

# **ADB FSD CoP International Insurance Seminar**

## **The Development of Microinsurance and the Role of Credit Rating Agencies**

**Andrea E. Keenan**

**Vice President – Research & Ratings Criteria**

This is not an ADB material. The views expressed in this document are the views of the author/s and/or their organizations and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy and/or completeness of the material's contents, and accepts no responsibility for any direct or indirect consequence of their use or reliance, whether wholly or partially. Please feel free to contact the authors directly should you have queries.

**October 21, 2013  
A.M. Best - Oldwick, NJ**



# Disclaimer



© AM Best Company (AMB) and/or its licensors and affiliates. All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT AMB's PRIOR WRITTEN CONSENT. All information contained herein is obtained by AMB from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall AMB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AMB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if AMB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Credit ratings do not address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AMB IN ANY FORM OR MANNER WHATSOEVER. Each credit rating or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security or other financial obligation and of each issuer and guarantor of, and each provider of credit support for, each security or other financial obligation that it may consider purchasing, holding or selling.

# Agenda



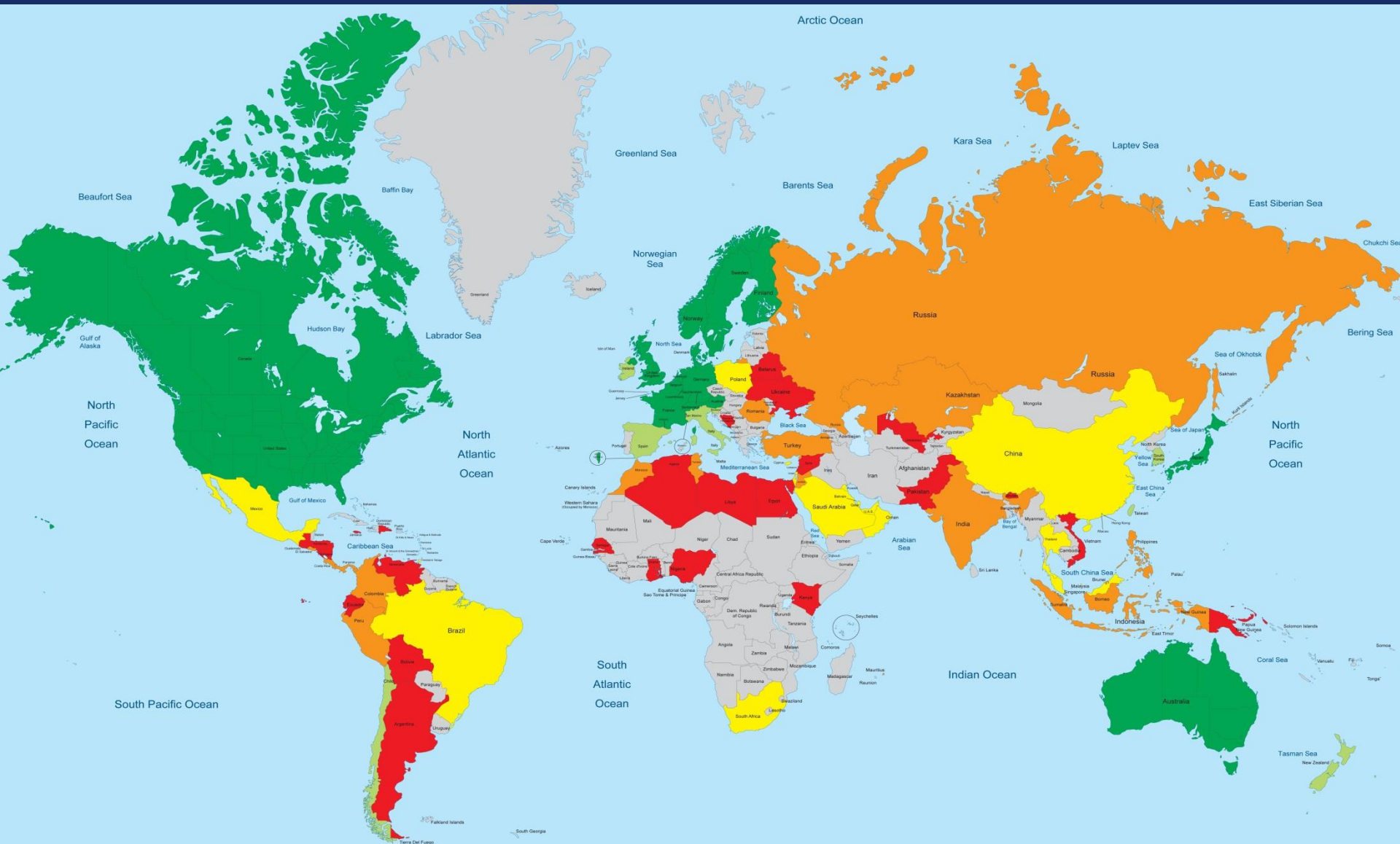
- Challenges to Insurance Market Development
- Microinsurance and Development
- Credit Ratings and Microinsurance

# Agenda

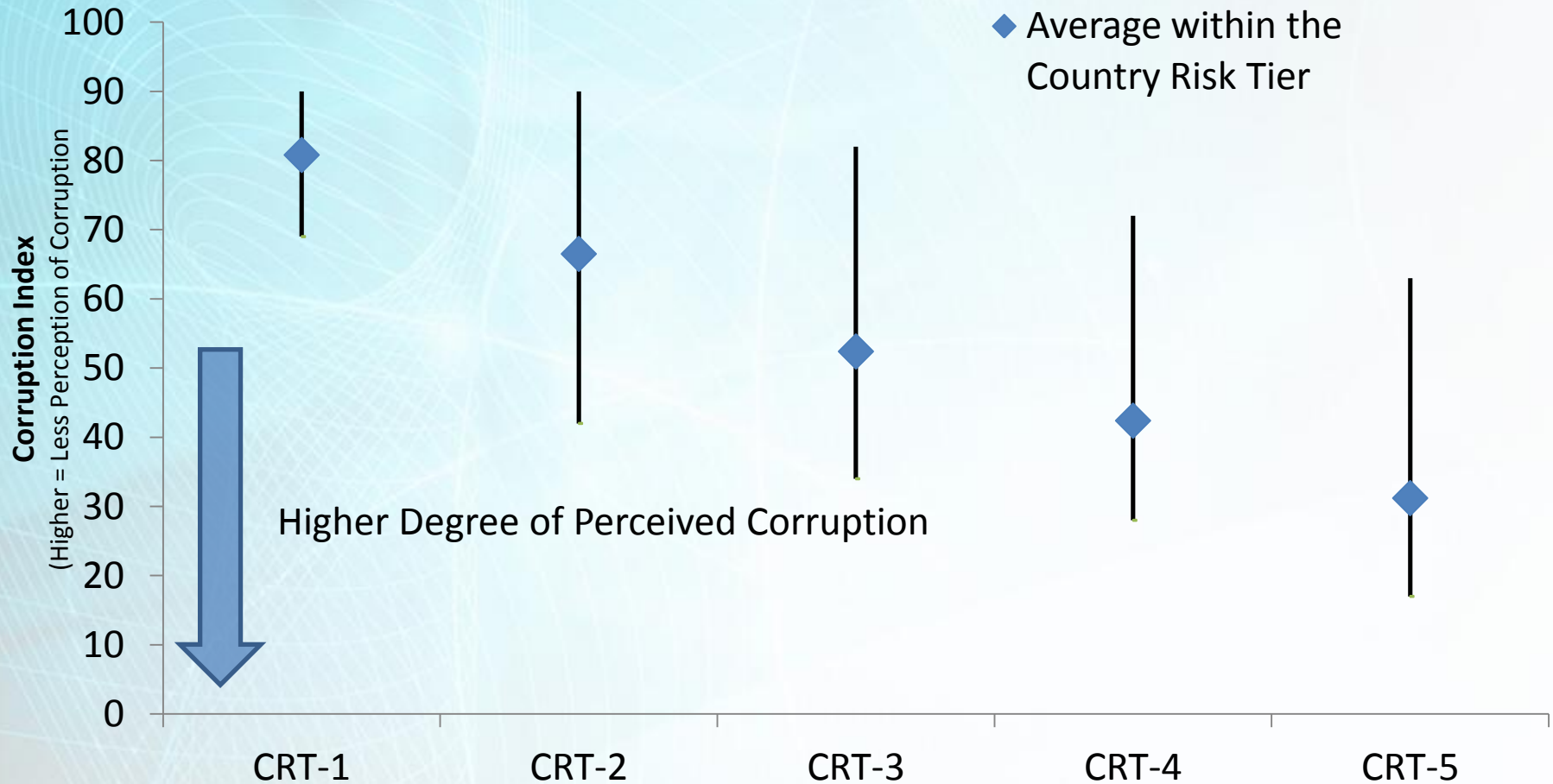


- Challenges to Insurance Market Development
- Microinsurance and Development
- Credit Ratings and Microinsurance

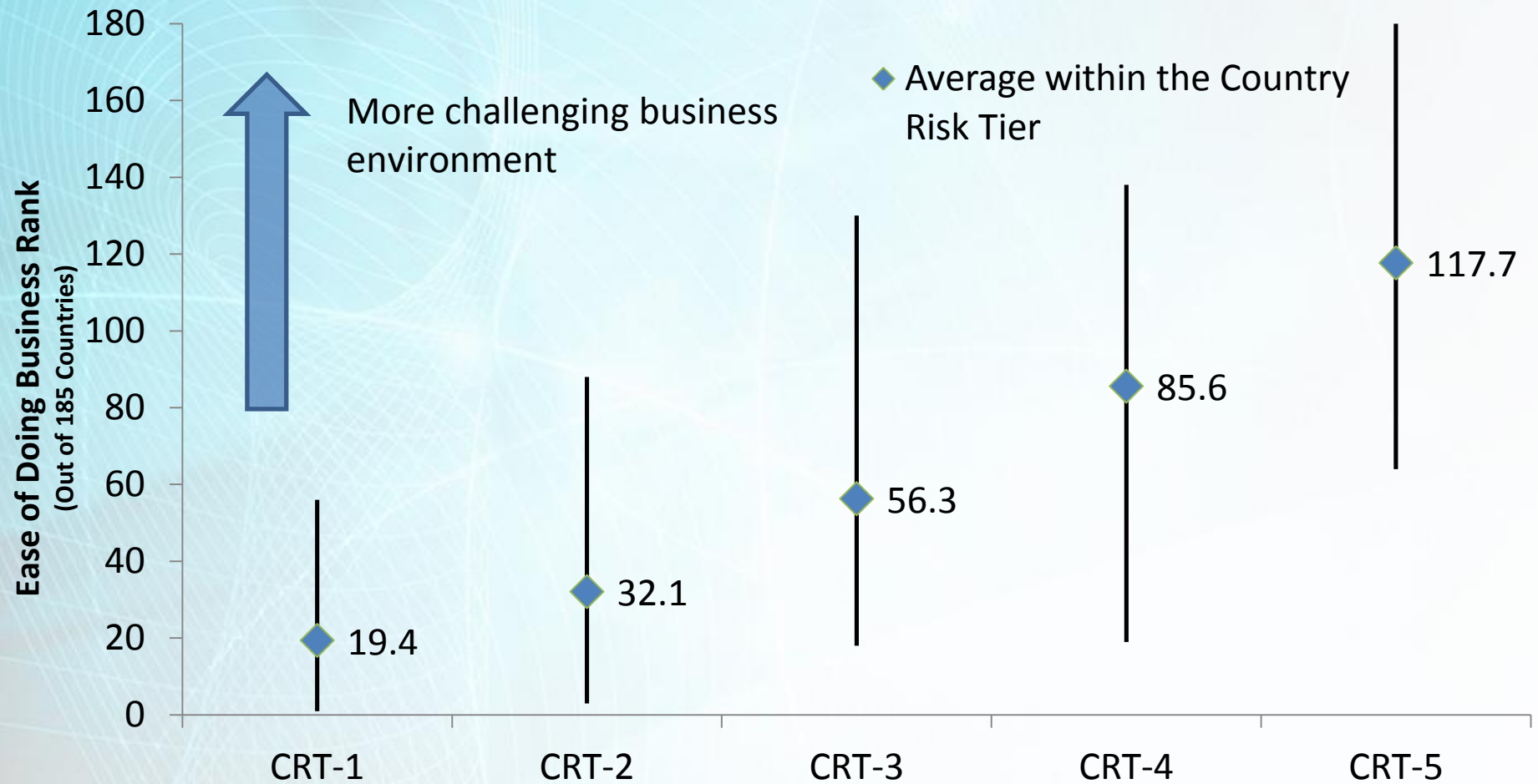
# A.M. Best Country Risk Analysis



# Corruption Perception Index



# World Bank Ease of Doing Business

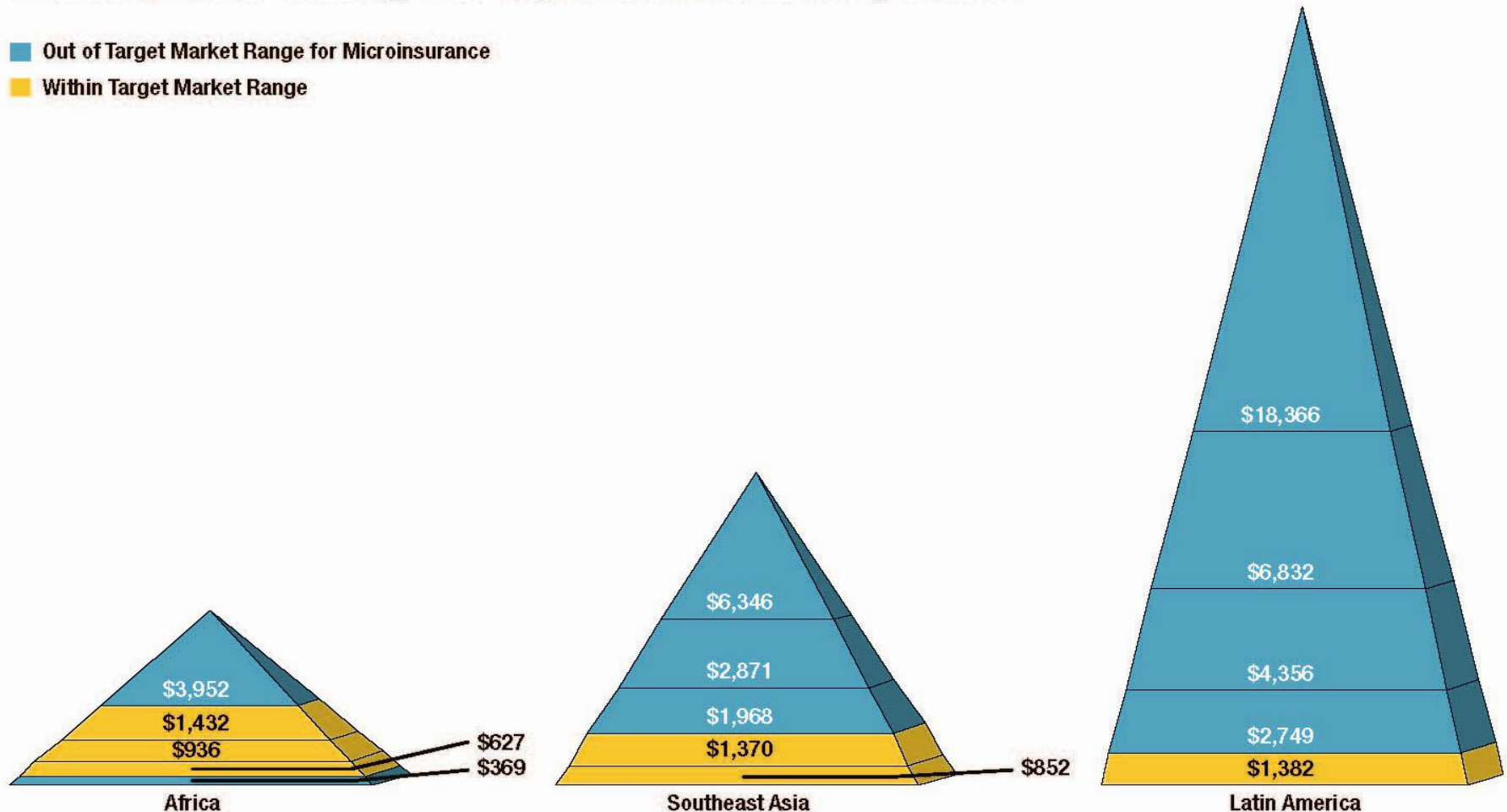




# Demographics Consistent with Microinsurance Development



- Out of Target Market Range for Microinsurance
- Within Target Market Range



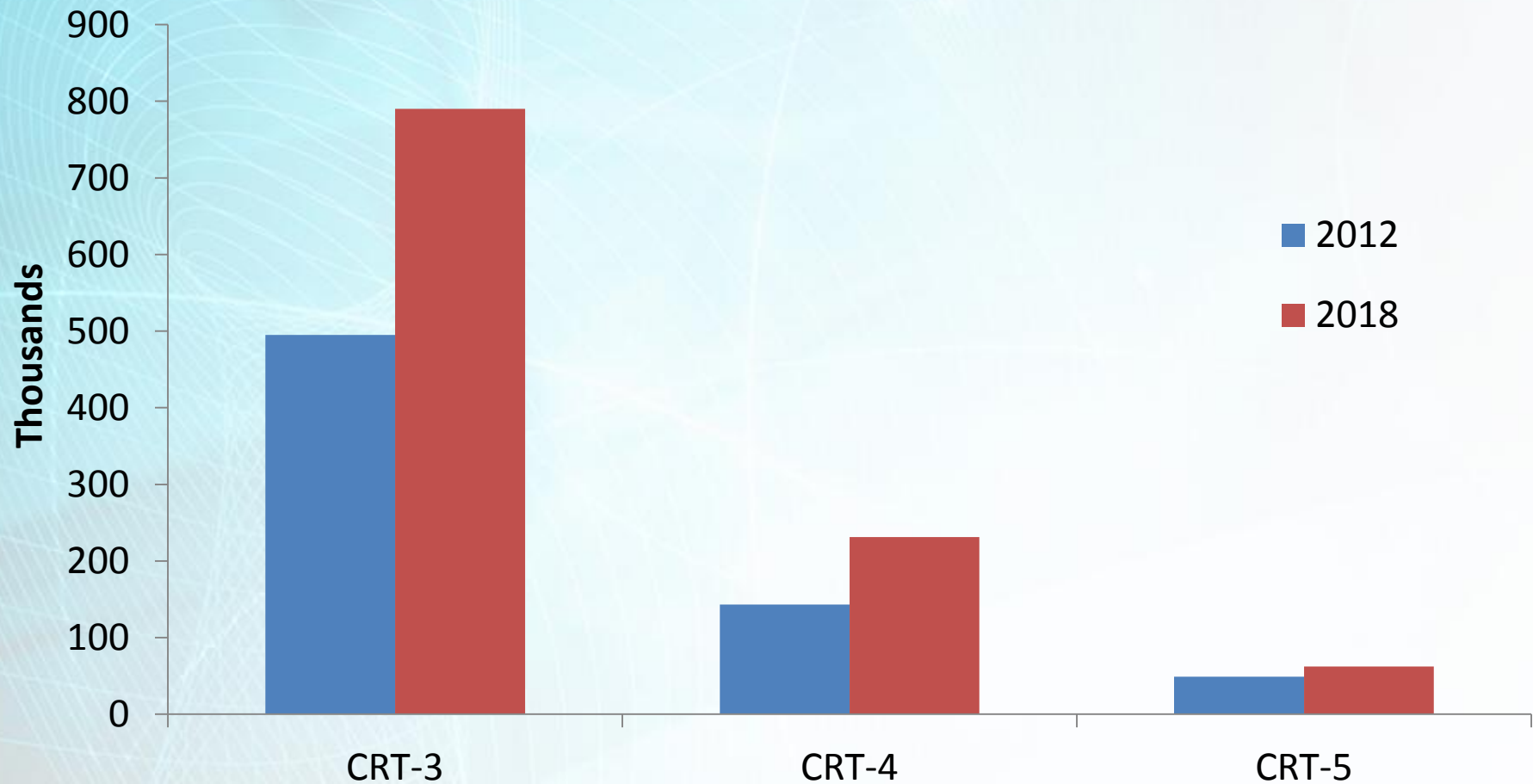
Sources: World Bank, International Monetary Fund, A.M. Best Co.

# Agenda

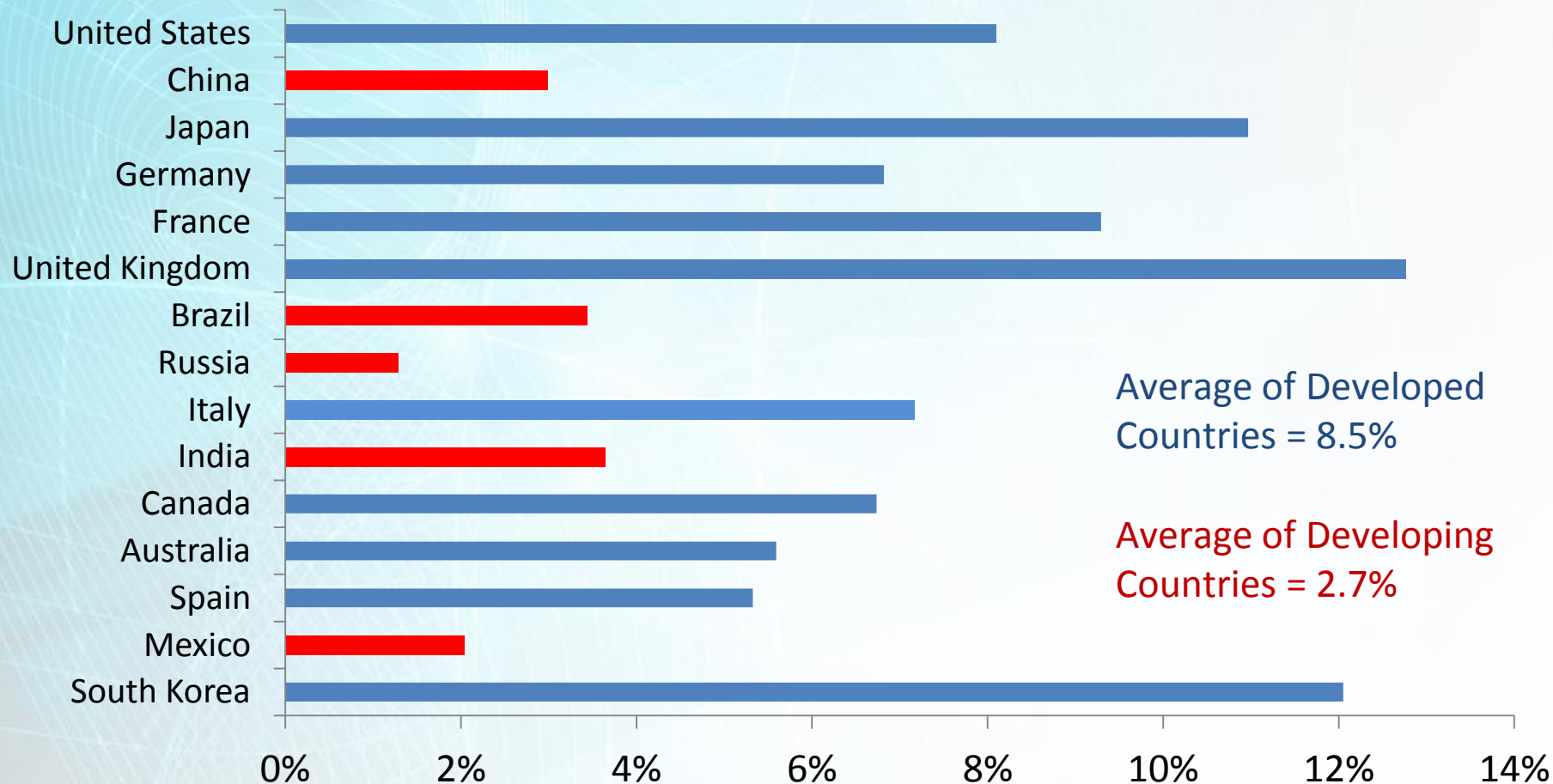


- Challenges to Insurance Market Development
- **Microinsurance and Development**
- Credit Ratings and Microinsurance

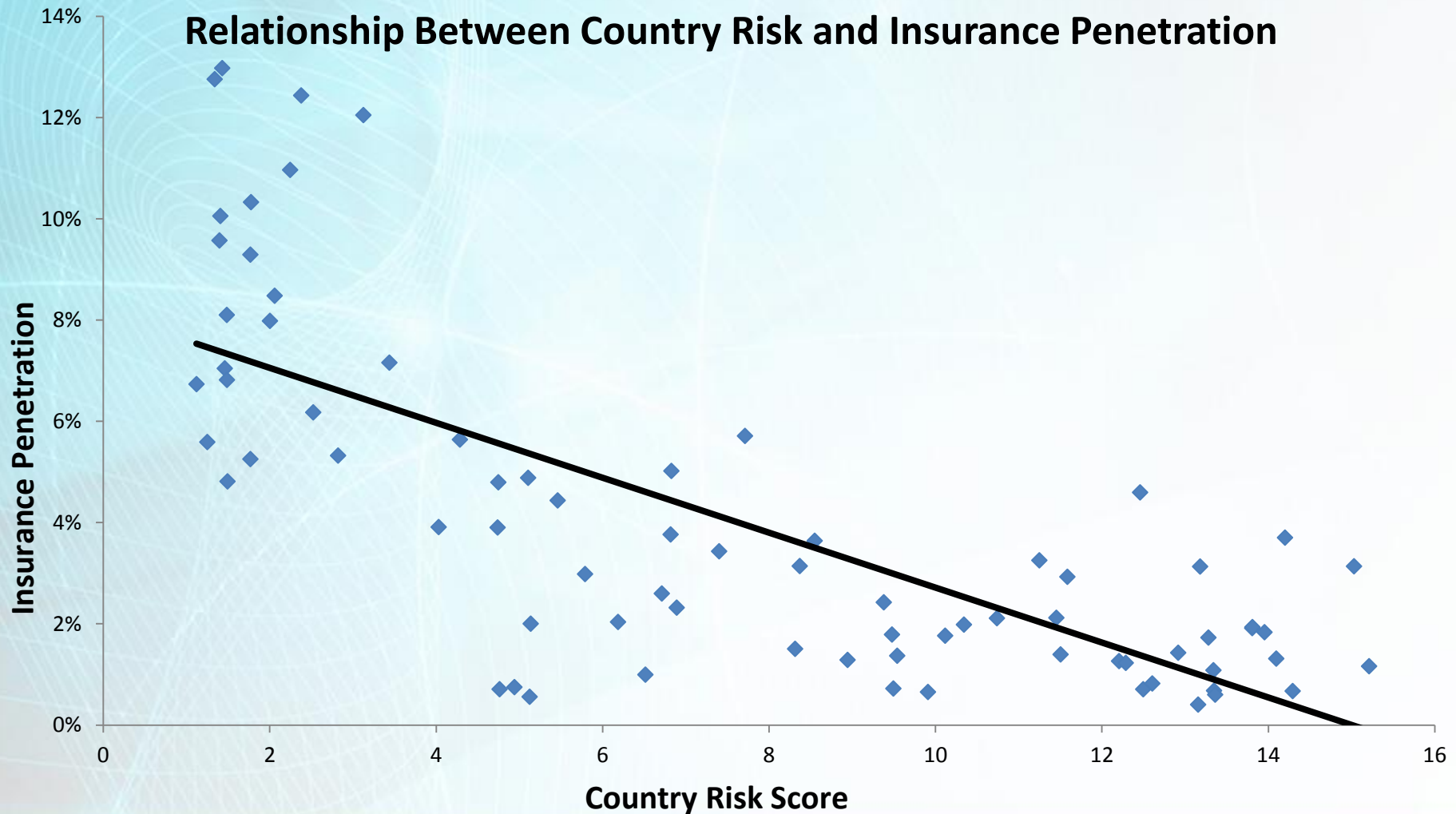
# Premiums in Emerging Markets



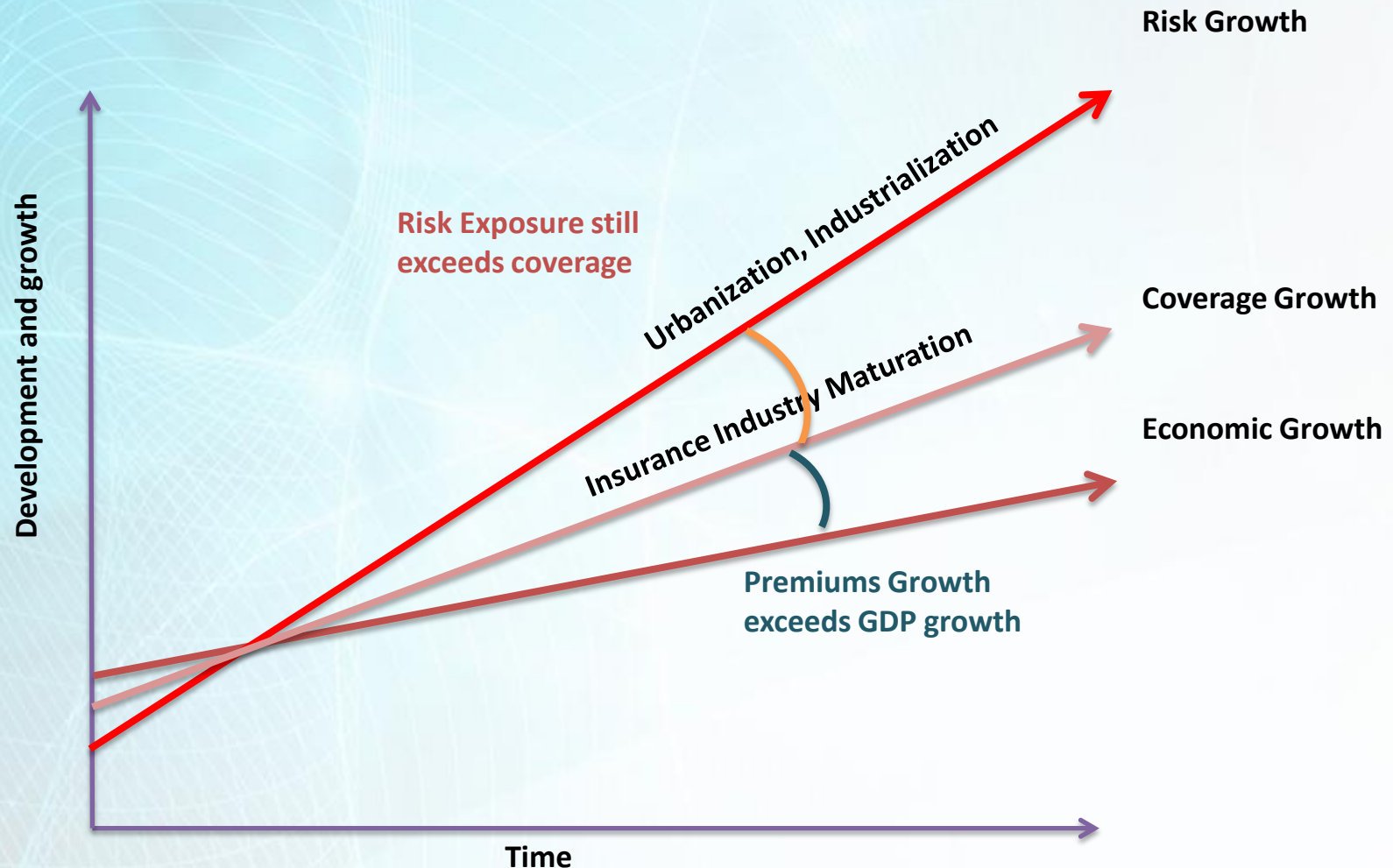
# Insurance as a % of GDP for the 15 Largest Economies



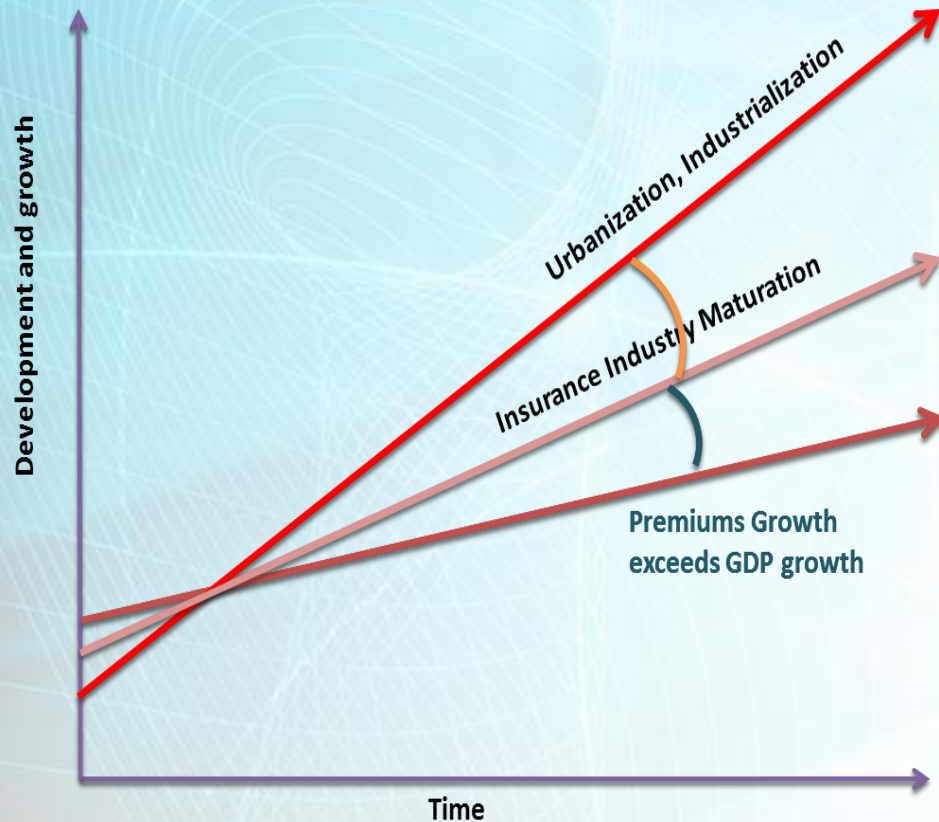
# Country Risk and Insurance Penetration



# The Gap Widens Between Risk and Cover



# Microinsurance and the Gap



- Coverage exists for commercial risks and wealthy individuals.
- The gap is occupied by the working poor.
- Microinsurance targets the working poor.

# Agenda



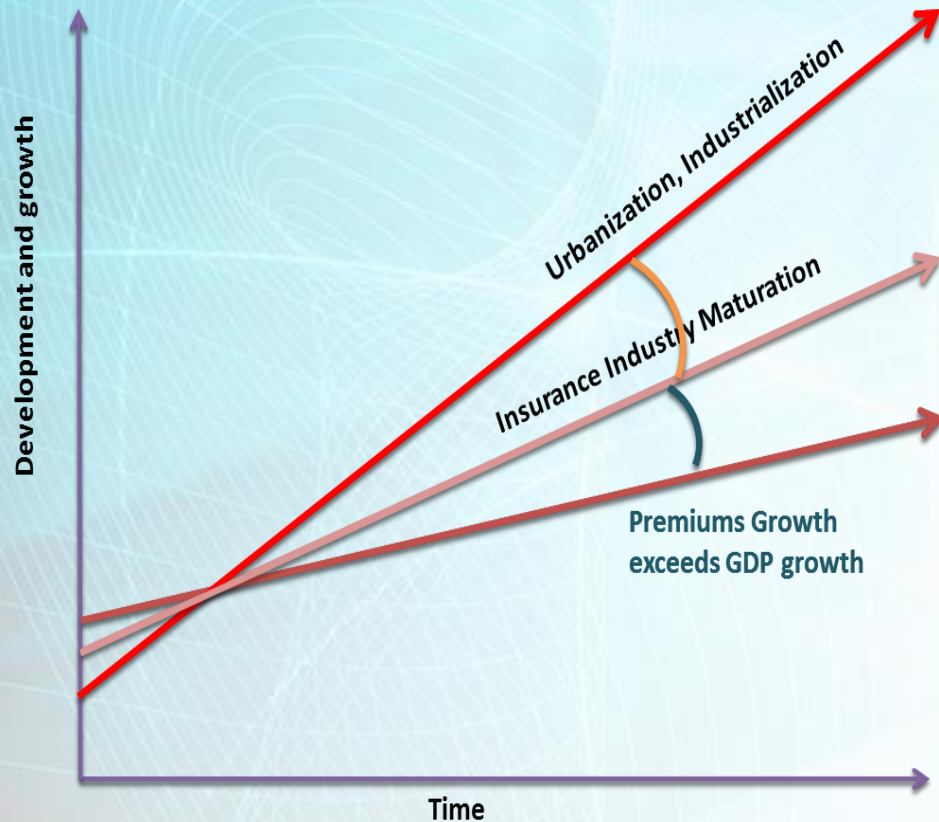
- Challenges to Insurance Market Development
- Microinsurance and Development
- Credit Ratings and Microinsurance

# Addressing Gap from Two Directions



- Current Microinsurance Efforts Target
  - Education / Awareness
  - Supply and Distribution
  - Funding and Financing
  - Regulation
- Bottom-Up Efforts Addressing Needs of Insured
- But... CRT-1 and CRT-2 Tools Can Supply Top-Down Resources Addressing Concerns of Suppliers / Buyers

# Microinsurance and the Gap



- Global Carriers Increasingly Interested in this Population Segment
- Information Gap is Major Hindrance to Increasing Capital Inflow

# Users of Best's Ratings



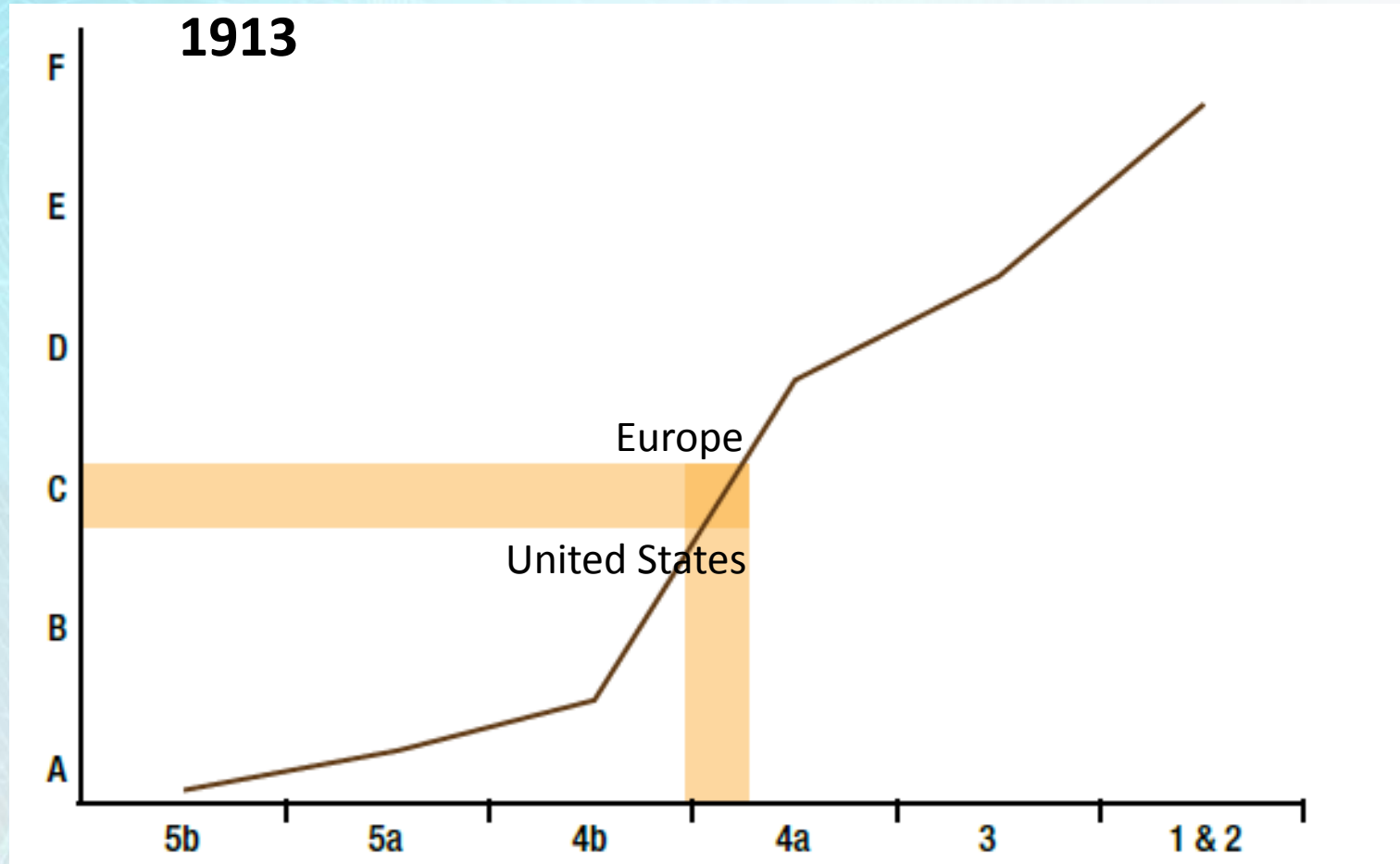
- Insurance Companies
- Agents
- Brokers
- Regulators
- Policyholders
- Financial Institutions
- Investors
- Academics
- Employee Benefits Managers
- Boards of Directors
- Corporate Risk Managers
- Consultants
- Consumers
- Reinsurers
- Captive/Alternative Risk Managers
- Debt and Equity Research Analysts
- Investment Professionals
- Government Agencies

# Need for Operating Performance Metrics

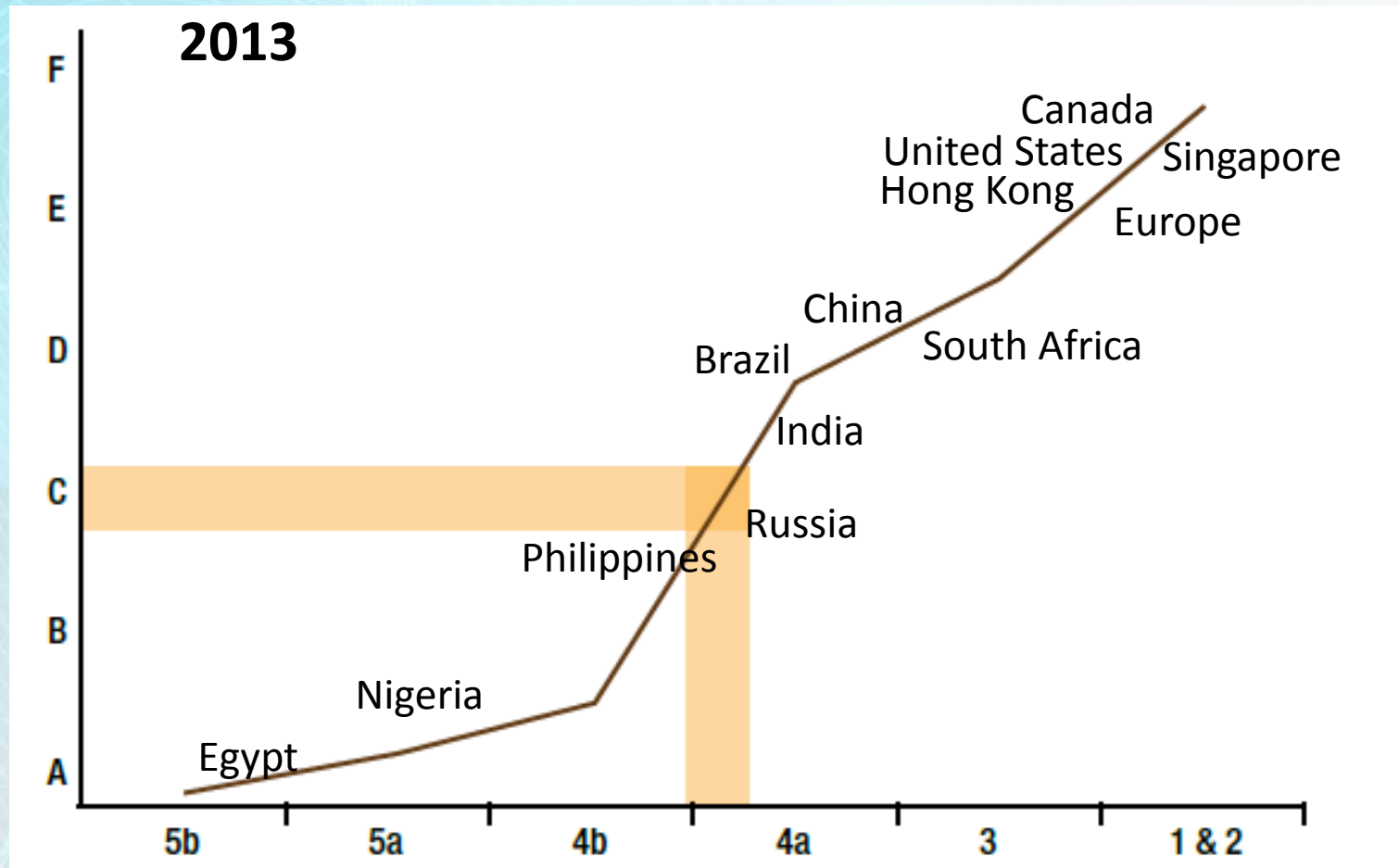


- Regulators
- Reinsurers
- Reinsurance Brokers
- Investors
- Donors / Community Organizations
- Service Providers / Potential Service Partners
- Academics

# A Final Note on Development



# Stages of Market Development



# Conclusions



- Emerging markets are seeing a gap in insurance coverage as their economies grow.
- Microinsurance specifically, and financial inclusion in general, plays an essential role in the narrowing of that gap.
- Learning from history and understanding the current environment, as well as the tools available developed over time, information and analysis can contribute to this progress.

# **FSD CoP International Insurance Seminar**

# **Thank You**

**Andrea E. Keenan**

**Vice President – Research & Ratings Criteria**

**October 21, 2013  
A.M. Best - Oldwick, NJ**



# Appendix



Stage	A	B	C	D	E	F
Country Risk Tier	5(b)	5(a)	4(b)	4(a)	3	1 & 2
Economy Classification	Frontier	Frontier	Frontier	Emerging	Emerging	Emerging
Wealth (GDP per capita)	1,105	3,316	7,099	6,383	20,882	40,254
Premiums/GDP (%)	18.5	64.6	158.4	474.9	391.8	1,599.3
Total Premiums (USD Mil)	0.7	1.0	1.37	2.8	3.5	9.5
Non-Life Premiums Growth (%)	25.6	21.6	15.9	17.1	16.3	11.0
Avg # Rated Companies	0	1	3	4	5	160
Technology Measure (Internet Users / 1000 Population)	29	116	164	115	285	546
State Ownership of Insurance Capacity	dominant		significant		participant	marginal