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The Attraction of Emerging Markets to Insurers

Pakistan Insurance Institute Conference – Karachi - April 2015
Tony Saada – CEO Lockton MENA Limited



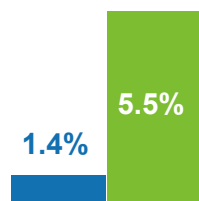
Advanced economies vs Emerging markets

- Growth phenomenon in emerging markets
- International insurers are looking for long-term growth opportunities.

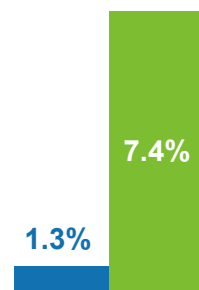
2013 - Emerging markets outperforming Advanced markets

...but lagging behind on insurance penetration

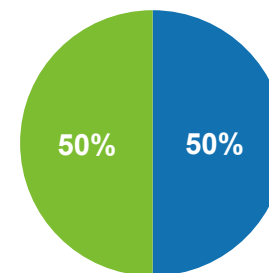
GDP Growth



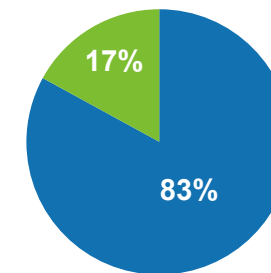
Premium Growth



World Share of GDP
2013



2013 World Insurance
Premiums



... Advanced economies Emerging and developing economies

- Projecting forward
- Premiums in emerging markets will grow much faster than premiums in advanced markets
- Demand for Nat Cat insurance is expected to grow at double the rate of growth in advanced economies

Source: Swiss Re Sigma report No 3 2014
Scor emerging markets presentation 2013
IMF world economic outlook

What has spurred growth in Emerging markets

- Emerging Asia and Latin America have contributed the most
- Favorable economic and regulatory climate
 - Healthy economic environment with low inflation → Positive effect on insurance premiums
 - Insurance demand: A growing middle class and disposable income
 - Reduced state involvement plus enabling regulation → Encourages competition
- Product innovation and new distribution channels have driven fast paced growth
 - Takaful
 - Microinsurance
 - Bancassurance
- Profitability remains a challenge for insurers
 - Overly aggressive focus on top line growth → Competition / too many players
 - Nat Cat events
 - Low interest rates

Source: Swiss Re Sigma report No 5 2011
Scor emerging markets presentation 2013

What has spurred London / Lloyds into action

- Clients have a preference for buying insurance in their local market
- Capacity and expertise is increasingly available locally
- London is losing share in reinsurance (from 15% share in 2010 to 13% share in 2013) as purchasing is increasingly centralised and emerging market growth gains in importance
- London's share of reinsurance premiums in emerging markets has decreased from 3.2% in 2010 to 2.5% in 2013, a 20%+ drop
- London's expense ratios are 9% higher than its peers putting it at a price disadvantage on price sensitive products.
- The comparatively high regulatory burden on the London market raises costs
- Emerging insurance locations such as Dubai or Hong Kong perform better on price than the more established markets in London or Switzerland
- Saturated mature markets

Source: London matters – The competitive position of the London market – LMG / BCG

Emerging markets will outperform Advanced economies

- 2013 insured and uninsured losses estimated at US\$ 140 bio
 - 50% of biggest insured losses were in the US/ Canada and Europe
 - Overall insured Cat losses US\$45 bio
 - Wide gap of US\$ 95 bio = Lack of protection particularly in emerging markets
- We are witnessing a slowdown in world economic growth , but emerging markets are faring better –
 - Forecast growth 2013-18 Asia 6.6% / Advanced economies 2.2%
 - Growth in emerging markets should remain robust, boosted by the economic outlook and increasing insurance penetration
- 50% of premium growth globally will come from emerging markets over the next 10 years

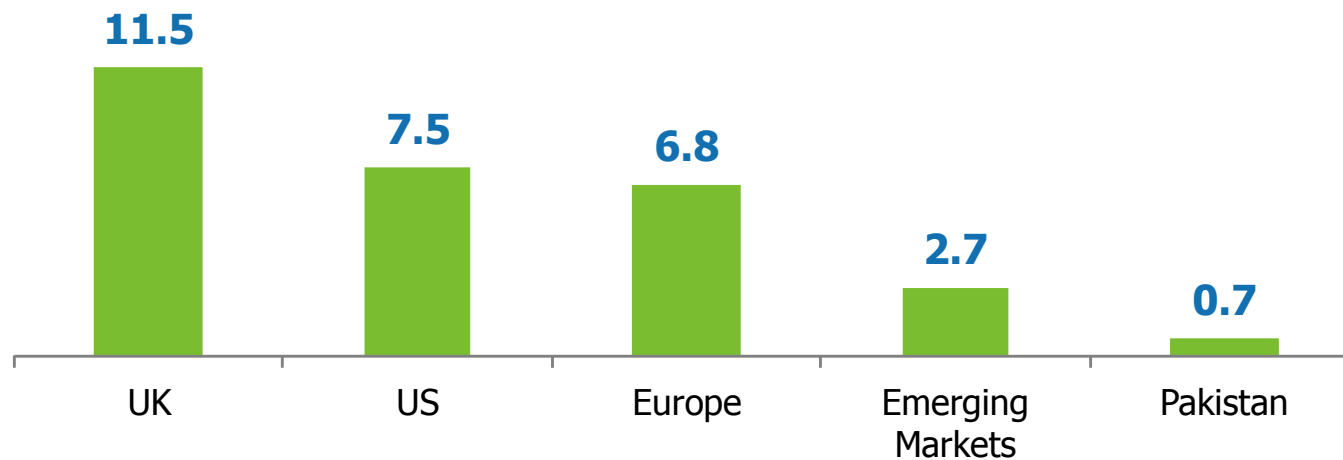
Source: Swiss Re Sigma report No 3 2014

Scor emerging markets presentation 2013

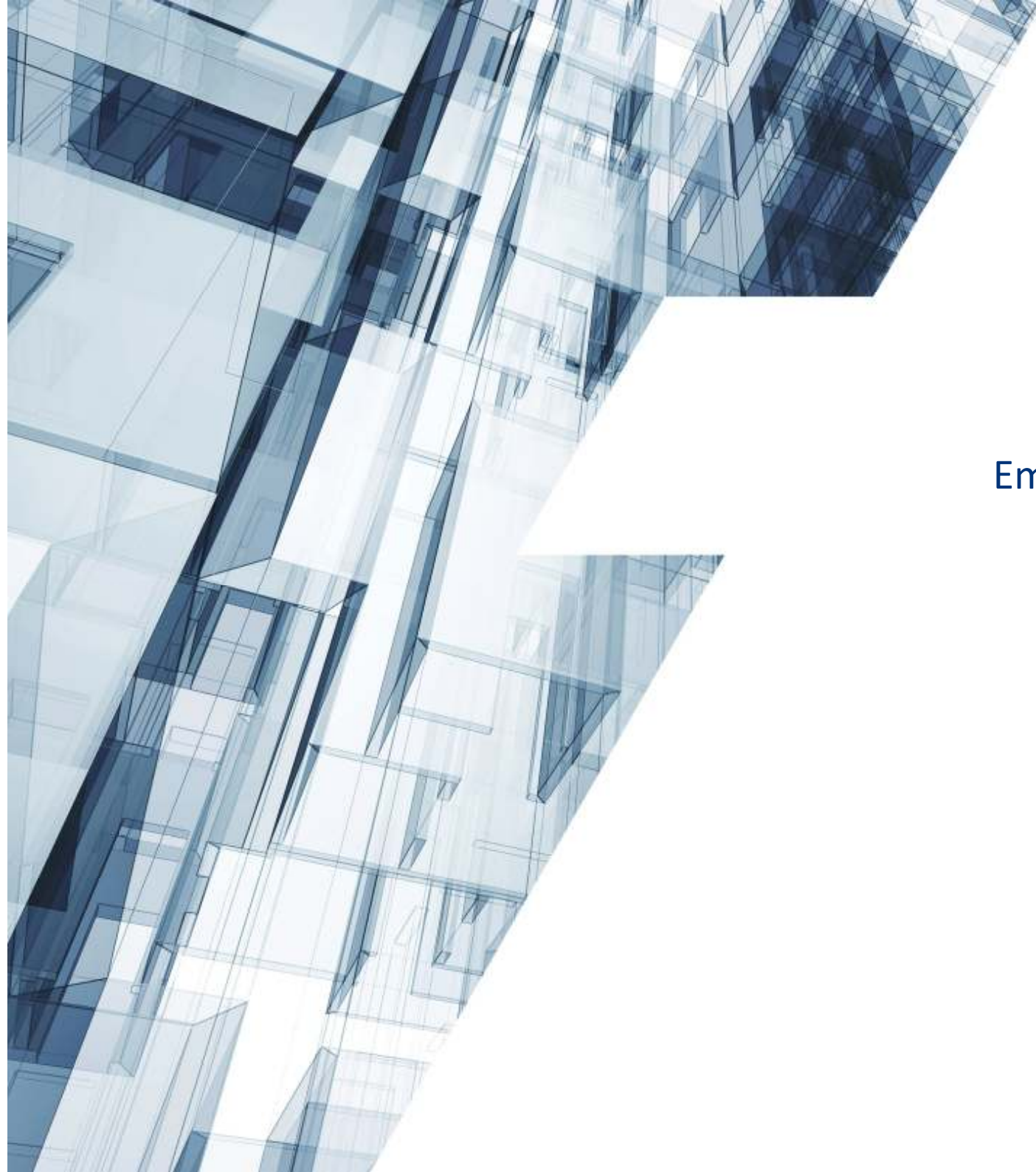
Insurance penetration

- Average per capita spending on insurance in emerging markets rose to USD 129 in 2013 from USD 121 in 2012.
- 2013 Insurance penetration in emerging markets 2.7%, US 7.5%, Europe 6.8%, UK 11.5%, Pakistan 0.7%

2013 - Insurance Premium Penetration %



Source: Swiss Re Sigma report No 3 2014



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Emerging Markets Characteristics



Emerging market Characteristics

Differing characteristics

- At different phases of development
- Regulatory environment/ Legal system
- Social security and tax environments
- Distribution network and Insurance brokers penetration
- New risks coming from fast growing economy and population
- Nat Cat perils
- Different retention levels and cessions
- Risk awareness and cultural differences

Success criteria for New Capital Investments

- The differing characteristics of New markets require different investment approaches
- Acclimatizing to local circumstances requires an understanding of what the insurance market requires, new products and services
- The planning process is time consuming and can be a drain on resources
- Local team expertise is required
- Competition can be fierce
- Returns on investment can be slow – Long term play

Barriers to success

- Regulatory / legal environment
- Distribution channels
- Product range
- Local market knowledge
- Competition pressures
- Implementation costs and risks
- Nat cat risks adequacy of premiums and information
- Foreign exchange controls
- Level of advances made in risk management
- Availability of insurance and risk management local talent
- Return on investment

The role of Policymakers

The role of Governments and regulators is key for the successful development of local (re)insurance markets

- Risk of protectionism in emerging market
- State-owned or 'national' insurers and reinsurers
- Restrictions on branches
- Restrictions on capital movement flow
- Delays in the granting of licenses

Thank You



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