GHANA’S APPROACH TO INCLUSIVE INSURANCE MARKETS

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INTRODUCTION

a. **Overview**

Insurance penetration in Ghana was below 1% as at 2009. Access to insurance for the country's low income and informal sector operators who were small scale farmers, petty traders or artisans, was very low. In Ghana, insurance has traditionally been designed and targeted at the blue and white collar employees who earn monthly incomes and operate bank accounts. This was a major barrier to the government's effort to reduce poverty and promote wealth creation. A decision by the National Insurance Commission (NIC), the insurance regulatory authority to seek a solution to this problem culminated in the design and the implementation of Ghana's microinsurance regime.

The Ghana Microinsurance Regime Case illustrates how the NIC took calculated steps to improve access to insurance for the average citizen irrespective of their economic or financial status.

The case is presented by Michael Kofi Andoh, Head of Supervision at the National Insurance Commission, who was actively involved in the design and implementation of the regime.

b. Linkage to Core Principles

This case should be read in conjunction with the Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets issued by the International Association of Insurance Supervisors (IAIS) in October, 2012.

c. Key Issues

- The importance of the role of the supervisor in the development of microinsurance in particular and in improving financial inclusion generally.
- The need to promote microinsurance as a means of developing the larger insurance sector to provide the ordinary citizen the basic tools to manage social and economic risks.
- The importance of a suitable and enabling legal framework for the development and promotion of microinsurance.
- The importance of formulating appropriate plans, implementing them effectively and consistently monitoring and evaluating outcomes in order to ensure the achievement of the desired or intended results.

d. Objectives

After participating fully in the presentation, analysis, discussion and the activities of this case study, you should be able to:

1. Appreciate the need for the insurance sector supervisor to take a leading role in the development and promotion of microinsurance.
2. Understand the need to take appropriate steps to ensure that a country's microinsurance regime is suitable for and addresses the peculiar needs of the country.

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3. Understand how to plan, implement and effectively monitor the achievement of desired financial inclusion goals.
4. Appreciate how to strike an appropriate balance between enabling innovation and flexibility and ensuring compliance with minimum standards in designing microinsurance regimes.

COUNTRY BACKGROUND

a. The Ghanaian Economy

Ghana is a West African country with a population of 27.4 million. As at 2016, the country's Gross Domestic Product stood at $42.7 billion which translated into a GDP Per Capita of about $1,500. The economy has been growing at an average of about 5% per annum for the past six years. Agriculture, Industry and Services contribute 21%, 28% and 51% respectively to the country's GDP. Economic activities have generally been clustered around four major cities namely Accra (the capital), Tema (the main industrial hub), Takoradi (a port city and now the centre of the new oil and gas industry) and Kumasi (the second largest city after Accra). It is estimated that about 50% of the country's entire population live in these four cities.

b. The Financial Services Sector

The Financial Services Sector in Ghana is dominated by banks. Apart from traditional banks, there are leasing companies, asset management companies, non-bank financial institutions, Micro Finance Institutions and Rural Banks and of course, insurance companies and brokers. As a result of the recent privatization of the Pensions sector, a number of Pension Management companies have just been added to Ghana's financial landscape. Ghana also boasts of a vibrant Stock Exchange with many stock brokerage institutions.

Despite these however, there is very little financial inclusion in Ghana. As at 2016, the entire financial services sector contributed just about 9% of GDP. The economy is still largely cash based. Electronic payment systems are not well developed.

The government recently implemented a Financial Sector Strategic Plan (FINSSP) which in addition to seeking solutions to the abovementioned challenges, also sought to improve capitalization and corporate governance and develop financial regulatory capacity and thereby help to improve general financial intermediation. Even though these achieved some very good results, a lot still remain to be done.

c. The Insurance Sector

The Ghanaian insurance industry is made up of 27 non-life companies, 23 life companies, 80 broking companies and 3 reinsurance companies. Apart from these, some major reinsurance companies such as Munich Re, Swiss Re and Africa Re also participate in the Ghanaian insurance market. The Insurance Act, 2006 (Act 724) abolished composite insurance companies, improved the minimum capitalization requirements and required compliance with the IAIS ICPs and some international standards and best practices. This brought significant improvement to the efficiency and financial soundness of the industry.

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Until 2008, the industry was largely domestic with virtually no foreign players. This might be partly due to a requirement by the previous Insurance Law, PNDC Law 227 that every insurance company must be at least 40% owned by Ghanaians. With the removal of this requirement from the 2006 Act, foreign players such as Allianz, Sanlam, Metropolitan, Old Mutual and Prudential have entered the market and many others are knocking on the door.
In terms of the nature of products, the ratio of life to non-life premiums has improved from 15:85 percent in 2006 to 45:55 percent in 2013. It is anticipated that the life premiums will outgrow the non-life premiums in less than five years.

d. The Legal and Regulatory Framework

The Financial Services sector in Ghana is regulated by four different regulatory authorities. The Central Bank regulates the banks, non-bank financial institutions, micro finance institutions and the rural banks. The Capital and investment market is regulated by the Securities and Exchange Commission (SEC), the Insurance sector by the National Insurance Commission (NIC) and the Pensions sector by the National Pensions Regulatory Authority (NPRA). The government took steps as part of the recent Financial Sector Strategic Program, to modernize and harmonize the laws governing the operations of the various segments of the financial sector. The Regulators Forum, made up of all four financial services regulators, has also been formed to enable them to cooperate and share information and also ensure uniform implementation of government financial policies.

The Insurance Act, 2006 (Act 724) is a major improvement over the previous law as earlier mentioned. In addition to what has already been said earlier, the Act gives better regulatory powers to the NIC, improved policy holder protection and promoted the development of the market. Act 724 for example required the NIC to establish a Customer Complaints and Settlements Bureau to provide a redress mechanism to consumers. The Act also mandated the establishment of a Rescue Fund to cater for policy holders of insurance companies that may go under. Currently, the NIC is in the process of implementing a Risk Based Supervisory methodology. This has involved the development of actuarial, accounting and auditing capacities, improvement of Corporate governance and Risk Management systems and structures and the implementation of a Risk Based Capital Adequacy framework. The NIC is also engaged in the development of microinsurance to improve the insurance penetration.

CASE NARRATIVE

a. Background

In 2009, the National Insurance Commission decided to take steps to improve the insurance penetration by improving access to insurance. At the outset, the NIC considered that conventional insurance was not suitable and appropriate for the vast majority of Ghanaians who operate in the informal sector. This was confirmed after the

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findings of the "2010 FinScope Ghana Survey", sponsored by the government of Ghana and the World Bank, were published. The survey revealed the following:

- The majority of Ghanaian (about 59%) live in rural areas
- 46% of Ghanaians rely on natural sources water for drinking
- About 23% of Ghanaians have no formal education and a further 7.6% have only completed primary school
- More than half of Ghanaians rely on irregular and inconsistent incomes mainly from own small business (28%) and farming (25%)
- Only 12% of Ghanaians rely on salaries and wages as their main source of income
- 45% of Ghanaians undertake some form of financial transaction, 37% have access to savings services, both formal and informal, 14% have access to credit facilities both formal and informal and only 5% have access to insurance services both formal and informal.

Due to the neglect by the formal financial system, most Ghanaians resorted to informal savings and credit unions (Susu unions) where there was very limited documentation, and transparency and therefore abuse was rampant. The government intervened by authorizing the Central Bank to licence Rural Banks and Micro Finance Institutions (MFIs), who would be restricted to certain segments of the population and geographical areas. Since there was virtually no insurance support for the very low end of the financial market, the Rural Banks and MFIs as part of efforts to manage their risks, started operating various forms of informal insurances for rural dwellers and low income earners. This was especially the case with the Micro Finance Institutions which set up their own internal insurance funds to protect their books from bad loans and added the cost to the interest payable by their borrowers. This was however not disclosed to the borrowers. Apart from the MFIs, some pro-poor NGOs also set up various informal schemes to help low income earners and rural dwellers manage their social and economic risks.

Since the existence of an informal sector is not conducive to sound market development and limits the NIC's ability to fulfill its primary mandate of protecting consumers, something had to be urgently done about the situation.

b. Identifying the extent of the Problem – The diagnostic Study

The NIC and the GIZ therefore decided to collaborate to research further into the matter to specifically find out the extent and scale of the informal schemes, which institutions were involved, what needs were being served with which products, the level of expertise and awareness. The answers to these questions were needed to formulate a suitable regulatory framework to formalize the existing schemes and promote the development of a sound and stable microinsurance market.

The NIC and GIZ therefore hired consultants to undertake a country diagnostic study to find answers to the above mentioned questions. The study was completed and a report titled "Creating an Enabling Legal and Regulatory Environment for Microinsurance in Ghana" was issued in March 2010.

The report, which was designed to set out the high level policy framework, and issued on a consultation basis, proposed a policy blue print for a legal and regulatory

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framework for microinsurance integrated into the wider legal and regulatory framework for insurance. The idea was to encourage and facilitate the provision of low cost but high value insurance products that are appropriate to the needs of low income households and micro and small enterprises and that will enable them manage their risks effectively.

The findings of the study have been summarized below;

Only six out of the over 40 Commercial insurers in Ghana at the time were offering microinsurance products. Microinsurance at the time covered around 160,000 insureds mostly through credit life products. Credit Unions covered about another 80,000 insureds through their informal savings life products. Efforts to provide good-value microinsurance products were at an infant stage albeit constrained by lack of capacity and understanding of the peculiar differences between micro and traditional insurance.

There were very few voluntary microinsurance products. Credit Life which were invariably compulsory for clients of the Micro Finance Institutions dominated the market. The products seemed to be designed by people who had limited understanding of and experience with microinsurance. There was a serious dearth of actuarial data for product design and development.

There was very limited use of the delivery channels close to the low income segment in Ghana such as Credit Unions, Susu Collectors, Rural Banks, Savings and Loans Companies and Non-Governmental Institutions. The current regulatory framework clearly and strictly defines the kinds of intermediaries and their roles which did not seem to cover such non-traditional channels as the mobile phone and retail shops.

Again, insurance literacy among the population was very low. Most policyholders did not understand the concepts, benefits, rights and obligations of an insurance policy.

There were no specific provisions in the legal and regulatory framework on the sale, underwriting, and distribution of microinsurance. Most of the supervisory processes and procedures were applied to microinsurance with very little regard for suitability and proportionality.

c. Formulating a solution – Addressing the barriers

The overall objective of the project agreed upon between the NIC, GIZ and the Ministry of Finance was that "micro, small and medium sized enterprises and low income households have a better understanding of and access to demand oriented and regulated microinsurance services".

In order to have a comprehensive spectrum of measures to achieve the overall objective, it was decided to have a multi-faceted approach. In other words, the various measures to be used to achieve the objectives, were segmented to into four main categories, with each category having its own sub objective (goal) and activities. The segments were as follows:

Legal and regulatory framework

The main objective of this segment was to develop a suitable legal and regulatory framework that is designed to:

- Encourage private sector engagement in risk protection for the low-income segment, and the development of the microinsurance market in a sustainable manner, including motivating consumers to buy insurance (Market Development)

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- Protect the interest of customers (Consumer Protection)
- Require microinsurance providers to act in a prudently sound manner (Stability) and
- Ensure that microinsurance providers are able to meet their claims obligations (Soundness).

Three fundamental steps were identified to be taken to ultimately lead to the achievement of the above objective. The first was the definition of the main thrust of the regulatory approach to be used. This involved the consideration of the kinds of providers to be allowed or licensed to sell microinsurance. Several options existed. The NIC needed to carefully consider the options and make a very important policy decision for the design of the legal framework.

The second step was to define the key elements of the microinsurance framework. The key elements were a definition for microinsurance, the requirements and characteristics of microinsurance, risks to be covered, products and contract issues, delivery channels and consumer protection issues.

Of particular importance was the definition for microinsurance as it would have a profound effect on the regulatory framework. A current trend at the time was to define microinsurance based on either qualitative or quantitative criteria. The qualitative criteria, in particular, although extremely useful to understand the concept of microinsurance, are not sufficiently objective or certain and often proved difficult to incorporate within a legal definition. The quantitative definition often set maximum limits for premiums, sums insured or both by making references to quantitative baselines such as the national minimum wage. This also had its own challenges as such baseline indicators were themselves often subject to periodic changes and hence would create uncertainties as to whether a product which qualifies as a microinsurance product today will continue to qualify as such tomorrow. An appropriate legal definition was therefore crucial.

The third step under the legal and regulatory framework segment was the design and development of the legal and regulatory structure. What needed to be done here included identifying areas where the legal framework (whether primary or secondary legislation) needs to be amended and regulatory provisions have to be developed; identifying areas that should be covered in directives or guidelines to be issued by the NIC; and finally, identifying other parallel activities, e.g. performance indicators for industry and business; adopting a plan for a consultative process with stakeholders and policy makers; and agreeing the appropriate timelines.

Technical Capacity

Under Technical capacity, the main objective was to enhance the technical capacity of the insurance companies and intermediaries towards international standards to enable them design and supply demand oriented microinsurance products effectively. Capacities to be developed here included actuarial, pricing, reserving, product development, distribution systems, marketing and back office administration.

Research and Development

The objective here was to improve the availability of and access to quality data, as well as develop the capacity to research into consumer needs, distribution systems etc. This was important because good product development, appropriate pricing and reserving

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would all need good quality data to do. Also, realizing the potential of traditional as well as non-traditional delivery channels for example, would require a lot of research.

Insurance awareness

The goal under this segment of the plan was that small businesses and low income earners will have a better understanding of insurance and their benefits, rights and duties under an insurance policy as well as how they can use insurance to manage their social and economic risks.

d. Identification and involvement of stakeholders

An important part of the plan was the identification and involvement of all relevant stakeholders to ensure maximum support and buy in as well as a smooth implementation. Again, this was tackled from the multi-faceted angle for the sake of relevance and effectiveness. A different set of stakeholders was therefore identified for each of the four segments or aspect of the project.

e. The role of external consultants

External consultants were also brought in as and when necessary to advise and carry out some specific aspects of the projects like training, the country diagnostic study and the preparation of the policy paper, the design and drafting of legislation and research into issues like effective distribution channels, consumer education methodologies.

f. Project implementation and management

Since the project was a joint collaboration between the NIC and GIZ, it was jointly sponsored by the two organizations. GIZ sponsored the technical assistance, handled the appointment of external consultants and designed and monitored the project management procedures. The NIC coordinated the various studies, handled the liaison with the government and the industry, organized workshops and seminars to discuss various issues as part of the consultation process, collaborated with the external consultants for the design and development of the legislation, implemented the regime and is currently monitoring its progress and impact.

There was a project steering committee made up of senior official of NIC and GIZ and Chaired by the Commissioner of Insurance, that met once a month to be briefed by the project team, review progress and give authorization for next steps to be taken. The project team that handled the day to day activities was likewise made up of officials of GIZ and NIC.

The various measures to be pursued under the various segments together with milestones to be achieved with specified timelines constituted a roadmap for the implementation of the project. There was a monthly evaluation of the roadmap to assess the status of each activity with an indication as to whether it is behind or ahead of schedule. There was also a newsletter which summarized progress made and challenges faced during the month and showed a graphical representation of the status of all activities under each segment. It also contained information on the outlook for the ensuing month. The newsletter was circulated to all relevant stakeholders to keep them up to date and aware of what is or will be required of them in the next month.

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g. Accomplishments – what has been achieved so far

The NIC, in collaboration with its development partners, conducted a baseline survey in 2011 to assess the status of the microinsurance market in Ghana. Then in 2014, a full landscape survey was conducted to ascertain progress made towards the attainment of the objectives of the project. The 2014 microinsurance landscape survey indicated that there were 13 insurance companies selling 29 microinsurance products, which currently cover about 7.5 million lives representing about 29% of the population. This can be compared to the situation in 2011 (before the implementation of the microinsurance regime), when there were 11 companies offering 16 products, which covered just about 1.7 million lives. The highlights of the results of the 2014 landscape survey have been summarized in the appendix.

Some specific and significant achievements have also been made towards the achievement of the objectives of the various segments/facets of the project. These have been summarized below.

Legal and regulatory framework

- Draft legislation that offers a suitable and an enabling framework for the development of microinsurance has been prepared and submitted to the government for approval prior to submission to parliament for passage into law. The legislation contains a unique definition of microinsurance that allows microinsurance providers with a lot of room for innovation and flexibility in the design and distribution of products.
- Due to the delays inherent on the process of passing legislation, the NIC has carved out the important elements of the microinsurance regime and issued it as Microinsurance Market Conduct Rules. This has enabled the NIC and the industry to implement the framework ahead of the passage into law of the draft legislation.

Technical Capacity

- The NIC and GIZ have liaised with appropriate external consultants to arrange tailor made support training services on a wide range of issues ranging from product development, distribution channels, Information Technology systems and back office administration for microinsurance providers.
- The industry has also been trained to use the Microinsurance Actuarial Toolkit developed by a UK microinsurance actuarial expert to do pricing and reserving. This has led to the pricing of microinsurance products based on a sound methodology.
- There is currently an on-going Actuarial capacity development initiative, which is aimed at ensuring adequate supply of suitably trained actuaries for the Ghanaian insurance industry in the near future.

Research and Development

- Research has been conducted into the impact of insurance awareness creation measures on the behavior of low income households and the results documented and made available to relevant stakeholders.
- Market surveys of both demand and supply sides of microinsurance have been conducted and the results published.
- A proposal for an insurance industry database has been prepared and discussed with relevant stakeholders for implementation.
- Following the 2014 landscape survey, Excel formats have been developed to enable companies selling and distributing microinsurance products to submit semi-

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annual reports to the NIC. The semi-annual reports will contain data by product line on the number of policies sold, number of lives covered, sums insured, number of claims reported, number of claims paid, and geographical and occupational distribution of policyholders, as well information on renewals, surrenders and lapses. This is intended to facilitate more effective on-going monitoring of the market.

Insurance awareness

- Microinsurance education materials like brochures and leaflets have been printed and widely distributed.
- Microinsurance educational movies in local languages have been produced using local actors to help explain the basic concepts of insurance in various local languages by way of drama. Similar radio jingles have also been developed and played on community radio stations to educate community dwellers.
- So far, the NIC and GIZ have organized over 30 road shows in various towns and villages to educate people on insurance and its uses.
- A microinsurance logo has been designed and is required to be embossed on all microinsurance products and marketing documents. The NIC and GIZ have been sponsoring mass advertisement of microinsurance using the logo to promote recognition and positive association within the target markets.

h. Challenges

The 2014 microinsurance landscape survey revealed that the mobile phone has taken over from Micro Finance Institutions as the biggest channel of distribution. The NIC has been concerned about some of the challenges posed by this mode of distribution. First of all, there seems to be the need to strike a balance between transparency and consumer protection on the one hand and cost effectiveness on the other. The mobile phone insurance is all done by electronic texts on the phone. No "paperwork" is therefore involved. The consumer has to submit personal information on the phone to activate a policy. This creates problems in the area of complaints, as there is no paper document to refer to.

Another challenge is the security of the partnership or collaboration between the telecommunication company and the insurance provider. If the parties decide at any time to discontinue the collaboration and do not take proactive steps to properly manage the change, there will be serious repercussions for the policyholders and the image of insurance.

Again, a good number of the microinsurance products have shown very low client value so far as evidenced by the very low claims ratio. Some of the products, especially the mobile insurance ones have claims ratios of less than 20%. This is due to a combination of factors including low level of awareness and understanding on the part of policyholders, difficulties in making claims and the inability of next-of-kin to lodge claims upon the death of the main policyholder. Closely related to this is the tendency of the Mobile Network Organisations, obviously the strongest among the partners, to dictate what percentage of the premiums must go to them as their commission. In some cases, this exceeds the percentage of the premium that goes to the insurance company to cover the risk.

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The NIC and GIZ have therefore contracted experts to conduct a country study and risk analysis of the mobile phone insurance. The final report of the study, which contains recommendations for risk mitigation measures and effective supervisory strategies, has been published and the recommendations are currently being implemented.

Also, even though inclusive insurance products have been developed and marketed to serve the needs of a broad spectrum of the low income market, it has been difficult to develop affordable and sustainable agricultural products for the small scale and subsistence farmers. Ironically it is estimated that over 50% of the population is engaged in small scale and subsistence farming and accounts for a significant portion of agricultural produce. Even though some weather indexed insurance products for cereals were developed and piloted a few years ago in the Northern parts of Ghana, they are yet to be successfully scaled up in other parts of the country mainly due to affordability and basis risk problems.

Finally, as insurance companies tend to focus on maximizing profits, a good number of them have shunned away from serving the lower end of the market, especially in the non-urban and rural areas. Microinsurance is therefore currently concentrated in the main commercial centres of the country. The NIC therefore plans to review the regulatory framework to enable mutuals and cooperatives enter the microinsurance market in the geographical areas that have been neglected by the conventional insurance companies.

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