

Access to Insurance Regulators' Workshop

Victoria Falls, Zimbabwe, May 2011

On May 26th 2011 the Access to Insurance Initiative (Initiative) and the African Insurance Organization (AIO) hosted a Regulators' Workshop as part of the 38th AIO Annual Seminar. Representatives from 19 African insurance supervisory authorities participated.

The newly appointed AIO President Solomon Tembo emphasized the relevance of insurance sector development on the African continent which includes the informal sector, or "grass-roots". Therefore, over three days the AIO had their Annual Conference under the motto "Insuring the African uninsured." Mr. Tembo reported that insurers increasingly understand the market potential at the bottom of the pyramid which at the same time has been challenging their capacity. Growing markets call for an enabling policy, regulatory and supervisory environment which offers value-for-money products and services. "Strong regulation levels competition and protects and builds trust in the insurance sector" were his encouraging words, while opening the workshop.

Trends in the environment such as significant growth rates of microinsurance, innovations in distribution models and products development and an increasing engagement at policy and regulatory level show that access to insurance issues are highly relevant. However, it was also recognized that despite growing markets, value for consumers it not always given.

Seven African supervisors discussed the complex challenges they face in their environments¹ exploring innovative regulatory practices to promote access to insurance on the continent.

The day's discussions identified supervisory thinking and practices and implications for future actions by both supervisors and the Initiative. The following points were emphasised:

1. **Policy and regulatory changes to enable microinsurance being developed in all countries:** All countries represented on the panel, as well as South Africa who made an input from the floor, are currently in the process of developing policy frameworks that will inform legislative and regulatory changes to facilitate the growth of microinsurance in their markets. With the exception of South Africa, which is the most advanced with the development of its policy position, and Ghana, which is preparing a new insurance law that includes microinsurance, the participating supervisors are at the stage of market assessment and analysing the best policy position and regulatory instruments to use in their national contexts.
2. **Microinsurance not a niche market, but represents the bulk of the currently unserved retail market:** Insurance penetration as % of GDP for all of the countries in Africa (with the exception of South Africa and Namibia) is less than 3%, and in the case of CIMA it is less than 1%. The bulk of this unserved market can be classified as low income and is thus the potential microinsurance market.

¹ Insurance supervisors participated in the panel discussions: Isaac Buabeng, NIC Ghana; Sammy Makove, IRA Kenya; Martin Libinga, PIA Zambia; Temesgen Zeleke, ISD Ethiopia; Jean-Claude Ngbwa, (Inter-African Conference on Insurance Markets (CIMA); Sandile Dlamini, RIRF Swaziland; Manett Mpofu, IPEC Zimbabwe.

3. **Need to grow the number of formal insurance providers:** All countries expressed a need to expand the number of insurance providers serving the low-income segment. This will require changing the rules for insurers providing insurance for the low-income population, in particular to reduce compliance costs and facilitate new business models. In countries, such as Zimbabwe, where a number of insurers are currently not compliant with minimal capital requirements, one way forward may be to require them to become dedicated microinsurance providers limited to this type of low-risk and simple products.
4. **Formalising the informal:** Most of the countries indicated that they currently have substantial informal sectors, i.e. risk products provided and/or intermediated by unregistered or unlicensed entities. In the case of CIMA it is unclear what the magnitude of informality in the zone is. Whether and how to go about formalising these institutions is a major challenge supervisors face. However, for formalisation to be successful they will have to demonstrate the value that will be added to both the institutions and their clients if they formalise. To add value will require the costs of formalisation and future compliance to be kept to a minimum.
5. **Need to enable new distribution networks, especially mobile network operators:** It was generally acknowledged that traditional insurance distribution networks are often too expensive for the distribution of microinsurance products. The most ubiquitous and low cost distribution networks in most African countries are now mobile network operators (MNOs) and their airtime distribution networks. It is therefore important to consider ways in which these MNOs can be enabled to assist with the distribution of microinsurance. They can potentially play three critical roles in microinsurance distribution: (1) as communication channels to distribute information to clients and policyholders and receive such information; (2) as low cost transaction channels for both the collection of premiums and the pay-out of claims (Kenya being the trail blazer with its mobile payment platforms); and (3) as insurance sales channels via the airtime distribution network. Making regulatory adjustments to accommodate the new distribution channels will be essential for the growth of microinsurance in Africa.
6. **Critical importance of payment systems:** Without cost effective payment systems to collect low value premiums at the lowest possible cost, microinsurance schemes will not reach scale in Africa. Mobile payment platforms are likely to offer an important element in the value-chain of microinsurance. Insurance supervisors will have to pay close attention to this issue.
7. **Need to find successful agricultural insurance models:** All the countries indicated that various experiments were being pursued in their countries to insure rural populations and particular rural households engaged in agricultural production. However, none of the countries could yet claim success and commercial sustainability for any model. It is important to identify which models will be sustainable and how they are to be implemented. At the same time supervisors should be careful not to focus exclusively on agricultural insurance to serve rural communities, but to consider the entire spectrum of risk products and how these can improve livelihoods for rural populations.
8. **Opportunity to evolve funeral and credit life insurance into microlife policies:** The single largest microinsurance products in all countries remain either funeral insurance or credit life insurance. Neither of these products, if sold on a narrow basis, will add to the long-term welfare enhancing or poverty reduction objectives of the continent. However, in a number of countries these products are already providing extended cover, in particular life cover. This trend needs to be encouraged and stimulated by supervisors.

9. **Supervisors must drive the process:** It was generally agreed that insurance supervisors are in the best position to drive the development of microinsurance in their jurisdictions. It is therefore important that they are empowered to do so. Support should come from international development agencies and support programmes such as the Initiative and its partners.
10. **Insurance education is critical:** Low-income populations have very limited awareness and know-how of insurance services. Distrust of insurers is widespread among the low-income populations. Overcoming these hurdles will require proactive intervention from supervisors, for example utilising the distribution networks of insurers or cooperating with associations, ministries and development organizations.

Participants agreed that dialogue events like this Regulators' Workshop are an important way to push the expert discussion. However, the process of making insurance more accessible in Africa more rapidly and effectively calls for joint actions from insurance supervisors and their sector ministries, industry and development agencies. Effective capacity building is of utmost importance.