



Swiss Re's new *sigma* study explores the growth of insurance in emerging markets and the prospects for Islamic insurance

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Zurich, 3 December 2008 – Swiss Re's new *sigma* study explores the latest developments in the insurance sector of emerging market economies, with a special focus on the growing market for takaful, a form of Islamic insurance.

The first half of the study covers the latest developments in the insurance industry in the emerging markets. The second half is devoted to a discussion of takaful, a form of financial protection based on mutual assistance and joint risk bearing that is widely accepted by Islamic scholars.

Non-life insurance in the emerging markets

In real terms, emerging market premiums in the non-life sector grew by 11.6% in 2007. Premium volume in 2007 amounted to USD 199bn. South and East Asia (+13%), Eastern Europe (+12%) and the Middle East (+12%) grew the fastest. According to Daniel Staib, one of the study's co-authors, "The non-life sector benefited from the strong economic environment and the introduction of new compulsory lines in the Middle East." Staib adds, "The motor and property businesses continued to dominate the emerging markets insurance landscape in 2007, with motor insurance outperforming the non-life market as a whole."

Life insurance in the emerging markets

Growth in the life market slowed from 18% to 14% in 2007. Premium volume in 2007 amounted to USD 223bn. Co-author Prudence Ho notes, "The strong performance of the stock markets in the first three quarters of 2007 led to increased sales of investment-linked life products. The launch of new products and the increasing market share of bancassurance, the provision of insurance services by banks, also contributed significantly to the sector's results."

Most of the regions decelerated only marginally from their record high levels of the previous year. In South and East Asia, Indonesia (+57%) grew the fastest in 2007. In India, the second-largest market, growth of new business fell from 145.7% in 2006 to just 9.6% in 2007.

Insurance trends and the outlook for the emerging markets

One of the recent developments in the insurance sector of emerging markets is the decision by some regulators to push for the introduction of more stringent capital requirements. Another development is the expansion of microinsurance, which extends coverage to low-income individuals. Finally, bancassurance has continued to grow in importance as a distribution channel.

The financial crisis in industrialised countries has clouded the near-term economic outlook. Demand for products exported from emerging economies will shrink. Commodity prices have already fallen significantly and are expected to continue their slide, leading to lower inflation. Daniel Staib notes, "Insurance in the emerging markets is expected to grow at a slower pace in 2008 and 2009, but its longer term growth prospects remain positive." He adds, "Factoring in these considerations, average annual growth is likely to drop from the 2002 to 2007 levels of 11.4% in life and 10.6% in non-life to 7-10% in life and 3-8% in non-life between 2008 and 2013."

Islamic insurance – the growth of takaful as a solution

Various Islamic insurance models that comply with the shariah, the body of Islamic religious law, have been adopted in Muslim countries. Takaful, the focus of the *sigma* study, is the most accepted model.

Takaful is a system based on the principle of mutual assistance (ta'awun) and voluntary contribution (tabarru), where risk is shared collectively and voluntarily by a group of participants. Through payment of a voluntary donation and the clear definition of the type of loss, impermissible elements such as uncertainty (gharar) and excessive risk taking (maisir) are removed from the contract.

Takaful involves:

- the creation of a shariah supervisory board that oversees insurance operations and compliance with the shariah;

- the separation of shareholder funds from policyholder funds;
- the commitment to distribute technical profits to policyholders;
- the avoidance of investment in non-shariah-compliant assets.

Islamic insurance – future prospects

Between 2004 and 2007, the average annual growth rate for takaful was estimated at 25% (adjusted for inflation) versus 10.2% of that in the conventional market. Although takaful premiums of approximately USD 1.7bn were written in 2007, the global takaful market could reach USD 7bn by 2015. The 1.5bn Muslims around the world represent a growing client segment for the insurance sector.

For this *sigma*, five markets were analysed in detail: Bahrain, Indonesia, Malaysia, Saudi Arabia and the United Arab Emirates. The two takaful markets with the largest growth potential are Saudi Arabia and Malaysia.

According to Prudence Ho, “Takaful is set to grow because populations of Muslim countries are rapidly growing and because shariah scholars agree that Muslims should refrain from buying conventional insurance if a takaful operator is selling the same product and offering similar benefits and services.” She adds, “Many companies – global, regional and local – have set up new takaful operations over the past five years and retakaful capacity is also expanding continuously.”

Regarding the challenges facing takaful, Daniel Staib explains, “For takaful to prosper, staff with insurance and shariah expertise, shariah scholars, and solutions for coping with large risks are needed.” He adds, “Further standardisation of the operating models and regulations are required. Improving the general public’s awareness of takaful products is also key.”

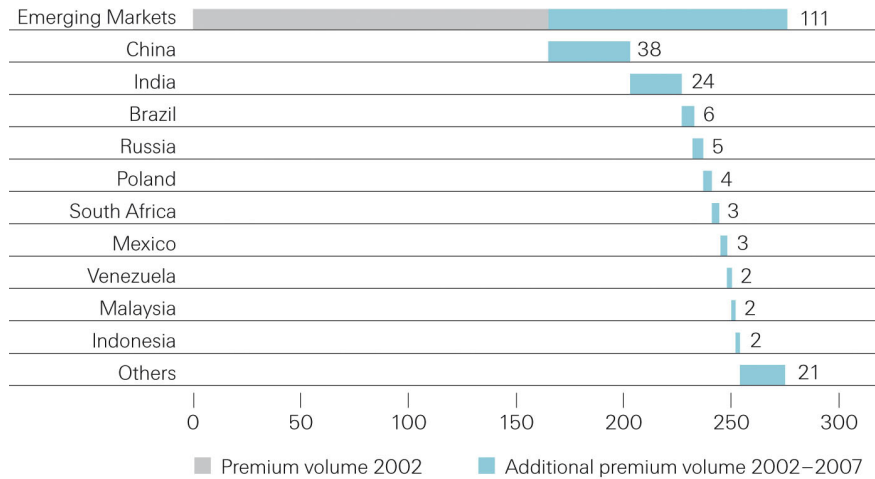
Both authors agree that if companies – with the support of regulators – rise to this challenge, the international takaful industry is well positioned to realise its full potential and attract customers from all over the world, regardless of their religious affiliation.

Top ten emerging countries in non-life and life insurance

Life insurance	2007 premium volume (in USDm)	Share of emerging markets	Non-life insurance	2007 premium volume (in USDm)	Share of emerging markets
China	58 673	26.4%	China	33 810	17.0%
India	51 322	23.0%	Russia	28 973	14.6%
South Africa	34 430	15.5%	Brazil	20 501	10.3%
Brazil	18 533	8.3%	Mexico	9 763	4.9%
Poland	7 950	3.6%	South Africa	8 345	4.2%
Mexico	7 653	3.4%	Poland	7 677	3.9%
Malaysia	5 573	2.5%	India	7 402	3.7%
Indonesia	4 728	2.1%	Turkey	7 201	3.6%
Thailand	4 521	2.0%	Venezuela	6 977	3.5%
Chile	3 792	1.7%	Argentina	4 471	2.2%
Top 10	197 177	88.6%	Top 10	129 619	68.0%

Source: National insurance authorities; Swiss Re Economic Research & Consulting

Contribution to emerging market premium growth 2003-2007 (at 2002 real prices)



Notes for editors

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How to order this *sigma* study:

The English, German, French, Italian and Spanish versions of the *sigma* study No 5/2008, "Insurance in emerging markets: overview and prospects for Islamic insurance" are available electronically on Swiss Re's website: www.swissre.com/sigma. The versions in Chinese and Japanese will appear in the near future.

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