News release

New Swiss Re *sigma* study explores insurance growth drivers and profitability in emerging markets

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- **Strong growth in emerging markets so far, driven by a favourable economic and regulatory environment**
- **Promising outlook though profitability poses a challenge**

Zurich, 20 December 2011 – Insurance in emerging markets has experienced strong growth over the past decade and the outlook for the next decade remains promising. Nonetheless, given the expectation of persistent low interest rates at least in the near future, achieving profitable growth will become increasingly challenging in emerging markets.

The latest Swiss Re *sigma* publication, "Insurance in emerging markets: growth drivers and profitability," focuses on two of the regions that have contributed the most to emerging market premium growth, Emerging Asia and Latin America. Drawing on ten years of experience of rapid insurance development in these markets, the study explores growth drivers and profitability in these two key regions, and provides an outlook on emerging markets.

Emerging markets continue to attract global insurers
Insurance premiums in emerging markets have expanded robustly by 11.0% per annum in real terms over the last decade, compared with 1.3% growth in industrialised economies. Emerging markets' outperformance is expected to continue in the next decade and is attracting the attention of global insurers, who look to emerging markets for profitable growth beyond more saturated mature markets.

Oliver Futterknecht, co-author of the new *sigma* study, says:
"Due to their size, industrialised countries are in absolute terms still the main insurance premium contributors, but emerging markets are catching up fast." In 2010, for example, industrialised economies contributed USD 120bn in additional premiums in nominal terms, with emerging markets following closely with USD 109bn.

Premium growth has been strong
Emerging Asia and Latin America contributed the most to emerging market premium growth in the past ten years. Many factors have driven this premium growth, including a sound economic environment, improvements in insurance regulations, product innovation, and a leveraging of multiple distribution channels.

"The healthy economic environment with low inflation has had a positive effect on insurance premium growth in Emerging Asia and Latin America," says Futterknecht. In addition, in an attempt to encourage healthy competition, certain markets have reduced state involvement and taken insurance-enabling regulatory measures. Product innovation has also driven fast-paced growth in certain insurance segments, including microinsurance and takaful. The use of multiple distribution channels has also helped insurance to reach a broader audience in emerging markets.

Bancassurance, for example, a concept that was virtually non-existent prior to the year 2000, has gained importance in many countries, especially for the distribution of life insurance. Its rapid growth has been driven mainly by regulatory reforms in key emerging markets including China and India. Amit Kalra, the other co-author of the *sigma* study, comments: "In India, bancassurance premiums made up 22% of new business premiums for private sector players in 2010. With a growing middle class and over 70 000 bank branches, bancassurance in India has plenty of room to expand."

Despite strong premium growth, profitability poses a challenge
Although insurers in emerging markets have seen stellar premium expansion, achieving profitable growth is far from the norm. For example, out of around 174 life insurers from a sample of Emerging Asian and Latin American markets, 46% of insurers failed to report consistent profits between 2006 and 2009, and only 20% registered profit margins (net profits divided by direct premiums) in excess of 10%. In non-life markets, 49% of all non-life insurers in the sample emerging markets recorded negative underwriting margins (underwriting results divided by direct premiums), with around 36% of non-life insurers reporting margins in the range of 0% to 10%.

Low profitability may indicate an overly aggressive focus by insurers on top-line growth rather than profitable growth. The *sigma* study examines profitability in emerging markets, and explores whether ownership structure, affiliation with financial conglomerates, or economies of scale can tilt profitability upward.

Kalra observes that, "in the life sector, domestic insurers and foreign branches and subsidiaries generally achieve better profitability than joint ventures. The success of domestic life insurers could be due to their large distribution networks, their local market expertise, and possibly lower costs resulting from economies of scale. In comparison, many joint ventures have only a short operational history and are still incurring heavy start-up costs. The picture in the non-life sector is less certain, as there are no apparent differences among insurers of different ownership structures."

Outlook: strong growth and fierce competition
Between now and 2021, more than half the growth of the global economy is expected to come from emerging markets. Non-life insurance premiums in emerging markets are foreseen to grow more than twice as fast as in industrialised countries. Life premiums are also expected to outpace those in industrialised countries.

Even though they face strong competition from domestic insurers, many international insurers plan to actively pursue opportunities in the rapidly growing emerging markets. Banks are also likely to leverage their branch networks to further penetrate these markets. However, with interest rates expected to remain at low levels for an extended period of time in both developed and emerging markets, insurers will find it increasingly difficult to achieve profitable growth.

Creating a favourable environment to improve profitability
"Going forward, insurers will need to place great importance on professional and disciplined underwriting to benefit from the healthy growth outlook in emerging markets and operate on a sustainable basis. Capital management will also be vital to support growth and comply with tightening solvency requirements," says Kalra.

Policymakers can play a strong role in strengthening private sector incentives by devoting sufficient resources to the legal, educational and regulatory infrastructure. They can also support insurance-specific efforts by allowing private pensions, making health or workers' compensation insurance compulsory, and introducing and enforcing other obligatory lines of business. Compulsory third-party liability insurance, for example, ensures that funds are available to compensate accident victims, and compulsory earthquake insurance helps to avoid adverse selection.

Notes to editors

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How to order this *sigma* study:
The English, German, French and Spanish versions of the *sigma* study No 5/2011, "Insurance in emerging markets: growth drivers and profitability", are available electronically on Swiss Re's website: www.swissre.com/sigma. The versions in Chinese and Japanese will appear in the near future.

Printed editions of *sigma* No 5/2011 in English, French, German and Spanish are also now available. The printed versions in Chinese and Japanese will be available shortly. Please send your orders, complete with your full postal address, to:

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