

**BMI**

a FitchSolutions Company

# Insurance Risk/Reward Index

Our Insurance Risk/Reward Index (RRI) quantifies and ranks a market's attractiveness within the context of the Insurance industry, based on the balance between the **Risks** and **Rewards** of entering and operating in different markets.

We combine industry-specific characteristics with broader economic, political and operational market characteristics. We weight these inputs in terms of their importance to investor decision making in a given Industry. The result is a nuanced and accurate reflection of the realities facing investors in terms of: 1) the balance between opportunities and risk; and 2) between sector-specific and broader market traits. This enables users of the Index to assess a market's attractiveness in a regional and global context.

The index uses a combination of our proprietary forecasts and analyst assessment. As forecasts change, so the Index scores change providing a highly dynamic and forward-looking result.

The Insurance Risk/Reward Index universe comprises **138 markets**.

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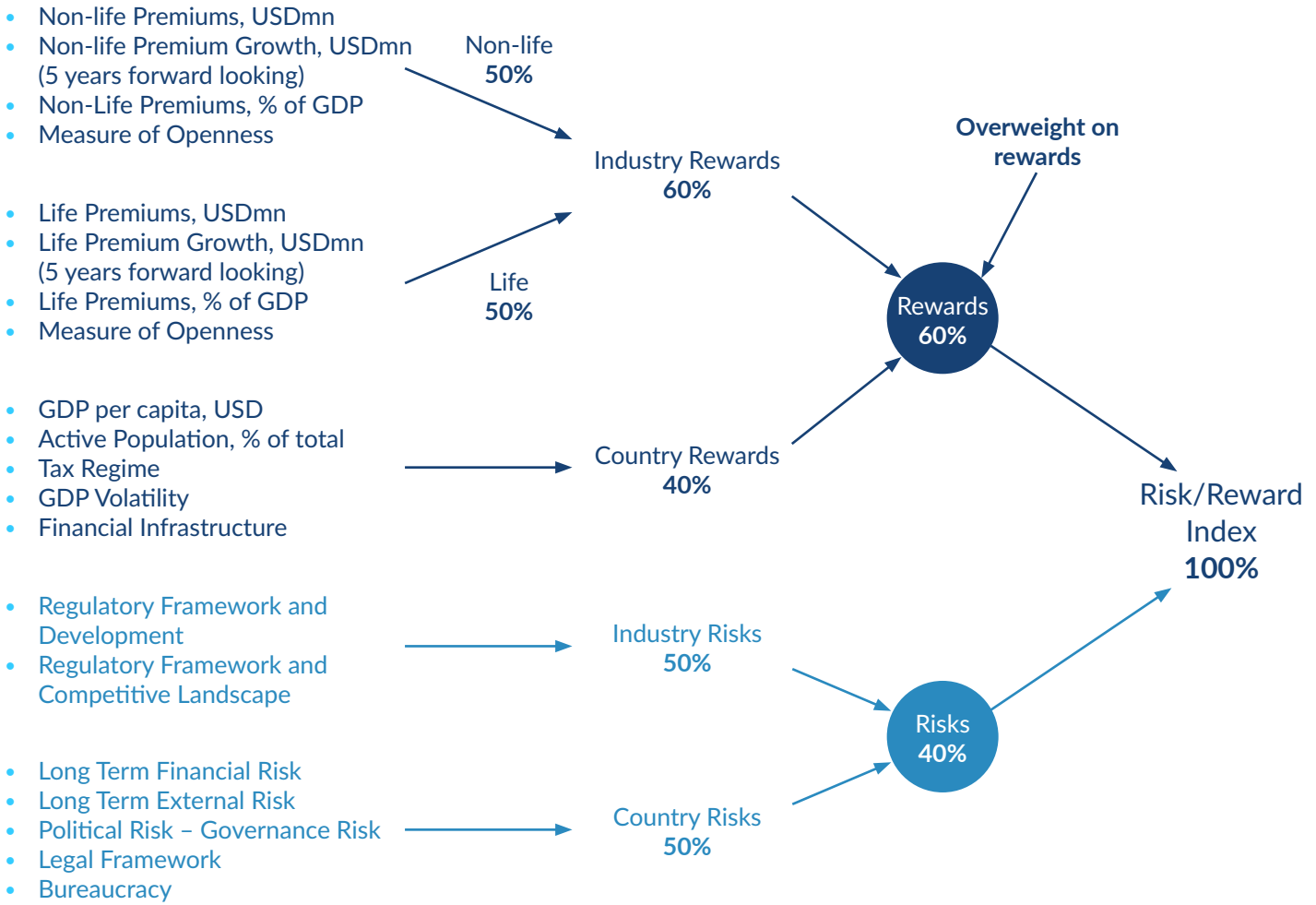
## Benefits of using BMI's Insurance RRI

- **Global Rankings:** One global table, ranking all the markets in BMI's universe for Insurance from most attractive (closest to zero) to most risk (closest to 100).
- **Accessibility:** Easily accessible, top down view of the global, regional or sub-regional Risk/Reward profile.
- **Comparability:** Identical methodology across 149 markets for Insurance allows users to build lists of countries they wish to compare, beyond the confines of a global or regional grouping.
- **Scoring:** Scores out of 100 with a wide distribution, provide nuanced investment comparisons. The higher the score, the less favourable the profile.
- **Quantifiable:** Quantifies the Rewards and Risks of doing business in the Insurance sector in different markets around the world and helps identify specific flashpoints in the overall business environment.
- **Comprehensive:** Comprehensive set of indicators, assessing industry-specific risks and rewards alongside political, economic and operating risks.
- **Entry Point:** A starting point to assess the outlook for the Insurance sector, from which users can dive into more granular forecasts and analysis to gain a deeper understanding of the market.
- **Balanced:** Multi-indicator structure prevents outliers and extremes from distorting final scores and rankings.
- **Methodology:** The Index is created using a combination of proprietary BMI forecasts, analyst insights and globally acceptable benchmark indicators.



# Weightings of Categories and Indicators

## Insurance Risk/Reward Index



The RRI matrix divides into two distinct categories:

Assessing our weightings

**Rewards:** Evaluation of an Industry’s size and growth potential (**Industry Rewards**), and also macro industry and/or market characteristics that directly impact the size of business opportunities in a specific sector (**Country Rewards**).

**Risks:** Evaluation of micro, industry-specific characteristics, crucial for an industry to develop to its potential (**Industry Risks**) and a quantifiable assessment of the market’s political, economic and operational profile (**Country Risks**).

Our matrix is deliberately overweight on **Rewards** (60% of the final RRI score for a market) and within that, the **Industry Rewards** segment (60% of final **Rewards** score). This is to reflect the fact that when it comes to long term investment potential, industry size and growth potential carry the most weight in indicating opportunities, with other structural factors (demographic, labour statistics and infrastructure quality) weighing in, but to a slightly lesser extent. In addition, our focus and expertise in Emerging and Frontier Markets has dictated this bias towards industry size and growth to ensure we are able to identify opportunities in markets where regulatory frameworks are not as developed and industry sizes not as big as in developed markets, but where we know there is a strong desire to invest.



# Indicators, Rationale and Sources

## Insurance Reward Index, Indicators

Indicator	Source	Rationale
<b>REWARDS</b>		
<b>Industry Rewards</b>		
Life/Non-life Premiums, USDmn	BMI	Size of the insurance industry indicates potential for opportunities and scale of operations. Large markets more attractive than small ones.
Life/Non-life Premium Growth, USDmn	BMI	Projected growth of the insurance industry indicates growth potential for opportunities (5 years forward looking from current year).
Life/Non-life Premiums, % of GDP	BMI	Premiums expressed as % of GDP measures insurance penetration, an indicator of actual and (to an extent) potential development of life/non-life insurance sector.
Measure of Openness	BMI	Subjective measure of market's accessibility to new entrants.
<b>Country Rewards</b>		
GDP Per Capita, USD	BMI	The wealth of the population indicates demand for insurance. Higher GDP per capita correlates with the expansion of the middle class, which is a key market segment for insurance.
Active Population, % of total	BMI	Measure of population aged between 16-64, as a % of total population. Higher active population proportion indicates a more attractive demand scenario for the insurance sector.
Tax Regime	BMI Operational Risk Index	A measure of the general fiscal drag on profits because of corporate tax.
GDP Volatility	BMI	Standard deviation of Real GDP growth over a 20-year economic cycle acts as a proxy for economic stability.
Financial Infrastructure	BMI Operational Risk Index	Measure of financial sector's development, a crucial structural characteristic given the insurance industry's reliance on financial instruments to mitigate risk.

Source: BMI

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# Indicators – Explanation and Sources

## Insurance Risk Index, Indicators

Indicator	Source	Rationale
<b>RISKS</b>		
<b>Industry Risks</b>		
Regulatory Framework and Development	BMI	Subjectively evaluates de facto/de jure regulations on development of insurance sector.
Regulatory Framework and Competitive Landscape	BMI	Subjectively evaluates impact of regulatory environment on the competitive landscape for the insurance sector.
<b>Country Risks</b>		
Long Term Financial Risk	BMI Country Risk Index	Evaluates currency volatility and the sophistication and depth of the local financial markets.
Long Term External Risk	BMI Country Risk Index	Evaluates a market's vulnerability to external debt dynamics, current account deficit, and other externally induced economic shocks, which tend to be principal triggers of economic crises.
Political Risk – Governance Risk	BMI Country Risk Index	Governance Risk is a composite measure that includes Government Risk, Institutional Risk, and Policy Risk, which aims to determine the likelihood of disruption and overall quality of governance.
Legal Framework	BMI Operational Risk Index	Evaluates strength of legal institutions since security of investment can be a key risk in emerging markets.
Bureaucracy	BMI Operational Risk Index	Denotes ease of conducting business in a market from a bureaucratic perspective.

Source: BMI



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## About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries.

For more than 40 years, we have provided impartial and transparent analytics, data and research across themes,

countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at [fitchsolutions.com/bmi](https://fitchsolutions.com/bmi)

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## Client Services

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