Emerging markets matter

Change is in the air, but long-term opportunities abound for insurers in this complex landscape
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Foreword

Rapid technological innovations and vast flows of funds are binding the globe ever closer together, and savvy insurance executives recognize that uncovering opportunities to cultivate new insurance premiums in emerging markets can represent a powerful force to accelerate revenues.

Evaluating these opportunities has become more complex, however, after the sudden decline in the prices of energy and other commodities softened the market for many developing economies trying to scale globally.

As a consequence, insurance executives must be nimble, regularly evaluating and refining their strategies to identify which international markets are most likely to offer the best return on investment.

EY and Oxford Economics developed this report to highlight the potential for insurance growth in 22 countries around the globe. We have created a risk-opportunity matrix to illustrate the most attractive markets for investment and those that pose the greatest risks.

This sequel to *Waves of change: the shifting insurance landscape in rapid growth markets*, released in 2013, is designed to help executives better understand the challenges of this complex market landscape.

As our findings reveal, the contribution of emerging markets to insurance premium growth will remain significant over the long term. Insurers need to identify and develop new premium revenue streams, even if some former standouts will confront significant economic challenges that may hinder growth in the near term.

Shaun Crawford
EY Global Insurance Leader

Rohan Sachdev
EY Global Insurance Emerging Markets Leader
Brazil, which in our last report appeared on the road to sustainable growth, is now likely to record negative growth over the next three years and is no longer a very attractive investment target.
Global insurers know: emerging markets matter. Indeed, over the next five years, emerging markets are expected to be the main drivers of premium growth in both life and non-life insurance markets.

As the growth prospects for insurance in many mature markets remain modest, global carriers have logically turned their attention to the abundant opportunities emerging markets present. As recently as 2014, Asia and Latin America achieved double-digit growth in insurance premiums compared to a mere 5% growth in the developed world, reinforcing the view that emerging markets were poised to become an increasingly important source of global insurance growth.

2015 proved turbulent, however. Few predicted that the rapid collapse in oil and commodity prices, the slowdown in China’s growth rate, and the rapid appreciation of the US dollar would combine to generate adverse consequences in a number of important markets, leading to weaker economic output. These forces have diminished the short-term outlook for insurance premium growth in a number of key emerging markets.

That does not mean the prospects in emerging markets have evaporated. Powerful secular trends should generate significant new growth opportunities for insurance over the longer term in emerging economies, even if the short-term outlook may appear challenging.

These powerful trends, which will gather momentum regardless of the short-term outlook, include the following:

- A growing urban middle class that is beginning to achieve critical mass, especially in the fast-rising megacities across Africa and Asia
- Rapid technological transformation, which offers financial access and greater empowerment to millions of new consumers, especially through smartphone and tablet devices
- New micro-insurance and takaful products, designed to serve markets that were once considered too burdensome to cover
- The massive room for catch-up in the rate of insurance penetration across all types of coverage in emerging markets
- A flurry of regulatory changes, which will accelerate opportunities for growth by foreign carriers in many markets. As regulators move to strengthen solvency, protect consumers and encourage the development of new products simultaneously, foreign carriers can offer a mix of technologies and talent that accelerates premium growth even faster than overall economic output.

The challenge today is for insurers to determine how best to target their investments.

Mindful of the opportunities and also of the potential risks, EY is revisiting Waves of change: the shifting insurance landscape in rapid-growth markets, first issued in 2013, to better capture the potential for insurance growth in 22 individual markets. Working with Oxford Economics, we have once again compiled a matrix that helps global players understand which markets are poised for the most significant premium growth and which can be considered the least risky.
China remains the dominant engine of insurance market growth in emerging economies over the coming five years, even though the degree of its openness to foreign firms remains in question.
Asia will account for the lion’s share of insurance premium growth in emerging markets through 2020, contributing nearly 90% of the total. China alone, despite a likely near-term deceleration in GDP growth, remains the biggest opportunity of any emerging market – and with relatively low risk (see Figure 10). Indonesia is Asia’s next most promising opportunity, but it comes with higher risk.

Africa and the Middle East, while far behind Asia in terms of projected premium growth over the next five years, nevertheless hold significant potential. Indeed, Nigeria scores second only to China for opportunity (see Figure 9), and new requirements to insure people and businesses in countries like Saudi Arabia and the United Arab Emirates (UAE) could light a fire under those markets. However, the oil price collapse, volatile commodities markets and foreign-exchange troubles in Africa mean the region comes with high risks.

Similarly, although the political disaster in Brazil has cast a pall over all of Latin America, insurers can look forward to healthy premium growth in several regional markets, notably Chile, where foreign carriers enjoy a dominant market share. Risks are higher in Mexico, Colombia and Argentina (see Figure 14). In Argentina’s case, fiscal improvement and greater regulatory coherence could set the stage for long-term insurance sector growth.

Russia and Turkey, Europe’s two emerging markets, face major economic and geopolitical challenges. In the former, low oil prices have brought GDP growth to a screeching halt, while the Syrian refugee crisis continues to rock the latter. In the longer term, these two large, diverse nations will see the secular trends benefiting other emerging regions, from urbanization to tech adoption, play out on a grand scale.

**Outlook for growth: Asia still dominates**

In terms of overall growth in insurance premiums, Asia will continue to grab the headlines.

Consistent with our forecast of three years ago, China remains the dominant engine of insurance market growth in emerging economies over the coming five years, even though the degree of its openness to foreign firms remains in question.

Even with an expected slowdown in overall output to somewhere around 6%, China is projected to account for almost 60% of expected emerging-market premium growth by 2020, or some US$280 billion of the additional US$480 billion by which premiums are projected to expand in the period. India and South Korea should each see their annual premium levels rise by around US$50 billion by 2020.

Figure 1 summarizes our view of premium growth in rapid-growth markets over the next five years, highlighting the outsized influence China will bear relative to all other markets.

**Figure 1: Distribution of insurance premiums by region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Share of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Asia emergers</td>
<td>11.7</td>
</tr>
<tr>
<td>China</td>
<td>59.2</td>
</tr>
<tr>
<td>India</td>
<td>11.5</td>
</tr>
<tr>
<td>Rest of emerging Asia</td>
<td>11.5</td>
</tr>
<tr>
<td>Africa</td>
<td>5.8</td>
</tr>
<tr>
<td>Latin America</td>
<td>4.0</td>
</tr>
<tr>
<td>Middle East and Turkey</td>
<td>2.4</td>
</tr>
<tr>
<td>Russia</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, Haver Analytics

In this publication, “China” refers to the mainland China market, and “Hong Kong” refers to the Hong Kong special administrative region of China.
Consistent with our forecast of three years ago, China remains the dominant engine of insurance market growth in emerging economies.

While a regional analysis is instructive, a breakdown by individual markets also highlights specific areas of opportunity. In addition to the markets noted above, South Korea, South Africa and Malaysia are markets where a rising middle class and the advent of new internet and mobile platforms will help boost the prospects for growth of insurance coverage.

It is instructive to illustrate the degree to which the prospects in specific markets today differ from the forecast in 2013. Figure 3 contrasts future potential growth in insurance premiums with previous forecasts. As the data makes clear, prospects for insurance growth in Brazil, South Africa and Russia have weakened considerably, while the outlook in nations as diverse as Indonesia, Mexico and Turkey have also deteriorated because of political setbacks and adverse prices for oil and other commodities.

**Figure 2: Premium growth by country**

Total insurance premium growth, US$m
Total insurance premiums in 2020 vs. 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Insurance Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>300</td>
</tr>
<tr>
<td>India</td>
<td>200</td>
</tr>
<tr>
<td>South Korea</td>
<td>100</td>
</tr>
<tr>
<td>South Africa</td>
<td>50</td>
</tr>
<tr>
<td>Indonesia</td>
<td>25</td>
</tr>
<tr>
<td>Russia</td>
<td>25</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10</td>
</tr>
<tr>
<td>Mexico</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>5</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5</td>
</tr>
<tr>
<td>UAE</td>
<td>5</td>
</tr>
<tr>
<td>Chile</td>
<td>5</td>
</tr>
<tr>
<td>Turkey</td>
<td>5</td>
</tr>
<tr>
<td>Argentina</td>
<td>5</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>5</td>
</tr>
<tr>
<td>Thailand</td>
<td>5</td>
</tr>
<tr>
<td>Colombia</td>
<td>5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5</td>
</tr>
<tr>
<td>Nigeria</td>
<td>5</td>
</tr>
<tr>
<td>Kenya</td>
<td>5</td>
</tr>
<tr>
<td>Uganda</td>
<td>5</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, Swiss Re

**Figure 3: Changes in insurance premiums**

Total insurance premium growth, US$m
Total insurance premiums in 2015 less total insurance premiums in 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Insurance Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$100</td>
</tr>
<tr>
<td>India</td>
<td>$75</td>
</tr>
<tr>
<td>Brazil</td>
<td>$50</td>
</tr>
<tr>
<td>South Africa</td>
<td>$25</td>
</tr>
<tr>
<td>Russia</td>
<td>$10</td>
</tr>
<tr>
<td>Mexico</td>
<td>$5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$5</td>
</tr>
<tr>
<td>Thailand</td>
<td>$5</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>$5</td>
</tr>
<tr>
<td>Turkey</td>
<td>$5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$5</td>
</tr>
<tr>
<td>UAE</td>
<td>$5</td>
</tr>
<tr>
<td>Colombia</td>
<td>$5</td>
</tr>
<tr>
<td>Chile</td>
<td>$5</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>$5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$5</td>
</tr>
<tr>
<td>Nigeria</td>
<td>$5</td>
</tr>
<tr>
<td>Kenya</td>
<td>$5</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, Swiss Re
Forecast

9%
8%
7%
6%
5%
4%
3%
2%
1%
0%


Figure 4: Changes in growth projections for emerging markets

GDP growth in emerging markets
Percent change over previous year

The relationship between deteriorating commodity prices and lowered economic projections for emerging markets is fairly straightforward. In many of these markets, commodity-price spikes drive exports, employment, foreign investment and government spending. When commodity prices suddenly collapse, economic activity and investment also fall. So 2015 marked a year of recession in many of these markets, and aggregate growth across emerging markets is likely to fall by one or two percentage points by 2020, with Brazil and Russia likely to experience particularly sharp retrenchment.

Not all emerging markets are expected to see a significant slowdown in overall economic growth. Notably, output in Mexico and Kenya will likely exceed previous estimates, while in economies like Nigeria and Indonesia, the pace of economic growth between now and 2020 has been trimmed by only about one percentage point. Figure 5 shows the potential overall slowdown for growth in emerging markets.

China is projected to account for almost 60% of expected worldwide premium growth by 2020.
Urbanization will continue to boost opportunities

Many emerging markets will remain attractive for insurers because their urban populations are rising and the overall level of insurance penetration remains low. This suggests real opportunities to educate a rising middle class on the financial benefits of insurance as a means to boost sales. As Figure 6 illustrates, continuing urbanization in nations like Indonesia, Mexico, Turkey, Colombia and Nigeria suggests major growth opportunities for the insurance industry, as the rate of insurance penetration lags the rapid urbanization taking place.

Exchange rates pose concerns

For foreign insurers, the exchange rate outlook is also important, and for many emerging markets, the rise of US interest rates and lower oil prices have led to further deterioration. Brazil is expected to be affected the most, with depreciation continuing through the rest of the decade. Russia’s exchange rate will likely bottom out in 2016, appreciating modestly in subsequent years. However, this retrenchment will be less significant in markets with an exchange rate fixed to the US dollar (such as Hong Kong, Saudi Arabia and the UAE) or with a tightly managed float (such as China).

While expansion in rapid-growth markets has encountered some unexpected head winds, the risk profile for many markets in our survey has also deteriorated.

The risk index constructed in this report, which is based on analysis of political uncertainty, the ability of a nation to pay its international debts and trade risks, accounts for currency volatility as well as overall economic conditions.
While certain markets in Asia like Singapore and South Korea seem fairly stable, the risk in a number of markets across Africa has actually increased, as the value of local currencies has fallen relative to the dollar and prices for oil and other commodities have weakened. Across a number of the markets covered in this survey, the potential for lingering weak commodity demand will likely trigger financial strains as government revenues from extraction fees and taxes, as well as from employment, decline. This can cause governments to impose additional austerity measures.

In other markets, political risks have risen. Brazil has experienced a wave of civil protest against the government of Dilma Rousseff amid allegations of widespread corruption, while Nigeria and Uganda face potential trade difficulties.

To help guide global firms seeking to chart their course across a variety of emerging markets, we have recompiled a matrix that combines an assessment of future opportunities for insurance premium growth with a ranking of potential economic and political risks.

The most attractive markets, which combine high potential growth with relatively lower risk, are mainly in Asia.
As Figure 8 shows, the most attractive markets, which combine high potential growth with relatively lower risk, are mainly in Asia. While China is by far the biggest potential growth market, Malaysia, Indonesia and India also offer potentially attractive opportunities. Singapore, Hong Kong and South Korea offer low risk, but much smaller growth potential. Brazil, which in our last report appeared on the road to sustainable growth, is now likely to record negative growth over the next three years and is no longer a very attractive investment target.

How we created our risk-opportunity indexes and matrix

We arrived at our risk and opportunity scores by analyzing economic conditions for growth and potential hazards in each of the 22 markets in this survey. The opportunity index includes these elements:
- Insurance market size
- Forecast premium growth
- Insurance market penetration and saturation

The risk index includes these elements:
- Macroeconomic factors and supply-side environment (e.g., labor, market conditions, strength of financial sector)
- Macroeconomic risk (low GDP growth, high inflation)
- Political, regulatory and corruption risk
- Sovereign and trade credit risk
- Underperformance in technology and urbanization
Nigeria scores second only to China, as shown in Figure 9.

While China is by far the biggest potential growth market, Malaysia, Indonesia and India also offer potentially attractive opportunities.
India and South Korea should each see their annual premium levels rise by around US$50 billion by 2020.
Favorable demographic trends and the ability of new technology to allow companies to leapfrog antiquated infrastructure help explain why Asia remains an important focus for companies looking to boost their investment in emerging markets. In addition, despite a slowdown in China’s growth rate, which affects many countries in the region, expansion in Asia is still projected to exceed growth in the developed world. Moreover, China’s massive adoption of mobile phones and e-commerce offers significant opportunities for innovation to take root across the insurance industry.

As Figure 11 illustrates, both Indonesia and China are expected to experience annual premium growth exceeding 15% over the next five years, but this statistic understates how much bigger the Chinese insurance industry is relative to any other in the region.

**Figure 10: Risk-opportunity ranking by market, Asia**

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Higher score = More opportunity</th>
<th>Opportunity score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 China</td>
<td></td>
<td>77.4</td>
</tr>
<tr>
<td>3 Indonesia</td>
<td></td>
<td>59.0</td>
</tr>
<tr>
<td>4 India</td>
<td></td>
<td>54.2</td>
</tr>
<tr>
<td>5 Malaysia</td>
<td></td>
<td>52.2</td>
</tr>
<tr>
<td>8 Vietnam</td>
<td></td>
<td>46.3</td>
</tr>
<tr>
<td>12 South Korea</td>
<td></td>
<td>34.4</td>
</tr>
<tr>
<td>15 Singapore</td>
<td></td>
<td>32.1</td>
</tr>
<tr>
<td>20 Thailand</td>
<td></td>
<td>22.1</td>
</tr>
<tr>
<td>21 Hong Kong</td>
<td></td>
<td>21.5</td>
</tr>
</tbody>
</table>

**Figure 11: Projected insurance premium growth by country 2015–20**

CAGR, domestic insurance premiums, 2015–20

<table>
<thead>
<tr>
<th>Country</th>
<th>CAGR 2015–20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>16%</td>
</tr>
<tr>
<td>China</td>
<td>16%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15%</td>
</tr>
<tr>
<td>India</td>
<td>14%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10%</td>
</tr>
<tr>
<td>Singapore</td>
<td>8%</td>
</tr>
<tr>
<td>South Korea</td>
<td>6%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4%</td>
</tr>
<tr>
<td>Thailand</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Source:** Oxford Economics, Haver Analytics
There is also a clear correlation between growth of the middle class and an appetite for insurance products. As Figure 13 demonstrates, China, India, Indonesia and Malaysia are all expected to see significant expansion in the number of households earning in excess of US$20,000 per year.
China

Rating: Higher growth, lower risk
With the world’s largest population and a rapidly expanding middle class, China will remain the prime focus of attention for many global insurers, even if the torrid underlying growth of the past decade is likely to be tempered somewhat.

Based on macroeconomic projections and risk analysis, mainland China remains the single most attractive market in the region, if not among all emerging markets globally. Nevertheless, the transition from an investment and export-oriented economy to one more focused on consumer-led growth is likely to prove beneficial to insurers, as is the rapid adoption of mobile and web-based commerce.

As China faces the challenges of a rapidly aging population, growth in health insurance is likely to be strong. Recently, a division of Alibaba, the giant e-commerce company, announced a major initiative to build an internet-based health insurance program aligned with China Taiping Insurance and others. The Insurance Association of China has estimated that online insurance premiums grew 260% during the first half of 2015.

However, China’s insurance regulators have raised alarms about potential risks in the industry, as aggressive stock purchases by domestic insurers and sales of high-return products could damage the country’s financial system. Moreover, other large Chinese firms have become aggressive overseas investors in an effort to move Chinese funds out of the country. For example, Anbang acquired the South Korean unit of Allianz, while PICC Property & Casualty Co., a unit of state-owned People’s Insurance Company of China

China’s massive adoption of mobile phones and e-commerce offers significant opportunities for innovation to take root across the insurance industry.
PICC, agreed to buy Deutsche Bank’s nearly 20% stake in China’s Hua Xia Bank for up to 25.7 billion yuan. PICC has already demonstrated profits can be made in auto insurance, as Chinese regulators have introduced pilot projects in six provinces and cities, giving insurers greater flexibility to set premiums, including the creation of risk-based pricing. While these new premiums generated lower profits, incentives for good driving also created fewer claims.

Foreign insurers continue to face an uphill battle entering the market despite continuing, albeit slow, market liberalization. According to the China Insurance Regulatory Commission (CIRC), overseas life insurers’ market share declined to 5.6% in 2013 compared with 8.9% in 2005. Foreign property and casualty (P&C) insurers have not fared any better, having failed to grow market share from 1.3% since 2005. Frustrated and disillusioned by the slow pace of deregulation and increasing local competition, some firms reduced ownership in their China joint ventures about five years ago. New York Life quit China completely in 2011, and in 2015, Insurance Australia Group (IAG) decided to abandon what had been planned as an aggressive foray into the market.

For P&C insurers in China, the market-based pricing reform will benefit big companies significantly through better segmentation. Small companies need to be innovative to grow premiums and profitability through specialty insurance. For foreign firms, developing a robust digital strategy to capitalize on the use of mobile devices for transactions offers a significant opportunity. Established insurers are already trying to promote more internet interactions between policyholders and agents, to improve cross-selling business opportunities. And some new insurers are trying to develop an internet-only business model.

Regulators are building more analytical tools to improve efficiency and accuracy, consequently pushing insurance companies to rely more on their analytical capabilities. A risk-sensitive insurance solvency regime (C-ROSS) also became effective in January 2016.

### Hong Kong

#### Rating: lower growth, lower risk

Buyers from mainland China have exerted significant impact on the Hong Kong insurance market. Figures from the Office of the Commissioner of Insurance (OCI) show that in the first nine months of 2015, mainlanders spent HK$21.1 billion, representing 21.7% of new premiums, compared with just 9% in 2011.

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### Hong Kong

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Moreover, a series of new regulatory policies taking shape within Hong Kong is also affecting the prospects of market players, both large and small. New laws are intended to boost competition, and the new Guidance Note on Underwriting (GN15) has forced many firms to alter the ways they structure and market investment-linked assurance schemes. Hong Kong is also preparing to revamp its solvency regime to accommodate a risk-based capital (RBC) framework. In addition, the rollout of a new regulatory body, the Independent Insurance Authority, will generate some uncertainties.

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1 PICC P&C no car crash, Financial Times, 30 March 2016
Malaysia

Rating: higher growth, lower risk
Sharia-compliant takaful insurance has gained a firm foothold in Malaysia, and foreign insurers have been attracted to the market's growth potential, as the insurance sector is still relatively under-penetrated. Moreover, the growth of mobile technologies will compel incumbent firms to rethink their distribution strategies, as digital operations and offshoring of back-office functions could recast the competitive landscape. Malaysia is notable because, as in Chile and Thailand, the ratio of insurance premiums generated per capita is actually higher than the global average, based on the urbanization rate of the country and the widespread use of mobile technologies.

This suggests that as an “early adopter,” Malaysia could be seen as a potential test pilot for insurance innovation, as consumers embrace the digital era, forcing insurers to rethink their distribution strategies and partner relationships.

Liberalization of the motor insurance market is also expected to promote greater pricing flexibility and competition as carriers move toward risk-based premiums that take a driver’s record into account. Liberalization is expected to begin in July 2016, but it will be carried out in phases to allow both the introduction of new products and market-based rates. Expansion in the takaful market is also likely.

A recent study by AIG Asia-Pacific estimated that the cyber insurance market could grow by 50% this year.
**Singapore**

**Rating: lower growth, lower risk**

As one of the world’s most open insurance markets, Singapore serves as a gateway to the rest of Asia for many foreign firms. While Asia’s middle class is increasing, it is also aging rapidly, with citizens over 60 years old expected to triple, to some 1.3 billion, by 2050. Life insurance and retirement planning are attractive opportunities.

In the past year, the government has allowed insurers to sell products directly to consumers. These products, known as direct purchase insurance, include life and disability coverage and are sold without commission but have not yet taken a large share of the market. Moreover, as Singapore seeks to position itself as a regional software and IT hub, demand for cybersecurity insurance is expected to skyrocket. A recent study by AIG Asia-Pacific estimated that the cyber insurance market could grow by 50% this year, as more businesses look to mitigate the high reputational and financial risks associated with cyber breaches.

With the government regulator moving to incorporate RBC standards for insurance providers, most are being required to increase their capital bases significantly. The Monetary Authority has also made the Own Risk and Solvency Assessment (ORSA) mandatory for all insurers in Singapore, which has led to an increased focus on robust enterprise risk management (ERM) frameworks. The government has also directed insurers to specifically assess the risk from cybercrime in their annual risk assessments.

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**Thailand**

**Rating: lower growth, moderate risk**

The long-term growth prospects for insurance premium growth in Thailand, Southeast Asia’s second-largest economy, remains strong, the result of an aging population, the rising levels of household wealth and a low penetration rate—just 4.1% for life insurance and 1.7% for non-life policies, according to the Thai General Insurance Association (TGIA). The country remains subject to political uncertainties, however, as the military continues to govern after pitched civil conflict.

Within the next 20 years, the population of Thai residents over the age of 60 will rise to 25%. Because of the relative lack of public hospitals, many middle and upper-class consumers rely more on private health insurance for access to private facilities.

Thailand is also experimenting with new digital strategies to empower insurance consumers. Claim Di, a Thai start-up whose mobile app allows drivers to report claims and connect directly to their insurance providers, secured US$2 million in venture-backed funding last year. The company will also offer roadside assistance, a call center for providers and a navigation service to speed investigators to the scene of an accident to assess damages.

With a slowdown in car sales expected, some providers are moving more aggressively into marine and infrastructure insurance. But the bancassurance model remains an important channel for life insurance sales.
Vietnam

**Rating: moderate growth, higher risk**

Non-life insurance premiums grew by about 14% in 2015, while life insurance premiums were projected to grow by nearly 30%, to a value of about US$1.7 billion, according to government estimates. Nevertheless, insurance penetration in the country is low; just 6 million out of 90 million Vietnamese own life insurance, indicating there is major room for potential expansion.

The unpredictable pace of economic reforms within Vietnam has made the market less attractive than others within this fast-growing region. Regulations normally require foreign firms to set up joint venture operations with Vietnamese counterparts. In February 2016, for example, Vietnam’s Bank for Investment and Development signed a cooperation deal to promote life insurance with MetLife.

However, companies in Vietnam are already experimenting with using mobile phones to collect premiums. One project, sponsored by Manulife Vietnam, works with the Vietnam Women’s Union to provide a micro-insurance product, My Companion, to poor women in rural areas. After four years, it has covered more than 130,000 women across 15 provinces, the vast majority of whom now have mobile phones.

Further liberalization of the insurance market could create more opportunities for foreign investors.

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Indonesia

**Rating: higher growth, moderate risk**

As the world’s single largest Muslim nation, Indonesia offers global firms a major opportunity to develop sharia-compliant, takaful insurance programs. By 2020, an additional 40 million people are projected to join Indonesia’s middle class – at nearly 140%, the highest growth rate in percentage terms among nations in our survey. No wonder foreign insurers like AIG and Sun Life have begun to expand their presence in the country.

While Indonesia clearly offers opportunity for firms that want to pioneer micro-insurance and mobile payments, the acceptance of these innovative products has been relatively slow. While an estimated 60% of Indonesia’s population has access to a mobile phone, less than 5% were aware of the concept of mobile money. Moreover the economic slowdown over the past year has caused a retrenchment in purchases of life insurance products.

Although the Financial Services Authority (OJK, the state regulator) launched a joint effort with banking institutions to promote financial inclusion, known as Laku Pandai, a recent survey found most people from low-income households are reluctant to let individual agents take care of their savings under the government’s branchless banking program².

As Indonesia is expanding its spending on infrastructure, the life and health sectors should both benefit due to regulatory requirements attached to these projects.

The OJK has actively introduced new policies and regulations in recent years. This includes a new insurance law in 2014 that gives policyholders priority if a conventional or sharia insurer or reinsurer is liquidated or becomes bankrupt. Other changes include optimizing domestic reinsurance capacity and regulating tariffs for property and motor insurance. A new law also bars the Indonesian government from bailing out commercial banks when they face financial problems.

South Korea

**Rating: lower growth, lower risk**

With leading industrial companies like Hyundai and Posco and technology innovators like Samsung leading its global economic growth, South Korea can no longer be considered an emerging economy. In fact, the penetration rate for insurance in South Korea is relatively high, at approximately 12%, compared with the global average of 8.5% for developed nations. In a fiercely competitive market, local companies like Samsung, Hanwha and Kyobo Life hold strong positions.

What South Korea does offer foreign insurance firms is the opportunity to embed in an increasingly sophisticated consumer market, develop mobile platforms to engage with customers, and fine-tune products for claim processing and back-office functions. For example, AXA, the French insurer, is leading innovation in the Korean auto insurance market by switching to a charge-by-mileage premium system, as well as by providing information on car repairs through policyholders’ mobile devices. “Customers who drive less should pay lower premiums,” the company says. Customers can also check on the progress of their cars via an app that allows them to see pictures as the repairs progress.

The current low-interest-rate environment has contributed to a difficult operating situation for foreign insurers in South Korea, however, and some foreign players have exited the market. In April 2016, Allianz sold its business to Anbang, the acquisitive Chinese group that failed in its bid to acquire Starwood Hotels, following earlier exits by HSBC and ING. Some of these firms offered high-interest-rate guarantees to policyholders in the past, which are no longer profitable. In addition, new Solvency II rules in Europe require insurers to set aside more capital to cover such interest-rate guarantees, potentially crimping future earnings.

Other foreign insurers such as ING, HSBC and Standard Chartered have reduced their exposure to the market in recent years, while Chinese insurers seem interested in establishing a larger foothold.

India

Rating: higher growth, modest risk

Now that the cap on foreign direct investment (FDI) has been increased to 49% from 26%, global insurance firms have far more incentives to consider deeper participation in the Indian market, where new investments can boost solvency and penetration rates.

With a giant population and rapidly growing middle class, India has long been considered an attractive investment target for global insurers. Indeed, overall FDI across the country hit a record US$42 billion in 2015, and the country’s 7.2% growth rate exceeded that of China.

While the economy is resilient, and the administration of Prime Minister Narendra Modi has promised to continue to boost investment in manufacturing, challenges to a rapid boost in insurance penetration persist.

The insurance market in India is ripe for digital innovation from foreign players, as insurers will need to service a younger and more technology-savvy population. To dislodge local firms, foreign insurers can develop new distribution channels and sophisticated, specialized products. Investments in IT to optimize operations can also be anticipated in addition to spending on data analytics and telematics.

The Government’s focus on further economic reforms and increased spending on priority areas, including the rural sector, infrastructure and employment growth, should also bolster premium growth. Moreover, the new FDI rules and public listing of insurance companies should accelerate consolidation and mergers.
In Mexico, P&C firms will gain from the introduction of mandatory liability insurance on federal highway construction and new infrastructure projects.
Improving economic conditions in Mexico and Chile are counterbalanced by the rapid deterioration in Brazil, a country facing both political and economic uncertainties. Rapid reforms now unfolding in Argentina could help spur a new level of growth. Some markets are already seeing significant innovations as the mobile phone and micro-insurance carriers offer new opportunities to innovate.

Argentina

**Rating: lower growth, higher risk**

A new center-right government, led by President Mauricio Macri, has the potential to engineer a real turnaround in Argentina, turning it into a rare bright spot among emerging markets. But progress will take time. By resolving the long-running dispute with US creditors over delinquent payments for sovereign debt, Argentina has now rejoined the global capital markets, leading to an upgrade in the credit rating of many domestic insurers. Moreover, the administration’s goal of tackling inflation and reducing the nation’s large fiscal deficit would clearly benefit the insurance sector, since the constant run-up in prices has made business conditions difficult.

Under the previous administration, the insurance industry was buffeted by constant regulatory changes, including rules for reinsurance and restrictions on foreign investments of local premiums. So fewer regulations and higher growth could spark the industry here. However, new regulators for consumer protection and the implementation of risk-based capital measures can also be expected.

Brazil

**Ranking: negative growth, high risk**

Recession and political upheaval dominate the headlines in Brazil, as the scandal-plagued government of President Dilma Rousseff faces impeachment, and the plunge in oil prices has rapidly boosted unemployment.

The Brazilian insurance market continues to be very concentrated, with 10 major insurance groups representing approximately 85% of direct premiums in 2013. The domestic insurance industry has been liberalized to allow foreign investment in the emerging growth of the nation’s industry, but the sudden turnaround in Brazil’s fortunes could dampen foreign interest, now that the risks have grown more pronounced.

Brazil’s insurance regulator began to encourage micro-insurance strategies in 2012, and Brazil had been seen as a potentially attractive testing ground for innovative experiments. For example, IFFCO-Tokio provides a digital pen to agents working in remote areas to collect clients’ insurance policy details, while Caixa Seguros distributes funeral insurance through sellers of lottery tickets. There will be increasing opportunities for digital operations to emerge in the insurance industry. Insurers are now being compelled to develop an ERM system and risk, and solvency regulations (ORSA) will be in force by 2017.
Chile has the highest insurance penetration and density in the region, and premiums are estimated to exceed 4% of GDP.

**Figure 15: Projected growth rates for insurance premiums in Latin America**

CAGR, domestic insurance premiums, 2015–20

- Chile: 11%
- Colombia: 7%
- Mexico: 7%
- Argentina: 6%
- Brazil: -3%

Source: Oxford Economics, Haver Analytics

**Figure 16: Risk components in emerging Latin America**

Components of risk in emerging markets, Latin America

Each component measured on 0-1 scale, 1=maximum risk

Source: Oxford Economics, Haver Analytics
Chile

Rating: modest growth, lower risk
Among Latin-American nations included in this survey, Chile is notable for its relative openness to foreign insurers. Indeed, most premiums in both the life and non-life sector are sold by foreign firms. While Chile boasts the most stable market in Latin America, the cost of doing business remains high. Indeed, more M&A activity is likely in the market, as the country moves to embrace Solvency II regulations.

Chile has the highest insurance penetration and density in the region, and premiums are estimated to exceed 4% of GDP. A local version of Solvency II can be expected within the next two to three years. Firms are investing rapidly in building IT infrastructure to improve operational efficiency.

However, new opportunities can be expected due to changes in the health and pension systems, including implementation of a pension reform panel that increases retirement ages and increases mandatory contributions. Meanwhile, reform of the private health care system is likely to produce opportunities for firms selling private health insurance.

Insurance continues to be one of the most regulated sectors, along with banking, and the local regulator is implementing new regulations to strengthen both solvency and mandated reserves. The prospect for insurance firms to develop digital channels for selling policies and processing claims is still in its infancy.

Mexico

Rating: modest growth, modest risk
Solid growth and rising consumer and business demand should mean that growth in the insurance industry is likely to outpace GDP growth again this year, as it has for the past several. Due to its ever-closer economic integration with the US since implementation of the North America Free Trade Agreement (NAFTA) and a series of liberalization efforts, the economic prospects for the insurance market in Mexico is among the most buoyant in the region.

While life insurers should benefit from an expanding middle class, growth in the population of young people and rising incomes, P&C companies will gain from the introduction of mandatory liability insurance on federal highway construction and new infrastructure projects.

However, insurance penetration in the country remains low, highlighting the need for companies to develop new products and channels, especially to tap into lower-income households. New digital technologies are essential for the advance of micro-insurance in the market and to combat fraud. Already, some firms like New York Life have launched mobile apps that allow their health insurance customers to access a range of useful data about their coverage and health network, and other mobile apps are coming into the marketplace that promise to “customize” auto insurance.

Solvency II will probably trigger some consolidation in the industry.

Colombia

Rating: lower growth, higher risk
A reduction in political violence and civil unrest has helped boost the economic outlook in Colombia. Further strengthening of a tentative peace treaty could be a boon for economic growth, especially with the weakness in the oil market. Though insurance penetration is low, at about 2.5% of GDP, the compound annual growth rate (CAGR) of non-life companies has grown impressively over the past half-decade, at approximately 12%, which makes the market's potential attractive for both local and foreign players.

Due to its ever-closer economic integration with the US since implementation of the North America Free Trade Agreement (NAFTA) and a series of liberalizations efforts, the economic prospects for the insurance market in Mexico is among the most buoyant in the region.
A new law requiring compulsory health insurance for all Dubai residents, which will be implemented over two and a half years, is expected to be a key driver for the industry.
Across most of Africa, insurance penetration has traditionally been low, and before the collapse of commodity prices in late 2015, growth prospects for many countries in the region seemed favorable. Indeed, since 2010, the sub-Saharan economies had consistently ranked among the world’s fastest growing.

The collapse in oil prices and other minerals has introduced new vulnerabilities, but over the longer term, rapid urbanization, growth in the middle class and the use of mobile technologies offer the potential for faster growth for insurers across the region. Enforcement of regulations to stamp out fraud, corruption and other abuses is critical for the increased growth of this sector, as is enhanced efforts at consumer education.

**UAE**

**Rating: modest growth, lower risk**

The size of the insurance industry in the Gulf has more than tripled since 2006, and insurance premiums have increased with it. Premiums are projected to grow by 12% CAGR to 2020. However, this growth has also spurred increased competition and reduced the overall profitability of the sector. Insurance penetration equals about 2.2% of GDP, making it among the highest in the Gulf.

A new law requiring compulsory health insurance for all Dubai residents, which will be implemented over two and a half years, is expected to be a key driver for the industry. In addition, new regulations aimed at strengthening governance, compliance and risk management could spur a round of consolidation. Naturally, the fall in oil prices has also dampened the overall growth outlook in the region.

**Saudi Arabia**

**Rating: lower growth, lower risk**

Saudi Arabia’s insurance market is now one of the largest in the Gulf, having grown to rival that of the UAE. The traditional prominence of corporate business in Saudi Arabia means that brokers and agents play a larger role in the Kingdom than in other more developed markets. While growth over the past half-decade has been vigorous, the penetration rate is just 1.1%, meaning there is a high degree of untapped growth potential in the market. Premiums are projected to grow by 9% CAGR through 2020.

Because of a lack of product differentiation, insurers tend to compete on price rather than on value-add services or unique product features. Health insurance has been the primary generator of premiums. However, the potential of new legislation to require many public facilities like shopping malls, restaurants, and schools to carry insurance could rapidly expand the size of the P&C market.

**Figure 17: Risk-opportunity scores, MEA**

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Opportunity score</th>
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<tbody>
<tr>
<td>Nigeria</td>
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<td>Kenya</td>
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</table>

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk score</th>
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</thead>
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</tr>
<tr>
<td>Uganda</td>
<td>68.6</td>
</tr>
</tbody>
</table>
South Africa

Rating: lower growth, higher risk

South Africa remains by far the largest insurance market in Africa. Nearly 75% of all African insurance premiums are generated in South Africa, as the country offers the region’s most mature financial sector. The insurance industry is so saturated, however, that a number of firms hope to expand their revenues by entering other sub-Saharan markets. Moreover, CAGR for the industry is not projected to exceed 8% through 2020.

New technologies, such as mobile, online and collaborative tools, are likely to play a critical role in expanding the market for insurance, and we expect innovative mobile insurance solutions to grow faster here than in many other global locations. For example, a start-up called Riovic, a self-styled “Uber of insurance,” seeks to connect businesses with private investors who will back a company’s risk.

However, new disrupters will not easily upend traditional sales approaches. South African firms are already investing to bring big data and predictive analytics into their operations, while developing insurance platforms designed for the mobile phone.

A new solvency assessment and management regime will boost capital requirements, while additional consumer protections are also in the works.

Kenya

Rating: lower growth, higher risk

Mobile technology, a stable regulatory environment and an expanding middle class will be the key drivers for growth in the insurance industry. Kenya generated insurance premiums of US$1.8 billion in 2014 (the largest in sub-Saharan Africa outside of South Africa), and Oxford Economics expects the Kenyan insurance market to grow to US$2.2 billion by 2018.

Yet insurance penetration remains minimal, suggesting major opportunity for expansion. Kenya today is a hub for commercial activities across East Africa, and Nairobi, the region’s megacity, houses much of the services and managerial talent deployed in neighboring Uganda and Tanzania. Strong growth is expected in Kenya’s telecoms and information technology sectors, as well as in financial services and retail trade. Capital inflows are strong.

Kenya has also been a leader in developing a mobile money platform, M-Pesa. A number of insurers already employ it to fund basic insurance coverage, though some executives doubt it can ever replace the traditional system of using agents and brokers for higher-priced or more sophisticated covers. An ambitious crop insurance program employing mobile phones has been introduced with the support of the World Bank.

Nigeria

Rating: higher growth, higher risk

Growth prospects for the insurance industry in Nigeria seem robust – but so too are the risks. Just a year ago, observers were touting the prospects for Nigeria’s growth after the World Bank crowned it the continent’s biggest economy, surpassing South Africa. With very low penetration of insurance in the country, the potential for growth is immense. But reduced oil prices and slowing industrial activity have forced a modest downward revision in growth forecasts.

Though life insurance represents just 0.1% of GDP, premiums were growing at better than 25% CAGR. After the collapse of oil prices, CAGR of 15% in insurance premiums is still projected through 2020.

Source: Oxford Economics, Haver Analytics
However, the insurance industry is undercapitalized, fragmented and too small to take on larger risks. The expansion of insurance sales through mobile phones has been significant, though. The insurance regulator estimated that about 100,000 subscribers were buying micro-insurance each month, and that the customer base had exceeded 600,000 within six months of the product’s launch. As nearly half the population of Nigeria is Muslim, the potential for takaful to expand insurance penetration is evident, but not all of the operational guidelines necessary to grow this market have been established. Recently, Microcred Nigeria announced a partnership with AXA Mansard to develop micro-insurance products in the country.

Uganda

Rating: modest growth, higher risk

Today, insurance penetration is less than 1% and represents just 0.6% of GDP. Uganda’s insurance market is driven by an agency network that accounts for an estimated 60% of premiums. In 2014, total premiums were only US$200 million. However, Uganda’s underlying growth is among the strongest in Africa, and foreign insurers appear interested in investing.

Uganda’s insurance market is ripe for deeper inroads for micro-insurance, especially outside of the capital, Kampala. Last year, the regulator proposed new rules that will offer micro-insurance companies greater flexibility and easier access to clients, as they will not have to comply with the high capital requirements of full insurance companies. This should allow more companies to enter the market.

**Figure 19: Risk components in emerging MEA markets**

Components of risk in emerging markets, MEA

Each component measured on 0-1 scale, 1=maximum risk

<table>
<thead>
<tr>
<th>Country</th>
<th>Political</th>
<th>Trade</th>
<th>Sovereign</th>
</tr>
</thead>
<tbody>
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<tr>
<td>Saudi Arabia</td>
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<tr>
<td>South Africa</td>
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<td>0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Kenya</td>
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<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.8</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Uganda</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, Haver Analytics

Nearly 75% of all African insurance premiums are generated in South Africa.
A number of foreign companies have entered the Turkish market, and foreign insurers are estimated to generate about two-thirds of non-life premiums.
While most of Europe benefits from a mature insurance sector, this report also briefly examines prospects in two “frontier” markets, Turkey and Russia, where political uncertainty and unsettled prospects with the West will affect insurance investors.

In both countries, however, geopolitical turmoil and macroeconomic factors have triggered a downgrade in short-term prospects.

**Turkey**

**Rating: modest growth, higher risk**
While Turkey has been seen by many foreign insurance carriers as an intriguing insurance opportunity, the Syrian refugee crisis and political tension within Turkey have also heightened risks over the past 18 months. CAGR of 8% in insurance premiums is projected through 2020.

Despite the political turbulence of two elections, Turkey achieved growth of 4% in 2015, making it one of the stronger-performing emerging markets. However, growth is expected to cool in 2016, amid continuing conflict with the Kurds, which in turn can be expected to cut into tourism revenues, an important driver of the domestic economy. Currency risks will also remain. Nevertheless, a number of foreign companies have entered the Turkish market, and foreign insurers are estimated to generate about two-thirds of non-life premiums. Strong competition in the auto sector has led to price-cutting, however, along with a decline in profitability. As a result, a cap on premiums for vehicle insurance is likely to be enacted.

A return of political tranquility would likely boost investor confidence and lead to even greater investment in the insurance sector, as favorable demographics and rising household incomes could be expected to boost life insurance sales. In addition, household and health insurance are sectors that may offer high growth potential. Micro-insurance is just beginning to take hold in the country.
The Russian economy contracted by 3.7% in 2015, as lower oil prices, economic sanctions, high inflation and a weaker currency took their toll.

**Russia**

**Rating: higher growth, higher risk**

The Russian economy contracted by 3.7% in 2015, as lower oil prices, economic sanctions, high inflation and a weaker currency took their toll. A further slowdown is expected in 2016, amid continued weakness in the energy sector, which will dampen consumer spending. A return to growth of greater than 1% is not projected before 2018.

However, the potential for a major catch-up by Russia should economic sanctions imposed by the West be lifted cannot be ruled out. CAGR of 13% in premiums is projected through 2020.

Naturally, economic sanctions have not helped the insurance industry; aggregate portfolios shrank by 4% in 2015. Moreover, the sanctions policy has significantly hampered reinsurance. Further deterioration in relations with the West would not boost foreign investor confidence, and as a result, it is not likely that vigorous FDI can be expected. New revelations about secret bank accounts held by associates of President Vladimir Putin raise additional concerns about governance and accountability. As it is, foreign insurers operating in the country face a series of restrictive practices.

Perhaps no country in this survey has seen its attractiveness fall so far since our last review of emerging markets. Naturally, a resolution of tensions with the West and a return of stability in oil prices might put Russia back on the radar as an attractive market for foreign firms.
Emerging markets matter

Figure 21: Projected growth rates for insurance premiums in Turkey, Russia

CAGR, domestic insurance premiums, 2015-20

Russia 13%  Turkey 8%

Source: Oxford Economics, Haver Analytics

Figure 22: Risk components in Turkey and Russia

Components of risk in emerging markets, Europe
Each component measured on 0-1 scale, 1=maximum risk

A resolution of tensions with the West and a return of stability in oil prices might put Russia back on the radar as an attractive market for foreign firms.

Source: Oxford Economics, Haver Analytics
The rise of internet and mobile technologies will also speed the adoption of new insurance products that are tailored to new customers and their new needs.
The global macroeconomic outlook has not been kind to emerging markets in the past year, but over the longer term, powerful structural changes will continue to make emerging markets vital to the future growth of insurance carriers.

In spite of the day-to-day fluctuations in oil and commodity prices, the demographic growth and urbanization in markets from China to Chile continue to take hold, as does middle-class growth in a number of key markets. The rise of mobile phones offers new opportunities to reach customers previously ignored, while data analytics and other advances allow back-office productivity to rise. Moreover, major areas of Africa, Latin America and Asia are at peace, which allows the middle-class aspirations of its people to gain a firmer hold. Insurance succeeds as a rising middle class gains the financial sophistication to appreciate the value that insurance offers.

Asia, like China, India, Malaysia and Indonesia, will continue to attract global players, and premium growth in these markets should easily outstrip the mature economies of the developed world over the next five years. The rise of internet and mobile technologies will also speed the adoption of new insurance products that are tailored to new customers and their new needs.
Snapshot opportunities and risks by country
Principal positive factors are highlighted in yellow; negative factors are highlighted in red.

**Asia**

**China**
- Huge market, fast-growing middle class
- Barriers to foreign insurers

**Indonesia**
- Vast market for sharia-compliant insurance
- Relatively slow uptake for digital finance

**India**
- Cap on FDI raised dramatically
- Local firms entrenched

**Malaysia**
- Low market penetration, “earlyadopter” of mobile
- Potentially quite competitive

**Vietnam**
- Large uninsured population
- Unpredictable pace of economic reform

**South Korea**
- Sophisticated, digital-savvy customers
- Competitive market with strong local players

**Singapore**
- Open market and regional finance hub
- Moderate regulatory risk

**Thailand**
- Rising household wealth
- Ongoing political uncertainty

**Hong Kong**
- Influx of demand from mainland Chinese
- Moderate regulatory uncertainty

**Latin America**

**Chile**
- Open market, new opportunities in health and pension systems
- High cost of business

**Mexico**
- Buoyant growth prospects for all forms of insurance
- Challenge to reach lower-income households

**Colombia**
- Improved political outlook
- Highly regulated financial sector

**Argentina**
- Potential for turnaround under new government
- Long road to fiscal health

**Brazil**
- Potential testing ground for micro-insurance programs
- Serious political and economic upheaval
Middle East-Africa

Nigeria
+ Robust growth prospects, underinsured population
- Growth shock from oil; insurance market fragmented

Uganda
+ Strong underlying economic growth
- Entrenched, dominant agency network

UAE
+ New law requiring health coverage in Dubai
- Stiff competition and margin pressure

Saudi Arabia
+ Ample room for growth in underinsured market
- Lack of product differentiation

South Africa
+ Region’s most mature financial sector
- Fairly saturated insurance market

Kenya
+ Commercial hub for East Africa, growing middle class
- Political, sovereign risk

Europe

Russia
+ Vast market with long-term potential
- Persistent governance concerns, recession

Turkey
+ Rising household incomes, favorable demographics
- Continuing internal and external political stressors
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