



**Enhancing transparency and monitoring of insurance
markets and the way forward**
OECD-Asia Regional Expert Seminar

**Understanding the role of insurance sector
and its inter-linkages for inclusive financial
sector development in Asia**

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ADB

Overview

- Strategy 2020 of ADB
- Economic significance of insurance markets
- Macroeconomic factors affecting demand for insurance
- Insurance and economic development
- Concluding remarks

Strategy 2020 of ADB

- Vision: “An Asia and Pacific Free of Poverty”
- Three complementary strategic agendas
 - Inclusive growth
 - *putting in place sound policies and institutions to improve the poor’s access to credit/ insurance and basic productive assets*
 - *Strengthening social safety nets to prevent extreme deprivation*
 - Environmentally sustainable growth
 - Regional integration

To better mobilize resources - including region’s savings and inbound capital flows – and maximize returns

Economic significance of insurance markets

- In 2009 (Swiss Re)
 - USD 4066 bn (7% of global GDP) in direct premium was expended to buy insurance products
 - USD 533 bn (13.1% of global insurance premium) generated by insurance companies in developing countries
 - 50 countries accounting for 93.4% of total world premiums
- Two traditional measures
 - **Insurance density** (premiums per capita in USD)
 - Currency fluctuations affect comparisons – PPP correction may be significant
 - **Insurance penetration** (ratio of direct premium written to GDP)
 - Ignores difference in product design, price levels and other market characteristics
- Penetration and density measure different perspectives of relative importance in insurance sector
- Alternate measure
 - **Benchmark ratio of insurance penetration**

Economic significance of insurance markets

- Economic significance of insurance:
 - Contributes to formation of national income by creating value added
 - Role in providing indemnification
 - Role as institutional investor
- Alternate measures
 - Increase in technical reserves and provisions (or assets) of the insurance sector with the increase in gross fixed capital formation
 - Shows growing importance of insurance sector as a financial intermediary (E.g. In France the average ratio for 1976-82 was 20.5 compared to 13.8 for 1969-75)
 - Linking size of insurance market to level of financial development
 - When ratio of $M2/GDP$ increases, the demand for insurance increases significantly
 - Size of bank credit to GDP

Macroeconomic factors affecting demand for insurance

Economic factors

Variable	Expected effect
Disposable income	Positive
Permanent income	Positive
Income distribution/ inequality	Ambiguous
Price of insurance	Negative
Anticipated inflation rate	Negative
Annual inflation rate	Negative
Real interest rate	Ambiguous
Interest rate volatility	Ambiguous
Stock market impact	Ambiguous
Unemployment rate	Negative

Macroeconomic factors affecting demand for insurance

Demographic factors

Variable	Expected effect
Population size/ density	Positive
Urbanization	Positive <i>(some exceptions)</i>
Age structure	Ambiguous
Dependency ratio	Ambiguous
Life expectancy	Ambiguous

Macroeconomic factors affecting demand for insurance

Social and cultural factors

Variable	Expected effect
Risk aversion	Positive
Education/ human capital	Positive <i>(some exceptions)</i>
Religion	Negative
Hofstede's cultural variables	Ambiguous

Macroeconomic factors affecting demand for insurance

Structural factors

Variable	Expected effect
Financial development or banking sector development	Positive
Monopolistic market	Negative
Presence of foreign companies	Ambiguous
Market concentration	Negative
Degree of openness	Positive
Social security	Ambiguous
Legal origin	Ambiguous
Enforcement of property rights/ law	Positive
Political risk	Negative

Insurance and economic development

- Causality links between insurance sector and real sector can be classified on the basis of five possible hypothesis:
 - No causal relationship
 - Demand following
 - Economic growth leads to a rise in demand for insurance
 - Supply leading
 - Growth in insurance induces economic growth
 - Negative causal link from finance to growth
 - Interdependence

Insurance and economic development

Sector	Sample jurisdictions	Causality link
Life, property and liability, and pensions - Catalan, Impavido and Musalem (2000)	14 OECD, 5 emerging market	-No causality in many OECD countries -Mixed results in emerging market jurisdictions
Total insurance premium -Ward and Zurbruegg (2000)	9 OECD	- Supply-leading in few countries and no significant causality links in others
Life. and property and liability insurance - Webb, Grace and Skipper (2002)	55	- Supply-leading: Increased productivity over the period. - Also synergy between banks and insurers
Global insurance sector - Impavido, Musalem and Tressel (2003)	25 OECD. 7 emerging market	- Contractual savings have a stronger impact in market based financial systems
Total insurance funds -Boon (2005)	Singapore	Long term effect from insurance to GDP
Life. and property and liability insurance - Kugler and Ofoghi (2005)	United Kingdom	- Causality runs in both directions

Insurance and economic development

Sector	Sample jurisdictions	Causality link
Life, and property and liability insurance - Arena (2008)	56	-Supply leading: both life and non life sectors - Life insurance more important for high income jurisdictions
Life, and property and liability insurance -Hais and Sumegi (2008)	29 European	-Supply leading - Life insurance more important for high income jurisdictions ; property and liability insurance more important for emerging EU jurisdictions
Global insurance sector - Adams, Anderson, Anderson and Lindmark (2009)	Sweden- Long time series (1830-1938)	- Supply-leading for insurance but bank lending does not lead to growth in insurance
Life, and property and liability insurance - Curak, Loncar and Poposki (2009)	10 EU	-Supply leading: both life and non life sectors
Global insurance sector -Han, Li, Moshirian, and Tian (2010)	77	-Supply leading: more significant for property and liability insurance than life insurance. -Non Life insurance is of great importance for economic growth in developing countries

Insurance and economic development

Sector	Sample jurisdictions	Causality link
Life insurance - Ching, Kogid and Furuoka (2010)	Malaysia	- Demand following: one way relationship from real GDP to life insurance sector
Global insurance sector - Avram, Nguye, and Skully (2010)	93	-Supply leading: verified for insurance density but not for insurance penetration.
Life insurance - Chen, Lee and Lee (2011)	60	-Supply-leading; Strong impact of the development of life insurance market on economic growth. -Stock market and the life insurance market are substitutes rather than complements

Concluding remarks

- Technology will be a major factor that will determine the level of financial intermediation, the efficiency of financial intermediation and the products of financial intermediation
 - Measures of technology needs to be developed
- Need to clarify the data required to measure insurance market development alongside financial deepening
 - Need to correlate access with usage and define a measurement
- Need to analyze the nature of dependence on international insurers and reinsurers in small jurisdictions and the role played in market development

Thank you

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