Ghana Insurance Diagnostic Stakeholder Presentation

26 October 2018

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Agenda

Time	Session
09:00 – 09:15	Welcome and opening
09:15 – 11:00	Insights presentation
11:00 – 11:30	Tea break
11:30 – 12:30	Questions, discussion and closing remarks
12:30 – 13:30	Lunch

Why are we here?

How does – and can – the insurance market contribute to sustainable and inclusive growth in Ghana?

Three lenses

How does insurance affect growth and development?

Source: Chamberlain et al. (2017) | 4

About this study

Commissioned by DFID, part of four-country project (including Kenya, Rwanda and Nigeria)

Method:

- 73-plus in-country consultations
- Data: Financial Inclusion Insights 2015, Integrated Business Establishment Survey 2017, Ghana Enterprise Survey 2013 data analysis, regulatory returns
- Desktop research

Purpose of workshop:

- To test insights and recommendations

Current contribution of insurance in Ghana

Market prognosis – early Stage 3 (Early voluntary):

- Low insurance penetration, growing voluntary market
- Fragmented market, dependent on compulsion
- Limited long-term liabilities
- Skills and technical capacity constraints
- Negative perception and trust deficit
- Well-respected regulator and committed policymaker

Insurance

Household resilience

- Limited current role but growing microinsurance and mobile insurance provision
- Low trust and poor perception of insurance limiting uptake
- Scope to expand provision to reachable groups

Business resilience

- Important role in corporate sector, bulk of non-life risk reinsured is offshored
- Bancassurance prohibited to corporates limits distribution to MSMEs
- Poor claims experience
- Limited role in risk management

Capital market development

- Current role in capital market development limited
- Small and short-term nature of liabilities limiting institutional investor role
- Lack of long term products for investment – 1 REIT, no infrastructure bonds
- Annuity/decumulation product or unit linked product potential

Imperatives for market development

Cross-cutting market changes to promote insurance market development

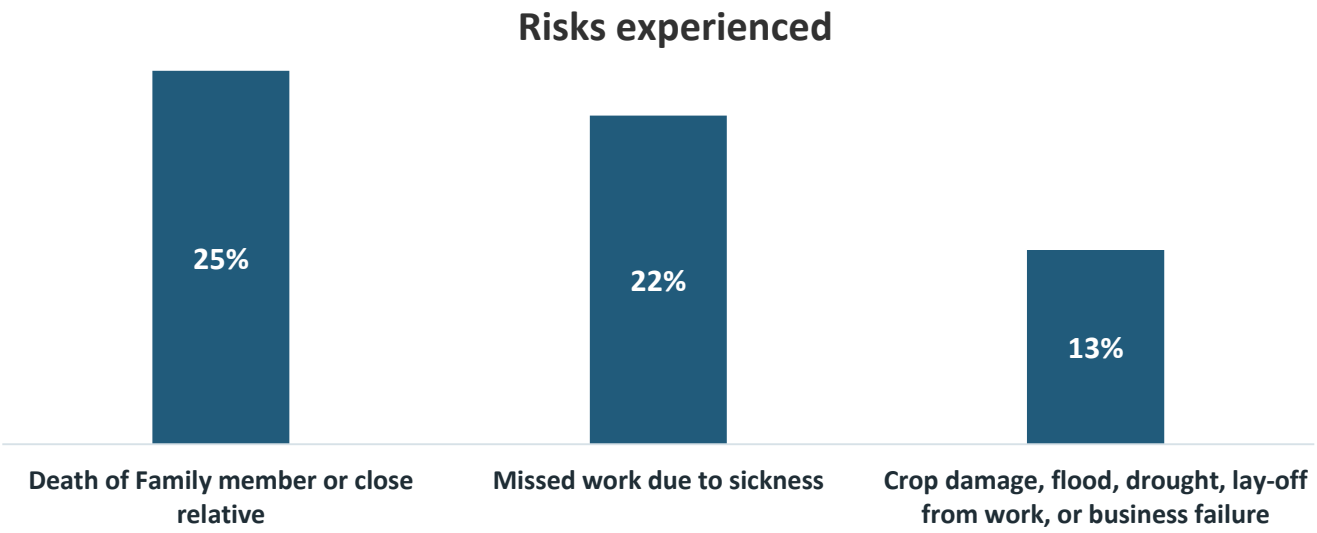
1. Improve trust and value to consumers
2. Broaden distribution options
3. Digitise for efficiency and value
4. Improve enterprise risk management
5. Build long-term capital
6. Consider key policy and regulatory constraints

1. Improve trust and value to consumers

The need for insurance exists

16.9 million adults in Ghana

6.8 million adults (40%) experienced an insurable risk



Source: FII (2015) | 9

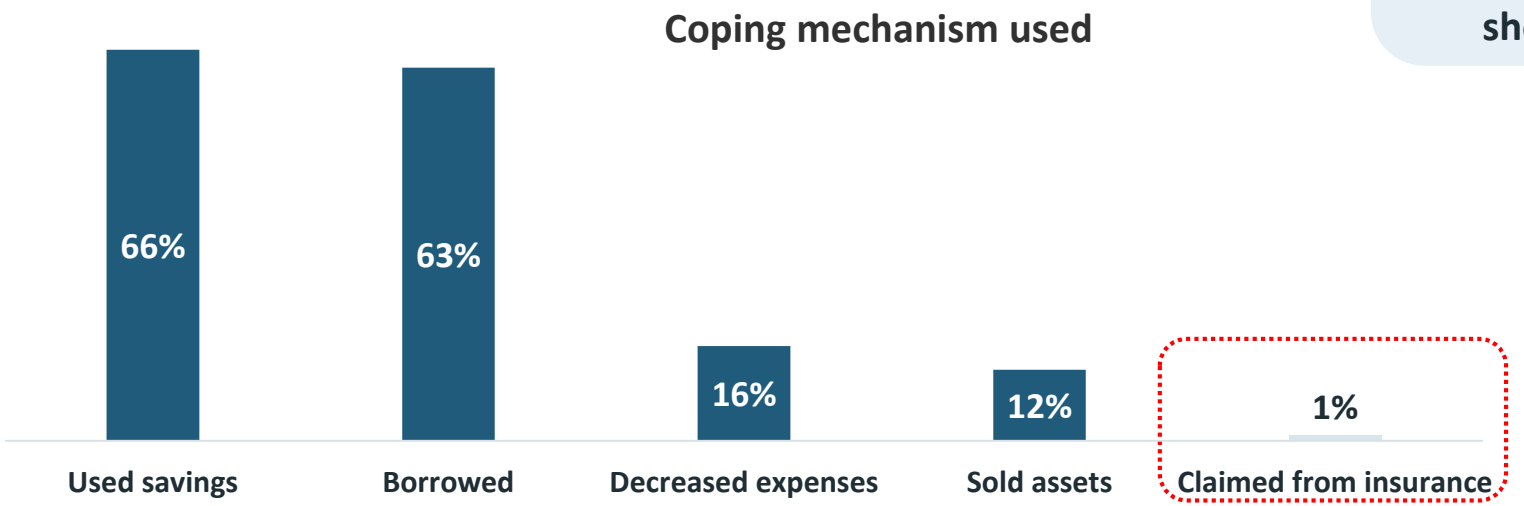
But use is limited

16.9 million adults in Ghana

6.8 million adults (40%) experienced an insurable risk

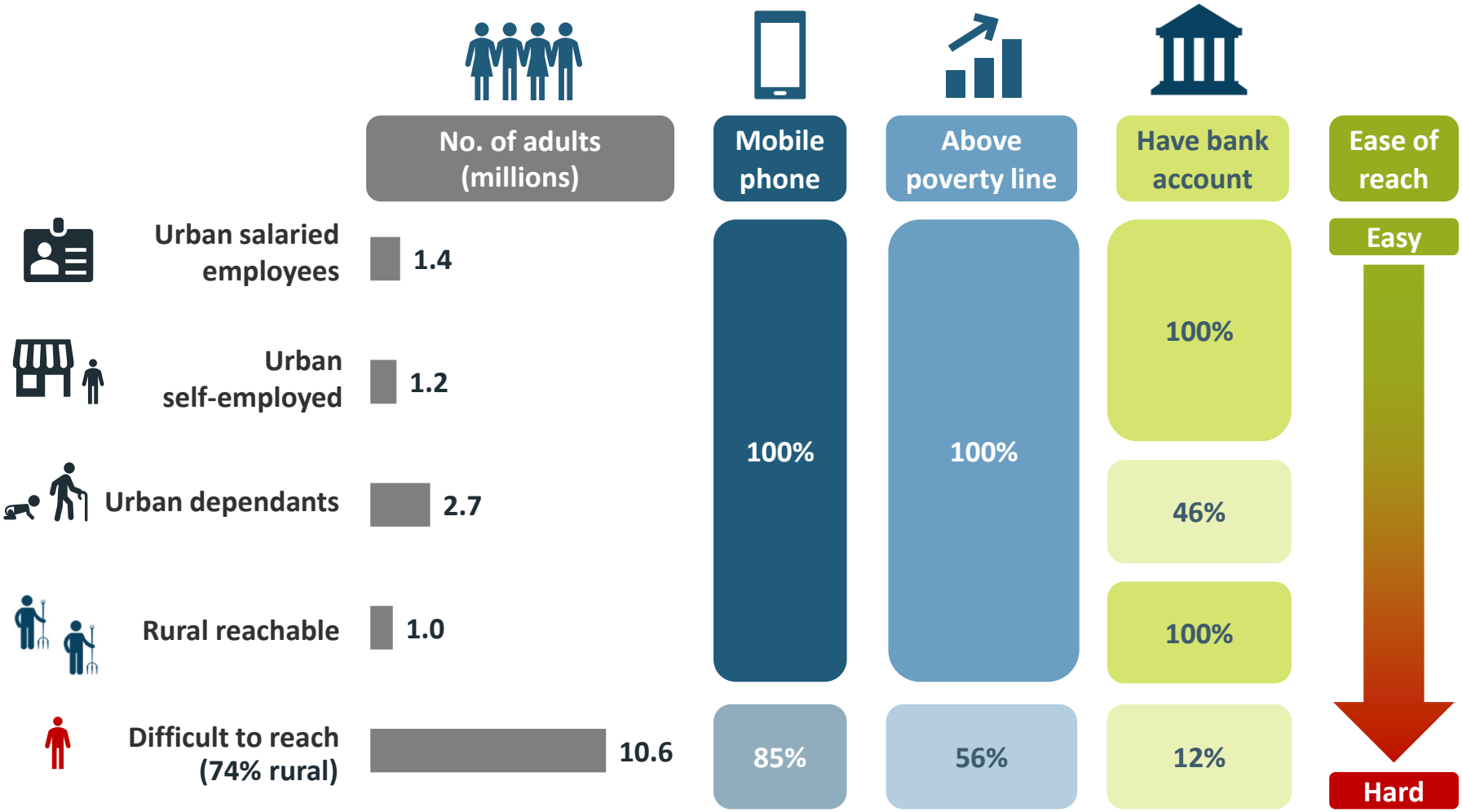
1 million adults (6%) have insurance

1% used insurance when faced with an unexpected shock



Source: FII (2015), FinScope (2010) | 10

A portion of adults are within reach of insurance



But even uptake among them is limited

	# of adults	Report having insurance
Urban Salaried employees	1.4 million	22%
Urban self-employed	1.2 million	13%
Urban dependants	2.7 million	5%
Rural reachable	1 million	10%
Total reachable	6.3 million adults (38% of the population)	11% (0.7 million adults) report having insurance

Ease of reach

Source: FII (2015) | 12

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Low trust and poor value of products play a role in low take-up

"We are dissatisfied in the services provided by the insurance companies. They take our monies to make themselves good. It is bad to delay in paying claims."

Microinsurance consumer, Techiman

"The limit on third-party motor insurance (GHS2,000) can't even buy four tyres for my car. How will it begin to cover the estimated damage of GHS42,000?"

Male, regular salary earner, Accra

Lack of trust

Claims ratios of **39%** coupled with poor claims experiences

Low value

Compulsory third party not providing value, **diminishing reputation** of insurance

Limited data on consumers limits insurers' ability to design products tailored to consumer needs.

But microinsurance is growing in terms of products, providers and lives covered

- **3.75m** policies (2017)
- **7.5** million lives and property covered (2014)
- **32% Health**

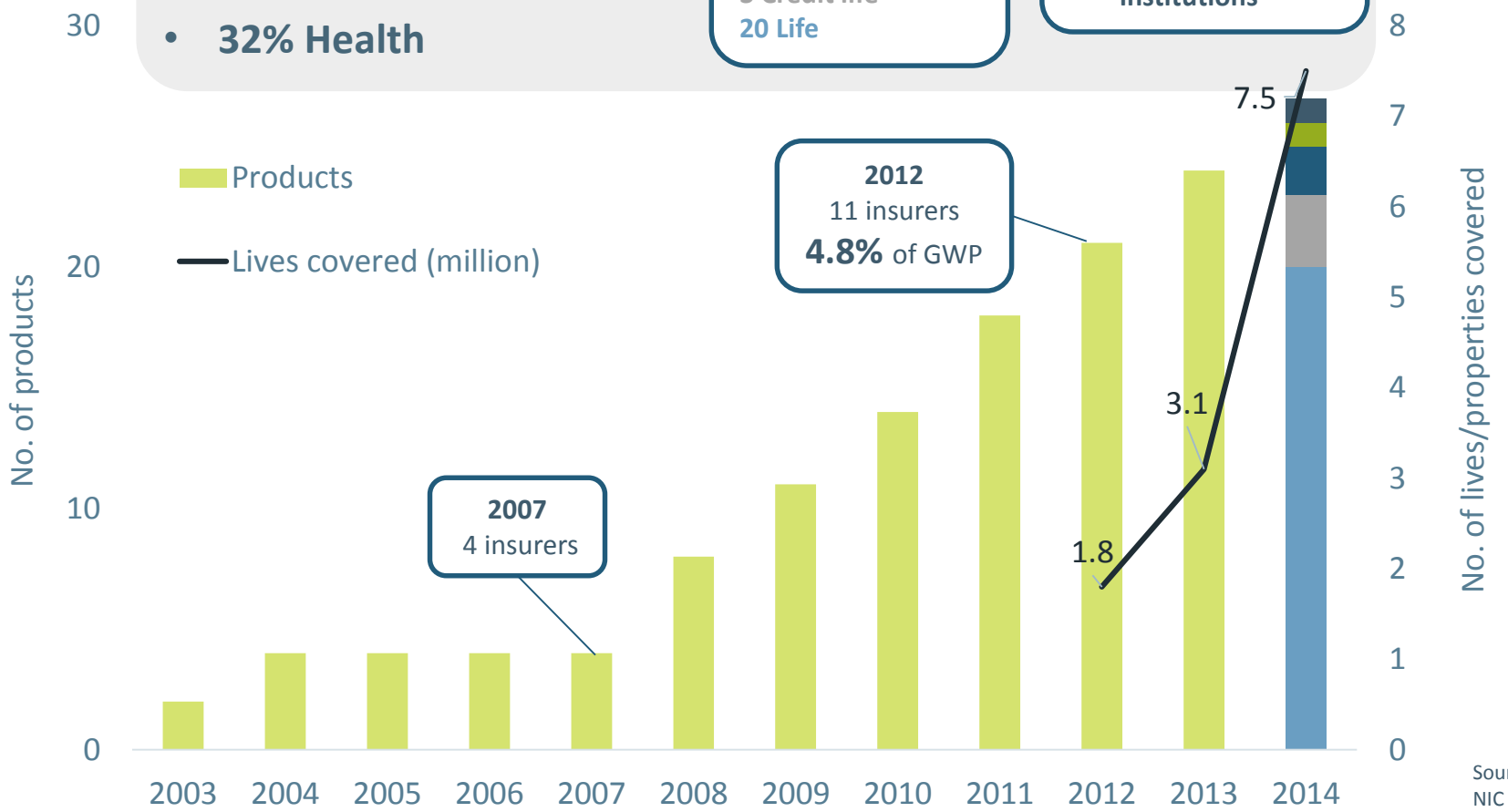
Products

1 Agriculture
1 Personal accident
2 Hospitalisation
3 Credit life
20 Life

Distribution

60% mobile

38% by financial institutions



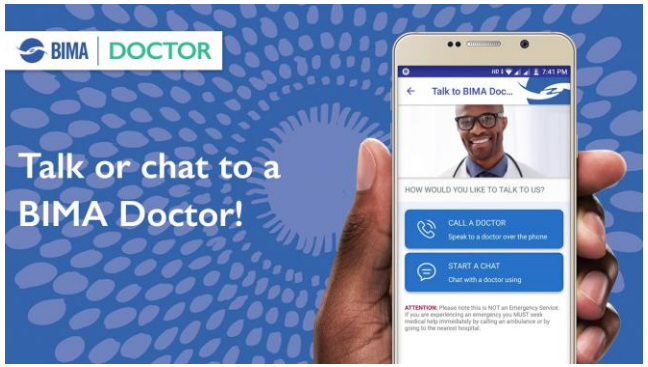
Source:
NIC & GIZ (2015)

Microinsurance health products complement the NHIS

22% of adults missed work due to illness in the last year.

40% of the population is covered by the NHIS.

36% of all health expenditure in Ghana is out-of-pocket.



Health products such as loss-of-income and telemedicine can complement the NHIS and help individuals deal with health-related shocks.

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Source: FII (2015), World Bank (2015), World Bank (2014), BIMA (2018), aYo (2018)

Insurance that serves agriculture and disaster risk is limited

- **37.3%** of the workforce is employed in the agricultural sector (3.3 million)
- The agricultural sector faces a **large number of risks**, which are insurable.

High threat
No threat

Value chain	Risk			
	Flood	Drought	Pest	Wildfires
Maize				
Cocoa				
Palm oil				
Fisheries				

Ghana Agriculture Insurance Pool (GAIP)

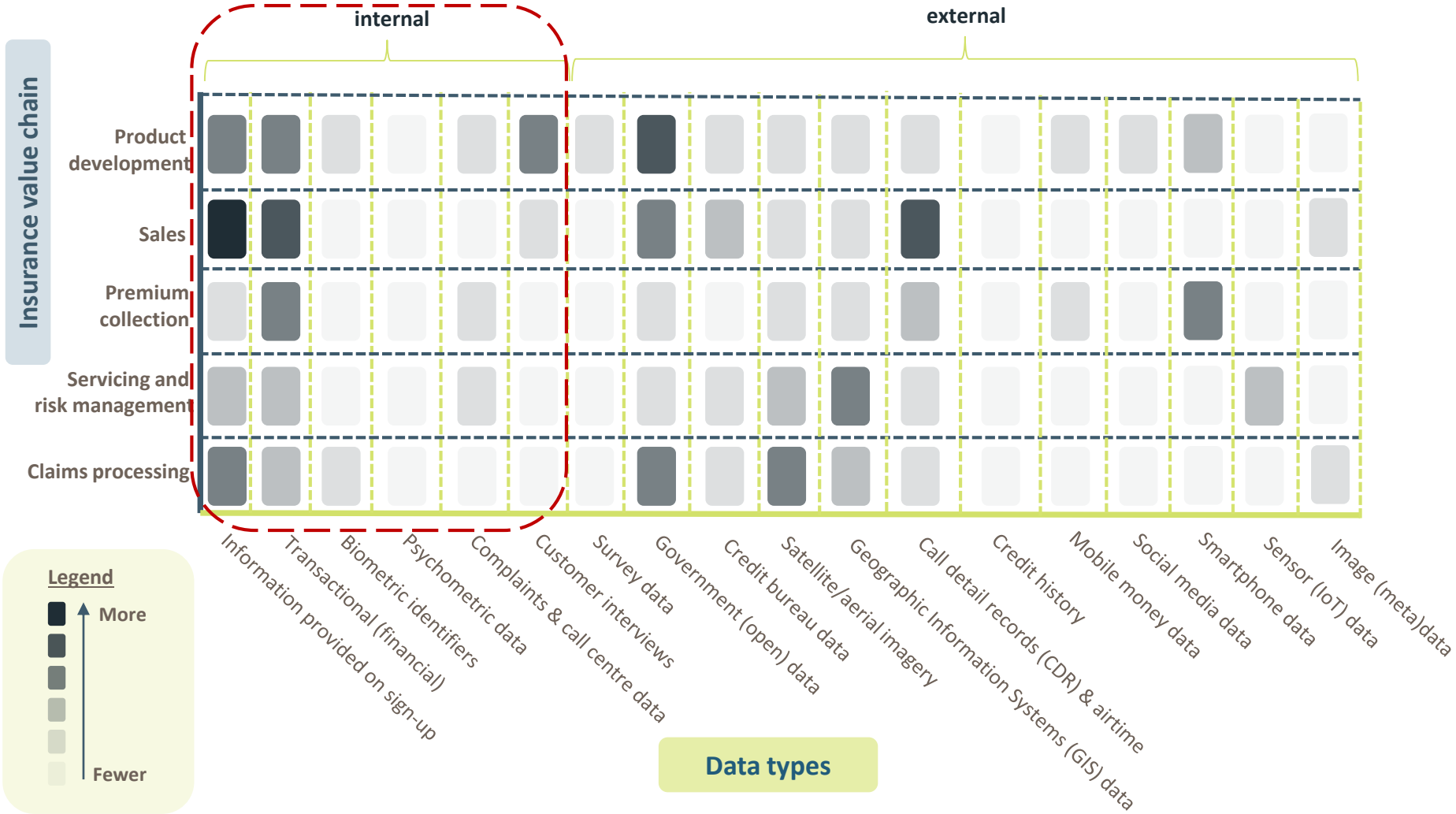
16 non-life insurers

- Three products offered (drought index, multi-peril and poultry)
- 4,000 policies
- Sustainability difficult as premiums not expected to cover sum assured

Source: GAIP (2018), StatsGhana (2017)

Some insurers see opportunity to better understand consumers

Focus on internal data for design, partner and government data potential



Source: Cenfri (Hunter et al, 2018) | 17

Cooperative Insurance Company (CIC) of Kenya uses open government data for sales and claims processing

CIC GROUP

Open government data

Sales and claims processing

- Makes use of the **Kenyan Integrated Population Registration** (IPRS)
- The IPRS pools all personal data that is centrally held about an individual
  - Birth, death, registration of refugees, driver's licence, national security fund, national hospital insurance fund, voter registration, SIM card, bank account
- The IPRS provides reliable, verifiable personal information on consumers
- Results in efficiency gains, lower costs and better understanding of consumers

Source: Cenfri (Hunter et. al)

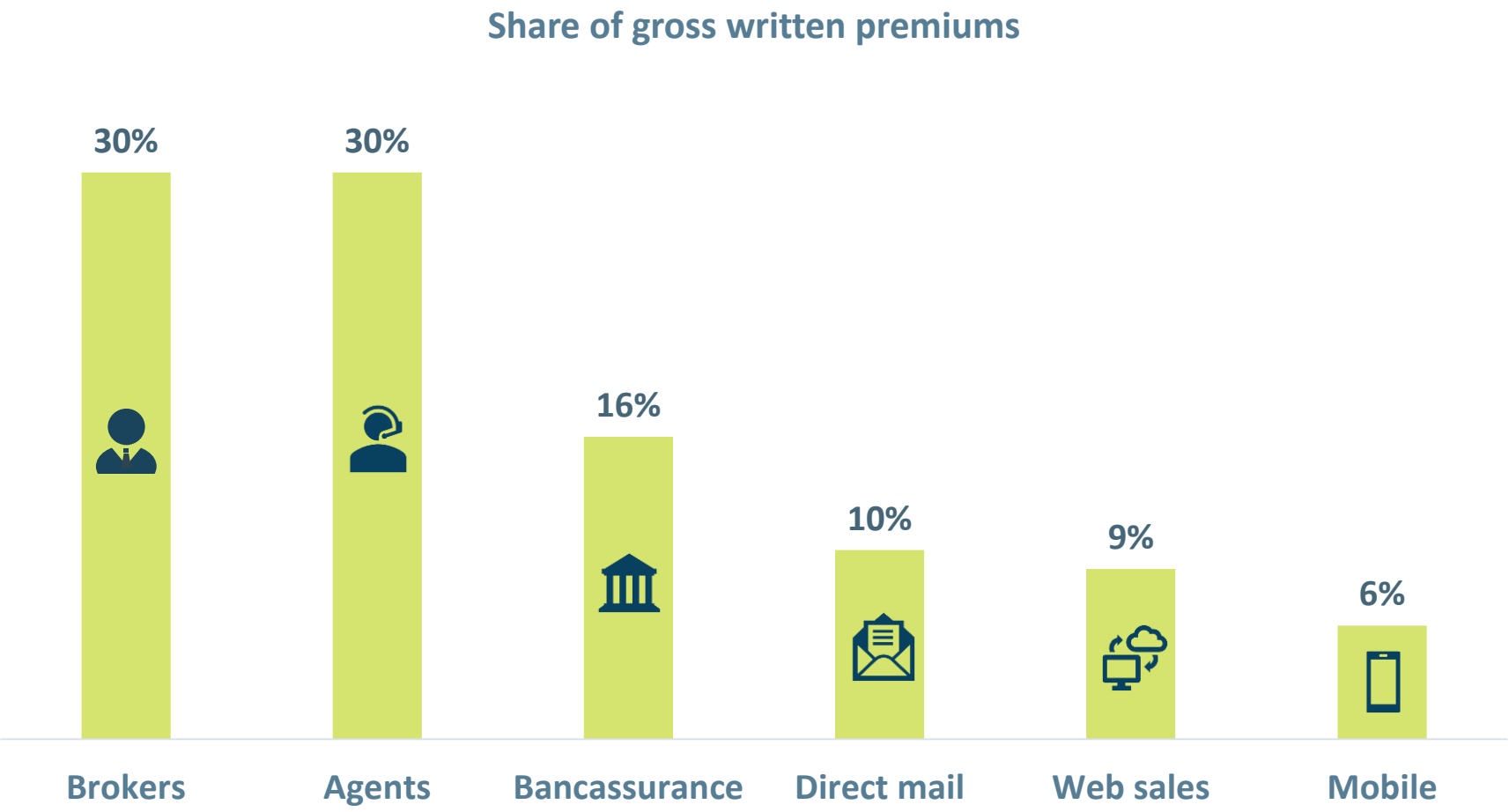
Opportunities

Improve trust and value to consumers

- Improve the **value of compulsory** products through regulation and enforcement
- **Improve claims experience** through timely payout, call centres, effective monitoring and recourse
- Collect and use internal and external **data to design** products that better meet consumer needs

2. Broaden distribution options

Largely an agent and broker-driven market



Source: EY (2016)

But mobile distribution is gaining traction

91% of adult population has a mobile phone.

27% of the adult population has a smartphone.

39% of the adult population has a mobile money account.

2010 — **Mobile insurance introduced**

1. Bima, TIGO, Prudential*

- Mostly **loyalty products**
- Mostly **funeral products**
- Premiums mostly collected through **airtime deductions**

2011 — **Second mobile insurance partnership**

2. MFS Africa, MicroEnsure, MTN, UT Life**

2015 — **Third mobile insurance partnership**

3. MicroEnsure, Airtel, Enterprise Life

- 52% of products loyalty
- 2.8 million policies
- Life, accident, disability

2017 — **Mobile insurance guidelines**

Clearly states airtime permitted as legal tender

- Products mostly **paid**
- Health, **loss of income**, products more prevalent
- Shift towards **mobile money deductions**

2017/ 2018 — **Fourth mobile insurance partnership**

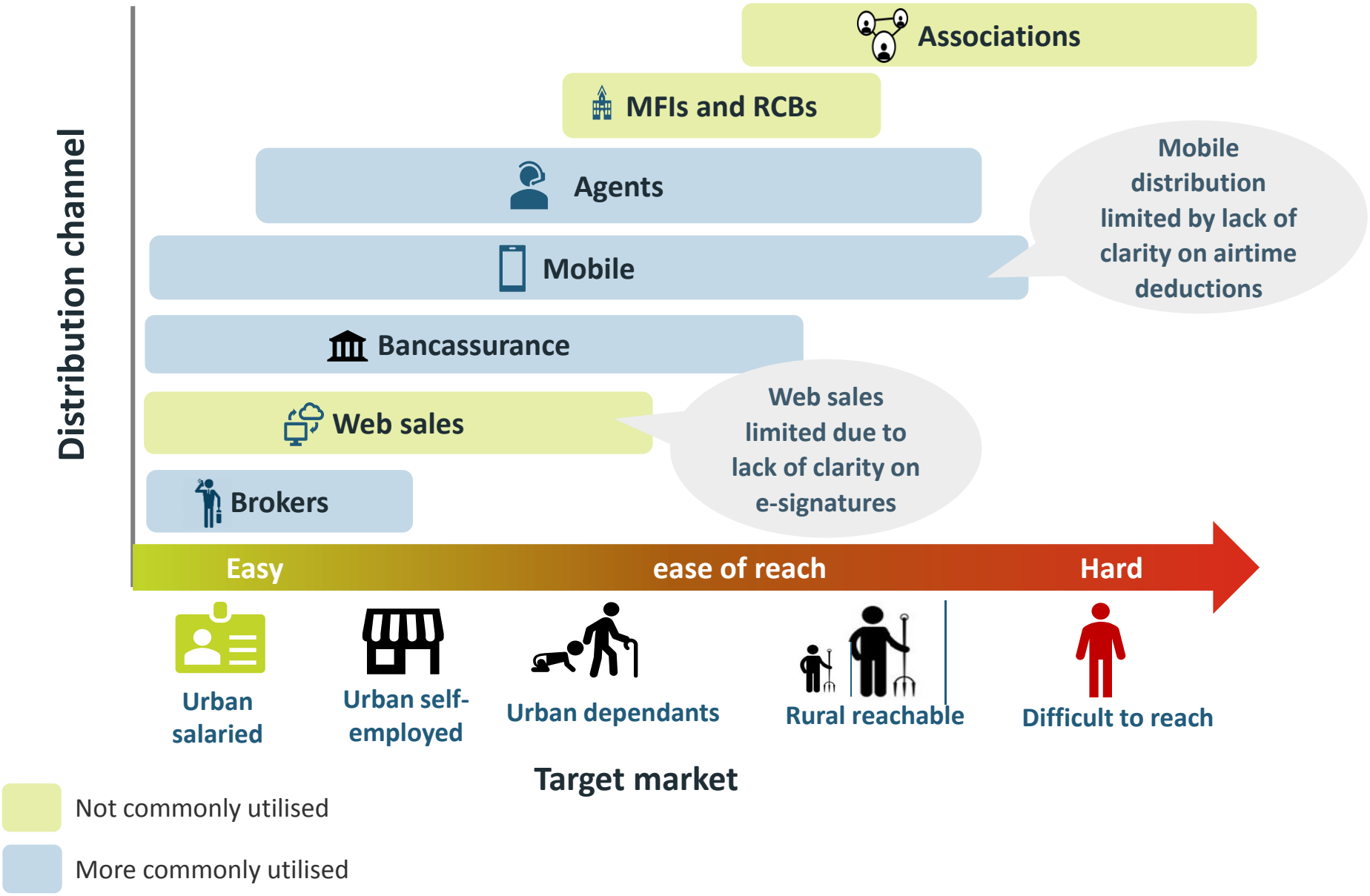
4. aYo, MTN, Metropolitan Life

*MicroEnsure initiated this partnership and product but is no longer involved

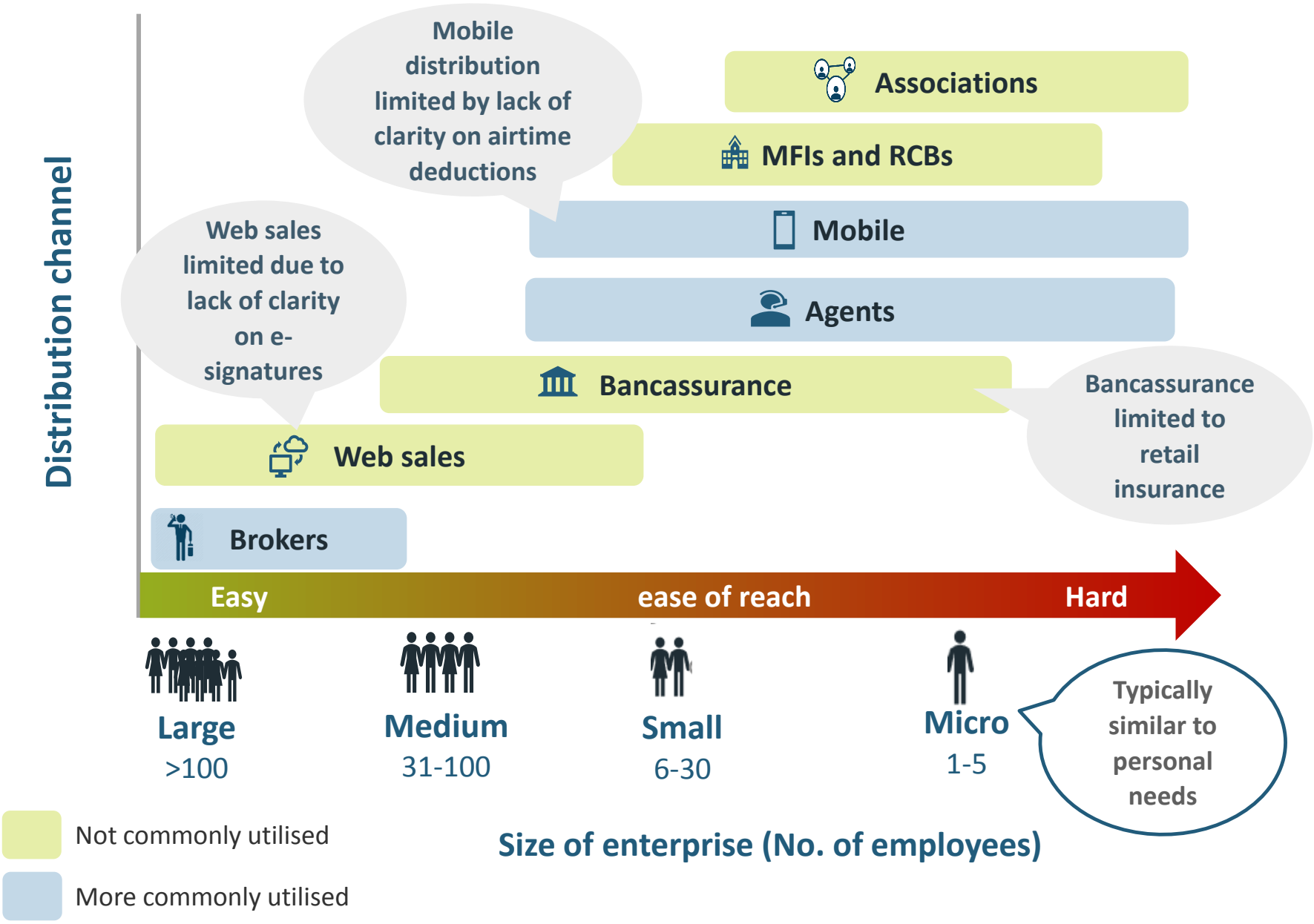
** This product is no longer on the market

Source: NIC & GIZ (2015), aYo (2018))

Diversifying distribution necessary to reach individuals



Diversifying distribution necessary to reach enterprises



Platforms an emerging opportunity

59 multi-sided platforms identified in Ghana

10 platforms offer financial services

5 platforms offer insurance

- Platforms either offer insurance directly to users (**purchase**) or facilitate or require users to have insurance (**create market**).
- Insurance facilitates trust on platforms between unacquainted individuals.

Source: Cenfri (forthcoming))

Extending to new groups is difficult

"Insurance is sold, not bought"

Demographics

- **24%** of the population earns a **regular salary**.
- **46%** of the population is located in **rural areas**.
- Traditional broker and agent distribution is **unsustainably expensive** for smaller insurance policies and those located in rural areas.

Payments

- Less than **50%** of adults made a **digital payment** within the last year.
- **99%** of all consumers **payments are still in cash**.

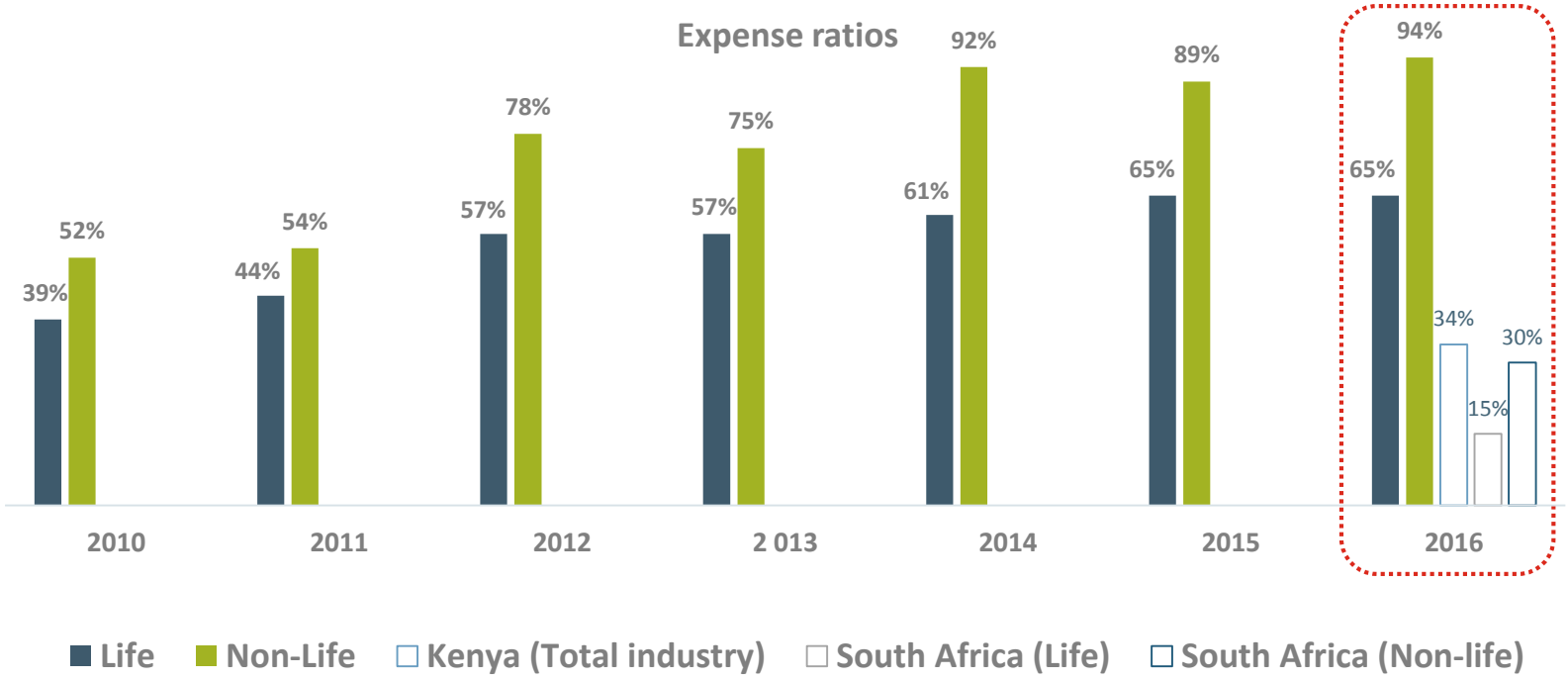
Opportunities

Broaden distribution options

- Utilise **alternative distribution channels** such as mobile, platforms and associations
- Consider **new distribution technologies** as a complement to effective consumer experience, not a substitute
- Create certainty in the market regarding **e-signatures and airtime deductions**
- Allow **bancassurance** beyond retail sector

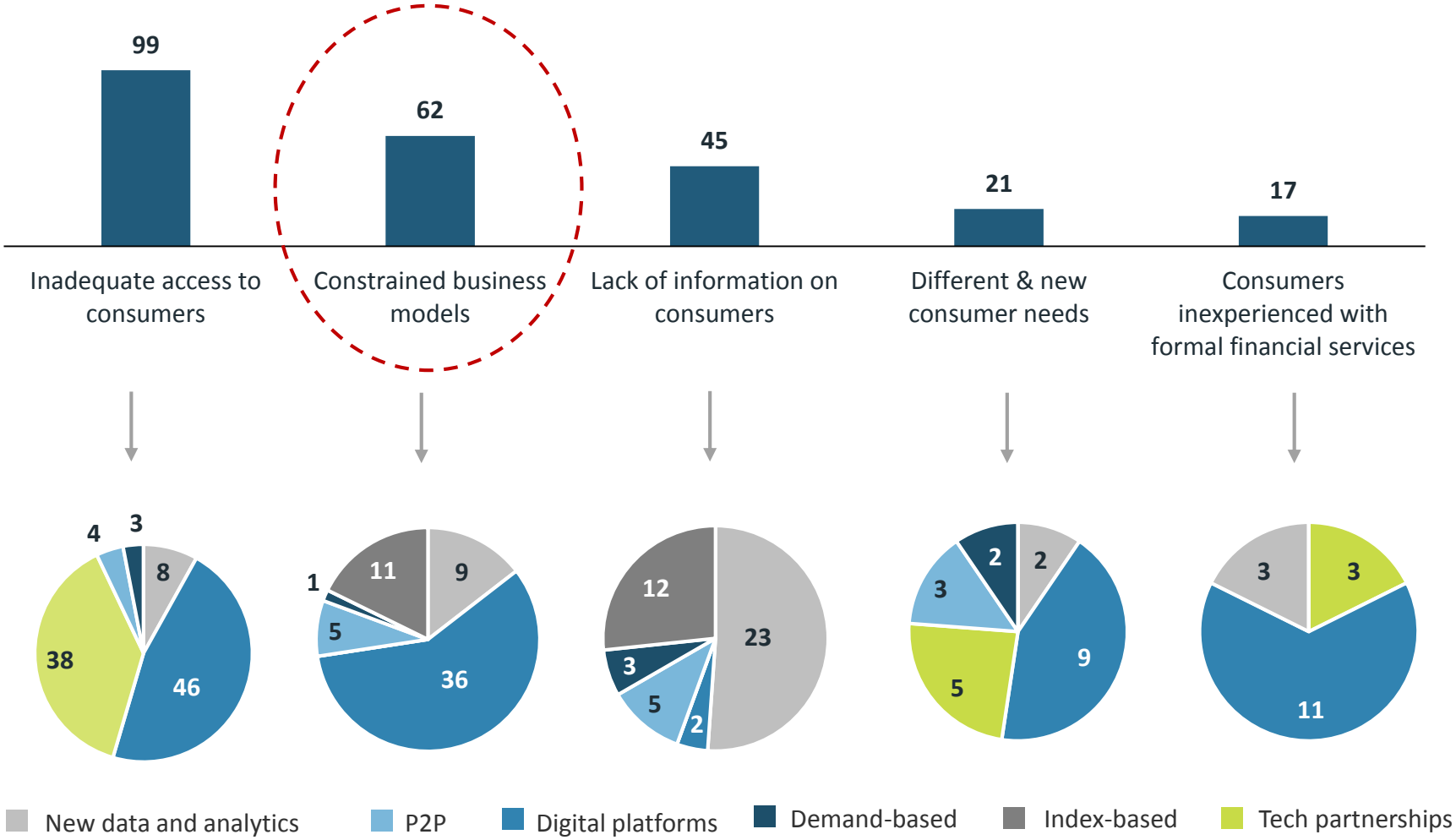
3. Digitise for efficiency and value

The cost of doing insurance business in Ghana is high



Cost drivers: Macro-economics, Legacy systems, expensive skills, management costs, nature of competition due to market structure

Insurtech can help to address challenges in insurance delivery



Source: InsurTech for Development, 2017 | 32

Root Insurance (South Africa) eases the digitisation of insurance

- **Root** has developed an **Application Programming Interface (API)** that eases the administration of insurance digitally.
  - Enables **policy issuing**
  - Simplifies **premium collection**
  - Facilitates **claims payments**
- The interface has already been successfully used in the launch of **two cell captive** insurers in South Africa:

Hero Life

Car Sure

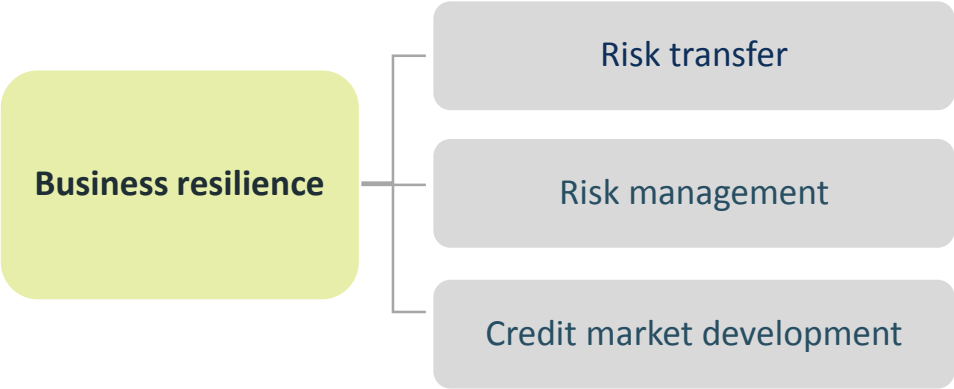
Opportunities

Digitise for efficiency and value

- Invest in the **necessary skills** and **infrastructure** to enable digitization
- Consider **cost-sharing structures** – intermediaries and cell captives
- Help build an enabling and **sound digital payment ecosystem**

4. Improve enterprise risk management

Risk management needs of corporates and SMEs



Substantial number of enterprises in Ghana

	Large	Medium	Small	Micro	Total
Number of establishments	1,410	7,744	111,382	414,800	535,336
Number of persons employed	515,152	371,743	1,219,793	996,230	3,102,918
Total fixed assets (GHS, billion)	41.5	93.4	37.7	7.7	180.4
Revenue (GHS, billion)	132	97	146.5	81	457

Our focus

Similar to personal risks

Foreign-owned enterprises account for a significant share of investment and drive exports, as they play a major role in the mining of gold and production of crude petroleum oils.

Contributing to major sectors and value chains

Sector	Contribution to real GDP	Key subsectors	Key value chains
Services	52%	Transport and storage – 24%	Transport and logistics
Industry	24%	Construction – 35% Manufacturing – 32% Mining – 26%	Oil and gas Gold
Agriculture	23%	Crops – 74%	Cocoa Maize

Insurance is playing a limited role in the transport and logistics value chain

	Imports	Vehicle	Driver	Goods	Warehouse	Exports
Risk transfer	✗	✓	✗	✓	✓	✓
Risk management						
Access to credit		✓		✗	✓	

✓ = insurance is currently playing a role

Transport risk management solutions in South Africa

Use of technology to help with risk management

Hollard.

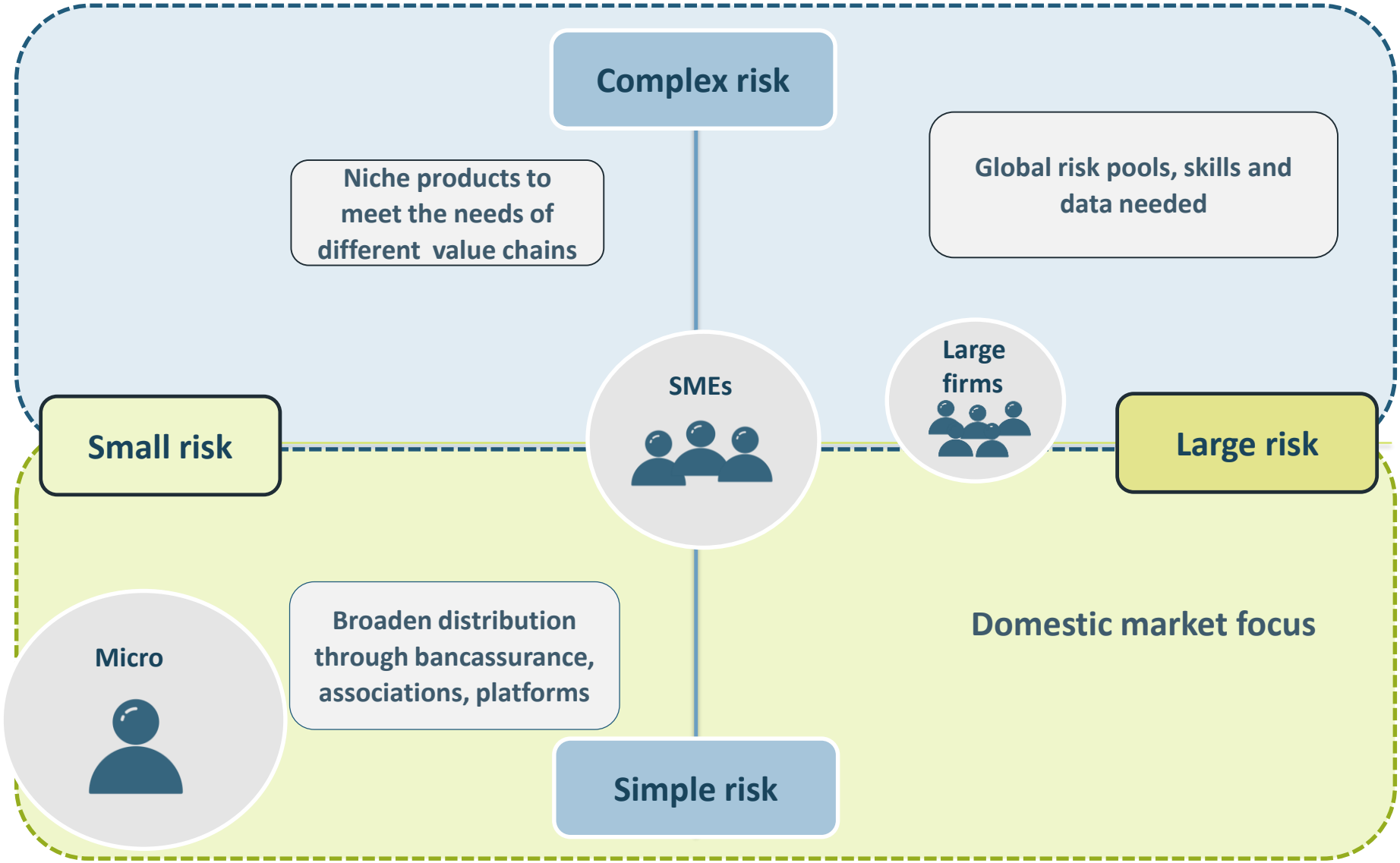
- Hire vetting companies to check **driver's competency**
- Hire specialist driver-training firms ensures drivers received **adequate training**
- Prerequisite that all vehicles are roadworthy and if they are valued at more than USD20,000, they must be fitted with a **tracking device**

MiWay.co.za

- Partnered with Ctrack, a firm that supplies fleet management solutions, to provide their heavy commercial vehicle clients with **insurance telematics solutions**
- Provides granular data on **driver behaviour** and whereabouts

Source: Hollard (2018) & Ctrack (2016)

Limited business case for domestic insurers to solve more complex risks



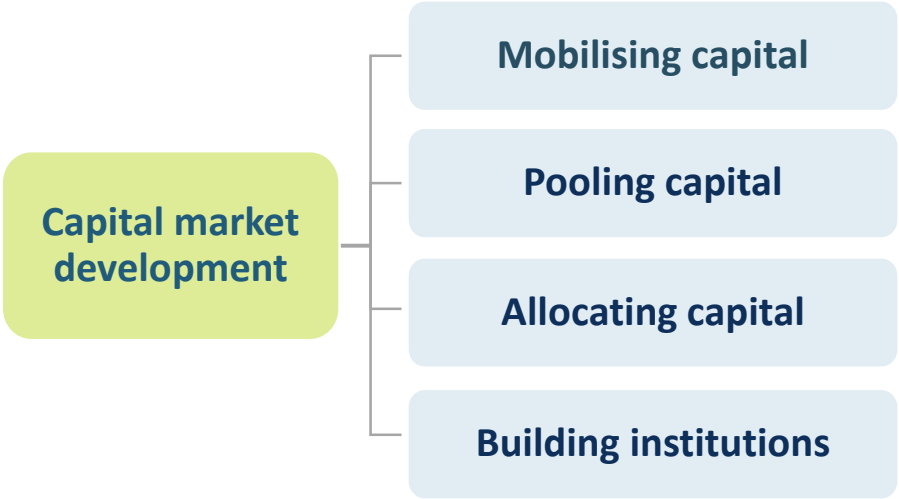
Opportunities

Improve enterprise risk management

- Design products for SMEs, specifically for **larger value chains**
- Grow **underwriting skills** to serve more complex risks
- Improve **claims experience**
- Build business case for insurer as **specialist risk manager**
- **Align localisation** requirements to **growth objectives**

5. Build long-term domestic capital

Role in capital market development and investment



Insurers' role in mobilising and pooling capital

Insurance sector plays a limited role as an institutional investor

Insurance

	Life	Non-life	Total
Insurer assets *(GHS, bn)*	2.2	1.5	3.7bn
Insurer assets *(% of total FS assets)*	1.7	1.1	2.8%
Gross written premiums *(GHS, bn)*	0.859	1.07	1.9bn
Educational endowment policies *(% of long-term liabilities)*			70-80%

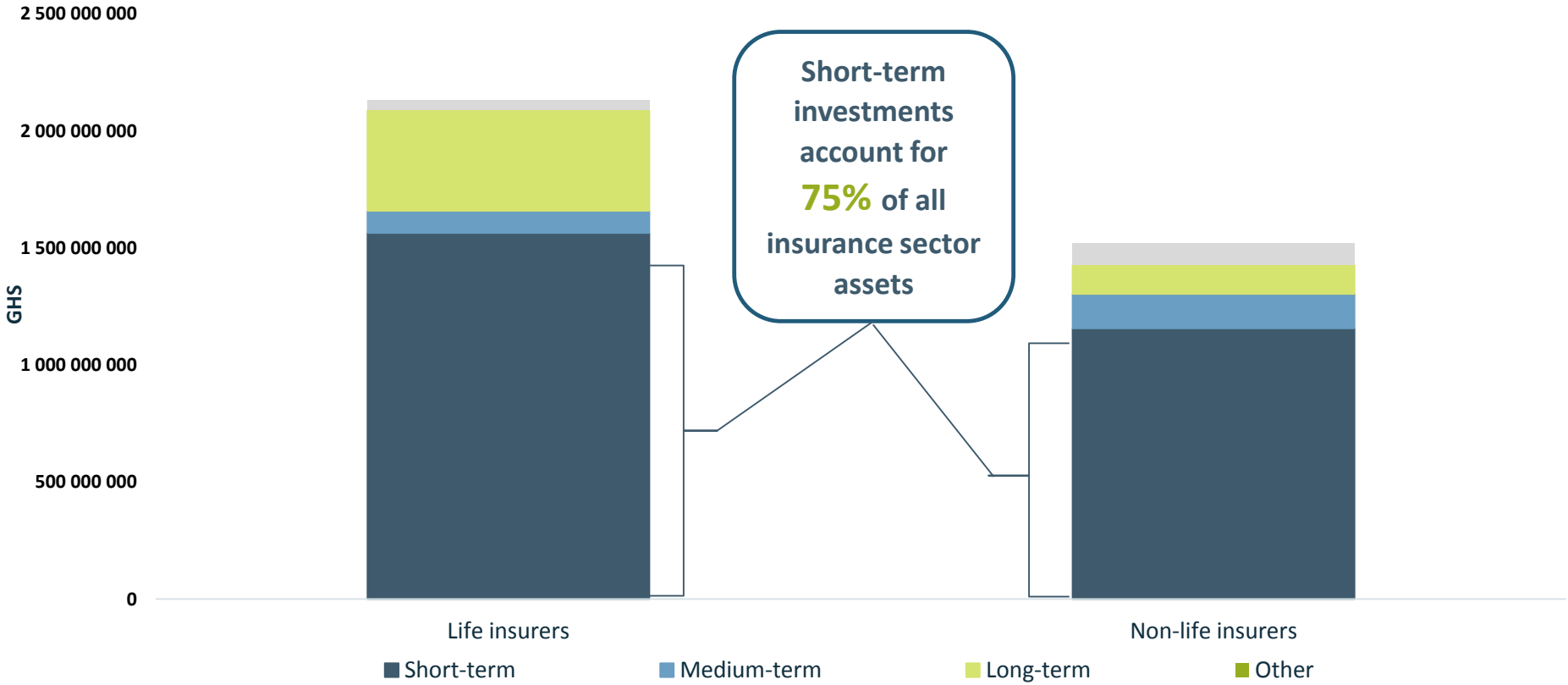
Private pensions

	Total
Total AUM by corporate trustees *(GHS, bn)*	4.1bn
AUM by trustees in insurance groups *(%)*	54.7%
AUM by trustees in insurance groups *(GHS, bn)*	2.2bn

Source: BoG (2016b), NIC (2016), NPRA (2016) and SEC (2016), Stakeholder Interviews (2018)

Insurers' allocation of capital

Bulk of assets allocated to short-term investments



Total insurance sector assets

49% held in term deposits and cash

12% held in land and buildings

10% held in GoG securities

Source: NIC (2016)

Challenges for insurers to build long term capital

Asset liability matching	• Life insurers' investment horizon matches their liability term • Non-life insurers' investment horizon exceeds their liability term
Gap in instruments to serve long-term investors	• GoG has started issuing longer-term securities (15-year bond) • Only one REIT at present • Infrastructure bonds largely absent • Commodity instruments emerging
High returns on short-term instruments	• The interest rate on short-term government securities exceeded 20% in 2015 and 2016
Limited incentive for R&D	• Pension fund managers are able to earn a maximum of 0.56% of a pension fund's assets per annum • Pension fund managers compete on cost as opposed to returns
Tax incentives favour long-term term saving through pensions	• There are no tax incentives available for long-term insurance saving

Source: NIC Annual Report (2016) , NPRA (2011)

Opportunities

Build long-term domestic capital

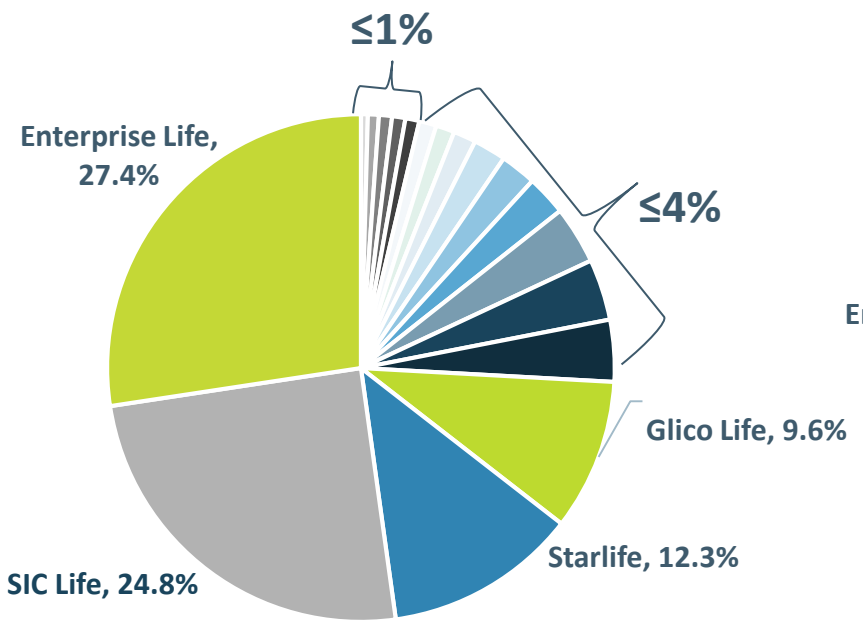
- **Act as a catalyst**
  - Build long-term liabilities through existing use cases such as educational endowment, voluntary pensions schemes and nascent annuities
  - Develop unit-linked or guaranteed products to pension funds
  - Build foundation for annuity market – regulation, skills, data
- **Serve as support**
  - Invest in diversified instruments such as infrastructure funds, REITs and commodity-linked products
  - Build professional skills and data to manage assets, provide governance and indemnity cover
- **Consider tax incentives for long-term savings through insurers**
- **Harmonise pension and insurance legislation**

6. Consider key regulatory and policy constraints

The market is fragmented and inefficient

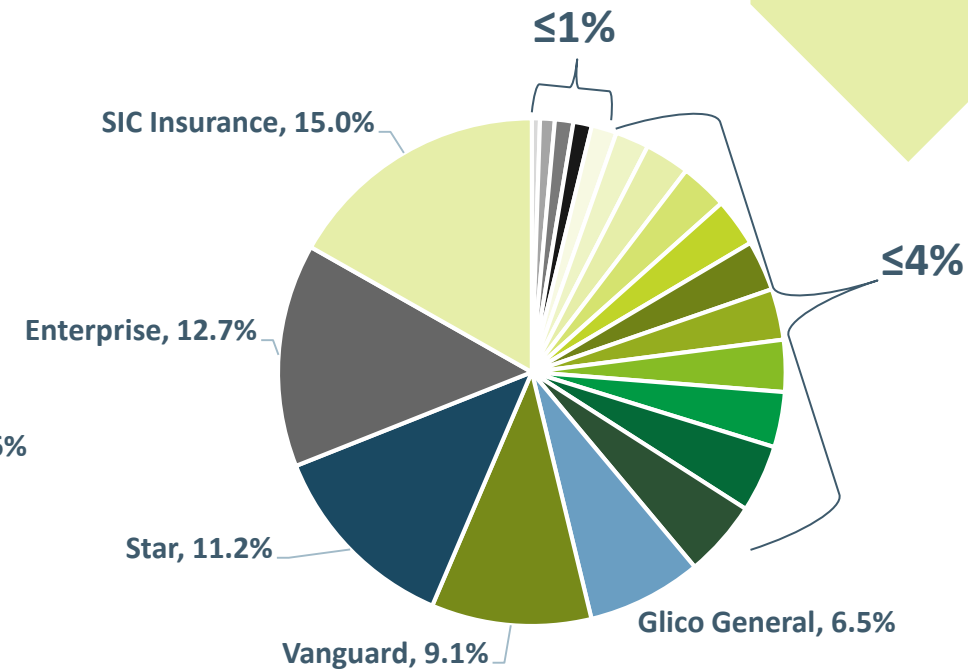
51
insurers in total

Life



- **Number of life insurers**: 24
- **Total market size:** GHS 0.859bn
- **Size of industry:** 45%
- **Herfindahl-Hirshman Index**: 1,750
- **Top 5 insurers expense ratio**: 40%
- **Rest of the market expense ratio**: 75%

Non-life

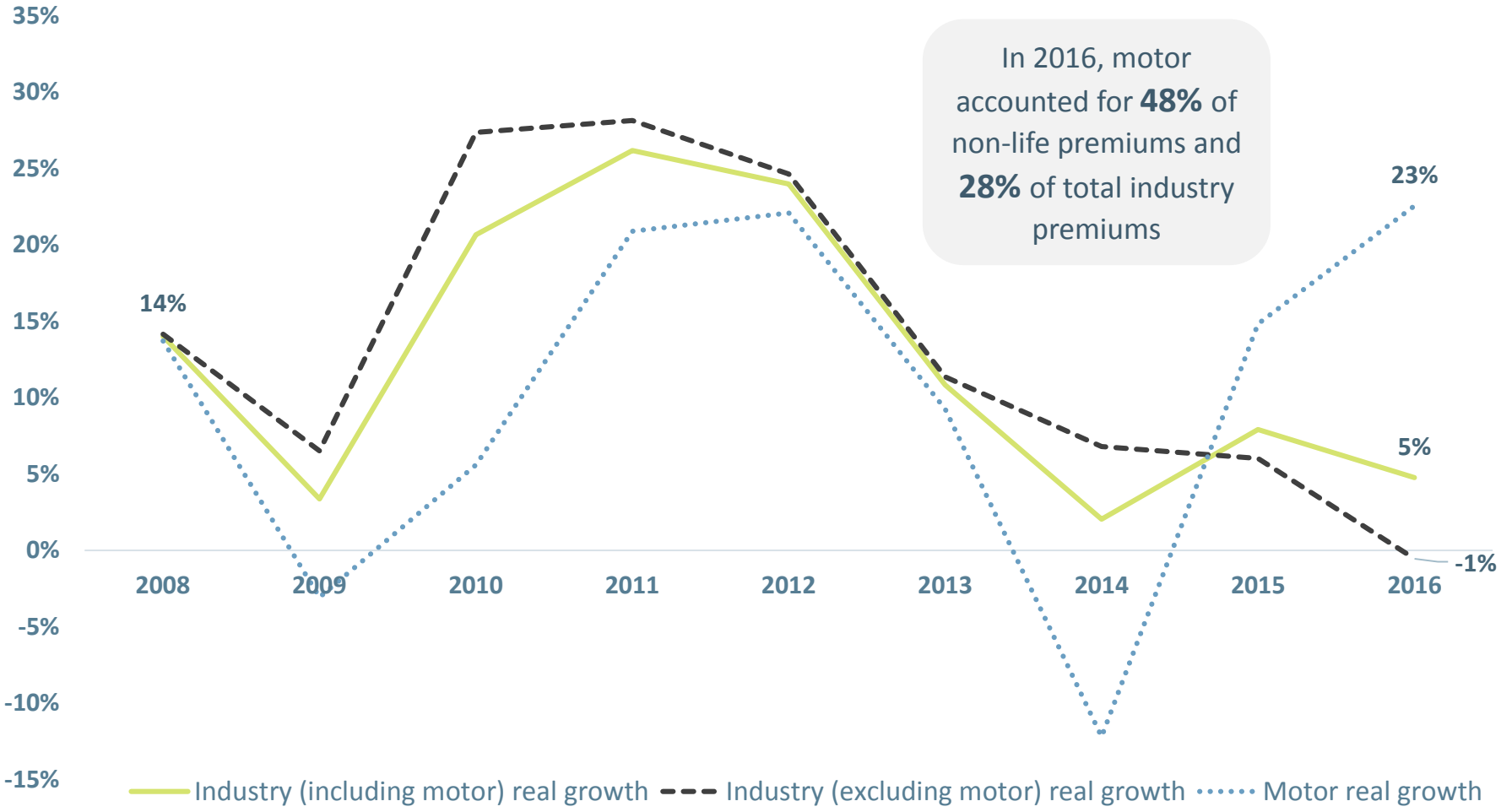


- **Number of non- life insurers:** 27
- **Total market size:** GHS 1.07bn
- **Size of industry:** 55%
- **Herfindahl-Hirshman Index:** 819
- **Top 5 insurers expense ratio**: 78%
- **Rest of the market expense ratio**: 98%

Source: NIC (2016)

Compulsion is a key driver of the current industry

Dependence on compulsory third-party motor



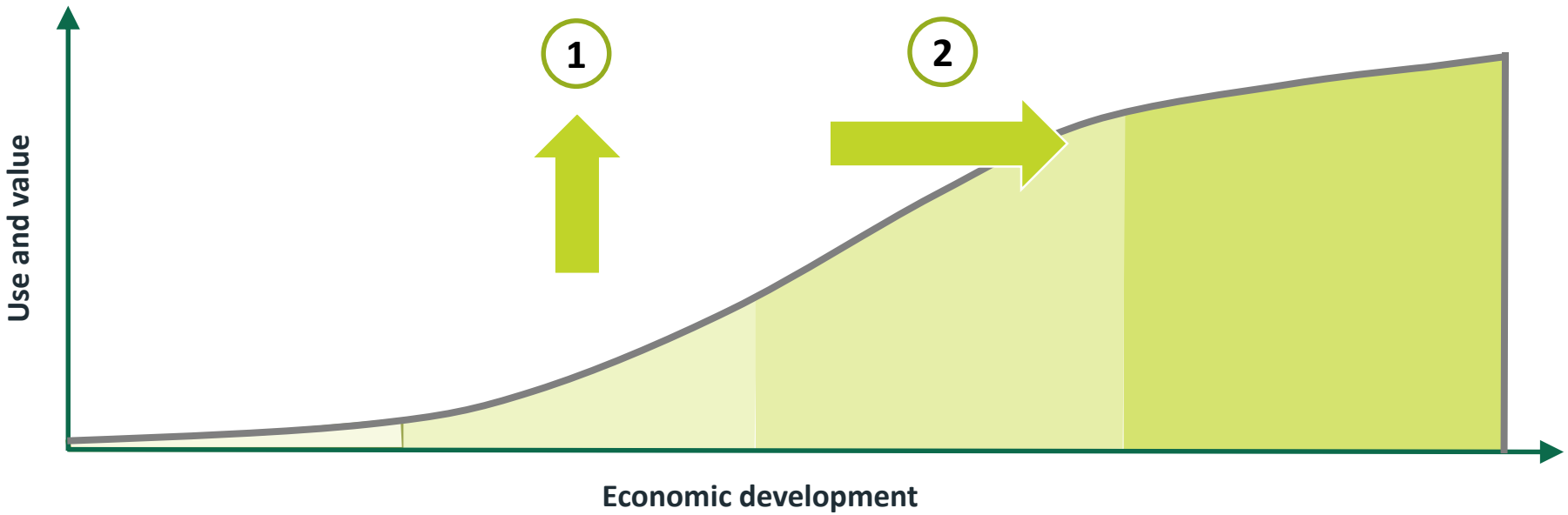
Source: Author's own based on NIC Annual Reports 2007-2015, base year 2007

Improving product value and enabling economic development

1 Effective rules and enforcement

2 Sound policy direction

3 Skills and data



Policy alignment for economic development

Consideration	Nature of issue
Compulsion criteria	Third-party motor insurance, commercial building fire insurance and professional indemnity insurance are compulsory. Compulsory third-party motor currently provides limited value and fire and indemnity insurance are not consistently taken up.
Market development mandate for regulator	The NIC has implicitly assumed a market development role, but does not have the explicit power in the act. This should be amended and the NIC should identify, measure and report on market development indicators in line with policy targets.
Localisation alignment	Localisation requirements are in place to grow the domestic insurance market. Legislation requires insurers and reinsurers to exhaust local capacity before they take business offshore and all offshore contracts must be approved by the NIC. Bigger and more niche risks may be ineffectively covered by local providers, undermining business growth and resilience. Global providers are needed for larger or more niche risks and innovation sharing. Effective implementation is key.
Grow digital payments ecosystem	The digital payment ecosystem is not developed enough to effectively transition to premium payments to non-cash channels. Currently 99% of all consumer payments are still cash. Airtime as an interim measure thus must be leveraged while the payments ecosystem develops. While airtime deductions are legally permitted, there is uncertainty in the market regarding this.

Regulators play a role in shaping the market to ensure value is provided and there is room for innovation

Consideration	Nature of issue
Effective risk-based supervision	NIC is transitioning to RBS, an important approach. Minimum capital has increased over time, but seldom effective as a primary risk management tool. Many insurers still struggle to report required data (20% were not included in the 2016 NIC report), including asset-liability matching.
Cost-sharing structures	There are limited skills in the Ghanaian market and many insurers that are too small to employee specialist skills. Cost sharing structures such as centralised services and cell-captives could help with this.
Encourage innovation	The NIC has encouraged innovation in the market through responsible digitisation and quick and flexible product approval but with sufficient safeguards in place. Innovation could be further encouraged through creating certainty around e-signatures and airtime deduction.
Effective regulatory coordination	A Financial Sector Regulators Forum exists, but has no legal status. An effective regulatory coordinating mechanism engrained in legislation could help regulators coordinate proactively and follow a consistent approach.
Improve claims experience	The NIC has put forward claims guidelines, which is a positive step. These guidelines need to be consistently monitored and enforced to improve claims behaviour.
Strengthen consumer recourse	Providers need to offer simple recourse and complaints structures. A dedicated consumer recourse unit is needed at the NIC or separate with it's own contact centre if provider recourse fails.

Limited skills and data in the market

Skills

10 registered actuaries

2 loss adjustors

Data

Consumer

1. Financial Inclusion Insights (2015)
2. FinScope (2010)

Enterprise

1. Integrated Business Establishment Survey (2017)
2. Enterprise Survey (2013)

Necessary to fill data and skills gap

Consideration	Nature of issue
Improve data collection and use for better measurement of insurance for development	An updated **consumer survey** of financial services is needed to identify key opportunities. The NIC collects market level data, but many providers struggle to report it and consumer information is limited (e.g. gender, retail vs corporate policies, claims ratios per product). **Government data** such a motor and death registers should be made accessible to the industry. **Mortality and morbidity tables** are needed, especially for emerging annuity markets. **Value chain assessments** are needed to identify niche products for growth. These would allow the regulator and policymaker's to understand market gaps and trends and allow insurers to develop products tailored to the needs of consumers and enterprises.
Skills availability	Beyond actuarial skills, underwriting, cost management, product development, institutional and data science skills were highlighted as key gaps in the markets.

Opportunities

Consider key regulator and policy constraints

Policymaker

- Create a formal coordinating structure for regulators
- Build the digital payment ecosystem
- Harmonise pension, health and insurance legislation
- Consider tax incentives for long-term insurance savings
- Align localization requirements and set compulsion criteria

Regulator

- Consider allowing bancassurance for SMEs
- Consider opening up agricultural insurance beyond GAIP
- Create clarity in the market regarding e-signatures and airtime deductions
- Improve enforcement and recourse to build trust
- Improve quality of public supply side and regulatory data
- Consider cell-captives for innovation and risk management

Industry imperatives

1. Leverage data and digitization to deliver products that meet customer needs – especially voluntary health
2. Improve consumer claims experience through timely payout and simple recourse
3. Extend use of alternative distribution channels (mobile, platforms, associations) – link digital and personal to build awareness
4. Invest in skills (actuarial, underwriting, cost management)
5. Develop targeted products for SMEs along key value chains
6. Develop business case to act as risk manager
7. Support pensions as insurers or through groups – annuities, voluntary pensions and unit linked or guaranteed products for pension funds

Large impact, quicker gain

Ease, duration of change and size of impact of change

Larger impact but longer-term

Recommendation	MoF	NIC	Industry
Create clarity in the market regarding e-signatures and airtime deductions		√	
Create formal coordinating structure for regulators	√		
Improve the value of compulsory products through regulation and enforcement		√	
Collect and use internal and external data to better understand the needs of consumers and SMEs	√	√	√
Improve the claims experience through timely payout, call centres and through regulation and enforcement		√	√
Review of sustainability of GAIP		√	
Use alternative distribution channels such as mobile, platforms and associations			√
Consider allowing bancassurance for SMEs	√	√	
Consolidation of industry through exit of underperforming insurers and RBS		√	
Develop skills in the market (actuarial, underwriting, cost management)		√	√
Harmonise pension and insurance legislation	√		
Design products for SMEs, specifically for larger value chains			√
Consider cost sharing structures such as intermediaries and cell captives	√	√	√
Align localisation requirements to growth objectives	√	√	
Catalyse long-term capital market development by building long-term liabilities and developing unit linked or guaranteed products for pension funds		√	√
Develop a sound payments ecosystem for digital premium and claims payment	√		

Thank you

Please engage with us:

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About Cenfri
The Centre for Financial Regulation & Inclusion (Cenfri) is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa
FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.

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