

# **Insurance Market Development: Observations**

Insurance in emerging markets: determinants  
of growth and the case of climate change

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Ian Webb

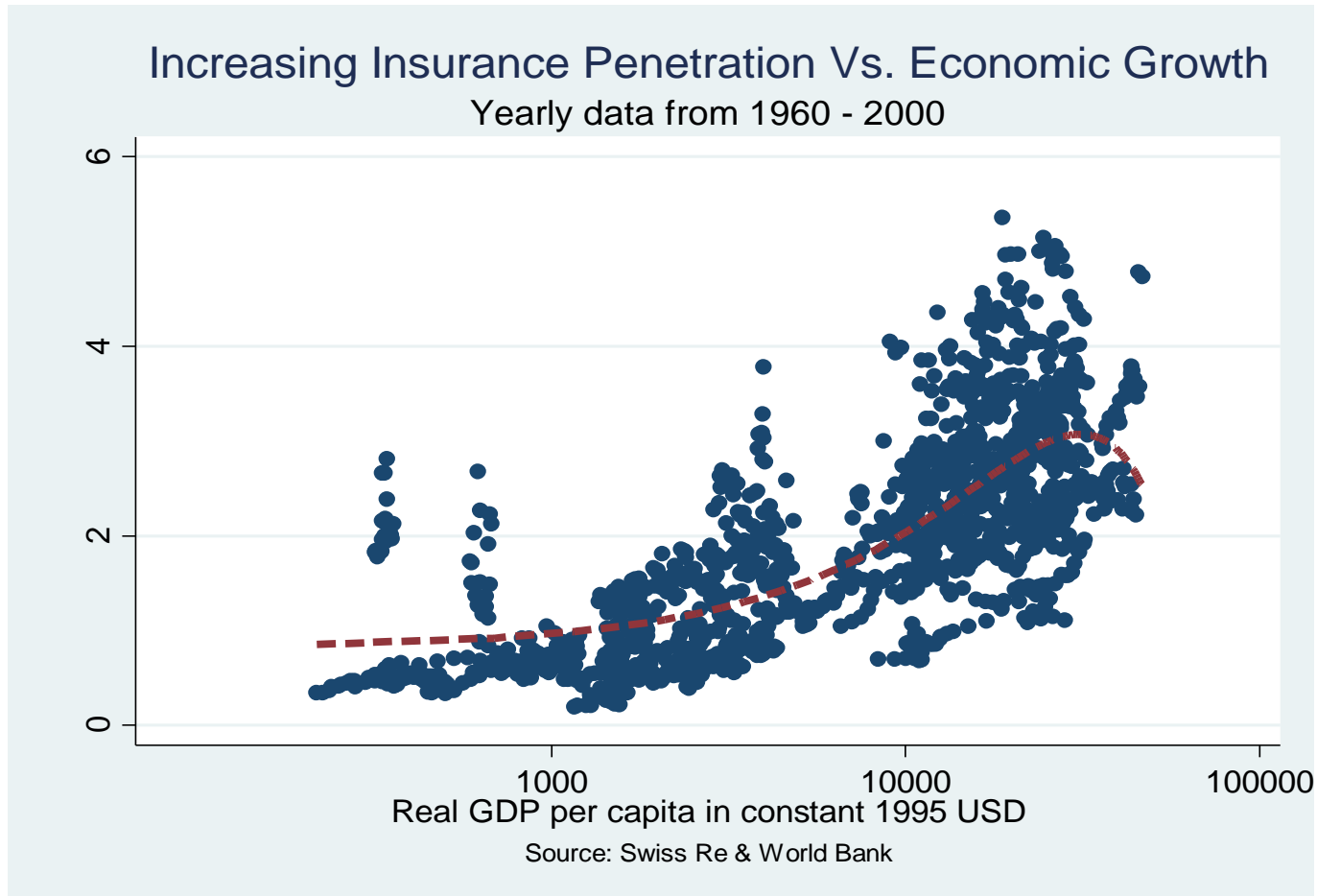
# Empirical Evidence: Contribution to Economic Development

## Objectives/Reach of Empirical Analysis

- Causality & correlation
  - Limits of econometric analysis
  - Importance of economic models and “a good story”
  - Previous econometric analysis of financial sector

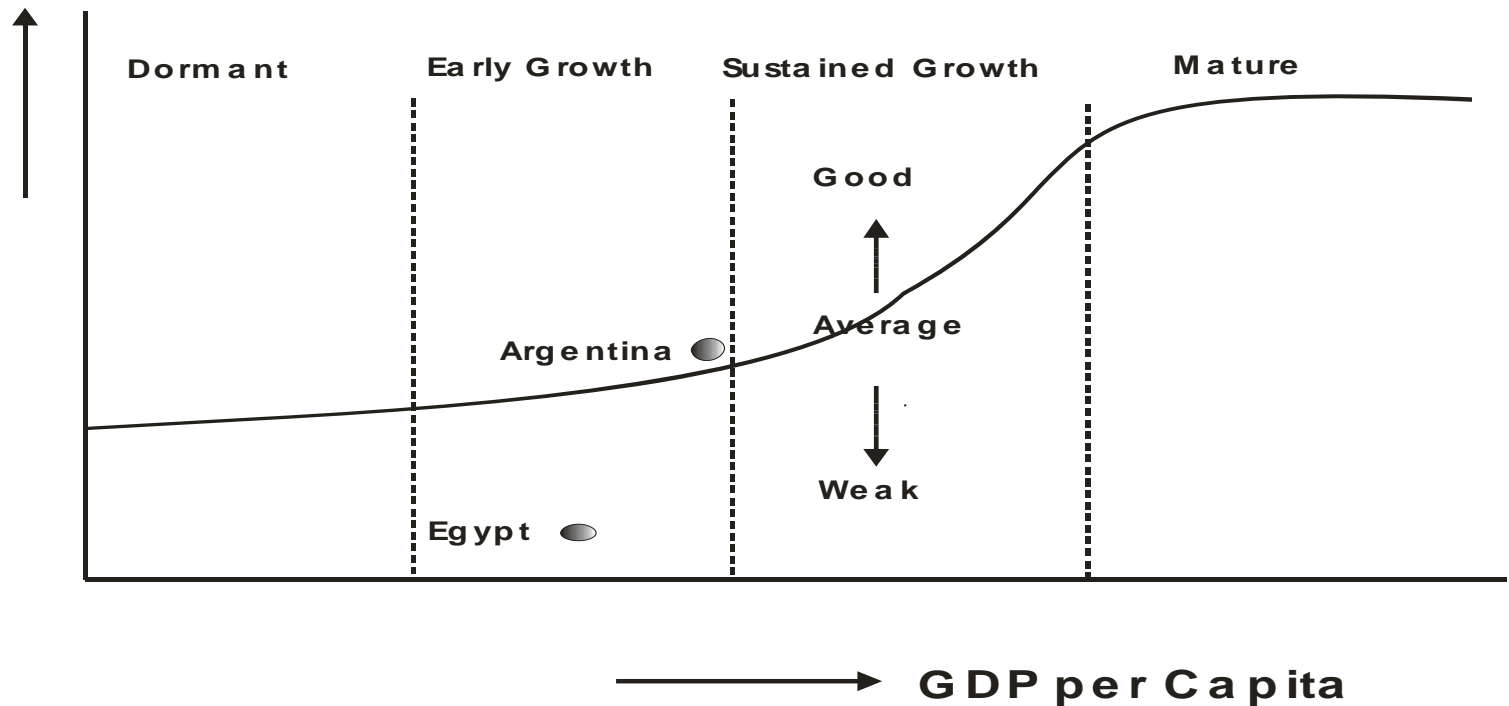
General consensus: insurance is strong predictor of economic growth across countries at different stages of development

# Insurance – GDP Growth Relationship: “S” Curve



# Stages of Insurance Market Development and Balanced Growth Between Insurance and the Economy

## Non-Life Insurance Penetration



# Empirical Evidence: Role in Financial Sector Development

## Insurance and the Financial Sector

- Greater Financial Sector Depth (Complement)
  - Non-diversifiable risk (credit, investment)
  - Savings instruments
  - Retirement risk vehicles
  - Long-term finance
- Greater Financial Sector Efficiency (Compete)
  - Institutional investor project monitoring and transparency pressure
  - Enhancing focus of banking through competition
  - Lowering cost of risk

# Stages of Insurance Market Development

## Stages

- Dormant – preconditions missing
- Early – market exists but growth is constrained
- Sustained growth – market expanding and institutional framework strengthening
- Mature – full array of services, market turning to substitutes

# Decisive factors at Different Stages of Insurance Market Development

Type of State	Level Insurance Market	Decisive Factors at Different Stages of Insurance Market Development	
		<i>External- Economic/Legal/Political Environments</i>	<i>Internal - Insurance Building Blocks</i>
Fragile	Dormant	<ul style="list-style-type: none"> <li>- Contract enforcement</li> <li>- Political stability</li> <li>- Property rights</li> <li>- Freedom of enterprise</li> </ul>	<ul style="list-style-type: none"> <li>- Insurance law (Regulation/Supervision)</li> <li>- Risk management at government level (natural disaster planning)</li> </ul>
Stable Low Income	Infant	<ul style="list-style-type: none"> <li>- Income</li> <li>- Economic Stability</li> <li>- Scale</li> </ul>	<ul style="list-style-type: none"> <li>- IAIS Compliance (Regulation / Supervision)</li> <li>- Perception of risk</li> <li>- Professional education</li> <li>- Actuarial capacity</li> <li>- Data collection</li> <li>- Market restrictions</li> </ul>
Stable Middle Income	Sustainable Growth	<ul style="list-style-type: none"> <li>- Income</li> <li>- Judicial efficiency and transparency</li> </ul>	<ul style="list-style-type: none"> <li>- IAIS Compliance (Regulation / Supervision)</li> <li>- Industry market conduct</li> <li>- Consumer support</li> <li>- Collaboration private/public sectors</li> <li>- Market discipline</li> </ul>
Upper Income	Mature		<ul style="list-style-type: none"> <li>- Alternative risk management and finance</li> <li>- Financial market risk securitization</li> </ul>

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