Swiss Re Institute

Issue 35/2020

Economic Insights
Financial inclusion: an opportunity for insurers as digitalisation accelerates

Key takeaways

- The COVID-19 crisis reinforces the importance of improving financial inclusion to strengthen the global economy.
- Insurance plays a key role in providing financial relief to buffer households from shocks, but the most vulnerable tend to have very limited coverage.
- The acceleration in digitalisation prompted by COVID-19 enables insurers to offer more affordable products via digital channels to the under-served.
- Public-private partnerships will be crucial to build a digital-friendly environment and ensure equal access.

About Economic Insights
Analysis of key economic developments and their implications for the global re/insurance industry.

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In a nutshell

The COVID-19 crisis is disproportionately affecting more vulnerable parts of society and highlights the need for broader financial inclusion. Insurance plays a key role in expanding access to financial services and reducing protection gaps. This can help countries rebuild better and more inclusively post-pandemic. Insurers have an opportunity to leverage the acceleration in digitalisation from COVID-19 to offer tailored, affordable products to under-served segments to improve societal resilience.

The pandemic is having a disproportionate impact on small businesses and low-income households. These typically lack financial inclusion as they have less access to financial services such as bank accounts, payments, loans, savings and insurance. Almost a third of adults globally (about 1.7 billion people) remain unbanked, half of whom are from the poorest 40% of the world population.[1] Extending traditional financial services to such groups can increase economic growth and reduce income inequality, International Monetary Fund (IMF) studies have found.[2] Lack of financial inclusion also hampers insurance penetration, which relies in many ways on access to the formal financial sector. However, COVID-19 is accelerating the digitalisation of financial services and can enable insurers to provide tailored, affordable products to under-served consumers. Mobile telephony is important to offer solutions such as mobile-based microinsurance, but broad-based gains in financial inclusion will rely on public policy steps including infrastructure investment and digital-friendly regulation.

Expanding the reach of insurance is a crucial step to strengthening household and societal resilience, as it provides financial reliefs to cushion economic, health or mortality shocks. The most vulnerable people have very limited insurance coverage to protect them: Swiss Re Institute estimated a global insurance protection gap for health, mortality and catastrophe risks of USD 1.2 trillion (in premium equivalent terms) in 2019, over 60% of which originated from emerging economies.[3] Affordability is one key reason for low insurance takeup, but lack of financial inclusion is another. Insurance penetration is correlated with access to the formal financial sector, empirical evidence shows.[4] Examples of this include the need for banking payment systems to access traditional insurance products, and requirements for insurance protection for loan collateral (e.g. mortgages). Bancassurance is a

[1] Without an account at a bank, microfinance or another type of regulated financial institution. The Global Findex Database 2017.
[2] *Financial inclusion: can it meet multiple macroeconomic goals?* IMF staff discussion note, September 2015, Finance and inequality, IMF staff discussion note, 17 January, 2020
[3] *sigma Resilience Index 2020: global resilience put to the pandemic test*, Swiss Re Institute, 2020.
[4] Holzheu, T., and Turner, G, The natural catastrophe protection gap: Measurement, root causes and ways of addressing underinsurance for extreme events, *The Geneva Papers on Risk and Insurance-Issues and Practice* 43(1), 2018.

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main distribution channel in many countries, as sales of insurance often complement other customised financial products. Greater financial literacy, a benefit of engaging with banking services, drives insurance take-up. However, digital and mobile distribution are increasingly reaching those with limited access to traditional financial products.

Table 1: Top 10 countries for unbanked adults and mobile phone ownership

	Unbanked adults, mn	Unbanked adults, %	Unbanked adults owning a mobile phone, %
China	224.3	20%	82%
India	191.3	20%	54%
Pakistan	99.0	79%	47%
Indonesia	96.6	51%	64%
Nigeria	62.7	60%	59%
Mexico	58.7	63%	55%
Bangladesh	57.9	50%	59%
Vietnam	49.3	69%	79%
Brazil	48.4	30%	79%
Philippines	46.0	66%	71%

Source: The Global Findex Database 2017.

The COVID-19 experience is accelerating the trend of digitalisation of financial services.[5] We expect this to benefit low-income households and small enterprises, where access to traditional financial services is more limited. Digital technology can increase efficiency, lower distribution costs and remove barriers from geographic distance. An IMF study found that between 2014 and 2017 digitalisation raised financial inclusion even where traditional banking services were contracting.[6] Digitalisation also enables insurers to offer new, tailored, more affordable products to reach under-served segments. For example, in Brazil, the Insurtech TôGarantido – in partnership with Chubb – recently launched a low-cost life insurance product (100% digital) bundled with health benefits, targeting low- and middle-income segments.[7]

Mobile distribution is particularly relevant for reaching the under-served since two-thirds of unbanked adults globally own a mobile phone (see Table 1). Mobile-based microinsurance can leverage existing mobile platforms to reach low-income populations in rural and remote areas and so support financial inclusion. In Ghana, where more than seven million adults are unbanked, four million insurance policies are tied to mobile network operators.[8] Alternative channels like utility and online third-party platforms also contribute to increasing insurance access. In China, banner ads on platforms such as Alipay and WeChat are emerging as key purchase channels, in particular for simple and cheap insurance policies.

The pandemic has underlined the world's unequal access to digital services due to infrastructure limitations such as internet coverage, digital ID and literacy. The need for public and private investments and a digital-friendly regulatory environment is ever-more relevant. Higher financial inclusion in China and India, where 80% of adults are banked compared to 63% in emerging markets overall, was achieved through conducive government policies, private sector innovation and an effort to open low-cost accounts.

[5] *Realizing the digital promise. COVID-19 catalyzes and accelerates transformation in financial services*, Deloitte and Institute of International Finance, 2020.
[6] *The promise of fintech: Financial inclusion in the post COVID-19 era*, International Monetary Fund, July 2020.
[7] "Chubb partners with startup TôGarantido to offer policies for "less favored"", *Sonho Seguro*, 2 April 2018.
[8] *Financial inclusion in insurance*, MAPFRE Economics, June 2020.