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REGULATING FOR INCLUSIVE INSURANCE MARKETS IN SADC: REVIEW OF REGULATION

28/10/2013

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Glossary:

CBL	Central Bank of Lesotho
CISNA	Committee of Insurance, Securities and Non-Banking Financial Authorities
FIMA	Financial Inclusion in Malawi
FIP	Protocol on Finance and Investment
FSC	Financial Sector Charter
FSC	Financial Services Commission
FSDP	Financial Sector Development Plan
FSDS	Financial Sector Development Sector
GPFI	Global Partnership for Financial Inclusion
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IOPS	International Organisation of Pension Regulators and Supervisors
IOSCO	International Organisation of Securities Commissions
IPEC	Insurance and Pensions Commision
ISSM	Instituto Superior de Seguros de Moçambique
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
PIA	Pension and Insurance Authority
PRAP	Poverty Reduction Action Plan
RIRF	Registrar of Insurance and Retirement Funds
SADC	Southern African Development Community
TIRA	Tanzania Insurance Regulatory Authority
UNCDF	United Nations Development Programme

Executive Summary

This study was commissioned by the SADC Committee of Insurance, Securities and Non-Banking Financial Authorities (CISNA) as part of a larger diagnostic to implement their commitment under the Protocol on Finance and Investment (FIP) to ensure that their regulation is compliant with international standards. The broader study considered levels of compliance with the Insurance Core Principles issued by the International Association of Insurance Supervisors (IAIS). This report focused on levels of compliance with the Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets adopted by the IAIS in October 2012.

This study surveyed the market for inclusive insurance across the SADC region. It covers the demand for microinsurance products, the current supply of such products as well as the manner in which inclusive insurance markets is being regulated in the different SADC Member States.

The research revealed that more than 95% of the entire target market for insurance in the SADC region can be classified as the microinsurance target market. The vast bulk of this target market is currently unserved by formal insurance. Even though the majority of the potential target market cannot be served on a commercially sustainable basis given the current levels of income, infrastructure and technology, between 10 and 20 million clients who are currently unserved can be reached and served under current market conditions.

From the perspective of the IAIS, who sets the international standards for insurance regulation, the development of the retail insurance market in SADC is thus overwhelmingly a case of promoting inclusive insurance markets. As such it falls within the ambit of the Application Paper.

Although none of the SADC Member States yet complies with the IAIS guidance on inclusive markets, 10 Member States are at some stage of the process to develop regulation that would accommodate inclusive insurance. This is not surprising given the predominance of this market in all Member States.

Although all the Member States aim to create regulatory concessions for insurance providers and intermediaries providing microinsurance, there is substantial divergence amongst the approaches currently being taken. Fortunately, most of the regulatory processes are at a stage where they can be adjusted to align with the guidance in the Application Paper. Given the increasing levels of market integration in SADC insurance markets as well as the commitment under the FIP to harmonise regulation, microinsurance thus presents a ready opportunity for coordinating approaches amongst Member States.

Below the specific market and regulatory findings of the study are set out.

Market findings:

Member State populations and thus target market sizes fall in three broad categories: The 13 SADC Member States included in this survey have widely divergent population sizes and thus insurance target markets. They fall in broadly three categories: The five smallest countries (Swaziland, Botswana, Mauritius, Lesotho and Namibia) have less than 1.5 m adults each. Five countries fall in the mid-range between 5 and 12 million adults (Zambia, Zimbabwe, Malawi, Angola and Mozambique). Only three countries have adult populations larger than 20 million - Tanzania at 21.2m, the DRC at 35.4m and South Africa at 35.7m. The majority of SADC Member States can therefore benefit substantially from the larger scale of a regional insurance market as opposed to simply relying on their national market.

Large unserved target market: FinScope consumer surveys have been done in 10 of the 13 SADC Member States (excluding Angola, Mauritius and the DRC). If South Africa is excluded, analysis of the FinScope data for the other 9 Member States yield a fairly representative picture of the insurance target market. Just more than 75% of this adult population earns less than $3 per day. Given the current state of the regional financial sector and infrastructure, it would be very difficult to serve this market segment on a commercially viable basis. Of the remaining 25%, 8.5 % indicated that they receive no income. The remaining 16.5% of adults constitute the insurance target market. Of this target market, only 4.8% earn more than $10 per day and can be considered to start moving beyond the scope of microinsurance. If we consider that the current estimated use of formal insurance is only 5.2% of adults (excluding South Africa, Mauritius, Angola and the DRC) the size of the potentially unserved or underserved market is huge - at least 6 million (if extrapolated for the non-responses) at current income levels for the 9 countries included in the analysis. If the other countries are included, a conservative estimate of current potential insurance clients that are unserved by formal insurance rise to somewhere between 10 and 20 million. Given the high GDP growth rates in SADC, this figure will continue to rise in years to come.

Bulk of retail insurance in SADC is microinsurance: If we consider that in some developing countries the microinsurance target market is defined as persons earning less than $15 per day, the implication is that more than 95% of the total retail target market in SADC (including South Africa) should be considered as the microinsurance target market. Within SADC growing retail insurance outside the corporate sector should thus largely be done utilising inclusive insurance approaches.

Health expenses perceived to be biggest risk: An analysis of risk perceptions according to the FinScope surveys, reveal that health expenses were the most commonly perceived risk facing households in SADC (53% of adults indicated this as a major risk), followed by loss of assets due to theft, fire or destruction (27%) and the death of a household member (23%).

Insurance least used coping mechanism: To cope with risks that materialise SADC adults in the nine sample countries indicated that they mostly either borrow money (45% of adults do this to cope) or use savings (30% of adults). A further 24% rely on donations whilst 22% indicated that they sell assets. Only 1.8% of adults indicated that they claim on insurance policies.

SADC has small insurance market in global terms: The total insurance market measured by gross premium in SADC (including South Africa) with its 136 million adults, amounted to

US$42.5 billion[1] . This is relatively small, compared with that of Brazil (US$78.3m) with an adult population of approximately 147 million. South Africa accounts for 93% of total SADC premium. When South Africa is excluded, the rest of SADC with a total adult population of over 100 million has a total premium of approximately US$ 2.9 billion[2]. The country with the second highest premium after South Africa is Namibia (US$697million), one of the SADC countries with the smallest population.

Insurance density very low. The insurance density (gross premiums per capita) for SADC is very low. Seven SADC countries have insurance densities below US$35 compared to an African average of US$66 in 2011 (Sigma, 2012) South Africa has the highest density with US$791, whereas Mauritius has a density just less than half that of South Africa at US$346.

Significant foreign ownership of insurers in SADC: Foreign ownership of insurers varies greatly across the region. 19% of insurers in South Africa are majority foreign owned, 20% in Mauritius and Zimbabwe, 73% in Mozambique and Tanzania, and 100% in Swaziland. The impact of foreign ownership is even greater when considering premium volumes. For example, the gross written premiums of foreign-owned insurers account for 97% of premium in Botswana, compared to 67% of actual insurers being foreign owned. In six SADC countries more than 20% of foreign-owned insurers are majority owned by entities in other SADC countries, and in three countries this rise to more than 50%. Cross-border ownership within SADC is therefore already a significant factor. Only two SADC countries - Angola and Tanzania - have a majority of foreign-owned insurers from countries outside SADC.

Very limited technical insurance capacity in most SADC countries: Of the 877 actuaries resident in SADC countries, 844 are in South Africa and 10 in Mauritius. Six SADC countries have no actuaries.

SADC retail insurance sectors at different stages of development: Life premiums as a proportion of total premiums provide a good proxy for the level of retail market development. For example, in Mozambique life premiums constitute only 13% of total premiums and only 2.3% of the population is formally insured. In Malawi the equivalent figures are 19% life premiums and 2.6% formally insured. On the other end of the spectrum lies Lesotho, with 62% life premiums and 37% formally insured, and Namibia with 72% life premiums and 36% insured. Approximately 5.2% of the adult population outside of South Africa has any form of formal insurance. Building retail markets in SADC will thus require particular focus on the life sector.

Funeral insurance dominates retail market: Funeral insurance makes up 71% of the life insurance market in SADC (in terms of number of clients) and is taken up by 4.7% of adults in SADC. Most of this falls in the microinsurance category. The use of informal funeral insurance is also widespread. Health cover is the second biggest category reported by FinScope. Though comprehensive indemnity health cover is traditionally a product for the upper income market, the survey reveals that other health-related products such as hospital cash plans are increasingly used by low-income households. Vehicle insurance leads the development of asset insurance, driven by the emergence of motor vehicle finance and compulsory third party motor vehicle insurance.

[1] This is the five year average between 2006-2010
[2] *ibid*

Retail insurance take-up is closely linked to the availability of an agent sales force. Countries with a lower agent sales-force are typically those with lower retail insurance take-up. For example, Lesotho has one agent for every 5 200 adults and a formal insurance take-up of 37%, compared to Malawi which has one agent for every 42 600 adults, resulting in a formal take-up of 2.6%. Catalysing a suitably trained agent sales-force is therefore vital for microinsurance take-up. Insurance is generally sold not bought with many low-income individuals unaware of insurance or the need for risk mitigation. The countries developing microinsurance-specific regulations are starting to address this by creating special microinsurance agent categories

Alternative distribution channels playing an increasing role. In a number of countries alternative distribution channels are being developed utilising, for example, mobile network operators and retailers. While these channels present much promise to quickly expand insurance take-up, current programmes focus on compulsory or complementary cover offered as an addition to the product or service obtained from the particular channel. There is yet little evidence of voluntary purchases of insurance policies through these channels.

Great variance in claims ratios and expense ratios: Claims ratios vary substantially across SADC countries ranging from 18% to 114%. Malawi, Zambia and Botswana have claims ratios of below 50%, with Malawi coming in at a very low 18%. For most countries expense ratios ranges between 10% and 20%. In the case of Tanzania management expenses sit at 32% of net premiums. Zambia is the outlier at 43%. For Namibia, South Africa, Swaziland and Tanzania the average combined ratio (the sum of the claims and expense ratios) over the period exceeds net premiums resulting in an underwriting loss. These tend to be the more mature markets (with the exception of Tanzania) for whom investment returns cover their underwriting losses.

Informal insurance is widespread in SADC and in a number of cases may exceed the formal sector in size. FinScope and microinsurance diagnostic data shows that informal insurance is widespread in SADC. An estimated 7.5% of adults in SADC (excluding South Africa) use informal risk cover and 4.2% of them are dependent on informal risk cover only. This reflects a much higher demand (and willingness to pay) for risk cover than is reflected in the current formal insurance market figures.

Regulatory findings

Regulatory reforms to facilitate inclusive insurance are currently spreading across SADC. Ten Member States have indicated that they are in the process of developing such frameworks. Only two countries - Mozambique and Malawi - have yet enacted legislation specifically referring to microinsurance. However, Mozambique's regime is in the process of further development since regulation still has to be issued, and Malawi's dispensation is a very limited one created in microfinance legislation primarily focused on credit and deposit-taking microfinance services.

Limited policy development underpins regulatory initiatives: Very few countries have actually developed either a dedicated microinsurance policy or a broader financial inclusion policy that deals comprehensively with inclusive insurance and the objectives it would like to achieve through its regulatory changes. South Africa is the only country with a dedicated microinsurance policy document, as well as a comprehensive financial inclusion policy that

also covers insurance. Two other countries - Malawi and Zambia - have explicit financial inclusion policies and a number of others are developing such policies. Five SADC countries have made specific commitments under the Maya declaration to instil regulatory regimes that facilitate access to financial services. One of the biggest drivers for broader financial sector regulatory reform is, however, the FSAP assessments undertaken by the IMF and World Bank. Only three of the eight FSAPS undertaken in SADC in recent years mentioned promoting financial access as a recommendation.

Diverse definitions of microinsurance being developed: At the date of this study, seven SADC countries, including Mozambique and Malawi mentioned above, had either created microinsurance definitions in regulation or were in the process of formulating such definitions. The definitions being developed follow different approaches given the guidance provided by the Application Paper. For the purpose of the analysis, we exclude Namibia since no actual definition has been formulated to date and reference is simply made to a product category to be defined by the Minister. Of the remaining six countries, three use a quantitative definition and three a qualitative definition. Only two countries, Botswana and South Africa, utilise a quantitative definition relating to the product, i.e. benefit caps. Only Swaziland utilises a quantitative definition relating to the target market. All the qualitative definitions relate to the target market. Mozambique seems to marry the two, referring to both target consumers and benefit caps.

Microinsurance definitions in SADC largely not aligned with IAIS guidance. The Application Paper suggests that, if the intention of the regulator is to delineate a separate regulatory space for microinsurance products and to grant regulatory concessions for entities underwriting microinsurance products or intermediaries distributing such products, a quantitative definition delineating a clear product category may be preferable and less complex for insurers to implement. All ten SADC countries developing microinsurance regulations are aiming to create a differentiated regulatory space with underwriting or intermediation concessions for microinsurance. Yet, of the six countries for which some form of definition is available, only two use quantitative definitions focusing on the product class.

Common approach to microinsurance definition possible: Due to the early stages of regulatory definition in which virtually all the countries are, and given the fact that they seem to have similar policy objectives that they want to achieve with the regulation, it is possible to develop a common approach to microinsurance definitions between the countries in the region.

Concessionary space need to consider capital requirements on a risk-based basis: There is a large divergence in minimum capital requirements across the region – ranging from US $7,900 in Lesotho's life industry to US$8m in Angola's life industry. Apart from two outliers (Angola and Mozambique) the capital requirements within the SADC region are generally not high. The average capital requirements in the SADC life industry (excluding Angola and Mozambique) is approximately USD $500,000 and approximately USD $330,000 in the non-life industry (excluding Angola). However, as part of the wave of regulatory reform, there is a trend within the region to increase capital requirements with a number of countries either recently increasing these requirements or proposing to do so in future. While capital requirements seemed not to impose constraints on microinsurance development to date, higher capital requirements may do so going forward.

Concessionary space for microinsurance underwriting includes flexibility on institutional types. Across SADC a number of countries are relaxing the limitations on the type of organisations that can underwrite microinsurance products. Prospective legislation in six countries and enacted legislation in one country no longer limits underwriting to public companies only. Instead, permission is extended to organisations such as mutuals, cooperatives, NGOs and private companies to also underwrite microinsurance products.

Current approaches to informal market not well informed or directed: It is clear from the market analysis that informal insurance markets in SADC are substantial and cover a large proportion of households (in some cases even exceeding the formal sector coverage). Despite its significance supervisors have very limited data on the informal market in their jurisdictions. Supervisory responses to informality vary from considering it beyond the scope of the supervisor's mandate, to acknowledging capacity constraints to deal with it, to being in the process of developing a strategy, to penalising and criminalising informal activity and shutting down informal providers, usually as the result of an industry crisis.

Although traditional broker/agent models still prevail, space is being created for dedicated microinsurance distribution: The general approach to intermediation is still largely based on the traditional models of brokers and agents. At the same time five countries are proposing to create a dedicated regulatory space for microinsurance intermediaries, usually referred to as microinsurance agents, and thus to align their regimes with the Application Paper. A general supervisory weakness is that supervisors do not monitor the performance of insurance providers or products at the business model/distribution channel level. A single insurer may operate a number of business models under its license, each with its unique partners, parameters and performance. A sound regulatory response requires understanding of the differential performance of different distribution channels.

Flexibility to encourage innovation: The Application Paper encourages insurance regulators to allow a large degree of flexibility to supervisors to permit various forms of market innovation. A practical approach suggested is to allow for conditional licenses that can be made permanent once the innovation is proven in the market. SADC regulation does not currently provide supervisors with specific supervisory tools to facilitate innovation. Supervisors therefore tend to either exercise regulatory forbearance, or to try and fit new business models into existing regulation, even if it stretches the existing framework. This creates the risk that clients of new schemes may not be adequately protected should something go wrong.

Test-and-learn approach not in evidence: The IAIS Application Paper suggests test-and-learn as a method where controlled testing of regulatory modifications occurs by conducting pilots. It proposes that pilot schemes should be licensed, at least at the level of registration, and be subject to conditions that protect the interests of policyholders during and, if relevant, beyond the pilot. The survey revealed that most countries were willing to use a test-and-learn approach for the introduction of new products, processes and innovations. However, few of the supervisory entities were able to substantiate their willingness with evidence of having accommodated such initiatives or explicit policy positions on accommodating innovations. A number of pilots are being conducted across the region.

Product approval primary consumer protection mechanism: With the exception of South Africa, all supervisors reported to follow either a file and use or a file, approve and use

approach for microinsurance products. This means that insurers have to submit product information to the supervisor before being able to offer it in the market, thus providing an initial quality and compliance test for microinsurance products. Most SADC countries include some measures on consumer protection, such as disclosure requirements, in their insurance laws. A number have also created insurance ombudsmen. Others make general consumer protection rules applicable to insurance. Few supervisors reported consumer protection and product value as key issues in their markets.

Data gathered by supervisors inadequate to monitor and develop inclusive insurance markets. The Application Paper points out that limitations in available data may be a barrier to the inclusive provision of insurance products. The absence of data can, amongst others, induce high margins of conservatism in prices. Current supervisory data templates used by SADC supervisors do not provide sufficiently detailed data to enable the monitoring of performance at microinsurance product or channel level. Claims ratios are mostly only available at company and regulatory product class. None of the supervisory templates provide for the monitoring of performance of channels relevant to microinsurance (e.g. bancassurance or alternative distribution channels) or for low-income products such as funeral insurance, credit life and hospital cash plans. To effectively develop microinsurance in the region will therefore require substantial changes in the focus and detail of data gathered by insurance supervisors.

Background

This report supports the implementation of commitments made by Member States of the Southern African Development Community (SADC) to align the regulation of their financial sectors with international standards. These commitments are contained in the Protocol on Finance and Investment (FIP)[3] which was adopted by the SADC Summit in 2006 and subsequently ratified (and thus came into force) on 16 April 2010.

The FIP is an integral pillar of the SADC regional economic integration agenda. It sets the legal basis for regional cooperation and harmonisation in the areas of finance, investment, and macroeconomic policy and complements measures to promote intra-regional trade.[4] Within the FIP, Annex 10 provides for cooperation between insurance, securities and non-banking financial authorities. Annex 10 establishes the Committee of Insurance, Securities and Non-Banking Financial Authorities (CISNA) which in turn oversees and guides the implementation of commitments made by Member States in Annex 10. Amongst others, Member States are committed to amend their legislation so that it is "compliant with international standards" (article 6), to "work towards the harmonisation of their respective laws and regulations" (article 9) and to develop their financial services industries to increase the "supply and use of financial products and services" (article 8).

Article 6 of Annex 10 further requires the Authorities to undertake a "diagnostic study, analysis or assessment that focuses primarily on assessing the regulatory framework and supervisory practices in terms of the objectives and principles of the IOSCO (International Organisation of Securities Commissions), the IAIS (International Association of Insurance Supervisors) and the IOPS (International Organisation of Pension Regulators and Supervisors)". Article 6 further requires these assessments to be peer reviewed before they are submitted to the national authorities who must then adopt the required structures and provisions recommended by the assessments.

In pursuit of the insurance-related commitments contained in article 6 of Annex 10, CISNA and the SADC secretariat appointed a consultant (hereafter referred to as the ICP consultant) to review the insurance regulatory frameworks and supervisory practices of SADC Member States against the objectives and principles of the IAIS. Countries submitted self-assessments of their observance of the insurance core principles (ICPs) adopted by the IAIS in October 2011. The consultant performed ICP assessments of 11 Member States.[5] In addition, the review compared the regulatory frameworks and supervisory practices across Member States in order to identify potential barriers to as well as opportunities for harmonisation.

The ICP consultant was requested by the SADC secretariat to recommend a peer review mechanism as envisaged by article 6. The consultant was further required to recommend a high-level design for an harmonised insurance regulatory framework that is aligned with the

[3] Available at: http://www.sadc.int/files/2913/2634/9829/PROTOCOL_ON_FINANCE_AND_INVESTMENT_-_18_AUGUST_2006-FINAL.pdf

[4] The Finance and Investment Protocol Information Brochure Available at: http://www.sadc.int/cms/uploads/SADC%20Finance%20and%20Investment%20Protocol%20Brochure%20-%20English.pdf

[5] An ICP assessment was not conducted for Angola due to inadequate resources necessary to perform such an assessment. There is at present no formal translation of the IAIS ICPs (October 2011) in the Portuguese language. The consultant could not analyse the legislation for Angola which is in Portuguese. The Technical Sub-Committee of Insurance and Pensions of CISNA during the CISNA meeting in Mauritius (October 2012) proposed that an ICP assessment be carried out in 2013 once adequate resources are available.

international standards and based on the current regional environment. The terms of reference also required the consultant to investigate how facilitative national insurance regulation was for the development of inclusive insurance markets. This element of the project anticipated the adoption of the IAIS Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets (subsequently adopted by the IAIS in October 2012 and henceforth referred to as the Application Paper[6]) which provides international guidance to insurance regulators and supervisors on regulatory and supervisory approaches that support the development of inclusive insurance markets.

As a result, the larger project commissioned by CISNA had three components:

- An assessment of compliance by SADC Member States with the IAIS Insurance Core Principles (ICPs);
- An assessment of the degree of harmonisation in insurance regulation and supervision between SADC Member States; and
- An assessment of the degree to which regulatory approaches accommodate financial sector development and financial inclusion as guided by the Application Paper.

This document reports on the third component of the project. The first two components are covered by a confidential report of the ICP consultant submitted to the CISNA secretariat. The analysis conducted as part of the ICP assessment earmarked microinsurance as an area where Member States could prioritise harmonising their regulatory approaches.

FinMark partnered with the CISNA secretariat to support this project. Its interest is to support the regional integration process in the area of inclusive financial services (insurance in this case) and to ensure that regulatory harmonisation is tailored to the domestic priorities and constraints of Member States.

Box 1: An introduction to FinMark Trust

FinMark Trust was established in March 2002 with funding from the UK's Department for International Development (DFID) as an independent trust whose business is controlled by seven trustees from countries in Southern Africa.

The Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus FinMark Trust plays a catalytic role, starting processes of change that ultimately lead to inclusive financial systems which benefit all consumers.[7]

The organisation supports policy and institutional development that increases access to financial services by the unserved and under-served in Africa.

[6] www.iaisweb.org/view/element_href.cfm?src=1/16664.pdf. The Application Paper is based on the insurance core principles (ICPs) adopted in October 2011 and builds on the recommendations of the G20 Financial Inclusion Experts Group, focusing on inclusive insurance markets. In addition to the ICPs, the IAIS issued guidance on regulation and supervision supporting inclusive insurance markets. This guidance provides international approaches for SADC Member States to consider, given that one of the goals of the FIP is to harmonise regulation in alignment with international standards.

[7] See www.finmarktrust.org.za

SADC faces high levels of exclusion in insurance (see Figure 1 below). It is therefore appropriate for SADC supervisors to pursue *inclusive insurance* markets based on international guidance. Facilitating inclusive insurance markets is sometimes also referred to as promoting microinsurance. *Microinsurance* refers to "insurance that is accessed by (or accessible to) the low income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices"[8]. If appropriately designed and distributed, such products can play an important role in reducing vulnerability for the poor as well as presenting profitable markets for commercial insurers.

Since the vast majority of SADC populations are excluded from insurance, it also holds that retail markets are extremely small. *Microinsurance* can therefore form a foundation for building the overall retail insurance market. Whilst this document refers to *microinsurance*[9] the term is used interchangeably with *access to insurance* or *inclusive insurance markets*.

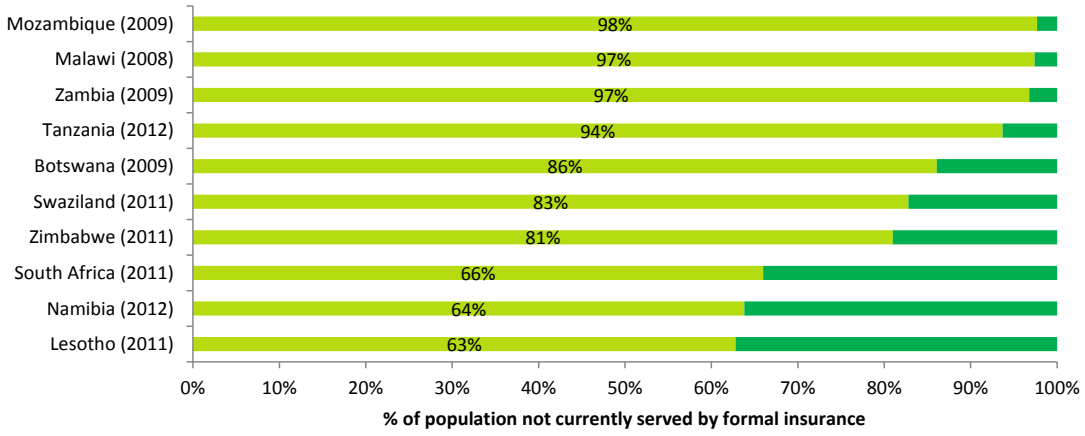

Figure 1: Percentage of population not currently served by formal insurance markets

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

[8] IAIS 2007, Issues in regulation and microinsurance.
[9] See section 5.3 for a discussion on the approaches to defining microinsurance across jurisdictions

1. Approach

This document explores the degree to which current regulatory and supervisory approaches in SADC accommodate market development and, in particular inclusive insurance markets. To do this, it evaluates the current (or proposed) regulatory frameworks as well as the drivers that shape the current regulatory design.

Drivers of regulatory design. Different drivers impact regulatory design. Some of these drivers relate to issues beyond just insurance markets. This analysis proposes and evaluates three potential drivers (as shown in Figure 2) that should inform regulatory design to ensure that it is calibrated to the domestic priorities and market realities:

- *Policy objectives.* The design and implementation of insurance regulatory frameworks should be driven by the policy objectives they seek to achieve. Such objectives may include improving the stability or financial soundness of the sector, the professionalisation of the industry, compliance with IAIS ICPs, diversifying suppliers and intermediaries, etc. In this review particular attention is given to whether there are explicit policy objectives to inclusive insurance markets. There are also other non-insurance policy objectives that may impact on regulatory design. These may include regional integration, poverty relief, indigenisation goals, economic development and the development of strategic sectors (e.g. agriculture). Given the limited resources typically available in developing markets, these policy objectives have to be prioritised and balanced as there may be trade-offs between pursuing one policy objective over others.
- *Market realities.* The design of the regulatory framework should not only be focused on what should be achieved in the future but also the current market realities that it seeks to regulate. These include the current level of insurance usage, product diversity, number and capacity of insurance providers, distribution channels utilised, etc. In addition to securing the views of supervisors on the state of their markets, a high-level analysis was done of market and development indicators.
- *Market risks.* A particular aspect of the market reality is the risks inherent to a particular insurance market. Regulatory design and enforcement is often driven by key risks as perceived by the supervisor. This may range from consumer protection risks (e.g. particular abuses occurring in segments of the market) through to threats to market stability (e.g. where providers are not financially sound or able to comply with reserve requirements). The scope of this analysis did not accommodate a detailed analysis of sector risks. Instead, we focused on the regulators' own perspectives on key risks and the degree to which this has shaped regulatory design.

IAIS Application Paper as practical benchmark for evaluating current regulatory approaches. The Application Paper provides practical guidance on regulating for inclusive insurance markets. Although the Application Paper was only formally adopted by the IAIS subsequent to the fieldwork for this report being completed, an earlier draft substantially in the form of the finally adopted version was available to guide the fieldwork and analysis.

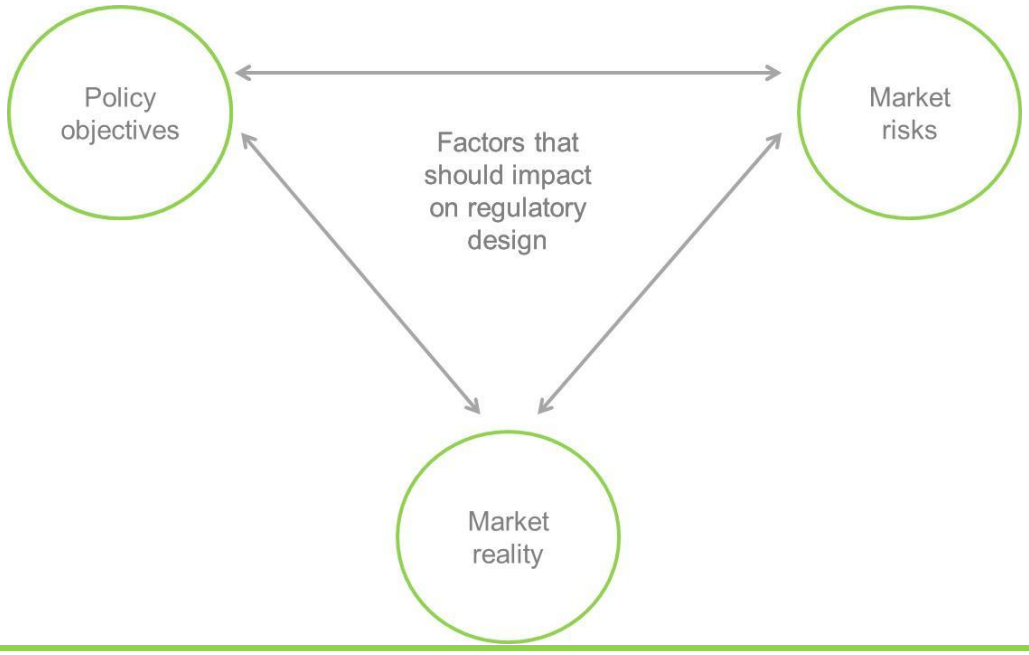

Figure 2: Factors that should impact on regulatory design

Source: Authors' own

Parameters for policy and regulatory analysis: The policy and regulatory section builds on the market analysis and examines the following facets taking the guidance in the Application Paper as reference:

- *Motivations for policy and regulatory reform.* The majority of SADC Member States are reforming their insurance policy and regulatory frameworks, in some cases including policies on financial access. What motivates them and what does it bode for inclusive insurance?
- *Approaches to defining microinsurance.* Where countries are developing a definition for microinsurance, (in enacted as well as proposed legislation) what approach is being taken?
- *Changes in underwriting regime.* Are SADC Member States implementing proportionate approaches to underwriting by multiple institutional types to facilitate inclusive insurance markets?
- *Informality and formalisation.* What is the evidence about informal insurance underwriting in Member States and how are regulators and supervisors dealing with it?
- *Intermediation.* Are regulators facilitating the distribution of microinsurance to low income clients and which approaches are being followed?
- *Facilitating innovation:* How are supervisors facilitating and dealing with market innovation?
- *Test-and-learn.* This looks at the extent to which regulators are enabling the development of the market through enabling pilots to be undertaken to test new approaches.
- *Consumer protection issues and value.* Are consumer protection measures adequate to ensure that new clients brought into the insurance market are not abused and likely to stop using insurance?

Throughout the regulatory analysis section (Section 5) relevant extracts from the Application Paper are inserted to provide first-hand access to the IAIS guidance on inclusive insurance markets. Box 2 below, provides a brief overview of the main provisions of the Application Paper.

Box 2: Key issues raised in the IAIS Application paper on regulating for inclusive insurance market

The ICPs apply universally, however, the application of the ICPs in practice is important to achieving the intended outcome

1. **Importance of policy**
   Whilst the supervisor should lead the policy on inclusive insurance; policy and regulatory coordination is required across different government ministries and departments. Therefore, an overarching access to finance policy by the state that includes insurance is a precondition for effective insurance supervision.
2. **Consumer protection and value**
   While keeping costs down is vital to the development of microinsurance, it is important to ensure that consumers are appropriately protected and receive sufficient value from products. This entails effective disclosure, simplicity of products, fair and accessible resolution and recourse and efficient claims mechanisms.
3. **Informality and formalisation**
   Entities that offer insurance should be licensed and a clear and transparent formalisation process is required to enable the transition from informality to formalisation.
4. **Test-learn-approach**
   Pilot schemes should be licensed, at least at the level of registration, and be subject to conditions that protect the interests of policyholders during and, if relevant, beyond the pilot
5. **Open architecture**
   Open architecture can facilitate innovation as it allows greater flexibility and includes a wider number of participants.
6. **Proportional but level playing fields**
   All existing players should be subject to proportional requirements for the provision of specific products in order to reduce arbitrage. Similarly, if a specific category of insurers is created , it should be limited to providing limited products under defined circumstances. Proportionality in requirements should mean there is no need for exemptions from some or all supervisory requirements.
7. **Risk-based approach: Need to understand and manage risks**
   1. There is a minimum point below which it will not be possible to retain insurance risk.
   2. Insurance risk should not be carried on the balance sheet of entities that also do other financial or non-financial business. Small entities operating mixed businesses should transition to separate their insurance business into a separate legal entity.
8. **Defining microinsurance**
   Quantitative definitions are necessary for the introduction of differential regulatory treatment but these definitions need to be as broad as possible.

Source: Authors' summary from Application Paper (IAIS, 2012)

2. Methodology

This section describes the methodology followed for this part of the larger project. This report is based on market data as well as enacted and prospective legislation available as at 31 December 2012. The study uses both primary and secondary sources.

Primary data gathering: Primary information was gathered during visits made to twelve of the SADC Member States: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. These were the countries that CISNA earmarked for the study[10]. The visits were made between January and June 2012 with approximately four days spent in each country[11].

The primary data collected included the following:

Issues raised in Application Paper: An assessment questionnaire based on the provisional draft of the Application Paper was prepared, with the questions structured thematically in accordance with the 26 ICPs and their respective standards. The questions were administered as part of the ICP assessment, but utilised for the purpose of this report rather than the formal ICP Assessment.

Regulatory survey. In addition, a regulatory survey was designed to include questions that did not fit into the ICP assessment, but was necessary to answer the questions raised in this report. The survey was directed to the supervisor of each SADC Member State or a delegated supervisory staff member. The approach followed was that of an assisted self-assessment.

Interviews with market players: During each of the country visits, a limited number of consultations with market operators (insurance underwriters and intermediaries[12] as well as industry associations), was also included.

Analysis of secondary data. The following secondary sources of information were used in this analysis:

Data on insurance providers and distribution. In addition to data captured from consultations with insurance underwriters and distribution channels, data was extracted from secondary data sources such as press articles and company annual reports. Further, *Access to Insurance Diagnostics* conducted by Cenfri (referred to in this report as microinsurance diagnostics) in Mozambique, Swaziland, Tanzania and Zambia and as well as an assessment of the *Demand and Supply of Microinsurance in Lesotho Study* (Angove and Manje, 2012) were also used to provide data points applicable to insurance providers and distribution channels.

Data on demand for and take-up of insurance. The data on demand for and take-up of insurance is drawn from FinScope consumer surveys[13] available for 10 out of the 12

[10] The Democratic Republic of Congo (DRC) and Seychelles were countries that were not visited and in which data was not captured. Further, Madagascar is currently suspended from SADC until further notice.

[11] Swaziland (30 Jan – 03 Feb 2012); Botswana (6-10 February 2012); South Africa (13-17 Feb 2012); Namibia (05-09 Mar 2012); Mauritius (19-23 Mar 2012); Lesotho (02-05 Apr 2012); Angola (16-20 Apr 2012); Malawi (30 Apr – 04 May 2012); Zambia (15-18 May 2012); Tanzania (28 May – 01 Jun 2012); Mozambique (11-15 Jun 2012); Zimbabwe (25-29 Jun 2012)

[12] Intermediaries included traditional ones such as brokers as well as alternative distribution channels such as mobile network operators.

countries observed[14]. The analysis is supplemented by qualitative insights drawn from demand-side sections of the diagnostics mentioned above. These qualitative insights are extracted from an analysis of focus group discussions conducted as part of these diagnostics.

Supervisory data. Supervisors were requested to provide their annual reports and the data templates prescribed for insurance companies by the insurance supervisors of each country. An analysis of these data templates was used to assess the level of data that is captured from insurance markets by supervisors.

Macroeconomic and contextual data. The study was supplemented by macroeconomic and contextual data. The macroeconomic data was mainly extracted from sources such as the World Bank Development Indicators and African Economic Outlook. Where applicable, such data was also extracted from insurance diagnostics.

Insurance regulation. Insurance legislation and regulation in SADC Member States (both current and proposed regulation), were assessed utilising the guidance contained in the Application Paper.

[13] FinScope consumer survey, a FinMark Trust initiative, is a nationally representative study of consumers' perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments.
FinScope explores consumers' usage of informal as well as formal products and builds a picture of the role that the informal sector can play in the financial markets of developing countries. Since FinScope is a perceptual study, it also encompasses attitudes, behaviours, quality of life factors and consumption patterns.
[14] FinScope consumer surveys used were Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2012), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011), and South Africa (2012).

3. Market realities: what does the inclusive insurance landscape look like in SADC?

This section describes the nature of the existing SADC insurance market, with specific focus on microinsurance. It provides an overview of the current level of development of national insurance markets in SADC focusing on population size and income levels (which caps the total market size), the risk experience of the target market, the players in the formal insurance market as well as the size of the formal market, and also considers informal risk mechanisms being utilised in the various countries. This provides context to the rest of the discussion but also illustrates the market drivers of regulatory approaches.

3.1. Demographic and consumer context

3.1.1. Population sizes

Figure 3, below, shows the varying adult populations in SADC countries. The graph illustrates the markedly different size of adult populations across the region, with South Africa (35.7m), DRC (35.4m) and Tanzania (21.2m) having the largest adult populations. Comparatively, Swaziland (0.5m), Botswana (1m) and Lesotho (1.1m) have small adult populations and therefore a much smaller potential retail market. The size of the adult population determines the absolute size of the potential microinsurance markets.

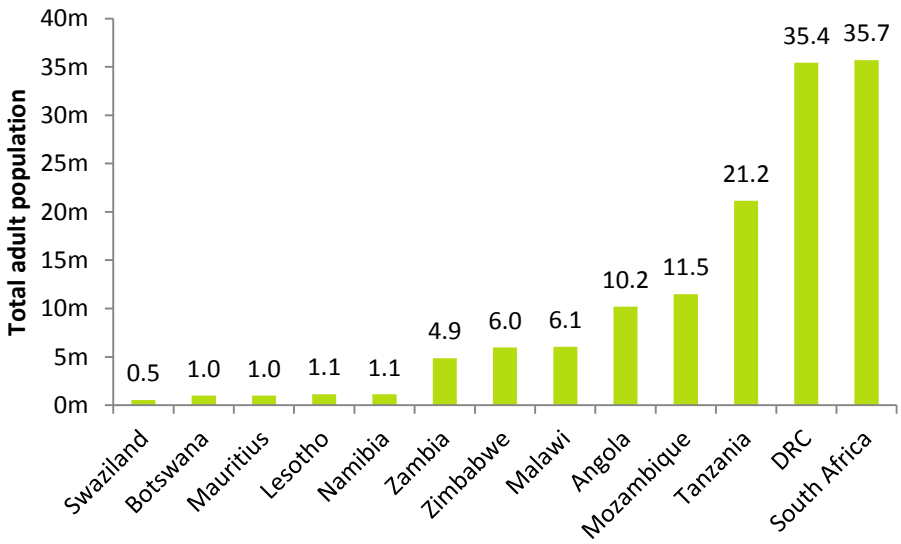

Figure 3: Adult populations across SADC countries

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011)), (World Bank, 2012)World Bank (2012)

3.1.2. Income distribution

Insurance premiums correlated with income levels. Global experience has shown that, while other factors impact as well, insurance penetration (measured by ratio of premium volumes relative to GDP) is most strongly correlated with income levels (Lester, 2009). In the case of

microinsurance, income levels remain an important determinant of the degree to which households are able to use insurance as means of risk mitigation. However, it must be noted that the introduction of low-premium microinsurance products is meant to enable the number of people covered by insurance to grow more strongly than what traditional measures focusing purely on income would suggest. While income may ultimately still place limitations on the potential growth of microinsurance in SADC, current income levels can accommodate substantial insurance growth in the region.

Figure 4 displays the overall income distribution of SADC (excluding South Africa[15]) estimated from the analysis of nine FinScope consumer surveys[16]:

- Nearly 50% of the SADC adult population (excluding South Africa, those countries without a FinScope survey - DRC, Angola and Mauritius and the non-responses) earn less than USD $1 per day. Country diagnostics have shown this group to be largely unviable as a market for commercial insurance given the current level of market development and infrastructure. While there are some exceptions, approaches in this segment are largely driven by poverty relief and social security objectives rather than by commercial insurance objectives. Insurance could be considered as a complementary mechanism to such approaches but is unlikely to be viable on a standalone basis.
- 25.6% of adults earn between USD $1-3 a day. As with the previous group, commercial viability of insurance is likely to be severely constrained for this target market. Insurance can again be considered as a complementary mechanism to other development approaches but is unlikely to be viable on a standalone and commercial basis.
- 6.7% of adults earn USD $3-5 a day. This represents a group which may, with some assistance (e.g. in the form of subsidy), be able to utilise insurance on a more sustainable basis. Current experience suggest that this will most likely still not be on a standalone basis but bundled with other products and services used by this segment (e.g. mobile phone use, agricultural inputs, or credit).
- An estimated 5.0% of the adult population earn between USD $5-10 a day. This group should be looked at more favourably for insurance take-up as they are likely to be able to afford insurance on a more sustainable basis.
- Only 4.8% of the adult population (excluding South Africa, Mauritius, Angola and DRC) is estimated to earn more than USD $10 per day. This reflects a limited high-income market and any expansion of the insurance market is likely, therefore, to have to enter into low-income markets.
- Non response: Non-responses have been excluded from the above analysis and make up 19.8% of adults in SADC. This is a substantial proportion of the adults and may have a significant impact on the potential market size at different income levels. It is likely that

[15] Given the relative size of the South African market, including this in the analysis may obscure the trends in the rest of SADC. Where appropriate, South Africa is excluded from the analysis to more clearly show trends in the rest of SADC.

[16] The analysis is restricted only to those SADC countries that have had a FinScope survey conducted (South Africa is also excluded): Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia, Zimbabwe, but is then extrapolated to include the excluded countries: DRC, Angola and Mauritius in estimating the total size of the potential retail insurance market in SADC.

Income distribution bands were analysed from the various surveys. To address the challenge of comparing the defined income bands between countries, four bands (based on dollars earned per day) were selected and local currencies were then converted into dollars based on the previous year's average exchange rate. Some of the surveys' income bands fit within the defined dollar per day income bands. In those countries in which the income bands differed from the predefined dollar bands, a linear distribution was assumed and hence populations were proportionally allocated into the relevant income bands.

Some countries had to be excluded completely from certain income bands since FinScope bands provide limited information on the breakdown of those income levels. In these cases, the relative population proportion to fall into each band was calculated based only on the population for which the relevant data was available. As a result the combined proportions across all bands for the entire region will not add up to 100%.

these non-responses cut across all income categories but a higher proportion typically come from higher-income categories. This means that the above higher-income segments may be understated.

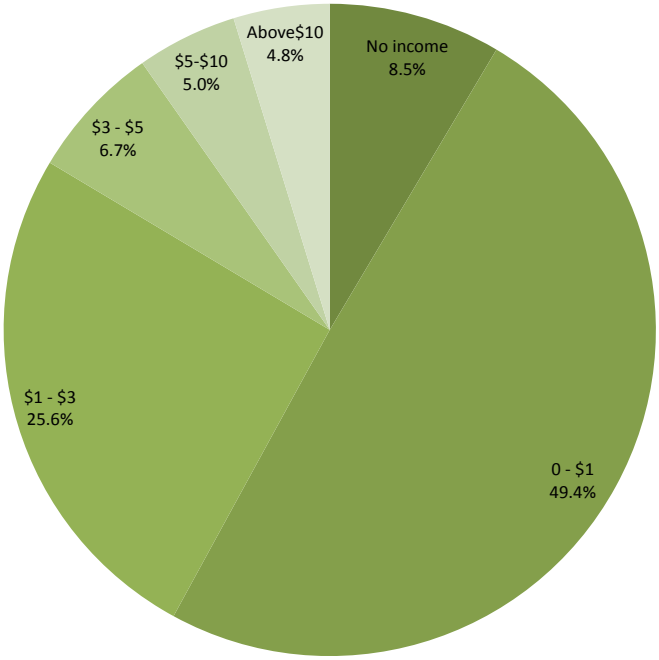

Figure 4: Estimated income distribution in SADC (excluding South Africa, Mauritius, Angola, DRC and non-responses on income question)

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Constrained incomes call for innovative insurance models and facilitative regulation. Almost 75% of the SADC adult population (excluding South Africa, those countries without a FinScope survey - DRC, Angola and Mauritius and the non-responses) earns less than $3 per day. Given the current level of development of the insurance sector and other factors such as the development of the financial sector and payment system and general infrastructure, it will be very challenging for insurers to serve this market on a commercial basis. Any attempts at serving this market will be dependent on low-cost and innovative distribution channels. It is likely that insurance will have to be embedded in other products or services or, at the least, be distributed by parties that also intermediate other goods and services. Careful consideration would need to be given to ensure that regulation accommodates such channels and avoids any unnecessary costs, while at the same time allowing for sufficient levels of protection for what is likely to be a vulnerable consumer group.

Bulk of adults in SADC fall in target market for microinsurance. Only 4.8% of adults in SADC (excluding SA, Mauritius, Angola and DRC and the non-responses) earn in excess of $10 per day. As will be shown below, current formal insurance usage is estimated at around 5.2%[17]

[17] Calculated based on the sum of Finscope survey respondents in the 9 countries (Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia, Zimbabwe) which indicated they have some form of formal insurance cover as a percentage of the total number of adults indicated in the survey. *Indications suggest that the DRC and Angola have highly undeveloped retail insurance markets. As such, Mozambique was deemed as the most appropriate proxy for insurance take-up.*

of adults. The implication is that while countries like South Africa and Mauritius may still have room to grow in the >USD $10 per day market, the bulk of growth for the rest of SADC will come from the <USD$10 per day segment. This also means that the bulk of the adult population in SADC will fall within the target market for microinsurance. In fact, in some developing countries, microinsurance is defined to cover income levels up to $15 per day, which may encompass the vast majority of the market in SADC[18]. It is, therefore, appropriate that regulatory frameworks are tailored to facilitate the delivery of insurance to as many of these adults as possible and not just for the limited high-income market.

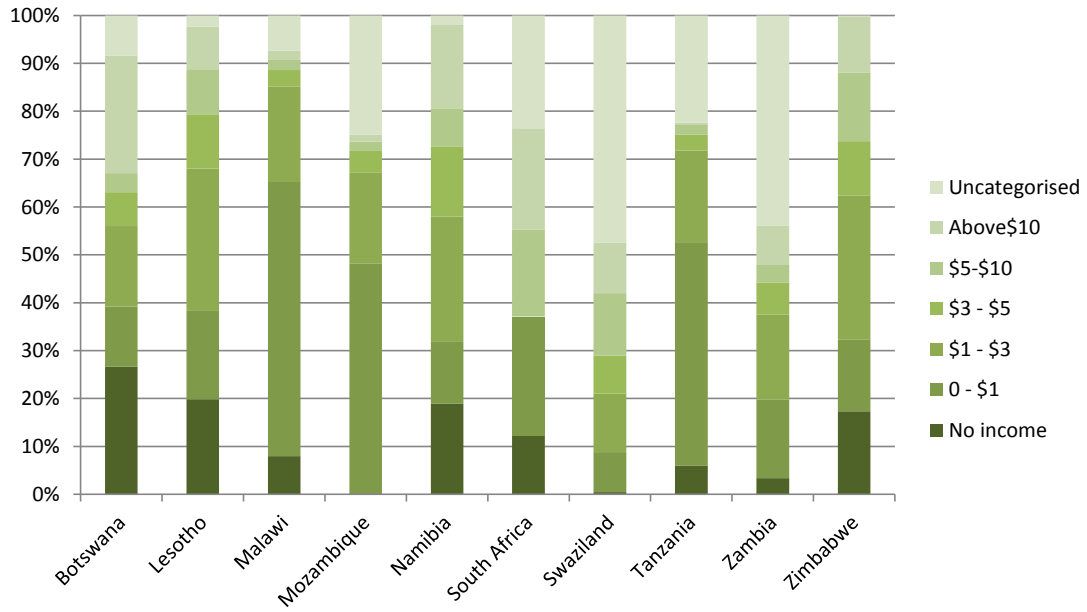

Figure 5: Estimated income distribution in SADC by country (excluding Angola, DRC and Mauritius)

Source: Own analysis of FinScope consumer survey data, 2008-2012 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), South Africa (2012) Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Figure 5 shows the estimated income distribution of the individual SADC countries. The figure illustrates that income distribution across the different countries in the region does vary significantly, but also clearly indicates that the largest proportion of the population of all the countries within the region falls in the 0 - $3 a day bracket. Even South Africa, the largest economy in the region by a substantial margin has a large proportion of the population falling into this income band.

Mauritius has a retail profile more similar to SADC as a whole and hence the proxy insurance take-up used was the average for SADC when South Africa is excluded. Using World Bank data for the adult population (15+), it was then possible to extrapolate an estimate of the number of formally insured adults in these countries to apply a more representative figure to illustrate take-up in SADC as a region.

[18] In South Africa, the target market for microinsurance was initially defined to cover Livings Standard Measurement categories 1-5, with incomes reaching $10 per day. Current discussions may extend this definition to LSM 7, which with incomes reaching $20 per day. In Kenya consideration was given of income levels up to $10 per day. In Brazil, the target market for microinsurance was defined as social classes C and D, with incomes that can go up to $30 per day and making up 67% of the total population.

3.1.3. Perceived risks and coping mechanisms

The FinScope surveys allows us to explore the risk experience of consumers and the mechanisms they currently apply to manage those risks. While this requires much further analysis at country levels, the high-level trends do provide useful context for the discussion about the potential market in SADC.

Health expenses are most common risk perceived by SADC adults. Table 13 in Annex 1 shows the number of adults across SADC countries[19] that identified the various risks as potentially affecting their finances in future. The table is therefore indicative of the risk perceptions of potential insurance target market within SADC. Risks should be considered across two parameters – firstly across frequency or likelihood of occurrence, which is shown by Figure 6 and Table 13, and secondly by the severity of the risk event (i.e. how harmful will the risk be to the individual).

Figure 6 shows that *health expense* is perceived as the most common risk likely to affect adults' finances in SADC. The risks of the *loss of assets* and the *death of a non-breadwinner within the household* (i.e. the financial risk will primarily be in terms of paying for the funeral) are identified as the next most common risks. The severity of a death risk particularly that of the *breadwinner*, is also significantly higher than *loss of assets*, and is therefore a very significant risk to provide for even if the frequency is lower.

[19] The analysis is of the 9 countries within SADC which have had FinScope consumer surveys conducted. South Africa is also excluded as it may distort the findings.

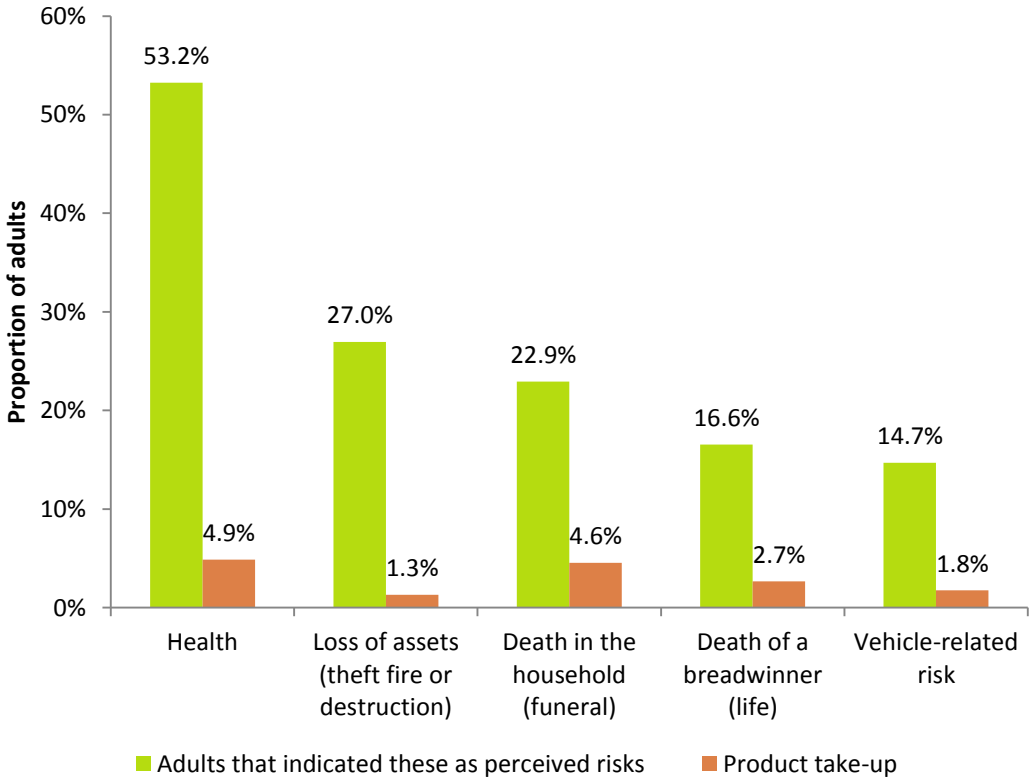

Figure 6: Risk perceptions and insurance product take-up across SADC countries

Source: Own analysis of FinScope consumer surveys (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Figure 6 compares a selection of the key risks identified above with the relevant retail insurance product take-up (discussed in Section 3.2.3). Based on the more detailed analyses in microinsurance diagnostics[20], the discrepancy between the *perceived risks* identified by FinScope survey respondents and the *use* of formal insurance products in risk mitigation can be attributed to various reasons on both the provider and client sides, which may include:

- A lack of understanding of insurance products and the role they can play in mitigating risk amongst the SADC adult population.
- A lack of access to appropriate insurance products due to distribution difficulties.
- An inability of potential clients may be unable to afford insurance.
- Supply-side constraints which make it very difficult for insurers to serve particular needs. In the case of asset insurance, the insurer may not be able to cost-effectively manage the assessment of claims for small value assets.
- A preference by consumers to use savings and credit mechanisms over insurance to mitigate asset risks. This is particularly the case as they tend to underestimate the probability of the risk event occurring.

[20] Please see http://www.a2ii.org/knowledge-centre/tools-and-guidance/a2ii-toolkits.html for a full description of the A2ii methodology relating to the diagnostics.

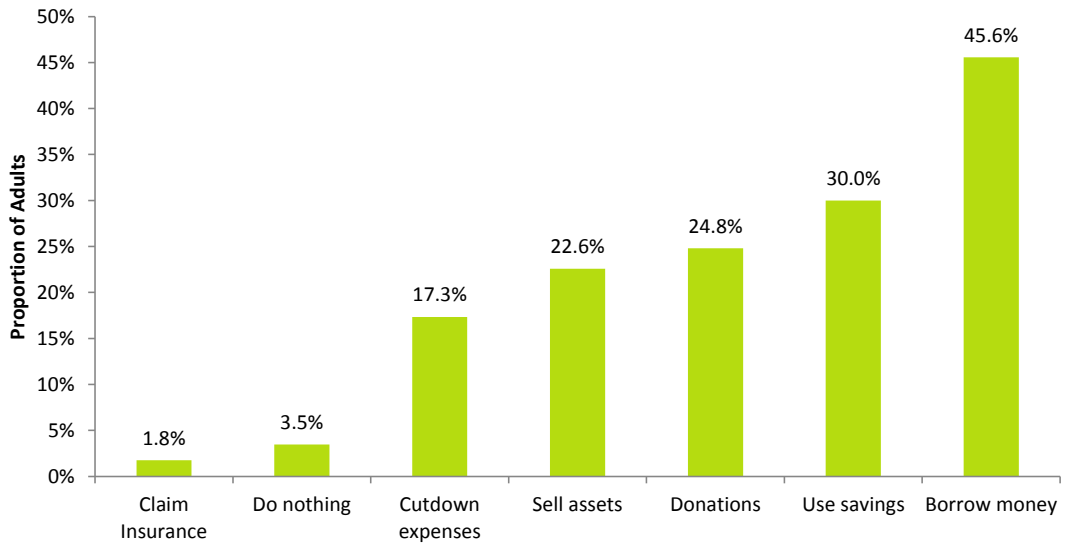

Figure 7: Risk coping mechanisms: Methods with which FinScope survey respondents indicated they deal with risks.

Source: Own analysis of FinScope consumer survey data, 2007-2011 (Data for (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Figure 7 above shows the primary methods utilised by SADC adults (excluding South Africa, Mauritius, Angola, Namibia and DRC)[21] to cope with the risk events identified in the previous section.

Borrowing and utilising savings reported as main coping mechanisms. From this graph it is clear that the use of borrowings and savings was identified as the most popular methods of coping with risk events. In addition, a relatively high proportion of adults report "no response" to a risk event or merely "cut down expenses". Given that the majority of SADC adults are either poor or extremely poor (see Figure 4), many of those who respond by "cutting down expenses" are likely to have limited expenses to reduce. As a result, this response is virtually equivalent to "doing nothing" and may cause those individuals to go without basic necessities such as suitable nutrition.

Insurance used by few as coping mechanism. Only 1.8% of survey respondents highlighted insurance as a risk coping mechanism. This is significantly lower than the already low 5.2% of adults with formal insurance (see Figure 12). This may indicate that even for those that do have formal insurance, it is not recognised as a key risk coping mechanism. This highlights the importance of not only extending access to retail insurance but also improving insurance literacy within the region.

3.2. Existing formal insurance market

Box 3: Evolution of retail markets

[21] Once again, the analysis is only of those countries which have had FinScope consumer surveys, so the DRC, Mauritius and Angola are excluded. South Africa is also excluded due to distortionary effects. In this instance, Namibia is also excluded as that country's FinScope consumer survey does not address this question in the same way as the surveys conducted in other countries and therefore cannot be compared.

International experience (Lester, 2009) suggests a typical development path for insurance markets in developing countries. The first stage of development normally entails the introduction of corporate asset insurance. This is often driven by the development of particular industries (e.g. mining, airlines, hydro-electricity, etc.). Given the usual foreign ownership of these industries, the owners often push their international insurers to insure their in-country assets and this may result in the entry of such an insurer into a developing country. Where the local insurance industry is under-developed it may not have the expertise or balance sheet to insure such large and complex risks and substantial reinsurance and foreign technical expertise are required. The initial and sole purpose of such insurers will be purely to insure the assets of the foreign company and it would not be targeting the retail market.

A next stage of development may be triggered by increased sales of vehicles on credit. This credit provider requires comprehensive insurance on the vehicle and this drives the take-up of such insurance. At the same time increased road traffic and the resulting risks typically triggers the development of third party liability insurance. This is often done on a compulsory basis and provides a convenient manner for new insurers to build their scale of operations. Such compulsory insurance may be distributed through fuel levies or other means and does not yet require the development of substantial distribution infrastructure.

Depending on the nature and size of the formal employment market, a next stage of development may entail the development of employer-based pension funds to which life insurance products are typically added. This may require the development of wider broker networks but such networks may still be limited as it involves few sales to larger companies. It is typical for these products to be developed by brokers and agents generally only emerge once a wider and voluntary retail offering is made available.

While all the developments noted here are not necessarily sequential, experience have shown that corporate asset insurance tend to be the starting point if there is no other external intervention..

The evolution of voluntary microinsurance markets. Global experience shows that the development of microinsurance markets is often led by funeral insurance (both voluntary and embedded) and credit life insurance (mostly compulsory with loans). In the initial stages, the typical development of microinsurance is often driven by the credit market or the presence of large organised groups that enables mass distribution at lower cost. More recently mobile operator client bases have provided opportunities for offering insurance as part of loyalty-type programmes to large client bases. Initially products tend to be limited to funeral and personal accident insurance. In some cases health insurance has been able to evolve, but this is often pushed by government or donor intervention. Asset insurance tends to follow much later with the exception being asset insurance bundled with purchases (and particularly credit purchases – e.g. warranties on white goods, cell phone insurance, etc).

The purpose of this section is to provide a brief overview of the nature and structure of the microinsurance market in SADC. This provides context to the regulatory discussion but also reflects the level of development across SADC markets. It is not intended to be exhaustive but to focus on the most relevant segments and characteristics of the market. As it is not

possible to clearly isolate microinsurance from the industry data, the discussion focuses on the retail insurance product lines of most relevance to the low-income market.

Before considering the details of the SADC market context, we consider the typical stages of evolution in insurance and microinsurance markets. This will provide the basis for considering the stages of development across SADC insurance markets.

3.2.1. Market size and players

Current insurance market is small in terms of total premiums. The total insurance market (as measured by gross premiums) in SADC (including South Africa) is small (USD $42.5 billion with an adult population of approximately 136m). By comparison, a single market such as Brazil with a similar population size is almost twice as large (USD $78.3 billion with an adult population of approximately 147.5m). South Africa accounts for 93% of the total SADC premiums, which means that the total SADC insurance market excluding South Africa is approximately USD $2.9 billion for a total adult population of over 100m. Comparatively, Indonesia with an population of approximately 177m adults has an insurance market five times the size (approximately USD $14.9 billion). While much of this can be ascribed to income differences, it suggests that, even when controlling for income differences, SADC insurance development is lagging other developing countries.

*Substantial variation in industry size.*Figure 8 Figure 8 below illustrates the substantial variation in the size of insurance industries across the SADC region. The graph shows that there is a cluster of relatively populous countries (Mozambique, Tanzania, Malawi, Zambia and Zimbabwe) which have significantly smaller insurance industries than less populous countries like Namibia, Botswana and Mauritius.

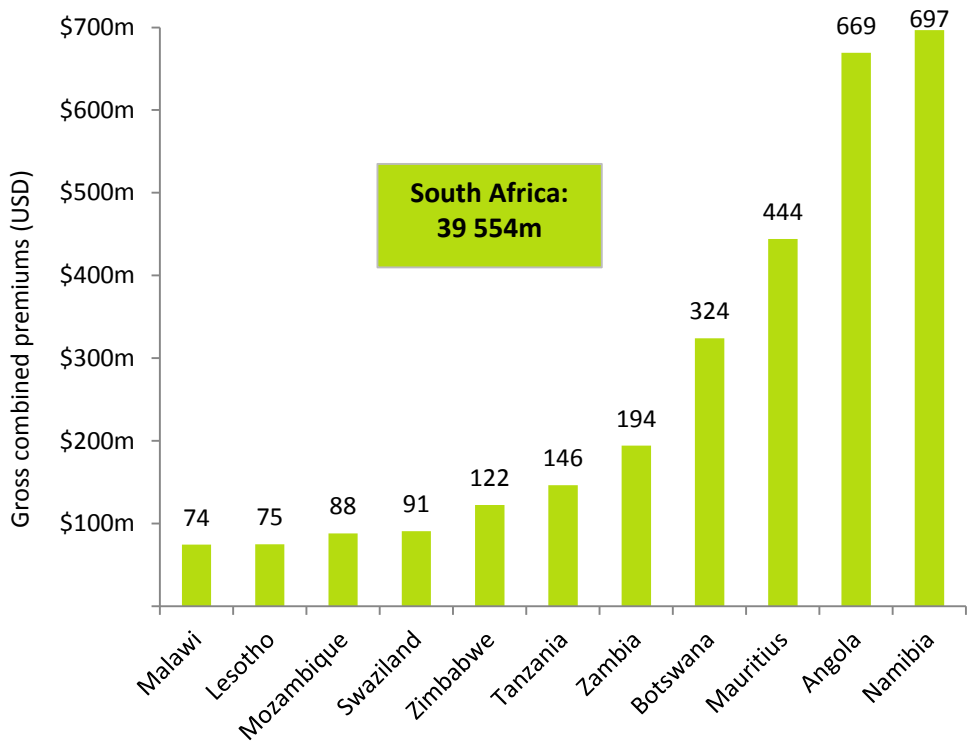

Figure 8: Industry size (by gross USD premiums)

Source: (United Republic of Tanzania Insurance Supervisory Department, 2005,2006, 2007, 2008, 2009, 2010) (Namibia Financial Institutions Supervisory Authority, 2007, 2008, 2009, 2010, 2011) (Zimbabwe Commissioner of Insurance, Pension and Provident Funds), (Banco de Mocambique, 2009; MINISTÉRIO DAS FINANÇAS, 2008) (Central Bank of Lesotho , 2007) (Zambia Pension and Insurance Authority, 2010) (South African Treasury, 2011) (Office of the Registrar of Insurance and Retirement Funds, 2008) (NBFIRA, 2011) (Reserve Bank of Malawi, 2009) (Financial Services Commission Mauritius, 2009)

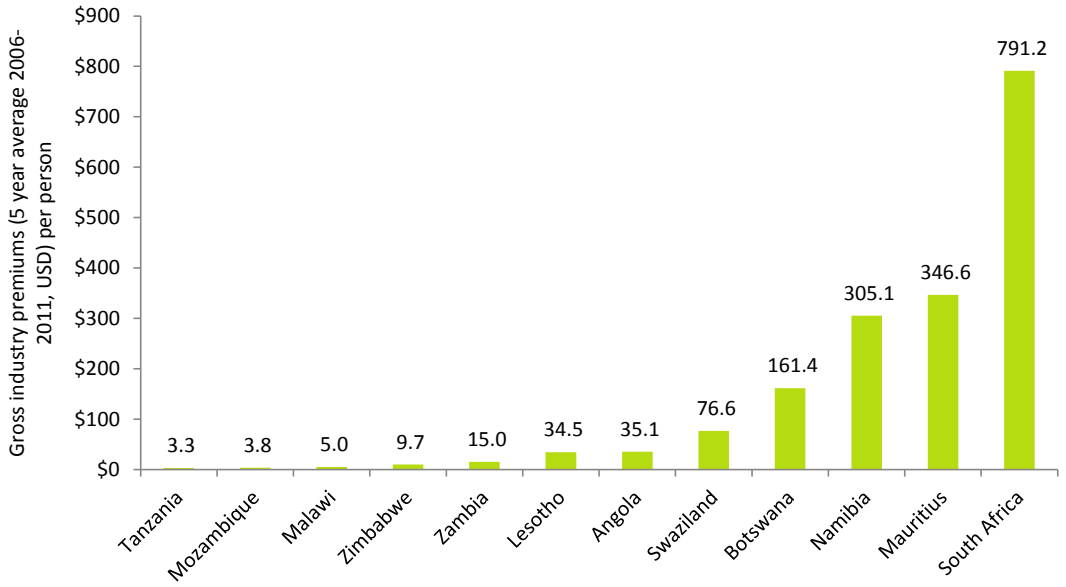

Figure 9: Gross industry premiums per capita

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Source: Authors own analysis (United Republic of Tanzania Insurance Supervisory Department, 2005,2006, 2007, 2008, 2009, 2010) (Namibia Financial Institutions Supervisory Authority, 2007, 2008, 2009, 2010, 2011) (Zimbabwe Commissioner of Insurance, Pension and Provident Funds), (Banco de Mocambique, 2009; MINISTÉRIO DAS FINANÇAS, 2008) (Central Bank of Lesotho , 2007) (Zambia Pension and Insurance Authority, 2010) (South African Treasury, 2011) (Office of the Registrar of Insurance and Retirement Funds, 2008) (NBFIRA, 2011) (Reserve Bank of Malawi, 2009) (Financial Services Commission Mauritius, 2009) (World Bank, 2012)

Insurance density reveals slightly different picture: When we consider the insurance premium per capita depicted in Figure 9 (also referred to as the insurance density) a slightly different picture emerges. South Africa is no longer so far ahead. Whereas its industry size is 56 times that of the country closest to it (Namibia), its premium per capita is only slightly more than twice that of Namibia, suggesting that the development of the retail insurance market remains a challenge for South Africa as well.

Foreign-owned insurers contribute substantial proportion of premium volumes. Figure 10 shows the proportion of insurance companies within each country which have majority foreign ownership[22]. Foreign ownership is further broken down into majority ownership of an insurer by another SADC country and majority ownership by a non-SADC foreign country.

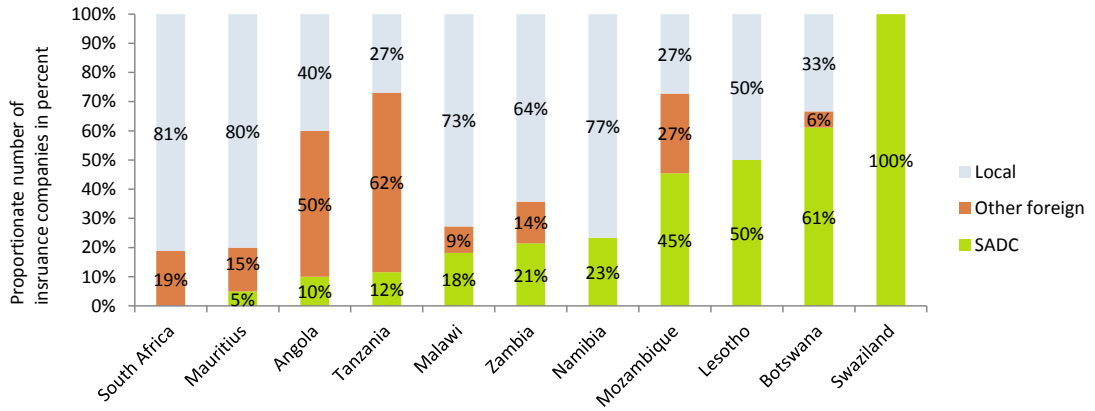

Figure 10: Ownership structure of SADC insurance industries

Source: Consultations with SADC supervisors

Foreign ownership of insurers varies greatly across the SADC region. 19% of insurers in South Africa, 20% in Mauritius and Zimbabwe, compared with 73% in Mozambique and Tanzania, and 100% in Swaziland. The impact of foreign ownership is even greater when considering premium volumes.

[22] Majority foreign ownership is defined as greater than 51% of the insurer is foreign owned.

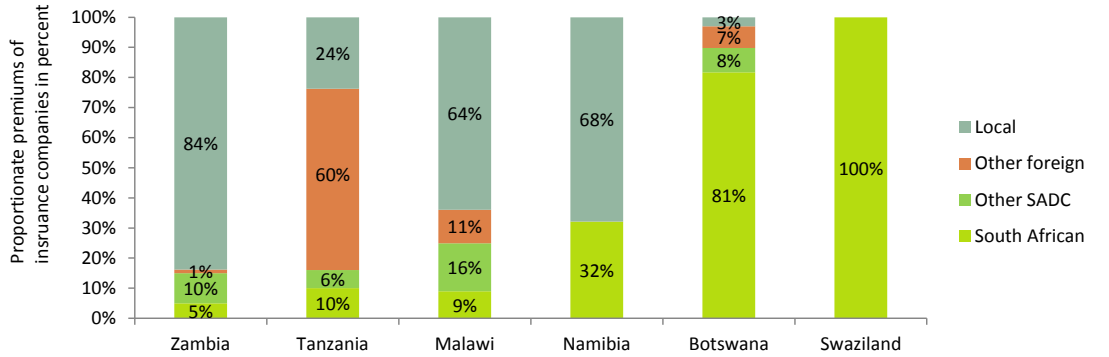

Figure 11: Gross written premiums broken down according to ownership structure

Source: Authors own analysis of (Zambia Pension and Insurance Authority, 2010); (United Republic of Tanzania Insurance Supervisory Department, 2005) (Reserve Bank of Malawi, 2008, 2009, 2010) (Namibian Financial Institutions and Markets bill, 2012) (NBFIRA, 2010, 2011) (Office of the Registrar of Insurance and Retirement Funds, 2008, 2009, 2010, 2011)1[23]

When considering premium volumes (as shown in Figure 11), proportion contributed by foreign-owned insurers[24] presents a more exaggerated picture. For example, the gross written premiums of majority foreign-owned insurers accounts for 97% of the Botswana insurance market (as opposed to 67% by count). In Malawi, majority foreign ownership rises from 27% (of the market by count) to 36% (of the market by gross written premiums). Figure 11 also highlights the extent to which South Africa dominates foreign ownership in SADC. The vast majority of SADC insurers operating in countries other than their home country are South African, whilst Figure 10 shows that there are no non-South African SADC-owned insurers operating in the largest and most developed insurance market in the region – namely South Africa.

Foreign firms may bring interest and capacity in microinsurance. The more detailed Microinsurance Diagnostics do, however, reveal that there is an increasing presence of non-South African regional insurers[25]. In addition, the studies have shown that both South African and other regional insurers are showing some interest in exploring microinsurance. While foreign ownership is more limited in the South African market, there are examples[26] of regional insurers who are exploring entering this market with a focus on microinsurance. While the above graph reveals a fair degree of regional activity, facilitating harmonisation of regulatory frameworks will enable successful microinsurance firms to expand across borders more easily.

3.2.2. Technical insurance capacity

Most SADC countries have limited professional capacity in their insurance industries. This is a constraint on the development of the SADC insurance market. Table 1 shows the number of

[23] The countries included in this analysis are the only ones for which the appropriate data could be found from the supervisors' annual reports.
[24] In this analysis all firms with majority foreign ownership were counted as foreign firms and firms with majority domestic ownership as domestic, hence minority shareholdings were not able to be included in this analysis
[25] Such as Malawian based insurer NICO, which also operates in Mozambique, Tanzania and Zambia
[26] Namibian insurer Trustco examined the potential to operate in South Africa

actuaries registered in the various SADC countries. The number of actuaries provides some indication of the level of technical skills available to a national insurance industry.

Countries	No. of actuaries
Angola	6
Botswana	2
Lesotho	0
Malawi	0
Mauritius	10
Mozambique	1
Namibia	9
South Africa	844
Swaziland	-
Tanzania	-
Zambia	-
Zimbabwe	5
DRC	-

Table 1: Number of actuaries registered in SADC countries and selected comparative countries

Source: (Gribble, 2006) (Acturial Society of South Africa , 2012) (Instituto de Supervisao de Seguros, 2012) (Instituto de Supervisão de Seguros de Moçambique, 2012) (Reserve Bank Malawi, 2012) (Central Bank of Lesotho , 2012)

The relative lack of appropriate technical skills across SADC (excluding South Africa), is clearly highlighted in the table and further underlines the importance of enticing vital technical skills in order to develop retail and microinsurance markets throughout the region. While it is possible to source actuarial skills on a consulting basis, this complicates the process of on-going innovation for which such skills are required.

3.2.3. Products and take-up

SADC markets display different stages of development. Based on the typical evolution path described in Box 3**Error! Reference source not found.** the development of the life insurance portfolio could be used as one of the proxies for the stage of the development of the market. Figure 13 shows substantial variation across SADC markets in terms of the contribution of life premiums to total industry premiums. Using this as a proxy for the stage of market development, it would suggest that there may be three broad clusters of countries. Life premiums account for more than 60% of total premiums in Botswana, Lesotho, Namibia, Mauritius, South African and Zimbabwe but less than 15% in Angola, Mozambique and Tanzania. In the middle, Malawi, Swaziland and Zambia show life premiums contributing between 25% and 45% of total premiums. Given the typical evolution of insurance markets described above, it is clear that a number of SADC markets are in the early stages of development. For such markets, the regulatory and development priorities may be different to those in more advanced stages of development.

Insurance take up is low. The early stage of development is further demonstrated by the low take-up (as percentage of adults) of retail insurance (all formal products) in the region. Analysis of FinScope data[27], including extrapolation for those countries which have not had surveys conducted (Mauritius, Angola and DRC)[28], indicates that approximately 5.2% of the adult population of SADC (excluding South Africa) has any form of formal insurance (see Figure 12). Industry consultation conducted as part of the Microinsurance Diagnostics in Mozambique, Swaziland, Tanzania and Zambia indicates that corporate insurance represents the majority of the premium book in those countries. Further extrapolation suggests that this holds for a number of the lesser developed insurance markets in the SADC region. In these countries, the retail insurance market is considered to be at a nascent stage of development.

[27] The formally insured population was calculated for each country from the most recently available FinScope consumer surveys.

[28] Indications suggest that the DRC and Angola have highly undeveloped retail insurance markets. As such, Mozambique was deemed as the most appropriate proxy for insurance take-up. Mauritius has a retail profile more similar to SADC as a whole and hence the proxy insurance take-up used was the average for SADC when South Africa is excluded. Using World Bank data for the adult population (15+), it was then possible to extrapolate an estimate of the number of formally insured adults in these countries to apply a more representative figure to illustrate take-up in SADC as a region.

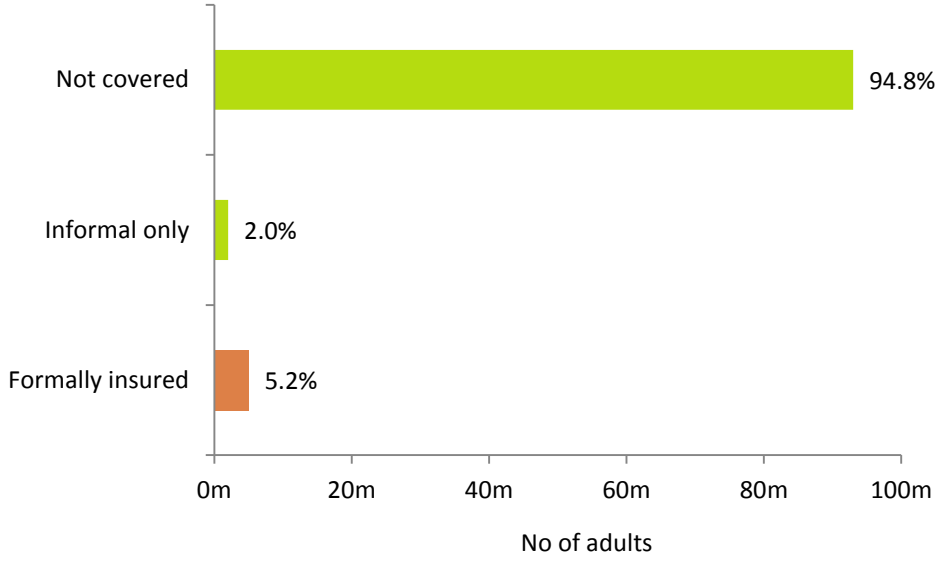

Figure 12: Formal insurance take-up in SADC (excluding South Africa and estimating take-up in Mauritius, Angola and DRC)

Source: Authors' analysis of FinScope consumer survey datasets 2007-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Figure 1 (in section 0) also clearly indicates that the majority of the population is not served by formal insurance provision, showing the breakdown of formal insurance take-up across the nine countries in SADC with available FinScope data.

Take-up of retail insurance correlates with stage of development. Figure 14 illustrates the correlation between the relative size of the life industry and relative insurance take-up, strongly highlighting the link between the life industry and retail insurance development. The more detailed analysis of the premium book conducted as part of the microinsurance diagnostics in Tanzania, Mozambique and Zambia confirms that non-life insurance is largely corporate and, to a lesser extent, compulsory third party motor vehicle cover rather than voluntary retail insurance. These diagnostics also confirmed that the retail life insurance business is at a nascent stage development with limited distribution infrastructure.

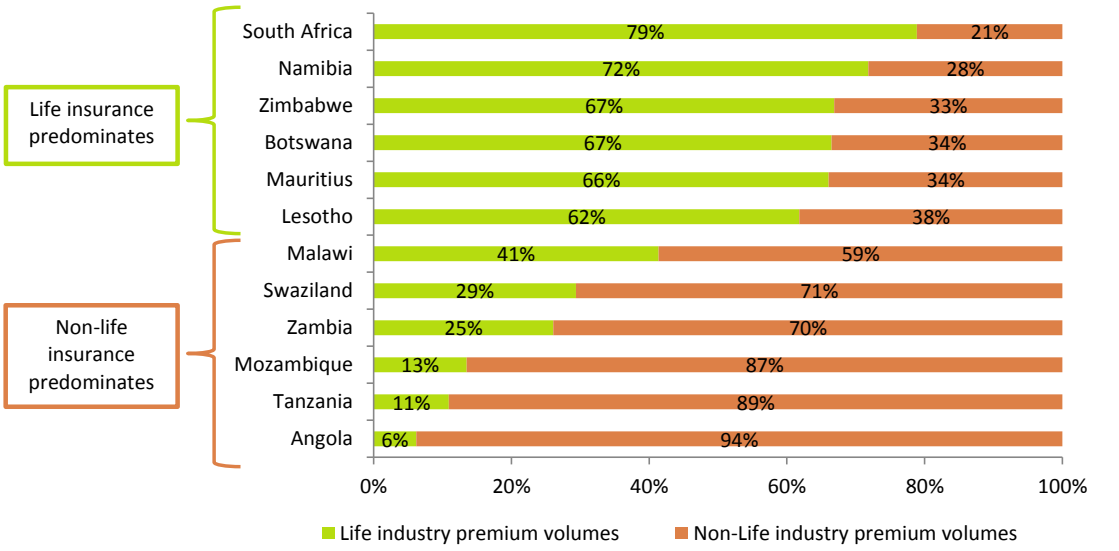

Figure 13: Life vs. non-life insurance premium volumes

Source: Authors own analysis (United Republic of Tanzania Insurance Supervisory Department, 2005,2006, 2007, 2008, 2009, 2010) (Namibia Financial Institutions Supervisory Authority, 2007, 2008, 2009, 2010, 2011) (Zimbabwe Commissioner of Insurance, Pension and Povident Funds), (Banco de Mocambique, 2009; MINISTÉRIO DAS FINANÇAS, 2008) (Central Bank of Lesotho , 2007) (Zambia Pension and Insurance Authority, 2010) (South African Tresury, 2011) (Office of the Registrar of Insurance and Retirement Funds, 2008) (NBFIRA, 2011) (Reserve Bank of Malawi, 2009) (Financial Services Commission Mauritius, 2009) (World Bank, 2012)

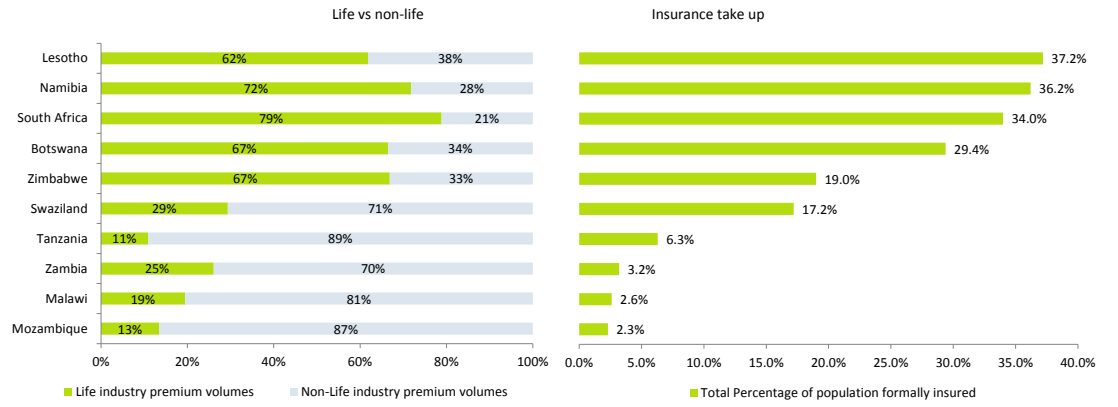

Figure 14: Life vs non-life premium volumes ordered by formal insurance take-up

Source: Authors own analysis (United Republic of Tanzania Insurance Supervisory Department, 2005,2006, 2007, 2008, 2009, 2010) (Namibia Financial Institutions Supervisory Authority, 2007, 2008, 2009, 2010, 2011) (Zimbabwe Commissioner of Insurance, Pension and Povident Funds), (Banco de Mocambique, 2009; MINISTÉRIO DAS FINANÇAS, 2008) (Central Bank of Lesotho , 2007) (Zambia Pension and Insurance Authority, 2010) (South African Tresury, 2011) (Office of the Registrar of Insurance and Retirement Funds, 2008) (NBFIRA, 2011) (Reserve Bank of Malawi, 2009) (Financial Services Commission Mauritius, 2009) (World Bank, 2012)

Life insurance makes up largest products categories reported in FinScope. Formal insurance products with the largest take-up reported by FinScope in SADC (excluding South Africa,

Mauritius, DRC and Angola) include health/medical insurance, funeral insurance, life insurance and motor vehicle insurance. Figure 15 shows the take-up of the most widely used insurance products within the SADC region[29] (excluding South Africa, Mauritius, DRC and Angola). Life products in the form of funeral and life insurance account for the largest portion of product take-up (5.5[30]% of adults). It must be noted that this average conceals substantial variation across countries and a small number of countries contribute a substantial proportion of the covered population. Zimbabwe, for example, contributes about 35% of the adult population with funeral insurance in SADC (excluding South Africa, Mauritius, DRC and Angola).

Funeral insurance makes up bulk of life insurance market. Funeral insurance makes up 71% of the life insurance market (in terms of numbers of clients) and is taken up by 4.7% of adults in SADC. Most of this will fall within the category of microinsurance. This is in line with the global trend noted above that funeral insurance often leads the development of the microinsurance market. It must be noted that the figure reported for funeral insurance may also include unregulated products as consumers are often unable to distinguish between regulated and unregulated. The more detailed analysis possible in the Microinsurance Diagnostics has shown that the use of informal funeral insurance is widespread (see discussion in section 3.3). Again, the average figure may conceal variation across countries. Funeral insurance is the largest product category (in terms of percentage of adults) in Botswana (20%), Lesotho (36.8%), Mozambique (1.1%), Namibia (24%), Swaziland (15%), South Africa (25%) and Zimbabwe (15%), but with lower penetration in Malawi (7.6% compared with life penetration of 13.2%), Tanzania (0%) and Zambia (0.3%). This can be attributed to a range of factors including the presence of fairly strong informal providers in these countries as well as a lack of available formal distribution infrastructure.

[29] Calculated from available FinScope data and hence only includes Zimbabwe, Swaziland, Mozambique, Tanzania, Zambia, Lesotho, Malawi, Botswana and Namibia. FinScope consumer surveys ask the consumer directly and hence may not be completely accurate (e.g. industry consultation suggests that credit life is significantly underreported in the consumer surveys).

[30] Please note that a number of adults may have both life and funeral insurance and hence, simply adding the number of adults with funeral and life together would double count these individuals.

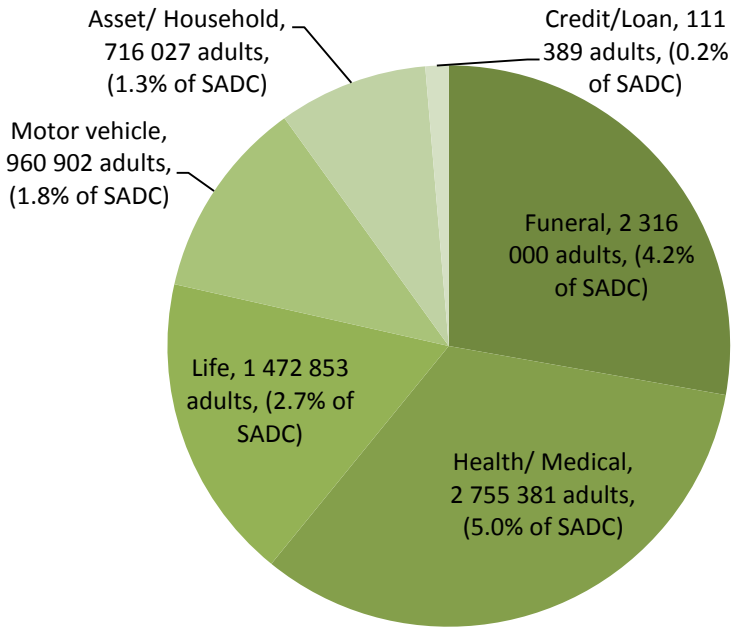

Figure 15: Formal insurance product take-up across SADC (excluding South Africa, Mauritius, DRC and Angola, largest categories only)

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Health cover is second biggest category reported by FinScope. Health insurance makes up the second largest category of product use reported by FinScope. The survey questions on which this is based vary across the different surveys. In some the question is specific to medical aid while in others it refers to more general health or medical cover. As a result, for some countries, respondents may also include hospital cash plans, disability and dread disease types of cover in their responses. It excludes personal accident insurance. The extent of health cover is mostly not picked up in the premium data reported by insurance supervisors. The main reasons for this discrepancy are the following:

- Health insurance is reported differently across the SADC countries. It may be reported under life insurance, non-life insurance and/or as a completely separate category.
- Different types of life cover may be reported to different categories (e.g. medical aid products in South Africa are reported under health insurance, whereas hospital cash plans are reported under non-life insurance).
- A substantial portion of cover is provided under compulsory government national health insurance schemes, which are not regulated by or reported to the insurance supervisor. More than 40% of adults in SADC (excluding South Africa, Mauritius, DRC and Angola) reporting to have health insurance are found in Tanzania. The bulk of these adults are covered by the National Health Insurance Scheme, which is compulsory for government employees.
- In some countries, health insurance is not clearly defined in regulation, which allows the space for these products to be offered on an unregulated basis. The microinsurance diagnostics undertaken in the region have shown that health insurance is often not provided by institutions regulated by the insurance supervisor. In some cases, such

health insurers are registered with the Ministry of Health and detailed regulation may not apply to this segment resulting in a largely unregulated market.

Health insurance also extending into low-income markets. Given the prominence of health risks and costs as reported in the FinScope surveys (see section 3.1.3), it is not surprising to see that health-related insurance is a particularly important product across the region for those who can afford it. Given the complexity and cost of products such as comprehensive medical insurance, a substantial proportion of this market may fall outside of the scope of microinsurance. However, microinsurance diagnostics completed in the region reveal that other health-related products such as hospital cash plans are increasingly used by low-income households. Given the importance of health-related cover to the region, more careful analysis of this component of the insurance markets may be appropriate.

Vehicle insurance leads development of asset insurance. The relatively high take-up of motor vehicle insurance (compared with other asset insurance categories) is in line with the typical evolution of insurance markets outlined above. The development of this market is largely driven by the emergence of vehicle finance (with obligatory comprehensive cover) and compulsory third party motor vehicle insurance. Asset/household insurance is generally restricted to relatively wealthier individuals. Excluding vehicle insurance from the asset insurance category results in a mere 1.1% of adults in SADC having some form of asset insurance.

Credit/loan insurance is likely significantly underreported as the typically compulsory or embedded nature of this type of insurance will mean that many survey respondents will be unaware that they have it. Better regulatory data on the take-up of this product and its value performance will be important to gain a better understanding of this market.

3.2.4. Intermediation

Take-up correlated with agent numbers. Traditionally, insurance distribution happens largely through brokers and agents. The active sales roles performed by brokers and agents play an important part in making a market for insurance. It should therefore be expected that the presence of larger numbers of brokers and agents will correlate with higher take-up of insurance. In the case of microinsurance, it is often agents who sell these products as the premiums may be too small to be viable for brokers who tend to focus on more sophisticated business.

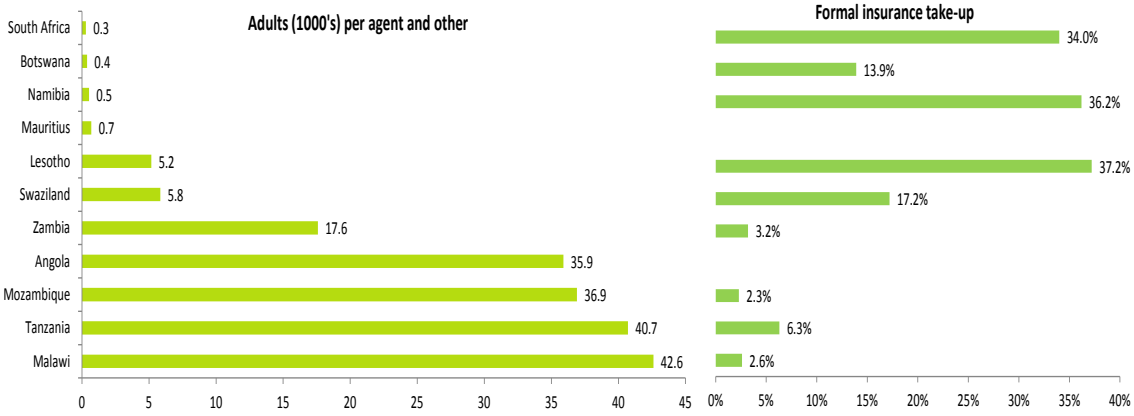

Figure 16: Population per agent or other in SADC countries compared with formal insurance take-up[31]

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011)), (World Bank, 2012)World Bank (2012) and consultations with supervisors

Figure 16 shows that retail insurance take-up is closely linked to the availability of an agent[32] sales force. Countries with a lower agent sales-force are typically those with lower retail insurance take-up. Catalysing a suitably trained agent sales-force is therefore vital for microinsurance take-up. Insurance is generally sold not bought with many low-income individuals unaware of insurance or the need for risk mitigation. The countries developing microinsurance-specific regulations are starting to address this by creating special microinsurance agent categories (see discussion in Section 5.6).

Alternative distribution channels playing an increasing role. In-country industry consultations and the microinsurance diagnostics revealed that alternative distribution channels are being developed utilising, for example, mobile network operators (MNOs) and retailers (see box 4 below for the example of Airtel money in Malawi). While these channels present much promise to quickly expand insurance take-up, current programmes focus on compulsory or complementary cover offered as an addition to the product or service obtained from the channel. Innovation around the use of some form of agent within these channels will be required to enable the active sales of voluntary insurance, an important objective for the longer-term development of the market. As with traditional agents, regulators would have to give careful consideration to the new business models to ensure that regulation facilitates their development and, at the same time, afford the necessary protection to consumers.

Box 4: Airtel Money in Malawi

Airtel Money is the mobile money platform of Airtel Malawi. The service in other parts of the continent was formerly known as Zain Zap. The mobile wallet services were launched in Malawi in March 2012. The current suite of products on offer include mobile banking, service payments (utility bill payments), top ups and money transfer services. Its launch

[31] Insurance take-up figures are unavailable for Mauritius and Angola as FinScope consumer surveys have not been conducted in these countries.

[32] The agents considered include a combination of officially registered agents, representatives, promoters and other individuals serving a similar role in the distribution of insurance. There are variations within the broad domain of agent in SADC.

follows close to two years of discussion with the Reserve Bank of Malawi.

The Airtel Money service is also bolstered by Airtel's 'One Network' which allows all Airtel Money users to move freely across geographical borders and be treated as a local customer in any one of the 'One Network' countries. Aside from being charged local rates, customers will retain their home network functionalities, have full access to Airtel Money accounts, send/receive money and pay for goods and services exactly the same way as they do in their home country. This has the potential to be a positive development for remittance services in Eastern and Southern Africa.

Within two months, Airtel Money has signed up 34,000 registered customers from among Airtel mobile users. Within that time, 1,000 of these customers have started transacting on the platform across the 28 districts of Malawi. Airtel Malawi has approximately2.4 million users with over (99%) of these pre-paid users. Post-paid users only account for 8,000 in the country.

Registration with Airtel Money requires the user to buy an Airtel SIM (NB: the technology is SIM based and not appliance based). A form of identification is required for registration which includes a passport, a voter registration card or driver's license. The company is discovering that the voter registration card is the most widely accessible form of identification. The database for registration of users is subcontracted to Gostart, an IT firm.

Once the user is registered, they are supplied with a pin that can be used for transactions. Each transaction carries a unique transaction ID that can be traced by the company as well as the RBM. The charges to send money are a universal MK 50 (equivalent to a premium SMS) with a recipient fee applied proportionately to the quantity of money received.

The company has recruited 1,900 Airtel Money agents so far. The agents are predominantly in cash businesses (those that sustain greater liquidity levels such as grocery stores and printing shops and other fast moving consumer goods (FMCG) outlets). The businesses are normally those that sell Airtel airtime. Additionally such businesses erect placards that display: "Airtel Money Available Here". The agent essentially takes on a risk as they have to allocate business funds to their e-money account in order to enable them to provide the service to potential customers. This acts as an incentive for them to market the service to more users.

Training the agents has been a challenge. At the outset, Airtel Money would invite the individual agents to a seminar conducted in their offices in Blantyre and Lilongwe. This was not considered a great success with only (60/70%) attendance for the training programmes. Further, many customers who entered such stores to enquire how the mobile money services operate had in fact been attended to by relatives or employees of the registered agent (the sole attendee of the training programme). The employees and relatives could not operate the service due to lack of comprehension, thus stalling its expansion. The new strategy that Airtel Money is now attempting is to train their agents onsite at their business premises to instruct all employees of the business.

The electronic money (the Airtel float) is deposited in a trust account operated by NBS Bank. Consultation with Airtel Money has indicated that the RBM has made it clear that the mobile

operator cannot gain interest on the trust account.

Airtel Money has approached the key insurance players in the market and is prepared to start selling insurance products through its platform. The company is prepared to be licensed with the RBM as an intermediary. The company has also indicated that one of the initiatives considered to address concerns that premium collection could be abused is to offer insurance companies a virtual interface that allows them to monitor premium transactions themselves. Airtel Money would also instruct the creation of separate trust accounts for each insurer in order to deposit the premium payments with zero interest applied.

Source: Cenfri Industry Consultation during Malawi Country Visit 2012

3.2.5. Claims and expense ratios

Value and efficiency are important concepts for microinsurance and considers what value policyholders are currently deriving from insurance and what the ability of insurers are to offer value. One indicator of value is the claims ratio. Bowman (forthcoming) estimates that that claims ratios of around 50-70% for a risk-only voluntary microinsurance life insurance product would reflect a reasonable compromise between the often high cost of delivering these products in markets with limited infrastructure and the desire to ensure value to consumers, whilst a claims ratio below 40% offers limited value to customers. For compulsory products (e.g. credit life), the claims ratio is often very low given the compulsory nature of the product.

Expense ratios provide an indicator of the efficiency of the industry and their ability to offer value to policyholders. High expense ratios would mean that a large proportion of premiums are consumed in costs leaving a smaller proportion to be payable in claims. For smaller premium microinsurance policies, it can be expected that cost ratios will consume an even large proportion of premiums than is shown here for the aggregate life industry. The increased distribution infrastructure and effort to expand microinsurance coverage (particularly moving beyond compulsory products) is also likely to put upward pressure on expense ratios. High expense ratios for traditional business may raise questions about the ability of such an industry to offer low-premium microinsurance products.

It must be noted that the aggregate figures below may mask substantial variation across different life products and time. Based on the Microinsurance Diagnostics, microinsurance products often reflect lower claims ratios and higher distribution costs than those stated here. This is particularly the case for compulsory or auto-enrolment products. The scope of this project did not allow for a detailed assessment of cost structures and risks. The available data also does not allow an analysis of costs structures and claims for microinsurance products. As indication, we consider the life claims and expense ratios across SADC as shown in Figure 17.

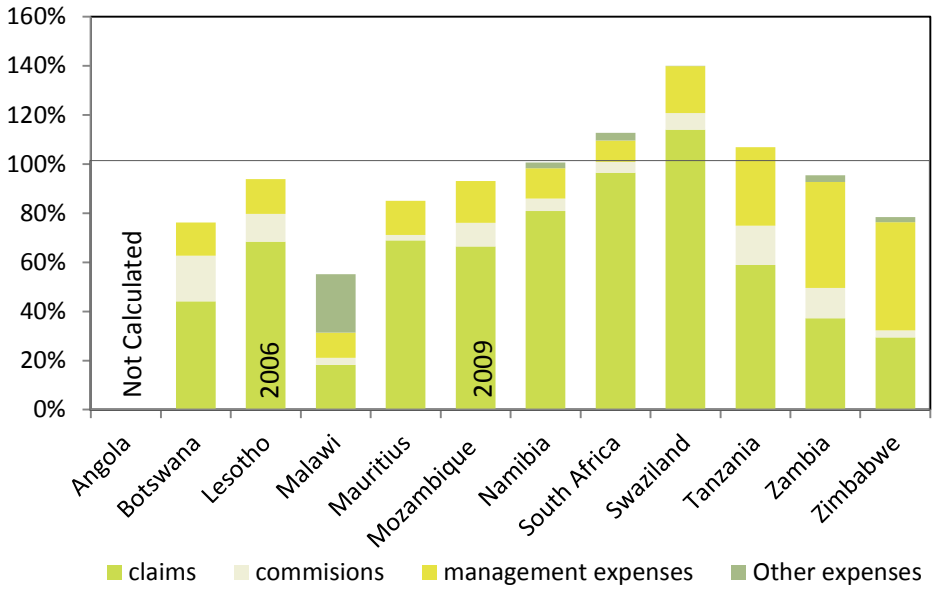

Figure 17: Average life claims and expense ratios over years available

Source: Authors own analysis (United Republic of Tanzania Insurance Supervisory Department, 2005,2006, 2007, 2008, 2009, 2010) (Namibia Financial Institutions Supervisory Authority, 2007, 2008, 2009, 2010, 2011) (Zimbabwe Commissioner of Insurance, Pension and Povident Funds), (Banco de Mocambique, 2009, 2010 ; MINISTÉRIO DAS FINANÇAS, 2008) (Central Bank of Lesotho , 2004, 2005, 2006) (Zambia Pension and Insurance Authority, 2010) (South African Tresury, 2011) (Office of the Registrar of Insurance and Retirement Funds, 2008) (NBFIRA, 2010) (Reserve Bank of Malawi, 2009) (Financial Services Commission Mauritius, 2009) [33]

Substantial variation in claims ratios. Claims experience varies substantially across countries and average claims ratios over the period range from 18% to 114%. Malawi, Zambia and Botswana have claims ratios of below 50%, with Malawi coming in at a very low 18%. In the case of Botswana and Malawi, their expense ratios are relatively low, resulting in a substantial underwriting profit for the insurers. In the case of Zambia the expense ratio is quite high and, as result, the industry is not generating excessive returns, despite the low claims ratio. The expense ratio can be broken down into management expenses and commissions. For most countries management expenses as percentage of net premium ranges between 10% and 20%. In the case of Tanzania management expenses sit at 32% of net premiums. Zambia is the outlier at 43%. As noted above, efficiencies would have to be improved in order to sustainably increase the claims ratios in Zambia.

For Namibia, South Africa, Swaziland and Tanzania the average combined ratio (the sum of the claims and expense ratios) over the period exceeds net premiums resulting in an underwriting loss. A detailed analysis of the claims experience falls beyond the scope of this project, but it is likely that a substantial proportion of the life business consists of endowment policies. The returns on the asset base built up on such products could cover such underwriting losses and still provide insurers with a return. Sustained underwriting losses on risk-only business would raise concern about its viability.

[33] Malawi:2006-2010, Zambia: 2008-2011, Botswana: 2010, Mozambique:2009-2010, Zimbabwe: 2009-2012, Tanzania: 2009-2010, Lesotho: 2004-2006, Namibia: 2006-2010, South Africa: 2006-2010, Swaziland: 2009-2011

3.3. Informal risk mitigation

Various categories of informality. Informality for the purpose of this analysis is defined as the provision of an insurance product by an entity that is not regulated or supervised for the purposes of doing so. This may include a variety of different players ranging from completely informal small funeral societies to formal entities (e.g. a formal funeral parlour) providing insurance on an unregulated basis. In some cases it may even include formal insurance companies offering certain product categories on an unregulated basis (e.g. health insurance). Informal does not necessarily mean that these providers are operating in contravention of the law. In some cases there are simply gaps (e.g. health insurance may not be explicitly defined) or explicit exemptions in legislation (e.g. friendly societies providing funeral benefits may be exempted from insurance regulation in some countries). The regulatory approach and priorities may differ substantially across the different categories of informal players.

Different categories of informality may require different regulatory responses. The scope of this study does not accommodate a detailed analysis of informal markets across SADC. The analysis presented here is based on FinScope data as well as the more detailed Microinsurance Diagnostics conducted in Lesotho, Mozambique, Swaziland, South Africa and Zambia. Based on the more detailed analysis of the country diagnostics, two features of informal provision are important in distinguishing different categories of informal provision. These are 1) whether benefits are contracted (or understood) to be guaranteed (as guaranteed benefits ultimately create the insurance liability[34]) and 2) whether a third party is profiting from the premiums paid by consumers (which impacts on the incentives for abuse and risk management). Considering these two features, at least three main categories of informality can be identified:

Informal mutual risk pooling societies. Informal risk pooling mechanisms[35] (e.g. small burial societies) typically do not offer a guaranteed benefit and hence cannot be strictly defined as informal insurance. These societies often operate as mutuals with member management. Indications from the diagnostics are that these societies seem to work relatively well while they are small. When these mechanisms become too big, the members are no longer directly involved with the management of the society and may interpret the benefit to be guaranteed. Beyond a certain size, member management may also not be sufficient to ensure sound governance and there is a risk of management capture. As a result, regulatory intervention may not be a priority (or feasible) for small societies, but may be more important for larger societies. Tanzania's savings and credit cooperatives (SACCO) union, which runs an in-house scheme reaching a few thousand members covering risk against borrower default due to death, is an example of such risk pooling. Box 5 provides some examples of this category.

- *Funeral parlours, microlenders or other for-profit providers offering insurance on an unregulated basis*. In some cases for-profit market players such as funeral parlours may be offering unregulated insurance. In such cases the benefits are usually guaranteed but

[34] Insurance can be defined as a contractual agreement in terms of which a party (the insurer) agrees to pay a defined guaranteed benefit to a policyholder upon the occurrence of an uncertain event.

[35] The reader is referred to the IAIS issues paper on MCCOs for more details on issues experienced with these entities. (IAIS, Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets. 2010)

their insurance offering is not regulated and the premiums may not be priced and managed on an insurance basis. In addition, the owner of the operation may profit from the risk pool, which creates additional risk that the owner may extract short-term profits without sufficiently providing for future claims[36].

- *Formal insurers not registered to do business or offer a particular product line*. Due to regulatory gaps, examples exist of insurers (domestic or foreign) providing health insurance without being licensed to do so. Although such providers may be licensed for the provision of some insurance products, they are not licensed to underwrite health insurance.

Informal insurance is widespread in SADC and in a number of cases may exceed the formal sector in size. FinScope and microinsurance diagnostic data shows that informal insurance is widespread in SADC. An estimated 7.5% of adults in SADC (excluding South Africa) use informal risk cover and 4.2% of them are dependent on informal risk cover only. This reflects a much higher demand (and willingness to pay) for risk cover than is reflected in the current formal insurance market figures. Furthermore the microinsurance diagnostics conducted in Swaziland (FinScope, 2012), While there may be substantial challenges to providing insurance on commercial basis to these consumers (particularly in the first two informal categories noted above), it presents an avenue worth exploring.

Country	Proportion of adults with informal insurance	Proportion of adults with some form of formal life cover
Botswana	4.9%	23.1%
Lesotho	36.4%	36.9%
Mozambique	4.6%	1.2%
Namibia	1.2%	28.0%
South Africa	28.9%	27.3%
Swaziland	7.5%	15.5%
Tanzania	-	0.3%
Zambia	1.6%	1.0%
Zimbabwe	15.4%	12.8%

Table 2: Proportion of adults within SADC countries with some form of informal risk mitigation

Source: FinScope consumer surveys, (Botswana (2009), Lesotho (2011), Mozambique (2009), Namibia (2011), Swaziland (2011), South Africa (2012) Tanzania (2009), Zambia (2009), Zimbabwe (2011))

The FinScope data is likely to understate the degree of informality. The main reasons for this include:

- Take-up is reported by the consumers themselves who may be unable to distinguish between regulated and unregulated. This is particularly challenging where a formal

[36] For a more detailed analysis of the business model and behaviour of such unregulated players, the reader is referred to the country diagnostics as well as the IDRC informal funeral insurance study carried out in South Africa ((Cenfri, 2013).

insurer may be offering a particular product (e.g. health insurance) for which it is not regulated. As result, the responses on informal insurance is likely to better reflect the first category of informal providers with the second and third potentially being reported under formal insurance.

- Given limited existing information, FinScope may not be enquiring directly about all types of informal providers. In addition, the terminology used in the survey may not get to all the types of informal mechanisms (e.g. consumers may not consider an informal burial society as "insurance").

Box 5. Examples of informal risk mitigation in SADC

Informal risk pooling schemes in Tanzania. The *Access to Insurance Diagnostic* in Tanzania (Cenfri, 2012) finds that informal market provision in the country is limited. Informal provision exists in the form of informal risk pooling schemes. Examples of these schemes include a savings and credit cooperatives (SACCO) union, which runs an in-house scheme reaching a few thousand members covering risk against borrower default due to death. Another example is an MFI with an in-house scheme covering risk of death against loans at a premium of 1% of the loan value. The scheme has a portfolio of 3,000 borrowers. Despite these particular examples, the evidence from Tanzania suggests that the majority of MFIs and SACCOs offer a formal product that is underwritten by insurance companies rather than running in-house insurance schemes. Other examples of informal insurance in Tanzania include in-house funeral cover by funeral service providers and ROSCAs (Rotating Savings and Credit Associations), although the prevalence of these were found to be limited. There is however evidence of community-based health insurance funds, CHF (Community Health Fund) and TIKA (*Tiba Kwa Kadi*), which have arrangements with health service providers though they are not underwritten by insurers.

Family and community solidarity mechanisms (xitiques) in Mozambique. According to the *Access to Insurance Diagnostic* in Mozambique (Cenfri, 2012), informal risk mitigation in Mozambique mostly consists of family and community solidarity mechanisms, which operate on a structured basis and without a legal identity. Examples of such mechanisms include the *xitiques* that exist in different forms similar to ROSCAs. Members can informally save and redeem savings in emergency situations, providing a type of insurance facility. According to FinScope (2009), 64% of *xitique* members reside in urban areas and members often are related or work together. Another example of informal insurance in Mozambique are the Accumulative Savings and Credit Associations' (ASCA) solidarity funds, which are typically structured as interest-free loans for emergency situations (i.e. disease or funeral) and are not legally defined as an 'insurance product'. There are also various forms of funeral funds operating as informal risk mitigation mechanisms. Examples include mourning funds, market funeral funds and neighbourhood funeral funds, the latter being community funeral contributions.

Burial societies in Lesotho. Burial societies are an informal risk pooling mechanism where members pool their funds to contribute towards the cost of the funeral of a family member. Meetings of the society are held once a month where contributions are collected and other matters pertaining to the burial society are discussed. The management structure is usually a chairperson, treasurer and secretary. The members draw up a constitution and decide on the operations, administration, contributions and benefits of the society. Burial societies may elect to register the society with the Law Office under the Societies Act (1966). Registration with the Law Office involves submitting a written document detailing the name,

location and list of members of the society as well as the constitution of the society and paying a nominal annual service fee. Registration with the Law Office enables the society to open a group bank account in the name of the society. The burial society may also register with the local chief. Registering with the chief allows the society to become recognised in the area and means that the chief can act as arbitrator when there are disputes. For example one of the burial societies interviewed indicated that the chief has assisted when previous members left the group without repaying all the money they had borrowed

Sources: Cenfri 2012;, Cenfri, 2012; and Angrove and Manje, 2012

3.4. Market findings

The main findings of this section can be summarised as follows:

Member State populations and thus target market sizes fall in three broad categories: The 13 SADC Member States included in this survey have widely divergent population sizes and thus insurance target markets. They fall in broadly three categories: The five smallest countries (Swaziland, Botswana, Mauritius, Lesotho and Namibia) have less than 1.5 m adults each. Five countries fall in the mid-range between 5 and 12 million adults (Zambia, Zimbabwe, Malawi, Angola and Mozambique). Only three countries have adult populations larger than 20 million - Tanzania at 21.2m, the DRC at 35.4m and South Africa at 35.7m. The majority of SADC Member States can therefore benefit substantially from the larger scale of a regional insurance market as opposed to simply relying on their national market.

Large unserved target market: FinScope consumer surveys have been done in 10 of the 13 SADC Member States (excluding Angola, Mauritius and the DRC). If South Africa is excluded, analysis of the FinScope data for the other 9 Member States yield a fairly representative picture of the insurance target market. Just more than 75% of this adult population earns less than $3 per day. Given the current state of the regional financial sector and infrastructure, it would be very difficult to serve this market segment on a commercially viable basis. Of the remaining 25%, 8.5 % indicated that they receive no income. The remaining 16.5% of adults constitute the insurance target market. Of this target market, only 4.8% earn more than $10 per day and can be considered to start moving beyond the scope of microinsurance. If we consider that the current estimated use of formal insurance is only 5.2% of adults (excluding South Africa, Mauritius, Angola and the DRC) the size of the potentially unserved or underserved market is huge - at least 6 million (if extrapolated for the non-responses) at current income levels for the 9 countries included in the analysis. If the other countries are included, a conservative estimate of current potential insurance clients that are unserved by formal insurance rises to somewhere between 10 and 20 million. Given the high GDP growth rates in SADC, this figure will continue to rise in years to come.

Bulk of retail insurance in SADC is microinsurance: If we consider that in some developing countries the microinsurance target market is defined as persons earning less than $15 per day, the implication is that more than 95% of the total retail target market in SADC (including South Africa) should be considered as the microinsurance target market. Within SADC growing retail insurance outside the corporate sector should thus largely be done utilising inclusive insurance approaches.

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Health expenses perceived to be biggest risk: An analysis of risk perceptions according to the FinScope surveys, reveal that health expenses were the most commonly perceived risk facing households in SADC (53% of adults indicated this as a major risk), followed by loss of assets due to theft, fire or destruction (27%) and the death of a household member (23%).

Insurance least used coping mechanism: To cope with risks that materialise, SADC adults in the nine sample countries indicated that they mostly either borrow money (45% of adults do this to cope) or use savings (30% of adults). A further 24% rely on donations whilst 22% indicated that they sell assets. Only 1.8% of adults indicated that they claim on insurance policies.

SADC has small insurance market in global terms: The total insurance market measured by gross premium in SADC (including South Africa) with its 136 million adults, amounted to US$42.5 billion[37]. This is relatively small, compared with that of Brazil (US$78.3m) with an adult population of approximately 147 million. South Africa accounts for 93% of total SADC premium. When South Africa is excluded, the rest of SADC with a total adult population of over 100 million has a total premium of approximately US$ 2.9 billion in[38]. The country with the second highest premium after South Africa is Namibia (US$697million), one of the SADC countries with the smallest population.

Insurance density very low. The insurance density (gross premiums per capita) for SADC is very low. Seven SADC countries have insurance densities below US$35 compared to an African average of US$66 in 2011 (Sigma, 2012) South Africa has the highest density with US$791, whereas Mauritius has a density just less than half that of South Africa at US$346.

Significant foreign ownership of insurers in SADC: Foreign ownership of insurers varies greatly across the region. 19% of insurers in South Africa are majority foreign owned, 20% in Mauritius and Zimbabwe, 73% in Mozambique and Tanzania, and 100% in Swaziland. The impact of foreign ownership is even greater when considering premium volumes. For example, the gross written premiums of foreign-owned insurers account for 97% of premium in Botswana, compared to 67% of actual insurers being foreign owned. In six SADC countries more than 20% of foreign-owned insurers are majority owned by entities in other SADC countries, and in three countries this rises to more than 50%. Cross-border ownership within SADC is therefore already a significant factor. Only two SADC countries - Angola and Tanzania - have a majority of foreign-owned insurers from countries outside SADC.

Very limited technical insurance capacity in most SADC countries: Of the 877 actuaries resident in SADC countries, 844 are in South Africa and 10 in Mauritius. Six SADC countries have no actuaries.

SADC retail insurance sectors at different stages of development: Life premiums as a proportion of total premiums provide a good proxy for the level of retail market development. For example, in Mozambique life premiums constitute only 13% of total premiums and only 2.3% of the population is formally insured. In Malawi the equivalent figures are 19% life premiums and 2.6% formally insured. On the other end of the spectrum

[37] This is the five year average between 2006-2010
[38] *ibid*

lies Lesotho, with 62% life premiums and 37% formally insured, and Namibia with 72% life premiums and 36% insured. Approximately 5.2% of the adult population outside of South Africa has any form of formal insurance. Building retail markets in SADC will thus require particular focus on the life sector.

Funeral insurance dominates retail market: Funeral insurance makes up 71% of the life insurance market in SADC (in terms of number of clients) and is taken up by 4.7% of adults in SADC. Most of this falls in the microinsurance category. The use of informal funeral insurance is also widespread. Health cover is the second biggest category reported by FinScope. Though comprehensive indemnity health cover is traditionally a product for the upper income market, the survey reveals that other health-related products such as hospital cash plans are increasingly used by low-income households. Vehicle insurance leads the development of asset insurance, driven by the emergence of motor vehicle finance and compulsory third party motor vehicle insurance.

Retail insurance take-up is closely linked to the availability of an agent sales force. Countries with a lower agent sales-force are typically those with lower retail insurance take-up. For example, Lesotho has one agent for every 5 200 adults and a formal insurance take-up of 37%, compared to Malawi which has one agent for every 42 600 adults, resulting in a formal take-up of 2.6%. Catalysing a suitably trained agent sales-force is therefore vital for microinsurance take-up. Insurance is generally sold not bought with many low-income individuals unaware of insurance or the need for risk mitigation. The countries developing microinsurance-specific regulations are starting to address this by creating special microinsurance agent categories

Alternative distribution channels playing an increasing role. In a number of countries alternative distribution channels are being developed utilising, for example, mobile network operators and retailers. While these channels present much promise to quickly expand insurance take-up, current programmes focus on compulsory or complementary cover offered as an addition to the product or service obtained from the particular channel. There is yet little evidence of voluntary purchases of insurance policies through these channels.

Great variance in claims ratios and expense ratios: Claims ratios vary substantially across SADC countries ranging from 18% to 114%. Malawi, Zambia and Botswana have claims ratios of below 50%, with Malawi coming in at a very low 18%. For most countries, expense ratios ranges between 10% and 20%. In the case of Tanzania management expenses sit at 32% of net premiums. Zambia is the outlier at 43%. For Namibia, South Africa, Swaziland and Tanzania the average combined ratio (the sum of the claims and expense ratios) over the period exceeds net premiums resulting in an underwriting loss. These tend to be the more mature markets (with the exception of Tanzania) for whom investment returns cover their underwriting losses.

Informal insurance is widespread in SADC and in a number of cases may exceed the formal sector in size. FinScope and microinsurance diagnostic data shows that informal insurance is widespread in SADC. An estimated 7.5% of adults in SADC (excluding South Africa) use informal risk cover and 4.2% of them are dependent on informal risk cover only. This reflects a much higher demand (and willingness to pay) for risk cover than is reflected in the current formal insurance market figures.

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4. Market risks

To assess the current level of market risks in SADC Member States, insurance supervisors were asked as part of the survey (see Annex 4) how they viewed the current trends and risks in their respective industries. They identified the following risks:

- *Financial weakness of insurers*. A number of supervisors expressed concern about the financial soundness of the insurers operating in their markets. This was evidenced through insurers being poorly capitalised and not being able to meet solvency requirements. Their concerns also stemmed from what they observe to be poor underwriting practices, and a tendency for premium undercutting, particularly where there is a high concentration of general insurers. Inadequate underwriting practices are also caused by a lack of insurance skills in many companies and wider markets. Financial weakness can also occur in situations of rapid market growth when overall premium growth is not matched by the expansion of internal risk management practices within insurers.

- *Weak corporate governance:* Some supervisors indicated that the standard of corporate governance in their sectors was not acceptable, particularly in larger groups with cross-ownership.

- *Little incentive to move downmarket*. Supervisors in some markets were concerned that insurers show no inclination to move out into the mass retail market, preferring to stick to corporate markets.

- *Failure in market conduct due to inadequate market supervision*. Supervisors indicated that they did not have adequate capacity to perform their supervisory duties as required. This results in them not being able to combat substantial market failures that occur. They are also not able to deal with the level of fraud taking place. Table 3 illustrates the relative lack of technical capacity available to supervisors within SADC. The number of supervisory technical staff per supervisor is generally small, making it challenging to properly monitor and regulate the insurance market. This lack of technical capacity raises the concern of consumer abuse as supervisors have inadequate technical capacity to monitor the market conduct of insurers. Due to inadequate supervision there is then also a risk of innovation as new technology or techniques may be introduced into the market which are not fully understood and hence not properly supervised due to the lack of technical capacity. This increases the risk of failed schemes as newly introduced models are incorrectly administered. The lack of registered actuaries, a skill crucial to efficient insurance, within countries in SADC, apart from South Africa, further highlights the problem of limited technical capacity within the region.

	Total no. of supervisory technical staff[39]	Total number of registered actuaries
Angola	27	6
Botswana	35	2
Lesotho	8	0
Malawi	13	0
Mauritius	15	10
Mozambique	25	1
Namibia	8	9
South Africa	70	844
Swaziland	23	-
Tanzania	14	-
Zambia	6	-
Zimbabwe	13	5
SADC	257	877

Table 3: Supervisory and technical capacity across SADC

Source: SADC industry consultations; IMF, 2012; (Gribble, 2006) (Acturial Society of South Africa , 2012) (Instituto de Supervisao de Seguros, 2012) (Instituto de Supervisão de Seguros de Moçambique, 2012) (Reserve Bank Malawi, 2012) (Central Bank of Lesotho , 2012)

- *Antiquated legislation.* Some supervisors indicated that their insurance laws are outdated and have not kept pace with developments in the sector. This makes it difficult for them to supervise new business models and products creating risks in the system.

- *Adverse economic conditions*. Supervisors are also concerned about broader macroeconomic risks that threaten the insurance industry, in particular inflation and hyperinflation. Inflation reduces the value of both premiums and benefits and can completely undermine the insurance sector, leading to the closure of companies. Supervisors are also concerned that too large a component of total premium is concentrated in one economic sector, especially a commodity sector. In Anglo, 70% of premium comes out of the petrochemical industry and the insurance sector is thus highly exposed to this one sector.

- *Excessive cession of premiums to foreign reinsurers:* Some supervisors were concerned that too large a portion of re-insurance premiums was being ceded to foreign reinsurers. This would undermine the development of local insurance technical skills as resources are shifted out of the domestic market, in turn hindering development.

[39] Technical staff consists of all professionally trained staff employed by the supervisor, including accountants, lawyers, economists and actuaries.

- *Lack of trust:* A concern was expressed that local target markets lacked confidence and trust in insurance and insurers, which would hamper take-up of retail insurance products.

- *Natural disasters:* One supervisor indicated a special concern about major natural disasters, especially with the growing incidence of climate change in the region, that could threaten their industry.

5. Regulating microinsurance in SADC

This section seeks to answer the question: how facilitative is national insurance regulation within SADC Member States for the development of inclusive insurance markets? At the same it provides the background information for crafting proposed guidance for the harmonisation of regulatory frameworks in the area of microinsurance as recommended by the CISNA consultant.

The section begins with an overview of the current reforms in insurance regulation occurring in several SADC countries, considering in particular the underlying drivers of these changes. It then reviews the current state of microinsurance policy and regulations looking in turn at existing definitions of microinsurance; underwriting requirements that try to accommodate inclusive insurance markets; the extent of informal insurance provision and how regulators are responding to it; intermediation; how new and innovative approaches are accommodated by supervisors; and finally consumer protection. In respect of each regulatory topic, the relevant guidance provided by the IAIS Application Paper is reflected and used as a benchmark for the evaluation of existing regimes in SADC.

5.1. Current regulatory reforms targeting microinsurance

Ten SADC members states in process of developing microinsurance regulatory frameworks. Although promoting access to insurance for the broad population is an explicit policy objective in only one country in SADC[40], of the majority of SADC countries are moving in the direction of providing regulatory frameworks to facilitate greater access to insurance products in their markets. Research undertaken as part of this project revealed that ten Member States have either taken steps or have declared their intention to create a regulatory framework for inclusive insurance:

> *Botswana*. Botswana is in the process of reviewing its entire insurance regulatory framework. A draft bill - *the Insurance Industry Bill* (2011) - and draft regulations have been prepared. Unlike the current *Insurance Industry Act* (1991), which will be repealed once the new Law is enacted, the draft Bill provides for microinsurance as a new category of insurance (cutting across product lines) and for microinsurers who will be licensed to provide only microinsurance policies. The Bill creates microinsurance as a new product category, but leaves the details to be fleshed out in regulation.
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> *Lesotho*. The current *Insurance Act* (1976 with amendments 1981, 1983 and 1985) is outdated and there are plans to modernise it. Whilst Lesotho does not specify microinsurance in its legislation, the Reserve Bank of Lesotho (RBL) has earmarked a new dedicated role for microinsurance within the insurance supervision department. A 2012 research report - *Demand and Supply of Microinsurance in Lesotho Study* (Angove and Manje, 2012), provides a starting point for considering revised regulation.
>
> *Malawi*. The new *Insurance Act* was adopted in 2010 (Act no. 9 of 2010). However, the new Act does not make provision for microinsurance. Instead, microinsurance is

[40] The country is South Africa, see *A Safer Financial Sector to Serve South Africa better* (2011)

provided for in the *Microfinance Act* (Act 21, 2010) and its associated regulations (*Non-Deposit Taking Microfinance Institutions Directive*, 2012).

Mozambique. Mozambique initiated a review of its insurance legislation in 2008 with a view to align legislation more closely with IAIS principles. The result is an enacted *Insurance Act* (Decreto-Lei No. 1/2010). The Act includes a chapter that is dedicated to microinsurance with further provisions weaved throughout the Act. Regulations are yet to be developed.

Namibia. Efforts have been made to reform the non-bank financial services industry. An initial draft bill consolidating and reforming various financial services was published in 2004. After a process of consultations and amendments, *The Financial Institutions and Markets Bill* (2012) creates the space for regulations to be developed for microinsurance. The bill also proposes concessionary capital requirements for microinsurers.

South Africa. The National Treasury published a discussion paper in 2008 on the future of microinsurance in South Africa. After consultations, this led to the adoption of *The South African Microinsurance Regulatory Framework Policy* (National Treasury, 2011). A new MI bill is currently being drafted to give effect to the approved policy. The FSB has established a microinsurance department to deal with the implementation of the forthcoming bill.

Swaziland. Insurance in Swaziland is governed by the *Insurance Act* of 2005, along with the *Regulations and Directives* (2008) issued under the Act. The insurance industry is regulated by the Office of the Registrar of Insurance and Retirement Funds (RIRF). Following the enactment of the *Financial Services Regulatory Authority (FSRA) Act* (2010), the FSRA is now being set up as an umbrella non-banking financial services regulator. The RIRF is currently making amendments to the *Insurance Act* with the main rationale to align the *Insurance Act* with the FSRA Act, as well as continuous alignment to international standards. The result thus far, a draft *Insurance Bill* (2011), proposes microinsurance provisions for the Swaziland market. In anticipation of the adoption of the new Insurance Act, dedicated MI regulations are being prepared.

Tanzania. In 2009, a new and revised *Insurance Act* was enacted. Associated regulations have been proposed with a specific focus on microinsurance, namely *The Microinsurance Regulations* (2012), but these have not yet been promulgated.

Zambia. Insurance regulation in Zambia falls under the jurisdiction of Pensions and Insurance Authority (PIA), which was established in 1997 (Hougaard, Chamberlain, & Aseffa, 2009). The PIA is in the process of reviewing the *Insurance Act* (1997) to bring it in line with current developments in the industry (Times of Zambia, 2012). The new Act will have a more specific focus on microinsurance, classifying it as a separate category of insurance next to life and general. A draft Microinsurance Bill was prepared with donor funding, however the PIA found it unsuitable to Zambian circumstances and is now considering further options.

Zimbabwe. The insurance market in Zimbabwe is regulated by the Insurance and Pensions Commission (IPEC). IPEC is in the process of revising the *Insurance Act* (2007). One of the key drivers of the revision is compliance with international standards within the SADC region (including the introduction of a risk-based framework). The drafting of microinsurance regulations has been initiated.

The remaining SADC countries have not yet given any indication of developing new regulatory frameworks to facilitate inclusive insurance markets.

5.2. Insurance regulatory reform and its policy drivers

While this study focuses on the development and regulation of microinsurance in the SADC region, it is important to understand the broader policy and regulatory context. This section outlines some of the broader changes in insurance regulation occurring in the region and considers the motivation for these changes. Understanding the context is in the first instance important as it determines the scope to develop inclusive insurance markets. In addition, the changes and the drivers will assist in understanding the relative priority of microinsurance within the broader policy environment.

Substantial and widespread policy and regulatory reform occurring across SADC. Ten of the twelve countries reviewed showed recent changes enacted in the last ten years or are in the process of amending their insurance laws. These are not only incremental amendments but involve substantial changes to the regulatory architecture. The Table 4 below captures the dates of relevant insurance legislation in place and indicates where new legislation is underway and whether new legislation addresses microinsurance.

Country	Date of current insurance law	New legislation underway	Microinsurance included
Angola	2000	–	–
Botswana	2006	Yes	Yes
Lesotho	1976	Yes	–
Malawi	2010	–	–
Mauritius	2005	–	–
Mozambique	2011	–	Yes
Namibia	1998	Yes	Yes
South Africa	1998	Yes	Yes

Swaziland	2005	Yes	Yes
Tanzania	2009	Yes	Yes
Zambia	2005	Yes	Yes
Zimbabwe	2004	Yes	Yes

Table 4: Insurance regulatory reform across SADC

Source: Authors own collation of SADC insurance regulation

To the extent that these regulatory reforms accommodate inclusive insurance, the study found three main drivers or motivations for including it:

- The country has a specific policy position on improving access to financial services or financial inclusion and sees the promotion of inclusive insurance markets as part of that broader policy objective;
- The country has undergone an assessment under the Financial Sector Assessment Program (FSAP) which recommended reforms to promote more inclusive insurance markets;
- The country has an explicit microinsurance policy.

The following sections consider the applicability of each of these motivations within difference SADC Member States.

5.2.1. Domestic financial inclusion policy as driver of reform

Box 6: Extracts from the Application Paper with relevance to policy

5.1 The introduction to the ICPs discusses preconditions for effective insurance supervision (paragraphs 19 to 25 of the introduction) giving specific attention to the role of a financial sector policy.

5.2 The G20 Principles point to leadership in cultivating a broad-based government commitment to financial inclusion to help alleviate poverty. In many jurisdictions, general financial sector policies promote financial inclusion for underserved segments. Access to insurance markets could be assisted by having that overall policy address insurance markets directly.

5.3 When seeking to enhance inclusive insurance markets, governments should include developing accessible insurance markets for underserved segments as part of financial sector policies in line with the G20 Principle 1.5.5 When seeking to enhance access to inclusive insurance markets, however, the roles of policymaking, regulation and supervision may often be shared among various agencies. Where there are shared roles, the insurance supervisor would be the most appropriate supervisory body to be given a leading mandate and role, as the insurance supervisor would normally have the necessary skills and expertise.

5.6 When such a 'development mandate' is given to the supervisor, this mandate should be explicit and subject to the same considerations as other mandates and objectives (Standard 1.2). The primary legislation may provide general support that is elaborated further in subsidiary statements (Guidance 1.2.2). These same considerations include, in particular, the importance of supervisors explaining how they interpret and implement their objectives especially when supervisors have both a development mandate and a prudential mandate (Standard 2.7 and Guidance 2.7.2).

Source: IAIS Application Paper, 2012: pp. 29

Financial inclusion policy focus growing in SADC: Table 5**Error! Reference source not found.** below indicates that nine countries have already adopted some form of financial inclusion policy, with five of these policy documents explicitly mentioning insurance. The progress with financial inclusion policy in the different SADC countries are as follows:

Angola. Whilst Angola does not have explicit financial inclusion policy statements, the Government has embarked on a process of *bancarizacao*, which is a drive to increase the population that is currently banked. *Lesotho*. Consultation with the Ministry of Finance suggested that financial inclusion is high on its agenda. The Millennium Challenge Corporation (MCC) and the Government of the Kingdom of Lesotho have entered into a $362.5 million Compact for Millennium Challenge Account (MCA) assistance to help facilitate poverty reduction through economic growth in Lesotho. A sub-project within the MCA program is to launch a national ID document. The Ministry of Finance suggested that this will contribute substantially to greater financial access since it provides a ready means of identification which was not previously available.

Malawi. The United Nations Development Programme in partnership with the United Nations Capital Development Fund (UNCDF) is supporting the Ministry of Finance to implement The Financial Inclusion in Malawi (FIMA)[41]. FIMA seeks to broaden access to financial services, particularly in rural areas where demand for services often goes unmet. The project has set up a Microfinance Unit in the Ministry of Finance, as it currently has no designated unit to monitor this area. It will focus on developing and implementing a national strategy for building an inclusive financial sector in Malawi.[42]*Mauritius*. All new born children receive MRs 200 (c. $7 USD) from the government that is placed into an account in their name. This is a financial inclusion drive and also key to increasing the banked population. The child can only access this when they turn 18 years of age. The family can make deposits into the account during the child's lifetime, but it has been indicated that this does not happen frequently.

South Africa. *A safer financial sector to serve South Africa better (2011),* A National Treasury policy document, explicitly mentions the importance of "improving access to financial services, particularly for the poor and vulnerable." The document defines financial inclusion as: "ensuring that all South Africans have access to financial services that encourage them to manage their money, save for the future, obtain credit and insure against unforeseen events." The South African government has undertaken a number of initiatives to accelerate financial inclusion. These include promoting entry into the banking sector, creating an enabling framework for co-operative banks, facilitating the entry of smaller dedicated banks, improving the governance arrangements of Postbank, and introducing deposit insurance for co-operative banks and officially gazetting the Financial Sector Charter (FSC) as the Financial Sector Code in 2012. The FSC includes access targets in sectors like the financing of low-income housing, small and medium enterprise finance, transformation infrastructure, and access to financial services such as affordable banking, insurance and savings products.

Swaziland does not have an official government policy on financial inclusion. However, the country's Poverty Reduction Action Plan (PRAP) stresses the need to enhance private savings as a mechanism to reduce poverty. The Minister of Finance is supportive of the insurance supervisor's plans regarding financial inclusion.

Tanzania. According to the Ministry of Finance's Financial Sector Policy Division, no explicit financial inclusion policy has yet been developed. Vision 2025 and MUKUTA II are initiatives that stipulate certain macroeconomic and development targets for the country but do not explicitly mention financial inclusion. MUKUTUA II makes reference to the provision of financial services on a micro level to farmers versus explicitly listing financial inclusion as a key policy objective. It is also the view of the Financial Sector Policy Division that while there is no explicit financial inclusion strategy, microfinance institutions play a role in facilitating financial inclusion. In the future, the Ministry plans to draft a financial inclusion policy.

[41] Implementing Partners: United Nations Capital Development Fund, Ministry of Finance, Malawi Microfinance Network (MAMN), Ministry of Industry, Trade and Private Sector Development and the Reserve Bank of Malawi
Development Partners: The Catholic Organisation for Relief and Development
[42] See the following document for more detailed information on FIMA:
http://www.undp.org.mw/images/publications_and_reports/fact_sheets/11microfinance.pdf?58930effcf1f629ed28c9ca6846cfdcd=hzmynhin

Zambia has a well-developed, explicit financial inclusion policy in the form of the Financial Sector Development Plan (FSDP). The further development of the financial sector is identified as one of the core goals of the Bank of Zambia. The FSDP largely uses moral suasion to increase financial inclusion. It also has some sector specific initiatives through its various industry Working Groups, whilst the results of the FinScope surveys has also helped raised awareness about financial inclusion.

Zimbabwe. There is no explicit financial inclusion policy in Zimbabwe as yet. The Reserve Bank has cited financial inclusion within its monetary policy statements, reported in the press. The Ministry of Finance, the Reserve Bank and the Insurance and Pensions Commission (IPEC) have indicated the importance of access to finance during consultations.

Five out of all fourteen SADC countries have made specific commitments as part of the Maya Declaration[43]. Each country makes measurable commitments in four broad areas:

- Create an enabling environment to harness new technology that increases access to and lowers the costs of financial services;
- Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability;
- Integrate consumer protection and empowerment as a key pillar of financial inclusion;
- Utilize data for informed policymaking and tracking results.

The countries which have made commitments are the DRC, Malawi, Namibia, Tanzania and Zambia.

Financial inclusion focus grows: A policy focus on financial inclusion is providing impetus for regulatory reform to promote inclusive insurance markets in a growing number of SADC countries. In three countries - Mozambique, Namibia and South Africa - it seems to have provided substantial focus for microinsurance regulation. In others, financial inclusion policy is still being developed.

[43] The Maya Declaration "is the first global and measurable set of commitments by developing and emerging country governments to unlock the economic and social potential of the 2.5 billion 'unbanked' people through greater financial inclusion…". See the following document for more detailed information on the Declaration: http://www.afi-global.org/gpf/maya-declaration

	General financial inclusion policy			Microinsurance policy	
Country	**Financial inclusion policy document(s) and issuing body**	**Does it make reference to microinsurance and, if so, to what extent?**	**Evidence of impact on microinsurance regulation?**	**Other policy statements or related documents with specific focus on microinsurance?**	**Evidence of impact on microinsurance regulation?**
Botswana	National Development Plan and Financial Sector Development Strategy (second draft); (multi ministerial and departmental Government Reference Group)	Insurance mentioned with main focus on prudential issues. Overall financial inclusion mention. NBFIRA features prominently but most emphasis is placed on institutional reform, prudential regulation and particularly pensions	No	None	No
Lesotho	None	-	No	Government endorsed microinsurance diagnostic completed. In the process of preparing action plan	Not yet
Malawi	Microfinance Policy and Action Plan 2002 (Ministry of Commerce and Industry) Financial Sector Development Strategy (FSDS) 2011-2016 Ministry of Finance)	None	No	None	-
Mauritius	None	None		None	-

	General financial inclusion policy			Microinsurance policy	
Country	**Financial inclusion policy document(s) and issuing body**	**Does it make reference to microinsurance and, if so, to what extent?**	**Evidence of impact on microinsurance regulation?**	**Other policy statements or related documents with specific focus on microinsurance?**	**Evidence of impact on microinsurance regulation?**
Mozambique	National microfinance policy and strategy (2006) Financial Sector Development Strategy (November 2011)	The Financial Sector Development Strategy makes mention of the potential impact of insurance upon the income security of lower-income groups. There is a section dedicated to insurance.	Yes	Government endorsed[44], microinsurance Diagnostic completed. Action plan in process of being finalised The ISSM has issued statements expressing interest in developing microinsurance (legislation have also been enacted creating microinsurance category);	Yes

[44] While an MI diagnostic does not reflect government policy *per se*, it communicates government's official support for the development of microinsurance. Diagnostics require to be formally requested by government. More detailed policy statements are conveyed in action plans adopted following the diagnostic

	General financial inclusion policy			Microinsurance policy	
Country	**Financial inclusion policy document(s) and issuing body**	**Does it make reference to microinsurance and, if so, to what extent?**	**Evidence of impact on microinsurance regulation?**	**Other policy statements or related documents with specific focus on microinsurance?**	**Evidence of impact on microinsurance regulation?**
Namibia	Financial Sector Charter 2009(Financial Sector Charter Council) Financial Sector Strategy 2011-2021 (Ministry of Finance) Namibia Vision 2030 (National Planning Commission) 5 year National Development Plan (National Planning Commission) Proposed: Financial Development Strategy 2012	The Financial Sector Strategy 2011-2021 makes specific microinsurance mention, Insurance mentioned with main focus on prudential issues.	No	None	-
South Africa	Financial Sector Charter 2004 (gazetted in 2012 as the Financial Sector Code) Expanding access through financial inclusion is one of the four policy priorities in South Africa's current financial sector development policy, A Safer	Detailed MI Focus in discussion paper and policy statement dedicated to MI. MI included as key component of overall Financial Inclusion strategy.	Yes	Detailed Treasury microinsurance position paper (2008) Treasury policy statement (2011)	Yes

	General financial inclusion policy			Microinsurance policy	
Country	**Financial inclusion policy document(s) and issuing body**	**Does it make reference to microinsurance and, if so, to what extent?**	**Evidence of impact on microinsurance regulation?**	**Other policy statements or related documents with specific focus on microinsurance?**	**Evidence of impact on microinsurance regulation?**
	Financial Sector to Serve South Africa better (2011)				
Swaziland	No specific financial inclusion policy to date, but implicit FI drive and FI task team formed to develop FI strategy	n/a	n/a	Government endorsed and funded microinsurance diagnostic completed. Action plan adopted.	Yes – draft MI regulations being developed
Tanzania	Development Vision 2025 National Microfinance Policy 2000 (Ministry of Finance)	None	No	Government endorsed microinsurance diagnostic completed. In process of developing action plan.	Not yet
Zambia	Financial Sector Development Plan	Insurance mentioned with main focus on prudential issues and overall regulatory structure.	No	Government endorsed microinsurance diagnostic and action plan complete. PIA also issue short policy statement to state their support for the development of microinsurance	Yes

	General financial inclusion policy			Microinsurance policy	
Country	**Financial inclusion policy document(s) and issuing body**	**Does it make reference to microinsurance and, if so, to what extent?**	**Evidence of impact on microinsurance regulation?**	**Other policy statements or related documents with specific focus on microinsurance?**	**Evidence of impact on microinsurance regulation?**
Zimbabwe	While the Reserve Bank issued a financial inclusion statement this does not currently drive government policy around financial inclusion.	None	No	None	No

Table 5. Financial inclusion and microinsurance policy across SADC and its impact on microinsurance regulation

Source: Authors own analysis of SADC financial inclusion policy documents

5.2.2. FSAP as driver of regulatory reform

FSAP as driver of regulatory reform. The review suggests that FSAPs have been a key external trigger for SADC regulatory reform in insurance. Eight countries have undergone an FSAP (see Table 6 below) during the past decade. These assessments were generally were followed by large-scale regulatory reform projects in the financial sector. Not all the FSAPs addressed the insurance industry specifically. Access to finance is typically mentioned as part of microfinance sector recommendations. Inclusive insurance considerations are often limited and only touched on indirectly within the context of access to finance.

Box 7: FSAP background

The Financial Sector Assessment Program (FSAP) was established in 1999. to provide in-depth and comprehensive assessments of a country's financial sector. In developing countries the Assessment is jointly produced by the IMF and World Bank. The IMF is responsible for financial stability components, while the World Bank generates a financial development assessment.

Financial stability is a key component of the domestic and external stability of IMF members and supports the promotion of "stable system of exchange rates" as envisaged under Article IV (the IMF's broader surveillance of member countries) [45]. In 2010, after the Financial Crisis, FSAP assessments became mandatory on a 5-year cycle for members with systemically important financial sectors, while remaining voluntary for other countries[46].

The development component of an FSAP "focusses on the medium- to long-term needs for the deepening and strengthening of the financial sector, and address major weaknesses affecting the sector's efficiency, soundness and contribution to long-term growth and social development"[47]. "Issues related to access to banking services and development of domestic capital markets are particularly important in low-income countries."[48]

Source: IMF, 2013

FSAP recommendations focused on compliance with international standards. The main recommendations relevant to insurance provided by the FSAPs done in SADC Member States are outlined in Table 6 below. As is clear from the table, financial stability is a key focus area of the FSAPs, a focus likely sharpened by the 2009 financial crisis in the developed world. For many developing countries with small financial sectors this emphasis may stifle a wider conversation around financial market development, including that of the insurance sector. For the insurance sector in particular, the program tend to trigger a focus on compliance with ICPs with limited tangible consideration offered to access to insurance. In SADC, FSAP recommendations on access to insurance have so far been limited in scope. Points made are general and not explicit in terms of how to achieve outcomes, in contrast to concrete guidance on achieving financial stability. In the absence of explicit domestic inclusive insurance policy to input on FSAP recommendations (see more detail in the Section 5.2.3 below), the result can be a compliance-driven approach to reform.

[45] http://www.imf.org/external/np/pp/eng/2010/082710.pdf
[46] http://www.imf.org/external/np/exr/facts/fsap.htm
[47] http://www.imf.org/external/np/fsap/faq/#q3
[48] http://www.imf.org/external/np/exr/facts/fsap.htm

Country	Date of FSAP	Focus of FSAP recommendation on insurance (compliance focus or access to insurance dimension)
Botswana	2008	Compliance with international standards
Malawi	2008	Access to insurance dimension (limited reference)
Mauritius	2008	Compliance with international standards
Mozambique	2010	Compliance with international standards
Namibia	2007	Compliance with international standards
South Africa	2008	Compliance with international standards and access to insurance dimension (more detailed reference to microinsurance encouraging implementation of microinsurance regulatory framework)
Tanzania	2010	Compliance with international standards
Zambia	2002	Compliance with international standards and access to insurance dimension (limited reference)

Table 6: Matrix on the most recent FSAPs in SADC and the type of recommendations on insurance development

Where the FSAP includes reference to microinsurance, this has catalysed or supported action by supervisors. The FSAPs of Malawi, South Africa and Zambia go further by making recommendations relating to inclusive insurance markets. Consultations with supervisors indicated that they place a high priority on the content of the FSAP recommendations and details in the report are likely to prompt direct action on the part of supervisors. The FSAP in such cases can therefore serve as a policy driver for inclusive insurance markets.

In the case of Malawi, the FSAP advocates the benefit of increasing access to financial services, including a reference to microinsurance. The FSAP proposes that "cost-effective microinsurance products can help the poor smooth consumption over time and assist in insuring them against income shocks" (IMF and World Bank, 2008). Even though limited to a brief statement on microinsurance, this recommendation has encouraged the Reserve Bank of Malawi to invest more efforts in addressing microinsurance.

For Zambia, the FSAP advised that one of the financial services required by poor households is "affordable insurance against the numerous hazards they face" (IMF and World Bank, 2002). Even though limited to a brief statement, this recommendation has encouraged the supervisor to engage with microinsurance and contributed to the commissioning of a microinsurance diagnostic (completed in 2009), which informed subsequent regulatory approaches.

For South Africa, the existence of detailed market information as well as the detailed policy statement on microinsurance allowed the FSAP team to consider microinsurance in more detail. The FSAP identifies some areas for insurance market development but concludes that these are being addressed. It mentions the 2003 Financial Sector Charter and plans for a microinsurance regulatory regime as evidence that the insurance sector is being encouraged to increase access to insurance products for poorer consumers. The FSAP makes two specific recommendations dealing with access to insurance: Firstly, it recommends that larger friendly societies, which resort under their own law, should be brought into the scope of the applicable insurance and, secondly, that the proposed microinsurance regime be accelerated "in order to help bring basic protections to all buyers of insurance" (IMF and World Bank, 2008).

5.2.3. Dedicated microinsurance policy

Microinsurance-specific policy process impacting on microinsurance regulation. Only one country, South Africa, has adopted a detailed formal policy position on microinsurance that is being used to guide the drafting of legislation. At the time of the study, eight countries were in the process of developing microinsurance regulation. While this could be interpreted as policy support for microinsurance development, by itself the preparation of draft regulation does not sufficiently communicate the specific policy objectives that a government wants to achieve through its microinsurance regulation. In some cases, it is limited to only creating a regulatory category for microinsurance with much of the detail to be covered in regulation yet to be developed. While the fact that regulators are drafting microinsurance regulations reflects policy support for the development of the market, the absence of other policy documentation or statements on this means that there is little guidance on the objectives that governments are pursuing. This makes it difficult to assess whether the proposed regulation is fit for purpose, i.e. whether it will be able to facilitate the achievement of the policy objectives.

At the time of the study, five countries have also completed microinsurance diagnostics. While these do not reflect formal government policy by themselves, it does signify some form of policy support for microinsurance since the supervisor has to request the diagnostic. This is especially the case where the diagnostic is supported or facilitated by the IAIS-linked Access to Insurance Initiative[49]. In three of these cases, the diagnostic translated into regulatory actions being adopted as part of a national action plan and have resulted in regulatory changes.

5.3. Approaches to defining microinsurance

Box 8: Extracts from Application Paper relevant to the definition of microinsurance

The following extracts from the Application Paper is of relevance when considering the definition of microinsurance:

"6.1 When seeking to enhance inclusive insurance markets, it may be useful or necessary to have a definition of microinsurance. The definition can be related to the product or the underserved customer group. It can be qualitative or quantitative. An example of a qualitative definition that encompasses

[49] http://www.access-to-insurance.org/

both is "insurance for low-income populations". Qualitative definitions are usually appropriate for broader financial sector policy statements. A quantitative definition can define a monetary amount for the income level of the underserved customer group, or for the cover. Delineating the customer group in monetary terms might be of little benefit for insurers and could be costly and complex to implement. However, a quantitative definition of the cover (premium or face amount/cover) may be desirable to delineate a microinsurance business line from other insurance.

6.2 When a proposed regulatory measure introduces differential treatment, then a definition may be necessary to determine what precisely falls into the microinsurance category. Differential measures may relate to insurance regulation and supervision or another aspect of regulation, for example, taxation. In such cases, differentiation of measures could be between one category and another, such as "microinsurance products" and other products or "microinsurers" and insurers that do not provide "microinsurance". It is considered optimal that:

6.2.1 Definitions focus on products recognizing that, although there may be the potential for dedicated microinsurers, all insurers should be eligible to issue microinsurance products;

6.2.2 Definitions that focus on microinsurers should clearly delineate microinsurance business from others and will require a definition of a risk category/product.

6.2.3 Quantitative elements of definitions should be set at the highest possible level to ensure the defined product is as inclusive as possible;

6.2.4 Quantitative elements should consider the need to align the resulting business profiles with the expected proportionate regulation and supervision.

6.3 A regulatory definition may inadvertently exclude target customers, providers, products and innovations, so needs to be carefully considered."

Source: IAIS, 2012: pp. 31-32

Diverse approaches to microinsurance definitions. The research conducted for this project reveals a diversity of approaches to and definitions of microinsurance in the SADC region. Analysing microinsurance definitions in SADC is complicated by the fact that most countries are in the process of developing a definition. Only two SADC countries - Mozambique and Malawi - have yet enacted a formal definition of microinsurance in its insurance law and even this definition must be further fleshed out in regulation. All other SADC countries are at various stages of formulating their regulatory definition. This section should therefore be read as work in progress.[50]

[50] This project has captured prospective legislation from national supervisors as at 31 December 2012.

Country and status of definition	Most recent microinsurance (MI) definition and regulatory implications
Botswana Draft Insurance Industry bill, 2011	Proposed: ““**microinsurance policy"** allows insurers to provide benefits under any class of long term and general insurance but is subject to the following limitations: • Benefits are capped • The policy term is limited to 12 months • Risks must be independent and other pooled disaster risks are excluded and includes a reinsurance policy (Botswana draft insurance industry act, 2011, p. 8).”
Malawi Malawi Microfinance Act 2010	Enacted: ““**micro-insurance**” is: • Explicitly targeted at the protection of small or micro enterprises, low-income customers, or financially underserved customers. • Subject to minimum capital or loan fund requirements which will be determined by the Registrar (Malawi Microfinance Act, 2010, p. 7)
Mozambique Mozambique Regulation of the Conditions of Access to and Exercise of Insurance Activity and its Intermediary Activities 2011	Enacted: Microinsurance is “reduced and medium scope” insurance aimed at the low-income market, provided in exchange for premiums proportionate to probability and cost of risk involved. • Low-income is defined as income per capita below national min wage and/or those that reside in rural areas with high levels of poverty. • The specific microinsurance product categories include both life and non-life product types • All microinsurance products are required to be filed with the regulator with no explicit authorisation required (i.e. file and use) • Specifics of the definition, including 7 specific types of products qualifying as microinsurance exist but are being reviewed by the regulatory authority • Underwriting concessions are provided for microinsurance business (Mozambique Regulation of the Conditions of Access to and Exercise of Insurance Activity and its Intermediary Activities, 2011).

Country and status of definition	Most recent microinsurance (MI) definition and regulatory implications
Namibia Namibian Financial Institutions and Markets bill 2011	Proposed: "**insurance**" means long-term insurance and short-term insurance, and includes micro insurance as prescribed by the Minister". • Microinsurers will be subject to lowered capital requirements. (Namibian Financial Institutions and Markets bill, 2012, p. 27).
South Africa The South African Microinsurance Regulatory Framework 2011	Proposed: "**microinsurance** refers to insurance products that are accessible to and/or used by low-income households. To turn this conceptual definition into a practical one wide enough to facilitate the development of a dynamic microinsurance market in South Africa, the definition of microinsurance should simultaneously achieve two goals: • It should reflect the features of products demanded by the low-income market; and • It should generate sufficiently low prudential risk so that microinsurance products can safely be provided by a wide range of microinsurers and be straightforward to distribute, these factors combining to merit simplified regulatory requirements. To achieve this, it is proposed that microinsurance should be defined generically, rather than as a list of specific product types. Licensed microinsurers should be able to write policies for all types of risk currently being written under the Long-term Insurance Act, 52 of 1998 (the Long-term Insurance Act), and the Short-term Insurance Act, 53 of 1998 (the Short-term Insurance Act), but will not be able to conduct the business of a medical scheme as defined in the Medical Schemes Act, 131 of 1998 (The South African Microinsurance Regulatory Framework, 2011, p. 6)." Microinsurance products will have to comply with the following requirements: • Risk-only. Only risk benefits with no surrender value can be classified as microinsurance and thus excludes endowment policies. • Benefits provided on a sum assured basis. All microinsurance policy benefits should be defined on a first loss or sum assured basis. • Defined benefit caps. Benefits provided under microinsurance policies will be subject to defined financial limits depending on the nature of the policy. • Maximum contract term. Microinsurance policies should have a contract term of up to but not exceeding 12 months. • No selective non-renewal within group policies. Where policies are underwritten

Country and status of definition	Most recent microinsurance (MI) definition and regulatory implications
	on a group, insurers should not be able to selectively cancel (refuse to renew) individual policies within the group. • Actuarial certification of premiums. Initial pricing and subsequent price changes on microinsurance policies have to be signed off by an actuarial technician, based on verifiable risk considerations. • Basis of underwriting to be discretionary. Insurers providing microinsurance products should be able to underwrite policies in the manner they consider most appropriate, be that on an individual or group basis. • Waiting periods. The length of waiting periods should be restricted. • Exclusions. No exclusions will be allowed for pre-existing conditions. • Simplification. Microinsurance policies must be simple and easy to understand and policy documentation must be provided in plain language, avoid uncertainty or confusion and should not be misleading. • Right to a monetary benefit. Where microinsurance benefits are offered in-kind, the policyholder must be given the option, when claiming, of receiving a monetary benefit equal to the stated value of the in-kind benefit had it been provided. • Claims payments. All valid microinsurance claims should be paid within a period of 48 hours after the insurer received all requisite documentation. • Grace period. Microinsurance policies should be subject to a grace period if a premium(s) is not paid when due. • Target market. There are no prescriptions in terms of the specific customers that may be microinsurance policyholders. • Further product standards may be developed in subordinate legislation (The South African Microinsurance Regulatory Framework, 2011)."
Swaziland Swaziland Insurance Bill 2012	Proposed: Microinsurance is defined in the proposed Insurance Bill 2011 amendments as the activity of providing microinsurance products and services that are accessible to the low income earner. Low-income earners in turn are defined as those earning below E3,000/month (USD $409.83[51]) or the self-employed with share capital of a minimum of E5,000 (USD $683.06[52]) (Swaziland Insurance Bill , 2012, p. 11).

[51] Based on the average 2010 exchange rate of 7.32
[52] *ibid*

Country and status of definition	Most recent microinsurance (MI) definition and regulatory implications
Tanzania Tanzanian Microinsurance regulations 2012	Proposed: "**micro-insurance**" means insurance that is accessed by low-income population by which risk is insured under a policy managed based on insurance, insurance principles and funded by premiums (Tanzanian Microinsurance regulations, 2012)" Microinsurance products entail the following requirements: • Micro-insurance products shall be distributed through micro-insurance agents • Insurance policies must be simple in the Kiswahili language and written in a manner that is easy for the policyholder to understand. • All micro-insurance products shall require prior authorisation from the Commissioner. • Every insurer shall settle a micro-insurance claim within a period of three days from the date of receipt of the claim.

Table 7: SADC definitions of microinsurance in most recent documents

Both quantitative and qualitative definitions used. Within the seven SADC countries with a microinsurance definition a variety of approaches are used, as illustrated in Table 8 below. For the purpose of the analysis, we exclude Namibia since no actual definition has been formulated to date and reference is simply made to a product category to be defined by the Minister. Of the remaining six countries, three use a quantitative definition and three a qualitative definition. Only two countries, Botswana and South Africa, utilise a quantitative definition relating to the product, i.e. benefit caps. Only Swaziland utilises a quantitative definition relating to the target market. All the qualitative definitions relate to the target market. Mozambique seems to marry the two, referring to both target consumers and benefit caps.

Country	Nature of definition		Parameter		Regulatory concessions
	Quantitative	Qualitative	Target market	Product	
Botswana	✓	X	X	✓	✓
Malawi	X	✓	✓	X	✓
Mozambique	X	✓	✓	X	✓
Namibia	-	-	-	-	✓
South Africa	✓	X	X	✓	✓
Swaziland	✓	X	✓	X	✓
Tanzania	X	✓	✓	X	✓

Table 8: Comparing selected features of microinsurance definitions across SADC countries

Source: Authors' own analysis of SADC microinsurance regulations

Microinsurance definitions in SADC largely not aligned with IAIS guidance. The Application Paper suggests that, if the intention of the regulator is to delineate a separate regulatory space for microinsurance products and to grant regulatory concessions for entities underwriting microinsurance products or intermediaries distribution such products, a quantitative definition delineating a clear product category may be preferable and less complex for insurers to implement. All ten SADC countries developing microinsurance regulations are aiming to create a differentiated regulatory space with underwriting or intermediation concessions for microinsurance. Yet, of the six countries for which some form of definition is available, only two use quantitative definitions focusing on the product class.

Policy guidance can assist to clarify the objectives of a microinsurance definition. Only South Africa has published a detailed policy statement setting out the objectives of the proposed differentiated regime for microinsurance. In the policy statement the policy objectives to be pursued are clearly articulated. These include: i) facilitating the formalisation of the larger informal players, ii) facilitating the outreach by existing insurers to lower-income segments, and iii) encouraging the market to develop beyond just funeral and credit life insurance. To address the first objective it was necessary to create a proportionate regulatory space for microinsurers and this, in turn, required a definition of microinsurance that would limit the risk of underwriting such products. To address the second objective the focus was on simplifying market conduct regulations that were identified as the main barrier for existing insurers to extend their products to lower-income consumers. This also required a definition of microinsurance that would ensure product simplification to allow for simplified distribution. Finally, to encourage the market to extend beyond funeral and credit life, the definition of microinsurance avoided unnecessary limitations and extended across most product categories even if such products did not yet exist for low-income consumers at the time. The combination of these objectives, therefore, directly translated into the details of the proposed microinsurance definition. In the absence of clear objectives articulated by SADC policymakers and supervisors, it is difficult to evaluate the appropriateness of the proposed definitions.

5.4. Proportionality in underwriting requirements

Box 9: Extracts from Application paper relevant to underwriting, proportionality and risk management

The following extracts from the Application Paper is of relevance when considering who may underwrite microinsurance:

"1.30 To overcome barriers to inclusive insurance markets, insurance may need to be offered by a variety of insurers with different institutional forms, for example, entities that are for-profit or not-for-profit (as defined by the insurance supervisor or any other competent body under the national laws). Providers could include death-benefit associations, mutual and cooperative insurers, commercial insurers and dedicated microinsurers." (pp. 11)

3.6 Limitations in the defined institutional form may curb competition, encourage regulatory arbitrage, or hinder formalisation and integration of unregulated or informal providers into the regulated financial sector. (pp.17)

3.9 Depending on the nature of the challenges to access to inclusive insurance markets in a jurisdiction, it can be useful to recognise the role that can be played by mutuals, cooperatives and other community based organisations (MCCOs) for the provision of such services to particular segments of the population. These organisations may be relevant as either insurers or as intermediaries or both. (pp.17)

3.10 As a wider range of entities may be licensed, it is also important that arrangements for winding-up entities of these newly eligible legal forms are reviewed. If necessary, the requirements for winding-up may need to be updated to ensure that they are consistent with the obligations of the ICP 12. (pp. 17)

"3.9 Depending on the nature of the challenges to access to inclusive insurance markets in a jurisdiction, it can be useful to recognise the role that can be played by mutuals, cooperatives and other community based organisations (MCCOs) for the provision of such services to particular segments of the population. These organisations may be relevant as either insurers or as intermediaries or both."(pp. 17)

"Proportionality and its application in inclusive insurance markets

4.6 The supervisor, when assessing the nature of the risks, considers, among other things:

- *the type of business from which risks originate (e.g. life insurance business or crop insurance business); or*
- *the specifics of the insurer's portfolio; or*
- *any risk mitigation instruments (such as reinsurance or derivatives) applied, and their impact on the underlying risk profile. (pp. 22)*

4.7 When assessing the scale of a risk, the supervisor takes regard to both the likelihood of the risk being realized and the impact of that risk when realized. (pp. 22)

4.8 The supervisor uses more sophisticated and elaborated tools to analyse and quantify more

complex risks. The management of risks by insurers would also be expected to be more sophisticated when risks and risk profiles are more complex. (pp.22)

4.9 In assessing what is proportionate, the focus needs to be on the combination of all three criteria. For instance, a business may be small scale but still include complex risks; in this case it should not be allowed to use simplified methods. Simplified methods may be appropriate under very specific circumstances, however, for a large scale business with a simple risk profile (uncomplicated, supporting only limited risk). By way of example, for reinsurers operating in the market generally, supporting inclusive insurance initiatives or not, their business is likely to be complex. This complexity would not be reduced by adding participation in initiatives to improve access so there would not be a material change to the supervisory approach." (pp.22)

1.8.10 there should be no need for "exemptions" from some or all supervisory requirements. Instead, supervisory differences should be based on the nature, scale and complexity of the risk of the insurer and to the achievement of supervisory objectives. In some cases, the risk may be reduced and in others, particularly consumer protection, the risk to achieving supervisory objectives may suggest increased intensity of supervision; (pp.6)

4.23 As noted when discussing licensing of entities, there will be situations where an entity that is proposed to be licensed cannot retain and manage insurance risk reflecting (a) technical characteristics, and (b) business characteristics. (pp.15)

4.24 The economic benefits of insurance arise when risks that are not perfectly correlated are pooled together. Without this, there would be no insurance risk benefit from transferring the risk to the insurer. As the number of less than perfectly correlated risks in the pool increases, the effectiveness of the risk pooling increases.(pp.15)

4.25 So there is a level below which the benefits from risk pooling are insufficient. This minimum level will depend on the nature of the risks themselves, their volatility, and the extent that they are even partly correlated. The small size of a risk pool can act as a barrier to providing effective insurance. It will also impact the regulatory requirements for effective risk management. (pp.15)

4.26 For risks to be properly managed, insurers need adequate resources in terms of people, processes, and infrastructure. These requirements can reflect sound practices, but some may also arise from regulatory requirements. The appropriate levels of business resources will vary depending on the nature, scale and complexity of the risks retained.(pp.24)

4.28 These "Absolute minimum requirements" can be considered to be requirements that are not able to be waived even in the most limited, smallest or simplest of risk situations. As an entity, of whatever form, increases in nature, scale and complexity, it would be expected to exceed these minimum requirements. (pp.25)

4.11 In order to be considered proportionate, a measure has to be, at least, suitable, necessary and appropriate to attain the supervisory objectives of a jurisdiction. It should not go beyond what is necessary to achieve the objectives (be "disproportionate") (pp.22).

4.14 Supervisory measures should not lead to undue costs for insurers or cause other disadvantages that are disproportionate to the supervisory aims. When seeking to enhance accessible insurance markets, where there is a choice between several appropriate measures that are similarly effective in reaching supervisory objectives, the least onerous measure should be applied. (pp.22)

1.8.7 If the regulation recognises a specific class of product with special treatment, arbitrage is reduced if all existing insurers can also provide the product to the market. Similarly, if a specific category of insurer is created it should be restricted to providing limited products under defined

circumstances (pp.6)

4.17 Regardless, the system must remain supervisable. Standard requirements should be proportionate to avoid any un-level playing field. Finally, the application of the proportionality principle should ensure that the same level of protection is guaranteed for all customers. A lack of resources should not be a justifying reason for proportionality (pp. 22).

Source: IAIS, 2012

Application Paper encourages proportionality in support of market development. The Application Paper recognises the need to accommodate a wider variety of institutional types in the provision of microinsurance. The Paper also recognises that a proportional space with reduced requirements can be created for microinsurance if the risks are appropriately defined and managed. If appropriately applied, such an approach would ensure a level playing field across different provider types (covering both new and traditional institutional types) offering products with similar risk profiles. In applying proportionality, it is recognised that regulation should not go beyond what is required to achieve specific regulatory objectives and that, where choice is available, the least onerous regulatory measures should be chosen. Importantly, the Paper suggests that lack of resources should not be the motivation for imposing disproportionate regulatory barriers.

Generally lower capital requirements apply. Figure 18 show that there is a large divergence in capital requirements across the SADC region – ranging from USD $7,900 in Lesotho's life industry to USD $8m in Angola's life industry. Angola's capital requirements are significantly higher than those in the rest of the region and can be considered an outlier. Mozambique's life industry capital requirements of USD $2m are also significantly higher than the remainder of the region. Apart from these two outliers, however, the capital requirements within the SADC region are generally not high. The average capital requirements in the SADC life industry (excluding Angola and Mozambique) is approximately USD $500,000 and approximately USD $330,000 in the non-life industry (excluding Angola).

Increasing capital requirements as part of regulatory reform may impose barriers going forward. As part of the wave of regulatory reform, there is a trend within the region to increase capital requirements with a number of countries either recently increasing these requirements or proposing to do so in future. While capital requirements seemed not to impose constraints on development to date, higher capital requirements may do so going forward.

SADC supervisors moving towards concessionary spaces for microinsurance. The majority of SADC insurance supervisors have, in practice, taken steps in the direction of proportionate and concessionary regulation for the provision of microinsurance. However, with the exception of South Africa, the regulatory approaches to microinsurance in SADC (including the definition of microinsurance) were not based on an explicit consideration of risk nor on the cost impact of existing or proposed regulation. If microinsurance definitions and approaches are not based on specific risk considerations, the resulting regulatory regimes may not be proportional and the cost to providers may be either too high or too low given the underlying risks.

Concessionary space for microinsurance underwriting includes flexibility on institutional types. Across SADC a number of countries are relaxing the limitations on the type of organisations that can underwrite microinsurance products. Prospective legislation in six countries and enacted legislation in one country no longer limits underwriting to public companies only. Instead, permission is extended to organisations such as mutuals, cooperatives, NGOs and private companies to also underwrite microinsurance products.

Table 9 below summarises enacted and proposed capital concessions for microinsurance as well as the institutional categories proposed to underwrite microinsurance.

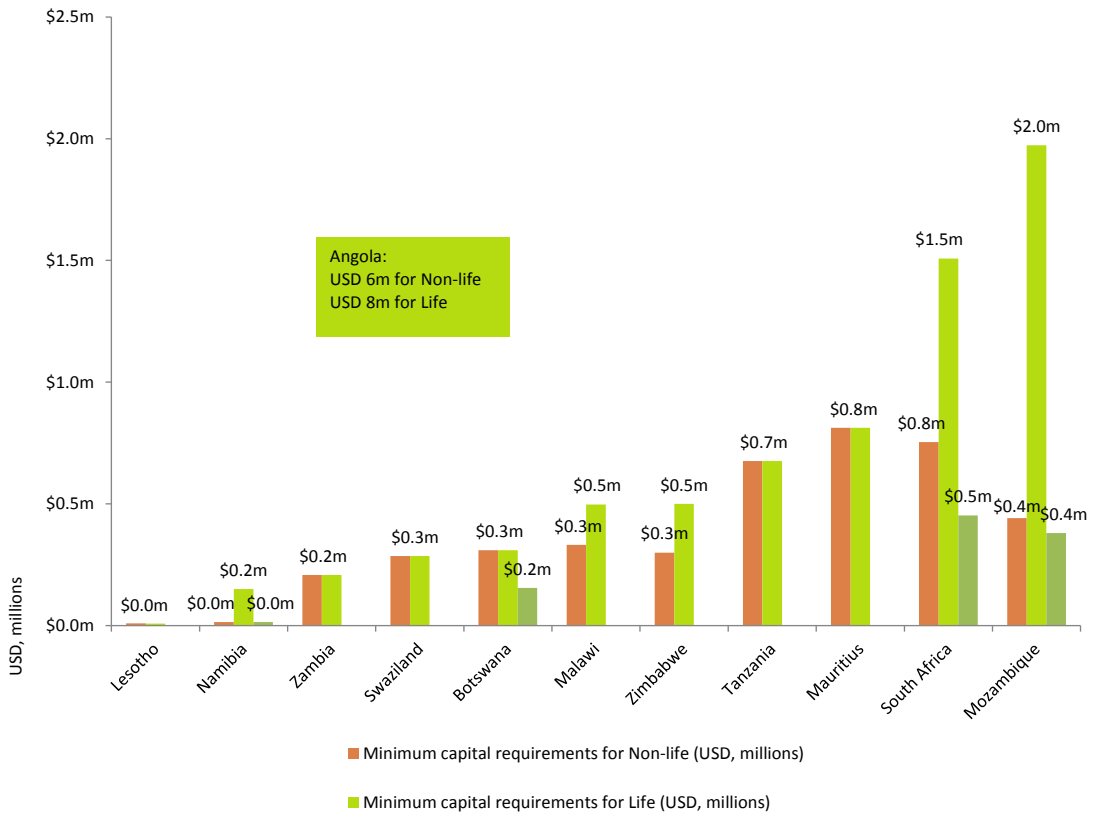

Figure 18: Capital requirements across SADC

Source: Mozambique Decreto-Lei nr.1/2010, de 31 de Dezembro; South African National Treasury Microinsurance Policy Document, 2011; Zambia Insurance Bill 2011, Zambia Microinsurance Act – draft version 1.4 prepared for internal discussion only; Tanzania draft Microinsurance Regulations 2012 (pre-public release version still under consideration), Swaziland Insurance Bill 2011, Botswana Insurance Industry Bill and Regulations (10-2011); KPMG, 2012; Lesotho insurance regulations, 1985; Reserve Bank of Malawi, 2008; Mauritius insurance rules, 2007; Zimbabwe insurance act, 2007

Country	Who can underwrite microinsurance?	Concessionary capital regime for microinsurance?	Microinsurance Capital requirements[53]

[53] All conversion rates are based on the average 2010 exchange rate between the local currency and the US dollar

Country	Who can underwrite microinsurance?	Concessionary capital regime for microinsurance?	Microinsurance Capital requirements[53]
Angola	Public companies	No	General non-life: USD $6 000 000 General life: USD $8 000 000[54]
Botswana	Special category of microinsurer as well as public companies; friendly and burial societies will be included (currently exempted)	Yes, details tbd	USD $155 050 (proposed). Compared to general life and non-life: USD $310 000[55]
Lesotho	Public companies	No	General non-life: USD $8 900 General life: USD $7 900[56]
Malawi	Corporations	No	General non-life: USD $331 600 General life: USD $497 300[57]
Mauritius	Legal persons	No	General life: USD $812 100[58]
Mozambique	Public companies, mutuals, microinsurers (public companies and mutuals)	Yes	USD $380 00 (USD $110 000 for mutual insurers). Compared to USD $2 944 632for a pre-existing mainstream composite insurer[59]
Namibia	Public companies (details tbd)	Yes	USD $15 000 (proposed). Compared to USD $150 200 for a mainstream general insurer[60]
South Africa	Public companies, cooperatives	Yes	USD$452 310 (proposed). Compared to: General non-life: USD $753 900 General life: USD $1 507 700[61]
Swaziland	All mainstream insurers, cooperative societies, medical schemes, NGOs and other financial services providers	Yes	General life and non-life: USD $285 700[62]
Tanzania	Limited to public companies but mutuals and cooperatives are being considered	No details currently	General life and non-life: USD $675 900[63]
Zambia	Companies, cooperative societies	Details tbd	General life and non-life: USD $208 300[64]
Zimbabwe	tbd	tbd	General non-life: USD $300 000 General life: USD $500 000

Table 9: Comparison of institutional types allowed to underwrite microinsurance and related capital requirements across SADC

[54] Conversion rate used is 91.9
[55] Conversion rate used is 6.8
[56] Conversion rate used is 7.3
[57] Conversion rate used is 150.5
[58] Conversion rate used is 30.79
[59] Conversion rate used is 34.0
[60] Conversion rate used is 7.32
[61] Conversion rate used is 7.32
[62] Conversion rate used is 7.32
[63] Conversion rate used is 1409.3
[64] Conversion rate used is 4797.1

Source: Mozambique Decreto-Lei nr.1/2010, de 31 de Dezembro; South African National Treasury Microinsurance Policy Document, 2011; Zambia Insurance Bill 2011, Zambia Microinsurance Act – draft version 1.4 prepared for internal discussion only; Tanzania draft Microinsurance Regulations 2012 (pre-public release version still under consideration), Swaziland Insurance Bill 2011, Botswana Insurance Industry Bill and Regulations (10-2011); KPMG, 2012; Lesotho insurance regulations, 1985; Reserve Bank of Malawi, 2008; Mauritius insurance rules, 2007; Zimbabwe insurance act, 2007

5.5. Informality and formalisation

Box 10: Extracts from Application paper relevant to the issue of informal markets

The following extracts from the Application Paper is of relevance when considering who may underwrite microinsurance:

"2.22 Given the overall objective, that informal insurance is undesirable, the existence of an informal sector may need to be formalised to give effect to this objective. It is not expected that such a process need necessarily occur without transitional arrangements and processes. Transitional arrangements may be necessary to allow informal insurance to migrate to a regulated environment. They may also be relevant when regulatory arrangements anticipate that insurers will form and build capacity over time, or when pilots are conducted. (pp. 15)

2.23 When seeking to formalise an informal sector, a clear and transparent pathway should be provided. As a first step, all informal entities providing insurance services should, at least, be registered through a process that is clear and transparent (see Guidance 4.1.6) and meet minimum requirements. (pp.15)

2.24 Once registered, entities should operate a restricted business model reflecting the extent that their business is lower risk, smaller, and less complex. Conditional licenses could be used (as envisaged under Standard 4.7). The granting of conditional licenses is an important power to provide to supervisors when seeking to expand access to insurance markets whether transitional issues are relevant or not. (pp.15)

2.25 Accepting (imposing) restricted business models with commensurate recognition of the impact on the nature, scale and complexity of the risk should be implemented to encourage the path to a more formal status. The "restriction with recognition" approach should incorporate incentives to formalise as organisations grow. (pp.15)

2.26 As an example, consider a very small insurer that may be limited to a defined product and to investing in assets in licensed banks – matching its business model. Given these conditions, the requirements regarding investment policies or asset oriented Enterprise Risk Management (ERM) systems can be less onerous and could appear to be a "concession" but would be consistent with this prohibition. (pp.15)

2.27 As the organisation gets larger, it may feel that it would be better able to serve its customers if it was to offer some additional types of cover, and would provide a better value if it was able to adopt a more aggressive investment portfolio to enhance investment returns – both would require investment in risk management systems similar to what would be expected of larger insurers. The "concession" regarding investment policies and ERM would be lost at the same time as the "restriction" on

investments and product mix were lifted. (pp.15)

2.28 Regulatory arbitrage (decision making primarily resulting from regulatory considerations that may be counter to economic considerations independent of regulation) may be a concern when a dual system exists in the market. This can be perceived to occur when existing insurers are competing with the new entities that operate with different conditions because they are subject to rules introduced as part of an innovation or a transitional arrangement. (pp.15)

2.29 One option is to restrict the new approach to the new players. This, however, may not facilitate full innovation because it could place an additional and inefficient cost on existing players. For example they may need an additional license to offer the product. Also it could act as a barrier to access if existing insurers are prohibited from entering a business line that they would be interested in. It is undesirable to prohibit existing insurers who wish to make efforts to enhance inclusive insurance markets because of a regulatory restriction. (pp.15)

2.30 Therefore supervisors need to avoid approaches that are inconsistent and could lead to regulatory arbitrage. This challenge can arise with transitional arrangements, or specially tailored regulation. In such instances, attention is needed to ensure that perverse incentives are not created and differentiation is limited only by the nature scale and complexity of the risk. (pp.15)

Cooperation in support of transitional arrangements

2.31 Material transitional issues that involve a large number of entities may create challenges for supervisors. Some entities may not be familiar with the supervisor's expectations. (pp.16)

2.32 It can be difficult to design and implement new supervisory systems and infrastructure when a large number of entities operate under transitional arrangements, but only some are expected to emerge as insurers. Others choose to exit the business or focus on distribution and servicing of products issued by other insurers. In such cases, it may not be clear how many entities will be supervised once the transition is complete. (pp.16)

2.33 Supervisory coordination and cooperation in such cases, can be helpful, especially if other authorities have longer experience, or deeper interaction, with the transitional group. They may have existing systems that can facilitate access to entities or data collection in an interim period. Some (for example, fiscal authorities) may also have options for leverage or enforcement actions that could be efficient or effective in the transitional period." (pp.16)

Source: IAIS, 2012: pp. 15, 16

Formalisation required and to be prioritised based on the nature, scale and complexity of the risks involved. The Application Paper states that all entities offering insurance should be licensed to do so. As result, the on-going existence of an informal insurance sector is undesirable and where such market exists, the supervisor need to pursue strategies to engineer its formalisation. In dealing with the informal sector, the Application Paper recognizes that the formalisation priorities should reflect the size, nature and complexity of the risks involved. The Application Paper explicitly recognises that well-designed and transparent transition processes may be required that incentivises formalisation and

discourages excessive risk-taking during the transition. In addition, the Application Paper discourages the use of exemptions in dealing with informality and proposes conditional licences as a more appropriate approach. Finally, it recognises the supervisory challenges in dealing with large informal markets and note that coordination with other government authorities and supervisors will be critical to ensure enforcement.

Most SADC supervisors have limited data on the informal market. It is clear from the market analysis presented in Section 3.3 that informal insurance markets in SADC are substantial and cover a large proportion of households (in some cases even exceeding the formal sector coverage). Despite its significance, a common response on the regulatory survey was that supervisors have very limited data on the informal market in their jurisdiction. Out of the ten country responses to the question on awareness of self-insurance entities, all supervisors reported to be aware of self-insurance entities but seven of these expressed that there was a lack of data to underpin their understanding. The other three supervisors indicated that third party information sources (i.e. the Microinsurance Diagnostics and other donor research projects) provided them with more detail on this market segment.

Current supervisory approaches mostly not in line with recommendations of Application Paper. The responses to the question on the supervisor's approach to monitoring/supervising the informal sector revealed there were four broad categories of response applied by SADC supervisors:

- *Strategy not yet developed or considered to be beyond supervisory scope*: This position is typified by the following statements: "We are aware of the informal provision of insurance but have not developed an appropriate strategy to deal with this." or "This is out of the scope of our activity. Our supervisory arm does not extend that far". In such cases the Application Paper will require that supervisors at least conduct an assessment to come to an informed view on the risks inherent to the informal market and the enforcement priorities that may result from that.
- *Capacity constraints*: "We do not have capacity to monitor illegal insurers, but have a sense that they exist". As with the issue of proportionality, the Application Paper recommends that inherent risks rather than capacity constraints should determine which components of the market receives regulatory attention.
- *Establishing treatment of informal entities*: "We have picked up on informal credit-life and self-funeral insurance providers and have regularised their activity by making them agents. We do not yet have an enforcement strategy". In these cases the issue of transparent transition processes and the use of conditional licenses are worth exploring further as tools to support formalisation.
- *Penalising and criminalising informal activity*: "We have faced an industry crisis sparked by an informal entity. This has made us monitor this space more carefully. When this becomes an encroachment upon our supervisory territory, we shut them down". While this may seem in line with the overall objective proposed in the Application Paper, it does not fully take into account the suggestion to calibrate regulatory responses to the nature, scale and complexity of the risks involved. Given the absence of market information, there is a risk that such approaches may seek to close down low risk activities with development benefits rather than allocating scarce regulatory resources to higher risk areas.

5.6. Intermediation

Box 11: Extracts from the Application paper with relevance to intermediation

The following extracts from the Application Paper is of relevance when considering the intermediation of microinsurance:

"3.18 The supervision of intermediaries applies equally when seeking to enhance access to inclusive insurance markets. Intermediation between insurers and customers takes a wider variety of forms. To better reach underserved customers, intermediaries could include an insurer´s direct sales staff, independent or exclusive agents, banks and their correspondents, retailers, microfinance institutions, post office agencies, NGOs, mutuals, cooperatives, social and religious associations, utility service providers (electricity, gas, telephone and mobile) and specialized microinsurance brokers or agents, or electronic means. (pp.18)

3.19 Standard 18.1 envisages both individual and other forms of intermediation, and usefully identifies the benefits of conditional, limited or more specific licenses. Approaches that are consistent with the nature scale and complexity of the risk to achieving supervisory objectives will be important to ensuring the objectives of ICP 18 are achieved when seeking to enhance access to inclusive insurance markets. (pp.18)

3.20 Intermediaries often play an important role beyond their traditional functions. In particular, their role tends to be more critical in terms of promoting public trust and confidence in insurance, conveying information in a more accessible manner to customers, promoting insurance awareness, and supporting the development of financial education. They may also be fulfilling some administrative functions beyond what a broker or agent would typically do. (pp.18)

3.21 It may be necessary to ensure that the primary law facilitates a wide range of forms of intermediation and that supervisory rules are established covering the functional details for each permissible form of intermediary. Requirements relating to individuals should not prohibit other legal forms such as corporate entities or cooperatives acting as intermediaries. Intermediation options should be considered based on economic principles rather than regulatory bias or arbitrage (Standard 18.1). (pp.18)

4.19.8 Intermediary regulation (ICP 18) - particularly relevant in terms of compliance obligations for applications (Guidance 18.1.5). Requirements regarding professional knowledge, financial resources, codes of conduct, etc. should also be consistent with the focus of the intermediaries. Requirements should ensure that intermediaries have sufficient incentives to reach and service the underserved and are skilled to carry out the task effectively while maintaining the obligations for policyholder protection." (pp. 23)

Source: IAIS, 2012: pp. 19, 24

Application paper recognizes the need to accommodate new types of intermediaries. The Application Paper recognizes that the development of microinsurance will require a wide variety of business models and different institutional types operating as intermediaries. As with underwriting the paper recommends that regulatory approaches should be tailored to the nature/scale/complexity of the risks. Supervisors, therefore, require a clear

understanding of new intermediary models emerging in their markets. New models may spread the different intermediary functions across a variety of players in the value chain, many of which may not have been subject to financial regulation in the past.

SADC regulation still focuses on traditional distribution through brokers/agents. The review showed that the general approach to regulating intermediation is still largely based on traditional models of distribution through brokers and agents. Intermediary types are defined as brokers and agents. Agent definitions usually require an exclusive relationship with one insurer rather than multi-tied relationship. The figure of the corporate agent, which accommodates aggregators and alternative distribution channels, does not yet figure in regulation. Representatives (simplified agents) are only defined in South Africa, Mozambique and in the proposed new Botswana Act. Administrators and other aggregators are only recognized in legislation in a few countries (South Africa and the proposed legislation in Zambia). Definitions and requirements thus do not yet recognise the extended function of intermediaries (e.g. administration).

Supervisors often not familiar with and do not monitor performance at business model level. In microinsurance, success is often determined by the appropriate combination of product, distribution channel and underwriter into a business model. A single insurer may operate a number of such business models under its license, each with its own unique partners, parameters and performance. A single intermediary may, in turn, also combine several products and underwriters into a single business model. The regulatory survey revealed that supervisors have limited information on the details and performance at the level of these business models. Data reported to supervisors (see Section 5.10 for more details) is aggregated to company or regulatory product line level and both combines multiple business models in single components of reporting. Such an approach does not allow a granular understanding of business model performance at channel or product level as this is often obscured through aggregation into financial statements and regulatory returns. With the exception of South Africa, none of the supervisors reported to have done specific research on the current intermediary models operating in their jurisdiction to inform legislative changes. The Microinsurance Diagnostics provide some of this information to supervisors in Mozambique, Swaziland, Tanzania and Zambia.

Five SADC regulators are creating space for microinsurance intermediaries. Table 10 below shows that five SADC regulators are proposing to create a dedicated regulatory space for microinsurance intermediaries.

Country	Microinsurance Intermediation space enabled
Angola	No special category of microinsurance intermediary in regulation
Botswana	Proposed special category of microinsurance agent. Details tbd
Lesotho	No special category of microinsurance intermediary in regulation
Malawi	No special category of microinsurance intermediary in regulation
Mauritius	No special category of microinsurance intermediary in regulation
Mozambique	Current: Permits a category of “special” microinsurance intermediaries to distribute microinsurance in addition to brokers and agents. This category includes banks, MFI’s, NGO’s, mobile operators and retailers amongst

Country	Microinsurance Intermediation space enabled
	others.
Namibia	Tbd
South Africa	Current: Special intermediary category for funeral insurance. Reduced education requirement and simplified on-going intermediation requirement. Proposed: Reduced training/qualification for those selling only microinsurance, Simplified requirements on intermediation process. Details tbd.
Swaziland	No special category of microinsurance intermediary in current regulation Proposed amendments will enable broader definition of intermediaries, but will still not define specific microinsurance intermediary.
Tanzania	Proposed: There are limitations on microinsurance intermediation and TIRA must issue certificate of registration to each microinsurance agent every year. Limited to special microinsurance agents (defined as any individual, company, NGO, self-help group or MFI appointed by an insurer to act as microinsurance agent for distribution of microinsurance products)
Zambia	Proposed: Microinsurance agents and microinsurance aggregators defined in legislation in addition to mainstream brokers and agents (details to be finalised in guidelines). Microinsurance agent can act for up to 6 insurers. Microinsurance agent may fulfil a broad range of functions, including administration.
Zimbabwe	Tbd

Table 10: Regulation of Microinsurance intermediaries across SADC

Source: Mozambique Decreto-Lei nr.1/2010, de 31 de Dezembro; South African National Treasury Microinsurance Policy Document, 2011; Zambia Insurance Bill 2011, Zambia Microinsurance Act – draft version 1.4 prepared for internal discussion only; Tanzania draft Microinsurance Regulations 2012 (pre-public release version still under consideration), Swaziland Insurance Bill 2011, Botswana Insurance Industry Bill and Regulations (10-2011)

Mozambique: The current Insurance Act in Mozambique permits a category of "special" microinsurance intermediaries to distribute microinsurance in addition to brokers and agents. This category includes banks, MFI's, NGO's, mobile operators and retailers amongst others. These intermediaries do not fall under the general regime for insurance intermediation. The services that they can provide must be stated in the contract with the insurer (can include marketing, premium collection,

record keeping of clients). These intermediaries are not required to register themselves with the supervisory entity. Instead, the insurer must communicate to the Instituto Superior de Seguros de Moçambique (ISSM) which "specific" microinsurance intermediaries it is using, along with the respective insurance lines which are being intermediated. They are not obliged to have any capital requirements as compared with brokers and agent companies. They can also freely negotiate their commissions. The insurer or microinsurer must administer technical training to the respective microinsurance intermediary, the content of which has not been defined by the supervisor. Additionally, a specified professional liability cover/banking guarantee for MI intermediaries is still pending. Special microinsurance intermediaries can contract with one life and one non-life, or one composite microinsurance provider per intermediary.

South Africa: The proposed microinsurance regulatory framework will create a dedicated microinsurance intermediary category that will be subject to tailored and simplified regulatory requirements. Commissions for microinsurance intermediaries are proposed to be uncapped.

Swaziland: No specific category of microinsurance intermediary is defined in regulation. The agent category in the current regulatory framework is, however, relatively broad and general requirements do not seem to pose barriers to microinsurance. There are, however, a limitation of one insurer per agent, no premium collection allowed by agents and no explicit allowance for administrative functions beyond sales. Proposed amendments to the 2011 Insurance Bill, however, include that the definition of "insurance intermediary" should be adjusted to: "a natural or juristic person who engages in insurance mediation and includes an insurance agent, corporate insurance agent or an insurance broker". By broadening the definition, insurance company employees (direct sales) or third party staff (where such third parties are not registered as corporate agents) can be regarded as insurance intermediaries. However, intermediary requirements will still only be set for brokers, agents and corporate agents.

Tanzania: In the proposed microinsurance regulation microinsurance intermediation is limited to microinsurance agents, defined as any individual, company, NGO, SHG (self-help group) or MFI appointed by an insurer to act as microinsurance agent for distribution of microinsurance products. Banks are not explicitly mentioned, but could be included under "companies". Microinsurance agents must be registered (not licensed), subject to having either a National Secondary Education Certificate or a Certificate of Proficiency (CoP) in Insurance. They must hold minimum paid up capital of TZS500, 000 (around USD $320). Each Microinsurance agent must submit a simple standard form with registration and must indicate which type of microinsurance it wishes to distribute.

It is proposed that TIRA must issue certificate of registration to each microinsurance agent every year. Each microinsurance agent must enter into an agreement with an insurer that clearly specifies the terms and conditions, duties and responsibilities. It is not specified whether the number of insurers per agent is limited or not, which would imply that it is open-ended. Microinsurance agents must remit premiums to insurers within 15 days from when received. In addition to sales, microinsurance agents may perform a broad range of functions including premium collection and

administration. Microinsurance agents will be entitled to a commission and no further requirements or limitations are set over and above the Insurance Act and Regulations (under which commissions are uncapped).

Zambia[65]: The proposed legislation explicitly creates a space for a microinsurance-specific licensed agent. Microinsurance agents are permitted to sell insurance from multiple microinsurers or insurers, up to a maximum of six appointments.

In a number of countries the regulation of intermediations is thus starting to align with the guidance provided in the Application Paper.

5.7. Accommodating innovation through open architecture

Box 12: Extracts from the Application Paper relevant to the issue of accommodating innovation

1.8.8 Innovations are usually needed to overcome barriers to access to insurance markets. Such innovations may include new or different providers of insurance protection, distribution and servicing approaches, or technology. Primary legislation should provide supervisors with flexibility to respond to new innovations and conditional licenses or similar approaches can be used to implement the approaches in practical steps. However, supervisors need to be prepared to license and supervise a wider number and more varied range of entities as insurers or distributors or both, and legal requirements need to include entry, oversight, and exit of such entities; (pp. 6)

3.2 By definition, when the market is less accessible to a group of customers, conventional approaches have not succeeded in overcoming the barriers to access. In situations where access to insurance markets is impeded, innovation is required. Innovation is important to bring down costs, reduce a lack of affordability, extend the reach of providers, or recognise innovations in technology or processes, to name just a few. At the same time, innovations can make the provision of the products and services not only attractive to customers, but economically viable. (pp.16)

3.12 Sometimes an inability to bundle life and non-life products in the same insurer is cited as a barrier to access because of increased costs. Innovative approaches may include bundling together various life and non-life products, including health benefits. Depending on the nature of the market, this may represent a way to enhance access to insurance services.(pp. 17)

3.13 How bundling is done varies. In some cases it can be achieved through packaged distribution of products from different insurers (within the same group or not). This approach requires the premiums, once collected, to be separated between the life and non-life components and for claims to be identified separately. (pp. 17)

Source: IAIS, 2012

Flexibility to encourage innovation: The Application Paper encourages insurance regulators to allow a large degree of flexibility to supervisors to permit various forms of market

[65] Note that this proposed bill has since been abandoned by the Zambian Government

innovation. A practical approach suggested is to allow for conditional licenses that can be made permanent once the innovation is proven in the market.

Limited formal space for innovation: SADC regulation does not currently provide supervisors with specific supervisory tools to facilitate innovation. Supervisors therefore tend to either exercise regulatory forbearance, or to try and fit new business models into existing regulation, even if it stretches the existing framework. This creates the risk that clients of new schemes may not be adequately protected should something go wrong.

5.8. Controlled test-and-learn

Box 13: Regarding pro-active market development (The Application Paper)

1.31.4 Pilots – this refers to innovations advanced through experimentation. Some projects can lead to confirmed innovations that are then 'scaled-up', others may fail and cease. Pilots are currently being conducted by a broad range of entities, sometimes with the support of sponsors that can bring substantial resources to the project. Other pilots may be less formal or less substantial. (pp. 11)

Licensing pilots

2.15 Pilot schemes should be considered to be entities that need to transition to a more normal status. It is most likely that consideration can be given to a registration process for pilots (Guidance 4.1.6). When developing the registration requirements, it will be important to consider the nature of the risks and the expected volumes of business. (pp. 14)

2.16 In seeking to include pilot schemes in the formal system, the motivation is

- the protection of the interests of customers; recognising that issues covering the full range of protections may arise regardless of the fact that the project is a pilot;
- the need for the scheme promoters to be aware of, and actively considering the modalities for the operation of the scheme after it has become successful; and
- the potential that pilots that prove unsuccessful may still have residual promises to customers. (pp.14)

2.17 Pilot schemes are initiated to test an approach and learn what modifications, if any, may be needed. Regulatory arrangements or less central legal issues may not be considered. Supervisors will be interested, however, in whether the customers have access to normal insurance supervisory protections ranging from adequate security to fair treatment from point of sale to claim and, if necessary, complaint resolution. In the event that the pilot does not go beyond the pilot phase, and outstanding obligations remain, supervisors will want to know how these obligations will be managed or transferred. (pp. 14)

2.18 One option would be to ensure that the customers are made aware of the fact that they are participating in a pilot and that some normal protections are not available directly; alternatively to require the promoters to provide them in other ways. This is likely to be a complex and disproportionate solution. (pp.14)

2.19 Another option would be to amend the law to allow all pilot schemes to be covered under the

conventional processes. This may be complex and time consuming and could hold up the conduct of a worthwhile pilot. (pp.14)

2.20 A preferable option might be to put in place some temporary and equivalent arrangements. Some examples might include requiring a deposit in lieu of capital in a separate legal entity or separately identified assets. (pp. 14)

2.21 Guidance 4.1.6. provides guidance in applying the licensing regime to pilot schemes. Supervisors may introduce a registration arrangement that can be used on an interim basis. Following the successful conclusion of the defined pilot phase, however, promoters must be required to apply for a more conventional license or wind up the pilot in an orderly manner protecting any remaining customer interests. (pp.14)

Source: IAIS, 2012: pp. 11, 14-27

Limited microinsurance pilots in SADC. Microinsurance diagnostics highlight some of the microinsurance pilots that have been established in SADC but these are limited at present. These pilots are sometimes indicative of multi stakeholder pro-active market development, involving an insurance supervisor, central bank, private sector operators, and donor organisations. There are also pilot schemes generated by the private sector itself. The diagnostics also show that to reach segments of a target market that are not sustainably serviced through the existing market provision, it is necessary to be proactive in the form of pilots. The market analysis shows different income segments in SADC. For example, it highlights the group of 6.7% of adults in SADC that earn USD $3-5 a day. This represents a group which is currently underserved by the market. Suitable product development may need some assistance (in the form of subsidy) in order to be sustainable from such an income group. Pilots are a mechanism through which these new products are tested before offering them to a wider market.

The IAIS Application Paper suggests test-and-learn as a method where controlled testing of regulatory modifications occurs by conducting pilots. It proposes that pilot schemes should be licensed, at least at the level of registration, and be subject to conditions that protect the interests of policyholders during and, if relevant, beyond the pilot.

The regulatory survey revealed that SADC supervisors are open to the concept of test-and-learn but do not currently employ such a pro-active market approach. Most countries were willing to use a test-and-learn approach for the introduction of new products, processes and innovations. However, few of the supervisory entities were able to substantiate their willingness with evidence of having accommodated such initiatives or explicit policy positions on accommodating innovations:

> Zambia's Pensions and Insurance Authority (PIA) shows a willingness to accommodate new innovations, even encouraging the bancassurance channel, whereby banks are enabled as insurance agents.
>
> Although no insurer has yet approached Swaziland's Office of the Registrar of Insurance and Retirement Funds (RIRF) to request exemption for the purpose of

testing new innovations, the body has indicated its willingness to monitor and assess new processes not explicitly covered in the insurance act. The Registrar is however wary of granting concessions or permitting activity that conflicts with current legislation. The entity is, however, open to sound, innovative technological approaches. Recently a cell captive concept was allowed, which is being monitored.

Similar to the RIRF, Tanzania's Insurance Regulatory Authority (TIRA) is willing to accommodate innovation within the law and is willing to institute a test-and-learn approach where appropriate. Cenfri (2012b) found that although the regulatory framework in Tanzania does not pose any barriers to market development, it does not incentivise microinsurance specific growth either. The diagnostic finds that the broad powers of discretion granted to the Commissioner by the Insurance Act have been applied in a number of instances to facilitate market development. Examples include allowing general insurers to underwrite funeral insurance under a "miscellaneous" category which allows foreign investment upon application; and allowing brokers to place insurance abroad where it is not available in-country. Another example relevant to microinsurance is where a broker who did not comply with the one third local ownership requirement was transacting an microinsurance brokerage. TIRA waved this requirement because it facilitated this unique product reaching the low-income market.

Lesotho's insurance regulation also makes provision to accommodate innovations and allows the Central Bank of Lesotho (CBL) to issue directives. The CBL has employed a test-and-learn approach by starting to register the entities operating medical aid schemes as brokers.

Mozambique's ISSM takes a more case-specific approach to test-and-learn, suggesting that the use of this methodology depends on the proposal. Certain aspects may be accommodated, whilst other things are non-negotiable.

Botswana's Non Bank Financial Institutions Regulatory Authority (NBFIRA) in principle also has the authority to accommodate test-and-learn but is not comfortable with this as a formal approach. So far, no exemptions for innovative products have been requested.

Mauritius' Financial Services Commission (FSC) indicates that they do not operate a test-and-learn approach.

5.9. Consumer protection

Box 14: Extracts from the Application Paper relevant for consumer protection

2.4 Enhancing inclusive insurance markets should not create a system where customers have increased access but only to products and services that are of a materially lesser quality. The products and services delivered should not have an unacceptable probability of not delivering the promised benefits.

Source: IAIS, 2012: pp. 12

Application Paper has limited specific guidance on consumer protection: The Application Paper does not deal extensively with consumer recourse and other specific dimensions of consumer protection. The IAIS is currently developing an Issues Paper on Market Conduct, Distribution and Consumer Protection in Inclusive Insurance Markets which will be issued in 2014. This paper will deal extensively with consumer protection issues in inclusive insurance markets.

Product approval primary consumer protection mechanism: With the exception of South Africa, all supervisors reported to follow either a file and use or a file, approve and use approach for microinsurance products. This means that insurers have to submit product information to the supervisor before being able to offer it in the market.

	File and use	Approve and Use
Angola	X	
Botswana	X	
Lesotho		X
Malawi		X
Mauritius	X	
Mozambique	X	
Namibia	X	
South Africa		X *
Swaziland		X
Tanzania		X
Zambia	X	
Zimbabwe		X

* SA to use file and use under new MI act

Table 11: SADC countries using file and use and approve and use in insurance regulation

Source: Consultations with industry supervisors

Consumer protection regulation: Most SADC countries include some measures on consumer protection, such as disclosure requirements, in their insurance laws. A number have also created insurance ombudsmen. Others make general consumer protection rules applicable to insurance. Supervisors reported limited awareness of abuse amongst consumers. Few supervisors reported consumer protection and product value as key issues in their markets.

Claims ratios only monitored for solvency and not for value. Importantly, the survey of supervisors found that few supervisors are monitoring claims ratios from a client value perspective. Consultations with SADC regulators have revealed that claims ratios are mostly monitored from a risk and solvency perspective and not as measure of the value delivered to clients. From a financial soundness perspective, lower claims ratios is advantageous for insurers and makes for a financially sound industry. From a value perspective, claims ratios that are too low indicate that very little of the premium is returned to clients, a trend that will eventually undermine trust in insurance amongst the population (section 3.2.5 analyses SADC-wide claims ratios).

5.10. Monitoring microinsurance

Box 15: Extracts from the Application Paper relevant for monitoring microinsurance

5.9 Limitations on available data (paragraph 22 of the introduction) may be a barrier to the inclusive provision of insurance products. This can be the result of data being insufficient or because data that is available is not specific to the risks faced by underserved segment. When the absence of appropriate data induces high margins of conservatism in prices, it can restrict access to insurance services by making them unaffordable or uneconomic.

5.10 Limitations of data may be more general, particularly information on the underserved market itself including the key barriers to access, the key risks faced by the underserved, and the manner that they look to address these risks. It is important that those developing policy and supervisory initiatives intended to enhance access to more inclusive insurance markets are able to understand these issues.

5.11 When limitations of skills and information have a material impact on access to inclusive insurance markets, supervisors should improve or alleviate the shortcomings by sponsoring projects, encouraging others to do so, or raising the need for projects to the attention of others.

Source: IAIS, 2012: pp. 30

Data assists supervisors to make informed decisions and is vital when seeking to develop inclusive retail markets. Insurance runs on data given its nature as one of the most sophisticated and complex parts of the financial system. Helpful types of information include actuarial data about risks experienced by the lower end of the market (such as mortality, morbidity and disaster indicators). Such types of data are strengthened by the availability of demand-side information (for example from representative household surveys and market information (supervisors monitoring data such as from MIS systems of insurers). The GPFI's (Global Partnership for Financial Inclusion) 2012 guidance points out that "policy relevant data should be collected on a regular basis to calibrate linkages ex ante and then monitor them in practice"[66].

[66] GFRI (29.08.2012): Plenary Session 3: Financial Inclusion – A Pathway to Financial Stability? Understanding the Linkages, p8

Data gather by SADC supervisors insufficient to monitor performance for microinsurance product or channel. Current supervisory data templates used by SADC supervisors do not provide sufficiently detailed data to allow the monitoring of performance at microinsurance product or channel level, as indicated below in Table 11. Claims ratios are mostly only available at company and regulatory product class. None of the supervisory templates allowed monitoring of performance for channels relevant to microinsurance (e.g. bancassurance or alternative distribution channels) or for low-income products such as funeral insurance, credit life and hospital cash plans.

	Claims Ratio						
	Company	Product Class	Distribution Channel-specific information	Lower-income product classes			
				Funeral insurance	Credit life insurance	Hospital cash plan	Microinsurance regulatory category
Angola	✓	✓	n/a	n/a	n/a	n/a	-
Botswana	✓	✓	✗	✗	✗	✗	✓ **
Lesotho	✓	✓ *	✗	✗	✗	✗	-
Malawi	✓	✓	✗	✓	✗	✗	-
Mauritius	✓	✓	n/a	n/a	n/a	n/a	-
Mozambique	✓	✓	✗	✗	✗	✗	-
Namibia	✓	✓	✗	✓	✗	✗	-
South Africa	✓	✓	n/a	✓	✗	✗	✓ **
Swaziland	✓	✗	✗	✗	✗	✗	-
Tanzania	✓	✓	✗	✗	✗	✗	-
Zambia	✓	✓	✗	✓	✗	✗	-
Zimbabwe	✓	✓	✗	✗	✗	✗	-
		* Only for general insurance					**Proposed

Table 11: Claims ratios: Level of detail reported in regulatory returns

Source: Consultations with industry supervisors

Microinsurance data should ideally be collected not just at product level but also at the level of distribution channels. Rich data about products commonly used in the lower end of the market can be used to channel appropriate industry development. Present data capture for microinsurance supervision is embryonic given that virtually all SADC countries do not have a regulatory definition of microinsurance. Data is being captured at company level, which is a vital first step and the foundation on which growing data analysis will be built.

Further opportunities exist in collecting and mining customer complaint information. This type of data is invaluable in giving the supervisor real-time feedback regarding the value proposition of products available in the market.

Beyond claims ratios only three supervisors reported to monitor lapses and none of these received the necessary data to monitor it at product or channel level. None of the supervisors received information on claims rejections or the time taken to settle claims as part of their supervisory returns. Table 10 below indicates the extent to which SADC supervisors gather information on lapse rates, rejections and the time to settle claims.

	Lapses			Rejections			Time taken to settle claims		
	Company	Product Class	Regulatory product line level	Company	Product Class	Regulatory product line level	Company	Product Class	Regulatory product line level
Angola									
Botswana	Yes	Yes	No	No	No	No	No	No	No
Lesotho	No	No	No	No	No	No	No	No	No
Malawi	Yes	Yes	No	No	No	No	only through complaints	only through complaints	only through complaints
Mauritius									
Mozambique									
Namibia	No	No	No	No	No	No	No	No	No
South Africa									
Swaziland	No	No	No	No	No	No	No	No	No
Tanzania	No	No	No	No	No	No	No	No	No
Zambia	Yes	Yes	No	No	No	No	No	No	No
Zimbabwe	No	No	No	No	No	No	No	No	No

Table 12: Supervisors monitoring of lapses, rejections and the time taken to settle claims

Source: Consultations with industry supervisors

5.11. Regulatory findings

Regulatory reforms to facilitate inclusive insurance are currently spreading across SADC. Ten Member States have indicated that they are in the process of developing such frameworks. Only two countries - Mozambique and Malawi - have yet enacted legislation specifically referring to microinsurance. However, Mozambique's regime is in the process of further development since regulation still has to be issued, and Malawi's dispensation is a very limited one created in microfinance legislation primarily focused on credit and deposit-taking microfinance services.

Limited policy development underpins regulatory initiatives: Very few countries have actually developed either a dedicated microinsurance policy or a broader financial inclusion policy that deals comprehensively with inclusive insurance and the objectives it would like to achieve through its regulatory changes. South Africa is the only country with a dedicated microinsurance policy document, as well as a comprehensive financial inclusion policy that also covers insurance. Two other countries - Malawi and Zambia - have explicit financial inclusion policies and a number of others are developing such policies. Five SADC countries have made specific commitments under the Maya declaration to instil regulatory regimes that facilitate access to financial services. One of the biggest drivers for broader financial sector regulatory reform is, however, the FSAP assessments undertaken by the IMF and World Bank. Only three of the eight FSAPS undertaken in SADC in recent years mentioned promoting financial access as a recommendation.

Diverse definitions of microinsurance being developed: At the date of this study, seven SADC countries, including Mozambique and Malawi mentioned above, had either created microinsurance definitions in regulation or were in the process of formulating such definitions. The definitions being developed follow different approaches given the guidance provided by the Application Paper. For the purpose of the analysis, we exclude Namibia since no actual definition has been formulated to date and reference is simply made to a product category to be defined by the Minister. Of the remaining six countries, three use a quantitative definition and three a qualitative definition. Only two countries, Botswana and South Africa, utilise a quantitative definition relating to the product, i.e. benefit caps. Only Swaziland utilises a quantitative definition relating to the target market. All the qualitative definitions relate to the target market. Mozambique seems to marry the two, referring to both target consumers and benefit caps.

Microinsurance definitions in SADC largely not aligned with IAIS guidance. The Application Paper suggests that, if the intention of the regulator is to delineate a separate regulatory space for microinsurance products and to grant regulatory concessions for entities underwriting microinsurance products or intermediaries distributing such products, a quantitative definition delineating a clear product category may be preferable and less complex for insurers to implement. All ten SADC countries developing microinsurance regulations are aiming to create a differentiated regulatory space with underwriting or intermediation concessions for microinsurance. Yet, of the six countries for which some form of definition is available, only two use quantitative definitions focusing on the product class.

Common approach to microinsurance definition possible: Due to the early stages of regulatory definition in which virtually all the countries are, and given the fact that they seem to have similar policy objectives that they want to achieve with the regulation, it is

possible to develop a common approach to microinsurance definitions between the countries in the region.

Concessionary space need to consider capital requirements on a risk-based basis: There is a large divergence in minimum capital requirements across the region – ranging from US $7,900 in Lesotho's life industry to US$8m in Angola's life industry. Apart from two outliers (Angola and Mozambique) the capital requirements within the SADC region are generally not high. The average capital requirements in the SADC life industry (excluding Angola and Mozambique) is approximately USD $500,000 and approximately USD $330,000 in the non-life industry (excluding Angola). However, as part of the wave of regulatory reform, there is a trend within the region to increase capital requirements with a number of countries either recently increasing these requirements or proposing to do so in future. While capital requirements seemed not to impose constraints on microinsurance development to date, higher capital requirements may do so going forward.

Concessionary space for microinsurance underwriting includes flexibility on institutional types. Across SADC a number of countries are relaxing the limitations on the type of organisations that can underwrite microinsurance products. Prospective legislation in six countries and enacted legislation in one country no longer limits underwriting to public companies only. Instead, permission is extended to organisations such as mutuals, cooperatives, NGOs and private companies to also underwrite microinsurance products.

Current approaches to informal market not well informed or directed: It is clear from the market analysis that informal insurance markets in SADC are substantial and cover a large proportion of households (in some cases even exceeding the formal sector coverage). Despite its significance supervisors have very limited data on the informal market in their jurisdictions. Supervisory responses to informality vary from considering it beyond the scope of the supervisor's mandate, to acknowledging capacity constraints to deal with it, to being in the process of developing a strategy, to penalising and criminalising informal activity and shutting down informal providers, usually as the result of an industry crisis.

Although traditional broker/agent models still prevail, space is being created for dedicated microinsurance distribution: The general approach to intermediation is still largely based on the traditional models of brokers and agents. At the same time five countries are proposing to create a dedicated regulatory space for microinsurance intermediaries, usually referred to as microinsurance agents, and thus to align their regimes with the Application Paper. A general supervisory weakness is that supervisors do not monitor the performance of insurance providers or products at the business model/distribution channel level. A single insurer may operate a number of business models under its license, each with its unique partners, parameters and performance. A sound regulatory response requires understanding of the differential performance of different distribution channels.

Flexibility to encourage innovation: The Application Paper encourages insurance regulators to allow a large degree of flexibility to supervisors to permit various forms of market innovation. A practical approach suggested is to allow for conditional licenses that can be made permanent once the innovation is proven in the market. SADC regulation does not currently provide supervisors with specific supervisory tools to facilitate innovation. Supervisors therefore tend to either exercise regulatory forbearance, or to try and fit new business models into existing regulation, even if it stretches the existing framework. This

creates the risk that clients of new schemes may not be adequately protected should something go wrong.

Test-and-learn approach not in evidence: The IAIS Application Paper suggests test-and-learn as a method where controlled testing of regulatory modifications occurs by conducting pilots. It proposes that pilot schemes should be licensed, at least at the level of registration, and be subject to conditions that protect the interests of policyholders during and, if relevant, beyond the pilot. The survey revealed that most countries were willing to use a test-and-learn approach for the introduction of new products, processes and innovations. However, few of the supervisory entities were able to substantiate their willingness with evidence of having accommodated such initiatives or explicit policy positions on accommodating innovations. A number of pilots are being conducted across the region.

Product approval primary consumer protection mechanism: With the exception of South Africa, all supervisors reported to follow either a file and use or a file, approve and use approach for microinsurance products. This means that insurers have to submit product information to the supervisor before being able to offer it in the market, thus providing an initial quality and compliance test for microinsurance products. Most SADC countries include some measures on consumer protection, such as disclosure requirements, in their insurance laws. A number have also created insurance ombudsmen. Others make general consumer protection rules applicable to insurance. Few supervisors reported consumer protection and product value as key issues in their markets.

Data gathered by supervisors inadequate to monitor and develop inclusive insurance markets. The Application Paper points out that limitations in available data may be a barrier to the inclusive provision of insurance products. The absence of data can, amongst others, induce high margins of conservatism in prices. Current supervisory data templates used by SADC supervisors do not provide sufficiently detailed data to enable the monitoring of performance at microinsurance product or channel level. Claims ratios are mostly only available at company and regulatory product class. None of the supervisory templates provide for the monitoring of performance of channels relevant to microinsurance (e.g. bancassurance or alternative distribution channels) or for low-income products such as funeral insurance, credit life and hospital cash plans. To effectively develop microinsurance in the region will therefore require substantial changes in the focus and detail of data gathered by insurance supervisors.

6. Conclusion

This study surveyed the market for inclusive insurance across the SADC region. It covers the demand for microinsurance products, the current supply of such products as well as the manner in which inclusive insurance markets is being regulated in the different SADC Member States.

The research revealed that more than 95% of the entire target market for insurance in the SADC region can be classified as the microinsurance target market. The vast bulk of this target market is currently unserved by formal insurance. Even though the majority of the potential target market cannot be served on a commercially sustainable basis given the current levels of income, infrastructure and technology, between 10 and 20 million clients who are currently unserved can be reached and served under current market conditions.

From the perspective of the IAIS, who sets the international standards for insurance regulation, the development of the retail insurance market in SADC is thus overwhelmingly a case of promoting inclusive insurance markets. The IAIS has issued an Application Paper to provide guidance on the regulation and supervision of inclusive insurance markets.

Although none of the SADC Member States yet complies with the IAIS guidance on inclusive markets, 10 Member States are at some stage of the process to develop regulation that would accommodate inclusive insurance. This is not surprising given the predominance of this market in all Member States.

Although all the Member States aim to create regulatory concessions for insurance providers and intermediaries providing microinsurance, there is substantial divergence amongst the approaches currently being taken. Fortunately, most of the regulatory processes are at a stage where they can be adjusted to align with the guidance in the Application Paper. Given the increasing levels of market integration in SADC insurance markets as well as the commitment under the FIP to harmonise regulation, microinsurance thus presents a ready opportunity for coordinating approaches amongst Member States.

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Annex 1: Risk experience in SADC

Risks	Botswana (2009)	Lesotho (2011)	Malawi (2008)	Mozambique (2009)	Namibia (2011)	Swaziland (2011)	Tanzania (2009)	Zambia (2009)	Zimbabwe (2011)	Total
Health	402 350	450 627	1 006 049	3 618 600	151 655	114 799	19 955 178	1 251 322	2 240 294	29 190 874
Loss of assets (theft, fire or destruction)	472 450	58 554	504 667	7 189 224	29 818	3 236	6 394 941	17 896	111 631	14 782 417
Death in the household (funeral)	555 315	391 385	131 234	1 254 398	-	158 534	8 415 599	958 342	711 881	12 576 688
Agricultural	170 444	296 155	2 196 251	3 461 101	68 860	68 911	1 708 701	307 748	1 690 054	9 968 225
Natural disaster	-	23 414	188 866	-	38 992	896	9 063 637	18 511	-	9 334 316
Death of a breadwinner (life)	-	285 624	230 980	2 653 217	50 426	145 800	4 808 782	674 576	230 626	9 080 031
Vehicle-related risk	-	-	-	644 736	-	-	7 413 063	-	-	8 057 799
Disability	-	65 061	-	2 537 095	-	3 412	649 570	15 611	-	3 270 749
Loss of job (unemployment)	175 841	168 202	411 287	1 547 154	-	26 800	413 320	68 911	228 787	3 040 302
Total adults	993 172	1 132 568	6 050 715	11 478 645	1 116 928	531 813	21 166 635	6 385 929	5 979 110	54 835 515

Table 13: Number of adults identifying discrete risks as potentially adversely affecting their future finances across SADC countries[67]

Source: Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

[67] The anchor risks are calculated based on the response from FinScope consumer surveys to the question of whether the respondent views each risk as likely to impact upon their finances in future.

Annex 2: Product take-up by country

Formal insurance products	Botswana (2009)	Lesotho (2011)	Malawi (2008)	Mozambique (2009)	Namibia (2011)	Swaziland (2011)	Tanzania (2009)	Zambia (2009)	Zimbabwe (2011)	Total
Total adult population	993 172	1 132 568	605 0715	11 478 645	1 116 928	531 813	21 166 635	6 385 929	5 979 110	54 835 515
Funeral	208 688	416 290	459 260	100 363	296 094	77 911	0	21 479	735 915	2 316 000
Health/ Medical	153 688	15 333	622 392	109 732	152 924	17 565	1 130 452	20 724	532 571	2 755 381
Life	118 427	19 968	917 728	59 765	109 215	19 193	57 585	49 940	121 032	1 472 853
Motor vehicle	54 770	4 659	310 526	55 839	67 263	13 858	151 805	93 426	208 756	960 902
Asset/ Household	20 170	8 917	509 188	22 325	67 319	5 977	11 804	9 371	60 956	716 027
Credit/Loan	31 388	1 739	n/a	21 124	10 272	3 567	17 532	6 298	19 469	111 389

Table 14: Product landscape across SADC countries

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Annex 3: Income distribution across SADC countries

Income per day	Botswana		Lesotho		Malawi		Mozambique		Namibia	
	Total population		Total population		Total population		Total population		Total population	
	% of adults	No. of adults	% of adults	No. of adults	% of adults	No. of adults	% of adults	No. of adults	% of adults	No. of adults
No income	26.7%	264 701	19.9%	225 001	8.0%	482 331	-		19.0%	211 877
0 - $1	12.5%	124 363	18.4%	208 866	57.3%	3 464 606	48.3%	5 538 845	13.0%	145 318
$1 - $3	16.9%	167 562	29.7%	336 219	19.9%	1 202 778	19.0%	2 179 867	26.0%	290 636
$3 - $5	7.0%	69 670	11.4%	128 773	3.5%	211 234	4.6%	526 069	14.5%	162 425
$5-$10	4.0%	39 970	9.4%	106 104	2.2%	133 979	1.8%	203 790	7.9%	88 637
Above$10	24.5%	243 248	8.9%	101 071	1.8%	108 283	1.5%	169 488	17.6%	196 065
Uncategorised	8.4%	83 658	2.3%	26 534	7.4%	447 504	24.9%	2 860 586	2.0%	21 972
Total		993 172		1 132 568		6 050 715		11 478 645		1 116 928

Income per day	South Africa		Swaziland		Tanzania		Zambia		Zimbabwe	
	Total population		Total population		Total population		Total population		Total population	
	% of adults	No. of adults	% of adults	No. of adults	% of adults	No. of adults	% of adults	No. of adults	% of adults	No. of adults
No income	12.3%	4 377 948	0.5%	2 488	6.0%	1 264 223	3.4%	163 253	17.3%	1 035 046
0 - $1	24.9%	8 880 225	8.4%	44 464	46.7%	9 886 766	16.4%	798 045	15.0%	899 163
$1 - $3	-	unavailable	12.2%	65 037	19.1%	4 040 886	17.8%	863 086	30.1%	1 798 325
$3 - $5	-	unavailable	7.9%	41 872	3.4%	716 930	6.6%	321 770	11.3%	676 283
$5-$10	18.2%	6 481 425	13.1%	69 513	2.1%	448 700	3.7%	179 808	14.3%	857 869
Above$10	21.1%	7 533 108	10.6%	56 243	0.3%	72 909	8.1%	395 077	11.6%	694 968
Uncategorised	23.6%	8 414 428	47.4%	252 196	22.4%	4 736 221	43.9%	2 133 313	0.3%	17 456
Total		35 687 134		531 813		21 166 635		4 854 351		5 979 110

Table 15: SADC countries' income distribution

Source: Own analysis of FinScope consumer survey data, 2008-2011 (Botswana (2009), Lesotho (2011), Malawi (2008), Mozambique (2009), Namibia (2011), South Africa (2012), Swaziland (2011), Tanzania (2009), Zambia (2009), Zimbabwe (2011))

Annex 4: Regulatory Survey Questions

Regulatory Survey
Overview Questions
What in your view are the main trends and risks in the insurance industry?
In terms of ownership, what is the majority trend for your market (foreign/domestic)?
Overall Regulatory Framework
Is there a clear risk framework in place?
If yes, what are the various ways that you have approached this?
If not, how could the regulator make steps towards this?
Does the framework focus purely on systemic risk or does it go down to an individual risk level?
What reporting is required and what format does it follow?
Does the regulatory framework clearly seek to minimize the cost of regulation?
How much does the supervisor know about market players and products?
How does the capacity of the supervisor affect this?
How do the regulatory framework and the supervisor's capacity accommodate for new market entrants?
How many failures, from caution to full failure, have occurred in last 10 to 20 years?
What were the main reasons?
Was serving the low-income market ever the reason for company issues?
Proportionality
Are you comfortable that the regulation and supervision is calibrated to the level of development and capacity in your country?
How do you ensure this?
What is it measured against?
Is there evidence of using proportionality to achieve this?
Has the cost and burden of compliance and proportionality explicitly been taken into account?
What concessions have been made to facilitate development?
Is the regulator willing and able to accommodate innovation that does not fit neatly into regulatory framework (**test and learn**)?
What actions have been made that demonstrate this?
If a New Regulatory Framework is in Progress:
What are the strategic objectives and risks that the new regulatory framework seeks to address?
What evaluation procedures will you have in place to test its viability?
What policy development has lead to the new framework?
What impact is expected from the new framework?
Will the framework accommodate M.I.? If so, in what form?
How is it different from the previous regulatory framework?
Specific Focus: Financial Inclusion and MI
What percentage of adults have insurance in your country?
Is this figure reported in the Supervisors' Annual Report? Is it one that the supervisor is assessed on (e.g. by MoF)?
What is the general public's perception of insurance? Why?
How does the regulation accommodate financial inclusion?
What are the policy drivers behind this?
What current products support financial inclusion?

What is the experience of low-income population with insurance?
What current products are geared towards the low income market? What M.I. products exist?
Through what distribution channels are these sold?
Does the regulatory framework allow cooperatives (mutual companies or other miscellaneous organizations) in the market?
What is the rationale behind this?
Efficiency and Value
Do you have claims ratios divided across product lines?
What claims ratios are considered generally acceptable and is this value a concern to you?
Does the reporting framework allow supervisor to monitor claims ratios on lower-income products? And M.I. products?
Are there regulatory incentives to reduce overhead cost as a proportion of net premiums?
What current MIS systems are available?
Do all insurers run electronic MIS systems?
Are debit order deductions possible? At what cost?
What percentages of premiums are paid in cash/cheque/electronically?
Consumer protection
Do you consider claims to be settled in a timeous manner?
Is there any process to monitor levels of claims rejections or to spot-check rejections?
What percentage of claims are rejected?
Is there an ombudsmen or recourse process?
If yes to the ombudsman, is it an internal or external position?
Is the ombudsman position: voluntary, industry or state appointed?
Skills and capacity
Do you consider there to be a sufficient insurance technical skills available?
Do you have an indication of the number of professional staff employed in insurance industry?
Of which: working for the supervisor?
Of which: working for the private sector?
Of which: independent contractors?
Of which: local?
Of which: foreign?
Specifically, number of actuaries?
Specifically, number of accountants?
Specifically, number of IT staff?
What professions make up the staff component of the supervisor?

Annex 5: Meeting lists for country missions

Organisation	Name	Designation
Angola		
Ministry of Finance: Insurance regulatory Institute (Instituto de Supervisao de Seguros)	Armando Costa	Technical Director
	Antonio Jose Dumba	Department of Autonomous Fund
	Roberto Bras Manuel da Silva	Department of Autonomous Fund
Botswana		
Non-Bank Financial Institutions Regulatory Authority (NBFIRA)	Mrs. M. V. Raphaka	Acting Director- Insurance and Pensions.
	Mr. P. P. Sesinyi	
SADC Secretariat	Roseline Seleka	Programme Officer, Finance and Investment
Insurance Council of Botswana	Lydia Moate	Director
Lesotho		
Central Bank of Lesotho	Mr Fusi Morokole	Director of Insurance Supervision
	Mr. Qhobosheane Tsoafo	Insurance Inspector
	Ms. Thakane Tau	Section Head Offsite Surveillance
Ministry of Finance	Mr. Lichaba	
	Ms. Florence Motseoa	
Metropolitan Life Lesotho	Mr. Nkau Matete	Director
Lesotho National Insurance Company	Mr. R.J Letsoela	Managing Director
Alliance Insurance Company	Mr. Angus Yeats	Director
Malawi		
Reserve Bank of Malawi	Patrick Mhango	Director, Pension & Insurance Supervision
	Chimwemwe B. Kachingwe	Chief Examiner, Pension & Insurance Supervision
	Limbikani Nundwe	Principal Examiner, General Insurance, Pension & Insurance Department
	Chitani Chigumula	Principal Examiner, Pension & Insurance Supervisor
	Glory Kakasai	Examiner, Policy & Regulations, Pension & Insurance Supervision
	Steve Makatchaya	Principal Examiner, Life Insurance, Pension & Insurance Department
NICO General Insurance Co. Ltd	Eric E. Chapola	CEO
Real Insurance	Ellection Mlaviwa	Chief Finance Office/Company Secretary
	Martin Magomero	Senior Operations Manager
Reunion Insurance	Christabell Saiwala	Financial Controller
Smile Life	Stain Singo	Managing Director
Airtel Money	Andrew Santhe	Country Manager

Malawi - participants in the Insurance Association and Broker's Association collective meeting.		
Indetrust	General Alliance Malawi	
Trinity Insurance	Swift Brokers	
United General Insurance (UGI)	Vanguard Life Malawi	
Reunion Insurance	Nico General	
Rhino Insurance	Eagle Insurance	
Hubertus Clausius	Malinda Chinyama	
Prime	Gerald R. Ngosi	
Easter Insurance	Vivien Chisanu	
Aon Malawi	David Paul	
Smile Life Insurance	Stain Singo	
City State	L.G Nyirenda	
Alexander Forbes	Donbell Mandala	
Swift Brokers	Pekwell Nkhwazi	
Mauritius		
Financial Services Commission (FSC)	Clairette Ah-Hen	Chief Executive
	Mr Dharmraj Oree	Chief Examiner
	Mr Clifford Appasamy	Chief Examiner
	Clifford Appasamy	Chief Examiner
	Trisha Mulloo	Research Officer
	Ajaml Burthun	Legal & Compliance Officer
	Ms Ashveena Gajeelee	Executive
Ministry of Finance and Economic Development	Mr Ramanaidoo Sokappadu	Lead Analyst
Brokers'Association	Mr Steve Yue Tze Kung	Running President
Feber Associates (Insurance Association)	Ms Vanisha Pusun	Actuary
Island Life Assurance (Insurance Association)	Mr Vinayakumar Balakrishnan	General Manager,
The New India Assurance Company Ltd (Insurance Association)	Mr S Vaideswaran	Chief Manager
La Prudence (Insurance Association)	Clarel Marie	Actuary
BAI	Mr Rishi Sookdawoor	President and CEO
	Henri Wan	Senior Vice President
State Insurance Company of Mauritius Ltd (SICOM)	Mr Vijal Balgobin	Group Senior Manager
	Mr Sailesh B Koomar	Operations Executive - Life
Swan Insurance/ Anglo-Mauritius (Swan Group)	Louis Rivalland	Group Chief Executive
Anglo-Mauritius/Swan Group	Mr Louis Rivalland	Group Chief Executive
	Mr Sattar Jackaria	Senior Manager - Actuarial Department
Mozambique		
Instituto de Supervisão de	Mr. Domingos Jose	Inspector General

Seguros de Moçambique (ISSM)	Mr Xavier Chongo	Director of Research
	Mr Rui Andrade	Director of Legal Department
	Ms. Lodovina Chilengue	Legal technician
Namibia		
Hollard Namibia	Jaco Lamprecht	Managing Director
Namibia Insurers Association (NIA)		
Ministry of Finance: Directorate - Economic Policy and Advisory Services	Andreas P. Ithindi	Deputy Director
Namiba Financial Institutions Supervisory Authority (NAMFISA)	Lily Brandt	Assistant CEO
	Maria Nakale-Gaomas	General Manager Provident Institutions
	Adrianus Vugs	General Manager Research, Policy and Statistics
	Irene Shebo	Senior Financial Analyst Long Term Assurance
	William Platt	Team Member: Research, Policy and Statistics Department
	Donovan Pokolo	General Manager Short Term insurance
	Diina Nashidengo	Senior Financial Analyst - Short term Insurance
	Johannes Uusiku	Manager Long Term Assurance
SANLAM Namibia	Tertius Stears	CEO
Long Term Insurance Industry Association		
Alexander Forbes	Bennie Visser	Chief Operations Officer
Namibia Insurance Broker Association (NIBA)		
South Africa		
Swaziland		
Registrar of Insurance and Retirement Funds (RIRF)	Sandile Dlamini	Registrar
	Thuli Nkwanyana	Manager Legal
	Nina Dlamini	Manager Inspections
	Sabelo Zwane	Legal Officer
Dups Insurance Brokers	Philip Desousa	Executive Chairman
Liberty Life	Mark Gobie	Head of African Operations
Central Bank of Swaziland	SL Simelane	General Manager Financial Regulation
	M Dlamini	National Payments Head
Old Mutual Swaziland	Duomo Mbethe	Chief Operating Officer
Metropolitan Swaziland	Muzi Dlamini	Managing Director
GetMed Swaziland	Montie Lloyd	Managing Director

Alexander Forbes Insurance Brokers	Lucky Mahlalela	Managing Director
Microfinance Unit	David Myeni	Programme Director
Swaziland Building Society	J.V. Ndlangamandla	Managing Director
Swaziland National Farmers' Union	Zanele Phiri	Manager
Swaziland Association of Savings and Credit Cooperatives (SASCCOs)	Grace Dludlu	Head
Swazi Development Finance Corporation (FINCORP)	Dumisani Msibi	Acting Managing Director
	Justice Bongani Simelane	Manager - Finance and Admin
	Bongani Simelane	Finance Manager
Swaziland Royal Insurance Corporation (SRIC)	Siphiwe Hlatshwayo	Life Manager
Swazi Bank	Stanley Matsebula	Managing Director
Ministry of Finance	Khabonina Mabuza	Principal Secretary
Nedbank	Fikile Mkosi	Managing Director
African Alliance	Sthofeni Ginindza	Managing Director
Orchard Insurance Group	Myrah Ndzabukelwako	
First National Bank Swaziland	Ezekiel Nsibandze	Compliance Head
Select Africa	Trudi Schwartz	Managing Director
Swaziland Federation of Employers	Zodwa Mabuza	Country Manager
Health Insurance Brokers	Simon Smith	Managing Director
Lidwala Insurance	Tich Magore	General Manager
Momentum Africa	Fatima Henwood	Operations Head
Pepstores Swaziland	Piet Roussouw	Country Manager
Small to Medium Enterprises Network	Lyndon Hermanson	Country Manager
Council of Churches in Swaziland	Khangezile Dlamini	General Secretary
Tanzania		
Jubilee Insurance	Zipporah Mungai	Chief Executive Officer
Golden Crescent Assurance	Punnoose Varkey N	Chief Executive Officer
First Assurance	Ms. Maryanne Mugo	Principal Officer
Niko Insurance (Tanzania) Ltd	Manfred Sibande	Chief Executive Officer
Aon Tanzania Limited	Khamis Suleiman	General Manager
Ar-linkage	Amir Kiwanda	Founder and Executive Director
Insurance Institute of Tanzania	Busiga M Massaka	Vice President
Tanzania Insurance Regulatory Authority - TIRA	Ms. Neema Lutula	Principal Actuarial Officer
	Paul Joel Ngwemba	Director of Legal Services
	Ms. Consolata M. Gabone	Senior Insurance Supervisory Analyst
Heritage Insurance Co	Anil Chopra	Chief Operating Officer
Alexander Forbes	Dominic Osumo	General Manager
	Sanjay Suchak	Managing Director

Phoenix (of Tanzania Assurance Company Ltd)	Nicas Nicholas Kutumiwa	Senior Underwriter
Nexus Consulting Agency	Joe Bendera	Mobile Account Executive
Liaison Tanzania Ltd	Okoth Oloo	Principal Officer
Zambia		
Pensions and Insurance Authority (PIA)	Mr Muyoya Chibiya	Deputy registrar - Insurance
	Mr Nicholas Mbuya	Manager, Compliance and Inspections - Insurance
	Mrs Namakau Ntini	Manager, Policy and Analysis - Insurance
Bank of Zambia	Mr Musapenda Phiri	Project Coordinator, Financial Sector Development Plan (FSDP), Non-Bank Financial Institutions Supervision Department
	Representatives from the Banking Supervision and Economic Policy departments	
Zimbabwe		
First Mutual Life	Madzishe Chipunza	Marketing & Distribution Executive
IPEC	Pupurayi Togarepi	Head Prudential Supervision
RBZ National Payment Systems Division	Josephat Mutepfa	Head National Payment Systems Division
	Douglas Muranda	
	Gertrude Murimhwa	
	Gertrude kabira	
RBZ Banking Supervision Division	Juliet Njobo	
	Nora Mukura	Head Banking Supervision
	Susan Kabungaidze	
	Gideon Charumbira	
	Chamirayi Manyumwa	
Altfin Medical Scheme	Thembi Moyo	General Manager
ZimSwitch	Adam Roscoe	
	Henry Brits	
Tetrad		
Kingdom Bank	Hillary Munyoro	
Ministry of Finance	Mary Takavarasha	
Zimbabwe Association of Microfinance Institutions	Godfrey Jokonya	
Doves	Talent Maziwisa	Managing Director
Zimnat Life	Munyaradzi Javangwe	Managing Director

Table 16: List of contacts met during the SADC harmonisation process