Swiss Re
Institute

October 2020

The mortality protection gap in Latin America

Executive summary

The mortality protection gap across Latin America stands at USD 14 trillion.

Swiss Re Institute estimates a total mortality protection gap - the shortfall in financial resources to maintain households' living standards and repay debts in the event of loss of the primary breadwinner(s) - in Latin America and the Caribbean of almost USD 14 trillion in 2019.[1] This translates into a regional mortality resilience index of 40%, meaning for every USD 100 of protection needed, households held on average only USD 40 in protection available. The mortality resilience index has improved in recent years in major economies in the region, mostly due to higher mortality insurance coverage.

This year's COVID-19 crisis will not help: we expect the mortality protection gap to increase post-pandemic.

However, the COVID-19 shock is likely to upset that trend and widen the protection gap. The current economic crisis will spark the deepest recession in modern history for Latin America, with regional gross domestic product (GDP) projected to contract by around 8% in 2020. This will lead to a slump in demand for life insurance, and we estimate that premiums will fall by about 8%. In addition, we expect declines in household wealth amid rising unemployment, lower remittances and increased financial volatility. Coupled with structural challenges such as low savings rates, a large informal sector and already-limited fiscal space with which to grow social security programmes, we expect the region's mortality protection gap to remain high post-pandemic.

The gap presents a total insurance opportunity of USD 33 billion in premium equivalent terms in the six largest markets in the region.

The six largest economies in the region – Argentina, Brazil, Chile, Colombia, Mexico and Peru – account for more than 80% (USD 11 trillion) of Latin America's total mortality protection gap. In absolute terms, the markets with the largest gaps are Brazil (USD 4.5 trillion) and Mexico (USD 2.6 trillion), while Peru (USD 0.6 trillion) has the smallest (all 2019 estimates). Gaps vary significantly by country because of different population sizes, but also due to factors such as inflation, salary levels and demographics. Per household, the mortality protection gap associated with the loss of a primary breadwinner averaged about USD 112 000 in the six markets. That said, the insurance opportunity is huge: we estimate the premium potential for mortality risk products in these markets to be close to USD 33 billion, or half of the entire life insurance sector.

Most mortality protection resources available come from life covers, even though life insurance penetration is low in Latin America.

The life insurance industry has made an important contribution to closing the protection gap, although life insurance penetration in Latin America has historically been low. Most of the resources available come from life insurance ownership, which covers about 25% of resources needed. Financial assets represent 10%, mirroring the low savings rates in the region. In some countries, social security benefits provide an insignificant level of protection.

There are many avenues by which life insurers can further narrow the mortality protection gap in the region.

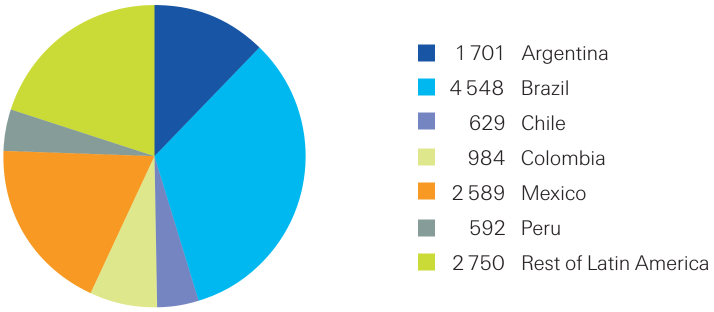
The current COVID-19 crisis has reinforced the relevance of life insurance to cover mortality protection needs and support household resilience. The premature death of the primary breadwinner can create significant financial stress for surviving family members. The life insurance industry can offer solutions to help change buying behaviour and market structures that contribute to the generally low levels of insurance penetration in Latin America. For example, making greater use of microinsurance and new distribution channels to reach the sizeable portion of the population on low incomes, many of whom are unbanked, with limited or no access to more traditional insurance products. Innovation, digitalisation and new technologies can enable advanced, customised and more efficient products and underwriting methods, expand distribution channels and improve claims settlement. The pandemic has highlighted that insurers need to adopt digital platforms to better serve their customers.

[1] For the purposes of this report, the region "Latin America" refers to all countries in Central America (including Mexico), South America and the Caribbean.

Key takeaways

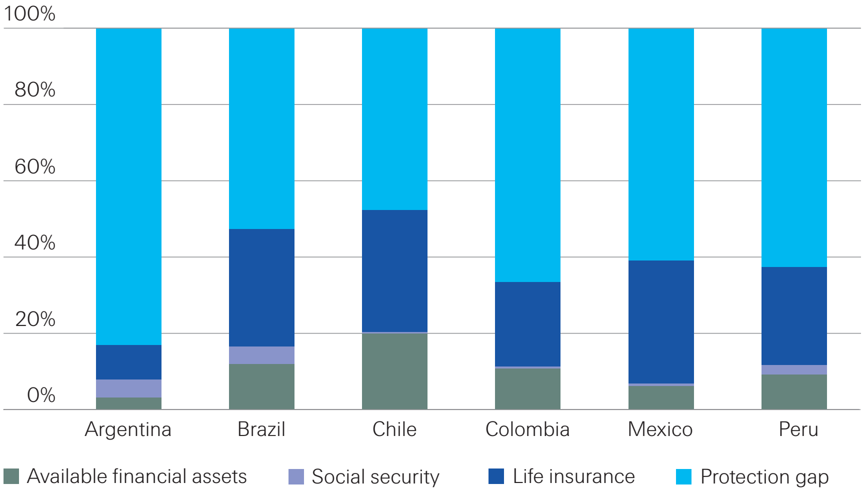
The mortality protection gap for all of Latin America is almost USD 14 trillion.

Mortality protection gap in 2019,
USD billion



Source: Swiss Re Institute

Life insurance is the main component of financial resources available to maintain household standards of living in the event of the loss/death of a primary breadwinner.



Source: Swiss Re Institute

The mortality protection gap in the region's six largest markets is a USD 33 billion life insurance premium opportunity.

	Mortality protection gap per primary breadwinner in USD	Mortality insurance resilience index (share of protection available)	Premium potential in USD (bn)
Argentina	177 301	17%	5.1
Brazil	96 648	47%	13.6
Chile	151 511	52%	1.9
Colombia	88 039	33%	3.0
Mexico	85 609	39%	7.8
Peru	72 090	37%	1.8

Source: Swiss Re Institute

What is the mortality protection gap in Latin America?

Defining and sizing the gap

The mortality protection gap for the six largest markets in Latin America stands at around USD 11 trillion.

We estimate the mortality protection gap for the six largest markets in Latin America, which together account for more than 80% of regional GDP, at USD 11 trillion based on 2019 data.[2] Swiss Re Institute defines the mortality protection gap as the difference between the resources needed to maintain/protect a household's living standards (including the ability to repay outstanding debts such as mortgages) in the event of death of a primary breadwinner, and the resources available. Resources available can comprise existing financial assets and proceeds from life insurance and social security.

For the whole region, the gap is around USD 14 trillion.

Assuming a constant ratio of protection gap to GDP, we estimate the gap across all markets in the region to be USD 13.8 trillion. As Table 1 shows, the gap is largest in Brazil (USD 4.5 trillion), followed by Mexico (USD 2.6 trillion) and Argentina (USD 1.7 trillion). The gap is smallest in Peru (USD 592 billion). We also estimate the protection gap in premium equivalent terms to better express the insurance opportunity, coming to a figure of above USD 33 billion for the same countries. That represents 50% of total life premium volumes in the six largest markets.

Table 1
Mortality protection gap in Latin America, based on 2019 data

	Mortality protection gap in LCU tn	Mortality protection gap in USD bn	Premium potential in USD bn	Share of protection available
Argentina	82.1	1701.3	5.1	17%
Brazil	17.9	4548.1	13.6	47%
Chile	442.7	629.3	1.9	52%
Colombia	3228.6	983.7	3.0	33%
Mexico	49.9	2589.4	7.8	39%
Peru	2.0	592.2	1.8	37%

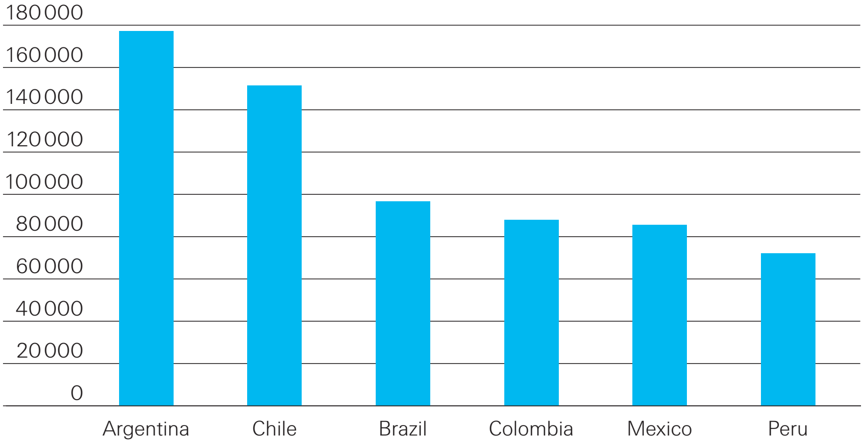
LCU = local currency unit
Source: Swiss Re Institute

There is a wide range in terms of protection gap per primary breadwinner across the region.

Another way to compare markets is to estimate the protection gap per working primary breadwinner. The average gap per primary breadwinner across the six markets is about USD 112 000. This is the amount that on average, every working primary breadwinner would need in additional net financial assets, life insurance or social security benefits to maintain surviving household members' living standards in the event of his/her death. There is a wide range in this metric across the region, from about USD 177 000 per primary breadwinner in Argentina to USD 72 000 in Peru. A key determining factor is salary size and cost of living. In Chile, for example, primary breadwinner salaries are higher, which increases the protection need. And in Argentina, where the gap is the highest, the cost of living and salaries have increased considerably because of persistent high inflation.

[2] Swiss Re first quantified the mortality protection gap for Latin America in 2013 at USD 7.2 trillion. We have since standardised our methodology globally for our mortality insurance resilience index, revising the indicators and data sources (see Appendix). Hence our estimates for 2019 in this report are not directly comparable with the 2013 study as a result.

Figure 1
Mortality protection gap per working primary breadwinner in 2019, USD



Source: Swiss Re Institute

Financial assets cover a relatively small portion of protection needs.

Drivers of the protection available

As Figure 2 indicates, available financial assets cover a relatively small portion of protection need in most countries, about 10% on average. The ratio is highest in Chile (20%), and lowest in Argentina (3.2%). This is in line with the low savings rates observed across the region. In the six markets specifically, gross domestic savings as a share of GDP has averaged 20.5% over the last two decades, lower than in other emerging regions such as the Middle East and north Africa (34.2%), east Asia and Pacific (33.6%) and south Asia (25.5%). The pattern of low savings across Latin America is in part due to (long) periods of hyper/high inflation, which has discouraged saving and investment, particularly in Argentina.

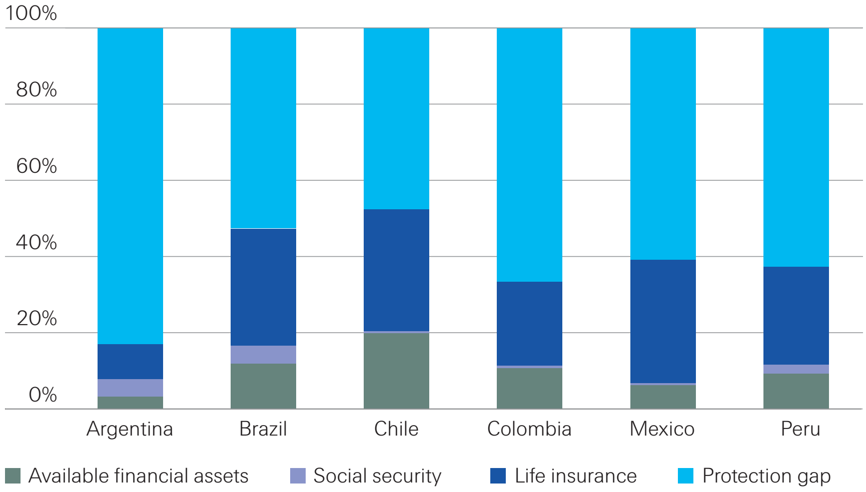
Social security benefits are almost non-existent in some countries.

We also observe that social security benefits are almost non-existent in Chile, Colombia and Mexico, covering less than 1% of the protection need, and comparatively greater in Brazil (4.6%) and Argentina (4.6%). In the 1980s and 1990s, some countries including Chile, Colombia and Mexico, reformed their social security systems to make them more fiscally sustainable, an aim being to transfer individual mortality risks to the life insurance industry. In contrast, Brazil and Argentina have institutionalised very generous social security systems, in place since 1988 and 2008, respectively, which explains the higher shares of protection need covered by the state in each of these two countries compared with others.

Life insurance makes up the lion's share of protection available.

Despite the low penetration rate in the region (see Appendix), most of the available resource come from life covers. On average, life insurance covers more than 25% of protection needs across Latin America. The exception is Argentina, where life penetration is lowest, again as extended periods of high inflation have affected demand for life products.

Figure 2
Ratio of the components of the protection need and gap



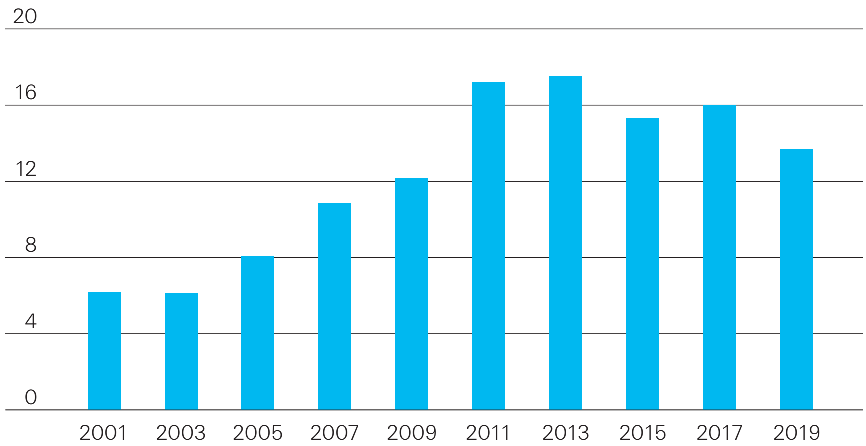
Source: Swiss Re Institute

Using the SRI Mortality Insurance Resilience Index to track historical trends and make international comparisons

The mortality protection gap in Latin America has narrowed since 2015.

We estimate the mortality protection gap for all of Latin America increased from USD 12.2 trillion in 2009 to USD 13.7 trillion in 2019, representing growth of almost 12% in US dollar terms. The increase is higher in local currency terms as most regional currencies have depreciated against the US dollar in the past decade.

Figure 3
Mortality protection gap in Latin America, USD trillion



Source: Swiss Re Institute

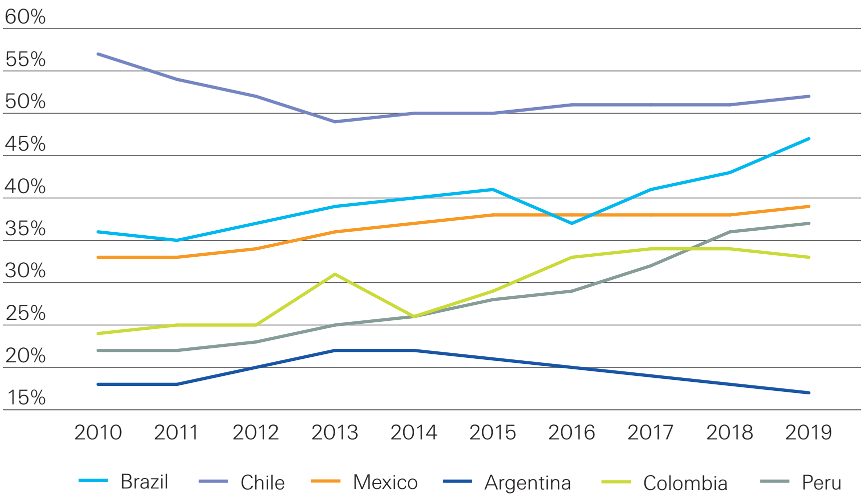
The magnitude of the total mortality protection gap is in part due to different population sizes.

The mortality protection gap differs across countries in part due to differences in variables such as population size, demographics and social security systems. Countries with larger populations such as Brazil or Mexico have higher gaps. To control for this and the distortions caused by fluctuations of exchange rates over time, we also look at the ratio of protection available through life insurance, financial assets and social security to protection need. We call this ratio the mortality resilience index (see *The global context of the SRI Mortality Insurance Resilience Index*). Larger protection gaps lead to lower ratios, all other things being equal. In 2019, the ratio ranged from 52% in Chile to 17% in Argentina. This means that for every USD 100 of protection needed, on average households in Chile had USD 52 in resources available, and in Argentina USD 17.

The mortality insurance resilience index has been trending up in the region's major economies.

Figure 4 shows that the mortality resilience index mostly trended up in Brazil, Mexico, Colombia and Peru during 2010–19. This is largely explained by rising life insurance penetration rate during this period. In contrast, in Chile the index declined from 57% to 52%. There was a strong increase in protection need in Chile in the years to 2013 driven by robust rises in salaries, while life insurance growth was relatively weak. However, those trends reverted with slower wage growth after the economic slowdown following the deflation of the commodity price bubble in 2014.

Figure 4
Mortality resilience index, 2010 – 2019



100% = fully insured. Source: Swiss Re Institute

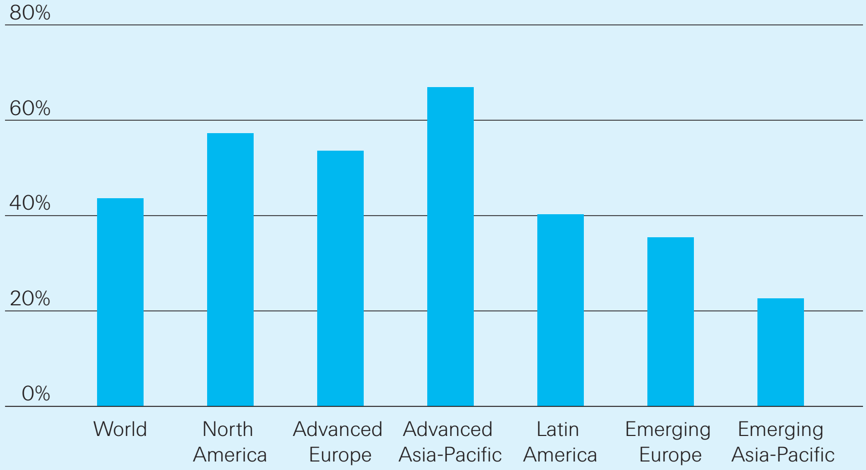
We estimate a global mortality insurance resilience index of 44% in 2019, which is slightly above Latin America's index.

The global context of the SRI Mortality Insurance Resilience Index

In 2019, Swiss Re Institute developed three insurance resilience indices for key risk areas: mortality, natural catastrophe and healthcare.[3] The mortality insurance resilience index assesses the positive contribution of insurance in helping households to better financially withstand the premature death of the primary breadwinner. Updated estimates in 2020 show that the global SRI Mortality Insurance Resilience Index was about 44% in 2019, meaning that only 44% of the resources required to maintain household living standards in case of loss of the primary breadwinner were available through life insurance, social security survivor benefits or household savings.[4] Latin America's mortality resilience index was 40% in 2019, slightly below the global average but better than emerging regions such as emerging Asia Pacific, where rapidly growing household debt has increased the protection gap. Among advanced markets, Asia Pacific scored highest at almost 67% in 2019 as countries in the region have some of the highest life insurance penetration rates in the world.

[3] For more detail, see *sigma* 5/2019 - Indexing resilience: A primer for insurance markets and economies, Swiss Re Institute.
[4] *sigma Resilience Index 2020: global resilience put to the pandemic test*, Swiss Re Institute.

Figure 5
Global and regional mortality insurance resilience indices, 2019



100% = fully insured. Source: Swiss Re Institute

COVID-19 hits life insurance demand: mortality protection gap likely to widen

The COVID-19 crisis is likely to reverse the upward trend in the mortality resilience index and widen the mortality protection gap.

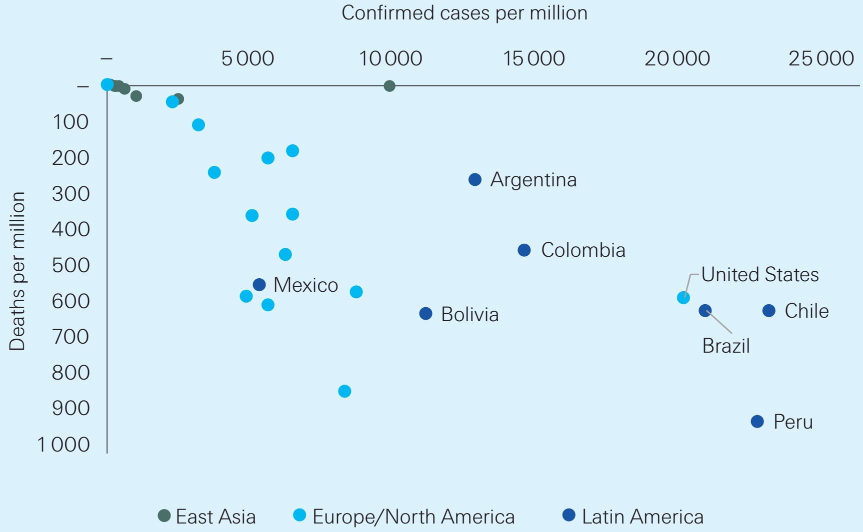
The COVID-19 crisis is likely to reverse the upward trend in the mortality resilience index in recent years. The collapse in economic activity and social distancing restrictions, which hinder in-person sales and medical examinations, are taking a toll on demand for life insurance this year. We expect life premiums to fall by almost 8% in Latin America in 2020 and partially recover in 2021. Demand for mortality products will be hard hit by the rise in unemployment resulting from the economic slowdown as well as by lower incomes due to falls in remittances, the transfers of money back to home countries by workers overseas to support family members. Household asset values will also likely decrease due to higher financial volatility and an upsurge in household debt, negatively impacting the mortality protection gap in Latin America. Ultimately, we expect the COVID-19 shock to widen the protection gap further. As the fiscal stimulus response to the economic crisis is putting pressure on many countries' already-high public debt levels, fiscal space with which to grow social security coverage will be limited, implying that the protection gap is likely to remain high post-pandemic. On a brighter note, we expect demand for mortality products to increase in the medium term as a result of a rise in consumer awareness of the need for financial protection.

The COVID-19 shock has hit Latin America in a time of low economic resilience.

The impact of COVID-19 on Latin American economies

The COVID-19 shock is causing widespread socio-economic effects in Latin America. The region has become the worst-hit area in the world by infection rates and death tolls, despite irregular government efforts to contain the spread of the virus. Factors such as high labour informality, poor living conditions and significant health insurance protection gaps have undermined the effectiveness of even-comprehensive lockdowns in countries such as Chile, Peru and Colombia. The pandemic has hit Latin America at a time of low economic resilience following years of weak growth, severe structural problems such as poor infrastructure, low productivity, deep inequalities and high dependency on commodities exports, and elevated public debt. The economies have been affected through various fronts including lower domestic demand, trade, commodity prices and tourism revenues and unprecedented capital outflows.

Figure 6
COVID-19: Confirmed cases and deaths per million (as of 17 September 2020)



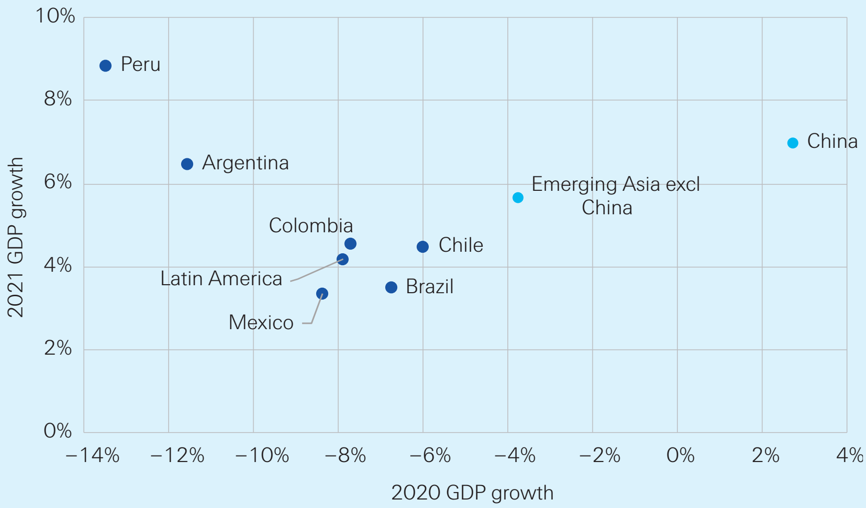
As of 17 September 2020.

Source: European CDC via Our World in Data

COVID-19 is triggering deep recessions this year in all countries in Latin America.

We expect COVID-19 to trigger the deepest recession in modern history in Latin America, with regional GDP shrinking by around 8% in 2020. Among the large economies, Chile should experience the smallest GDP contraction in 2020 (–6%). In Brazil, massive fiscal and monetary stimulus is helping the country to cope with the crisis and we now project a milder GDP contraction (–6.8%) than initially thought. Mexico's economy is expected to be among the hardest-hit (–8.4%) as fiscal austerity has limited its public policy response options to the crisis.

Figure 7
Real GDP growth 2020 vs 2021



Source: Swiss Re Institute

We expect a partial recovery next year, with regional GDP growth of 4%.

The magnitude of this year's shock will remain significant going into 2021 and weak resilience will weigh on growth even when all virus containment measures are lifted. Challenges to labour markets and the credit quality of individuals, businesses and governments will continue to be high. We forecast a partial recovery in 2021 to 4% GDP expansion for the region, but this will not return the economy to its previous growth trajectory. Risks to the forecast are weighted to the downside. It is highly uncertain whether additional policy measures to safeguard the recovery will be possible, particularly in Brazil, since stimulus packages rolled out this year have already pushed some governments close to their fiscal limits.

With stimulus packages depleting already limited policy headroom in Latin America, we expect economic resilience to lower post-pandemic.

We expect COVID-19 to impact Latin America more severely than emerging Asia, even excluding China. A key determinant of the outlook for the region is economic resilience, or ability to absorb economic shocks. Weaker resilience in the countries of Latin America will make the downturn deeper and the recovery more protracted, in contrast to China where greater resilience is supporting a swift recovery. Brazil and Chile are among the emerging markets with the highest fiscal spending in response to COVID-19 this year, necessary to offset the more severe pandemic and economic shocks. While Chile had healthy public finances prior to the pandemic, Brazil has the highest public debt leverage.[5] As a consequence, we expect higher debt to add challenges to sustainable long-term growth, and that economic resilience will decline in Latin America post-pandemic. We also expect more pressure on social security benefits, which will create more headwinds for mortality resilience.

[5] COVID-19: emerging market stimulus poses challenge to growth, *Economic Insights* 23/2020, Swiss Re Institute 06 August 2020.

Morbidity risks: an additional source of vulnerability to households

Morbidity risks, not included in our protection gap estimates, also expose households to significant financial distress.

Our estimates for the mortality protection gap do not cover morbidity risk, such as the impact of critical illness or permanent disability of the primary breadwinner in a household. This is because of lack of data to estimate such metrics. Critical illness and disability, however, can be a huge financial stress by exposing households to (1) loss of income due to permanent/temporary unemployment; and/or (2) out-of-pocket expenses to cover medical and non-medical illness-related spending.

Morbidity risk covers can prevent higher household debt levels and default.

Medical and non-medical ill-related expenses can result in higher household debt levels and can also impact the ability to repay debt. According to a survey by the Brazilian Credit Protection Service (SPC – sigla in Portuguese), 25% of those registered had failed to pay their debt due to health-related problems, mainly loss of jobs and medical bills. The same study showed that 70% did not have any private health insurance. Thus, morbidity risk covers can be the means to prevent financial distress that households could face in the event of health emergencies.

Many individuals overestimate social security benefits.

Based on data from the World Bank, 85 million people (about 13% of the population) in Latin America live with some form of disability. Permanent incapacitation of a primary breadwinner can have similar, or even greater, financial impact on household income as death can. Many individuals overestimate the social security benefits they would receive in the event of disability, mistakenly assuming that government programmes negate the need for insurance.

Likewise, for health insurance plans and government healthcare programmes.

Individuals also tend to assume that a standard health insurance plan provides full cover. However, the costs of critical illnesses like cancer can go way beyond the provisions of medical plan cover. In some countries, there is belief that universal healthcare programs will provide full protection. But in reality, each country in Latin America has a unique healthcare system, with fragmented structures which sometimes provide only minimal care and assistance in the case of emergencies. Further, neither private health insurance plans nor universal healthcare programs provide financial resources to cover non-medical expenses or loss of income usually covered by the primary breadwinner. Meanwhile, critical illness insurance typically pays out a lump sum amount post diagnosis of a covered condition, which can be used to pay anything from medical expenses to mortgage payments.

Closing the protection gap with insurance

The insurance industry can help close the mortality protection gap.

The underlying reasons for the low life insurance penetration differ per country, but common factors include affordability and financial inclusion, unawareness and unease of buying insurance products, misperception of risks, mistrust of insurers, and regulatory imperfections.[6] The insurance industry can help mitigate the shortcomings behind the low penetration rates in the region and help close the protection gap. Fostering innovation and new technologies are crucial actions, either in term of products, processes, distribution channels, claims handling or communication. Moreover, the COVID-19 outbreak and social distancing measures have underlined the importance and value of digitalisation through all steps of the insurance value chain. A few life insurers and Insurtechs in Latin America have introduced some solutions to increase insurance uptake, but the aggregate impact is still small and will take some time to mature.

The public sector and regulators also play an important role.

The public sector can also play an important role, by establishing a legal and regulatory framework that supports development of the insurance market. Regulators need to find more flexible mechanisms to bring new products to market in the region, while being cautions of how, when and what is regulated. There have been regulatory sandbox initiatives in some countries, which allow and incentivise innovation within a safe testing environment for users and regulators, without imposing strong regulations on new players.

Product innovation

Life insurers have room to broaden their product offering.

Insurers can design new products to reach previously underserved and/or unserved segments of the population, or new areas of insurability. There is plenty of room to broaden the life insurance offering and deliver products to more people in Latin America. This includes products with a saving component and long-term insurance contracts. Universal Life Insurance, for example, is still a new concept in many countries. In Brazil, life insurers have been trying to introduce this product to the market for some years, but some regulatory procedures are still pending.[7]

There is space to innovate and provide more targeted products, in particular for low-and middle-income earners.

Beyond taking traditional existing products into new markets, there is space to innovate and provide more targeted products, in particular for low- and middle-income earners. For the recently emerged middle class, small pay-outs for life insurance or critical illness covers could prevent households from falling back into poverty in the event of a mortality or morbidity event. In Brazil, the Insurtech TôGarantido – in partnership with Chubb – recently launched a low-cost life insurance product (100% digital) bundled with health benefits, focused on low- and middle-income segments.[8] Product innovation needs to extend features to components that are relevant to consumers, and tailored to their needs in terms of security, returns and flexibility. For example, Ladder Life, an Insurtech in the US, allows customers to change the limits of their term life policy as financial needs change, rather than forcing them to cancel an existing policy to buy a new one.[9]

Lack of understanding of potential customers can result in low acceptance and satisfaction of new products.

Insurers often source information from existing products, distributors and market trends to design new products. However, a lack of understanding of those who are the potential customers and marketers might result in low acceptance and consumer satisfaction of new products introduced into the market. Focus groups, market surveys, expertise from reinsurers and consulting firms can help provide important insights that can result in more innovative product solutions. Communication is key, and insurers can play an important role by helping consumers better understand their value proposition compared with, for examples, the provisions that come from social security programmes.

[6] *sigma* 5/2019, op. cit.

[7] Universal Life Insurance is a type of permanent insurance, ie a policy that provides lifetime coverage as long as policyholders pay premiums and fulfil any other requirements. This product comprises two parts: a savings and an insurance component. It also offers consumers flexibility in the premiums payments, death benefit and the savings portion.

[8] "Insurtech TôGarantido se alia à Chubb para lançar produto de impacto social inédito no Brasil", *Revista Cobertura*, 2 April 2018,

[9] *Ladder continues to garner industry-wide recognition and demonstrate accelerated growth*, PR Newswire, 15 May 2018,

Behavioural research and data analytics can help insurers to add more value for customers, and reduce lapse rates.

Additionally, findings from behavioural economics research can facilitate improvements in product design such as better policy wording, different coverage defaults and product bundling, ultimately leading to more insurance purchase. In some markets, Swiss Re has used insights from behavioural science to better understand what drives consumers to lapse: the reason is not always financial hardship. Policy wording is also important. Simplifying language in legal contracts is a key means for insurers to earn the trust of consumers.

New distribution channels

Alternative distribution channels are instrumental in providing insurance protection as efficiently as possible.

New distribution channels can play a key role reaching consumers more efficiently. Insurers have introduced market-specific products with greater use of alternative channels such as utility and remittance companies, cell phone networks, cooperatives, financial institutions and insurance aggregators. These channels can target potential consumers with no or limited access to insurance.

Sales of insurance via more direct channels is just beginning to emerge.

The need for direct insurance sales channels and at lower cost is greater today than ever, but its development is just beginning to emerge in Latin America. Youse, a Brazilian Insurtech launched in 2015, was a pioneer in selling insurance policies (including life) directly to consumers through web and mobile platforms.[10] The company was created by Caixa Seguradora as a vital investment to significantly lower distribution costs. Similarly, 123 Seguro, which originated in Argentina but has recently started operating in Colombia and Chile also, is the first broker in the region to offer online contracting of life insurance, without complex procedures.[11]

High mobile technology penetration in Latin America can help insurers target those who never had cover before.

The upsurge of smartphone and internet use in emerging markets is also increasing access to insurance. The high mobile technology penetration (68%) in Latin America, one of the fastest-growing regions for mobile services,[12] offers insurers an opportunity to target low-income individuals who have never had insurance before. However, in terms of use of mobile technology for insurance, Latin America lags other regions. According to a study, of all insurance products distributed via mobile in emerging markets, only 4% are in Latin America, compared with 54% in Sub-Saharan Africa, 23% in South Asia and 20% in East Asia.[13]

There is great growth potential in mobile distribution given that half of adults in the region do not have bank accounts.

Mobile distribution is very relevant for Latin America considering that more than half of adults in the region are unbanked.[14] In many countries in the region, bancassurance is a main sales channel, particularly on the life side. In Brazil, the top five life insurers are all part of banking organisations, and in Mexico, six of the top 10 life insurers, according to AXCO. Life insurance sold through bancassurance often complements other customised financial products. While it makes sense to utilise the access to clients that banks can offer, with so many people still unbanked, market reach remains limited.

New technologies and evolving customer preferences are shifting the distribution landscape.

New technologies and evolving customer preferences are changing the distribution landscape. Channels that adapt to the new reality of customers in Latin America, such as digital distribution, are for the most part still untapped. As traditional channels become saturated and online engagement becomes the new norm, those who embrace change will have competitive advantage.

10 "Youse: Bringing innovation to the Brazilian insurance market", *Digital Insurance Agenda*, 16 June 2017.
11 "Argentine insurtech 123Seguro begins operating in Chile", *Contxto*, 26 July 2019.
12 *GSMA Intelligence data*, February 2019.
13 *Digital Innovation Survey*, Accenture, 2014.
14 *The 2017 Global Findex Database*, World Bank, 2017.

Microinsurance makes coverage more affordable to low-income individuals.

Microinsurance

Microinsurance can provide affordable and efficient insurance products to low-income individuals. By offering small amounts of tailored cover, microinsurance can be affordable for consumers and financially viable for suppliers. Product design, distribution and claims management processes in microinsurance usually differ considerably from those in conventional ones.

Take-up rates across Latin America have increased in recent years but remain low overall.

Although penetration is still low, microinsurance take-up rates in Latin America have increased substantially in recent years, with life covers representing most premiums. According to latest figures from the Microinsurance Network's World Map of Insurance, over 8% of the population (about 52 million) in the region are covered by at least one microinsurance policy. In terms of premiums, microinsurance made up just 0.3% of total industry premiums.[15]

Microinsurance life covers are not developed in all markets in the region.

A study also showed that life covers have lower combined ratios, indicating potentially higher profitability than other microinsurance products.[16] However, microinsurance life covers are not developed in all markets. In Brazil, for example, the use of microinsurance is concentrated on personal accident, property and pensions. Estimates suggest the potential market for life covers include almost 60% of the population.

Mobile distribution could extend the reach of microinsurance, while keeping the costs low.

Leveraging digital and mobile technologies can lower the cost of microinsurance and scale sales, particularly in markets where a traditional distribution system does not exist. For the financial success of microinsurance, minimising administrative costs is key. One way to do that is to partner with mobile network operators to bundle microinsurance with mobile products. However, currently less than 10% of microinsurance providers in the region are partnering with mobile providers.[17]

New technologies have the potential to improve insurance penetration.

New technologies

New technologies can help improve insurance penetration in Latin America, through the development of new products, distribution channels and business models. The positive impacts of technology include reduced costs, enhanced customer experience through frictionless, individualised and more-regular communication, and greater levels of awareness through digital platforms.

IoT, AI and blockchain can enable customised and more efficient product differentiation.

Digitisation and Internet of Things (IoT) can enable advanced, customised and more efficient products, underwriting methods, online sales and claims settlement. Integrating wearable devices such as fitness bands and apps into life insurance, for example, can improve underwriting capabilities and make existing products more tailored. Some insurers have started using Big Data and data analytics tools to obtain deeper insight into the risks covered. Blockchain, meanwhile, can increase transparency and speed up the submission and verification processes. Artificial intelligence and machine learning algorithms can help make submission and claim processes more efficient and allow insurers to offer individualised quotes for customers, integrate robo-advisors and reduce fraudulent claims.

Insurtechs have been at the forefront of technological change in the region.

Large markets in the region such as Brazil, Mexico, Argentina, Colombia and Chile are looking to technology to transform their insurance industries. That has been driven mostly by Insurtech companies, which bypass traditional insurers to provide cheaper products and more agile service, but also help industry players to improve their processes. For example, Mango Life, an Insurtech based in Mexico, has created the country's first digital platform to buy life insurance – in minutes – with fast quotes and an automated underwriting system.[18]

15 *World Map of Microinsurance*, Microinsurance Network, see http://worldmapofmicroinsurance.org/
16 *The Landscape of Microinsurance in Latin America and the Caribbean 2017*. Microinsurance Network and Munich Re Foundation, 2017.
17 Digital, op. cit.
18 See Mango Life website www.f6s.com/mangolife

Life insurers are turning to technology and digitisation to accelerate and cut underwriting costs.

Automated L&H underwriting system: a win-win solution

Along with technological progress, consumers have also changed. When looking for protection solutions, they have new expectations such as digital engagement and ease of use with instant decisions anywhere, any time and on any device. Life insurers have begun to use technology and digitisation to increase speed and remove costs from underwriting processes. This is the case of automated underwriting systems, which have been developed to reduce time and data needed to underwrite a life insurance policy, while maintaining the quality of underwriting decisions. The benefits for insurers go beyond reducing costs to include greater ability to serve additional markets and process more business, lower errors and omissions on policies issued, and less time required to train new employees, among others.

Swiss Re's Magnum Go, a cloud-based automated underwriting platform, is available in Latin America.

Available in select markets including Latin America, Swiss Re's Magnum Go is a cloud-based automated underwriting platform that can enable small to medium sized primary insurers to automate the assessment and decision process. It includes underwriting life, critical illness, disability or other benefits. The underwriting rules are based on Life Guide,[19] a leading Underwriting Manual. Magnum Go can be used through a variety of distribution channels and supports different products and application forms as specified by the insurer. Swiss Re's Magnum was named a strong performer in the Forrester Wave 2019 research on 13 of the most significant providers of automated life insurance underwriting.[20]

19 Swiss Re's Underwriting Manual, supported by embedded training, reports and statistics.
20 The Forrester Wave™: Automated Life Insurance Underwriting Systems, 2019, Forrester.

Conclusion

The mortality protection gap for all of Latin America is around USD 14 trillion.

The financial vulnerabilities of households in the event of death of the primary breadwinner in Latin America are large, with a cross-region mortality protection gap measuring USD 14 trillion in 2019. At the same time, this unmet protection need represents large opportunities for growth of the life insurance market. We estimate the premium potential for mortality risk products from closing the gap (in addition to expected growth driven by economic development) to be around USD 33 billion in the six largest markets of the region, which is equivalent to 50% of their current life insurance market.

We expect the COVID-19 crisis to increase the mortality protection gap.

Our mortality resilience index estimates that 40% of the protection need in Latin America is covered by protection available through life insurance, financial assets and social security. In recent years, the index has mostly trended up in major economies in the region. However, the COVID-19 crisis is likely to reverse that trend in 2020. We expect social distancing measures and the halt in economic activity to result in an 8% contraction in GDP this year, with challenging consequences such as increased unemployment, lower life insurance demand and reductions in household wealth. We consequently expect the region's mortality protection gap to widen.

Many households are vulnerable to financial distress in the case of death of a primary earner.

The considerable mortality protection gap in Latin America can have catastrophic financial consequences for households and far-reaching social and economic impacts. When a primary breadwinner dies, those left behind are often exposed to financial hardship, and may end up destitute or living on public assistance. Life insurance is at the core of closing the mortality protection gap, given limited households savings and social security survivor benefits in the region. Despite the negative impacts of the COVID-19 shock on the protection gap, a positive effect is the rise in consumer awareness of mortality risk, an opportunity which insurers should leverage to close the gap.

People tend to overestimate the support the state would provide as insurer of last resort.

In many countries in Latin America, the need for growing social security benefits is outpacing the fiscal space, given already elevated levels government debt. Some governments have cut back on social security programmes and look to private schemes to fulfil some of the gap. This is the case of Chile, for example, where pension fund administrators are required to purchase life insurance coverage to affiliates. In addition, the COVID-19 related fiscal stimulus programmes are likely to amplify the limitations of government spending on survivors' benefits. Increased awareness and enhanced communication are key as financial literacy in the region is low[21] and individuals tend to overestimate the available financial support that public-sector programmes provide.

Product innovation, technology, new distribution channels and more use of microinsurance can help close the region's mortality protection gap.

There are several areas in which insurers can support greater mortality protection for those most in need. These include broadening the insurance offering, such as to products with a saving component and long-term contracts, adopting new distributions channels, taking on new technologies, and making more use of microinsurance. Microinsurance is key to target low-income/ unserved individuals, especially those with limited or no current access to financial services in Latin America. Leveraging the high penetration of mobile technologies in the region can bring protection to markets and segments of the population which traditional distribution systems do not serve, while potentially lowering cost of insurance products. Adoption of digital solutions, which has been highlighted by the COVID-19 experience, can help increase insurance penetration. Regulatory accommodation of these innovations is an important enabler for closing the mortality protection gap.

[21] According to the S&P Global FinLit Survey, financial literacy rates among adults in Latin America are between 25–34%.

Appendix I: Life insurance in Latin America

Market size and penetration trends

Total life premiums in Latin America were about USD 71 billion in 2019.

We estimate the total size of the life insurance market in Latin America was about USD 71 billion in 2019,[22] accounting for more than 45% of all-insurance industry premiums. The six largest markets – Argentina, Brazil, Chile, Colombia, Mexico and Peru – represent 94% of the life market in the region. Brazil is the largest market in the region, and the third largest among all emerging markets, after China and India.

Table A.1
Life insurance market in 2019, USD billion

Country	Total premiums	Life premiums	GDP	Life premiums as a share of total	Life penetration
Argentina	9.3	1.3	451.4	13.8%	0.3%
Brazil	71.0	38.4	1839.5	54.1%	2.1%
Chile	13.2	7.9	282.2	59.7%	2.8%
Colombia	9.2	2.9	323.7	31.2%	0.9%
Mexico	30.3	14.0	1260.0	46.3%	1.1%
Peru	4.2	2.1	230.2	49.2%	0.9%
Latin America	158.7	70.9	5363.2	44.7%	1.3%

Source: National insurance regulators and associations, national statistics agencies, Swiss Re Institute

The overall life insurance penetration rate in the region is 1.3% but differs largely across countries.

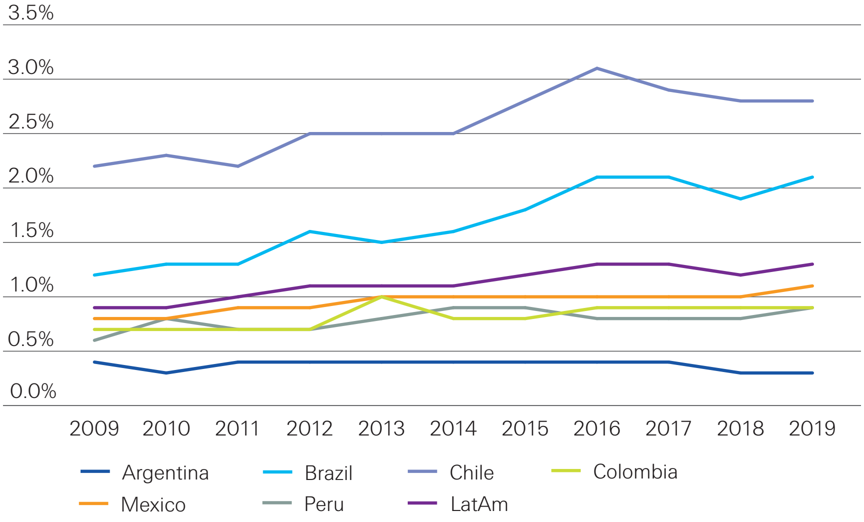
The life insurance penetration rate (the ratio of life premiums to GDP) in Latin America was 1.3% in 2019, slightly lower than the emerging market aggregate (1.7%). However, penetration rates differ considerably. In Chile, a smaller market in premium volume terms, penetration is the highest in the region (2.8%), because of the private pension system that was introduced in 1981, and the mandatory purchase of life insurance by pension fund administrators.[23] Brazil has the second highest life penetration rate (2.1%), due to the large share of life business from a specific savings-related product (Vida Gerador de Benefício Livre – VGBL) and group life insurance plans. Among the region's major markets, life penetration is lowest in Argentina (0.3%), as extended periods of high inflation have discouraged demand for life products. In Peru and Colombia, life penetration is below 1%, suggesting that the sector is still in the early stages of development.

Life penetration trends have not significantly changed for the regional aggregate over the last decade.

Historical data show life insurance penetration trends have improved slightly over the last 10 years. They have increased in Brazil and Chile, although have dropped off slightly in more recent years. This is because insurance demand mirrors the economic downturn that started in the middle of the decade. In Argentina, Colombia, Mexico and Peru penetration trends have remained low, dragging the regional aggregate lower.

[22] Including savings-related products.
[23] *Pension Schemes in Latin America: Addressing the Challenges of longevity,* Swiss Re, 2018.

Figure A.2
Life insurance penetration rates



Source: National insurance regulators and associations, national statistics agencies, Swiss Re Institute

Appendix II: Methodology

The methodology used in this study has been standardised across all six markets and developed for our mortality insurance resilience index estimation, which may differ from other previous and market-specific investigations. Data has been collected from various public sources such as national insurance regulators and associations, national statistic agencies, Credit Suisse Wealth Database, the IMF and World Bank.

Based on limited data availability for the full distribution of households, we estimate the mortality protection gap using average information for the working population with dependents as follow:

- Protection need: the financial resources needed by surviving dependents is calculated as the sum of: (1) household income replacement needs, in which we assume a fixed annual household income multiplier based on each country's average working age group; and (2) debt repayments.

- Protection available: the financial resources available include: (1) financial assets (we assume 50% are relevant while the rest is saved for retirement); (2) survivor benefit payments from social security and other government-sponsored programs; and (3) proceeds from existing mortality insurance coverage (excluding savings and other risk protection products such disability)

- We only estimate income replacement up to retirement age. The issue of insufficient funding of retirement savings is out of scope for this analysis

- It is assumed dependants do not want to sell their property or mortgage if the breadwinner dies. Selling those assets would decrease living standards.

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Swiss Re Management Ltd
Swiss Re Institute
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone +41 43 285 2551
Email institute@swissre.com

Author
Caroline de Souza Rodrigues Cabral

Editors
Dr Thomas Holzheu
Paul Ronke

Managing editor
Dr Jerome Jean Haegeli
Swiss Re Group Chief Economist

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Swiss Re Management Ltd.
Swiss Re Institute
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone + 41 43 285 2551
Fax +41 43 282 0075
institute@swissre.com
institute.swissre.com