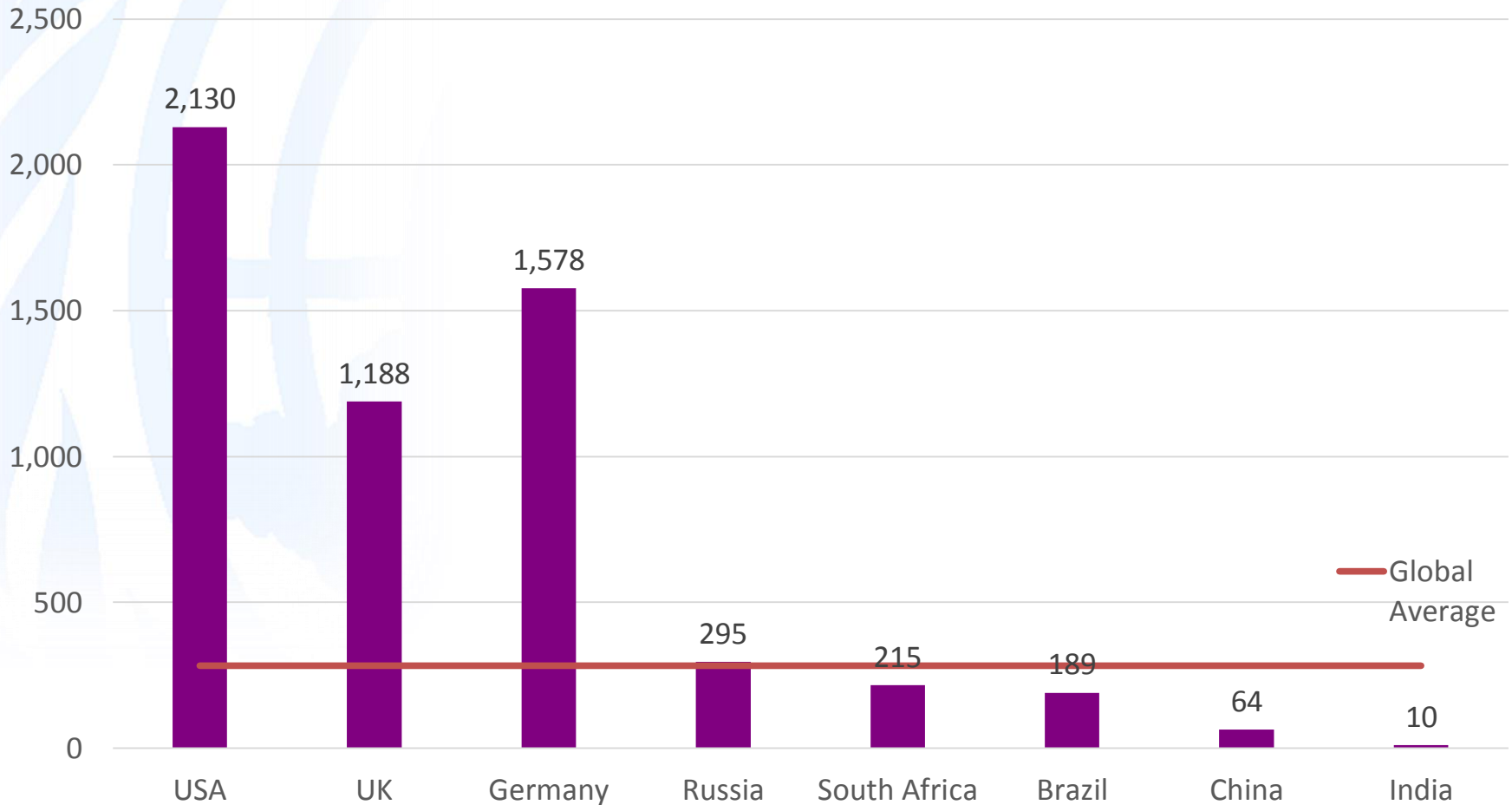
# Global Insurance Market



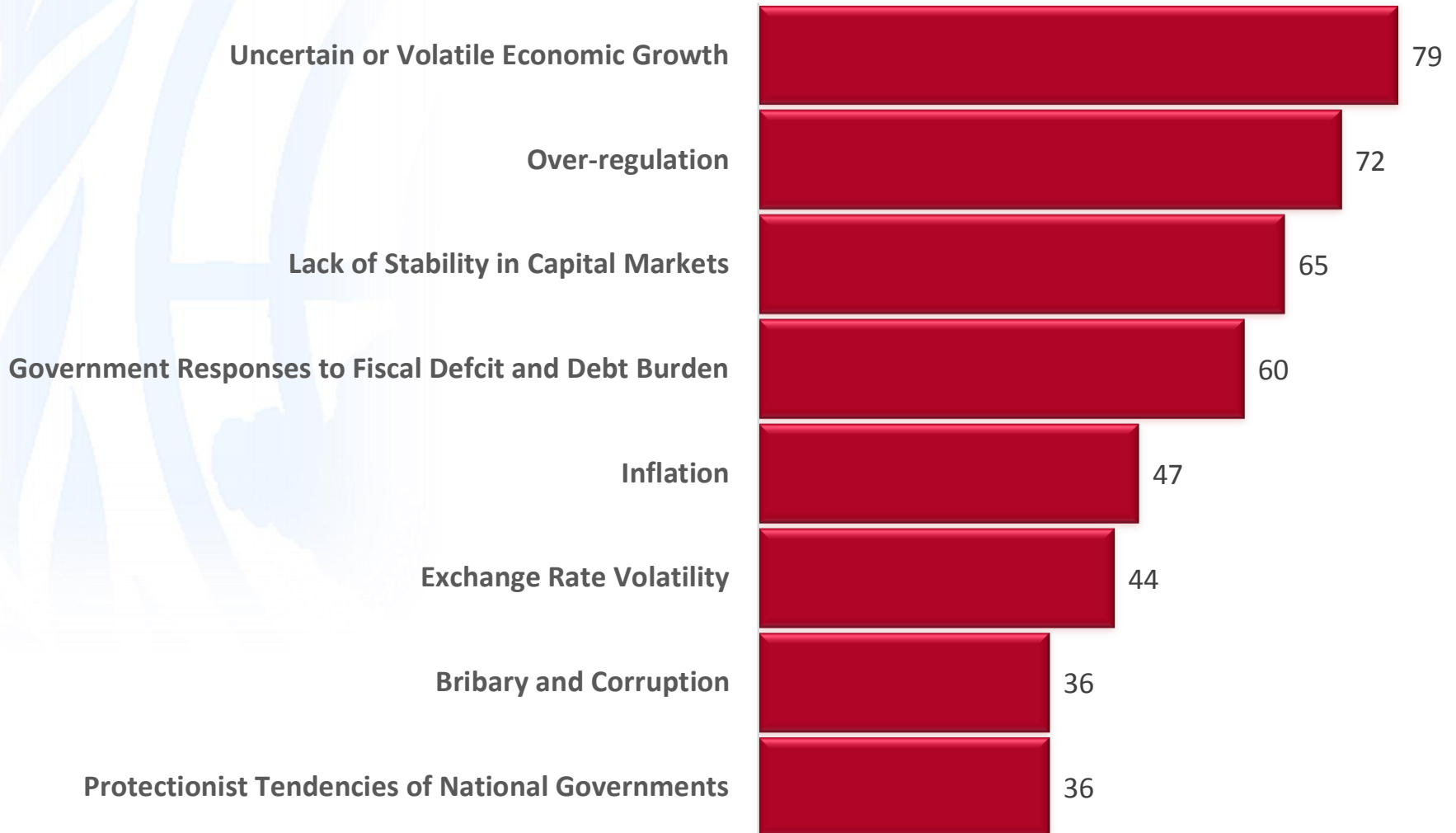
# General Insurance Penetration (premium as % of GDP)



# General Insurance Density (Ratio of premium (\$) to population)



# Threats to Growth of the Insurance Industry





# Opportunities for Inclusive and Sustainable growth of the Industry



## Four Milestones

- March 2015: The Sendai Framework for Disaster Risk Reduction 2015-2030- the 3rd UN World Conference on Disaster Risk Reduction in Sendai
  - succeeded the “Hyogo Framework for Action 2005-2015: Building the resilience of nations and communities to disasters”
- July 2015: The 3rd UN Conference on Financing for Development in Addis Ababa,
- September 2015: The UN Sustainable Development Goals in NY,
  - the Post-2015 Sustainable Development Agenda
- December 2015: The finalization of a new, universal climate agreement under the UN Framework Convention on Climate Change in Paris

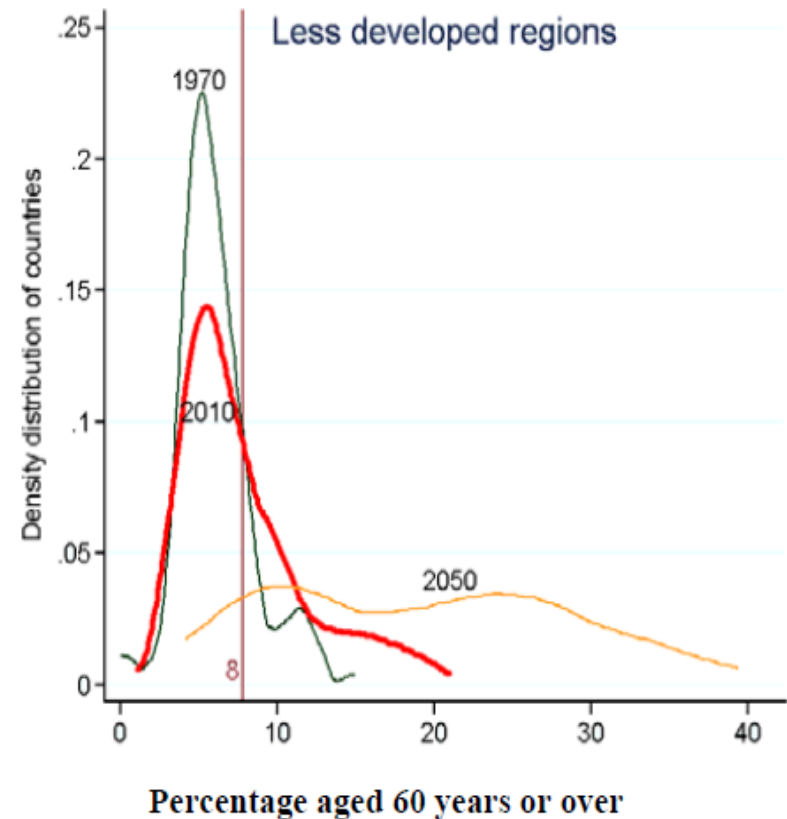
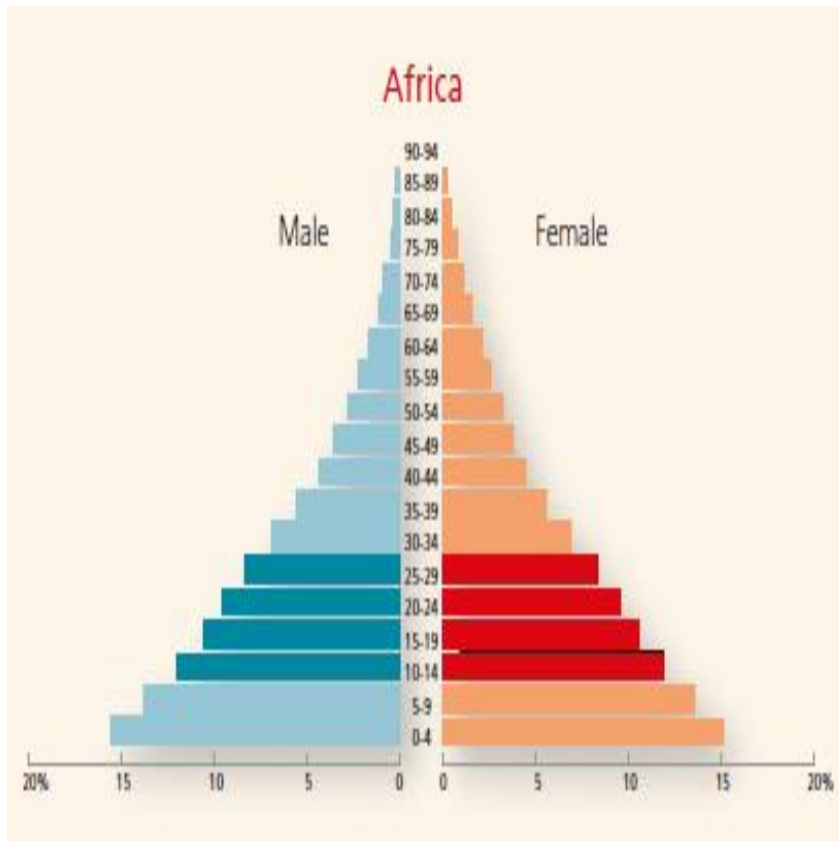
# Opportunities

## Insurance and the Addis Ababa Accord

- Incorporates a range of measures including increasing access to insurance products, support for financial inclusion, and the use of insurance to de-risk investments.
- Specific objectives for the role of insurance include:
  - Meeting longer-term financing needs through establishing long-term bond and insurance markets, including the provision of agricultural insurance
  - Strengthening insurance and investment guarantees to increase FDI flows, including financial and technical support and information on investment facilities and risk insurance and guarantees

# Opportunities

## Demographic Transition: Catering to Young and Ageing populations



# Challenges

- Access to insurance – in terms of product availability, distribution, and consumer engagement – remains a critical challenge across developing countries.
  
- Key barriers include:
  - low levels of financial literacy and engagement with financial services,
  - a lack of needed risk data,
  - perceived cost-ineffectiveness of products, and other regulatory barriers.

# Challenges



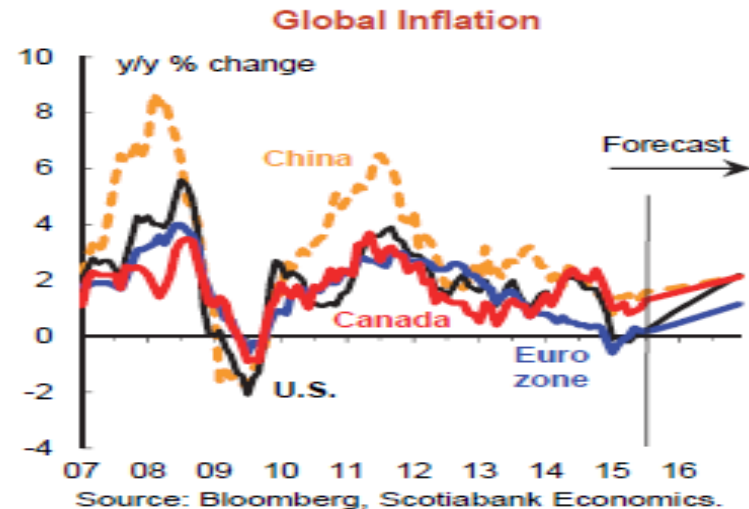
## Lack of control over some risks

- Many risks are beyond the control of insurers.
  - Some tend to opt out of the commercial insurance system (exiting markets) when risks are high and beyond their control.
  - Subsidized disaster insurance, coupled with disaster relief for those opting out, is a widely noted example to arrest this trend.
  - Properly conceived, this type of risk sharing is of benefit to all parties.

# Challenges

## Challenging macro environment

- Interest rates are going to be low for quite some time;
- Inflation will be low; and
- Volatility in financial markets will be high.



# Challenges

## Leaning into the wind

- How to develop the innovative solutions needed to help people manage an increasingly complex and uncertain environment?
- How to sell products in a way that satisfies the demands of increasingly informed, empowered and technologically-enabled consumers?

# Recommendations:

## Be a Proactive Player in the SD Agenda

- Beyond providing financial resilience, insurance acts as an enabler of solutions that can drive social and environmental sustainability.
- Through investment, insurers can support sustainable development through capital allocation to long-term investments that reflect underwriting liability timeframes
- Insurers can materially engage in inclusive growth in several ways:
  - by helping spread the costs;
  - offering innovative risk management products and services;
  - providing influential input to the public policy processes; and
  - directly investing some of their substantial assets in inclusive growth projects and providing risk management tools for other investors.



# Exploit Current Macro Conditions

- Current environment of low interest rates
  - Slow growth in industrialized countries (which could also lead to partnerships)
  - The acute infrastructure investment gaps in low-carbon energy systems, in developing countries
- Give an ideal “playing field” for insurers.

- Efficiency could play an important role in exploiting such conditions to its advantage

# Increase Insurance Penetration



- Help strengthen:
  - Overall financial awareness,
  - Understanding of general insurance products,
  - Perceived benefits, and
  - Promote propensity to purchase insurance based on proactive drivers such as economic and social uncertainties, risk transfer and management
- More need to be done on access to affordable insurance and risk-based pricing
- Partner with crowd funding initiatives,
- Generate demand for micro insurance through building awareness , creating specific and simple products, and above all, by simplifying the processes of underwriting and claim management

# Promote Industry led Innovation



- Identify innovations with high-potential for scale-up;
- Leverage technology to benefit from the changes in the regulatory structure
- Focus on actions which will not just contribute to economic prosperity, social inclusion and environmental regeneration, but also bringing in multiple co-benefits of enhanced consumer trust, and adaptation to evolving market environments.

# Create Space in a Changing Socio-Economic Landscape



- Ageing populations will greatly increase the burden on health systems and health-related claims, and will require access to new products and services.
- The negative environmental quality outcomes on health and Non-Communicable Diseases (NCDs) are key insurance challenges in major economies with rapidly developing middle classes.

# Strengthen Accountability, Trust, and Reputation



- Financial services, which includes banks and insurers, are considered the least trusted global industry, posing challenges for insurers, banks and the broader financial sector.
- Increasing a base level of public trust in the insurance industry is a critical priority.
  - Increasing transparency and accountability within firms, across insurance products and operations, including investment, is a necessary first step towards this goal.

# Thank You!