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**Monies spent on insurance or pension do not drag the economy but rather boost economic growth in a country.**

ILLUSTRATION: CREATIVE COMMONS

1) the "protection gap" in life and health insurance; 2) the gap in disaster risk insurance or finance; and 3) the retirement income gap due to rapid growth in aging populations.

Asean needs to urgently address all three gaps, and by doing so can boost national economies, make great strides in financial inclusion, and mobilise billions of dollars to address a fourth gap, infrastructure finance.

**The life and health protection gaps:**Asean's insurance penetration remains relatively low, at only 3.4 per cent of GDP versus the world average of 6.3 per cent. The "protection gap" manifests in two ways. First, there are still millions of families across the region that have no access to any form of insurance. This represents a major challenge in financial inclusion. Even for those families that have insurance, most still do not have sufficient protection for either life or health risks.  
  
Swiss Re estimated that the gap in life protection ranges from 89 per cent to over 300 per cent of GDP across six Asean countries. The health insurance gap is also severe: Asean families bear 35 per cent to 75 per cent of their total medical expenses.

Only families in Brunei (6 per cent) and Thailand (12 per cent) have better levels of protection, similar to that in Japan, UK or US, where out-of-pocket expenses range from 11 per cent to 15 per cent of total medical expenses.  
  
**The disaster risk finance gap:**Asia remains by far the region most exposed to natural disasters with over 1.6 billion people affected and over 345,000 deaths in the past decade.

The region is exposed to all types of disasters (earthquakes, tsunamis, floods, typhoons, droughts) but disaster insurance coverage still lags.

Only 10 per cent of Asia's US$230 billion of economic losses from disasters in 2012-17 were insured compared to 13 per cent in South America, 16 per cent in Europe or 44 per cent in North America.

Especially distressing is that many disasters strike the most vulnerable communities where the percentage of insured losses are even lower than 10 per cent.

**Retirement income gap:**While the ageing phenomenon is well known among Singaporeans, it is not well understood that the same is happening in all other Asean countries.  
  
For example, between 2015 and 2030, the over-65 population will increase by 320 per cent in Cambodia, 236 per cent in Indonesia and 291 per cent in Vietnam. That leaves little time for financial authorities to act or face a massive gap in retirement income.  
  
Currently, Asean countries have less than 15 per cent of GDP in pension and insurance assets, excluding Singapore (135 per cent) and Malaysia (80 per cent), which are nearer the levels of markets such as Korea (118 per cent) and Japan (144 per cent).

**Stimulating the growth of life, health and disaster insurance and pension systems:**To close the three gaps, more focus and urgency are needed on government policies to promote the development and growth of the insurance and pension sectors. To increase life and health insurance penetration, leaders could introduce policy "nudges" such as tax incentives to purchase.

While not popular, as economies mature, one possible mechanism to fund the retirement income gap and encourage the purchase of additional mortality protection might be the introduction of inheritance taxes.

Equally important, governments and the industry must increase efforts to promote financial literacy, exploit new technologies and innovate new coverages and distribution methods. Advances in bio-tech and fin-tech along with sound policy are also key to managing medical cost inflation.

For the disaster insurance gap, one solution is more public-private cooperation to expand the penetration of catastrophe insurance via incentives and by financial education.

In addition, Asean can adapt programmes developed by the general insurance and reinsurance industry with the World Bank and other multilateral institutions to create disaster risk finance mechanisms, some of which use parametric triggers for quick payments when catastrophes occur.

Accelerating such mechanisms should allow governments and the private sector to better protect society's most vulnerable.

To reduce the retirement income gap, public and private sector pension systems need to grow. Asean's savings rates are high enough to fund most of its infrastructure needs.

However, these savings are mostly in cash, bank deposits and property today, and must be channelled to productive long-term investments. This requires Asean governments to continue to broaden and deepen their capital markets.

One possible way is through the privatisation of state -owned companies and assets, the proceeds of which can be ploughed back to fund other public priorities.

Progress has already been made in some areas. For example, the Asean Working Committee on Capital Market Development has made bond market benchmarks available at regular intervals and granted retail investors access to purchase government bonds.

The Working Committee for Financial Inclusion has embarked on initiatives to support a national financial inclusion strategy, build capacity, promote innovative digital platforms, and increase financial education and consumer protection.

Efforts to stimulate more integrated and robust insurance and capital markets, promote financial inclusion and ensure financial stability all contribute towards the Asean Economic Community 2025 vision of regional economic integration, and we should expect more developments as AEC implementation continues.

**Accumulated insurance and pension funds are sources of growth and long-term investment in infrastructure:**The important point for both public and private sector leaders to note is that monies spent on insurance or pension do not drag the economy but rather boost economic growth.

Research done by Oxford Analytica regarding Indonesia concluded that every US$1 spent on life insurance premium can bring US$2.5-US$3 incremental GDP, due to greater employment, increased spending from greater consumer peace of mind, and from the investment of insurance reserves.

Insurance and pension sectors by their very nature have to accumulate and invest their funds in long-term, primarily domestic assets in order to match their long-term liabilities. That means they invest in government and corporate bonds, in physical and social infrastructure, and in capital for small, medium and large enterprises.

Thus by growing their insurance and pension industries, Asean countries will not only close the protection and retirement gaps, but will also mobilise billions of dollars of domestic savings to finance infrastructure needed to support Asean's future growth, and not be overly reliant on foreign borrowing.

All told, protecting the present will finance the future, funding both the greying and the growing of Asean.

The writer is chairman of the EU-Asean Business Council, the primary voice for European businesses in Asean.

UCH has been written about three major financial "gaps" facing Asean in the coming decades:

# 'Minding the gaps' in Asean: Protecting the present and financing the future

By growing the insurance and pension industries, these countries will mobilise   
savings to finance infrastructure and rely less on foreign loans. BY DONALD KANAK

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