Insurance Market Development: DFID/ World Bank Program

1. Why is insurance important for sustainable economic development?

Insurance is increasingly recognized as an important tool to support development. Insurance can protect low income families and micro, small and medium enterprises (MSMEs) against losing their livelihoods and assets due to shocks like natural disasters, life cycle events or sudden illness thus preventing them from falling back into cyclical poverty. Insurance can also help mobilize long-term domestic savings for finance of infrastructure and housing and contribute to capital market development. Insurance also sustains the efforts of other policy agendas such as food security, agricultural protection or private sector development.

2. Insurance Market Development

Insurance markets take time to develop in size and sophistication. Their reliance on a niche skill set (actuarial, asset managers, sales, management) and additional regulations can push insurance market development down the list of priorities of governments and donors alike.

Historically, insurance markets have developed in a cubic fashion (s-curve),[1] with markets slow to develop at the outset, followed by a rapid growth phase, before tapering off as more niche markets are explored (figure 1). Crudely speaking there are four categories[2]:

i. **Nascent**: low income countries with a small but growing middle class. Financial markets are growing but lack sophistication. Regulations are patchy and there is a lack of capacity forimplementing them.

ii. **Emerging:** low/lower-middle income countries with a growing middle class. Commitment to financial sector deepening and implementation of regulations and investment climate reform, although capacity may still be weak – particularly to tackle new and developing products or distribution channels.

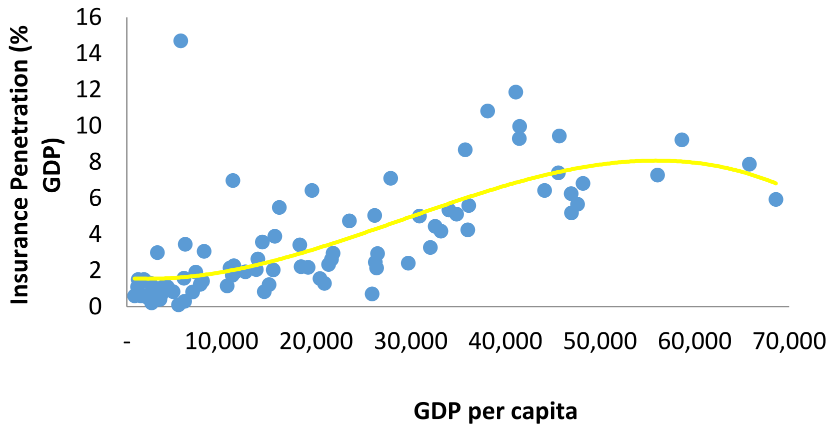
iii. **Fragmented:** lower/middle income countries with a significant middle class and a growing population in formal employment. Insurance penetration is likely to still be low, despite a vibrant, if fragmented domestic insurance market.

iv. **Advanced:** middle to high income countries with a sophisticated insurance market that is looking for new ways to (i) design products; (ii) identify the risks people are facing (iii) integrate InsurTech and (iv) invest their business model in other countries.

[1] See Enz, R., (2000). 'The S-Curve Relation Between Per-Capita Income and Insurance Penetration', Geneva Papers on Risk and Insurance 01.07.2000/ No.3/ Vol.25/Page 396-406

[2] See Cenfri, Insurance Market Development for an overview of their findings on countries that fall under the different stages.

Figure 1. Insurance market development – an "s-curve"



Source: insurance penetration data, Swiss Re, GDP per capita, World Development Indicators

In practice, these stylised groups hide a more nuanced view of what is happening on the ground. Pockets of dynamism can co-exist in a weak regulatory environment; promising market potential and leading market drivers (increasing income levels) can be undermined by weak consumer protection.

There is growing consensus that the future evolution of insurance markets is changing. Insurance markets today are unlikely to replicate more advanced markets of yesterday. Data and technology are fundamentally changing the way insurance companies operate and how consumers interact with financial products. Developing countries have the opportunity of (i) leapfrogging previous insurance market development stages, and (ii) putting in place modern infrastructure and regulations that are fit for purpose, rather than retro-fitting for a more modern approach to insurance.

3. Why are markets not developing?

Insurance markets in many emerging economies remain stubbornly small and are getting stuck at various points on the evolutionary cycle. 2.5 billion people and MSMEs are underinsured or excluded and the vast majority of insurable risks as not covered. There is a large potential economic impact from building insurance markets in terms of jobs and insurance companies building reserves which they can invest.

Identifying barriers to market development is country specific and to understand properly requires deep dive diagnostics. That said, several main themes emerge (table 1):

1. ***Regulatory –*** the legal and regulatory framework covering the insurance sector in many developing markets is weak, allowing consumers to be treated poorly and unsustainable insurance firms to operate. This prevents trust and confidence in the industry which is needed for markets to grow. On the other hand, sometime inappropriate regulations can be imposed which prevents healthy market development. In addition, insurance markets operate across regulatory regimes, meaning regulations around banking, capital markets, cooperative oversight and/or telecoms can have an impact on insurance market development

2. ***Education and awareness*** – the very concept of insurance, or pooling risk, paying premiums and making claims is not well known or understood in many countries. Developing programs to build such knowledge plays an important supporting role to market development. In addition, building capacity amongst regulators and local industry representatives is also needed to help them to drive market development. Alongside this, the cost of investing in market analysis /data collection of more marginalised groups can limit the inclusivity of insurance markets.

3. ***Product development and distribution –*** traditional insurance companies are often reluctant to serve lower income markets or develop products which meet consumer needs in developing economies due to the scale and cost of innovation and distributions. Whilst technology is allowing for new approaches, innovation in emerging markets deserves and needs more support;

Table 1. Examples of Insurance market development barriers

Demand-side barriers	Supply-side barriers
• Affordability or cost • Income and wealth • Risk aversion • Lack of trust in insurance/insurers • Financial literacy • Informal risk sharing • Quality of services • Risk exposure • Behavioral biased • Age and gender • Culture/ religion	• Transaction costs • Adverse selection and moral hazard • Technical ability • Regulations • Capacity/skills availability • Functioning capital markets • Geography and proximity to services

4. What will the program consist of?

The Insurance Market Development Program, supported by DFID and the World Bank, aims to partner with key counterparts in selected emerging markets to support the development of their insurance industries. The goal is to create robust, efficient insurance markets, offering appropriate products to meet local consumer needs and protect against vulnerability and poverty.

The approach to supporting insurance market development will be in two phases. Phase one will be an exploratory stage, which will deepen our understanding of insurance markets in a handful of selected countries, which have good market development potential (at different stages) and a willingness to progress this agenda. The countries will be selected by the WB team in consultation with DFID based on the following criteria:

- countries on the DFID priority list to help support inclusive and sustainable economic growth:
- Where the World Bank already has a relationship with key clients/ stakeholders;
- and where analysis (which is currently being developed) shows they are at the right point on the S-curve for insurance market development to take place .

These deep dives will follow a market systems approach, adopting a holistic view of what is holding the sector back and where support is needed (see below).

To complement these diagnostics, we will undertake analysis on how insurance markets have developed in emerging markets that have seen a jump in insurance penetration, assessing if there are any lessons to learn*)*. Analysis is currently being undertaken by the World Bank team for previous projects supported by the FIRST Trust Fund to understand the types of intervention which have had a significant impact.

The second phase will consolidate the findings of the exploratory stage – developing implementation plans that draw on the diagnostics, lessons learned research and other pilot initiatives under way. The second phase is covered under a separate financing agreement.

The program will consist of three main pillars:

I. ***Country diagnostics:*** a deep dive diagnostic for a selective group of countries identified as having supportive enabling conditions for market development will be developed. This can incorporate the traditional regulatory reviews based on international standards (IAIS ICP self-assessments, FSAPs etc.), but will go beyond the regulatory framework to consider local issues which should drive product development and distribution and market conditions which could drive innovative approaches. Market research and focus group discussions will inform this country-specific analysis. Particular areas of focus will include topics such as: mobile phone distribution; availability of weather data; existing formal and informal methods of saving and risk protection; formal and informal employment structures; system of healthcare provision – amongst others.

   A minimum of 2 deep dives will be undertaken during the program. These deep dives will look across the insurance supply chain, using a market systems approach to assess what the binding constraints and opportunities are for insurance to contribute to development – both economic and human. The analysis will involve experts from across disciplines – financial markets, private sector, social inclusion, climate, governance, regulation, and macroeconomic policy.

   The methodology for the diagnostics will be based on that used by the research firm Cenfri – covering the following areas:[3]

   - **Context:** outlines the macroeconomic, socio-economic, political economy and financial sector context within which the insurance market develops;
   - **Insurance uptake**: estimates the current penetration of the market as percentage of adults and how insurance uptake has evolved in recent years'
   - **Insurance industry trends:** analyses recent trends in the insurance industry in terms of premium volumes, players and performance, asking what the catalyst for the next wave of growth towards an inclusive insurance market will be;
   - **Product and distribution landscape:** considers the current suite of products in the insurance landscape. In addition, it unpacks trends in insurance distribution;
   - **Regulatory framework:** considers the role of policy, regulation and supervision in building an inclusive insurance market by unpacking the key features of the insurance regulatory framework, as well as ancillary areas of regulation'
   - **Understanding client needs:** draws on focus group and demand-side survey research to better understand the economic realities, risk experience, coping strategies and knowledge and perceptions of insurance among the population. On this basis, it conducts a segmentation exercise whereby the target market is grouped into distinct segments and the profile of each is explored.

II. ***Lessons learnt, market research and analysis:***

   1. countries which have delivered insurance market growth and development beyond the benchmark of their peer group will be examined to understand what were the drivers

[3] For details see Cenfri Tanzania diagnostic http://cenfri.org/microinsurance/tanzania-access-to-insurance-diagnostic

for such success and to take such lessons learnt to other countries and regions. Questions asked would include, where there any regulatory changes which removed barriers and /or sparked market development? Was market liberalization a driver? Were compulsory products introduced? Was product development or distribution particularly innovative? The analysis will look at the main global challenges to the insurance industry and how they are affecting developing countries. For example, big data and AI, use of mobile phone operators, InsurTech, new risks, changing cultural awareness and approach to insurance and risk management.

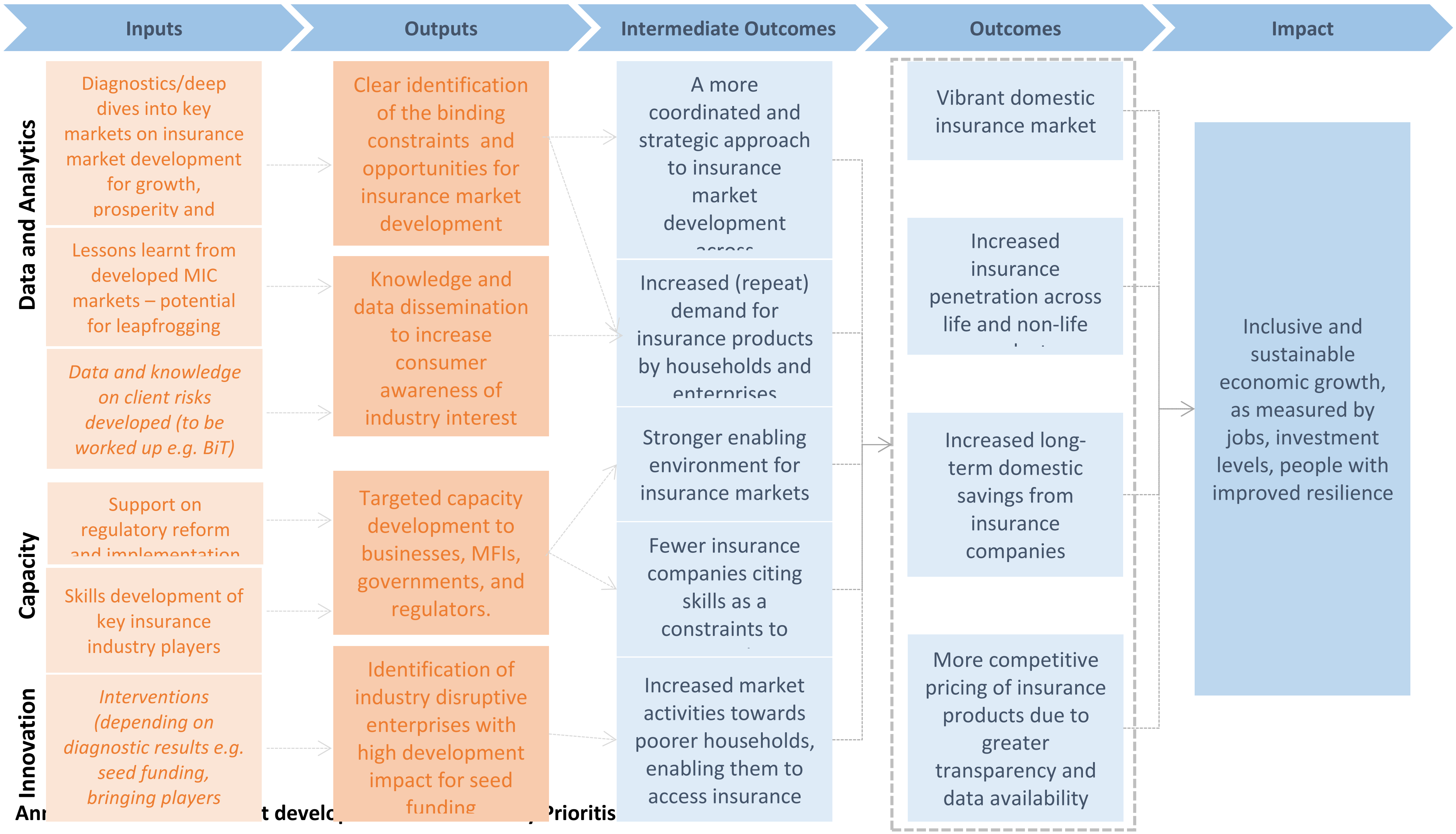
2. InsurTech scoping: market analysis on the opportunities for InsurTech to drive inclusive insurance market development in key countries. This would be as a precursor to stimulating a discussion and market interest in scaling up in emerging markets.

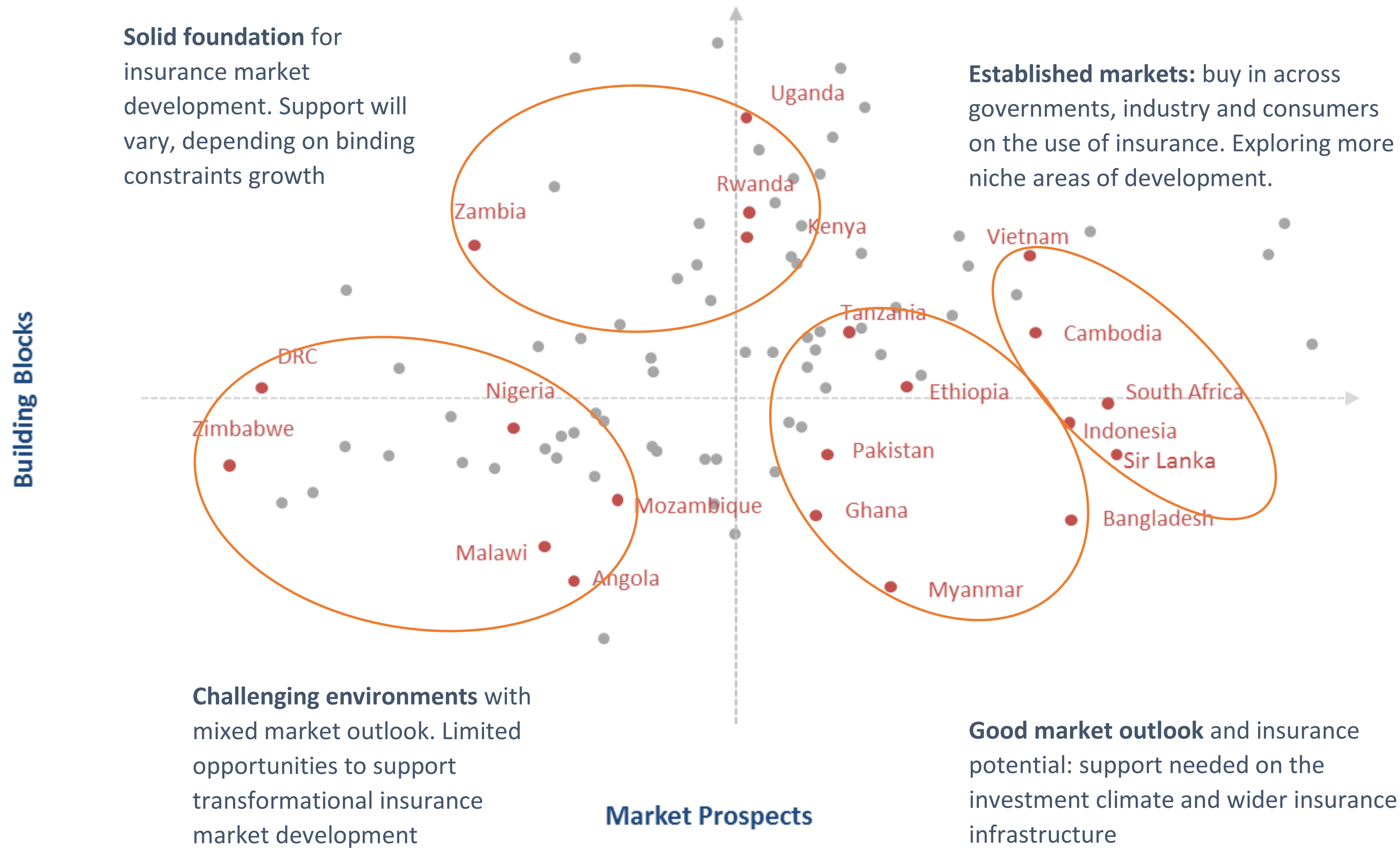
III. **Pilot initiatives:** DFID and the World Bank Group will partner on pilot initiatives that progress the insurance market development agenda. This could include programs that focus on expanding the reach of existing insurance companies, strengthening the capacity of key market players, such as regulators, data analytics on the core consumer segment, and/or regulatory support. These pilot projects will help inform and compliment the diagnostic analyses, giving us a richer picture on which to base future scale up activities.

The program will be implemented by DFID and World Bank in coordination with a number of other partners. This would include the IFC, which would be encouraged to seek investments in the selected countries where such stakes could act as a catalyst for market growth as well as help inform the types of early stage investment or market activities needed to help expand coverage. The IAIS/ A2ii will be key partners for regulation assessment and implementation. FSDA and Cenfri can play an important role in both analysis and implementation for selected countries. Other UK professional bodies such as the Institute and Faculty of Actuaries who are leading the Continuous Mortality Investigation (CMI) program.

Pillar	Lead	Other partners	
I. Country diagnostics	World Bank	IAIS/ A2ii/FSDA	The Deep Dives would be coordinated with the IAIS, the standard setter for the global industry and their partner A2ii and FSDA/Cenfri – a leading financial sector market development organization.
I. Lessons learnt	DFID	Academic, industry research etc.	DFID would draw upon local research undertaken in the countries selected, as well as lessons from World Bank operations were appropriate
II. Pilot initiatives	World Bank	World Bank, IFC,	Piolet projects where DFID and the World Bank Group could work together to bring scale.

Annex A: Insurance Market Development Theory of Change




Solid foundation for insurance market development. Support will vary, depending on binding constraints growth
Established markets: buy in across governments, industry and consumers on the use of insurance. Exploring more niche areas of development.
Challenging environments with mixed market outlook. Limited opportunities to support transformational insurance market development
Good market outlook and insurance potential: support needed on the investment climate and wider insurance infrastructure
Building Blocks
Market Prospects
Uganda
Rwanda
Zambia
Kenya
Vietnam
Tanzania
Cambodia
DRC
Nigeria
Ethiopia
South Africa
Zimbabwe
Indonesia
Sir Lanka
Pakistan
Mozambique
Ghana
Bangladesh
Malawi
Angola
Myanmar