Access to Insurance Initiative
A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: 23 March 2017

"Measuring insurance development: beyond the insurance penetration rate"
1. Insurance penetration – what does it tell us?
2. Value in inclusive insurance
3. Phases of collecting data
4. Benefits and caveats for the regulator
5. Requirements
6. Insurance targets in national financial inclusion strategies
7. Country example: Ghana
8. Summary of key points
1. Insurance penetration – what does it tell us?

**LAC (2013)**
- Penetration: 3.2%
- Density: USD 300
- MI penetration: 0.01%
- MI density: USD 1.39
- MI coverage ratio: 7.9%

**Africa (2014)**
- Penetration: 2.8%
- Density: USD 61
- MI penetration: 0.03%
- MI density: USD 0.66
- MI coverage ratio: 7.9%

**Asia and Oceania (2012)**
- Penetration: 5.7%
- Density: USD 322
- MI penetration: 0.01%
- MI density: USD 0.21
- MI coverage ratio: 4.3%

Penetration = total insurance premiums as % of GDP
Density = premiums per capita in USD
MI penetration = microinsurance premiums as % of GDP
MI density = microinsurance premiums per capita in USD
MI coverage ratio = % of total population covered by microinsurance

**Sources:** Swiss Re Sigma No 4/2015, No 3/2014, No 2/2013. Landscape of Microinsurance in LAC (2013); Landscape of Microinsurance in Africa (2014); Landscape of Microinsurance in Asia and Oceania (2013); World Bank Development Indicators; World Map of Microinsurance
Commissioner Funa stressed that the importance of microinsurance is not the amount of premiums generated. “Wider financial inclusion and maximum social protection is critical in a developing and vulnerable country such as the Philippines.”

With the implementation of frameworks that would facilitate and promote the development of a broader range of microinsurance products and the increase in the participation of the private sector, the Insurance Commission is optimistic that the microinsurance penetration rate will increase to 48.7% by 2022.
2. What is **value** in inclusive insurance and how do we measure it as regulators?

**What is value for policyholders?**

**Expected value**
- a. Incentives
- b. Peace of mind
- c. Ability to invest more
- d. Limit reliance on friends & family

**Financial value**
- a. Cost savings
- b. Cash flow smoothing
- c. Reduced financial burden
- d. Actual protection value
- e. Can create access to new loan types (ag, for example)
- f. Claims paid when promised
- g. “Fair” value of aggregate premiums paid as claims

**Service value**
- a. Access to health services
- b. Continued / new access to credit
### Client Value

1. **Claims Ratio**
2. **Promptness of claims** (not days)

### Market Development

1. **Combined ratio**
2. **Coverage ratio**
3. **MI premiums / total premiums (L&N-L)**

### Phase 1 Indicators

1. **Premium / sum insured**
2. **Retention ratio (vol. only)**
3. **Commission ratio**
4. **Premiums per covered unit**

### Phase 2 Indicators

1. **Sum insured / cost of risk**
2. **Premium / client income**
3. **Product variety indicator**
4. **Level of market competition**

### Phase 3 Indicators

1. **Growth ratio: people (L&N-L)**
2. **Growth ratio: premiums (L&N-L)**
3. **Cost per covered unit**
4. Benefits and Caveats for the Regulator

Benefits

- Allows for evidence-based decision making
- Learn about the dynamics of the inclusive market
- Measure success of regulatory implementations
- Set client value expectations and benchmarks
- Helps in monitoring consumer protection
- Facilitates a risk-based, proportionate supervisory approach

Caveats

- Some products do not fit neatly into this approach, and need more appropriate indicators (for example index insurance)
- Entails capacity building (of insurers & supervisory staff) and resources
- Takes time to get the system producing good data, so start
- Why no benchmarks?
5. Requirements

- Require separation of data based on clear and implementable definition
- Collection of relevant, accurate and timely data
- Efficient and continuous monitoring
  - obtain the data
  - understand what the data means (when intervention is needed), and
  - know what to do if intervention is needed
- Communications with insurers
- Consideration of regulatory cost burden to insurers
  - Ask “what data do we have already?”

National Financial Inclusion plans and insurance targets

Malaysia, through the Maya Declaration, has committed to the following goals and targets:
- Expand the range of products and services, including flexible microfinancing, long-term contractual microsavings and the development of a microinsurance and microtakaful framework (COMPLETED)

- % of adults with deposit accounts
- % of adults with financing accounts
- % of adults with life insurance / takaful policies

India: National Mission on FI (1/6 pillars)

e. Micro-Insurance: To provide micro-insurance to all willing and eligible persons by 14th August, 2018, and then on an ongoing basis.

Peru

Gráfico 11 Líneas de Acción de la ENIF

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<tbody>
<tr>
<td>Peru</td>
<td>Seguros</td>
<td>% de adultos que tiene al menos un producto de seguro (excluyendo seguro social de salud y EPS)</td>
<td>A la espera de resultados</td>
<td>Por determinar</td>
<td>Encuesta Nacional de Demanda Potencial de Servicios Financieros y Nivel de la Cultura Financiera en el Perú 2015 (SBS)</td>
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Insurance Penetration is only part of the story

Traditional (including MI)
- Penetration 2014 (% insurance premium to GDP) = 1.08%
- Density 2014 (ratio premium to total population) = 15.72

Microinsurance
- Penetration 2014 (% microinsurance premium to GDP) = 0.01%
- Density 2014 (ratio microinsurance premium to total population) = 0.17

What does this tell us?
Ghana: Market size (2014)

- **27** products
- **7.5 M** lives insured
- **28%** 2014 total population: 26.5 M (est.)
- **440%** MNOs growth, 2013-2014
- **140%** overall growth, 2013-2014
- **36%** non-MNO

**4.5 MM USD**
(21.2 MM USD incl savings)
Gross written MI premium (=0.01% of GDP)

MI represents 1.1% of total written premium in Ghana

**Breakdown of premium**
- **Savings** 79%
- **All other products** 13%
- **MNO** 8%

**7.5 M lives insured**
- **73%** savings excluded growth, 2013-2014
- **32%** with savings

Source: Kofi Andoh. The Landscape of Microinsurance in Ghana: numbers and comments. WAICA Conference. 21 April 2015, Accra
Ghana: Key ratios (weighted averages, 2014)

**No savings**

- **Profit**: 30%
- **Claims**: 27%
- **Commission**: 23%
- **Admin**: 20%

**Savings included**

- **Claims**: 61%
- **Commission**: 6%
- **Admin**: 10%

Note: KPIs consist of data for 26 products

Source: Kofi Andoh. The Landscape of Microinsurance in Ghana: numbers and comments. WAICA Conference. 21 April 2015, Accra
Ghana: Key Ratios by MNO Type

<table>
<thead>
<tr>
<th>Category</th>
<th>MNOs</th>
<th>Non-MNOs</th>
</tr>
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<tbody>
<tr>
<td>PROFIT</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>COMMS.</td>
<td>4%</td>
<td>32%</td>
</tr>
<tr>
<td>ADMIN.</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>CLAIMS</td>
<td>31%</td>
<td>64%</td>
</tr>
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Avg. claim paid

- MNO: 1.44
- Non-MNO: 2

Avg annual premium / insured

- MNO: 21.23
- Non-MNO: 2.01

Avg cost / insured

- MNO: 2.33
- Non-MNO: 0.58

Source: Kofi Andoh. The Landscape of Microinsurance in Ghana: numbers and comments. WAICA Conference. 21 April 2015, Accra
Ghana: Claims and Expenses

Key ratios
(2014, excluding savings components)

- New ('13 or '14)
- Middle age ('10-'12)
- Old (before 2010)

Profitability frontier
(combined ratio of 100%)

Size of bubble is proportionate to gross written premiums

GHS 500,000

Source: Kofi Andoh. The Landscape of Microinsurance in Ghana: numbers and comments. WAICA Conference. 21 April 2015, Accra
Need to look deeper than penetration rate
It tells us very little and nothing about value

Measure both market development and client value
Using the indicators and others from above

Indicators and benchmarks require a clear definition and segregated data

Should use realistic targets in FI strategies and refer to policy and regulation based on evidence and relevance of monitoring value in the context of Risk Based Supervision
Only possible if data is gathered
Thank you!

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Save the date for the next Consultation Call on 18 May!
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[Logos of various organizations]

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