THE GENEVA ASSOCIATION

INSURANCE FOR A BETTER WORLD

INCLUSIVE INSURANCE IN ADVANCED ECONOMIES: Alleviating strains on society

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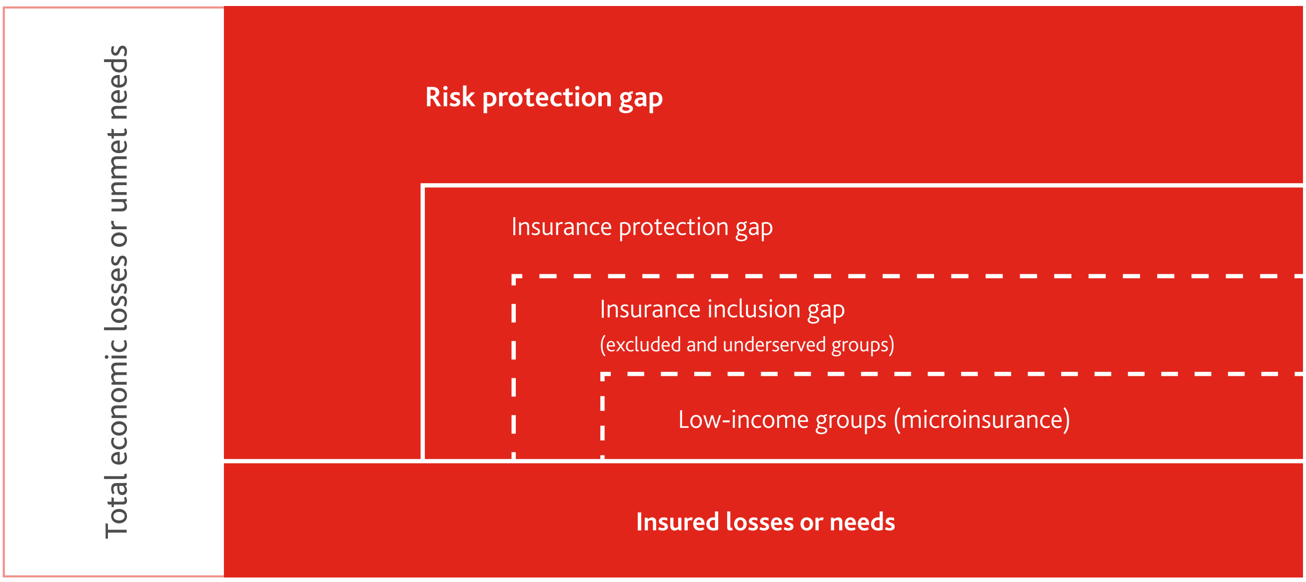
Introduction

Following the Global Financial Crisis, the COVID-19 pandemic and recent inflationary shocks, advanced economies are facing challenges like rising social inequality and eroding social safety nets. In response, key industry stakeholders, such as policymakers and regulators, are exploring inclusive insurance as a way to extend protection to underserved populations. Inclusive insurance is a core component of financial inclusion, which ensures access to essential financial services regardless of socio-economic or socio-demographic status. Insurance can alleviate social inequality by preventing individuals and households from falling (back) into poverty. Tailored approaches can also enhance socio-economic integration, such as providing coverage for migrants and filling the growing gaps left by traditional social insurance systems.

Insurance inclusion gaps

The discourse on inclusivity in insurance is closely linked to the concept of protection gaps. Risk protection gaps refer to uninsured portions of economic losses or needs, highlighting areas where individuals, households and businesses lack sufficient coverage against risks like health expenses, natural disasters or cyber losses. Globally, these gaps are significant, with trillions of dollars in unmet protection needs. Insurance protection gaps specifically reflect the discrepancy between economically appropriate and feasible coverage on the one hand and actual insurance uptake on the other. Inclusion gaps focus on socio-economic groups that are excluded from or underserved by insurance markets, such as low-income earners. Such gaps are expressed relative to a reference population. Inclusive insurance targets the respective groups by offering accessible, affordable products tailored to their specific needs (see Figure 1).

FIGURE 1: PROTECTION GAPS AND INSURANCE INCLUSION GAPS



Source: Geneva Association

Comprehensive and internationally comparable data on inclusivity in insurance, such as the proportion of insured individuals within specific segments of the total population, is sparse. This is because insurance companies typically report premium volumes and other financial metrics but not the number of insurance policies in force or underwritten during a period, or the number of individuals who hold these policies, let alone broken down by socio-demographic group.

Findings from a global customer survey

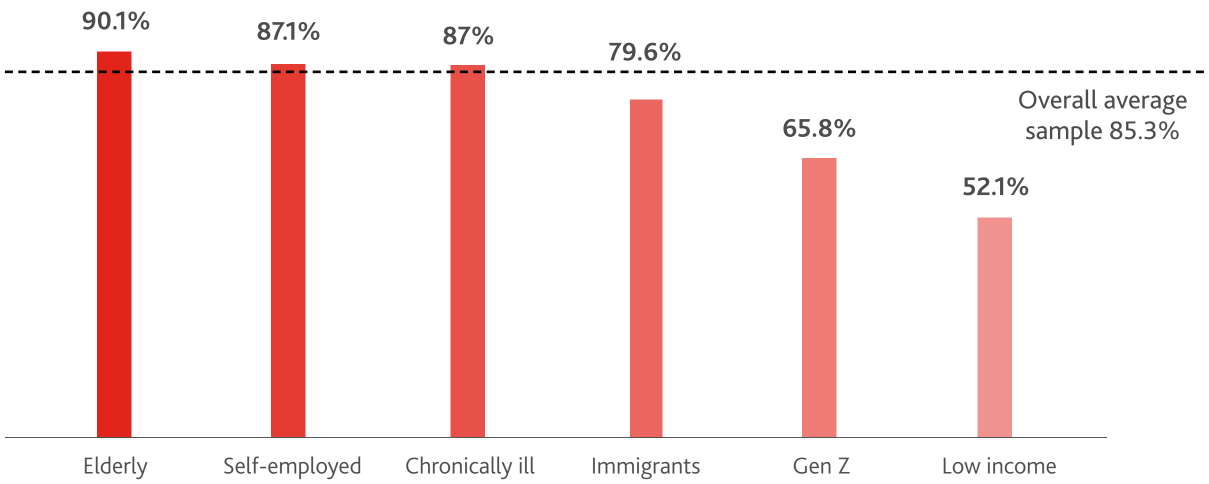
To fill this gap, the Geneva Association conducted a global customer survey. Carried out in the second quarter of 2024, the survey included over 28,000 representative households across seven advanced economies (France, Germany, Italy, Japan, Spain, the U.K. and the U.S.) and zoomed in on six demographics (the elderly, Gen Z, the chronically ill, the self-employed, low-income earners and immigrants).

The survey reveals that about 85% of respondents in advanced economies own at least one voluntary insurance product, with motor and residential property insurance the most prevalent. Critical illness and income protection insurance are the least common. Low-income, Gen Z and immigrant respondents tend to have less insurance than the reference population, indicating inclusion gaps (see Figure 2).

With 78% of all residents surveyed possessing an insurance policy, the U.S. displays the lowest overall ownership of all markets. In France, 92% of the population own insurance, the highest proportion in the global sample. Among the elderly, 66% own private health insurance, placing France in the top spot by a wide margin. One reason may be gaps in public health coverage (Securité Sociale). Low-income respondents in the U.K. are significantly better insured, at 70%, than the global average for this subgroup. This may reflect the broad availability of flexible, low-cost products in a highly competitive market. Japan has the lowest proportion of insured Gen Z respondents, perhaps attributable to relatively low wages for young adults and an above-average propensity to staying with their families well into adulthood. Germany leads in personal liability insurance, with 72% of residents owning it compared to the 30% sample average. This reflects the fact that, in Germany, individuals are legally responsible for covering the full cost of any damage they cause to third parties, whether property damage or personal injury.

Nearly a third of insured Japanese respondents feel they need more insurance, the highest among surveyed countries. German participants are the least receptive. Globally, private health and residential property insurance are the most needed additional coverages. Among the subgroups, Gen Z shows the highest demand for more insurance, particularly in the U.S. and Japan. Desire for insurance varies by subgroup among the uninsured, ranging from 21% for the elderly to 35% for Gen Z. Private health and residential property insurance are again the most popular.

FIGURE 2: SHARE OF RESPONDENTS THAT ARE INSURED, BY SUBGROUP[1]



Source: Geneva Association customer survey, powered by Dynata

1 Note that ownership levels reflect a total of 10 insurance classes, ranging from vital life insurance to more discretionary mobile device insurance.

Affordability is consistently the most important issue for all socio-demographic subgroups, especially low-income respondents. For Gen Z, lack of time to research products is a disproportionately important factor for not having insurance, particularly in Japan, Germany and Spain, where it surpasses concerns about affordability.

Respondents have three main expectations from their insurance providers: make insurance more affordable, provide clearer policy wordings and improve claims settlement processes.

Barriers to inclusive insurance

The report categorises barriers to inclusive insurance into four main areas: availability, accessibility, affordability and awareness. Availability problems arise from a constrained supply of diverse insurance products catering to different socio-demographic groups. This is most often due to information asymmetries, which lead to adverse selection (where high-risk customers are more likely to buy insurance) and moral hazard (less cautious customer behaviour among those with insurance). Insurers may also exclude certain demographics due to insufficient data for accurate risk assessment or because institutional factors, such as stringent regulations, stifle product innovation.

Accessibility challenges are a particular problem in geographically remote areas. Traditional distribution methods relying on agents and brokers may exclude those without access to these intermediaries. The digital divide exacerbates these barriers, as those lacking internet access or digital literacy struggle to engage with insurers online.

Affordability is a critical obstacle, particularly for low-income households. High premiums, driven by adverse selection and distribution costs, for example, often render insurance unaffordable. In addition, misconceptions about the costs associated with owning certain assets (e.g. a home in a flood zone) can lead to perceived affordability issues and further deter insurance uptake.

A lack of awareness about insurance often reflects low financial literacy among potential customers. Many individuals fail to understand the benefits of insurance or underestimate the likelihood of adverse events, leading to inclusion gaps. Deficits in financial literacy can also give rise to behavioral biases, such as loss aversion, which further discourages insurance purchases as people perceive premium payments as a certain loss against an uncertain future benefit (claims payments).

Insurers must take a multi-faceted approach to address these barriers, including enhancing trust, developing relevant products, enhancing access, promoting financial literacy and collaborating with the public sector.

Trust underpins customer confidence in the insurer's future promise to pay. It reduces transaction costs and counteracts affordability concerns. In the digital age, technology-based intermediaries can help build trust by providing platforms for underserved groups. Trust also mitigates behavioural biases in insurance purchasing, such as preferences for immediate rewards over future benefits. Trust in insurers' claims settlement practices is particularly crucial for underserved populations, who often lack prior experience with insurance.

Creating insurance products that are affordable and relevant to diverse, underserved populations is key to inclusive insurance. Subject to regulatory constraints, this involves customising and simplifying product features to meet specific needs, and leveraging technology, data analytics and behavioural nudges.

Lowering barriers to insurance access is also vital for inclusivity. Digital platforms and community-based distribution methods can help overcome these hurdles, especially in remote areas. Local agents with contextual knowledge can also play a crucial role in reaching underserved populations.

Tailored financial education programmes targeting specific demographics through community institutions or digital platforms can promote financial literacy and significantly enhance insurance inclusivity.

Collaboration with government agencies and regulators is pivotal for creating inclusive insurance markets. This includes advocating for compulsory insurance schemes in the absence of sufficiently large risk pools (while incentivising risk prevention and combatting moral hazard), designing premium subsidies to make insurance affordable for high-risk groups while incentivising risk prevention, and developing regulations that support simplified, easily accessible insurance products. Public-sector engagement can also facilitate the use of digital distribution channels and regulatory sandboxes, fostering innovation for inclusivity in insurance (see Figure 3).

FIGURE 3: UNLOCKING THE POTENTIAL OF INCLUSIVE INSURANCE

Designing relevant products

- Product customisation and simplicity
- Digital technology and data analytics
- Community-based solutions
- Behavioural nudges

Facilitating access

- Digital platforms
- Community-based distribution
- Partnership-based distribution

Fostering trust

- Claims practices
- Sales force

Promoting financial literacy

- Customised education initiatives
- Collaboration with community institutions
- School curricula
- Digital applications

Engaging with the public sector

- Premium subsidies
- Conducive regulations
- Mandating risk pools

Source: Geneva Association