



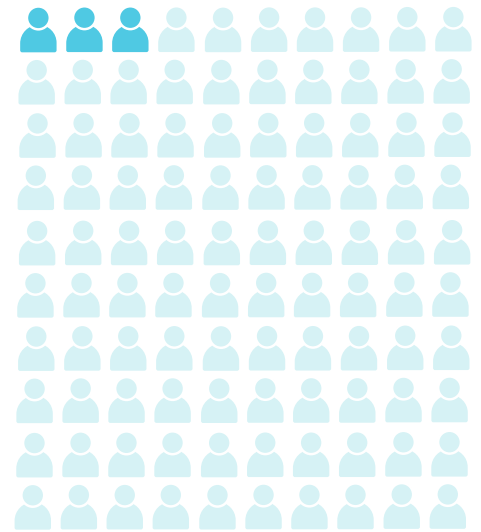
Unlocking Public and Private  
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# SCALING THE NEXT FRONTIER IN MIGRANT MONEY:

THE CASE FOR INSURANCE  
AND PENSIONS

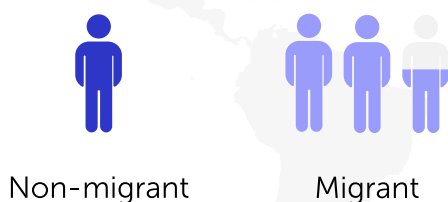
**G**lobally, an estimated 281 million people, nearly half of whom are women, live and work outside their countries of origin. This amounts to roughly four percent of the total global population. For these individual migrants, moving abroad for work can mean income volatility, uncertainty, and financial insecurity. The risk of poverty for migrants is 1.5 times that for non-migrants. The workplace mortality rate of migrants is also at least 2.5 times more than their non-migrant counterparts.<sup>1</sup> Given this vulnerability, while 69.4 percent of this global workforce lacks a comprehensive social protection umbrella, the rate is higher in the case of low-income migrants due to the territorial boundaries and lack of portability of social protection schemes, the informality of migrant employment, and limited enforcement of migrant protection agreements in origin and destination countries. In the case of low-income countries, estimates suggest that less than 3 in every 100 migrants have access to portable social security[i].

In this environment, the role of insurance and pensions in ensuring financial resilience, and social protection of migrants and their families, can hardly be overemphasized. Indeed, these are considered essential tools to mitigate the financial risks of death, disability, disasters, health issues, and poverty or low income in old age for the migrant population. Moreover, life and livelihood vulnerabilities experienced by migrants during the COVID-19 pandemic have further accentuated the need for a prompt and all-encompassing discussion on social protection and particularly on insurance and pension for migrants.

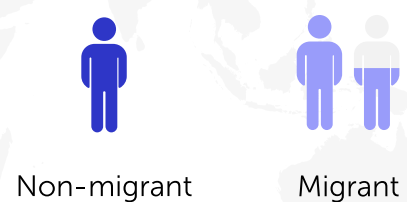


### Migrant access to portable social security

#### Workplace mortality rate



#### Risk of poverty



1 Migration and the SDGs: Measuring Progress; IOM, 2022

## In the absence of formal options, remittances often substitute for insurance for migrants and their families

For migrants, limited availability or absence of insurance and pensions can lead to the use of remittances as risk mitigation measures to counter out-of-pocket health expenses and vulnerability to natural disasters and other financial shocks.

Case in point: impact studies conducted in countries as diverse as the Philippines and Mexico indicate that international remittances play an extremely crucial role in helping migrants and their families cope with financial exigencies in their countries of origin[ii], [iii], making them less reliant on debt financing[iv]. For example, every 100 pesos of additional remittances increase household health care spending by 6 pesos in Mexico, which is three times more than the income from other sources[v]. Migrants from several Latin American countries living in the US showed relatively high levels of transfers for savings (between 22 percent to 56 percent depending on the home country of the migrant), as well as transfers to help relatives. Regular transfers to older relatives are also functioning as a form of pension provision – but always with the risk to the future income of the older person if something should happen to the wage-earning ability of the migrant

worker[vi].

## The absence of insurance and pensions increases the risk of financial vulnerability for migrants

While remittances at times substitute for insurance (and even pensions) in the countries of origin, reliance on remittances also means that migrants and their families use them less productively if the money is

re-routed to manage unforeseen events rather than build wealth and address other financial objectives. Although remittances often work as a financial coping mechanism for the family, the accumulation of savings and self-insurance remains a dominant motivation[vii], [viii] among most migrants. Such accumulated savings from remittances are often critical to the financial deepening and resilience of the family since returning migrants often use them for income-generating activities, re-employment, and micro-enterprises[ix], [x], [xi]. Moreover, remittances often help reduce the family's debt burden back home and contribute to better financial well-being[xii]. Therefore, events such as death, disability, sickness, disaster, or job loss at the migrants' end, negatively impact the recipient family's financial stability back home, often resulting in an excessive debt trap, inequality, and poverty. The absence of financial management tools and financial literacy also affects the long-term choices of the migrant families in terms of investment, savings, and access to credit necessary for their overall financial resilience. Similarly, the absence of pension products for returning migrants means that their families are often forced into a cycle of financial vulnerability once the migrant's productive period ceases.

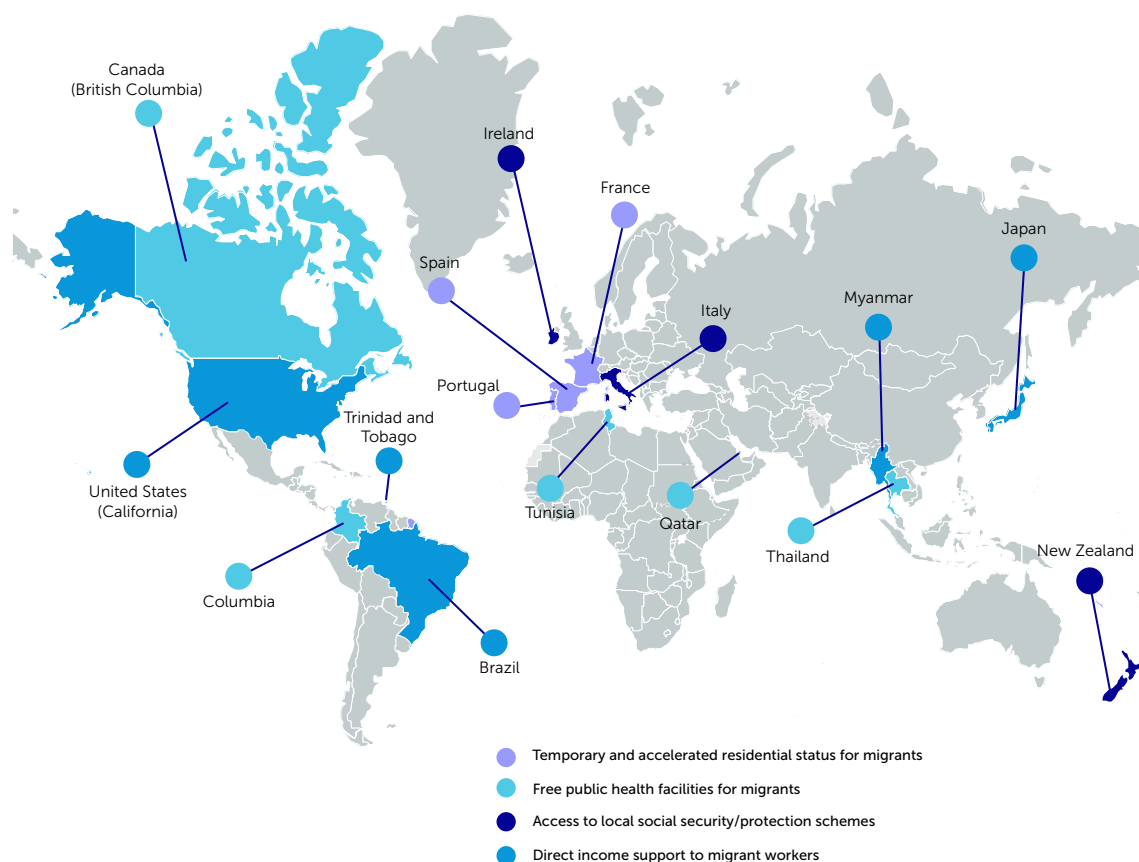
## The COVID-19 pandemic has emphasized the pressing need for insurance and pensions for migrants

The recent pandemic has had a severely adverse impact on migrant health and mortality due to their congested living conditions in urban centers and other health issues that make them vulnerable to the illness[xiii]. It also brought another troubling fact to the fore – migrants' access to public health care and insurance was often linked to their residency status in destination countries, leaving temporary

migrants stranded and vulnerable to ailments related to COVID-19[xiv]. Moreover, even in countries where public health care is available to migrants, the cost of receiving services is often higher than for national residents and applicable only in cases of acute health emergencies or the spread of infectious diseases. Not surprisingly, therefore, in an ILO survey, almost 97 percent of respondents across ASEAN destination countries mentioned the unavailability of social security coverage during the pandemic as a matter of concern for them[xv]. Since COVID-19 was a global pandemic, the response of many countries (see Figure 1) had been one of inclusion, only to highlight that those vulnerabilities will continue to affect migrant lives in the future, especially during exigencies that are not pandemic in scale. The home countries did not fare any better.

COVID-19 has also witnessed a surge of migrants returning to their countries of origin, mainly due to disproportionate job losses. More than 4 million migrants have returned to Egypt, India, the Philippines, Tajikistan, Thailand, and Ukraine alone, accounting for almost 50–90 percent of migrants from some of these countries[xvi]. For these returning migrants, loss of employment and income is made worse by a lack of pension and other social security options that normally serve as a safety net in such disruptive events. This has further deepened the income vulnerability and debt burden of migrant workers since they have nothing to fall back on in either the country of origin or destination[xvii].

**Figure 1: COVID-19 related migrant social security measures across countries**

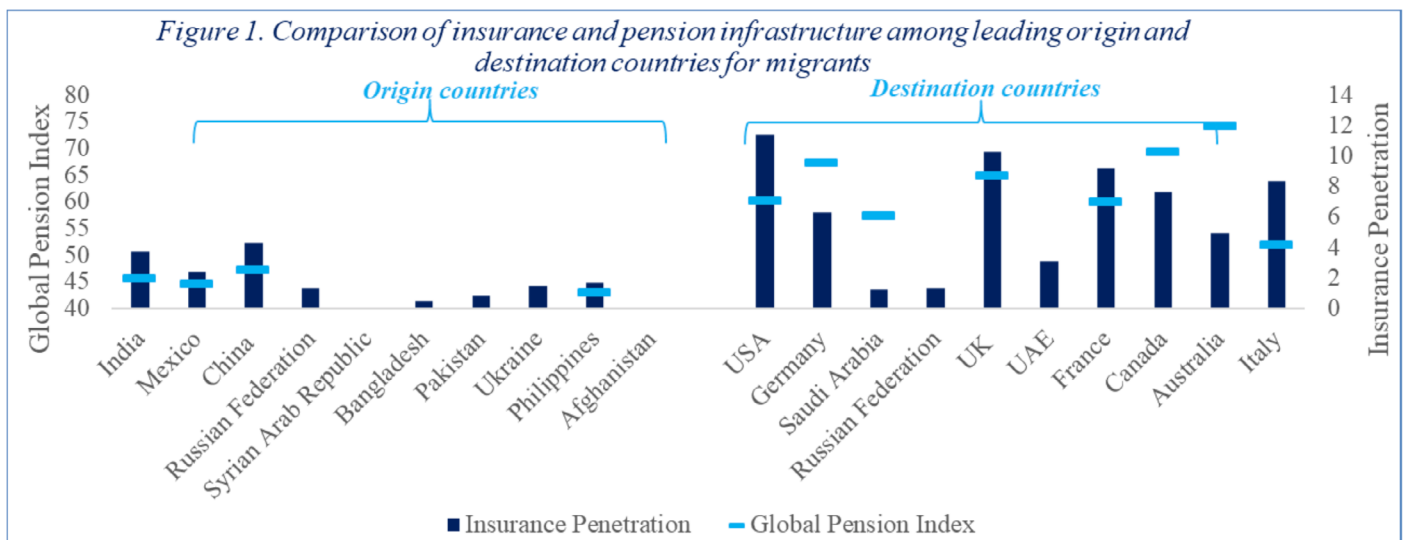


## Blue-collar migrants from developing countries have limited access to insurance and pensions

The need for insurance and pension products is not the same across all migrant segments. High- and middle-income migrants often assimilate into the formal financial sector of their destination countries or continue to remain linked to financial products and services from their country of origin. However, formal insurance and pension products remain elusive for most migrants from low-income and emerging economies, where remittance inflows constitute 5-20 percent of the countries' GDP. Insurance penetration<sup>2</sup> in these leading origin countries is less than half of the leading destination countries (see Insurance Penetration in Figure 1)[xviii] indicating limited insurance market maturity in such origin countries. Pension infrastructure also is much less developed in these origin countries than in some of the leading destination countries (see Global Pension Index in Figure 1).

Migrants from such countries, therefore, are unlikely to have access to insurance and pension services, either in their countries of origin or destination, due to regulatory and policy barriers or the absence of migrant-centric insurance and pension products, or both. Moreover, even if they have access to pensions in their host countries, these products are not often portable, thus denying the migrants any real benefits from such pension savings on time.

<sup>2</sup> Insurance Penetration: insurance premiums as a percentage of the countries' GDP



## Migrant social security, especially insurance and pension schemes, are critical to achieving the Sustainable Development Goals (SDGs)

Social security for migrants, especially insurance and pensions, contributes to at least 5 of the 17 SDGs, as mentioned in Box 1.

Box 1: SDGs linked to social security for migrants[xxi].

|   |                   |   |                    |   |                   |
|---|-------------------|---|--------------------|---|-------------------|
|    | <b>TARGET 1.3</b> |    | <b>TARGET 3.8</b>  |    | <b>TARGET 5.4</b> |
| <p>Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.</p>  |                   | <p>Achieve universal health coverage, including financial risk protection, access to quality healthcare services, and access to safe, effective, and affordable essential medicines and vaccines for all.</p> |                    | <p>Recognize and value unpaid care and domestic work through public services, infrastructure, social protection policies, and the promotion of shared responsibility within the household and the family as nationally appropriate.</p> |                   |
|    | <b>TARGET 8.5</b> |    | <b>TARGET 10.4</b> | <b>SDG INDICATOR 10.7.2</b>   |                   |
| <p>By 2030, achieve full and productive employment and decent work for all women and men, including young people and persons with disabilities, and equal pay for work of equal value. [Social protection is one of the four pillars of decent work.]</p> |                   | <p>Adopt policies, especially fiscal, wage, and social protection policies, and progressively achieve greater equality.</p>   |                    | <p>points to the 'Number of countries with migration policies that facilitate orderly, safe, regular and responsible migration and mobility of people'. Currently, 54% of the governments globally meet this standard.</p>              |                   |

Source: *World Social Protection Report, 2020-22*; ILO

## There are initiatives by major global stakeholders emphasizing the need of migrant social security

The rights and need for migrant social security are enshrined in the International Covenant on Social, Economic, and Cultural Rights (1966), as they are in various other international and regional human rights instruments and national constitutions[xix]. Social protection[xx], for instance, is deemed a core component pillar of decent work (SDG 8). A fact supported by the International Labour Organization's (ILO) Social Protection Floors Recommendation (2012) which states that to "prevent and reduce poverty, inequality, social exclusion, and insecurity..." will require promoting "equal opportunity, gender, and racial equality" and "the transition from informal to formal employment."

The Global Compact for Safe, Orderly, and Regular Migration (GCM), an inter-governmentally negotiated agreement under the auspices of the United Nations, also presents significant opportunities to promote intersectoral partnerships and policies to enable the inclusion of migrants in the global health discourse. Similarly, the Tokyo Declaration on Universal Health Coverage (UHC) recognized this need to prioritize the most vulnerable members of the world's population, including migrants. This recognition found a place in Oman's Salah Declaration of 2018, which further expanded the goal of UHC to non-nationals, emphasizing the close relationship between UHC and health security, especially relating to refugees, migrants, and internally displaced people.

Although these deliberations revolve around health insurance, they bring the issue of migrant financial resilience to the forefront of the development discourse, including the plight of women migrant workers who constitute around 48

percent of the global migrant community. They are predominantly employed in the unorganized sector with little or no social security benefits to help and protect them in times of need. This reality directly contravenes the goal of achieving comprehensive social security for all migrants set out in SDG target 10.4, which recommends utilizing public pension 'pillars' combined with personal, private, and occupational pensions to ensure that migrants and their families enjoy multiple routes to achieving decent pensions.

## Migrant insurance and pension also brings a significant business opportunity for the market eco-system

UNCDF estimates that even if 25 percent of the migrants from the low and middle-income countries are brought under second or third-pillar pension schemes, it will create a pension asset of approximately US\$3-5 trillion over the next 20 years, a relatively significant figure given the global pension stock of US\$35 trillion.

Even on a conservative estimate, if 5 percent of remittances to the low and middle-income countries goes to formal pension savings, this would create a flow of more than US\$41 billion per year, which, on reasonable assumptions, could grow to US\$1 trillion in total assets after 20 years. This would add significantly to the assets and coverage in many countries, where the pension market is still in its infancy. The full potential of migrant pension, however, may be realized through co-contributory pensions, where the employer also matches the migrant employee's contribution.

It is more difficult to get an overall market potential for migrant insurance given how widely premiums vary by coverage, by country and over time. But it is possible to give an indication of

scale by benchmarking various migrant insurance programmes across the globe. Some examples of such schemes are the OFW scheme in the Philippines (premium of US\$40 per annum), India's United India Insurance (premium of US\$54 per annum), Abu Dhabi's compulsory basic plan for migrants (basic premium US\$395 per annum), and Bangladesh's mandatory migrant insurance by Jibon Bima Corporation (US\$13 per annum).

Taking a range from these schemes, providing basic insurance coverage to 167 million working migrants would yield a potential premium income between US\$7 billion to US\$67 billion. This would also mean covering financial vulnerability of more than US\$3 billion per year.

In certain key origin and destination countries, the impact of such migrant insurance can be considerable. For example, total insurance premiums in 2019 in the UAE were US\$11 billion, with US\$2.5 billion collected for life insurance. Covering 8.7 million migrants in UAE through a basic insurance plan (which only covers Personal and Medical Insurance) can generate an annual premium income of around US\$3.4 billion, i.e., 31 percent of the overall insurance market of UAE. Similarly in Bangladesh, even if 1 percent of the US\$22 billion of annual inward remittance is spent on life and critical illness insurance, it would generate US\$220 million per year, growing the domestic insurance market by as high as 25 percent.

### **The overwhelming and pressing need for insurance and pensions for migrants has not yet been fully leveraged by either the public or the private sectors**

This can be seen in less than 3 percent of social protection coverage for migrants, mainly from low-income countries. What

is equally concerning is that only a small proportion of the migrants are covered by global, regional, and bilateral agreements ensuring their social protection, despite the international conventions. One reason for this may be an absence of ratifications and limited bilateral agreements across major migrant corridors. Moreover, seasonal and irregular migration in the unorganized sector often falls outside the purview of these international conventions. While tax-funded social insurance and other benefits remain relevant to the migrant cause, comprehensive financial resilience for the migrants may be fully explored through (partial or full) contributory insurance and pension schemes designed and delivered by the public and private sector entities.

Although the Universal Declaration of Human Rights (1948) states that "Everyone, as a member of society, has the right to social security" [xxii],[xxiii], achieving this on the ground may require both the public and private sectors to work on a combination of tax-funded (non-contributory) social security systems and entitlements, complemented by contributory (partial or full) market-based insurance and pensions[xxiv]. It will also necessitate the participation of multiple specialists — regulators, policymakers, financial institutions, employers, and digital network providers — who have the best handle on the various stages of the insurance and pension value chain within the public and the private sectors. As ILO defines, social security includes different forms of social benefits (e.g., non-contributory tax-funded social benefits and transfers) and social insurance.[xxv] A comprehensive ecosystem of migrant financial resilience will necessitate that these social security schemes are complemented by contributory insurance (life, health, property, and accident) and long-term pension systems resulting in reducing vulnerability, poverty, and inequality and supporting inclusive growth of the life and livelihood of the migrants.



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[xx] Social protection, used interchangeably with Social Security, “is defined as the set of policies and programmes designed to reduce and prevent poverty, vulnerability and social exclusion throughout the life cycle” of migrants. Social protection includes nine main areas: child and family benefits, maternity protection, unemployment support, employment injury benefits, sickness benefits, health protection (medical care), old-age benefits, invalidity/disability benefits, and survivors’ benefits. [Extending social protection to migrant workers, refugees and their families; ILO 2021].

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[xxiii] Social security, used interchangeably with Social Protection ( which includes social insurance, social assistance, universal benefits, and other forms of cash transfers and measures), is defined by ILO as - “covers all measures providing benefits, whether in cash or kind, to secure protection, inter alia, from lack of work-related income (or insufficient income) caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member; lack of (affordable) access to healthcare; insufficient family support, particularly for children and adult dependants; general poverty and social exclusion.” [Extending social protection to migrant workers, refugees and their families; ILO 2021].

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[xxv] A social insurance scheme is a “contributory social protection scheme that guarantees protection through an insurance mechanism, based on: (1) prior payment of contributions (before the occurrence of the insured contingency); (2) risk-sharing or “pooling”; and (3) the notion of a guarantee. [Extending social protection to migrant workers, refugees and their families; ILO 2021].