

# Reshaping the social contract: *The role of insurance in reducing income inequality*

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What is needed now is a re-set!

Perhaps the next systemic crisis isn't a bang, but a drawn-out process

**E**

**Environmental**

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Climate change  
Natural Resources  
Pollution & Waste

**S**

**Social**

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Human Capital  
Product Liability  
Stakeholder Opposition  
Digital Strategy

**G**

**Governance**

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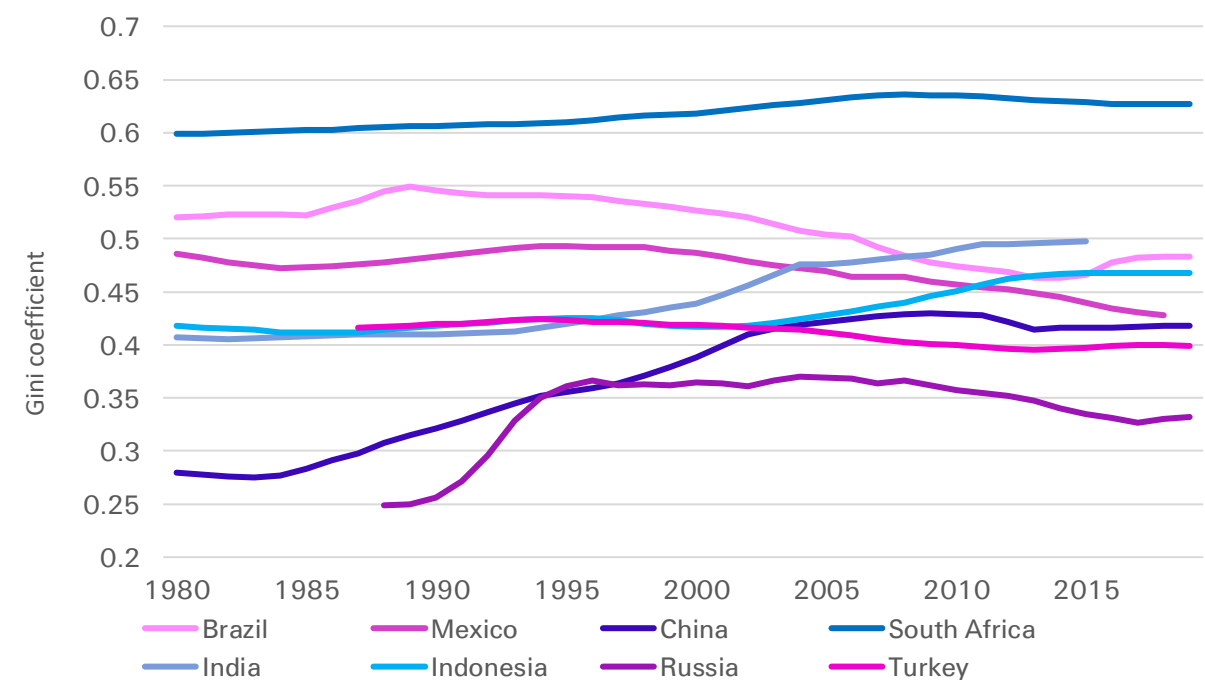
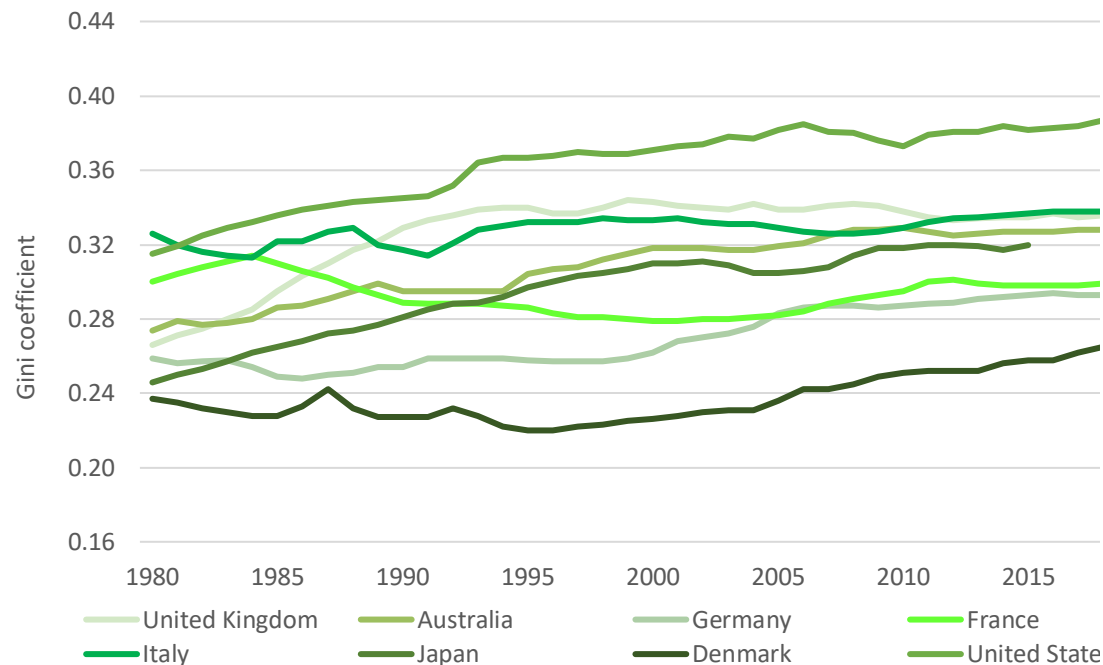
Corporate Governance  
Corporate Behaviour

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## Advanced markets becoming more unequal, emerging economies more equal

- **Gini coefficient has risen in many advanced economies since 1980, and at different speeds, more so in the US**
- Among **emerging economies, a general trend has been one of declining income inequality, but with mixed outcomes**
- Advanced economies' middle classes shrink as inequality rises
- The **main driver of these developments** in advanced and emerging economies has been **globalisation**
- The **rollback of welfare states, taxation and pre-distribution policies** contribute to inequality among advanced economies

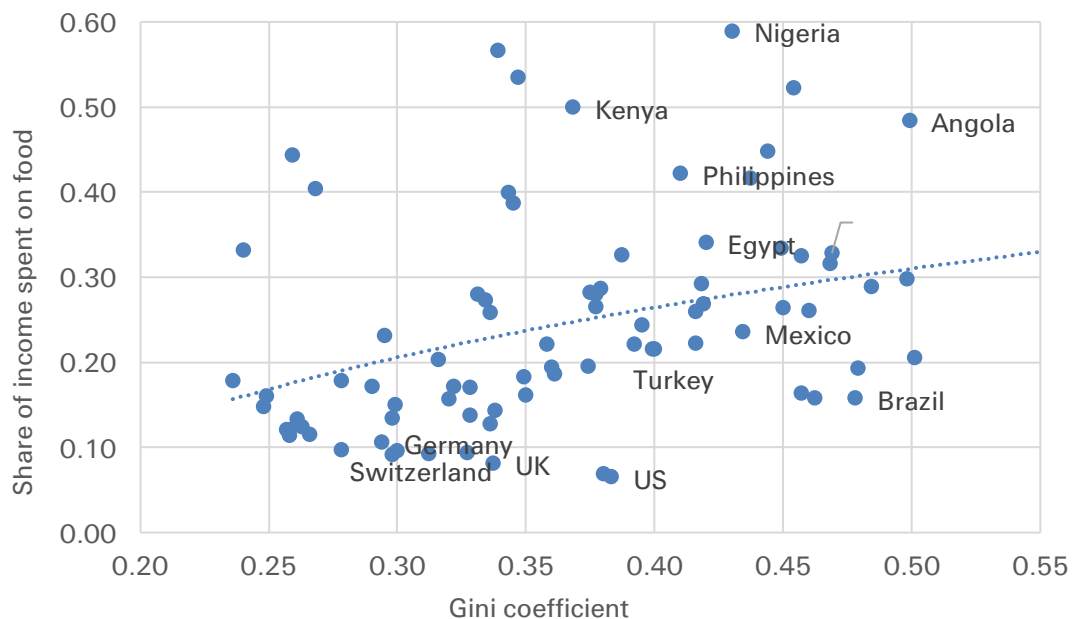
Gini coefficient of disposable income in major advanced (left) and emerging economies (right)



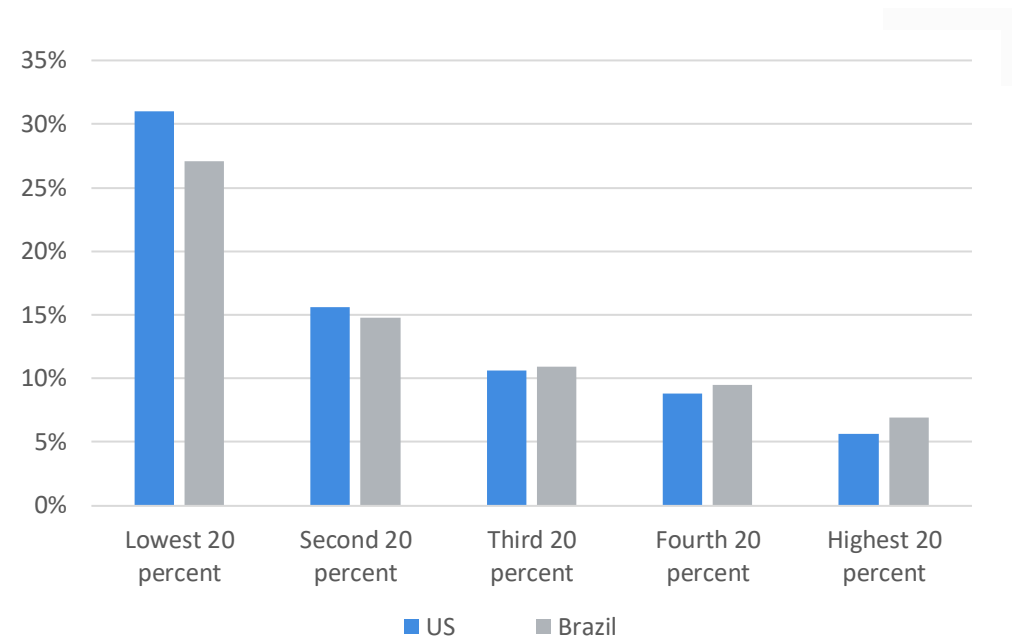
## Shocks to the economy impact the level of income inequality and poverty

- **The pandemic and the military conflict in Ukraine** have immediate impacts on the level of income inequality
- **Food price spikes** can instantly affect progress toward eradicating extreme (income) poverty
- Countries with **higher income inequality** and lower levels of economic resilience are at **higher risk of food insecurity**
- **Higher food prices coupled with higher fuel costs** are exacerbating the current cost-of-living crisis
  - **High inflation** disproportionately affects real disposable incomes of low-income households

Share of spending on food versus income inequality

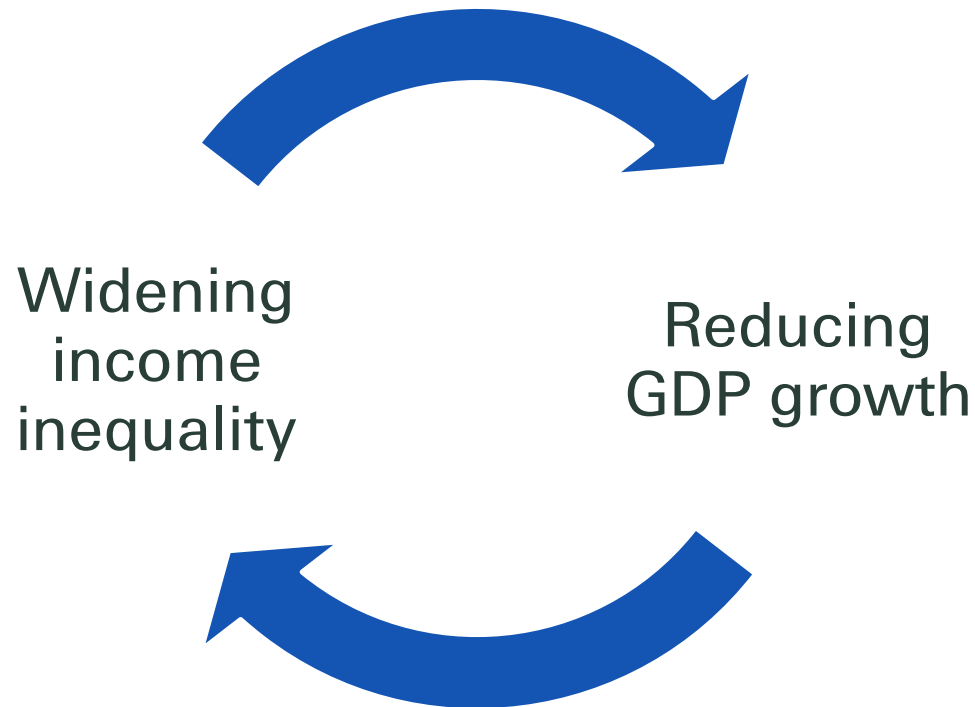


Household spending on food as percentage of pre-tax income

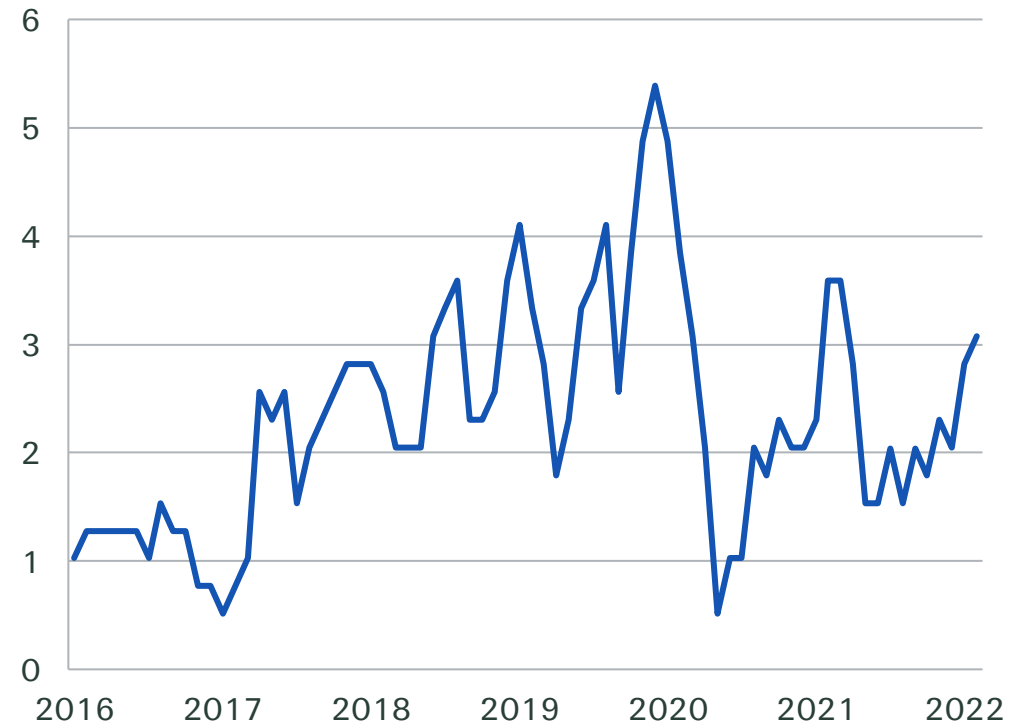


# Why income inequality matters?

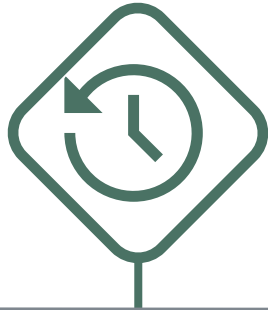
Inequality discourages economic growth and sows the seeds of social unrest



Monthly share of countries experiencing unrest  
Implied by the Reported Social Unrest Index, 3ma (%)



## Past



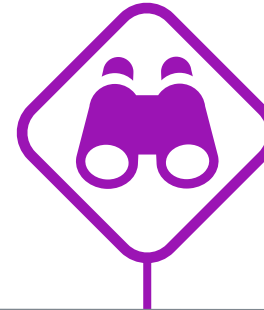
- Rising income inequality & shrinking middle class in advanced economies
- Declining inequality trend in emerging economies & record increase in middle class
- Globalisation
- Rollback of welfare states and taxation

## Present



- Shock events (Covid-19 & Ukraine war) affecting vulnerable households
- Cost of living crisis increasing food insecurity & poverty
- High inflation & slowing growth
- Heightened downside risks, incl. stagflation and recession risks

## Future

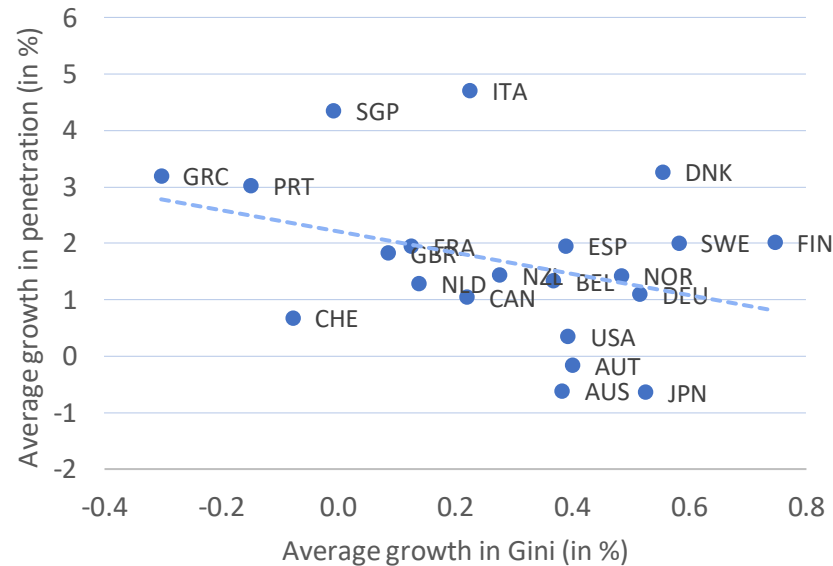


- Deglobalisation, multi-polar world, friend-shoring
- Digital divide & climate change
- Shifts in monetary and fiscal policy orthodoxies
- Structurally higher inflation
- Investing in "S" in ESG
- Need to restore resilience

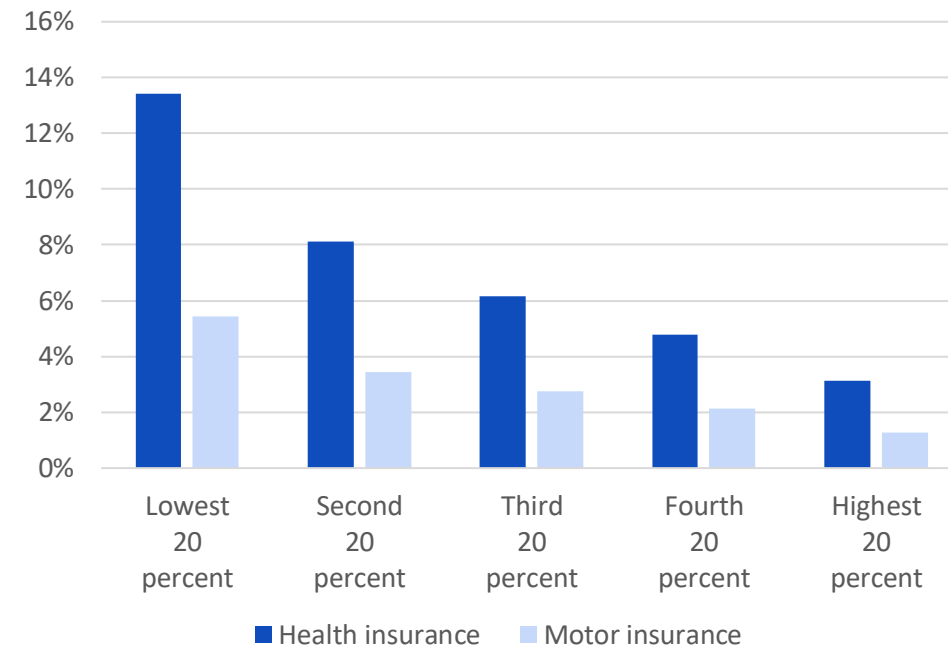
# Rising income inequality has a negative effect on insurance penetration

- **Macro level:** panel data shows a rising Gini coefficient correlated with slower insurance penetration growth in the past three decades
- **Micro level:** US household data confirms higher income households spend a smaller fraction of their income on insurance

**Growth in total insurance penetration (in %) vs growth in Gini (in %) for advanced economies, 1990-2019**



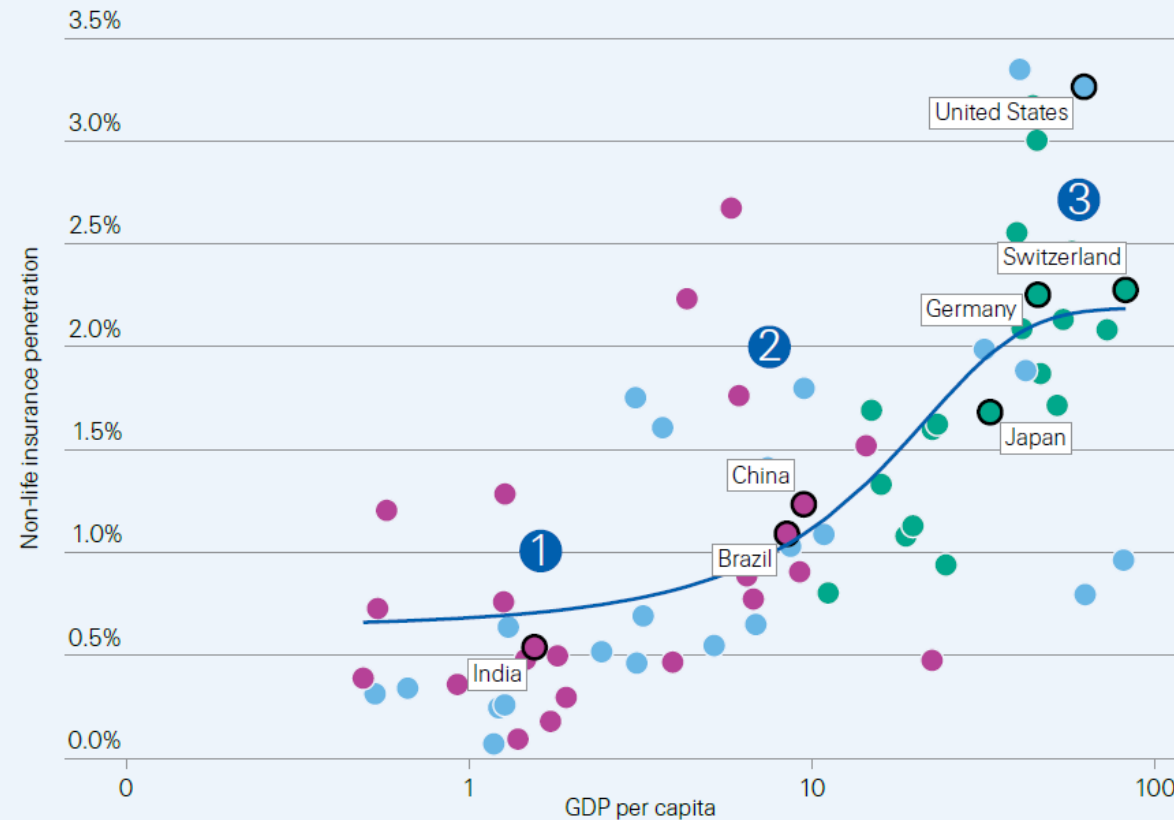
**US household spending as % of after-tax income on health and motor insurance in 2020, by income quintile**



# Insurance demand benefits from a growing middle class and declining inequality

## Few high inequality countries reach the accelerating section of the S-curve

Non-life insurance penetration rate and GDP per capita by country, 2019



- ↗ **Growing middle class boosts insurance penetration...**
  - 1 There is little demand for insurance in countries with high poverty rates.
  - 2 Emerging economies' rapid growth lifts large parts of their populations out of poverty and strongly grows the middle class. The S-curve slopes up steeply given growth in insurable assets and affordability of insurance products.
  - 3 Declining middle class contributes to flattening of the S-curve for high-income countries.
- ↘ **...but rising inequality holds back insurance markets**
  - 2 Declining inequality and an elastic demand for insurance in middle-income countries contribute to the steep slope of the S-curve.
  - 3 Rising inequality and inelastic demand for insurance contribute to the flattening of the S-curve for high-income countries.

Inequality: ■ Low ■ Middle ■ High — Traditional S-curve

Note: colour of dots indicates the inequality level of the country in the latest year available, as measured by the Gini coefficient (from lowest inequality in green, to highest inequality in red). Blue line shows the fitted S-curve model, a non-linear relationship between insurance penetration and economic development that has been discussed in previous *sigma* publications. Source: Swiss Re Institute

Protection gaps are larger in advanced economies due to rising inequality  
But the picture is more mixed in emerging economies

### In Advanced Economies...

The **natural catastrophe protection gap** for 2019 was about

**2.5%**

**larger** due to the **rise in inequality** than it would have been had inequality remained at the 1990 level. This translates into

**USD 1.7 trillion**

more in **asset values** that would be covered against nat cat perils, had inequality not risen.

**Rising inequality** resulted in a 2019 **mortality protection gap** that is

**8%, or USD 5.4 trillion**

**larger** in **sums assured**, in advanced economies.

### In Emerging Economies...

The average effect on **P&C insurance** of the **decline in inequality** since 1990 was a **boost** of

**USD 9 billion or 6.7%**

of 2019 DPW.

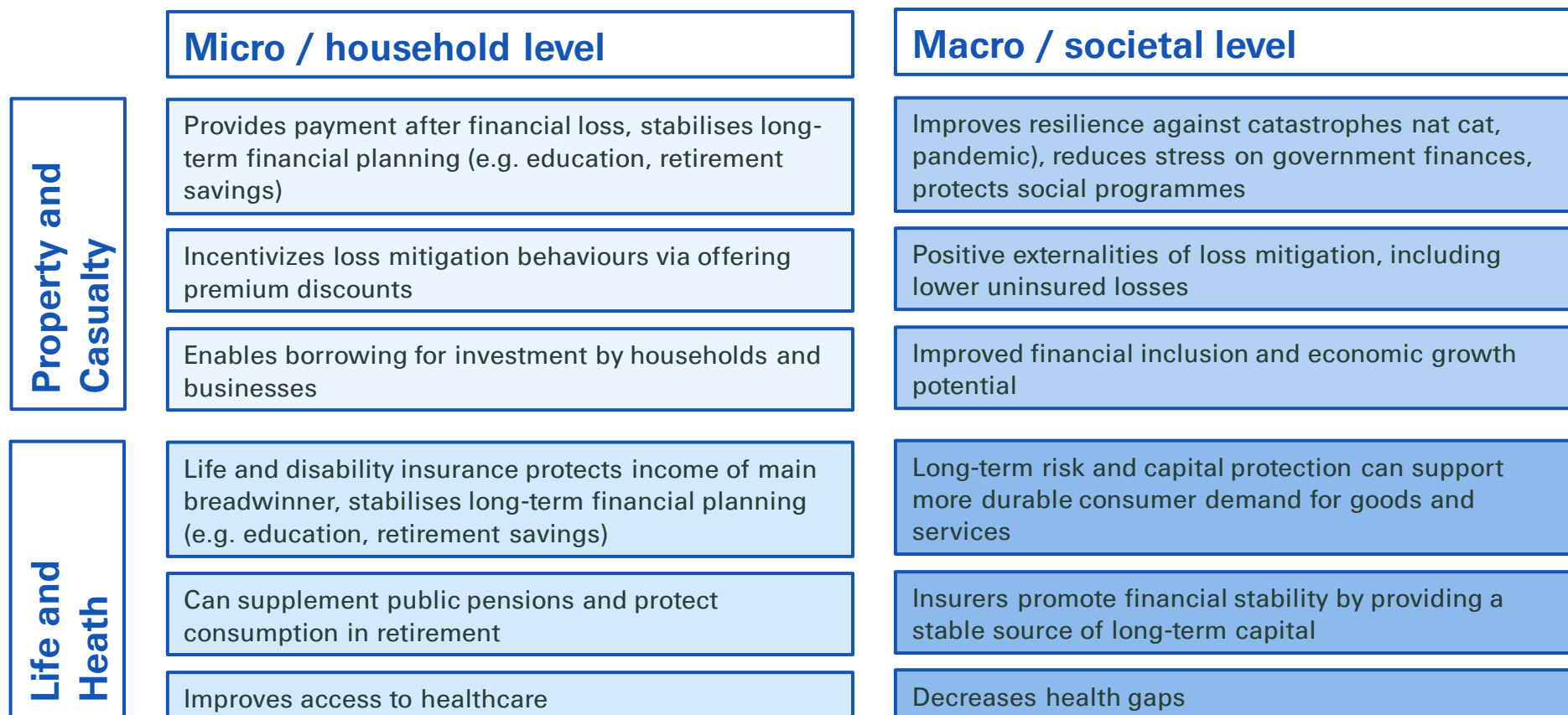
For **life business**, the **declining inequality** from 1990 to 2019 created a **headwind** of

**USD 8 billion or 4.0%**

of 2019 DPW.

# Insurance supports individuals, societies and governments to weather disasters

## Insurance increases personal and societal resilience



Public policy and private insurance can work together to reduce inequality

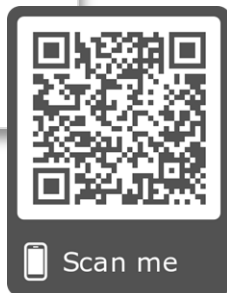
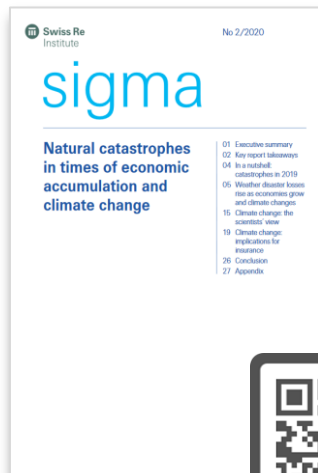


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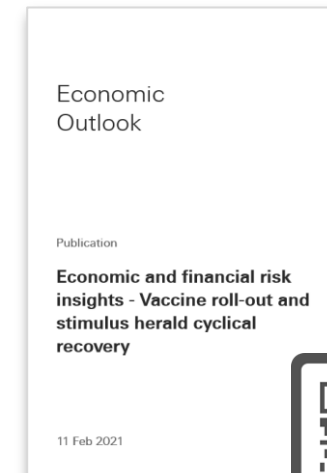
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