The role of insurance in inclusive growth: Ghana Diagnostic

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Collaboration

The Department for International Development (DFID) has partnered with FSDA, Cenfri and the World Bank to conduct a series of diagnostic studies into the role of insurance in development to answer the following question: How can insurance better contribute to inclusive growth within developing countries?
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USD/GHS Exchange Rate

*Foreign exchange.* The local currency in Ghana is the Ghanaian Cedi (GHS). The United Stated Dollar (USD) equivalent shown throughout this document was calculated using a 6-month average exchange rate (between 30 Sep 2017 to 30 Mar 2018) of GHS 4.48/USD (Oanda, 2018), unless specified otherwise.
Executive summary

This document outlines the development path and present state of the insurance market in Ghana to understand the current and potential role of insurance from three perspectives: (i) in building household resilience, (ii) in supporting business resilience and enterprise development and (iii) in capital market development.

The objective of this study is to understand how insurance can contribute towards sustainable and inclusive growth in Ghana. DFID UK is developing its global approach to insurance market development, recognising the role that insurance can play in supporting sustainable development and growth. DFID has partnered with the World Bank\(^1\), FSDA\(^2\) and Cenfri\(^3\) to conduct a series of diagnostics – of which this study is one – into the role that the insurance market development has in the long-term economic development path of a country.

The potential contribution of insurance to Ghana’s economic and social development is clearly recognised by the Ministry of Finance, which aims to deepen insurance penetration beyond the current 1.14% of GDP, establish Ghana as a regional fintech hub and improve the contribution of insurance to capital market development.

**Objective**

Insurance plays different roles in economic development based on the degree of insurance market development. As illustrated in Figure 1, below, this study explored three primary channels through which insurance can support growth and development outcomes in Ghana.

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\(^1\) The World Bank Group is a global partnership of five institutions that work for sustainable solutions that reduce poverty and build shared prosperity in developing countries. It is one of the world’s largest sources of funding and knowledge for developing countries.

\(^2\) FSD Africa is a £30 million financial sector development programme or “FSD” based in Nairobi. It is funded by UK aid from the UK Government. FSD Africa aims to reduce poverty across sub-Saharan Africa by building financial markets that are efficient, robust and inclusive.

\(^3\) Cenfri is an independent think-tank, based in Cape Town. Its mission is to support financial inclusion and financial sector development through facilitating better regulation and market provision of financial services.
Improving individuals’ and households’ resilience. Insurance can contribute directly to individual welfare by providing a mechanism for households to build resilience in the face of financial shocks and peace of mind if no risk events occur. It enables households to take productive risks to invest and grow their incomes. Insurance also plays an indirect role by enabling households to access other services, such as credit, but also health and education.

Improving business resilience and productivity. Insurance can contribute to business development in at least three ways:

- **Risk transfer to enable entrepreneurship and trade.** Entrepreneurs can transfer the financial impact of a risk occurring from their own account to the insurance industry, which may bolster their survival rate. Insurance also covers risks related to cross-border trade, which facilitates exports and imports and enables foreign investment.

- **Risk management to mitigate risk and enable more efficient resource allocation.** Enterprises can use the tools and techniques created by insurers to develop risk management plans and mitigation strategies to prevent risks from occurring. Moreover, insurers may oblige enterprises to put such plans and strategies in place before they agree to cover certain risks, which incentivises enterprises to change their behaviour and to adopt better risk management practices.

- **Access to credit and financing.** The availability of many forms of business lending, mortgages, project finance and leasing depend on insurance. Insurance reduces the risk of borrower default or provides alternatives to collateral to reduce lender risk, which allows for more credit to be extended on better terms. Insurance markets are also skilled...
at the pricing of risk, and their exposure-identification and exposure-mitigation skills and tools may enhance credit providers’ ability to lend on terms that are commercially viable.

**Supporting capital market development.** The insurance sector can play an important role in the deepening and efficiency of capital markets to support growth objectives. Four main channels were considered:

- **Mobilising capital.** The insurance sector can mobilise capital through premium collection and pensions. It can also mobilise capital by enabling business investment, referred to above.
- **Pooling capital for efficiency and diversification.** Insurers are able to pool savings from numerous small investors and, in the process, accumulate significant investable funds. Larger funds are more efficient to manage and invest, and they allow greater diversification of investments.
- **Allocating capital to more productive opportunities.** Insurers can allocate capital more effectively to productive opportunities than individual investors by investing over longer time-horizons, building professional skills and data to manage assets and identify opportunities for investment, by transacting at scale with greater efficiency and by reducing the unproductive capital that investors need to hold as a precautionary measure for potential risks.
- **Building institutions for governance and investor confidence.** Institutional investors, including insurers, grow the professional investment industry by encouraging and implementing reforms in governance, auditing and accounting requirements. Such institution building is critical for investment decisions and domestic and global business confidence.

**Synopsis of findings**

The insurance market in Ghana delivers on some of the above potential, but opportunities remain for greater impact.

**Insurance contributing to the resilience of some Ghanaians, but many remaining unserved.** Few Ghanaians have insurance at present; however, the market is growing, and mobile insurance is particularly popular. Six percent (6%) of adults reported having insurance cover (excluding health) in the most recent FII demand-side survey, and only 1% of Ghanaian adults reported using insurance as a coping mechanism when experiencing a financial shock, compared to 12% reporting to sell assets and 16% reducing their expenses (FinScope, 2010).

**Microinsurance growing and predominately distributed through mobile.** In 2017, it was estimated that there were 2.82 million microinsurance policies covering 7.5 million lives and property (World Bank and FIRST Initiative, 2018, NIC & GIZ 2015a & NIC & GIZ 2015b). Sixty percent (60%) of microinsurance policies (largely funeral and health) are sold through mobile channels (NIC & GIZ, 2015a & NIC & GIZ 2015b).

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4 Demand-side analysis indicates that 1 million adults report having an insurance product, excluding health (FII, 2015). However, supply-side analysis indicates that there are 2.82 million adults with microinsurance policies, which represents 17% of the adult population (World Bank and FIRST Initiative, 2018). The difference in insurance uptake figures from demand-side and supply-side data suggest that either individuals may not be aware that they have insurance products, or that individuals have multiple policies.
Education savings a significant driver of voluntary retail premiums. Endowment policies\(^5\) dominate the books of life insurers and account for an estimated 75% to 80% of all life premiums. Endowment policies are attractive, as they provide a disciplined route for savings and can be drawn on when unexpected expenses arise. New accounting principles will make such products less attractive, and many insurers are trying to move from savings to risk-based products.

NHIS covering many, but out-of-pocket expenses indicating additional need. Forty percent (40%) of the population was covered by National Health Insurance in 2017 (Wang, et. al., 2017), although out-of-pocket health expenses as a percentage of total health expenses are still high (36% in 2015) (FII, 2015 & World Bank, 2016). There has been growth in voluntary health products, such as loss of income, distributed through mobile channels (NIC & GIZ, 2015a, NIC & GIZ, 2015b & Stakeholder interviews, 2018).

Insurance significant for foreign investment and larger enterprises. Some of the main productive and growth industries rely on insurance – mining, oil and gas, construction and transport and storage rely heavily on property, liability, motor, marine and aviation, engineering and other specialist insurance lines. Domestic reinsurers currently retain 35% of related non-life risks, with consortiums covering some of the larger risks, including an oil-and-gas pool, which retains 5% of the related risks. Foreign direct investment (FDI) is significant for growth, making up 80% of new investment at USD4.91 billion. FDI is significant compared to the full size of the local insurance industry at USD1 billion in assets (NIC, 2016).

Few smaller enterprises being covered by insurance. Smaller businesses\(^6\) employ 2.6 million people and contribute 71% of revenue generated by domestic firms (Ghana Statistical Service, 2017a), yet few have access to insurance. Crops, especially cocoa, is the second-fastest growing industry after oil and gas, but it has access to limited insurance cover. Droughts, floods and pests are significant risks for most farmers. The Ghanaian Agricultural Insurance Pool (GAIP) covers drought and multi-peril risks, with 4,000 existing policies distributed predominately at the meso level.

Insurers playing a limited role as risk managers. Few insurers are playing an active role in helping business clients manage and prevent risks. In some cases, insurers do not have the skills or data to contribute; but in many cases, insurers have significant value to offer.

Insurance playing a limited role in capital market development. Insurers in Ghana mobilise a relatively small portion of total financial sector assets at 2.8% or USD1 billion. Over 75% of these assets are short-term, with almost 50% in cash and term deposits. Land and buildings are the most significant long-term investment. Current long-term assets already match or exceed long-term liabilities, which constrains insurers’ ability to invest longer term (NIC, 2016). Insurance groups also contribute to capital market development through their role in the pension sector, where they direct the allocation of 55% of pension assets as corporate trustees and are mobilising pension assets with the introduction of new voluntary pension products (NPRA, 2016).

Short-term liabilities limiting the ability to invest in longer-term assets. Longer-term liabilities are held largely for educational endowment products and make up an estimated upper end of GHS448 million (USD115 million) of life liabilities. Longer-term assets for life insurers make up GHS560 million (USD143 million) in assets, largely matching liabilities.

\(^5\) An endowment policy is a type of life insurance policy that is designed to help the policyholder save regularly over a specific period. After a specific period, the policyholder is able to get a lump sum amount on the policy.

\(^6\) Including all domestic firms classified as micro, small and medium-sized in IBES II (Ghana Statistical Service, 2017a)
Insurers are therefore unlikely to increase their long-term assets in the near future (Stakeholder interviews, 2018).

**Annuity growth to extend insurers’ liabilities in the longer term.** There are almost two million individuals in Ghana who are either at the age of retirement or nearing retirement; and in 2016, private pensions made up 4.1% of GDP (NPRA, 2016). The market for annuities will grow in coming years as people retire from the newly formed private pension sector and have a need for reliable incomes. The development of annuity products can extend the term of insurers’ liabilities, improving their ability to invest in longer-term assets and more actively contribute to capital market development. Building effective regulatory frameworks, data and investment options to issue such annuities will be significant to benefit from this future growth. The impact of such changes will likely be felt in the longer term.

**Limited long-term instruments.** Insurers invest in property and government securities as long-term assets, given the lack of alternatives. The development of long-term instruments with an attractive risk-return profile will provide opportunities for insurers to diversify their risk, but also to allocate capital to a wider set of economic activities. Instruments such as infrastructure bonds and REITs could complement existing offerings, with the added benefit of potentially addressing the present housing shortage.

**Market drivers**

Key market drivers have determined the current status of insurance market development in Ghana, and they point towards the potential for future development.

**Poverty and illiteracy a constraint on insurance sales, but a growing middle class and improving education levels offering opportunity.** The average Ghanaian household income rose from USD2.8 per day in 2008 to USD11.2 per day in 2014, and per-capita income has increased from USD1.2 per day in 2008 to USD7.4 per day in 2014 (Ghana Statistical Services, 2008, 2014). Similarly, adult literacy levels have risen from 58% in 2000 to 77% in 2015, and youth literacy is 91% (World Data Atlas, 2018). Growing urbanisation and mobile connectivity are further positive indicators for insurance reach, although 75% of Ghanaian adults are engaged in the informal sector, which requires more innovative approaches to serve.

**Stabilising environment creating potential for longer-term business strategies and investment.** Macroeconomic indicators reflect growing stability following a period of high inflation and significant volatility. Together with political stability and an explicit policy commitment to economic and social development (including financial sector development), this has contributed to growing investor confidence. Earlier macro-economic and political uncertainty made longer-term insurance strategies difficult; however, recent changes are greeted with cautious optimism by insurers, which bodes well for longer-term business strategies.

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7 Inflation in Ghana has declined from 17.4% in 2016 to 11.8% in 2017. Ghana’s real GDP growth was 8.5% in 2017, compared to 4% in 2014 (Ghana Statistical Service, 2018 and IMF, 2017).

8 In April 2018, the President, Nana Akufo-Addo, launched Ghana’s new seven-year Coordinated Programme of Economic and Social Development, which outlines plans to spur growth, create jobs, restore the fiscal balance and create prosperity and equal opportunity for all (Business Ghana, 2018).

9 An illustration of this dynamic is that four multinational insurers have invested in local insurers in the last five years: Old Mutual (2013), Prudential (2014) and Hollard (2015), Saham life and insurance fully acquired by Sanlam and Santam, respectively (2018).
Well-respected regulator and committed policymaker. Interviews indicate wide-ranging respect for the National Insurance Commission (NIC). The NIC is, therefore, well trusted to shape the market and guide market players’ activities. It is also proactive in encouraging innovation to serve consumers, especially those related to mobile insurance. Additionally, the Ministry of Finance has recognised the potential of the insurance sector and has initiated an insurance and pensions improvement plan to deepen insurance penetration and leverage insurance to develop capital markets.

A constrained credit sector limiting opportunities for credit-linked insurance. Private credit penetration is limited at 19.6% of GDP. While Ghana’s banking sector has experienced substantial growth in the past decade, a large number of institutions still face liquidity and solvency difficulties. One-third of Rural Community Banks (RCBs) still struggle with meeting the regulatory Capital Adequacy Ratio (CAR) minimum. Similarly, the majority of MFIs remain fragile and find it difficult to comply with the minimum regulatory paid-up capital (World Bank and FIRST Initiative, 2018). High non-performing loans (NPLs) across both banks and MFIs have placed further pressure on lenders’ sustainability and have reduced their incentive to extend loans. Banks’ NPLs, for example, were 19.8% in 2017, and less than 3% of bank loans were extended for housing in 2016 (Oxford Business Group, 2017). Such credit constraints have inhibited insurance market growth.

Lack of digital payments a challenge for premium collection. Progress has been made in developing the digital payment ecosystem in Ghana, with almost all government-to-person (G2P) and government-to-government (G2G) payments made digitally. However, individuals still operate predominantly in cash. BTCA (2017) estimates that 99% of all payments are still being made in cash, and digital payment use is limited, with less than 50% of Ghanaians having made any digital payment in the prior year (Findex, 2018). Airtime deductions, therefore, remain the primary premium collection channel for insurance policies sold through MNOs and will be important for premium collection (at least in the short term) while collaborating with payments providers to build digital payments alternatives.

Low trust and poor perception of insurance. Interviews indicated a poor perception of, and trust in, insurance among individuals and business. Past negative experience of claims being refused or not paid in a timely manner erodes the extent to which individuals and businesses view insurers as predictable and thus trust them. Non-life claims ratios remain low at 39%, and it is not unusual for claims lodged by businesses to take more than a year to be resolved. Fake third-party motor insurance is also common. The NIC has introduced legislation and monitoring mechanisms to improve claims behaviour. Improving the experience of insurance will be critical to gain trust and interest with the market.

Focus on compulsion limiting ability and incentive to innovate. In 2016, compulsory motor vehicle insurance accounted for 48% of all non-life premiums and 28% of total industry premiums written. Total non-life premiums are shrinking in real terms when compulsory product lines are removed. As insurers compete for this small captured market, earning very small or no margin, they have limited ability or incentive to innovate in the design and delivery of retail products to consumers. Interviews indicated that consumers generally think that motor vehicle insurance is poor value for money and, rather than seeing third-party motor vehicle insurance as a risk protection mechanism, consumers purchase it simply to

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10 25% of MFIs were unable to meet the regulatory paid-up capital of GH5500,000 or USD111,607.

11 Airtime deductions are permitted by the Market Conduct (M-insurance) Rules, 2017.
comply with the law. A focus on product development and new markets will be critical to deepen insurance market penetration.

**Limited use of data to understand consumers.** Few insurers use consumer data in their product design. Public data is limited. The last FinScope\(^\text{12}\) consumer survey was conducted in 2010, and the last FII was conducted in 2015. Interviews indicate very limited demand-side research is undertaken by insurers themselves, although some insurers are trying to improve how they use their existing client data for product design. The available data on enterprises is even more limited\(^\text{13}\). Appropriate, up-to-date demand-side data would allow insurers to gain a better understanding of potential customers (both individuals and businesses), their needs and the nuances of insurance behaviour and usage. An opportunity may also exist for insurers to improve consumer data management approaches, better leverage industry data or utilise alternative data sources to gain a better understanding of individuals’ needs.

**High costs affecting business sustainability and client value.** The average expense ratio across the life industry is 65% of premiums and 94% for the non-life industry. Limited digitisation or legacy systems have made many businesses inefficient. This is exacerbated with decreasing inflation, where staff cost expectations continue to increase beyond what can be recovered from premiums. The use of central services to share costs and skills is also not common, which means smaller firms are particularly affected. Greater digitisation of existing value chains, from sales to distribution, and underwriting to claims management, would greatly benefit insurers’ revenues and costs.

**Lack of available skills and technical capacity reducing insurers’ ability to provide value to customers.** Appropriate skills are difficult to acquire and not always well rewarded by the market. There are only 12 actuaries registered in Ghana. Many of them are not practising, as there are better opportunities elsewhere. Beyond actuarial skills, underwriting, cost management, product development and data science skills were highlighted as key gaps in the market. Deepening technical capacity will be critical to enable efficiency, sustainability and innovation in the market. Global skills sharing will also be required where local business cases don’t allow for permanent appointments.

**Challenging to reach mass market and small business.** Few Ghanaians use insurance, and many are unfamiliar with the concept. Active sales are therefore required to engage and reach the mass market and small business. The business case to reach these segments is challenging and requires aggregator partnerships for distribution.

- **Agents and brokers.** Agents and brokers account for the vast majority of corporate and traditional product distribution in Ghana, with 30% of all insurance premiums being distributed through each of them. Agents play a bigger role in the retail space, whereas brokers play a bigger role in the non-life space as the primary distribution channel for corporate policies.
- **MNOs.** In 2015, it was reported that there were approximately 2.7 million policyholders for mobile insurance products (GIZ & NIC, 2015a). Four insurers\(^\text{14}\) have partnered with MNOs and technical service providers to offer mobile insurance products, and this

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\(^12\) FinScope is a nationally representative consumer survey that collects data on financial needs, use, attitudes and constraints.

\(^13\) The Integrated Business Survey (IBES) provides an overview of domestic enterprises in Ghana but does not cover the need for any financial services by enterprises.

\(^14\) The partnerships are Airtel/MicroEnsure/Enterprise, Tigo/Bima/Prudential, MTN/aYo/Metropolitan Life and MTN/MFS Africa/UT Life.
channel offers further opportunities for growth, given the high level of mobile phone ownership among Ghanaians.

- **Banks.** Banks are playing an increasingly important role in the distribution of retail insurance, as they were permitted to start offering retail insurance in 2007. By 2016, there were 23 partnerships; and by the same year, 16% of all insurance gross written premiums were being distributed through bancassurance (EY, 2016 and Konutsey, 2016). However, the distribution of insurance to enterprises through bancassurance is not allowed in regulation. Removing this regulatory barrier could offer an opportunity to extend the provision of insurance to smaller enterprises, in particular.

- **Other channels limited.** A number of MFIs offer insurance products, mainly credit-life insurance and agricultural insurance. However, the total value and volume of policies distributed through MFIs remain limited, and potential remains to further extend such channels. Retailer networks are small, which makes them less viable for distribution. Digital distribution channels, other than mobile, are also limited at present, but offer nascent potential.

**Agricultural insurance not yet playing a substantive role in contributing to resilience or growth.** The Ghana Agricultural Insurance Pool (GAIP), which comprises 16 non-life insurers, is the only entity that can offer agricultural insurance products. Agricultural product offerings are limited to weather-index insurance for smallholder farmers and multi-peril for commercial farmers. Only 4,000 policies have been sold, most of which are distributed at the meso-level. Data and distribution are key challenges for GAIP. Agricultural premiums are also not subsidised, and GAIP struggles to be sustainable. The suitability of GAIP to fully serve agricultural risk needs is not clear and should be considered.

**NHIS covering the majority, but out-of-pocket expenses indicating additional need.** The NHIS covers 40% of the population (Wang et al., 2017). Out-of-pocket health expenses remain significant, which indicates the need for health-related insurance products. In 2015, out-of-pocket health expenses as a percentage of total health expenses stood at 36%. Negative perceptions, long queues and onerous renewal processes are also seen as barriers to individuals signing up for the NHIS, and private insurance is beyond the reach of the majority of the population. While life insurers are not allowed to offer health products unless separately licensed by NHIA, they can offer hospitalisation loss-of-income products, which may constitute a significant opportunity to help fill the gap between current offerings of the NHIS and private insurers and the needs of individuals.

**Education savings a significant driver of voluntary retail premiums.** Endowment policies dominate the books of life insurers, and they account for an estimated 75% to 80% of all life premiums. Endowment policies are attractive, as they provide a disciplined route for savings and can be drawn on when unexpected expenses arise. New accounting principles will make such products less attractive, and many insurers are trying to move from savings to risk-based products.

**Localisation requirements potentially having unintended consequences.** The domestic reinsurance market retained 35% of all non-life reinsurance in 2016, with the remainder covered by foreign reinsurers. The current size and nature of the market make a business case for a variety of specialist skills difficult. Ghana has few actuaries, and one of the largest

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15 In 2015, out-of-pocket health expenses as a percentage of total health expenses stood at 36%.
16 An endowment policy is a type of life insurance policy that is designed to help the policyholder save regularly over a specific period. After a specific period, the policyholder is able to get a lump sum amount on the policy.
domestic reinsurers employs only one engineer. Global risk pools are also needed to build data on newer risks such as cyber-risks and climate change, and to avoid concentration or contagion risks for large risks such as natural disasters, oil spills, epidemics, political risk, terrorist attacks or the failure of significant infrastructure (e.g. a port) or financial institutions (e.g. a bank). Foreign reinsurers play a significant role in managing larger domestic risks and contributing skills and data to unlock domestic and foreign investment; however, they may only be used once local capacity has been exhausted, which may increase cost or deter some providers, which can affect investment. It is important for the regulatory environment to enable effective access to global risk pools, skills and data to best unlock investment in Ghana.

**Insurers playing a limited role in risk management.** Few insurers are playing an active role in helping business clients manage and prevent risks. Effective risk assessments by insurers can help enterprises to better manage and reduce the incidence and severity of risks faced. Reductions in commercial property fires and improved efficiency in fleet management are examples identified in interviews. Few insurers yet see this as a core value proposition to the market.

**Cross-selling of insurance with pensions uncertain.** Although the provision of provident funds and personal pensions by insurers is not explicitly prohibited in the legislation, stakeholder interviews indicate that there is confusion around whether insurers may directly engage in the distribution of voluntary pensions and whether cross-selling is allowed where insurance groups include corporate trustees. This limits the extent to which insurers are currently playing a role in the distribution of pensions and their ability to cross-sell insurance policies with pensions to employer groups, thereby mobilising additional capital.

**Short-term liabilities limiting the ability to invest in longer-term assets.** Longer-term liabilities are held largely for educational endowment products and make up an estimated upper end of GHS448 million (USD115 million) of life liabilities. Longer-term assets for life insurers make up GH560 million (USD143 million) in assets, largely matching liabilities. Insurers are therefore unlikely to increase their long-term assets in the near future.

**Annuity growth to extend insurers’ liabilities in the longer term.** This market for annuities will grow in coming years as people retire from the newly formed private pension sector and have a need for reliable incomes. The development of annuity products can extend the term of insurers’ liabilities, improving their ability to invest in longer-term assets and more actively contribute to capital market development. However, the enabling conditions for annuities to develop are not yet fully in place, as mortality tables are yet to be developed and a sufficiently large pool and diverse long-term investment instruments are not present. Creating these enabling conditions and building effective regulatory frameworks, datasets and investment options to issue such annuities will be required for Ghanaians to benefit from this future growth. The impact of such changes will likely be felt in the longer term.

**Limited diversification of long-term instruments.** Insurers invest in property and government securities as long-term assets given the lack of alternatives. The development of long-term instruments with an attractive risk-return profile will provide opportunities for insurers to diversify their risk, but also to allocate capital to a wider set of economic

---

17 In 2012, the Melcom Building in Accra collapsed entirely, as a result of which 14 people died and 61 people required medical treatment (NADMO, 2014). Three years later, in 2015, a fire broke out in one of Melcom’s warehouses (Modern Ghana, 2015)
activities. Instruments such as infrastructure bonds and REITs could complement existing offerings, with the added benefit of potentially addressing the present housing shortage.

Opportunities for development

From the previous drivers, the following eight priority opportunities for development emerge:

• **Designing products to meet consumer needs and provide value.** Few insurers use consumer data in their product design and public data is limited. Interviews indicate very limited demand-side research is undertaken by insurers themselves. Insurers should leverage new and existing types of consumer data to gain a better understanding of potential customers, their needs and nuances of insurance behaviour and usage. Better understanding customers’ needs and behaviour and leveraging technology to develop innovative product solutions will help to build the perception of insurance among Ghanaians as products provide greater value to households and businesses.

• **Broadening distribution options.** The success of MNOs as a distribution channel shows the potential for further digitisation of distribution, including call centres. The further digitisation of insurance distribution through aggregators such as platforms and the development of effective digital payments offer opportunity. To reach small businesses on a sustainable basis, regulation that restricts bancassurance to retail customers should be revisited.

• **Digitising for efficiency and value.** High cost ratios, limited digitisation or legacy systems have made many insurers inefficient, which in turn limits their ability to offer value to consumers by paying claims. The existing market structure, nature of competition and limited skills availability all contribute to the status quo. The digitisation of key processes throughout the insurance value chain offers a significant opportunity to improve the efficiency of the industry and extend the effective reach of insurance products.

• **Improving enterprise risk management.** Enterprises face risks that can undermine the sustainability and longevity of their businesses. Few insurers are playing an active role in helping business clients manage and prevent risks. However, insurance can play a critical role by providing financial support in the event of a risk event occurring and by employing their technical expertise and technology to prevent the likelihood of the risk occurring in the first place.

• **Building long-term capital.** The short-term nature of insurers’ liabilities limits their ability to contribute to long-term capital in Ghana. A limited range of long-term investment instruments and the relative return of short term investments further contribute to insurers’ predominantly short-term investment profile. Developing and building on products that mobilise long-term capital, such as annuities and endowments, may constitute an opportunity for insurers to further contribute to the building of long-term capital in the economy. The harmonisation of insurance and pension legislation could further contribute.

• **Considering key policy trade-offs and questions.** It is crucial that policymakers consider not just how policies contribute to insurance market development but also the impact on broader economic development. Examples in Ghana include leveraging global risk
sharing, compulsory products, the market development mandate of the regulator and the growth of the digital payments ecosystem.

- **Considering key regulatory constraints.** Fragmentation and unsustainable businesses practices have contributed to the negative perception of insurance. Improving this perception may require the exit or merging of struggling institutions. A treating-customers-fairly approach to market conduct, with effective complaints and recourse mechanisms will further build trust. To foster more sustainable business practices and innovation, skills development, cost-sharing structures and the use of data should be prioritised alongside providing the industry with clarity on the legality of e-signatures and airtime deductions.

The table below lists key actions identified to develop the insurance market and improve the ability of the insurance sector to contribute to economic and social development through household resilience, business resilience and capital market development.

<table>
<thead>
<tr>
<th>Opportunity action or activity</th>
<th>HH resilience</th>
<th>Business resilience</th>
<th>Capital market development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement regulatory interventions to resolve unsustainable or poor-performing insurers to build trust and improve value, including effective coordination with other regulators</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Deepen digitisation to improve efficiency, convenience and trust</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Broaden NIC mandate to explicitly encompass market development that considers economic development and inclusion objectives</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Build critical capacity for product value, delivery and risk management potential – including underwriting, data, actuarial and cost management skills</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Grow central services industry to manage cost and share skills. Consider new regulatory structures such as new cell captives/syndicates or new types of intermediaries to improve efficiencies and innovation incentives.</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Review localisation requirements to ensure they support economic development objectives</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Collect data to understand the market and develop more tailored products, including products for women and SMEs</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Improve conduct and recourse mechanisms for better value and simpler complaints mechanisms</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Amend regulation to allow bancassurance to serve small businesses</td>
<td></td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>
Assess whether GAIP is the best structure to provide value to the agricultural sector or consider opening the market  x  x

Retain airtime deductions as an interim MNO approach, but collaborate with payments industry to build alternative digital options  x

Deepen nascent employee benefits market for middle class, consider group life as an opt-out option linked to pensions  x  x

Develop annuity infrastructure to retain retiree funds to limit old-age poverty and build capital market, including the required regulations, data and skills  x  x

Encourage insurer distribution of voluntary pensions to build capital  x

Engage professional investment managers in insurance to diversify portfolios and catalyse more innovative products  x

Consider credit ratings or alternative mechanisms to ensure safety of insurer investment into term deposits and other credit instruments  x

Improve indemnity cover and consider removing regulatory restriction of this business line to local only provision, particularly for larger providers or groups  x

**Table 1: Key opportunity actions or activities**

*Source: Author’s own*

Table 2, Table 3 and Table 4 below provide an overview of the key insurance industry data.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 (GHS)</th>
<th>2016 (GHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premium income</td>
<td>628,528,775 (USD416m)</td>
<td>1,928,838,573 (USD494m)</td>
</tr>
<tr>
<td>Reinsurance premiums</td>
<td>59,212,280 (USD39m)</td>
<td>422,759,532 (USD108m)</td>
</tr>
<tr>
<td>Assets</td>
<td>1,142,567,953 (USD757m)</td>
<td>3,746,717,909 (USD961m)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>714,561,228 (USD473m)</td>
<td>2,393,937,744 (USD614m)</td>
</tr>
</tbody>
</table>

**Table 2: Industry premiums, assets and liabilities, 2011 and 2016**

*Source: NIC Annual Report (2011 and 2016)*
<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 (GHS)</th>
<th>2016 (GHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premium income</td>
<td>270,176,073 (USD178m)</td>
<td>858,781,522 (USD220m)</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>3,097,988 (USD2m)</td>
<td>20,759,532 (USD5m)</td>
</tr>
<tr>
<td>Commissions expenses</td>
<td>n/a</td>
<td>98,572,197 (USD25m)</td>
</tr>
<tr>
<td>Management expenses</td>
<td>n/a</td>
<td>253,939,737 (USD65m)</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>n/a</td>
<td>98,237,141 (USD25m)</td>
</tr>
<tr>
<td>Investment income</td>
<td>n/a</td>
<td>378,305,473 (USD97m)</td>
</tr>
<tr>
<td>Total assets</td>
<td>491,949,811 (USD326m)</td>
<td>2,241,041,446 (USD575m)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>387,668,718 (USD257m)</td>
<td>1,592,440,882 (USD408m)</td>
</tr>
</tbody>
</table>

**Table 3: Life industry premiums, assets and liabilities, 2011 and 2016**

*Source: NIC Annual Report (2011, 2016)*
## Non-life market

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 (GHS)</th>
<th>2016 (GHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premium income</td>
<td>358,352,702</td>
<td>1,070,057,051</td>
</tr>
<tr>
<td></td>
<td>(USD237m)</td>
<td>(USD273m)</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>56,114,292</td>
<td>402,000,000</td>
</tr>
<tr>
<td></td>
<td>(USD37m)</td>
<td>(USD103m)</td>
</tr>
<tr>
<td>Commissions expenses</td>
<td>n/a</td>
<td>124,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(USD32m)</td>
</tr>
<tr>
<td>Management expenses</td>
<td>n/a</td>
<td>445,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(USD114m)</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>n/a</td>
<td>88,640,553</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(USD23m)</td>
</tr>
<tr>
<td>Investment income</td>
<td>n/a</td>
<td>160,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(USD41m)</td>
</tr>
<tr>
<td>Total assets</td>
<td>650,618,142</td>
<td>1,505,676,463</td>
</tr>
<tr>
<td></td>
<td>(USD430m)</td>
<td>(USD386m)</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>326,892,510</td>
<td>801,496,862</td>
</tr>
<tr>
<td></td>
<td>(USD216m)</td>
<td>(USD205m)</td>
</tr>
</tbody>
</table>

**Table 4: Non-life industry premiums, assets and liabilities, 2011 and 2016**

*Source: NIC Annual Report (2011, 2016)*
### List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGI</td>
<td>Association of Ghana Industries</td>
</tr>
<tr>
<td>ALM</td>
<td>Asset-Liability Management</td>
</tr>
<tr>
<td>ARC</td>
<td>African Risk Capacity</td>
</tr>
<tr>
<td>AUM</td>
<td>Assets Under Management</td>
</tr>
<tr>
<td>BoG</td>
<td>Bank of Ghana</td>
</tr>
<tr>
<td>BSDITA</td>
<td>Banks and Specialised Deposit-Taking Institutions Act</td>
</tr>
<tr>
<td>CADME</td>
<td>Central American Disaster Microinsurance Expansion</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy Requirements</td>
</tr>
<tr>
<td>CDD</td>
<td>customer due diligence</td>
</tr>
<tr>
<td>CFT</td>
<td>countering the financing of terrorism</td>
</tr>
<tr>
<td>CIS</td>
<td>Collective Investment Scheme</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>DMB</td>
<td>Deposit Money Bank</td>
</tr>
<tr>
<td>FCR</td>
<td>Financial Condition Report</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>FIC</td>
<td>Financial Intelligence Centre</td>
</tr>
<tr>
<td>FII</td>
<td>Financial Inclusion Insights</td>
</tr>
<tr>
<td>FSDA</td>
<td>Financial Sector Deepening Africa</td>
</tr>
<tr>
<td>G2G</td>
<td>government to government</td>
</tr>
<tr>
<td>G2P</td>
<td>government to person</td>
</tr>
<tr>
<td>GAIP</td>
<td>Ghana Agricultural Insurance Pool</td>
</tr>
<tr>
<td>GAX</td>
<td>Ghana Alternative Market</td>
</tr>
<tr>
<td>GCX</td>
<td>Ghana Commodity Exchange</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GFIM</td>
<td>Ghana Fixed Income Market</td>
</tr>
<tr>
<td>GHS</td>
<td>Ghanaian Cedi</td>
</tr>
<tr>
<td>GIA</td>
<td>Ghana Insurers Association</td>
</tr>
<tr>
<td>GIBA</td>
<td>Ghana Insurance Brokers Association</td>
</tr>
<tr>
<td>GoG</td>
<td>Government of Ghana</td>
</tr>
<tr>
<td>GSE</td>
<td>Ghana Stock Exchange</td>
</tr>
<tr>
<td>HFC</td>
<td>Home Finance Company</td>
</tr>
<tr>
<td>ICT</td>
<td>information and communications technology</td>
</tr>
<tr>
<td>ID</td>
<td>identification</td>
</tr>
<tr>
<td>KYC</td>
<td>know your customer</td>
</tr>
<tr>
<td>MFI</td>
<td>microfinance institution</td>
</tr>
<tr>
<td>MIF</td>
<td>multilateral investment fund</td>
</tr>
<tr>
<td>MNO</td>
<td>mobile network operator</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>NBFI</td>
<td>non-bank financial institution</td>
</tr>
<tr>
<td>NGN</td>
<td>Nigerian Naira</td>
</tr>
<tr>
<td>NHIA</td>
<td>National Health Insurance Authority</td>
</tr>
<tr>
<td>NHIS</td>
<td>National Health Insurance Scheme</td>
</tr>
<tr>
<td>NIC</td>
<td>National Insurance Commission</td>
</tr>
<tr>
<td>NPL</td>
<td>non-performing loan</td>
</tr>
<tr>
<td>NPNC</td>
<td>no premium no cover</td>
</tr>
<tr>
<td>NPRA</td>
<td>National Pensions Regulatory Authority</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>RBA</td>
<td>risk-based assessment</td>
</tr>
<tr>
<td>RCB</td>
<td>Rural Community Bank</td>
</tr>
<tr>
<td>REIT</td>
<td>Real Estate Investment Trust</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Loan Credit Cooperative Organisation</td>
</tr>
<tr>
<td>SDC</td>
<td>Swiss Development Agency</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>SIC</td>
<td>State Insurance Company</td>
</tr>
<tr>
<td>SME</td>
<td>small-to-medium-sized enterprise</td>
</tr>
<tr>
<td>SSA</td>
<td>sub-Saharan Africa</td>
</tr>
<tr>
<td>SSNIT</td>
<td>Social Security and National Insurance Trust</td>
</tr>
<tr>
<td>ToC</td>
<td>theory of change</td>
</tr>
<tr>
<td>TPFA</td>
<td>Temporary Pension Fund Account</td>
</tr>
<tr>
<td>TSP</td>
<td>technical service provider</td>
</tr>
<tr>
<td>USD</td>
<td>United States dollar</td>
</tr>
<tr>
<td>VAT</td>
<td>value-added tax</td>
</tr>
</tbody>
</table>
1. Introduction

About this study

This study investigates the role of insurance in contributing to sustainable and inclusive growth in Ghana.

Insurance for growth. Traditionally, the focus of insurance diagnostic research within the development sphere\(^\text{18}\) has been on building a more inclusive insurance market to, ultimately, enhance the resilience of lower-income households to shocks, thereby increasing welfare. Even though individual and household resilience is an important facet of the contribution of insurance to society, this study considers the impact of the insurance sector on economic activity and growth more broadly.

Four insurance market diagnostic studies to inform DFID\(^\text{19}\) approach to insurance market development. In recognition of the role insurance can play to support sustainable development and growth, the UK Department for International Development (DFID) is developing its global approach to insurance market development. DFID has partnered with the World Bank\(^\text{20}\), FSDA\(^\text{21}\) and Cenfri\(^\text{22}\) to conduct a series of four country diagnostic studies\(^\text{23}\) into the role that insurance market development has on the long-term economic development path of a country. These four country case studies – of which this study is one – will form part of a broader synthesis process to highlight the key issues in insurance market development in sub-Saharan Africa. In addition to informing a global and regional agenda, each study is designed to highlight opportunities and challenges at a local level to policymakers, regulators and market stakeholders.

Why Ghana? The rapid economic growth over the last two decades, coupled with increasing macroeconomic and political stability, means that the Ghanaian market has great potential for development if key constraints can be eased. The current uptake of insurance products remains relatively limited, and insurance penetration remains low at 1.14% in 2016. This indicates substantial scope for growth of the insurance industry and, with that, its role in society. The potential role of insurance to Ghana’s economic and social development has been recognised by the Ministry of Finance. Speaking about the Ministry of Finance’s Financial Inclusion Strategy, Sampson Akligoh (Director of the Financial Sector Division of the

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\(^{18}\) See, for example, the series of Access to Insurance Diagnostics conducted, available at: [https://a2ii.org/en/knowledge-centre/country-diagnostics](https://a2ii.org/en/knowledge-centre/country-diagnostics)

\(^{19}\) The Department for International Development (DFID) leads the UK’s work to end extreme poverty. It is tackling the global challenges of our time, including poverty and disease, mass migration, insecurity and conflict, with the aim to build a safer, healthier, more prosperous world for people in developing countries and in the UK too.

\(^{20}\) The World Bank Group is a global partnership of five institutions working for sustainable solutions that reduce poverty and build shared prosperity in developing countries. It is one of the world’s largest sources of funding and knowledge for developing countries.

\(^{21}\) FSD Africa is a financial sector development programme or "FSD" based in Nairobi. It is funded by UK aid from the UK Government. FSD Africa aims to reduce poverty across sub-Saharan Africa by building financial markets that are efficient, robust and inclusive.

\(^{22}\) Cenfri is an independent think-tank based in Cape Town. Its mission is to support financial inclusion and financial sector development through facilitating better regulation and market provision of financial services.

\(^{23}\) Rolled out in Ghana, Kenya, Nigeria and Rwanda.
Ministry of Finance) said that it is necessary “… to strengthen pensions, insurance, and collective investment schemes... because [they] provide long-term money for the economy” (GhanaWeb, 2017). There is, therefore, a concerted policy drive in Ghana to develop the insurance market. Policy is being further developed accordingly and which this research can help to inform.

**Scope**

*Multiple links between insurance and growth.* The impact of the insurance market on inclusive and sustainable growth occurs via a number of different pathways. It is therefore important to understand what the linkages between insurance and economic growth are. The insurance-for-growth transmission mechanism (as illustrated in Figure 2 below), graphically represents the linkages between the insurance sector and economic growth and poverty reduction as emerged from the literature:

![Figure 2: Insurance-for-growth transmission mechanism](source: Authors’ own, Adapted from Chamberlain, Coetzee and Carmargo, 2017)

*Three focus areas.* The three main transmission channels identified in Error! Reference source not found. form the focus areas for the diagnostics:

- **Improve individual and household resilience.** Insurance can contribute directly to individual welfare by providing a mechanism for households to build resilience in the face of financial shocks and by ensuring peace of mind even if no risk events occur. By providing an injection of funds, insurance can greatly reduce if not totally alleviate the risk of poverty when risk events occur. By transferring risk to an insurer, individuals and households can concentrate on their productive expertise, thereby allowing them to
invest and grow their incomes. Insurance also plays an indirect role by enabling households to access other services, such as credit, but also health and education.

- **Improve business resilience and productivity.** Insurance can contribute to business development in at least three ways:

  - **Risk transfer to enable entrepreneurship and trade.** Entrepreneurs can transfer the financial impact of a risk occurring from their own account to the insurance industry, which may bolster their survival rate. Insurance also covers risks related to cross-border trade, which facilitates exports, imports and enables foreign investment.

  - **Risk management to mitigate risk and enable more efficient resource allocation.** Enterprises can use the tools and techniques created by insurers to develop risk management plans and mitigation strategies to prevent risks from occurring. Moreover, insurers may obligate enterprises to put such plans and strategies in place before they agree to cover certain risks, which incentivises enterprises to change their behaviour and to adopt better risk management practices.

  - **Access to credit and financing.** Insurance helps ensure the availability of many forms of business lending, mortgages, project finance and leasing. Insurance reduces the risk of borrower default or provides alternatives to collateral to reduce lender risk, which allows for more credit to be extended on better terms. Insurance markets are skilled at the pricing of risk, and their exposure-identification and exposure-mitigation skills and tools may enhance credit providers’ ability to lend on terms that are commercially viable.

- **Support capital market development.** The insurance sector can play a role in the deepening and efficiency of capital markets to support growth objectives. Four main channels are considered:

  - **Mobilising capital.** The insurance sector can mobilise capital through premium collection and pensions. It can also mobilise capital by enabling business investment referred to above.

  - **Pooling capital for efficiency and diversification.** Insurers are able to pool savings from numerous small investors and, in the process, accumulate significant investable funds. Larger funds are more efficient to manage and invest, and they allow greater diversification of investments.

  - **Allocating capital to more productive opportunities.** Insurers can allocate capital more effectively to productive opportunities than individual investors as they can invest over longer time-horizons and are able to build professional skills and data to manage assets. Transacting at scale with greater efficiency allows insurers to reduce the unproductive contingency capital that investors need to hold as a precautionary measure to potential risks.

  - **Building institutions for governance and investor confidence.** Institutional investors, including insurers, grow the professional investment industry. A strong professional investment industry, in turn, can advocate for reforms in governance, auditing and accounting practices. Such institution building is critical for investment decisions and domestic and global business confidence.

These three elements – individual or household risk management, business risk management and capital market development – form the key focus areas of this study.
The development of insurance markets occurs at various tempos and at different trajectories. To unpack the various roles of insurance in growth and development, it is important to understand the nature and development of the insurance market itself. Insurance market development follows a unique path in every country. As illustrated in Figure 3 below, typically four stages of insurance market development are observed. Each stage is roughly correlated with economic development, with countries at lower levels of GDP per capita typically resorting in an earlier stage of development.

**Figure 3: Stages of insurance market development**

*Source: Chamberlain, Coetzee and Carmargo, 2017*

- **Stage 1: Establishment and corporate assets.** Corporate asset insurance dominates, such as in large extractive industries. Insurance contracts in the market cover mostly short-term liabilities, which are annually renewable. Investment portfolios of insurers typically consist of real estate and bank deposits.

- **Stage 2: Early growth and compulsory.** Compulsory retail, credit insurance and some group-based retail products emerge. As economic welfare increases, the increase in the number of cars on the road necessitates compulsory insurance. The development of the formal credit market drives the need for credit insurance. Risk cover is still mostly short term. There is limited diversification in investment portfolios of insurers, which still mainly consists of real estate and bank deposits with some allocations to shorter-term government securities.

- **Stage 3: Retail expansion.** Generally, limited individual retail sales still exist in the market, but voluntary sales and life insurance start taking off as consumers become more aware of the value of insurance offers. Furthermore, as the middle class of the economy grows, income levels can support insurance purchases. The uptake of longer-term insurance contracts emerges as the popularity of life insurance and

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24 These stages are not universal, but rather form a heuristic of common identifiable characteristics that is a useful frame of reference. Not all countries will neatly fit into a single stage. The stages are based on the work of Lester (2014) and USAID (2016) as analysed in Chamberlain, Coetzee and Camargo (2017). For a detailed discussion on insurance market development and drivers of insurance market development see: [https://cenfri.org/publications/role-inclusive-insurance-markets-economic-growth-poverty-reduction/](https://cenfri.org/publications/role-inclusive-insurance-markets-economic-growth-poverty-reduction/)
contractual savings increases. The investment portfolios of insurers become more diversified with greater allocations to government securities. Substantial allocations to real estate and bank deposits remain.

- **Stage 4: Diversified retail.** Stage 4 sees the development of a diversified retail insurance market across income segments, distributed through group and individual sales, with an increasing contribution by voluntary sales. The market share of domestic insurers improves, and the provision of niche insurance products emerges. Investment portfolios become more diverse. Competitive allocations across equity, corporate bonds and government bonds result in efficient and diversified investment portfolios.

*Comprehensive scope to map market development features.* The ability of the insurance market to contribute towards economic growth varies depending on its stage of development. As the insurance market develops, so does its ability to effect economic activity. The study thus focuses on mapping the key features of the insurance market, including the landscape of providers and their performance, to position the market in the development stages framework. Given the interplay between the stage and the economic environment, the study takes stock of the context drivers of market development, as well as the policy, legislative and regulatory framework that set the parameters for market participation.

**Research approach**

The study was informed by extensive country consultation, as well as desktop research and review of available data. The research followed a market systems (M4P) approach, assessing contextual and institutional factors, demand, supply and regulation to shed light on barriers and opportunities for insurance market development to strengthen sustainable development.

The draft research findings were shared with in-country stakeholders in a stakeholder workshop hosted in October 2018.

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25 The country mission from 12 to 23 March 2018 provided a primary source of information. In total, more than 65 stakeholders were consulted across government departments, industry associations, industry players, brokers, investment managers, development organisations and research organisations. See Appendix D for a full list.
Structure

This document is structured as follows:

- **Section 2** outlines the economic and social context in which the Ghanaian insurance market is located.
- **Section 3** analyses the policy, legislative and regulatory framework and how the incentives it creates affect market development.
- **Section 4** takes a closer look at the historic evolution of the insurance market, the key market features and the challenges faced by market operators.
- **Section 5** provides an in-depth discussion of the role of insurance in managing individual and household risks.
- **Section 6** considers the role of insurance in supporting enterprise development and risk management.
- **Section 7** discusses the role of insurance in supporting capital development.
- **Section 8** concludes on the main opportunities and imperatives for insurance market development in Ghana to expand its current role in contributing to inclusive economic growth.
2. Context drivers of market development

The insurance sector forms part of a broader economic and social context that shapes market outcomes, demand-side realities and the functioning of the financial sector. This section unpacks the key contextual drivers of insurance market development across the macroeconomic, socio-economic and policy context.

Box 1: Key findings

- Political stability in recent years with commitment to economic development.
- Stabilising macroeconomic environment, with improved business and consumer confidence.
- High levels of government debt with constrained exchange reserves remains.
- Growth driven by oil and gas and cocoa, transport and construction key contributors to GDP.
- Significant middle class with increasing urbanisation.
- High ICT and mobile phone penetration, but digital payment use still limited.
- Significant informal economy, with most engaged outside the formal sector.
- Out-of-pocket health expenses significant.
- Financial system dominated by banks, with the insurance sector constituting a minimal amount of total financial sector assets.
- Financial inclusion improving but many are still excluded.

2.1. Pertinent contextual factors

A politically stable country with policymakers committed to economic development and financial inclusion. President Nana Akufo-Addo came into power in 2017 after peaceful elections. In April 2018, the President launched Ghana’s new seven-year Coordinated Programme of Economic and Social Development, which outlines plans to spur growth, create jobs, restore the fiscal balance and create prosperity and equal opportunity for all (Business Ghana, 2018). The President has already started to fulfil some of his promises of setting up a factory in each of the nation’s 216 districts, building a dam in every village and ensuring that there is free high school education (World Bank, 2018a).

Ghana experienced high levels of economic volatility and instability between 2014 and 2016. High government expenditure and growing contingent liabilities gave rise to a government debt level of 73.4% as a share of GDP in 2016, which was one of the highest debt levels on the continent (Adams, 2015, Africa Ranking, 2018 and IMF, 2017). The once-stable exchange rate began to depreciate when the Bank of Ghana (BoG) started printing more money. Prices of key commodity exports such as cocoa, gold and oil also fell during this period26 (BoG, 2014, IMF, 2017 and World Economic Forum, 2018).

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26 Between 2014 and 2016, the price of gold fell from USD1,420 per ounce to USD1,050; the spot price of crude oil fell from USD96.2 a barrel to USD42.8 and the price of cocoa fell from USD3,062 a ton to USD2,892.
But overall, macroeconomic conditions are improving. 2017 showed signs of macroeconomic stabilisation as the inflation rate fell from 17.4% in 2016 to 11.8% in 2017. Ghana’s real GDP growth was 8.5% in 2017, compared to 4% in 2014 (Ghana Statistical Service, 2018a and IMF, 2017). Real GDP growth is projected to increase, resulting positive sentiments in the BoG’s outlook for business development and private sector investments (Better than Cash Alliance, 2017). Stabilising macroeconomic conditions contributed to growing investor confidence, as indicated by the declining yields on short-term government securities 27 and the successful auction of longer-term government bonds up to 15 years.

<table>
<thead>
<tr>
<th>Demography</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (m)</td>
<td>26.9</td>
<td>27.6</td>
<td>28.2</td>
<td>28.8</td>
</tr>
<tr>
<td>Population growth rate (annual %)</td>
<td>2.3</td>
<td>2.3</td>
<td>2.24</td>
<td>2.2</td>
</tr>
<tr>
<td>Urban population (% of total)</td>
<td>53.4</td>
<td>54.0</td>
<td>54.7</td>
<td>55.3</td>
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<table>
<thead>
<tr>
<th>Economy</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>GDP growth rate (%)</td>
<td>4.0</td>
<td>3.8</td>
<td>3.7</td>
<td>8.5</td>
</tr>
<tr>
<td>Non-oil GDP growth (%)</td>
<td>1.6</td>
<td></td>
<td>4.9</td>
<td></td>
</tr>
<tr>
<td>GDP per capita, current prices (USD)*</td>
<td>1,449.6</td>
<td>1,353.7</td>
<td>1,517.5</td>
<td>1,641.5</td>
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<tr>
<td>Unemployment (% of total labour force ILO Model Estimates)</td>
<td>5.1</td>
<td>5.1</td>
<td>5.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Youth unemployment (% national estimate)</td>
<td>15.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>-9.5</td>
<td>-7.6</td>
<td>-6.6</td>
<td>-4.2</td>
</tr>
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</table>

<table>
<thead>
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<th>2017</th>
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<tbody>
<tr>
<td>Inflation, consumer prices (annual %)</td>
<td>15.5</td>
<td>17.5</td>
<td>17.4</td>
<td>11.8</td>
</tr>
<tr>
<td>Prime lending rate (12m average %)</td>
<td></td>
<td>31.7</td>
<td></td>
<td>29.3</td>
</tr>
<tr>
<td>Official exchange rate (GHS / USD annual period)</td>
<td>2.9</td>
<td>3.7</td>
<td>3.9</td>
<td>4.4</td>
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<tr>
<td>91-day bill interest rate (%)</td>
<td>25.8</td>
<td></td>
<td></td>
<td>13.3</td>
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<thead>
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<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tr>
<td>Fiscal balance (% of GDP)</td>
<td></td>
<td>-9.3</td>
<td></td>
<td>-6</td>
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<tr>
<td>Gross debt position (% of GDP)</td>
<td>70.2</td>
<td>72.2</td>
<td>73.4</td>
<td>71.8</td>
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<table>
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<th>Education and health</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td>Mean period of schooling (years)</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>62.2</td>
<td>62.4</td>
<td>62.7</td>
<td></td>
</tr>
<tr>
<td>Literacy levels (adult)</td>
<td></td>
<td></td>
<td></td>
<td>76</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ICT</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile cellular subscriptions (per 100 people)</td>
<td>112.6</td>
<td>126.9</td>
<td>135.8</td>
<td></td>
</tr>
<tr>
<td>Smartphone ownership (% of adult mobile phone owners)</td>
<td></td>
<td></td>
<td></td>
<td>21</td>
</tr>
</tbody>
</table>

Table 5: Key macro and socioeconomic variables

Source: WHO (2018) and World Bank (2018a & 2018b)

However, exchange reserves constrained at 3.3 months cover of imports. Ghana’s foreign exchange reserves have increased steadily since 2004 and in April 2018 stood at USD6.9 billion, which equates to 16% of its GDP (Trading Economics, 2018). However, its reserves can only pay for 3.3 months of imports of goods and services (World Bank, 2017a).

27 Returns on 91-day bills fell by 5.2% between 2016 and 2017; and by 7.5% for the 182-day bills.
This, alongside regulatory positions such as the BoG enforcing capital controls in 2014 that limit foreign-exchange and foreign-current account operations within the country and prohibit offshore foreign-exchange deals by resident companies, signals that a shortage of foreign exchange reserves is a key concern of Ghana’s regulators (IHS Markit, 2014).

**Agricultural sector provides most employment opportunities, but services sector accounts for more GDP.** The services sector accounted for 53% of GDP in 2017 and employed 28% of the workforce. The agricultural sector accounted for 23% of GDP in 2017 and employed 53% of the workforce in 2016 (Food and Agriculture Organisation of the United Nations, 2016 and World Bank, 2017a).

**Positive trade balance, with exports concentrated in gold, cocoa and crude oil and imports concentrated in vehicles, refined petroleum and cement.** In 2016, Ghana exported USD16.5 billion and imported USD12.5 billion, resulting in a positive trade balance of USD3.97 billion. Gold constituted 57% of total exports; cocoa made up 13%; and crude oil contributed 7% of total exports. Ghana’s top imports are cars, delivery trucks, refined petroleum and cement (OEC, 2016).

**Large informal economy.** In 2011, 80% of the Ghanaian workforce was employed by the informal sector and this figure is expected to have grown. Over half of those who were employed were self-employed. The agricultural, services and small trade sector employs the majority of the workforce. The informal sector is important to economic growth and inclusive development given the sheer number of individuals it employs (Osei-Boateng and Ampratwum, 2011).

**A growing middle class, highly urbanised and young population.** Average Ghanaian household income rose from USD2.8 per day in 2008 to USD11.20 in 2014 and per capita income has increased from USD1.2 in 2008 to USD7.4 per day in 2014 (Ghana Statistical Services, 2008, 2014). Ghana is one of the few countries on the continent to reach Millennium Development Goal 1 of reducing extreme poverty28 (Cooke et al., 2016). Ghana has a population of 28.8 million people, more than half of which (54.7%) reside in urban areas (World Bank, 2018a). In 2010, 75% of Ghana’s population was below the age of 35, indicating that there is a large youth population (Ghana Statistical Service, 2013).

**Decent educational and health outcomes, but possible to extend coverage.** Table 23 in the Appendix A illustrates that Ghana has decent educational and health outcomes, but there is still a way to go. Ghana introduced free primary and junior-high education in 1995, but only in 2017 did the newly appointed President Akufo-Addo announce free high school education (Forson, 2017). This was a momentous moment for Ghana, whose mean years of schooling was 6.9 in 2016 (UNDP, 2016a). While Ghana has a legally required nationalised health insurance scheme (NHIS), only 40% of the total population is covered by it (Wang et al., 2017). Out-pocket-health expenditure was 36% of total health expenditure in 2016, illustrating that the population continues to spend out-of-pocket despite the existence of the NHIS (World Bank, 2016).

**High ICT penetration and growing connectivity.** Ghanaians are highly connected, with 136 mobile subscriptions per 100 people. Ninety-one percent (91%) of the population owns a mobile phone (FII, 2015) whereas 21% of the population own smartphones (Pew Research Centre, 2016) and 31% have access to the internet (World Bank, 2016). These developments signify that a growing number of the population is becoming easier to reach digitally.

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28 Ghana reduced extreme poverty from 16.5% of the population in 2013 to 8.4% in 2016.
Digital payments increasing; however, 99% of consumer payments still in cash. Digital payments are gaining traction in Ghana with 37% of the value of all payments now being made digitally\(^\text{29}\). Almost all government-to-person (G2P) and government-to-government (G2G) payments are digital, but all other transactions made by the government, namely to businesses, are either by means of cash or cheque. While businesses are slowly starting to transact digitally, individuals still operate predominately in cash as 99% of all payments are still being made in cash. Less than 50% of Ghanaians made any digital payment in the prior year (Findex, 2018). This is a result of the cost of digital payments to the consumer and the lack of trust and unfamiliarity with digital payments. Transactions initiated by mobile money accounted for 90% of all digital transactions in 2016 (Better than Cash Alliance, 2017).

Lack of biometric national identification card hinders financial inclusion. In 2017, 83% of Ghanaians were still without a national ID card and instead made use of the nine separate identity databases which exist across various entities in the governmental and public sector (Better than Cash Alliance, 2017). This poses a number of challenges for financial service providers. (GhanaWeb, 2017 Stakeholder Interviews 2018, Better than Cash Alliance, 2017). However, the government has enacted initiatives to change this, such as the National Identification Scheme and the National Digital Address System (Better than Cash Alliance, 2017).

Infrastructure constraints hampering business. The growth of the middle class has resulted in increased demands for utilities and infrastructure – demands that Ghana is struggling to meet, as the ongoing power crisis illustrates. The World Bank ranked Ghana’s electricity as the second most important constraint on firms, with an estimated loss of production amounting to 1.8% of GDP. Currently, Ghana loses an estimated national aggregate of USD2.1 million daily in firm production due to energy constraints (Kumi, 2017). Their road and water infrastructures are also severely underdeveloped with 87% of its roads remaining unpaved. In addition, the water infrastructure only provides 26.9% of Ghanaians with safely managed water (Trading Economics, 2017).

### 2.2. Financial sector environment

**Minister of Finance (MoF) focused on building the financial sector.** The MoF released a press statement in 2018 signalling his commitment to restoring confidence and trust in the

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\(^{29}\) Digital payments account for 29% of the value of all payments made by individuals; 35% of the value of all payments made by businesses and 86% of the value all payments made by the government.
banking system and his budget statement in 2017 signalled his support for transitioning from a cash dominant to cash-lite economy (Ofori-Atta, 2017 & 2018a). The MoF is planning to release its new Financial Inclusion Strategy in 2018 and has mentioned in the media that the strategy speaks to the need to strengthen pension insurance and collective investment schemes (GhanaWeb, 2017).

**Relatively small insurance market.** The financial system in Ghana is dominated by the banking sector, which constituted 73% of total financial sector assets in 2016. The insurance sector is underdeveloped and despite there being 51 insurers in existence, the sector makes up less than 3% of total financial sector assets (NIC, 2016).

<table>
<thead>
<tr>
<th>Number of institutions</th>
<th>Total assets (USD billions)</th>
<th>% of financial sector assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>27</td>
<td>21.2</td>
</tr>
<tr>
<td>NBFIs</td>
<td>61</td>
<td>2.5</td>
</tr>
<tr>
<td>RCBs</td>
<td>139</td>
<td>0.8</td>
</tr>
<tr>
<td>MFIs</td>
<td>573</td>
<td>0.3</td>
</tr>
<tr>
<td>Total bank and non-bank financial institutions</td>
<td>808</td>
<td>24.8</td>
</tr>
<tr>
<td>Pensions</td>
<td>-</td>
<td>4.0</td>
</tr>
<tr>
<td>Insurers</td>
<td>51</td>
<td>1.0</td>
</tr>
</tbody>
</table>

**Table 7: Ghana’s financial sector**

*Source: NIC (2016), NPRA (2016) and SEC (2016)*

**Despite growth in the banking sector, there remains liquidity and solvency challenges.** Ghana’s banking sector has experienced substantial growth in the past decade as the number of institutions and total assets continues to grow. Despite this, there is still a large number of institutions that face liquidity and solvency difficulties. For example, one-third of RCBs still struggle with meeting the regulatory Capital Adequacy Ratio (CAR) minimum. While there is a large number of MFIs with an extensive footprint, the majority of them remain fragile and find it difficult to comply with the minimum regulatory paid-up capital (World Bank and FIRST Initiative, 2018)30. Additionally, while bank aggregate liquidity seems to be more stable, a significant number of them are pressured by rising non-performing loans (NPLs)31 (World Bank and FIRST Initiative, 2018).

**Financial sector faces credit market constraints.** The banking sector’s liquidity and solvency challenges have constrained the sector’s ability to supply credit amid rising interest rates as illustrated in Table 832. Despite credit to the private sector as a share of GDP growing by 4% in 2012 to 19.6% in 2016, it remains slower than in Kenya, Rwanda and Nigeria, pointing to a

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30 25% of MFIs were unable to meet the regulatory paid-up capital of GHS500,000 or USD109,000.
31 NPL loans increased from 12% in December 2014 to 19.8% in April 2017 (Bank of Ghana, 2016a & 2017b, World Bank and First Initiative, 2018)
32 Bank lending interest rates have been rising since 2015 from 27.5% to 35.5% in 2017. Credit to the private sector decreased between 2015 and 2016.
lack of financial sector depth in Ghana in comparison to its peers (World Bank and First Initiative, 2018). The recent rise in NPLs over the past four years further disincentivises the extension of loans by the banking sector.

*Financial inclusion improving but many still excluded.* Formal financial inclusion has grown steadily over time. In 2015, 58% of Ghanaians had access to formal financial services compared to 41% five years ago. However, access to formal services is centred around Greater Accra. Ghana’s financial inclusion levels compares favourably to Nigeria but is still lagging when compared to Kenya. The MoF is in the process of rolling out its new Financial Inclusion Strategy.

Figure 4: Financial inclusion levels in Ghana, Kenya and Nigeria


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33 Credit to the private sector by financial sector as a share of GDP in 2016: Ghana (18.4%) South Africa (66.8%), Kenya (32.8%), Rwanda (21%), Angola (28.8%).
3. Policy and regulation

Policy and regulation are critical to insurance market development as it ensures the stability of the market, protects consumers and sets the incentives to operate in the market.

This section outlines the financial sector policy environment, legislative framework, financial sector architecture, insurance sector regulatory requirements and finally some regulatory opportunities to further support market development. This section discusses the cross-cutting issues only, regulation specific to household resilience, business resilience or capital market development have been discussed in those sections.

Box 2: Key findings

- Insurance penetration and capital market development are key priorities.
- Insurance regulator is well-respected and committed to market development, however this mandate is not explicit.
- Risk-based approaches are being adopted and conduct requirements are being refined.
- Localisation requirements in place to develop the local insurance market.
- 17.5% VAT on financial services removed in 2017.
- Airtime payments allowed for the payment of insurance premiums.
- Bancassurance is limited to retail provision.
- E-signatures are allowed, but industry is uncertain regarding this.

3.1. Financial sector policy

The Ministry of Finance sets the policy within which the financial sector regulators supervise the financial sector. The Ministry of Finance is responsible for financial sector policy. It is also responsible, with assistance from regulators and experts, for drafting legislation. Furthermore, the Ministry of Finance has now tasked its Financial Sector Division (FSD) unit with aligning the financial sector with international best practices. The FSD unit is responsible for engaging and collaborating with regulators and industry stakeholders in the formulation of financial policies and strategies. The Ministry is increasingly focused on financial inclusion and has taken on a bigger role in this domain than in the past.

The Ministry of Finance has recognised and emphasised the potential of the insurance sector to contribute to capital market development, as well as risk management. The Ministry has initiated plans to improve the insurance market and pensions to deepen insurance penetration and develop capital markets. It has also acknowledged that insurance plays an important role in capital investment. Sampson Akligoh, the Director of the Financial Sector Division at the MoF, has highlighted the importance of strengthening the pension, insurance and collective investments schemes to provide long-term money for the economy (GhanaWeb, 2017).
3.2. Legislative framework

Hierarchy of laws is set out in the Constitution, which is the supreme law of Ghana. Article 11 of the Constitution of 1992 states that the laws of Ghana include Acts (plus orders, rules and regulations), an English common law and the rules of customary law. All laws are subject to the Constitution, which will prevail in the event of inconsistency.

No state legislation, only federal law exists. All regions are under the control of the central government and are without legislative authority. The implication hereof is that laws apply uniformly across the country.

Varying timelines of the legislative process impact the relevance and applicability of Acts once in force. Stakeholder interviews indicate that there is uncertainty as to the time taken for legislation to come into operation because it varies significantly. An example of this is the Right to Information (RTI) Bill that, despite being drafted in 1999, was introduced to Parliament in 2010 and has remained in the pipeline since (GoG, 2017). The Vice President, Dr Mahamudu Bawumia, has indicated that the RTI Bill should be passed into law by the end of 2018. In contrast, the Banks and Specialised Deposit-Taking Institutions Bill of 2015 was passed into law in 2016 (GhanaWeb, 2018a). Given that market changes and developments happen at a rapid rate, it is problematic that the time taken for the legislative process to be complete is uncertain and, at times, lengthy.

Access to justice is slow and expensive. There is an increasing backlog of outstanding cases. At the end of May 2016, 84,786 cases were outstanding across all courts (Judicial Service of Ghana, 2016). The figure increased from 82,792 outstanding cases 10 months earlier. The High Court (Civil Procedure) (Amendment) Rules put measures into place in 2014, aimed at ensuring the expeditious disposal of cases. However, the time taken to resolve judicial matters remains long. As indicated by Figure 5 below, the average total time taken to enforce a commercial contract is 710 days, consisting of 15 days for service and filing, 365 days for trial and judgment, as well as 330 days for enforcement of judgment. On average, the cost of enforcing a commercial contract amounts to approximately 23% of the claim, with attorney, court and enforcement fees comprising 10%, 3% and 10% respectively (World Bank, 2017b).
Alternative dispute resolution is often used to settle commercial disputes, most often by means of arbitration. Insurance disputes are commonly dealt with by means of arbitration. Larger commercial entities prefer this way of dispute resolution because of the greater speed and confidentiality of proceedings despite the high costs involved. SMEs are generally confined to litigation because of the lower associated costs, especially in the short-term. Banks, however, still prefer litigation because it is regarded as an authoritative means of recovering debts (Amegatcher and Amarteiflio, 2017).

3.3. Financial sector regulatory architecture

There are five financial sector authorities that are directly relevant to the insurance market. In this context, the legal environment of the financial sector in Ghana can be illustrated in summary, below:

<table>
<thead>
<tr>
<th>Player</th>
<th>Sector</th>
<th>Enabling legislation</th>
<th>Mandate in summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Insurance Commission (NIC)</td>
<td>Insurance</td>
<td>Insurance Act, 2006</td>
<td>Ensure effective administration, supervision, regulation, monitoring and control of the business of insurance to protect insurance policy holders and the insurance industry; other than health insurance under the National Health Insurance Act.</td>
</tr>
</tbody>
</table>
Regulators operate in siloes based on institutional type rather than function. The sectors, as listed in the Table 8 above, are supervised individually and regulated by separate authorities. Historically, the financial sector regulatory architecture was created and developed on a piecemeal basis in response to what was required at the time. It was therefore not considered from the beginning how the regulatory architecture would operate as a whole, notwithstanding the role of the regulators within it and their interaction with each other. As a result, regulators operate independently from one another, causing fragmented regulation and enforcement. There is no formal, effective coordination structure that exists among the regulators. Although the roles of the regulators are defined in enabling legislation, some overlap and uncertainty exists, which is exacerbated by the lack of a formal coordination structure among the regulators. The SEC, NPRA, BoG and NIC are part of a Financial Sector Regulators Forum, which is an informal committee intended to encourage coordination between the financial sector regulators. However, the Forum has no legal status and stakeholder interviews reveal that it has not convened in over a year. Consequently, the regulators tend to coordinate bilaterally with one another. Furthermore, stakeholder interviews suggest that coordination typically takes place in a reactive manner only once a provider is already operating across jurisdictions. Instead, coordinating proactively and following a consistent approach may create a more conducive environment for provision, enabling greater certainty for providers while encouraging innovation and market development.

Financial sector legislation that dates back decades is still in force, existing alongside modern amendments, which has resulted in fragmented regulation. Instead of repealing entire Acts or enacting comprehensive amendments, improvements to various pieces of legislation have been made in piecemeal fashion, resulting in many Acts applying concurrently. This creates fragmented regulation and uncertainty. For example, in early 2016, the BoG’s function as regulator was spread over three Acts, namely the Bank of Ghana Act of 2002, Banking Act of 2004 and the Banking (Amendment) Act of 2007. Then, the Banks
and Specialised Deposit-Taking Institutions Act (BSDTIA) of 2016, which has as its objective to consolidate laws, repealed the 2004 and 2007 Acts but not the Bank of Ghana Act of 2002. The BSDTIA, which states expressly that it should be read with the Companies Act of 1963, lists the role of the BoG. Also, in 2016, the Bank of Ghana Amendment Act amended the above-mentioned Bank of Ghana Act of 2002. Thus, currently the role and function of the BoG is spread across three Acts, namely the Bank of Ghana Act of 2002, the BSDTIA of 2016 and the Bank of Ghana Amendment Act of 2016. This creates substantial uncertainty among market players in terms of which laws apply currently. Consolidating legislation may improve the situation by providing market players with more certainty.

3.4. Insurance sector regulatory architecture

Various areas of regulation are relevant for insurance development. The Insurance Act of 2006 (Insurance Act) established the NIC and repealed insurance legislation from 1984 to 1993, which was in operation immediately prior to the enactment of the current Act. The insurance regulatory framework thus consists of the Insurance Act, which contains the mandate, scope and powers of the NIC, as well as the following pieces of regulation:

- Bancassurance Guidelines, 2010
- Market Conduct (Microinsurance) Guidelines, 2013
- Guidelines on Claims Management for life and non-life insurers, 2014
- Solvency Frameworks for life and non-life insurers, 2014
- Governance and Risk Management Frameworks, 2016
- Reinsurance Guidelines, 2017

Forthcoming Insurance Act to consolidate current legislation. There is a new Insurance Act in the pipeline that is currently undergoing the legislative process. It is our understanding that key changes will be around the integration of the solvency frameworks and market conduct rules, among others, as well as the possible introduction of group wide supervision, index-based insurance (agriculture) and updated capital requirements. It is unclear when the new Act will be passed into law, having so far spanned five years and three insurance commissioners.

The NIC has multiple mandates but market development is not included explicitly as part of its mandate in the Insurance Act of 2006. The Insurance Act confers prudential and market conduct mandates on the NIC. However, it appears that the NIC has assumed a market development role, claiming an implicit mandate. It should be considered that the forthcoming Insurance Act clarify this position to include market development expressly in the NIC’s mandate.

There is no central platform providing comprehensive access to Acts, regulations and guidelines, making access to information difficult. It is challenging to access insurance regulation as several Acts, regulations and guidelines, pertinent to the insurance market, are not readily available on the websites of financial sector regulators. Furthermore, the websites are difficult to navigate because the regulation is not kept in one centralised place. This may be a contributing factor to the varying interpretations of some insurance regulation by different market players.
Capital requirements are increasing over time as the NIC is transitioning to a risk-based solvency supervision framework. As of 2017, the minimum capital requirements for life and non-life insurers are GHS15 million (USD3.4m). For reinsurers it is GHS40 million (USD9.1m). At least 60% of an insurer’s minimum capital requirements must be in cash or a cash equivalent. Furthermore, all insurers and reinsurers are required to have a Capital Adequacy Ratio (CAR) in excess of 150%. CAR can be used as a risk management tool, however, determining CARs and completing Financial Condition Reports (FCRs) require significant resources, time and skills, which not all insurers have – especially the smaller ones. It is also very broad, requires a great deal of capacity and actuarial expertise and the quality of financial reporting is an issue. Finally, there are further issues surrounding the NIC being unable to rely on reported figures. The majority of insurers in the market have met the capital requirements but there are still a few that require the assistance of the NIC. As per Table 5 below, Capital requirements are on par with or relatively high in relation to comparative countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Life</th>
<th>Non-life</th>
<th>Reinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>GHS15 m</td>
<td>GHS15 m</td>
<td>GHS40 m</td>
</tr>
<tr>
<td></td>
<td>(USD3.4 m)</td>
<td>(USD3.4 m)</td>
<td>(USD9.1 m)</td>
</tr>
<tr>
<td>Kenya</td>
<td>KSH150 m</td>
<td>KSH300 m</td>
<td>KSH800 m</td>
</tr>
<tr>
<td></td>
<td>(USD1.5 m)</td>
<td>(USD3 m)</td>
<td>(USD8 m)</td>
</tr>
<tr>
<td>Nigeria</td>
<td>NGN2 bn</td>
<td>NGN3 bn</td>
<td>NGN10 bn</td>
</tr>
<tr>
<td></td>
<td>(USD5.6 m)</td>
<td>(USD8.3 m)</td>
<td>(USD27.8 m)</td>
</tr>
<tr>
<td>South Africa(^{35})</td>
<td>ZAR15 m</td>
<td>ZAR15 m</td>
<td>ZAR15 m</td>
</tr>
<tr>
<td></td>
<td>(USD1.2 m)</td>
<td>(USD1.2 m)</td>
<td>(USD1.2 m)</td>
</tr>
</tbody>
</table>

Table 9: Capital requirements in comparison countries

Source: Authors’ own based on NIC (2017); IRA (n.d.); Africa Practice (2015) and South African Reserve Bank (2018).

The Solvency Frameworks do not stipulate investment requirements per asset class, but there are discounts in the valuation of specific asset classes, resulting in specific asset classes being incentivised. The NIC’s Solvency Frameworks of 2014 contain investment requirements for life and non-life insurers in the absence of investment guidelines in the Insurance Act. Insurers are required to establish and maintain an investment strategy and policies that its board considers appropriate; and procedures sufficient to ensure effective implementation of said strategy and policies. Discounts are applied to certain asset classes. Investment in government and BoG securities are incentivised given that a 0% discount is applied to them. Other asset classes are discounted within a range of 5%–50%. Refer to Table 26 and Table 27 in the Appendix B for a full range of discounts applied to asset classes. It is permitted to invest surplus assets offshore.

Focus is placed on domestic retention of risk and capital. Companies must be incorporated in Ghana to apply for an insurer’s licence. The NIC must authorise the entering into of an insurance contract with a foreign insurer. In determining whether or not to grant

\(^{34}\) CAR is determined as the ratio of available capital resources (balance sheet assets less liabilities and the various deductions explained in the Solvency Frameworks) over the solvency capital requirement. Insurers are required to submit a Financial Condition Report to the NIC detailing recent experience and profitability, liability valuation and solvency, pricing and premium adequacy, asset liability management, investment strategy, reinsurance, risk management and internal controls.

\(^{35}\) The minimum capital requirement is the higher of ZAR15 million or 25% of the annualised operating expenses of the insurer in the preceding 12 months before the valuation date.
authorisation, the NIC must consider the availability of local capacity to insure the risk. Insurance regulation requires insurers and reinsurers to exhaust local capacity before they take their businesses outside of Ghana. It is required by regulation that co-insurance is sought as an option if no single domestic insurer is able to cover the risk\textsuperscript{36}. Stakeholder interviews suggest that only approximately 20% of applications made to the NIC to offshore insurance are accepted. Domestic reinsurance market capacities are determined annually. In terms of the NIC’s Reinsurance Guidelines of 2017, domesticated classes of reinsurance business include: motor, workmen’s compensation, general and personal accident, goods-in-transit, life, fidelity guarantee and professional indemnity. Furthermore, the Guidelines contain domestic market capacities and the amount that must be covered by domestic insurers, which are updated annually. An offences-and-penalty schedule encourages reinsurers to comply with these indigenisation requirements. If, however, local capacity is inadequate, a reinsurer can apply to the NIC for approval to reinsure offshore. Such approval or rejection must be made by the NIC within two days.

**VAT on financial services removed.** From 2015, consumers were charged 17.5% VAT on financial services. Parliament passed the Value Added Tax (Amendment) Act in 2017 to include the supply of financial services in exempt supply (Jafary & Abbey, 2015 and Ghana Revenue Authority, 2017).

**Mandatory cession of reinsurance.** It is compulsory for 5% of reinsurance treaties to be ceded to the African Reinsurance Corporation in accordance with Ghana’s membership of the multilateral Agreement Establishing the African Reinsurance Corporation. Until 2008, it was also compulsory for 20% of the sum insured to be ceded to Ghana Reinsurance Corporation (A.M. Best, 2013).

![Insurance value chain](image)

Figure 6: Insurance value chain

*Source: ILO Impact Insurance Facility Cenfri (2018)*

**Regulation along the value chain.** The NIC regulates the provision of insurance through all stages of the insurance value chain to ensure prudential stability, appropriate consumer protection and fair competition. The remainder of this section considers the key regulatory requirements and issues identified at each stage of the insurance value chain.

### 3.4.1. Product development

Product development consists of understanding the target market for a product, understanding the customer’s needs within the desired target market and developing the features of the product to meet both the customer and firm requirements.

**The NIC has shifted away from composite insurance companies.** Insurance licences are limited to life, non-life and reinsurance business. Composite insurance, which refers to the offering of a full range of insurance business from a single licence (Oxford Reference, 2018), is thus not permitted. Since its outlaw by the Insurance Act in 2006, insurers have needed to

\textsuperscript{36} Co-insurance entails the joint assumption of risk by two or more underwriters (Merriam-Webster, 2018).
obtain both a life and non-life licence should they want to write both life and non-life insurance. As a result, many insurers split their composite business into two separate entities.

There are a limited number of compulsory products. The Motor Vehicles (Third-Party Insurance) Act of 1958 made third-party liability motor insurance compulsory. As of 2015, the minimum premium for third-party liability motor insurance is approximately USD130 for private vehicles, USD120 for taxis, USD446 for commercial vehicles and USD60 for motorcycles (Jafaru and Abbey, 2015). In 2006, commercial building insurance became compulsory with the coming into operation of the Insurance Act. Furthermore, professional indemnity insurance is legally required by the NPRA Occupational and Personal Pension Schemes (General) Regulations, however, stakeholder interviews indicate that it is unclear whether this is followed or enforced in practice.

Microinsurance intentionally undefined, instead determined by designation. Regulation does not require a separate licence for the sale of microinsurance. In terms of the NIC’s Microinsurance Framework Explanatory Note of 2013, Microinsurance is not defined by using the general understanding of the concept, being, “insurance intended for lower income people and households”. It is also not defined by establishing qualitative or quantitative criteria. Instead, the Note and later the Market Conduct (Microinsurance) Guidelines of 2015, afford insurers with “the power to designate an insurance product as microinsurance”. This designation determines whether an insurance contract is classified as microinsurance. However, the Market Conduct (Microinsurance) Rules do prescribe minimum criteria to be met by insurers before an insurance contract can be designated as microinsurance, which includes the following:

a) “the insurance contract is designed and developed with the intention of meeting the needs of, and being marketed and sold to the low-income sector, or a segment of the low-income sector;

b) the premiums are affordable for those low-income persons for whom it was designed and developed; and

c) the contract is accessible to those low-income persons for whom it was designed and developed.”

M-insurance permitted but not separately regulated. Mobile insurance is permitted but there is no specific instrument regulating m-insurance. The NIC, which governs m-insurance, considers it as an insurance product falling within the ambit of the rules that apply to microinsurance (NIC & GIZ, 2015a).

Products must be approved by the NIC. Section 45 of the Insurance Act of 2006 requires that new products be approved by the NIC but places no time constraint on the NIC within which to inform the insurer of the outcome. Stakeholder interviews indicate that product approval is granted inconsistently and results in delays because there is only one NIC employee responsible for the approval process.

Health insurance is separate from life and non-life insurance and requires a licence from the National Health Insurance Authority (NHIA). Insurers that are registered with and licenced by the NIC that want to offer health insurance also need to obtain a Private Commercial Health Insurance Scheme Licence from the NHIA. The NHIA falls under the scope of the Ministry of Health as opposed to the Ministry of Finance. This may contribute to issues surrounding coordination of licences and registration. There is also no formal coordination structure between the NIC and the NHIA.
3.4.2. Sales

Sales consists of distribution channel selection and optimisation for sales, advertising and marketing efforts, sales strategies and customer acquisition and on-boarding.

**Insurance intermediaries.** In terms of the Insurance Act, brokers, agents, sub-agents and loss adjusters are permitted to act as intermediaries between consumers and insurers. Only one intermediary licence can be held at a time. Intermediaries must be fit and proper persons and in the case of a company or partnership, each person having an interest in as well as directors and principal officers must be a fit and proper person to be concerned with intermediary insurance business. Fit and proper person is defined by the Insurance Act as “a person with appropriate integrity, competency, experience and qualification determined by the Commission”. Insurance brokers and loss adjusters must be companies or partnerships. In the context of m-insurance, mobile network operators (MNOs) are considered intermediaries. MNOs can only partner with one life insurer and one non-life insurer (A2ii, 2015).

**Bancassurance permitted but limited to retail insurance.** Banks can sell insurance products by means of a corporate agent licence. Stakeholder interviews suggest that banks may only partner with one life insurer and one non-life insurer; however, the Bancassurance Guidelines do not contain provisions to that effect. Further, banks are limited to only distribute retail insurance and are prohibited from being an agent for their own insurance.

**Anti-money laundering/combating financing of terrorism (AML/CFT) and Know-Your-Customer (KYC) requirements.** The NIC, in collaboration with the FIC, issued AML/CFT Guidelines for insurance companies and intermediaries in response to a number of anti-terrorism and money-laundering legislation enacted between 2008 and 2011. The Guidelines provide for KYC requirements and procedures, imposing sanctions for non-compliance. In terms of the Guidelines, insurers are not permitted to establish a business relationship until the parties to that relationship have been identified as well the nature of the business been ascertained. In doing so, an insurer should collect the following information: a) the reason for establishing the relationship, b) the nature of activity undertaken, c) expected origin of the funds used in the relationship and d) details of the business activities and sources of income. Furthermore, monitoring and reporting suspicious transactions is essential according to the Guidelines, which detail red flags that insurers should look out for. Red flags include, but are not limited to, cash payments of large sums, maintaining multiple accounts with insurance practitioners for no apparent legitimate business reason and being unwilling or unable to provide identification.

**Electronic commerce regulations permit e-signatures but are not currently fully utilised in insurance sector.** The Electronic Transactions Act of 2008 not only permits the use of digital signatures but goes even further to prohibit the discrimination of digital signatures vis-à-vis physical signatures. However, stakeholder interviews reveal that there is uncertainty within the insurance sector regarding the acceptability of e-signatures to complete insurance sales.

3.4.3. Premium collection

Premium collection consists of distribution channel selection and optimisation for premium collection, as well as the design of any nudges or other behavioural-economics-driven interventions to ensure customers are aware when they need to pay and that they pay on time.
The “no premium, no cover” (NPNC) requirement has strengthened the sector’s capital base. Prior to the NIC putting the NPNC requirement into force in April of 2014, insurers struggled to pay out claims where brokers had not paid over their collected premiums from consumers to insurers. Insurers, therefore, assumed the risk and liability had not yet received the premium. This resulted in insurers borrowing funds to pay their own premiums to their reinsurers. The introduction of the NPNC requirement, which requires that insurers collect premiums before providing cover, has strengthened the sector’s capital base and improved insurers’ cashflow.

Clear commission rates set for agents and brokers, but uncertainty in the market persists. Stakeholder interviews indicate that there is some uncertainty in the market despite clear maximum commission rates being in place. The uncertainty relates to some market players, brokers in particular, not being sure of whether commission rates represent the minimum or maximum earnable. Commission rates for brokers range between 10% and 20% while rates for agents range between 7.5% and 15% depending on the class of business. Insurers and intermediaries who pay more and receive more than the approved commission rate are both liable to pay a fine worth ten times the amount of commission paid or received (NIC, 2015).

Regulation allows the use of airtime as legal tender. The Market Conduct (M-Insurance) Rules, 2017 state that insurance premiums “may be made through the reduction of the insured person’s airtime balance held with the participating MNO.”

3.4.4. Claims processing

Claims processing consists of every step involved from when a firm receives a claim to when they decide to either reject it or pay out.

Clear claims settlement guidelines in place. The NIC released Guidelines on Claims Management in 2014. It is unclear whether the claims management requirements are enforced, given the lack of enforcement mechanism contained therein. In respect of life and non-life insurance claims, regardless of the type of product, all processes leading to payment of claims must not exceed four weeks from the date when all documents were submitted. Where an insurer goes beyond this period, with “genuine reasons” for doing so, it shall clearly document the reasons to the claimant or intermediary.

Dispute resolution currently lays in the hands of the NIC. Regarding consumer disputes, the Insurance Act requires that the NIC provide a platform for consumer dispute resolution, but there is no such corresponding duty placed by the Act on insurers. However, such duty was introduced subsequently by the Claims Management Guidelines in 2014. Both life and non-life insurers are required to “have a documented system and procedure for receiving, registering and resolving complaints in each of its offices. This will include a system to receive and deal with all kinds of complaints, including complaints on claims management process, systems and procedures”. Despite such clear consumer complaints requirements, there is no enforcement mechanisms included in the Claims Management Guidelines and as such it is uncertain whether these provisions are complied with. While the regulator may be in a position to manage consumer complaints, given the resources and technical capacity required to address complaints adequately, its primary focus should be on regulating the overall market and its institutions. Introducing sanctions for non-compliance within the

37 Refer to Appendix for full range of commission rates.
Guidelines may encourage insurers to implement consumer recourse mechanisms, helping to free up capacity of the regulator.

3.5. Regulatory challenges

As introduced throughout this section, the stakeholder consultations highlight the following regulatory challenges:

*Market development not part of NIC’s mandate explicitly.* Notwithstanding the implicit market development mandate assumed by the NIC, its enabling legislation does not expressly include market development as part of its mandate.

*Uncertainty regarding the use of e-signatures.* Stakeholder interviews reveal that, despite electronic commerce regulations permitting the use of e-signatures, uncertainty exists within the industry regarding the acceptability of using e-signatures to complete insurance sales.

*Potential for unintended consequences of local content requirements.* Extensive local content requirements may unintentionally reduce the effectiveness of insurance to serve the risk management needs of businesses in Ghana. It may also entrench unviable business practices in the insurance market and may not contribute significantly to capital formation in the local insurance industry. See Sections 0 and 3 for a full discussion.

*The distribution of insurance to enterprises via bancassurance is prohibited.* Per the Insurance Act (2006), insurers are not allowed to provide non-life insurance to businesses by partnering with banks (in other words, with a bancassurance licence). This stipulation limits the extent to which the reach and footprint of banks can be utilised to extend insurance cover to enterprises.
4. Provider overview

The business realities of the insurance sector are key to insurance market development. This section provides an overview of the providers of insurance in Ghana. It discusses the history of the insurance market, the current market structure, the performance of the industry, distribution channels and the environment.

**Box 3: Provider key findings**

- Insurance penetration low at under 2% since 2006.
- Over 50 insurance providers compete over a relatively small largely compulsory market.
- Current economic, socioeconomic and political situation presents an enabling backdrop for insurance market development.
- Average expense ratios very high at 65% for life insurers and 94% for non-life insurers.
- Claims ratios remain low and perpetuate a general negative perception of the industry, as well as limited value to consumers.
- 35% of non-life risks retained domestically
- Most insurers face underwriting losses and rely on investment returns to turn a profit.
- Bancassurance and MNO distribution channels have achieved significant reach, although further traditional distribution dominates by value of premiums.
- Significant recent entry by foreign providers.
- Limited technical skills and data exists in the market, which ultimately holds back insurance market development.

**4.1. History of insurance market development**

*Ghana has a long-established insurance market with a large number of insurers.* Figure 7 shows a timeline of the evolution of the insurance industry in Ghana. Royal Exchange Assurance, which was a British corporation, was the first insurance company established in Ghana in the year 1924 (Enterprise Group, 2018). All insurance companies up until 1955 were foreign. However, the insurance market saw the emergence of many domestic firms after Ghana gained its independence in 1957. In 1989, the First Insurance Act was passed, establishing the National Insurance Commission, which was the regulatory authority of the industry (Insurance Act 227, 1989). The Insurance Act of 2006 removed composite licences, splitting existing insurers. In addition, 18 new insurers have registered in the last decade. Currently, there are 51 insurers in total; 24 are life and 27 are non-life.
Figure 7: Timeline of insurance market development in Ghana and background of insurers


*The analysis was based on the number of insurers that the NIC reported data on in 2006 (16), 2011 (41), 2016 (46)

**But the market is small and penetration remains low.** Figure 7 above shows that insurance penetration, in terms of gross written premiums as a percentage of GDP, has stagnated at around 1% since 2006 and decreased over that period from 1.4% (2006) to 1.14% (2016).

**State-owned insurers remain significant.** The first domestic insurer, the Gold Coast Insurance Company, subsequently known as the Ghana Insurance Company, was established in 1955 to insure government risks. Three years after Ghana gained independence in 1957, the government took over the company and renamed it State Insurance Corporation (SIC) (SIC, 2018). Following the Insurance Act of 2006, SIC split into two companies: SIC Life and SIC general. SIC remains one of the biggest insurers in the market with 28% market share in life and 22% in non-life. Ghana Reinsurance, which is currently the largest reinsurance company in the country, commenced operations in 1972 and is wholly owned by the GoG but operates independently (Ghana Reinsurance, 2018).

**Ghana is viewed increasingly as an attractive market by foreign insurers.** Stakeholder interviews indicate that recent foreign entrants see Ghana as a strategic market to enter due to the stabilising macroeconomic conditions; growing middle class; gaps in the current insurance market offerings; low political risks; and increasing status as a West African hub. While foreign insurers have been operating in the market for a long period, there has been a relative surge of foreign entrants recently – seven entering in the last decade. Foreign insurers in Ghana are not just regional, but European insurers like Allianz (Germany) and Prudential (UK) have also entered in recent years.

**The insurance industry is growing, but real growth in premiums is slowing.** Growth in annual premiums has been slow given the small size of the insurance sector. As illustrated by Figure 8 below, real growth in premiums slowed in 2016. Motor vehicle insurance products are a major driver of overall premium growth; which is seen via a strong correlation between change in motor vehicle premiums and overall premiums. When motor vehicle lines are excluded, industry real growth declined slightly in 2016. Motor vehicle premiums are primarily from third-party motor policies, which is a compulsory product under the Third-
Party Insurance Act (1958). This shows that real growth in premiums on voluntary lines has stagnated in recent years.

Figure 8: Real life and non-life growth of gross written premiums (2007 as base year)


There has been growth in the life share of total industry premiums over time. The insurance market is usually dominated by non-life insurance for the corporate sector in less developed markets. Figure 9 below shows that Ghana’s life market has steadily grown from accounting for 33% of total industry gross written premiums in 2008 to 45% in 2016 (NIC, 2016). This illustrates that life as a proportion of overall gross written premiums is increasing – a sign of a growing retail market. Ghana’s insurance market is more evenly split than in Kenya and Nigeria, which had a life share of 38% and 32% respectively, in 2016 (IRA, 2016 and Swiss Re, 2017).
Current economic, socioeconomic and political situation presents an opportunity for the insurance market. Macroeconomic indicators\(^{38}\) reflect growing stability following a period of high inflation and significant volatility. The average per capita income per day has increased from USD1.2 in 2008 to USD7.4 in 2014 (Ghana Statistical Service, 2008, 2014), indicating that there is a growing middle class that can potentially afford insurance. Additionally, there is a stable political landscape, with the current authority expressing its commitment to macroeconomic stability, poverty reduction and growing the insurance and capital market (Ofori-Atta, 2017a & 2018b). All of the above is conducive for insurance market growth, thus providing enabling factors for Ghana to deliberately develop the market.

4.2. Overview of the industry

There are clear market leaders, but many insurers have minimal market share. The life industry has four clear market leaders, which earned 74% of the gross written premiums in 2016. The non-life industry has six insurers who have more than 7% market share each, and together earned 56% of all premiums in 2016 (NIC, 2016). The remaining insurers in both sectors have market share of less than 4% each.

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\(^{38}\) Inflation in Ghana has declined from 15.4% in 2016 to 11.8% in the final quarter of 2017, while the Ghanaian cedi has depreciated against the US dollar by 3.4% on average in 2017 compared to 18% in the period of January 2015 to January 2016.
Figure 10: Market share and key indicators for the life and non-life industry

**Industry segmented to reflect differences in strategy and market role.** Industry players differ significantly in terms of approach, size and performance. Four categories of providers are identified based on market share and ownership, as discussed below.

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Average years in existence</th>
<th>Total market share (%)</th>
<th>Average premiums (GHS millions)</th>
<th>Part of a Group (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
<td>51</td>
<td>25</td>
<td>100</td>
<td>44.9 (USD11.5m)</td>
<td>39</td>
</tr>
<tr>
<td>Domestic heavyweights</td>
<td>10</td>
<td>52</td>
<td>64</td>
<td>124.0 (USD31.7m)</td>
<td>100</td>
</tr>
<tr>
<td>Multinational entrants</td>
<td>6</td>
<td>7</td>
<td>10</td>
<td>33.4 (USD8.5m)</td>
<td>67</td>
</tr>
<tr>
<td>Small domestic firms</td>
<td>21</td>
<td>20</td>
<td>18</td>
<td>16.2 (USD4.1m)</td>
<td>24</td>
</tr>
<tr>
<td>Small foreign firms</td>
<td>6</td>
<td>17</td>
<td>8</td>
<td>24.7 (USD6.3m)</td>
<td>50</td>
</tr>
</tbody>
</table>

Table 10: Overview of insurers

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The NIC reports that there is a total of 51 insurers in the market. However, the NIC reports on the performance of 43 insurers in total, one of which we have not included in the overall analysis as it is a start-up and their indicators distort the analysis.
1. **Domestic heavyweights who are the largest players in both the life and non-life space and current market leaders.** The domestic heavyweights are the dominant players in the market accounting for 64% of total market share. They are all domestically owned and have been around longer than the insurers in the other three categories. They are generally well established in terms of client base and perception in the market. Several of the insurers in this category are part of a Group⁴⁰, which enables cross-selling and data sharing. These insurers have the ability to innovate, target new markets and absorb bigger, more niche risks. However, they are also open to disruption as their business models remain quite traditional and rely on legacy systems. Enterprise, SIC and Vanguard are among the insurers that fall into the domestic heavyweight category.

2. **Newer multinational entrants with a long-term view.** The multinational entrants are relative newcomers to the market and are growing quickly in terms of market share, even though they only currently account for 10% of the market. This category of insurers tends to focus on longer-term strategies of building trust in the market and their consumer base by targeting higher claims ratios and growth in market share. They are all foreign, owned by established parent companies, which enables them to access expertise, technology and learnings from other countries and helps to contribute to professionalisation of the market. This places them in a strong position to innovate and cover niche risks. Most insurers within this category with a retail focus end up entering bancassurance partnerships to access a wide range of clients. Examples of insurers in this category include Saham, Hollard and Old Mutual.

3. **Small domestic firms often struggle to be sustainable.** The small domestic firms account for the largest number of insurers, but only 18% of market share. Most of the insurers in this category compete for the same small market, primarily focusing on compulsory lines. With high fixed costs in Ghana – and thus high operating expenses – it is hard for these insurers to invest in research and design, technology, or skills leading to their operations being inefficient. Donewell, Phoenix and Quality Life Assurance are examples of insurers in this category.

4. **Small non-life foreign insurers with a focus on multinational clients.** This category is for insurers that only operate in the non-life space and have been in existence longer than the multinational entrants. Despite their long-term presence, this category accounts for a small proportion of market share. These firms serve a smaller number of clients and their primary strategy is to serve multinational, corporate clients in the Ghanaian market. It is unlikely that these insurers will innovate substantially, but it is possible for them to serve niche, albeit smaller, risks. Allianz, Equity and Activia are among insurers in this category.

**High and unhealthy competition for a small market.** The current insurance market in Ghana is small, with a narrow consumer focus on life and significant competition for the third-party motor vehicle business line, which was made compulsory in the Third-Party Insurance Act (1958). Insurers were previously competing on price and thus under-pricing their third-party motor policies, which led to high underwriting losses. In 2014, the NIC introduced a fixed minimum price, resulting in substantial premium growth as seen in Figure 8. Stakeholder interviews conducted in 2018 reveal that with pricing mechanisms being put in place,

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⁴⁰ The definition of Groups that we have employed in our research: there are two or more entities of which at least one is an insurer and the other has a financial sector licences that is not insurance.
insurers have resorted to alternative ways of undercutting by introducing add-ons to the product. This results in unhealthy competition, contributing to unsustainable business models when coupled with high costs. This is especially detrimental for the small domestic firms operating in the non-life space who are all competing for the same product line and have high operating cost earning thin or non-existent margins.

**Slowing growth and increasing competition might create the necessity to diversify products and expand consumer focus.** Real growth in terms of total industry premiums has been volatile and declined when compared to the previous year. In 2008, it stood at 14% compared to 5% in 2016, as seen in Figure 8 above (NIC 2008, 2016). This slow growth, coupled with destructive competition on compulsory lines, could result in insurers looking beyond the traditional markets that they currently serve and reposition themselves as leaders in new, untapped markets. Very few insurers have made this strategic shift so far as it may require initial losses or investment. However, four insurers, Enterprise (domestic heavyweight) and Prudential (multinational entrant), Metropolitan Life (multinational entrant) and UT Life (small domestic) seem to have made this change as seen through their mobile insurance offerings in collaboration with MNOs (Airtel, TIGO and MTN) and technical service providers (MicroEnsure, BIMA, aYo and MFS Africa). Prudential has started to offer less conventional life products, such as loss-of-income and telemedicine, all distributed through mobile devices. The smaller domestic and foreign firms may benefit from making this change and exploring new, niche markets as they are currently struggling. Additionally, there has been a growth in voluntary products taken up over the years, specifically endowment policies and funeral cover.

**Group structures present an opportunity.** Almost 40% of insurers in the market are part of Groups. Multinational entrants and domestic heavyweights are the most likely categories to be part of Groups, standing at 67% and 100% respectively. Having operations in more than one financial sector has the potential to provide specific advantages. For instance, having common infrastructure and overheads could result in lower fixed costs and improved efficiencies, while an established client base allows for cross-selling and the selling of bundled products. Additionally, the business case to understand the consumer could be stronger if the benefits were to be shared across multiple financial sectors and institutions. Being part of a Group could lead to scale, efficiency and better insights about the consumer. In stakeholder interviews in 2018, several insurers who are part of Groups acknowledge that being part of a Group allows for a different type of business model, one in which central group data warehouses can be set up, enabling different entities within the Group to access and leverage one another’s data (Stakeholder interviews, 2018).

**Policy position to build the domestic reinsurance industry and to retain risk and related capital locally.** Prior to 2008, there was a compulsory legal cession where insurers had to cede 20% of their premiums to Ghana Re, the national reinsurer (AM Best, 2013). This was intended to build the capacity and skills of the domestic reinsurance market. Although the compulsory cession is no longer in place, the regulator is still committed to building the local reinsurance market and wants to ensure that domestic reinsurance capacity is utilised before being transferred offshore. The Reinsurance Guidelines (2017) state that there should be no overseas reinsurance placement for the following classes of insurance: motor, workmen’s compensation, general accident, personal accident, goods-in-transit, life, fidelity guarantee and professional indemnity. The Insurance Act (2006) requires insurers to exhaust local capacity and then obtain regulatory approval to seek reinsurance offshore (Insurance Act 724, 2006). However, stakeholder interviews indicate that only about 20% of these applications are approved (Stakeholder interviews, 2018). To make requirements more transparent and efficient to implement, the regulator has committed to a two-day turn-
around for approval and circulates guidelines which set out minimum domestic reinsurance capacities that must be utilised before offshore reinsurance is permitted (NIC, 2018).

**Three domestic reinsurers provide most reinsurance cover for the life market, but the majority of non-life reinsurance is ceded to non-domestic reinsurers.** Of the three insurers in the market, Ghana Re is the largest, accounting for about 60% of the market. Figure 11 below shows that the domestic reinsurance market retained 61% of all life reinsurance in 2016, but only 35% of all non-life reinsurance, with the remainder passed on to foreign reinsurers (NIC, 2016).

![Reinsurance Diagram](image)

**Figure 11: Domestic and foreign reinsurance**

*Source: NIC Annual Report (2016)*

### 4.3. Performance of the insurance market

Differing trends in performance emerge across the different categories of insurers. Figure 11 above and Table 11 below, compare the performance of different categories of life and non-life insurers to one another and to the overall industry. Specific industry and performance trends of the different categorisations are discussed in more detail below.

<table>
<thead>
<tr>
<th>Life insurers</th>
<th>Number</th>
<th>Average years in existence</th>
<th>Total market share (%)</th>
<th>Average expense ratio (%)</th>
<th>Average claims ratio (%)</th>
<th>Average net profit ratio (%)</th>
<th>Average premiums (GHS millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>19(^{41})</td>
<td>27</td>
<td>100</td>
<td>65</td>
<td>n/a</td>
<td>7</td>
<td>101.5</td>
</tr>
</tbody>
</table>

\(^{41}\) There are 24 life insurers in Ghana. However, there is only data on 19 of the life insurers in the 2016 NIC Annual Report.
Significant expense ratios have implications for longer-term sustainability and are due to limited outsourcing and cost sharing. Expense ratios have increased over the past six years and are currently at an all-time high, standing at an average of 65% for the life market and 94% for non-life market as shown in Figure 12 below. This is especially high when compared to Kenya who has an industry average expense ratio of 26% (IRA, 2016). However, Ghana’s expense ratios are more in-line with Nigeria who has an expense ratio of 51% for life and 94% for non-life (Nigerian Insurance Association, 2016). Management expenses tend to make up the bulk of operating expenses, as commission rates for agents and brokers are capped per product with the highest allowed rate of 20%. insurers high fixed costs stem

While there are 10 small domestic life firms, only nine were used in the analysis as one was an outlier, which would have distorted the analysis.

There are 27 non-life insurers in Ghana. However, there is only data on 24 of the non-life insurers in the 2016 NIC Annual Report.

This figure is determined by calculating ratio for all of the companies and then taking the average of all of these ratios. When you calculate the expense ratio by taking overall industry expenses (commissions plus management expenses) and dividing it by overall industry net premiums, this expense ratio significantly decreases to 42%. This indicates that the larger insurers with bigger books are very efficient and the smaller insurers with smaller books are quite inefficient. the expense
from a general lack of outsourcing and cost sharing within the industry (Stakeholder interviews, 2018).

Figure 12: Expense ratios for life and non-life insurers


Expense ratios seem to be tied to insurers’ market share. Generally speaking, the larger the insurer’s market share, the lower its expense ratio, illustrating that larger insurers are more efficient than smaller insurers. Larger insurers have greater economies of scale, whereas smaller insurers often struggle to cover their basic fixed costs. Table 11 illustrate this point, showing that domestic heavyweights, who control the greatest share of the life and non-life market, have much lower expense ratios than the industry average and all the other categories of insurers.

Inflationary pressure reducing revenue but not costs. At the same time, decreasing interest rates have affected investment return and quality, thus reducing insurers’ revenue. However, costs have not decreased and the combination of the two is putting pressure on insurers’ overall profitability.

Investment by new entrants, especially multinational entrants, as they build their book over time. Multinational entrants experience the highest expense ratios of the four categories. This is likely to be indicative of the fact that multinational entrants are investing in infrastructure and staff to build a solid base from which to grow their presence in the industry.

Non-life claims ratios are increasing over time but remain below 40% on average. Non-life claims ratios in Ghana have increased over time, but they remain low at 39%. Such low claims ratios indicate limited value to clients and can lead to mistrust in the industry, which stakeholder interviews indicate is an issue in Ghana. Table 12 below shows that claims ratios have been increasing, but they make up a much smaller percentage of the combined ratio than expenses do, which is unsurprising given the high expense ratios that insurers face. The spike in the claims ratio in 2015 can be attributed to Ghana experiencing major floods. Table 11 above illustrates that domestic heavyweights and multinational entrants have higher claims ratios than the industry average of 39%.
A large number of insurers experience underwriting losses. Despite most insurers making a profit and having a positive, albeit low, net profit ratio, it was reported in stakeholder interviews that only two insurers are making an underwriting profit (Stakeholder interviews, 2018). One of these insurers falls into the domestic heavyweight category and the other falls into small domestic firms. Life underwriting losses for the industry, as a whole, have grown exponentially from GHS23 million (USD11m) in 2013 to GHS262 million (USD67m) in 2016. Non-life underwriting losses have been more consistent, moving from GHS24 million (USD11m) in 2013 to GHS25 million (USD6m) in 2016 (NIC 2013, 2016).

Business models depend on investment returns to cover underwriting losses. Insurers have been able to remain viable despite making underwriting losses, as they have been operating in a high investment-return environment where profits are made through consistent returns on short-term investments. Insurers’ current business models rely on making considerable investment yields. Investment yield, which is measured by calculating investment income as a percentage of total investments, stood at 16% for both the life and non-life industry in 2016 (NIC, 2016). As returns on short-term instruments fall, insurers’ reliance on investment returns will endanger their current business model. This might force them to make a strategic shift to focus on making underwriting profits as opposed to relying on investment returns.

4.4. Distribution channels
Traditional distribution models are most significant for premiums, but MNOs and banks prove significant for policies issued. In Ghana, intermediation is still largely agent and broker-based. There is a total of 4,615 licensed intermediaries, of which 78 are brokers and 4,537 are individual agents (NIC, 2016). From 2011 to 2016, the number of brokerage and agent licences increased by 47% and 37% respectively (NIC, 2016 and 2011). Brokers and agents are responsible for the largest proportion of premiums, standing at 30% each (EY, 2016) as illustrated by Table 13 below.

![Figure 14: Share of industry gross written premiums per distribution channel](image)

Source: EY (2016)

Alternative distribution through banks and MNOs have been successful but there is potential to expand digital channels, microfinance institutions (MFIs) and retailer distribution further. Aggregators, such as banks and MNOs, are playing an increasing role in insurance distribution in Ghana and are helping to overcome distribution challenges (NIC, 2015). These third-party entities have an existing footprint and client base, which allows insurers to access new markets and use existing communication channels to target new clients. These entities’ existing relationships with clients benefits the insurer in building trust. Some insurers distribute through business associations, MFIs, SACCOs, churches and unions – all of which have a large network and established client and communication channels. However, stakeholder interviews indicate that utilising these types of third-party entities is not common practice among the industry.

Bancassurance is limited to retail, more successful for life. Bancassurance was introduced in 2007 and permits banks to sell life and non-life insurance products only to individuals. In 2016, 23 bancassurance partnerships were reported in operation, the majority of which are life partnerships (Konutsey, 2016). Bancassurance accounts for 16% of all premiums written (EY, 2016).

MNOs and technical service providers play an important role in the distribution of microinsurance products, but the opportunity to play a bigger role exists. The first mobile insurance product was distributed in 2010 in Ghana with the introduction of Tigo, MicroEnsure and BIMA’s freemium insurance product, TiGo Family Care. Distribution through mobile phones has been on the rise ever since. Currently, there are four
partnerships among MNOs, technical service providers (TSPs) and insurers (NIC, 2015). Sixty (60%) of microinsurance policies are distributed through these partnerships (aYo, 2018 & NIC & GIZ, 2015a). Microinsurance products are low-value because they are designed specifically to meet the needs of low-income individuals. Therefore, despite the large number of policies distributed through MNOs, this distribution channel only accounts for 6% of all gross written premiums (EY, 2016). TSPs are not subject to commission caps due to the nature of the role that they play (NIC, 2018).

Opportunity for insurers to grow the distribution of insurance through direct sales channels. As in most developing countries, direct sales through the insurer are minimal when compared to distribution by means of brokers, agents and third-party entities. There is opportunity for insurers to play a larger role in direct sales – especially if they start to utilise call centres and digital platforms to sell and distribute their products – thus optimising the direct sales process.

Commission caps in place for brokers and agents but remain high. The regulator has put in place clear maximum commission caps for brokers and agents regarding specific product lines (NIC, 2015). The commissions rates for brokers range from 10%, for products such as motor third-party and marine hull, to a maximum of 20%, for products like fire and contractors all risks. Commission rates for agents range from 7.5%, for products like marine hull, motor third-party and workmen’s compensation; to a maximum of 15%, for bonds, fire, contractors all risks, engineering and accidents (NIC, 2015). A full list of all approved commission rates can be found in Table 24 in the Appendix B.

4.5. Insurance environment

Well-respected regulator and committed policymaker. Interviews indicate wide-ranging respect for the National Insurance Commission (NIC). The NIC is, therefore, well trusted to shape the market and guide market players’ activities. It is also proactive in encouraging innovation to serve consumers especially related to mobile insurance. Additionally, the MoF has also recognised the potential of the insurance sector and has initiated an insurance and pensions improvement plan to deepen insurance penetration and leverage insurance to develop capital markets.

Industry bodies, the Chartered Insurance Institute of Ghana and Ghana Insurance College provide platforms for engagement and skills development. The Ghana Insurers Association (GIA) was established in 1963 and serves as an industry platform for inputs into legislative and policy reforms, industry-wide advocacy and capacity building (GIA, 2018). The Ghana Insurance Brokers Association (GIBA), established in 1953, aims to act as a spokesperson for insurance brokers in Ghana. GIBA negotiates with the government and other organisations to protect the interest of insurance brokers and to build the brokerage and insurance industry in Ghana (GIBA, 2018). The Chartered Insurance Institute of Ghana is an affiliate of the Chartered Insurance Institute, which serves as a professional body for the Ghanaian Insurance Industry, aiming to promote skills development among members of the industry (CIIG, 2018). Ghana Insurance College aims to build the skills of those working in the insurance industry by offering courses and training on relevant topics to the insurance industry (Ghana Insurance College, 2018). The existence of industry bodies and the

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45 The partnerships are Airtel/MicroEnsure/Enterprise, Tigo/Bima/Prudential, MTN/aYo/Metropolitan Life and MTN/MFS Africa/UT Life.
insurance institute and college provide a platform for engagement and skills development of those in the sector.

Limited technical skills and public or industry datasets in the market hamper insurance market development. Actuarial, risk management, capital management, loss adjustment and underwriting skills shortages were noted during stakeholder interviews. As of January 2018, Ghana had 12 actuaries, but stakeholder interviews indicate that a large proportion of them are in managerial jobs and are no longer fulfilling an actuarial role (Stakeholder Interviews, 2018). The number of loss adjustors in Ghana is minimal, standing at one, when compared to countries like Nigeria, which has an insurance market with low penetration yet has 25 loss adjustors (NIC, 2016; NIACOM, 2017). Technical skills, especially in IT and digital sales, are likely to be in high demand in the future if the insurance industry keeps up with the emerging pace of technological developments and starts to digitise different aspects of the insurance value chain. Additionally, there is a lack of available public and industry datasets to help with pricing and claims. For instance, mortality and morbidity tables do not exist and there is limited access to motor vehicle registration databases and birth and death registries. This results in limited data being used to develop products or manage risks, partly due to lack of data, but also due to significant technical skills gaps.

4.6. Conclusion

Ghana’s insurance sector largely depends on corporates and compulsory or aggregator lead products, with an emerging voluntary market. Insurance penetration in Ghana is still low, but with a significant life penetration rate compared to many other developing insurance markets. Voluntary products are emerging, but most retail insurance is distributed through aggregators such as MNOs and banks. Ghana can therefore be considered in early Stage 3 of market development as set out in the Introduction.

Insurance market dominated by domestic heavyweights, but new multinational entrants are making substantial investments. The domestic heavyweights have been in existence for the longest period and have a substantial amount of the market share for both life and non-life. However, new entrants, specifically multinationals, have entered the market within the last 10 years and are making substantial investments in infrastructure and skills in an attempt to build a solid base to grow their presence in the market.

Unsustainable providers affect insurance market performance and trust in the sector. High expense ratios and low claims ratios for many firms creates difficult business models to deliver value to consumers. Reported figures are likely better than market conditions given that almost 20% of providers’ data was not of sufficient quality to be included in NIC reports. Uncertain market and political conditions, limited skills in the market and poor systems have all negatively impacted the insurance sector’s ability to perform.

Majority of non-life reinsurance ceded offshore. While 61% of life insurance premiums are retained by domestic reinsurers, only 35% of non-life insurance premiums are retained domestically. This is in line with a large specialist risk portfolio, given the size of the extractive sector. It may also indicate potential to develop the local insurance industry’s ability to retain risk. This is further discussed in Section 2.
5. Insurance for household resilience

This section examines the current and potential role that insurance can play in household resilience in Ghana. It discusses household and individual needs, risks faced, existing coping mechanisms used, insurance uptake and related barriers and retail products available in the market. Finally, the section looks at the gaps and opportunities for providers and the regulator to improve how insurance supports household resilience.

Box 4: Key findings

- Substantial opportunity for insurers to serve segments of the population that are within reach of insurance yet do not use insurance.
- Low perceived value of insurance products and lack of trust of insurers contribute to low use.
- Most voluntary retail insurance products are life, funeral or educational endowment policies.
- Microinsurance offerings and uptake is growing.
- Destructive competition exists for compulsory products such as a third-party motor, with a few innovators focusing on new consumers or risks.
- Most retail policies are sold through MNOs, but premiums mostly collected by agents and banks.
- Digitisation and digital distribution remain limited, with uncertainty regarding the legal status of such products including e-signatures.
- Limited consumer data is collected, and few insurers employ customer-centric product development.
- The Ghana Agricultural Insurance Pool (GAIP), which offers agricultural products, covers a limited number of individuals.
- Health insurance is licensed separately by the NHIS and covers 40% of the total population, however out-of-pocket expenses remain high.

5.1. Introduction

Households face risks, whether they be illness, accident or natural disaster, which affect their welfare. These risks affect their welfare, as well as the way in which households plan, invest and respond to unexpected shocks. Insurance has the potential to play an important role in household resilience to supplement other coping mechanisms such as social networks and other financial services. Being properly covered by insurance could keep households and individuals from applying sub-optimal coping strategies such as having to sell off productive assets, borrow at high rates or keep children out of school.

5.2. Consumer groups and needs

There is a significant population that could be reached by financial service providers including insurers. Table 12 below illustrates that a majority of the population in Ghana is
located in urban areas and an even greater proportion is above the poverty line of USD2.50 per day. Mobile phone ownership is high standing at 91% and bank account ownership is high when compared to Ghana’s peers (World Bank and FIRST Initiative 2018). These indicators reflect that there is a significant viable population for financial service providers to serve, including insurers.

<table>
<thead>
<tr>
<th></th>
<th>Ghana</th>
<th>Kenya</th>
<th>Nigeria</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adult population (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>54</td>
<td>26</td>
<td>49</td>
<td>53</td>
</tr>
<tr>
<td>Female</td>
<td>52</td>
<td>50</td>
<td>49</td>
<td>-</td>
</tr>
<tr>
<td>Above poverty line</td>
<td>73</td>
<td>56</td>
<td>59</td>
<td>71</td>
</tr>
<tr>
<td>Mean years of schooling</td>
<td>6.9</td>
<td>6.3</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Regular salary earner</td>
<td>24</td>
<td>-</td>
<td>8</td>
<td>28</td>
</tr>
<tr>
<td>Mobile phone ownership</td>
<td>91</td>
<td>82</td>
<td>60</td>
<td>94</td>
</tr>
<tr>
<td>Account ownership</td>
<td>58</td>
<td>82</td>
<td>40</td>
<td>62</td>
</tr>
<tr>
<td>Mobile money account</td>
<td>39</td>
<td>73</td>
<td>6</td>
<td>34</td>
</tr>
<tr>
<td>Made or received digital</td>
<td>49</td>
<td>79</td>
<td>30</td>
<td>55</td>
</tr>
<tr>
<td>payments in past year</td>
<td></td>
<td></td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>Saved money in the past</td>
<td>50</td>
<td>70</td>
<td>62</td>
<td>54</td>
</tr>
<tr>
<td>year</td>
<td></td>
<td></td>
<td></td>
<td>47</td>
</tr>
<tr>
<td>Saved at a financial</td>
<td>16</td>
<td>27</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>institution</td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Borrowed from a financial</td>
<td>10</td>
<td>17</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>institution</td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Outstanding housing loan</td>
<td>8</td>
<td>8</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>(15+)</td>
<td></td>
<td></td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Coming up with emergency</td>
<td>43</td>
<td>49</td>
<td>53</td>
<td>49</td>
</tr>
<tr>
<td>funds not possible (15+)</td>
<td></td>
<td></td>
<td></td>
<td>36</td>
</tr>
</tbody>
</table>

Table 12: Key demographics of the adult population (Using most recent data, 2010–2017)


46 Bank account ownership for Uganda is 14%; Rwanda is 16%; Tanzania is 21%; Kenya is 28%; and Ghana is 34% (World Bank and FIRST Initiative, 2018).

47 This is of the total population,
There is a growing middle class that could potentially afford insurance. The average per capita income per day has increased from USD1.2 in 2008 to USD7.4 in 2014 (Ghana Statistical Service, 2008, 2014). The potential market that can afford retail insurance is substantial as a result.

However, relatively low education levels challenge financial service provision. Ghana has relatively low education levels with approximately 38% of adults having completed secondary education or higher and the mean years of schooling at 6.9 (FII, 2015). However, adult literacy has increased from 58% in 2010 to 76% in 2016 and the youth literacy rate stands at 91% (World Data Atlas, 2016). Lower levels of education might result in individuals not having the financial knowledge or skills necessary to either take-up an insurance product or use it in a way that benefits them.

Significant youth population and large amount with access to smartphones presents opportunity for financial service providers. Fifty-seven percent (57%) of the adult population in Ghana is between the ages of 15 and 35, 32% of which own a smartphone. This presents an opportunity for financial services providers to design products that meet the needs of this segment of the population. High smartphone ownership among this segment indicates that services can be distributed through mobile phones.

Elderly population presents need for sustainable pension schemes and life annuity products. Seven percent (7%) of Ghana’s population is sixty years or older. This equates to almost two million individuals in Ghana who are either at the age of retirement or nearing retirement. As more people retire, there will be a continued growing need for a sustainable pension scheme and life annuity products.

The population is split evenly between men and women, but education levels, mobile phone ownership, bank account ownership and source of income are skewed towards men. According to FII (2015), the gender split in Ghana is even, with women accounting for 54% of the adult population. However, a smaller proportion of women have completed above secondary education, own a mobile phone, have a bank account or are a regular salary earner.

Ghana susceptible to disaster and agricultural risks. Ghana experienced major floods in 1999, 2007 and 2015. The 1999 and 2007 floods affected the northern regions and over 600,000 people (National Disaster Management Organization, 2018). Accra experienced major floods in 2015, affecting 53,000 people and causing more than USD100 million in damages (Hallegatte, 2018). The agricultural sector has also been hit hard in the past due to droughts and armyworm and black fly invasions, all of which had determinantal effects on crops. In 2004, eight districts in the northern region experienced a drought, which led to a reduction in food production of an estimated 35%. Similarly, adverse weather conditions reduced annual food production by 66% in the Upper East region in 2007 (Dariant, 2018 and Relief Web, 2017).

5.3. A target market approach to understanding the Ghanaian population

Insurance is only meaningful if it meets the needs of consumers. As the adult population in Ghana is heterogenous, the insurance needs of individuals are likely to differ substantially. A heterogeneous population also means that the ability of providers to viably serve consumers will differ depending upon the financial context of the consumers.
This section unpacks the realities, financial context and insurance uptake of the different segments of the Ghanaian adult population by using a target market approach. The target market approach allows the potential size of a market to be determined by estimating how easily they could be reached for insurance distribution purposes. Identifying specific target markets will allow insurers to recognise the business case for providing services and to better design and target products offered to these segments.

*The target market approach provides insight into unique segments of the Ghanaian adult population.* To identify unique segments of the Ghanaian adult population, analysis of Financial Inclusion Insights (FII) 2015 demand-side data on demographics such as poverty levels, uptake of financial services, education levels, source of income, mobile phone ownership and geographic location, was made. Table 13 below describes why these specific factors were considered when conducting the target market approach and their implications for insurers.

<table>
<thead>
<tr>
<th>Description and implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regularity of income</strong></td>
</tr>
<tr>
<td><strong>Geographical location</strong></td>
</tr>
<tr>
<td><strong>Mobile phone ownership</strong></td>
</tr>
<tr>
<td><strong>Banked status</strong></td>
</tr>
<tr>
<td><strong>Poverty level</strong></td>
</tr>
</tbody>
</table>

*Table 13: Description and implications of target market indicators*

*Source: FII (2015) and Authors’ own*

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48 As this is the most recent demand-side data available that can serve as proxy for income, we have utilised this indicator to determine those in the market who cannot reasonably afford insurance as anyone who is below the poverty line of USD2.50 per day. Although USD2.50 per day is still relatively low for many people to feasibly afford insurance, life products with a reported premium of GHS50 per month would account for approximately 5% of the living expenses of an individual who lives on USD2.50 per day.
Five discrete target markets were identified within the segmentation approach:

1. **Urban salaried workers (1,350,539)** – These are defined as adults who are regular salary earners, located in urban areas, own a mobile phone, are above the poverty line and have a bank account. They constitute a small proportion of the population (8%). Having a regular salary, proximity to urban-based financial services, owning a mobile phone, already having experience with formal financial services and being above the poverty line makes this group the easiest to reach for insurers. This segment of the population is likely to be the most viable and lucrative for insurers to serve due to their regularity of income and formal points of access. This segment is skewed towards men, with 63% being male. It is a highly educated segment, with 77% having a secondary education or higher and 43% have a tertiary degree.

   FII (2015) indicates that salaried workers were more likely to miss work due to sickness (20%) and experience a death of a family member (19%) within the last year than experience crop damage, flood, drought, lay-off or business failure (3%). As this segment has a regular income, they are the most likely segment to have assets such as cars and household items. This indicates that they may have a need for comprehensive motor insurance policies as well as products that protect their household contents against risks, especially floods considering Accra experienced severe flooding in 2015. Insurers can reach this segment by offering group-life products to this segment’s employers. The urban salaried segment is “low-hanging fruit” and should be the easiest segment for insurers to reach due to their regular income and formal points of access. Insurers can therefore leverage distribution options such as banks and mobile phones to distribute products that meet this target market’s needs.

![Figure 15: Urban salaried workers target market](image)

*Source: FII (2015)*

2. **Urban self-employed (1,181,721)** – Similar to the salaried workers’ category, this target market consists of adults who are located in urban areas, own a mobile phone, are above the poverty line and have a bank account. This segment does not include regular salary earners, but rather adults who earn an irregular salary or are self-employed, so they have less consistent incomes. This segment makes up the smallest segment of the adult population standing at 8%. Having some source of income, proximity to urban-based financial services, owning a cell-phone, already having
experience with formal financial services and being above the poverty line make this group the second easiest segment for insurers to reach. This segment of the population is less educated than the salaried workers, with 42% of this segment having completed a secondary education or higher. It is slightly skewed towards women, with 54% of them being female.

The self-employed segment was more likely to miss work due to sickness (27%) and experience a death of a family member (25%) than experience crop damage, flood, drought, lay-off or business failure (7%) in the last year. Insurance needs of this segment will depend on the nature of the business that this segment undertakes. For instance, some self-employed individuals may need fire, theft and property products, whereas others may need liability or financial loss products. This segment of the population can be feasibly reached if insurers design products to have features that suit their needs as well as the reality of their incomes.

![Figure 16: Urban self-employed target market](image)

Source: FII (2015)

3. Urban dependants (2,701,077) – Like the two previous segments, this segment consists of adults who live in urban areas, own a mobile phone and are above the poverty line. However, the adults in this category are not regular salary earners, irregular salary earners or self-employed. Rather the adults in this category report that they are not working. Adults in this category also may or may not have a bank account. This segment makes up 16% of the adult population. Although this segment does not have a source of income, it is still feasible for insurers to reach them as they are living above the poverty line. Additionally, they are based in urban areas and own a mobile phone, making it easier for them to access urban-based and/or mobile financial services. Surprisingly, this segment is more educated than the urban self-employed segment, with 64% of them having a secondary education or higher. Fifty-four percent (54%) of this segment is female (FII, 2015).

Urban dependants are more likely to experience a death in the family (21%) than experience crop damage, flood, drought, lay-off or business failure (5%). Disability products could be used to meet the needs of a proportion of this segment as some indicated that they are not working due to disability or sickness. However, as dependants are mainly not working, social grants rather than insurance products may be better suited to the needs of this segment.
4. Rural viable (1,012,904) – This segment consists of adults who live in rural areas, own a mobile phone, have a bank account, are above the poverty line and are either regular salary earners (50%) or have some sort of income (50%). This segment makes up 8% of the population. Despite this segment living in rural areas, having a source of income and being above the poverty line means that they are likely to be able to afford insurance premiums and the fact that they have a mobile phone and a bank account will enable insurers to avoid large costs to distribute products and services to them. However, insurers will need to be more innovative in the design of distribution strategies as they are located in rural areas. This segment is slightly skewed towards men with 55% being male. Forty-four percent (44%) of this segment have a secondary education or higher.

Thirty-three percent (33%) of the rural viable segment cite death of a family member as a risk they experienced within the last year. Twenty-three percent (23%) missed work due to sickness, whereas 10% experienced crop damage, flood, drought, lay-off or business failure. As this segment is located in rural areas and some noted crop damage, flood and drought as a risk, agricultural insurance products may be useful to mitigate some of these risks. However, insurers will need to be particularly innovative in their distribution strategies as this segment is located in rural areas. Leveraging alternative distribution channels through aggregators such as MNOs, MFIs or SACCOs might assist them in tapping into this market.
5. **Difficult to reach (10,635,492)** – This segment, which consists of the remaining 63% of the adult population, is more challenging to reach as they either do not live in an urban area, do not have a mobile phone or are not above the poverty line. This segment of the population is harder to reach because affordability of insurance will be an issue as they may be below the poverty line. There is also less of a business case for insurers to distribute products to individuals who are below the poverty line and thus cannot afford high premiums and are located in rural areas yet do not own a mobile phone or bank account as the cost of distribution is higher. This segment of the population is slightly skewed towards women with 55% being female. It is also the least educated segment as only 25% of this segment have a secondary education or higher. This segment is the most likely segment to experience crop, damage, flood, drought, lay-off or business failure, with 18% having experienced this risk within the last year. This indicates that agricultural insurance products might meet the needs of some of this segment. Twenty-seven percent (27%) and 24% of this segment experienced a death of a family member or missed work due to sickness in the last year. This indicates that life, funeral or hospitalisation products might suit their needs. This segment of the population is characterised by inconsistent incomes and poverty levels and limited formal points of access. Insurers will need to design products that reach scale to keep costs down and meet the income levels of this target market. As a majority of this segment of the population is located in rural areas, insurers will need to be innovative in their distribution methods and make use of aggregators like MMOs, SACCOs and MFIs. Inconsistent income and poverty levels indicate that the government might need to consider subsidies to encourage this segment to take up agricultural products.
There is a substantial amount of the adult population that is within reach of insurers and are seemingly viable insurance customers. Combining urban salaried, urban self-employed, urban dependants and rural viable target markets shows that over six million adults, which is 38% of the adult population, are within reach of insurers due to their source of income, geographical location, mobile phone ownership, poverty status and bank ownership. This represents a substantial opportunity for insurers. Life products, funeral products and hospitalisation products that protect against loss of income would meet some of the needs of the population that is within reach of insurance. However, not all of these segments face the same risks, have the same needs nor can be reached through the same distribution channel. However, 38% of the adult population in Ghana does have characteristics that
suggest they could be consumers of insurance should products be appropriately and innovatively designed.

Figure 20: Total reachable population
Source: FII (2015)

5.4. Risks faced and coping mechanisms employed

Individuals face a variety of risks. According to FII (2015), approximately 40% of the adult population has experienced at least one of the following risks in the last two months: crop damage, flood, drought, lay-off from work, business failure, death of a family member or close relative, or have missed work due to sickness. Death of a family member or close relative was the most cited, with 25% of the adult population having experienced this risk within the last year. A greater proportion of the difficult to reach segment (18%) has experienced crop damage, flood, lay-off or business failure within the last year than the other segments.
Different segments of the population face different risks. FII (2015) shows that the rural viable segment is the mostly likely segment of the population to experience a death in the family within the last year at 31%. The urban self-employed segment of the population is the most likely to have missed work due to sickness, with 27% of this segment having done so in the last year. The urban salaried segment of the population was the least likely of any of the target markets to have experienced most of the risks reported in the FII (2015) within the last year. This illustrates the potential that insurance can play in mitigating the risks as over 32% of the total reachable segment face risks regularly.

The total reachable segment is made up of salaried workers, self-employed, dependants and rural viable.
The high-risk event of death in the family further exacerbated by funeral costs. Funerals in Ghana are seen as a way to not only mourn the death of loved one, but also celebrate their life. The more mourners that attend a funeral, the better. From the coffin to the billboards to the flowers, no extravagance is spared. Funerals in Ghana are reported to cost between USD15,000 to USD20,000. A death in the family can thus exacerbate the financial situation of a family and force them to borrow should the member who passed away not have funeral insurance (Newton, 2014).

Adults typically use savings and borrowings to cope with unexpected shocks. FinScope (2010) shows that adults typically rely on savings and borrowings as a coping mechanism for unexpected shocks. When focus groups of active and inactive microinsurance clients in Ghana were asked how they cope with risks, all individuals indicated that they need to put money aside for emergencies, i.e. saving as this is a better approach than going for a loan, whereas others indicated that they borrow in times of need (NIC and GIZ, 2015b).
Individually tend to rely on family and friends when borrowing to cope with unexpected expenses. Fifty-seven percent (57%) of those who used borrowings to cope with unexpected expenses, borrowed from family and friends, whereas 25% borrowed from banks. Informal services are not heavily relied on, with only 7% of adults indicating that they borrow from them to cope with unexpected expenses (FII, 2015).

However, coming up with emergency funds is not possible for many. When asked if they encountered an emergency and needed to come up with the equivalent of one-twentieth of Ghana’s gross national income per capita (~USD155) within the next month, 42.5% of adults in Ghana indicated that this would not be possible. The implication of this is that nearly half of Ghanaians are not able to effectively deal with unexpected shocks or risk events. Therefore, insurance may have an important role to play in filling this gap.

5.5. Insurance uptake

Insurance is not widely identified as a coping mechanism; however, take-up is increasing, particularly by health insurance. Self-reported insurance uptake has increased from 45% in 2010 to 65% in 2015. However, when you exclude health products, only 6% of the adult population reported that they have an insurance product. This equates to just more than 15.8 million adults reporting that they do not have an insurance product, excluding health (FII, 2015).

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50 Ghana’s GNI per capita was GHS1224.9 in 2015. One-twentieth of this is GHS61.245.
Individuals may either be unaware that they have insurance products, or they have multiple policies. Demand-side analysis indicates that 6% of the adult population (1 million) report having an insurance product, excluding health (FII, 2015). However, supply-side analysis indicates that there are 2.82 million adults with microinsurance policies, which represents 17% of the adult population (World Bank and FIRST Initiative, 2018). The difference in insurance uptake figures from demand-side and supply-side data suggest that either individuals may not be aware that they have insurance products, or that individuals have multiple policies.

Consumers of insurance (excluding health) are likely to be: in urban areas, male, above the poverty line and regular salary earners. Of the individuals that have insurance (excluding health), 67% are male, 71% are located in urban areas, 89% are above the poverty line of USD2.50/day and 43% are regular salary earners (FII, 2015).

Despite a seemingly viable insurance consumer base, a small percentage of the population has taken up a non-health insurance product. As Table 24 below depicts, there is currently an access frontier, which includes the uptake of non-health insurance by target market.

- Urban salaried workers: Despite being the segment that is easiest to reach for insurers, only 22% of this segment already has an insurance product. That means that over one million adults who are very easy to reach for insurers do not have insurance.
- Urban self-employed: Thirteen percent (13%) of this segment has insurance, which means that there are over one million individuals in this segment without insurance.
- Urban dependants: Ninety-five percent (95%) of this segment does not have an insurance policy, which is the equivalent of 2.5 million adults.
- Rural viable: Ten percent (10%) of those in this segment have insurance, which means that there are close to one million individuals in this segment without insurance.
• **Total reachable:** Combining the above four segments gives us our total reachable category. Thirty-eight percent (38%) of adults fall into this segment, yet only 11% of adults within it have insurance products. That means that there are over 5.5 million adults who are within reach of insurance, yet do not have it.

• **Difficult to reach:** Unsurprisingly, this segment has the lowest uptake of insurance products standing at 3%.

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**Figure 25: Potentially reachable frontier and uptake across target market**

*Source: FII (2015) and Authors’ own calculations*

### 5.6. Barriers that influence uptake and usage of insurance

The low reported uptake of insurance in Ghana despite the relatively large group of individuals that can be viable reached by insurers suggests that there is some usage barrier keeping Ghanaians from taking up insurance products. In this section, we consider the different barriers that influence the insurance usage decision.

*Low perceived value relative to cost of insurance products contribute to low use.*

Consumers indicate that they perceive insurance products to be of low value. This is supported by market reported data as approximately 64% of adults cite cost as a reason for them not having insurance (FinScope Ghana, 2010). Although consistent with averages across sub-Saharan Africa, non-life claims ratios are low, standing at 39%, which further exacerbates consumers’ perception of insurance (NIC, 2016). Stakeholder interviews suggest that the time taken to pay claims and resolve complaints can be long and usually drawn out.
High perceived costs, along with low perceived value, results in a general negative perception of the insurance industry in Ghana.

“Our claims payment is still pending after more than one and a half years. We’ve moved to a different company since.”
- Male, regular salary earner, Tema, (NIC & GIZ, 2015b)

“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, (NIC & GIZ, 2015b)

**Products not designed to meet the needs of consumers.** Limited use of consumer data and consumer-centric product development has led insurers to not fully understand the needs of consumers. This has resulted in insurers offering products that are not necessarily tailored to the needs of the consumer. Consumers are much less likely to take-up products that do not meet their needs and have clear barriers to entry, such as annual premiums, onerous ID and KYC requirements or the terms and conditions of the products not being written in the consumers’ local language.

**Consumers’ opportunity costs negatively impacted by enrolment and distribution limitations.** Annual in-person renewals, especially for the national health insurance scheme (NHIS), were noted as a time-consuming and onerous process. Hassle factors such as this inhibit individuals from taking up insurance products. Additionally, due to a limited number of insurers having call centres and the lack of clarity on e-signatures, individuals are forced to take-up insurance products in-person, which results in time lost for the individual.

**Consumers do not trust or relate to insurance or insurers.** Lack of trust is a clear barrier to individuals taking up insurance products. Past negative experience of claims not being paid in a timely manner, or at all, erodes the extent to which individuals view insurers as predictable and therefore trustworthy. Interviews indicate limited internal provider recourse mechanisms and the 2016 NIC Annual Report stated that only 39% of the 394 complaints filed to the NIC in 2016 were settled (NIC, 2016). The lack of efficient simple recourse mechanisms in which the consumer can go directly to the insurer to deal with complaints results in further deterioration of the trust relationship between the insurer and the consumer. The general negative perception of the insurance industry is not only due to the lack of trust but also because some individuals do not relate to insurers and thus perceive that insurance is not for people like them.

“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.”
- Active or inactive microinsurance consumer, Accra, (NIC & GIZ, 2015b)

“Sometimes insurance is not needed since the process of making claims will be long and you will need other avenues to solve [risks] earlier before [claims] come in.”
- Active or inactive microinsurance consumer, Techiman, (NIC & GIZ, 2015b)

“We do not trust that they will honour their promises”
Ghana is a collective and religious society and one that avoids thinking about negative events, which in turn limits individuals’ perceived need for insurance. Ghana is a collective society, which means that they can rely on one another as opposed to financial institutions in times of need. A large proportion of adults indicated that they borrow when expected shocks occur and 57% of those who borrow to pay for emergency expenses, borrow from friends and family. Additionally, Ghana is a highly religious society with the majority being Christian (71%) and Muslim (18%). Culturally, this means that Ghanaians do not place much emphasis on the need to plan for the worst-case scenario or mitigate risks (Ghana Statistical Services, 2010). Stakeholder interviews indicate that Ghanaians tend to avoid thinking and worrying about negative events, which then limits their perceived need for insurance products.

“Insurance is not needed because it is Allah, who takes care of human beings.”

– Active or inactive microinsurance consumer, Tamale (NIC & GIZ, 2015b)

“[We face risks like] …fire, illness and accident. We worry at a very low level; that is not much.”

– Active or inactive microinsurance consumer, Kumasi (NIC & GIZ, 2015b)

Lack of awareness and understanding of insurance products limits individuals’ uptake and usage of insurance. Past and current consumers of microinsurance products indicate that they do not always understand the terms and conditions of insurance products. Not understanding how an insurance product works is likely to negatively affect the value that the consumer derives from the product as they will neither know what benefits they are entitled to nor how to receive them (NIC and GIZ, 2015).

“Lack of knowledge and information about facilities, terms of insurance contracts are not always explained to the clients understanding. We are ignorant.”

– Active or inactive microinsurance consumer, Accra (NIC & GIZ, 2015b)

“Instead of explaining the details of the contracts, they rather convinced us to believe that we are in good business.”

– Active or inactive microinsurance consumer, Techiman (NIC & GIZ, 2015b)

“I don’t understand the policy so I don’t know what I am entitled to.”

– Active or inactive microinsurance consumer, Accra (NIC & GIZ, 2015b)

5.7. **Retail products**
There is a wide range of retail products, but funeral and life are the most popular. Industry interviews and secondary research suggest that there is a wide range of retail products offered in Ghana, but funeral and life are the most popular in terms of policies sold with minimum monthly premiums starting at GHS 7 per month (USD1.79) on the lower end. Education endowment and motor policies are also widely sold insurance products.

| Credit life | Loan repayment in the event of death, disability or critical illness. Premiums typically 1–2% of loan per month. | Banks, MFIs |
| Life | Cash payout in the event of death, hospitalisation income, accident indemnity, dread disease cover. There is a broad range of reported minimum monthly premiums, with those on the lower end ranging from GHS7–50 (USD1.8–12.8). Reported benefits of a GHS7–15 monthly premium is coverage of GHS100–200 (USD25.6–51.3) | Agents, mobile, banks, brokers, employer groups |
| Life (endowment) | Cash payout at the end of agreed upon period and/or on an annual basis. Minimum monthly premiums start at GHS50 (USD11.2) | Agents, mobile |
| Life (education endowment) | An investment plan with insurance benefits to help individuals accumulate cash to finance education. A lump sum is paid at the end of maturity period. Premiums start at GHS50 per month (USD12.8) | Agents, mobile |
| Funeral | Immediate lump sum in event of death for funeral costs, extended cover for spouse and children and waiver of premiums. Minimum annual payable premium starts at GHS50 (USD12.8) | Agents, mobile |
| Loss of income | Cash payout for each night spent the hospital. Premiums start at GHS0.75 per month (USD0.19) and coverage is about GHS50 (USD7.7) per night. | Agents, mobile |
| Agricultural | Covers losses a farmer might incur from a drop-in yield due to weather conditions. Premiums are typically around 5% of farmer’s investment. | Agents, MFIs, input suppliers |
| Third-party motor | Covers damage to other party’s motor vehicle should you be responsible for accident. Annual premiums start at GHS47 (USD12) | Agents, mobile |
| House | Typically covers home damage such as fire, flood, etc. For a property valued at GHS150,000 (USD38,461), premiums start at an annual rate of GHS300 (USD76.9) | Agents, brokers |
| Disability | Usually part of life cover that gives a cash payout in the event of disability. | Agents, brokers |
| Household content | Typically covers household contents from theft or damage such as fire, flood, etc. | Brokers |
| Professional indemnity | Covers financial loss of the insured party’s legal liability for financial loss incurred by a third-party due to professional advice given by the insured party. | Brokers |

Table 15: Retail products offered in Ghana

Source: Enterprise (2018); Vanguard (2018); Glico (2018); Prudential (2018) and SIC (2018)
Endowment products are the most significant voluntary product in terms of premium. According to stakeholder interviews, endowment policies\(^\text{51}\) dominate the books of life insurers and account for an estimated 80% of all life premiums. Endowment policies are attractive as they provide a disciplined route for savings and can be drawn on when unexpected expenses arise. Insurers in Ghana have capitalised on labelling and goal striving to attract individuals to endowment policies that target specific future goals by labelling them “education funds” or “retirement funds”. The minimum term of endowment policies in Ghana is typically five years and the maximum is 25 years. Premiums vary widely, from as low as GHS10 (USD3) a month. Typically, policyholders are entitled several withdrawals after the first year of the policy coming into force and the exact amount the policyholder can withdraw is dependent upon the policy (Stakeholder interviews, 2018 and Insurer websites). Returns on these products are typically far below what can be earned on other savings instruments. For example, on a five-year endowment product, four percent (4%) is received as return. However, users value the discipline and commitment required by these products.

But the business case for endowment policies is limited and consumer value uncertain. Insurers make a minimal margin on endowment policies as these policies serve more as a saving vehicle for policyholders. It is difficult for insurers to make an underwriting profit on policies that do not include an element of risk. Additionally, the value of endowment policies to the consumer may be limited as surrender losses are high. The amount of surrenders has increased from accounting for 5% of total industry premiums in 2014 to 14% in 2016. In 2017, the total amount of surrenders was GHS319,753,722 (USD82 million) (NIC, 2018).

Third-party motor, which is a compulsory insurance, dominates the non-life retail space. The Motor Vehicles (Third Party Insurance) Act, 1958 (Act 42) makes it a crime to drive a motor vehicle on a public road without insurance covering third-party liabilities. In 2016, motor accounted for 48% of all non-life premiums and 28% of total industry premiums written. Stakeholder interviews suggest that consumers tend to think that motor is poor value for money as the amount that insurers pay out for claims is minimal. Rather than seeing third-party motor as a risk protection mechanism, consumers seem to purchase it simply to comply with the law. Stakeholder interviews find that concerns have been raised around the issue of fake insurance stickers, in which individuals are unknowingly sold third-party motor insurance stickers that are fake (Stakeholder interviews, 2018). Improving the value of third-party motor products is essential to building trust in the market.

\(^{51}\) An endowment policy is a type of life insurance policy that is designed to help the policyholder save regularly over a specific period of time. After a specific period of time, the policyholder is able to get a lump sum amount on the policy.
Annuities currently do not exist but are on the radar of insurers and the regulator. Stakeholder interviews indicate that one annuity product has been approved by the NIC, but it has not been rolled out into the market. As private pensioners are due to retire in 2019, the NIC signalled that this will be an important space to develop as they have started to hold trainings on the topic in collaboration with the NPRA (Stakeholder interviews, 2018).

Box 2: Innovations in the Ghanaian insurance market

**Vanguard Assurance’s digital fire insurance app smooths the claims settlement process.** In 2018, Vanguard Assurance launched a digital fire insurance app with the goal of eliminating bottlenecks in the fire claims settlement process. With the click of a button, an instant notification is sent to Vanguard Assurance and the Fire Service simultaneously. This eliminates the need for filing and submitting a fire claim, which makes the process of claims settlement much smoother for the individual whose property was damaged by fire (Stakeholder interviews, 2018 and Awusah, 2018).

**BIMA Doctor provides affordable health advice.** In 2015, BIMA received a telemedicine licence from the Health Facility Regulatory Agency (HeFRA), allowing them to offer convenient, affordable and quality health advice over the phone. Consumers can make unlimited calls to medical practitioners for advice or consultation. Digitising health advice and consultations allows consumers to save money on transportation and lost income for the day. BIMA doctor has registered about 100,000 consumers (BIMA, 2018).

**MTN and MMI Holdings partnership aYo is a digital platform offering mobile microinsurance.** In April 2018, MTN, aYo Ghana and Metropolitan Life insurance launched two mobile insurance products in Ghana. aYo Recharge with Care provides you with 30 days life and/or hospital cover every time you load MTN airtime onto your phone. Premiums are set up automatically once you chose the cover option you prefer and paid automatically by means of airtime deduction. The premiums are flexible and can be changed to suit your need at any point in time. Claims are paid straight into your MTN Mobile Money account. aYo Send with Care continues to send money to your beneficiaries in the event of death or hospitalisation of either yourself or the beneficiary. If you pass away or are hospitalised due to an accident, aYo Send with Care will pay out triple the amount you have sent over the past four months to your beneficiary in 12 equal monthly payments. The premium for this product is a fixed fee of 5% of the amount you send to your beneficiaries and is paid from your Mobile Money account (aYo, 2018).

5.7.1. Microinsurance

The microinsurance market is growing. Table 16 below shows that microinsurance in Ghana is increasing in terms of the number of insurers offering microinsurance products, the number of lives and property covered and contribution to gross written premiums.
5.7.2. Health insurance

Nationalised health insurance (NHIS) does not cover the full need of individuals and private health insurance is limited to the high-income, leaving a gap in the market. Although being part of the NHIS is legally required, only 40% of the total population are covered (Wang et al., 2017) Interviews suggest that low take-up was not due to costs, but rather to the perceived negative perception of the service in general. Waiting in long queues to renew health cards annually, providers charging consumers co-payments when they should not and lack of supply of pharmaceutical goods covered by the NHIS were some of the cited reasons why uptake of NHIS is low (Stakeholder interviews, 2018). Despite the existence of the NHIS, consumers continue to spend money out-of-pocket, for example, in 2015, 36% of all health spending in Ghana was out-of-pocket (World Bank, 2016). Private health insurance is limited to insurers who have received a separate licensing from the NHIA and products offered by them remain limited to the high-income due to costs. Few top-up covers that complement the NHIS exist, leaving a gap in the health insurance market.
Box 4: The National Health Insurance Scheme (NHIS)

In 2003, the government introduced the NHIS, which is a universal health insurance scheme that aims to provide equitable access and financial coverage for basic health services. The Ghana National Health Insurance Authority (NHIA) licences, monitors and regulates the operation of health insurance schemes in Ghana. The National Health Insurance Act (852), 2012 requires all Ghanaians to belong to the NHIS and states that NHIS members can also belong to a private health insurance scheme.

**NHIS Scheme Structure:** The NHIS categorises health insurance into three schemes, which are outlined in more detail below.

<table>
<thead>
<tr>
<th>Description</th>
<th>District-wide mutual health scheme</th>
<th>Private mutual health scheme</th>
<th>Private commercial health scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Compulsory government-backed scheme</td>
<td>Collective group scheme</td>
<td>Private commercial health insurance offered by insurers licensed by the NHIA</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td>National Health Insurance Fund subsidy:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 74% from 2.5% VAT.</td>
<td>Missions, donors and individual premiums.</td>
<td>Individual premiums</td>
</tr>
<tr>
<td></td>
<td>• 20% from 2.5% of SSNIT contributions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 3% from return on Health Insurance Fund investments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 3% from premiums paid by policyholders.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>40% of the population</td>
<td>n/a</td>
<td>1% of population</td>
</tr>
<tr>
<td><strong>Target market</strong></td>
<td>The entire population</td>
<td>The low income</td>
<td>Middle to high income earners, employees and families</td>
</tr>
<tr>
<td><strong>Enrolment basis</strong></td>
<td>Annual renewal required to get a new NHIS card every year</td>
<td>Mostly annual renewals</td>
<td>Once-off</td>
</tr>
<tr>
<td><strong>Premium collection method</strong></td>
<td>Cash payment in person at the district office</td>
<td>Physical points of cash contribution as agreed upon with the organisation</td>
<td>Debit orders</td>
</tr>
<tr>
<td><strong>Premium range</strong></td>
<td>• GHS7–48 per month depending on income.</td>
<td>n/a</td>
<td>Depends on age, income, health risk, etc.</td>
</tr>
</tbody>
</table>
Some life insurers have started to offer health related loss-of-income products. Although insurers are not legally allowed to offer products that cover health risks, a small number of insurers have started to offer loss-of-income products and label them as “hospital cash plans”. These hospital cash plans offer benefits to the policyholder when they suffer a loss of income due to the hospitalisation of themselves or a dependant. If the demarcation between life and health insurance remains in place, these loss-of-income products will be
one way that life insurers can fill the gap between the current offerings of the NHIS and the needs of individuals.

5.7.3. Agricultural insurance

Agricultural pool offers agricultural insurance products, but take-up and capacity remain limited. Agricultural insurance is offered by the Ghanaian Agricultural Insurance Pool (GAIP), made up of 16 insurers. Scaling agricultural insurance products remains a challenge in Ghana as GAIP has only 4,000 policies, most of which are distributed at the meso-level. The sustainability has also proven difficult as premiums are typically five percent (5%) of the annual input investment a farmer makes, yet the risk event is expected to occur once every five years (Stakeholder interviews, 2018).

Box 5: Agricultural insurance in Ghana

Agriculture is a key contributor to the economy in Ghana accounting for 23% of GDP in 2016 and engaging over 50% of the population. Most agricultural operations are small-scale, with 90% of farm holdings being less than 2 hectares in size (Ministry of Food and Agriculture, 2016). Agricultural regions in Ghana are mostly rain-fed and are prone to floods, drought and disease. This, in conjunction with increasing climate change threats, illustrates the value proposition of agricultural insurance.

Ghana Agricultural Insurance Pool (GAIP)

GAIP was started in 2011 with support from the National Insurance Commission (NIC), German Development Agency (GIZ) and the Ghana Insurers Association (GIA). Sixteen non-life insurers are part of the pool and GAIP employs 30 staff members. The objective of GAIP is to offer agricultural insurance products and to build agricultural underwriting expertise within the industry. The 16 insurers who are part of GAIP bear the costs of operation and will share the profits once there is turnover. GAIP is the only entity in Ghana that is allowed to offer agricultural insurance. Currently, there is not a subsidy for agricultural insurance in Ghana (Stakeholder interviews, 2018).

Products offered by GAIP:

1. **Weather index product for smallholder farmers**: Designed to help farmers cover their yield against possible losses due to adverse weather conditions (typically droughts). Satellite data is used to determine an index indicating whether rainfall was good or bad. Should the index be below a certain threshold, the insurers will receive a pay-out. Farmers’ premiums vary per district but are generally around five percent (5%) of the cost of the amount they invested per acre. This product is sold at the micro-level to individual farmers and at the meso-level to aggregators such as financial institutions and input suppliers.

2. **Multi-peril insurance for commercial farmers**: Designed to help commercial farmers mitigate multiple risks, this product is designed on the client’s needs and requires GAIP to physically inspect the farmer’s land.

Distribution approach

Agricultural insurance products in Ghana are typically not distributed on the micro-level to individual farmers themselves, but rather at the meso-level through aggregators such as MFIs, farmers’ associations, NGOs, food processors, input suppliers and rural and community banks (RCBs). These aggregators act as policyholders for the farmers and the insurance policies provide protection for their agricultural loan portfolios and agricultural inputs. Meso-level agricultural insurance products give confidence to financial institutions such as MFIs or RCBs to lend to the farmer; as a result, increasing financing opportunities for farmers (Mensah, et. al, 2016).
5.8. Distribution channels

Agents, brokers and banks are key distribution channels for retail insurance. Figure 14 in Section 4 shows that agents and brokers are the main distribution channel for insurance in Ghana with 30% of all insurance premiums being distributed through each of them. Agents play a bigger role in the retail space whereas brokers play a bigger role in the non-life space through corporate policies.

Mobile insurance plays an important role for the retail sector, and the reach of microinsurance is expanded due to this alternative distribution channel. Mobile insurance was first introduced in 2010. Premiums can be paid either through mobile money or airtime deductions. Currently, there are three mobile money operators in Ghana, all of which have partnerships with insurers and technical service providers, BIMA, MicroEnsure, MFS Africa and newly launched aYo. Microinsurance products such as funeral, hospital, life, accident, loss of income and disability are offered through mobile channels. In 2015, there were 2.7 million mobile insurance policyholders but this figure is likely to have grown substantially. In 2014, 60% of all microinsurance policies sold through mobile channels (NIC & GIZ, 2015b).

Mobile insurance offerings have shifted from freemium products to paid products. The first mobile insurance products offered in Ghana were freemium products, in which the consumer did not have to pay for the product. Freemium loyalty products served as way for insurers to build their client base and illustrate the value of insurance whereas MNOs did it as way to incentive consumers to use their service more. Those offering mobile insurance realised that there was an appetite for insurance and that consumers were willing to pay for the product. Mobile insurance has since shifted to mostly be paid products in which consumers need to opt-in to sign-up for the product in which they need to pay a small amount daily or monthly (Stakeholder interviews, 2018).

Mobile insurance premiums mostly paid by means of airtime deduction, but costs are higher for this than using mobile money. When mobile insurance started in 2010, Ghana was not advanced in terms of mobile money penetration. Due to this, premiums for mobile insurance were collected through airtime deduction as opposed to mobile money. As mobile money penetration is growing, mobile insurance premium collection is moving towards mobile money. Collecting premiums through airtime deduction carries higher costs for consumers due to a 17.5% VAT and 6% STS being charged on airtime. Insurance premiums collected through mobile money are not charged such taxes (Stakeholder interviews).
Distribution reach of microinsurance is increasing, partly due to partnerships with MNOs and technical service providers. New technology-enabled partnerships can increase the distribution reach of insurance and the number of these types of partnerships in the emerging world is increasing (Smit, 2017). Four insurers\(^{52}\) have partnered with MNOs and technical service providers to offer mobile insurance products. The MNO serves as the main distribution channel and communication method, the insurer underwrites the policy and the technical service provider is responsible for most aspects of the insurance value chain, such as product design, sales, customer service and claims processing. The insurer provides the underwriting and the MNO provides access to their consumers and the primary communication channel.

Bancassurance is an important channel for distribution of retail products. Banks are playing an increasingly important role in the distribution of retail insurance as they were permitted

\(^{52}\) The partnerships are: Prudential Life/Tigo/BIMA, Enterprise Life/Airtel/MicroEnsure, Metropolitan Life/MTN/aYo, MTN/MFS Africa/UT Life
to start offering retail insurance in 2007. By 2016, there were 23 partnerships and by 2016, 16% of all insurance gross written premiums were distributed through bancassurance (EY, 2016 and Konutsey, 2016).

*MFIs used for distribution of insurance, but potential to expand exists.* Stakeholder interviews indicate that a number of MFIs offer insurance products, mainly credit-life insurance and agricultural insurance. However, it was noted that there is still room to further utilise MFIs for the distribution of insurance products (Stakeholder interviews, 2018).

### 5.9. Key gaps and opportunities

#### 5.9.1. Provider opportunities

*Substantial opportunity for insurers to serve segments of the population that are within reach of insurance yet have not taken it up.* In Section 5.5 and Figure 25, we illustrated that 38% of the adult population is within the reach of insurance, yet only 11% of this segment has insurance. This illustrates that there are over 5.5 million adults who can be reached by insurance yet have not taken it up. Insurers can target these individuals as they can serve them viability due to either their regularity of income, access to formal services, geographical location or poverty level.

*More demand-side research should be conducted to gain a better understanding of current and potential consumers of insurance – including gender differences.* There is limited publicly available nationally representative demand-side data on financial service usage in Ghana. The last FinScope was conducted in 2010 and the last FII was conducted in 2015. Interviews indicate very limited demand-side research is undertaken by insurers themselves. It is necessary to have up-to-date and comprehensive demand-side data to gain a better understanding of individuals and their needs, whether it be survey data or other forms of demand-side data such as focus group discussions. Appropriate, up-to-date demand-side data would also allow insurers to better understand nuances of insurance behaviour and usage, such as whether there is a gender gap in insurance uptake. Having a more nuanced understanding of the gender gap could result in the better design of products that directly speak to the needs of women, for example.

*Client, industry and alternative data can be used to design customer centric products and better price risk.* Most insurers have limited data on their existing and potential consumers, beyond basic KYC information recorded upon policy sale, often fragmented between legacy systems. This limits their ability to identify new viable consumer groups, understand consumer needs and more effectively price for the risks. However, an opportunity exists for insurers to improve consumer data management approaches, better leverage industry data or utilise alternative data sources to gain a better understanding of individuals’ needs. Access to public datasets on motor vehicles with the DVLA (as has been done in Kenya) or deaths and births with the Birth and Death registry could also prove useful.

*Digitisation can address insurers’ cost management issues.* There are high costs to doing business in the insurance sector in Ghana. Many insurers have legacy systems in place that have not been modernised and are adding to their costs. Digitisation of existing value chains, from sales to distribution and underwriting to claims management, would greatly benefit insurers’ revenues and costs. Implementing digital marketing, distribution, IT architecture or technologies would allow insurers to become more efficient and effective and thus reduce costs.
Retain airtime deductions for m-insurance but build alternative digital options. Mobile insurance is heavily dependent on airtime deductions for viability. It makes up a significant component of retail products, so access to such instruments will be critical for the short-term use of insurance by consumers. However, airtime deductions have limitations in the

Box 7: Examples of innovative uses of technology in insurance provision (insurtech)

*Technology, such as alternative data, can be used to understand and target consumers, as well as change behaviour: Cignifi*, which has operations in sub-Saharan Africa, is a big data engine that enables MNOs and their insurance partners to use voice calls, mobile money transactions and/or social network interactions to assess and target consumer profiles and behaviours. *CityMile*, a Brazilian technical service provider, offers a usage-based insurance platform, which helps insurers collect data on driving behaviour with the end-goal of incentivising drivers to change their risky behaviour. A sensor is installed in the consumer’s car and collects data on the consumer’s driving behaviour. The data is then transmitted to the insurance provider, who can turn the statistics into premium discounts, send out driving tips and track customers’ behaviour for product design. The consumer receives data on their trip, fuel efficiency and mileage statistics tracking, which then helps them to lower their vehicle usage costs (Smit, 2017).

*Technology can enable better comparison and thus empowers consumers to make informed decisions: EasyPolicy*, an Indian insurance comparison website, seeks to simplify advice and educate individuals around insurance. It has information on a wide variety of products and is updated regularly. Individuals simply enter their details on the platform. These details are then analysed in real time and quotes are retrieved from the database. The platform also offers a chatbot, which enables consumers to get more information about the quote. Call centre agents complement the sales process in case more support is needed. Although there have been discussions among the industry and regulator in Ghana about the potential of comparison websites, none of them has been launched as of June 2018 (Smit, 2017).

*Technology, such end-to-end software solutions, can be used to reduce transaction costs and improve efficiency: dotXML* is a South African company that offers software solutions to insurance companies. It developed a digital transaction engine to reduce servicing costs for insurers through the collection and allocation of premium payments. It is a cloud-based system, which manages all components of the insurance product lifecycle. Although designed as an end-to-end solution, its elements are easily integrated with existing external business systems to accommodate legacy systems in place. Insurers can decide which elements of their product lifecycle they want to digitise using dotXML’s technology according to their needs (Smit, 2017).

*Technology, such an API, can help integrate insurance into products quickly: Root Insurance*, an insurtech platform, has an API that helps financial service providers prototype, build and launch digital insurance solutions in a timely manner, as well as easily access insurance licences. The platform collates compliance requirements, risk pricing techniques, premium collection best practice, claim handling, re-insurance options and all aspects of the end-to-end insurance process. A provider can then use this information to build new products and check to see if they meet the regulatory requirements for accreditation. The digital solution streamlines the process of setting up an insurance company, reducing the product-to-market timeline, significantly decreasing the cost and fees of accreditation and skillset often paid to industry experts and increases product customisation possibilities as well as ease-of-use for the customer (Root Insurance, 2017).

"Retain airtime deductions for m-insurance but build alternative digital options." Mobile insurance is heavily dependent on airtime deductions for viability. It makes up a significant component of retail products, so access to such instruments will be critical for the short-term use of insurance by consumers. However, airtime deductions have limitations in the
longer-term. Insurers should support the development and use of alternative digital payment instruments where possible.

*Improve awareness and build trust through deeper value and awareness.* There is currently a negative perception of the insurance industry and the onus is on the industry itself to illustrate the value of insurance to consumers. To do this, the industry as a whole should build awareness around what insurance is and how it works. Additionally, insurers need to be transparent and take responsibility for making consumers aware of the benefits and terms and conditions of their products. There is the potential role for comparison websites for insurance products (such as Easypolicy discussed above) to help consumers gain a better understanding of insurance products and thus choose products that best suit their needs. The insurance industry associations (GIA and GIABA) as well as the regulator can also improve transparency by publishing relevant and accurate industry information around product lines and claims ratios.

*The bundling of endowment and risk products can diversify insurers’ books and build individuals’ ability to cope with risks.* Currently, endowment policies dominate the books of life insurers. However, insurers indicated that they make limited margins on endowment policies, making the business case for them thin. As insurers start to realise lower returns on their short-term investments, their business model will need to evolve from being reliant on investment returns to being reliant on underwriting profits. As insurers continue to make this strategic shift, they should consider bundling endowment and risk products as endowment policies on their own offer minimal value to the insurers. Additionally, as illustrated by demand-side data, individuals face risks, but they do not have appropriate coping mechanisms in place and have limited ability to raise emergency funds. Taking up appropriate risk insurance products will help individuals to better manage unexpected shocks. It will be important for insurers to pay the claims of risk products as this will help consumers to recognise the value of these type of products.

*Consider suitability of GAIP for unlocking innovation in agricultural insurance and sustainability.* Agricultural insurance is currently only allowed to be offered through the agricultural insurance pool, GAIP. A comprehensive review of GAIP should be undertaken to understand its sustainability and whether this is the best approach to offering agricultural insurance in the country.

*Build the annuities market to avoid future old-age poverty.* Pensioners will start to retire from private retirement funds from 2019 onwards. Annuity products will need to be developed to help with cash-flow management and to avoid old-age poverty. Skills will need to be built in the market and mortality tables will need to be developed to ensure responsible pricing of guaranteed annuities. The NIC is in the process of working on mortality tables. If insurers start to roll out annuity products, it is imperative that mortality tables for Ghana are constructed to ensure effective pricing of these products. However, more market data is needed, particularly on consumers, to unlock existing opportunities and improve inclusion.

*Extend range of health products to complement NHIS and reduce out-of-pocket expenses.* Insurers can only offer health insurance products if they are licensed separately by the NHIA. However, insurers can offer products that cover the opportunity costs related to health incidents. Products that cover income lost during hospitalisation or transportation costs incurred when traveling to the doctor would allow life insurers to supplement the NHIS.
The expansion of meso or macro-level products can help cover low-income or out-of-reach households. While some insurance products, namely agricultural products, are offered on the meso-level, expanding product offerings for risk aggregators such as banks, MFIs and agribusinesses can result in the resilience of households. Macro-level products, such as African Risk Capacity (ARC), that cover liabilities that the government may face can also help to cover households better. Meso and macro-level products can help to reach scale, reduce costs of assessing individual risks and ultimately enable resilience at the household level.

Takaful products should be explored. There is a large potential market for takaful in Ghana as 18% of the population is Muslim. However, there are no takaful products on the market currently and regulation does not explicitly address takaful insurance. The majority of the Muslim population in Ghana is located in more northern rural areas, which makes them more challenging to reach (Ghana Statistical Services, 2010). This means that takaful product distributed at the meso-level may be the best way to reach this segment of the population. However, it is important to first ensure that Islamic principles are accommodated in the wider financial infrastructure.

Improved complaints mechanisms can help to build trust and improve perceived value of insurers and insurance products. Currently, there is a generally negative perception of the insurance industry as individuals neither tend to trust insurers nor see value in the products. One potential reason for this is the current complaints mechanisms, which is not efficient or effective as complaints go directly to the NIC as opposed to going to the insurers themselves. Insurers should create their own, clear complaints settlement procedures so that consumers can first try to deal with their complaints directly with the insurer and only resort to going to the NIC if a favourable conclusion is unreachable. Call centres may serve as an efficient channel for consumers to deal with complaints. With improved complaints mechanisms in place, consumers will be more trusting of insurers and product perception will improve.

5.9.2. Regulatory opportunities

Clarity on legislation regarding e-signatures could be a key enabler of digital distribution. There is an opportunity for Ghanaian insurers to make greater use of digital channels to distribute their products and communicate with customers. However, there is a need to clarify the regulatory position on digital sales and e-signatures. Section 10(1) of the Electronic Transactions Act of 2008 states that: “[w]here a law requires the signature of a person, that requirement is deemed to be satisfied in relation to an electronic record if a digital signature is used (Electronic Transactions Act 774, 2008)” However, within the insurance industry, stakeholder consultations indicated that there remains uncertainty among key players of whether the regulator will permit digital sales and electronic signatures. Although the regulator has approved products sold through such channels, this position has not been communicated to the market in general. A clear statement to the industry that e-signatures, digital and telesales are permitted can help to open up these new types of distribution channels for insurers.

The managed exit of underperforming insurers can build trust and improve market quality for effective providers. There is a large number of small insurers in the market who are struggling with high operating costs, underwriting losses and low claims ratios. This translates into consumers not seeing the value in or trusting insurance products, which...
negatively impacts the perception of the entire insurance industry. Additionally, 16% of the 54 insurers in the market failed to submit required data on their performance to the regulator, the NIC. The exiting or consolidation of underperforming insurers in the market would help to build trust and improve the perception of the industry, thus allowing room for effective providers to expand their reach. This would also free up some capacity of the NIC and allow them to refocus their attention.

**Improve the quality of IDs to help with KYC requirements.** There are currently nine different identifications in Ghana. The introduction of a national biometric ID system would help to break down some of the barriers that keep individuals out of formal financial services, including insurance. A biometric card also has the potential to enable remote KYC, which would take KYC procedures online and thus remove the face-to-face insurance policy activation component of sales. However, the government has enacted initiatives to change this in the form of the National Identification Scheme and the National Digital Address System (Better than Cash Alliance, 2017).

**Cell captive or syndicate structures**\(^{(54)}\) could be considered to enable entrepreneurs or distribution partners to participate in the insurance market without having to obtain an insurance licence on their own. Cell captives provide entry into the insurance market at lower costs with fewer compliance hurdles than a full insurance licence. Another benefit of this structure is that it allows cell captive owners to design their own products and be nimbler as they operate outside of the corporate cultural and legacy systems of more traditional insurers. This in turn could stimulate innovation in the market (Hougaard, et al, 2018).

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\(^{(54)}\) Under a cell captive arrangement, a cell captive account is created on the books of a licensed cell captive insurer (the promoter) and a cell owner buys a special class of shares in the cell captive insurer to capitalise that cell. By virtue of such ownership and subject to the conditions agreed in the shareholder participation agreement, the cell owner can draw dividends on the proceeds of the cell, obtain underwriting from the cell captive insurer and benefit from a number of other services provided by the promoter.
6. The role of insurance in business and enterprise development

6.1. Introduction

Insurance can play a key role to support business resilience in Ghana.

This section provides an overview of the role that insurance is currently playing to support business resilience in Ghana. It discusses the business environment, risk needs experienced by Ghanaian enterprises, the supply of insurance, its role in facilitating access to credit and identifies opportunities where insurance can contribute more.

Box 8: Key findings

- Compulsory products dominate the Ghanaian insurance industry.
- There is an untapped opportunity for insurers to serve the business target market.
- SMEs are particularly underserved.
- Serving enterprises is a difficult business case for insurers.
- Technical capacity, limited use of technology, data and small risk pools affect provision.
- Distribution is limited to brokers; bancassurance only allowed for retail products.
- Although insurers play a limited role as risk managers, the potential of technology for risk management is significant.
- Ultimately, it is the responsibility of insurers to demonstrate the value of insurance to enterprises as potential consumers.

Insurance critical for enterprise development. Growing Ghana’s industries is a core policy objective for the GoG. Insurance can contribute to enterprise development both directly and indirectly, via risk transfer, risk management and access to credit (Chamberlain et al., 2017 and Swiss Re, 2017). This is done by enabling entrepreneurs to take productive risks or invest, facilitating trade and commerce, improving the efficiency of resource allocation through risk pricing tools and by preventing risks from happening through more effective risk management approaches. The role of insurance differs between countries, largely related to a country’s stage of economic development. Motor, commercial asset, mortgage and construction-related risks are typically more prominent in developing countries whereas liability, specialist and agricultural insurance develops as economies grow. This is illustrated below in Figure 26 by Swiss Re, 2017.
Figure 26: Stylised representation of the traditional insurance growth path

*Source: Swiss Re (2017)*

- **Risk transfer enables entrepreneurship and trade.** Entrepreneurs can transfer the financial impact of a risk occurring from their own account to the insurance industry, which may bolster their survival rate. As such, insurance contributes to business resilience which, in turn, allows economic actors to make investments that have an elevated risk-return ratio and take productive risks. Insurance also covers risks related to cross-border trade, which facilitates exports and imports.

- **Risk management prevents risk and enables more efficient resource allocation.** Enterprises can use the tools and techniques created by insurers to develop risk management plans and mitigation strategies to prevent risks from occurring. Moreover, insurers may also oblige enterprises to put such plans and strategies in place before they agree to cover certain risks (such as fires, floods and other natural disasters), which incentivises enterprises to change their behaviour and to adopt better risk management practices. This benefits the enterprise as well as society. Insurers also provide insight into the price of risk, which enables entrepreneurs to better allocate their resources.

- **Insurance can strengthen the development of the credit market.** Insurance reduces the risk of borrower default or covers lenders directly, which allows for more credit to be extended on better terms. Insurance markets are also skilled at the pricing of risk and their exposure-identification and exposure-mitigation skills and tools may enhance credit providers’ ability to lend on terms that are commercially viable. A stronger credit industry is able to enhance enterprises’ access to credit.
6.2. The nature of business in Ghana

Domestic enterprises grow the economy and provide economic opportunities for individuals. There are more than 500,000 domestic establishments in Ghana and these firms support more than 3.1 million individuals who either own the business or are employed by it, as shown in Table 17. Most of these enterprises can be classified as ‘micro’. The contribution to growth of small, medium and large enterprises is greater in terms of revenue, gross profit and asset ownership generated. However, small enterprises employ or engage the largest number of people, followed by micro enterprises. Table 17, which is based on Phase II of the Integrated Business Establishment Survey (Ghana Statistical Service, 2017a), provides a detailed breakdown of the number of establishments and persons engaged, as well as the revenue, gross profit and total fixed assets per business-size category.

<table>
<thead>
<tr>
<th></th>
<th>Large Engage &gt; 100 people</th>
<th>Medium Engage 31–100 people</th>
<th>Small Engage 6–30 people</th>
<th>Micro Engage 1–5 people</th>
<th>Total(^{56})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of establishments</td>
<td>1,410</td>
<td>7,744</td>
<td>111,382</td>
<td>414,800</td>
<td>535,336</td>
</tr>
<tr>
<td>Number of persons engaged</td>
<td>515,152</td>
<td>371,743</td>
<td>1,219,793</td>
<td>996,230</td>
<td>3,102,918</td>
</tr>
<tr>
<td>Revenue (GHS billion)</td>
<td>132 (USD30bn)</td>
<td>97 (USD22bn)</td>
<td>146.5 (USD33bn)</td>
<td>81 (USD18bn)</td>
<td>457 (USD103bn)</td>
</tr>
<tr>
<td>Gross profit (GHS billion)</td>
<td>102 (USD23bn)</td>
<td>63 (USD14bn)</td>
<td>82 (USD19bn)</td>
<td>54 (USD12bn)</td>
<td>301 (USD68bn)</td>
</tr>
<tr>
<td>Total fixed assets (GHS)</td>
<td>41,475,375,907 (USD9.4bn)</td>
<td>93,393,049,462 (USD21.2bn)</td>
<td>37,735,372,999 (USD8.6bn)</td>
<td>7,767,231,251 (USD1.76bn)</td>
<td>180,371,029,619 (USD40.9bn)</td>
</tr>
</tbody>
</table>

Table 17: Breakdown of enterprises’ performance (based on size)

Source: Ghana Statistical Service (2017a & 2017b)\(^{57}\)

The Services sector dominates in terms of revenue, cost of goods sold and gross profit. Corporates contribute to one of three major sectors: agriculture; industry or services. As indicated in Section 2, the services sector’s contribution to GDP is the largest, followed by industry and agriculture (Ghana Statistical Service, 2017).

Construction, transport and storage, oil and gas and cocoa most significant. Crops, construction and transport and storage each make up over 10% of Ghana’s GDP. Oil and gas and cocoa are the fastest growing industries in Ghana, at 80% and 17% respectively (Ghana Statistical Service, 2018).

\(^{55}\) IBES II refers to the surveyed entities as “non-household establishments” and does not indicate explicitly whether the surveyed enterprises are formally registered or informal enterprises (Ghana Statistical Service, 2017a).

\(^{56}\) IBES II excludes the “activities of extraterritorial organizations and bodies”, since these “are funded by other countries” (Ghana Statistical Service, 2017a).

\(^{57}\) IBES II is the most recent Integrated Business Establishment Survey and was conducted in 2015, with 2013 as the reference period for the data collected (Ghana Statistical Service, 2017).
Foreign-owned enterprises account for a significant share of investment and drive exports. Foreign firms play a significant role in exports, particularly in extractive industries. In 2016, Ghana’s top export product, at USD4.3 billion, was semi-manufactured gold (United Nations, 2018 and WITS, 2018). According to the Oxford Business Group (2017), large-scale, foreign-owned operations dominate this sector. These account for 76% of large mining operations, which are responsible for approximately 66% of the country’s total gold exports and in excess of 80% of Ghana’s total mineral exports. In 2016, Ghana’s third-largest export product, at USD1.1 billion, was crude petroleum oils and oils obtained from bituminous minerals (WITS, 2018). The role of foreign firms in the development of this sector is substantial. For example, the project receiving “the largest injection of foreign direct investment in Ghana’s history” – USD7.9 billion – is the development of the Sankofa-Gye Nyame field by Eni, an Italian firm, Vitol Group, a Dutch company and the Ghana National Petroleum Corporation (Oxford Business Group, 2017).

Foreign direct investment (FDI) also supports crucial activities and projects. In 2017, net inflows of FDI were equivalent to 6.9% of GDP (The World Bank Group, 2018). Investments recorded for the fiscal year ending 31 December 2017 reached USD6.19 billion, the FDI component of which was 80%, at USD4.91 billion (Ghana Investment Promotion Centre, 2017). Of the 192 projects registered in 2017, about 28% engaged in the services sector and 27% in the manufacturing sector, the latter of which category represented 74.5% of the total estimated value of the projects (USD2.8 billion) (Ghana Investment Promotion Centre, 2017). The building and construction sector accounted for about 7.3% of the total number of projects.

Growing domestic industry is a key government priority. The GoG has displayed its commitment to fostering domestic industry through the implementation of numerous Acts and programmes. The enactment of the Petroleum Commission Act 821 in 2011 and the Petroleum (Local Content and Local Participation) Regulations in 2013, for example, is aimed at helping the government to achieve its target of 90% local participation throughout the oil sector by 2020 (Oxford Business Group, 2017). Another example is the One District One Factory Programme, which is described as a “massive nationwide industrialisation drive” that is expected to aid in creating “between 7,000 and 15,000 jobs per district” and “between 1.5 million and 3.2 million nationwide” by the end of 2021 (One District One Factory, 2017).

Enterprises differ and their insurance needs vary. The diverse sectors in which both domestic and foreign-owned businesses in Ghana operate, the nature of these businesses, and therefore their insurance needs, may differ considerably. Segmenting enterprises into target markets based on some of the most pertinent differences provides an imperfect but useful mechanism to better understand these differences and the implications for the provision of insurance.

6.3. Risk needs expressed by businesses

Most common insurance-relevant needs reported by business. The three largest categories of risks that insurance can address, whether directly or indirectly, relate to business interruption, fire and allied perils and access to affordable credit. These categories are

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58 Ghana’s second-largest export product is cocoa beans, whole or broken, raw or roasted (USD1.9 billion). Foreign firms do not play as significant a role in the cocoa industry, because the Ghana Cocoa Board (COCOBOD), a government institution, purchases, markets and exports Ghanaian cocoa and cocoa products (COCOBOD, 2018).
discussed in more detail in the bullets below. Unless explicitly indicated otherwise, the data is drawn from the World Bank’s Enterprise Survey, which was conducted in Ghana in 2013.

- **Access to affordable credit.** Half of all firms (50%) view ‘access to finance’ as the biggest obstacle facing their business, which renders it the highest-ranked obstacle in the World Bank’s Enterprise survey. Moreover, the cost of credit, access to credit and delayed payments are identified as the most significant challenge facing industry by 33%, 27% and 36% of AGI members respectively (AGI, 2017).

- **Business interruption.** An interruption in operations can lead to a loss of profits or revenue and Ghanaian enterprises are often adversely affected by the lack of reliable infrastructure. Electrical outages affect 89% of enterprises and 61% of firms identify electricity as a major constraint to their business. Moreover, if there were electrical outages, the average losses experienced by firms due to such outages is 15.6% of annual sales, which is almost double the size of the losses experienced by firms across sub-Saharan Africa (8.3%). In the Association of Ghanaian Industries’ (AGI) Business Barometer (2017), the cost of electricity is identified by 65% of its members as the greatest challenge facing industry. A lack of reliable infrastructure also manifests in water insufficiencies, which affects 33% of firms.

- **Fire and flood-related property risks.** Property-related risks are significant, given that construction makes up 13% of GDP and the total value of property by the corporate sector sits at GH$179 billion (USD46 billion)\(^{59}\). During the first quarter of 2016, the Ghana National Fire Service recorded 3,436 fires; during the same period in 2017, it recorded 1,852 fires (Nutifafa, 2017). Despite the year-on-year decrease, the estimated damage from these fires still inflicted a direct cost of over GH$6 million (USD1.5 million) (Nutifafa, 2017). Floods are another major risk to firms. In June 2015, for example, continuous rainfall in the Accra region caused a flood that led to damages totalling USD55 million and requiring an estimated USD105 million in rebuilding costs – affecting housing, transport and water and sanitation infrastructure (Global Practice on Social, Urban, Rural and Resilience, 2017)\(^{60}\).

- **Theft and vandalism.** Although losses due to theft and vandalism were experienced by 20% of firms (24% in SSA), only 10% of firms in Ghana identify crime, theft and disorder as a major constraint. This is much lower than the average across SSA, which lies at 23%. Nevertheless, average losses due to theft and vandalism is the same for Ghana and SSA, at 8% of annual sales reported by firms that suffered losses.

- **Political risk.** Political instability was identified by only 1% of organisations as the biggest obstacle to their business. Such risks are particularly significant in industries depending on imports and exports.

**Specialised risks critical for business growth.** There are niche risks that affect a smaller segment of firms that are critical to the functioning of the Ghanaian economy. For example, manufacturing firms lose 2% to breakage or spoilage during shipping to domestic markets. Risks related to engineering and construction, mining and quarrying (including oil and gas) and aviation and marine are also of vital importance in terms of economic growth and development. In 2016, for example, mining and quarrying alone contributed about 9% of GDP\(^{62}\) and domestic construction contributed about 8% of GDP (Ghana Statistical Service, 2018). Key specialist risks considering main industries include: oil and gas, engineering,

\(^{59}\) This figure is the ‘total fixed assets’ per IBES II (2017), minus the ‘intangible assets’ category.

\(^{60}\) The flooding also resulted in a leakage at a petrol station, which caused an explosion that left 150 casualties (Global Practice on Social, Urban, Rural and Resilience, 2017).

\(^{61}\) Calculated from GDP at constant 2006 prices.
marine and agriculture. Specialist cover is significant, not only for the large corporates that engage in these industries, but also in the value chain of smaller businesses that support them. Transporting specialist chemicals to or from mines, for example, poses niche risks.

*Employee benefits not yet requested by employees.* Stakeholder interviews indicate that employees are not demanding benefits such as annuities, group life and disability insurance from their employers. As such, demand for these products remains limited. Such products are being considered as possible future compulsory products.

*The nature of firms’ needs is driven by size and the nature of their business.* When looking at businesses from an insurance needs point-of-view, there is a clear difference between micro-businesses, small and medium-sized enterprises (SMEs) and large businesses. Firms’ needs are driven by a) their size and b) by the nature of their business. Each of these drivers are discussed in turn below.

**Business size.** Table 18 below shows how business needs change with size and how their need for insurance increases as alternative risk-coping options become ineffective. It provides a framework of coping options and indicates where insurance becomes more critical given the business size. The potential loss an enterprise can incur from a shock increases as the underlying assets and revenue generated increases. The impact on society also increases as the business becomes more significant and employs more people. Thus, while smaller businesses can rely on personal networks, larger businesses cannot. As such, informal and personal mechanisms to cope become less suitable to cover the shock and formal, enterprise-designed financial products become more relevant and necessary.

<table>
<thead>
<tr>
<th>Size</th>
<th>Family and friends</th>
<th>Savings</th>
<th>Credit</th>
<th>Government or donors</th>
<th>Investors</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Personal network</td>
<td>Business network</td>
<td>Personal</td>
<td>Business</td>
<td>Own</td>
<td>Business</td>
</tr>
<tr>
<td>Micro</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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</table>

*Table 18: Business coping mechanism*

*Source: Authors’ own*

- *Micro-enterprise needs often personal rather than business.* Synthesising the findings of demand-side research conducted in six countries, Gray and Saunders (forthcoming) indicate that, for people who are self-employed or who are engaged by small businesses, the risks that are “most front-of-mind” are “an illness in the household and the death of a household member”. As such, the line separating personal needs from business needs is often blurred for such establishments. Indeed, self-employed people experience broadly similar risks and almost the same risk-incidence as the rest of the Ghanaian population (compare Figure 27 and Figure 22 which are both from FII, 2017). As such, the 414,800 micro enterprises in the Ghanaian market face a range of risks that align closely with the risks faced by individuals. The blurring between personal and business needs means that insurance that is tailored to the needs of enterprises may not be required or appropriate for this category of enterprises.
Figure 27: Risk events faced by self-employed people

Source: Authors’ own based on FII (2015)

- **SMEs are more likely to distinguish between personal and business insurance needs – significant variance within the group.** IBES II identifies small enterprises as establishments that engage between six and 30 people and medium enterprises as those that engage between 30 and 100 individuals. On average, as shown in Table 17, small enterprises in Ghana generate less revenue than medium enterprises and own less fixed assets. In Ghana, this group accounts for 22% of all enterprises. Although SMEs constitute less than a quarter of all enterprises in Ghana, they are major drivers of growth and employment and have the ability to graduate into large corporates over time. SME needs differ significantly based on their size and the nature of their business, which makes them very difficult to viably serve. Box 9 provides more information on the ‘missing middle’ phenomenon, which explains why tailoring products to the needs of SMEs might be even more difficult and, as such, why financial products that suit the needs of this group are often not available.
Large establishments face a range of simple and complex business insurance needs. Large establishments constitute less than 1% of the total number of domestic enterprises in Ghana, yet they generate the greatest amount of revenue. Nevertheless, differences in sector and subsector, for example, mean that, despite this group’s small size, the risks they face and the needs they have are still likely to be highly heterogeneous. Moreover, given the contribution of large, foreign-owned firms to the Ghanaian economy, the true number of large enterprises in operation in Ghana is probably higher. Since large enterprises generate sufficient revenue to be deemed viable insurance clients, as illustrated in Table 17, they constitute the easiest to reach and strongest business case for insurers – although large foreign-owned firms may fall outside the reachable market for domestic insurers, given the nature of their risks. Larger businesses may still not be fully served given the skill, data and capital required to cover larger and more complex risks well.

Firms may have complex risk needs or simple risk needs regardless of size. Risk needs are driven by the nature of the business, not just the size. For example, highly specialised firms require specialist underwriting with significant depth of data and skills to cover risks such as engineering (critical for extractive industries) or cyber risks (increasingly significant for growing e-commerce and financial sectors). Covering such risks sustainably requires specialist skills, data and access to deep enough risk pools to cover infrequent high-impact events.
Combining business size and nature provides a means of segmenting Ghanaian enterprises. Figure 28 illustrates the segmentation of Ghanaian enterprises according to their risk needs, based on size and the nature of the risks that they face. This also provides a framework for the requirements of the insurance industry to meet such needs. Larger risks require more capital and bigger risk pools, whereas more complex risks require more skill and data.

Figure 28: Segmentation of Ghanaian enterprises and their risk needs

Source: Authors’ own

6.4. Enterprise insurance in Ghana

The use of insurance by enterprises in Ghana is limited. By 2016 – three years after the reference period for data collection in IBES II – gross non-life premiums still represent only 1.1% of enterprise fixed assets. As such, insurance premiums are low in comparison to enterprises' insurable assets. Moreover, take-up of insurance in Ghana among business owners is low, with only 4% of self-employed individuals with insurance (excluding health) (FII, 2017). This figure is lower than insurance take-up among the Ghanaian adult population as a whole.

The use of insurance by enterprises differs across enterprise categories. Although the statistic on gross non-life premiums includes enterprises of all sizes, stakeholder interviews indicated that there are discrepancies in the extent to which different business categories use insurance. On one hand, smaller businesses often lack the resources to evaluate and use risk management options. They are also not a key target market for most insurers. Some of the larger non-life insurers provide cover for shop owners on their websites, but do not target a broad range of smaller businesses. Large enterprises have access to a broader range of risk management options, including consultants, brokers, in-house experts, lender-

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62 The figure for gross non-life premiums is from the Annual Report of the NIC (2016) and total insurable assets is calculated conservatively using IBES II (2017) data as buildings, plus transport and equipment, plus machinery and other equipment, plus furniture and fittings.
advisors and head office risk management departments (in the case of multinationals). Nevertheless, their use of insurance is often still restricted to compulsory product lines that render the full range and complexity of their risk cover needs unmet.

The perception of insurance among businesses is not very favourable. Stakeholder interviews indicate that businesses’ experience with insurers is not significantly more positive than that of individuals’ experience. According to the World Bank’s 2017 Ease of Doing Business report, Ghana fares poorly when it comes to the time it takes to enforce a commercial dispute (710 days) compared to the average for SSA (657 days). The length of time taken to resolve a commercial dispute implies considerable potential for long lags between the submission and receipt of an insurance claim submitted by an enterprise. A slow claims pay-out process has the potential to be highly problematic for businesses in terms of maintaining their cashflow.

Figure 29: Premiums by business-relevant insurance class

Source: NIC (2018)

Compulsory products dominate the Ghanaian insurance industry. Figure 29 illustrates that, in 2017, motor constitutes the largest share of business-relevant premiums (48%), followed by fire, theft and property (21%). Financial loss constitutes the third largest category (9%), followed by group life (6%), marine and aviation (5%), engineering and liability (4% each) and other short-term products (1%). The relative size of the categories’ contribution to premiums is unsurprising, given that third-party motor and fire insurance are compulsory. Each of these compulsory lines is discussed below:

- Third-party motor is one of the most widely used products by enterprises. Every firm that owns a vehicle is required by law to take-up some insurance cover for that vehicle and given than businesses may be subject to more regulatory scrutiny than individuals, third-party motor is a highly utilised product among enterprises. Although firms are only legally obliged to obtain third-party insurance, stakeholder interviews

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63 In OECD high-income countries, it takes 578 days (The World Bank, 2017).
64 For a detailed discussion on third-party motor insurance, see Section 4. Provider overview
find that larger firms, especially in the transport and logistics industry, may be obliged by their clients and partners to take up comprehensive insurance cover.

- **Take-up of fire insurance for commercial buildings compulsory, but often not used.** Section 183 and 184 of the Insurance Act 2006 stipulates that fire insurance for private commercial buildings and buildings under construction is compulsory. The NIC is actively ensuring that this stipulation is adhered to and has set-up a Compulsory Fire Insurance Task Force. Out of the 574 commercial buildings that the task force inspected in 2016, only 60% had procured compulsory fire insurance policies (NIC, 2016). This further illustrates that the demand for insurance products is limited and that the extent to which insurance currently provides enterprises with a coping-mechanism is limited, even where compulsory products are concerned.

- **Fires, especially in markets, are prevalent and uncovered in Ghana.** Stakeholder interviews indicate that market fires are a major issue. Fire outbreaks in Kumasi Central Market, for example, are described as “annual”, leading the Ashanti Regional Command of the Ghana National Fire Service (GNFS) to set-up patrol teams to monitor the area (Ward, 2018). Ghana’s large, informal markets often suffer from a lack of proper fire-prevention mechanisms and as such, they cause widespread losses and extensive damage to the livelihoods of many. The high prevalence and scale of market fires renders these risk events ‘too certain’ for indemnity products to cover. As an alternative, first-loss products could provide policyholders with partial insurance. These types of products may thus provide business owners affected by market fires with a sum that could allow them to rebuild their operations, without fully covering the losses suffered. Enterprise has piloted such a product with MicroEnsure, but take-up is still limited and affected by the poor perception of insurance.

*The relative size of financial loss as a category reflects enterprises’ need to cover business interruption risk.* Section 3 indicates that risks that could lead to an interruption in a business’ operations – and subsequent financial loss – are among the most frequently occurring and front-of-mind for Ghanaian enterprises. The prevalence and severity of these risks and their potential to adversely affect a business’ survival rate explains why this is the third-largest category, but its small size, in absolute terms, also raises the question of whether the insurance products on offer by insurers in Ghana truly meet corporate clients’ needs.

*Liability insurance not yet significant for most enterprises.* Liability products (general, professional and product) are not much used by enterprises. Interviews indicate this is due to litigation being relatively uncommon in Ghana. Liability cover is required by law for most financial services including pensions. Interviews suggest that appropriate products are not available, which makes it difficult to enforce this requirement.

*Employee benefit is a potential future compulsory business line.* In their 2016 Annual Report, the NIC indicates that it is considering making additional insurance products compulsory. Insurers view compulsion as an avenue for growth and stakeholder interviews show that insurers are eager for group life and workers’ compensation to become compulsory. Nevertheless, the demand for group life as part of employee benefits is not yet significant, which could potentially be explained by the fact that 18.5% of employees’

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65 In other words, their frequency and size mean that the cost of insuring the full extent of total losses from market fires is not economically feasible for insurers.

66 First-loss insurance products are structured so that “in the event of a claim, the policyholder agrees to accept an amount less than the full value of damaged [or] destroyed... items or property” (Investopedia, 2018).
monthly basic salary must be transferred to the compulsory pension and health schemes (KPMG, 2018).

Brokers dominate distribution. In 2016, there were 78 broking companies in Ghana, of which 10 had entered the broking sector during that year (NIC, 2016). Total revenue earned by brokers amounted to GHS72.5 million (USD18.6 million) (which represents 12% growth), yet 64% of total commission income was contributed by the top 10 brokers (NIC 2016). Stakeholder interviews reveal that many brokers are more focused on brokering than on advising, instructing or assisting customers, which indicates that their role in driving insurers to innovate or in aiding insurance clients to manage their risks is potentially limited. Digital platforms for corporate insurance distribution are not yet common, although a number of products are marketed online.

Distribution of insurance to enterprises via bancassurance is prohibited. As per the Insurance Act (2006), insurers are not allowed to provide non-life insurance to businesses by partnering with banks with a bancassurance licence. This stipulation limits the extent to which the reach and footprint of banks can be utilised to extend insurance cover to enterprises.

Local capacity to be used first for reinsurance. As mentioned in Section 3 and Section 4, localisation requirements feature in the Insurance Act (2006). Insurers must “ensure that before reinsuring any business overseas, available local capacity (treaty and facultative) is exhausted” (NIC, 2018). The NIC sets each year’s local market capacity, the most recent of which is illustrated in Table 19. The NIC also prohibits overseas reinsurance on the following lines: a) motor; b) workmen’s’ compensation; c) general accident; d) personal accident; e) goods-in-transit; f) life insurance; g) fidelity guarantee and h) professional indemnity (NIC, 2018). In instances where local capacity is insufficient, the relevant parties must seek the NIC’s approval before recourse to overseas insurance.

<table>
<thead>
<tr>
<th>Class of business</th>
<th>Amount (GHS million)</th>
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<tbody>
<tr>
<td>Fire</td>
<td>1,000 (USD256m)</td>
</tr>
<tr>
<td>Engineering</td>
<td>430 (USD110m)</td>
</tr>
<tr>
<td>Marine – cargo</td>
<td>180 (USD46m)</td>
</tr>
<tr>
<td>Marine – hull</td>
<td>100 (USD26m)</td>
</tr>
<tr>
<td>Bonds</td>
<td>98 (USD25m)</td>
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</tbody>
</table>

Table 19: Local market capacity

Source: NIC (2018)

Of non-life risk, 35% is retained domestically, due to skills, data, capital and local risk pool. The domestic reinsurance market retained 35% of all non-life reinsurance in 2016, with the remainder covered by foreign reinsurers. The current size and nature of the market makes a

67 A bank desirous of selling insurance products, shall be presented by an insurance company to be licensed as a corporate agent in accordance with section 115 of Insurance Act, 2006 (ACT 724). A bank so licensed under paragraph 1 shall sell Life Insurance products and or Non-Life Personal insurances only. Non-Life personal insurance is defined as all non-life insurance policies sold to or purchased by individuals for their own benefit as opposed to corporate entities."

68 Local capacity is defined as “the Gross Retentions of all the insurance companies in the Ghanaian market”.

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business case for a variety of specialist skills difficult. Ghana has only 12 actuaries and one of the largest domestic reinsurers employs only one engineer. Global risk pools are also needed to build data on newer risks such as cyber risks and climate change and to avoid concentration or contagion risks for large risks such as natural disasters, oil spills, epidemics, political risk, terrorist attacks or the failure of significant infrastructure (such as a port) or financial institutions (such as a bank). Foreign reinsurers play a significant role to manage larger domestic risks and contribute skills and data to unlock domestic and foreign investment.

**Risk pools have been established for large specialist risks.** Domestic risk pools or consortia have been created to cover larger specialist risks such as oil and gas and agriculture. The oil-and-gas pool includes all non-life insurers and is managed by Enterprise Group. Stakeholder interviews show the oil-and-gas pool retains 5% of the total risk locally. In 2017, domestic gross oil-and-gas premiums were USD47.7 million, which constitutes about 0.14% of the gross sum insured (NIC, 2018). Gross claims were USD500,000. Sixteen insurers participate in the Ghanaian Agricultural Insurance Pool (GAIP) (refer to Section 1) which covers 4,000 policyholders.

**Insurers play a limited role as risk managers.** Few insurers are playing an active role in helping business clients manage and prevent risks. In some cases, insurers do not have the skills or data to contribute, but in many cases, insurers have significant value to offer. Some insurers (such as Activa, a foreign player) bring in risk assessment professionals to make recommendations and ensure compliance. This strategy allows them to take on ‘bad accounts’ or risky clients with previously sizeable claims ratios. Melcom Group, Ghana’s largest chain of retail department stores, provides a pertinent example of such an intervention. In 2012, the Melcom Building in Accra collapsed entirely, as a result of which 14 people died and 61 people required medical treatment (NADMO, 2014). Three years later, in 2015, a fire broke out in one of Melcom’s warehouses (Modern Ghana, 2015). Following these incidents, Activa took Melcom on as a client and, by making recommendations and ensuring compliance, has helped to ensure that Melcom has not had any major claims since then.

**The potential of technology and data for risk management is significant.** Technology and data, not only for insurers, but also for their clients. Transport-related industries is a good example, which makes up over 10% of GDP in Ghana. Telematics is increasingly common as a tool to monitor and manage fleet and driver risks, but not yet used in Ghana, according to interviews with transport and insurance providers. Telematics can benefit the insurance industry, but also improve risk management in the transport sector to enable its participants to be more productive. Box 10 provides examples of transport-related risk management solutions present in the South African market. Where risk management initiatives are introduced, it is also not always rewarded by lower premiums due to limited data, as was found by a recent study on disaster risk insurance in Ghana (Addai Antwi-Boasiako, 2017).

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69 In general, a ‘pool’ can be defined as “an organization of insurers or reinsurers through which particular types of risks are underwritten with premiums, losses, and expenses shared in agreed ratios” (Wehrhahn, 2009).
6.5. Access to credit

*Insurance is key for property-related credit, including infrastructure.* Accessing affordable finance is described by 50% of enterprises in Ghana as the biggest obstacle that they face (The World Bank, 2013). Insurance is critical to access most property-related credit in Ghana. Certain exclusions can affect repayment, such as flood risk cover restrictions in some areas in Accra.

*Insurance is significant for project finance.* Project finance involves a number of parties that often have limited recourse when some are unable to pay and others do not deliver. Insurance plays a significant role in helping to manage such risks to allow parties to work together. A number of firms offer project finance related insurance in Ghana.

*Insurance and leasing: potential as a key source of credit for SMEs.* Leased assets are an alternative to obtaining credit to fund critical capital goods. SMEs are particularly dependent on leasing for their equipment and similar assets. Insurance plays a significant role as it protects the lessor and hence makes leasing markets operate more effectively (IFC, 2009). In Ghana, suppliers of leasing usually charge between 20% to 40% of the asset value to their clients, which constitutes a barrier to access for these services (FSD Africa, 2017). Ghanaian FSPs have indicated that they would consider increased exposure to smaller lessees, especially in the agricultural sector, “if their initial risk can be effectively shared or reduced” (FSD Africa, 2017). Insurance provides an ideal mechanism for such risk sharing or reduction.

*Insurance and imports: a key source of bridge funding for trade.* Any firm engaging in cross-border trade must pay customs duties to the Ghana Revenue Authority. These can be large upfront costs which can have a significant cashflow impact prior to the sale of goods. Insurance can improve the cashflow impact as firms are allowed to defer payments with a guarantee from a reputable insurance company (Hollard Insurance Ghana, 2015). By allowing firms to pay import or export duties when they have the required financial means, customs bonds thus act as a type of ‘bridging loan’ to cover the gap between when payments are due and when they are received. A number of insurers offer such products.

*Default risk and meso insurance products are not widely available or used in Ghana.* Drought, pests and floods affect many enterprises in Ghana. Natural disaster-related meso
or default products can guard against such risks, as illustrated in Box 11, which provides a summary of Esfuerzo Seguro, an example of these types of products. Such products are not common in Ghana, although there is at least one drought-related meso product offered through GAIP to agricultural lenders. As such, the insurance sector’s contribution to improving enterprises’ access to credit is potentially smaller than it could be once default risk insurance products are easily accessible and utilised on a market-wide scale.

**Box 11: Esfuerzo Seguro in Guatemala**

Natural disasters in Guatemala are frequent and cause severe damage. In 2010, two natural disasters, Tropical Storm Agatha and the eruption of the Pacaya volcano, occurred in quick succession. The damage caused was the equivalent to 4.1% of Guatemala's GDP (about USD1.6 billion) (Swiss Re, 2018).

To provide support to financially vulnerable entrepreneurs and/or farmers, Esfuerzo Seguro, a natural catastrophe index insurance product, was officially launched in Guatemala in November 2016 (MiCRO, 2017 and Swiss Re, 2018). This product covers customers’ business interruption that is the result of drought, excess rain and earthquakes. Take-up for the pilot phase of the product has been encouraging. By the end of October 2017, more than 1,500 clients of Banrural bank were insured with a total insured value of around USD1.4 million of client productive capacity (MiCRO, 2017). By that point in time, more than 350 clients had already received payouts, which demonstrates considerable value to vulnerable clients.

Credit market limitations inhibit insurance growth. In 2016, less than 3% of bank loans were extended for housing, at average annual interest rates of 30.6% (Oxford Business Group, 2017). As such, the small mortgage market limits the size of the housing-related insurance market.

6.6. Gaps and opportunities

6.6.1. Market gaps and opportunities

There is an untapped opportunity for insurers to serve the business target market. Considering the size of the business market and the discrepancy between the size of these enterprises’ risks and the amount of insurance taken up, there appears to be a substantial gap that insurers should be able to target. Serving enterprises in Ghana would not only be beneficial to insurers themselves, but also to Ghanaian society as a whole, due to enterprises’ substantial contribution to growth and employment. Large, locally owned firms constitute an especially viable market for insurers, particularly when it comes to more efficiently serving their simple risk needs.

SMEs particularly underserved – impacting their potential for future growth. Smaller businesses are not a key target market for most insurers. While some of the larger non-life insurers do provide cover for shop owners on their websites, they do not target a broad range of SMEs. Smaller businesses often lack the resources that larger businesses have to evaluate and use risk management. In the absence of insurer-provided risk transfer and risk management, SMEs must use other, less-suitable coping mechanisms that may be less suited, or face going out of business in the event of a risk. Box 12 explores the limited role of insurance in the transport and logistics value chain in Ghana.
Box 12: The role of insurance in the transport and logistics value chain

Figure 30: The transport and logistics value chain

Source: Author’s own

The ‘transport and storage’ sector is not homogeneous; different subsectors within the sector have different needs. The wide range of activities included in the transport and storage sector value chain (as illustrated in Figure 30) renders the needs of different industries and players within the sector heterogeneous, too. The diversity of needs requires a diversity of solutions that insurers could provide – in terms of fulfilling their potential risk transfer, risk management and access to credit functions.

At present, the role of insurance in the transport and logistics value chain is mostly limited to risk transfer. Figure 30 indicates that insurance plays a role in enabling participants in the transport and logistics value chain to transfer their risk – covering, for example, the risk that vehicles or goods will be stolen and/or damaged.

Insurance is not fulfilling the risk transfer function along the entire value chain. Insurance falls short in terms of risk transfer for:

- **Imports.** The Insurance Act of 2006 requires all goods being imported into Ghana to be insured by Ghanaian insurance companies, but the Act does not enjoin enterprises to purchase the cover – which is clear from the fact that marine and aviation only make up 5% of business-relevant insurance premiums. To mitigate this, the Ghana Insurers Association (GIA) is working on a draft bill “to help support the growth of marine insurance products and services” and “bridge the gap between the heavy importations and premiums paid by the insured” (GhanaWeb, 2018b).

- **Driver risk.** Stakeholder interviews reveal that driver risk – a term which intends to capture anything that can go wrong because vehicles are driven by human beings and, as such, may arise because of basic human error, tiredness and/or alcohol consumption – is consistently identified as the most significant risk that these players face. Delays in lead-time due to a lack of reliability on the driver’s part, overloading of trucks as well as damage to vehicles and/or to the goods being transported – caused by speeding and accidents – are among the most pertinent manifestations of driver risk outcomes. Based on stakeholder interviews, insurance is not and/or cannot provide products that are
dealing effectively with every aspect of the driver-related risks that businesses are facing.

- **Access to credit.** Firms – especially SMMEs – struggle to access credit to buy trucks or long-distance transport vehicles, in part due to the risk that they are perceived to pose to the lender. Insurers could collect data to better understand this market and provide cover to enable lending to grow this sector. SA Taxi, a firm that finances entrepreneurs who operate minibus taxis, has done something similar in the South African transport markets (SA Taxi Development Finance, 2018).

**Insurance could play an important role in risk management.** Insurers are already fulfilling the risk management function for players in other developing countries’ transport and logistics sectors (see Box 10 on Hollard and MiWay in South Africa). Moreover, the insurance industry has a comparative advantage in dealing with these risks, since it has access to specialist risk management and risk assessment skills and can achieve scale and enhanced efficiencies across multiple firms.

In terms of driver risk, for example, instead of relying on insurance, players in the transport and logistics supply chain are currently mitigating driver risk through numerous other strategies. These driver risk mitigation strategies, which are not initiated or explicitly required by insurers, include:

- Inserting tracking devices in each of their trucks, which allows management to track every truck and driver on their phones. These tracking devices are used to monitor drivers’ adherence to the correct route (in other words, to ensure that drivers are not diverting the goods en route) and to strict speed limits. Moreover, the tracking devices alert management of drivers’ non-compliance. Based on stakeholder interviews, insurers are neither providing the tracking devices, nor incentivizing players in the transport and logistics supply chain to install them.
- Educating their drivers on road safety by sending them on safety driving short courses.
- ‘Testing’ the reliability of new drivers by only sending them on short distance deliveries during their first period at the company.
- Having trucks be inspected on-site by the engineers that they employ, who are tasked with checking the condition of the trucks before drivers set off on each new assignment. Lack of insurer capacity means that this highly useful and relevant risk management function is largely missing from the portfolio of services that insurers currently provide.

**But serving enterprises is a difficult business case for insurers.** Despite the existence of this large, easy-to-reach market, serving enterprises is a difficult business case for insurers, especially when it comes to enterprises that cannot be classified as ‘large’. The difficulty of the business case is illustrated by the fact that although an insurance product, such as public and product liability, may already exist in the market, take-up of insurance is low, which indicates that local insurers have insufficient capacity to tailor products to enterprises’ needs.

The difficulty in serving enterprises can be addressed in at least three ways: improving their technical capacity, leveraging technology and data, and using centralised services. Despite the difficult business case, it is possible for Ghanaian insurers and reinsurers to seize the opportunity that enterprises-as-consumers presents. There are at least three ways in which they can do so:

- **By improving their technical capacity.** The lack of technical capacity within the Ghanaian insurance industry constrains insurers’ ability to meet enterprises’ insurable needs. By improving their technical capacity, insurers and domestic reinsurers will be
able to cover and manage the large risks, niche risks and even run-of-the-mill risks of businesses more efficiently. International partnerships and skills transfer may facilitate this improvement of technical capacity, thereby potentially even enabling domestic insurance coverage to serve enterprises that previously had to rely on international insurance provision.

- **By leveraging technology and data.** Among insurers, the present use of enterprise-client data and new technologies to analyse this data is limited. Technology and data could help insurers to enhance their understanding of their clients and their clients’ needs and to improve their efficiency and risk-pricing models. Technology, such as tracking and telematics, could also allow insurers to play a more active role in risk management, although evidence of innovative developments is present mostly in the retail space, such as the Vanguard Assurance’s Digital Motor Insurance product.

- **By using centralised services.** Centralised services may provide insurers with numerous benefits. Cell captives and bancassurance are among the examples of centralised services that Ghanaian insurers could theoretically use to their benefit in serving enterprises. Cell captives would allow insurers to take advantage of the opportunity to share skills, which is especially pertinent in an environment in which a scarcity of relevant skills prevails. Box 12 provides information on South African cell captives and their benefits. Bancassurance would allow insurers to distribute their products to enterprises more affordably, thus extending their footprint.

### Box 12: Cell captives in South Africa

In South Africa, under a cell captive arrangement, a cell captive account is created on the books of a licensed cell captive insurer (the promoter) and a cell owner buys a special class of shares in the cell captive insurer to capitalise that cell. By virtue of such ownership and subject to the conditions agreed in the shareholder participation agreement, the cell owner can draw dividends on the proceeds of the cell, obtain underwriting from the cell captive insurer and benefit from a number of other services provided by the promoter. The cell owner can also act as binder holder to the cell captive insurer. While first-party cells essentially self-insure, third-party cells sell insurance to external businesses or individuals and are the focus of this study.

The cell captive structure holds a number of benefits from the cell owner’s perspective. It is an entry route into the insurance market that provides for direct control of the business and participation in the economic benefits of insurance, at lower cost and with fewer compliance hurdles than a full insurance licence. The cell owner also has the autonomy to tailor the product offering to their vision and/or customer needs (as opposed to a pure distribution relationship), as well as the ability to innovate in a nimble structure that sits outside of the corporate culture and legacy systems of “traditional” corporate insurers. The cell structure may also be a vehicle for capacity-building, skills transfer, incubation and mentorship by incumbent cell captive insurers to cell owners and by cell owners to their representatives.

*Source: Hougaard et al. (2018)*

*There are niche products ‘missing’ from the Ghanaian market. There is evidence of insufficient capacity in the domestic market to cover complex risks, such as professional indemnity, first-loss products and cyber insurance. Professional indemnity insurance is explicitly required by the NPRA, yet, as indicated above, all liability products constitute 3% of GWP (NIC, 2016). This, alongside stakeholder interviews, finds the NPRA does not enforce the requirement that fund managers have professional indemnity insurance, due to a lack of domestic capacity and properly designed products. Another niche product that is also not widely offered in the Ghanaian market is first-loss products that cover the risk of fires. These*
products are highly relevant, especially given the prevalence of market fires mentioned above. Due to a lack of expertise, cyber insurance is also barely present in Ghana. No products were approved between 2011 and 2016 that cover cyber risks (NIC, 2011–2016). However, in 2017, Allianz Ghana, in partnership with Midas Insurance Brokers, introduced a new package, called Allianz Cyber Protect Premium, which is aimed at providing clients with insurance cover against threats or risks of cyber-attacks (JoyBusiness, 2017). Increasing the availability of these products may enable enterprises to survive, even after such a risk event has occurred, when they would otherwise have ceased to exist.

_Ultimately, it is the responsibility of insurers to demonstrate the value of insurance to enterprises as potential consumers._ Ghanaian insurers view compulsion as an avenue for growth. This view is not mistaken, given the possibility of leveraging existing relationships with clients of compulsory lines to upsell and cross-sell products, which may allow insurers to extend their reach to enterprises. Nevertheless, if this dynamic is to take effect, it is vital that insurers demonstrate the value of their products. Once the usefulness of insurance – to address and cope with the risks and challenges that enterprises face – has been successfully and consistently demonstrated to businesses-as-potential-customers, the insurance sector will be able to extend its relevance to enterprises beyond simply a means to comply to regulatory requirements.

### 6.6.2. Regulatory gaps and opportunities

**The distribution of insurance to enterprises through bancassurance should be considered.** Under current regulation, the distribution of insurance to corporate clients via bancassurance is prohibited. Banks are a key potential distribution for SMEs, however, insurance brokers are unlikely to have the incentive to seek them out and inform them about insurance and SMEs are not sufficiently aware of insurance to seek out a broker.

**The quality of compulsory products is limited.** Although there have been enhanced efforts to enforce the compulsory take-up of fire insurance, as with third-party motor insurance, this compulsory product is far from widespread. Given that enterprises are faced with these risks on a continual basis, the low take-up of insurance products to cover these risks – even when compulsory – could serve to indicate that their quality, in terms of serving firms’ needs, could be improved.

**Data collection on SME and corporate needs can enable market to develop better products.** At present, there is very little data collected and shared on the risks and challenges faced by enterprises. Supervisors have the opportunity to bridge this information gap, which insurers can use to develop products that are better suited to meeting firms’ needs.

**Leverage global risk sharing.** The limited domestic capacity to absorb large and complex risks makes it critical to draw on global players, such as global reinsurers, to effectively absorb some of these risks, draw on specialist skills and leverage global data. Regulatory frameworks should be assessed to ensure that they achieve broader market objectives of investment and growth, while deepening domestic capacity to absorb and manage risks.

**Consider group life products as a potential opt-out option.** Regulators can consider allowing group life products to become the ‘default option’ for employees – in other words, that employees ‘automatically’ contribute to and are covered by group life products unless they explicitly decide to ‘opt out’. This would enhance group life coverage and extend insurance take-up.
7. The role of insurance in capital market development

The insurance sector has numerous roles to play to enable and develop the capital markets.

This section provides an overview of capital markets in Ghana, the current role of the insurance sector in capital markets and identifies opportunities where insurance can contribute more.

Box 13: Key findings

- The financial sector mobilises 78% of GDP; insurance contributes 2.8%.
- The insurance sector plays a limited role in mobilising capital directly, given limited premiums and retention.
- Insurers have limited scope and incentives to extend their investment horizon and diversify their investments.
- Recent shifts (decreasing interest rates, inflation and government lending and increasing pension sector assets) are increasing the need to look at alternative, long-term investment options.
- Insurance's most significant capital market function is by enabling lending and business investment.
- Insurance groups play a significant role in pensions to develop the capital markets by enhancing professionalisation, investment behaviour, research and development and mobilising voluntary pensions.
- Annuity market development is a main driver of future long-term behaviour by insurers.
- Liability cover is needed for financial service providers.

7.1. Introduction

Building long-term domestic capital is a policy priority. In 2015, Ghana’s infrastructure and funding gap was estimated at USD1.5 billion per annum (Ministry of Finance, 2015). The GoG wants to develop capital markets to drive long-term economic growth and has recognised the insurance sector as a key to this goal. This is reflected in the 2018 Budget Statement and Economic Policy, which explicitly states that “the development of a vibrant domestic capital market will be a top priority of Government” and that “deepening the domestic capital market is very important for the long-term growth of the economy” (Ofori-Atta, 2018b). The MoF also states that the “Government will strengthen the pensions, insurance and securities industries” in order to address the challenge posed by the fact that “access to long-term funds by the private sector is not sufficient to drive accelerated economic growth of the country” (Ofori-Atta, 2018b).
What is the capital market? Capital markets are often used strictly to refer to exchanges\(^{20}\). To understand the full role of the insurance sector in capital markets a broader definition is needed. The capital market is used in this section to refer to the demand and supply of capital, consistent with Chamberlain et al. (2017)\(^{71}\). Irrespective of the exact definition employed, one of the most important functions of the capital markets is ensuring that “capital flows to its best uses and that riskier activities with higher payoffs are funded” (Dudley and Hubbard, 2004). Well-functioning capital markets thus aid public and private sector economic actors, such as governments and businesses, to raise funding for spending and productive investment – both of which are critical for sustained economic growth (DFID, 2013).

The role of the insurance sector in capital market development. The insurance sector has direct and indirect links to the capital markets and can play an important role in the deepening and efficiency of capital markets to support growth objectives. Each of the insurance sector’s main roles are discussed below (as shown in Figure 31):

![Figure 31: The role of the insurance sector in capital market development](image)

*Figure 31: The role of the insurance sector in capital market development*

*Source: Authors’ own based on Chamberlain et al. (2017) and Dickinson (1998)*

- **The insurance sector directly and indirectly mobilises capital.** The insurance sector plays an important role in the mobilisation of capital. Its role can be direct and indirect:
  - **Direct mobilisation of long-term saving through premium collection and pensions.** Insurers collect premiums to build up assets and act as distribution partners for long-term savings products such as pensions. Life insurance, including endowments, can build up significant assets as there is a longer lag between when insurers receive customers' premiums and when insurers pay those customers' claims (Dickinson, 1998).

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\(^{20}\) For example, DFID (2013) defines capital markets as “a market where securities such as shares, and bonds are issued to raise medium to long-term financing, and where the securities are traded...”.

\(^{71}\) “A market where equity, debt and other financial instruments are bought and sold. Capital markets bring together supply and demand of capital, by attracting institutional investors (such as insurance firms) that supply capital, and businesses, individuals or governments that use or require capital. Capital markets include primary markets, where instruments are sold for the first time, and secondary markets, where existing instruments are traded.” (Chamberlain et al., 2017).
- **Indirect mobilisation of longer-term capital through enabling risk-taking in investment.** The greatest amount of capital mobilised by insurance occurs indirectly, by enabling business and government to invest and lend. Section X sets out this role in more detail. The insurance sector: a) allows transfer of risk to enable entrepreneurship and trade, b) improves risk management to reduce risk incidence (with related loss of capital) and enables more efficient resource allocation and c) protects the lender to enable fund managers and lenders to provide credit or capital for investment.

- **The insurance sector pools capital for efficiency.** Insurers are able to pool savings from numerous small investors and in the process accumulate significant investable funds. In comparison to individual investors, insurers can invest such funds at a lower transaction cost and obtain greater returns than individual investors investing small amounts. Pooling funds also provides greater opportunity for diversification to spread risk among investors. (Dickinson, 1998).

- **The insurance sector improves the allocation of capital to more productive opportunities.** Insurers can allocate capital more effectively to productive opportunities than individual investors by investing over longer time-horizons, building professional skills and data to manage assets to identify opportunities for investment, by transacting at scale with greater efficiency and by reducing the contingency capital investors need to hold as a precautionary measure for potential risks (Dickinson, 1998). Such activities can be significant when added up across an economy. Such activities also contribute to enhancing banking liquidity, deepening credit markets and providing funds for government borrowing.

- **The insurance sector builds institutions for governance, trust and investor confidence.** Institutional investors, including insurers, grow the professional investment industry by encouraging and implementing reforms in governance, auditing and accounting requirements. Such institution-building is critical for investment decisions and domestic and global business confidence.

The remainder of this chapter sets out the structure of capital markets in Ghana, the role that the insurance sector currently plays and the gaps and opportunities to deepen the role of insurance markets in capital market development.

### 7.2. Structure of the capital markets in Ghana

**Financial sector mobilises 78% of GDP.** In 2016, the size of the total assets of the Ghanaian financial sector was GHS131.7 billion (USD34 billion) or 78% of GDP. This is significant, compared to the Nigerian financial sector at 22% of GDP or USD110 billion, but compares quite well with the Kenyan financial sector, which had financial sector assets equal to about 83.3% of Kenya’s nominal GDP by end December 2015 (Hougaard et al., forthcoming and Financial Sector Regulators Forum, 2016).

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Well-run insurers pursue an investment strategy of asset-liability management (ALM), which involves matching their asset and liability profiles with each other. As such, this process requires that insurers match their liabilities with an investment portfolio that is appropriate in terms of structure and duration (Kong and Singh, 2005). Although the process of asset and liability management is the same for life and non-life insurers, the nature of their liabilities differs. Life insurance contractual savings and pension products constitute liabilities that are predictable and longer-term than the liabilities of non-life insurers, which are generally short-term. Longer-term liabilities require investment in assets that are long-term and illiquid, whereas non-life insurers’ shorter-term liabilities mean that they must invest in short-term, liquid assets. The former requires investment instruments that are “more advanced”, which “puts increasing pressure on domestic capital market development” (Chamberlain et al., 2017).
**Four categories of licensed actors in financial sector relevant for capital market.** The financial sector includes insurers, pensions, the fund management industry (including collective investment schemes, the exchanges and advisors) and deposit-taking institutions. Deposit-taking institutions consist of deposit money banks (DMBs), non-bank financial institutions (NBFIs), which comprises finance houses, leasing companies, mortgage finance companies, remittance companies and credit unions), rural community banks (RCBs) and MFIs. Table 20 provides a detailed breakdown of the various financial institutions’ and subsectors’ assets.

<table>
<thead>
<tr>
<th>Financial institution or subsector</th>
<th>Assets in GHS (bn) 2016</th>
<th>Assets in USD (bn) 2016</th>
<th>% of financial sector assets 2016</th>
<th>% of GDP 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit money banks (DMBs)</td>
<td>82.6</td>
<td>21.2</td>
<td>62.7</td>
<td>49.4</td>
</tr>
<tr>
<td>Non-bank financial institutions (NBFIs)</td>
<td>9.6</td>
<td>2.5</td>
<td>7.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Rural (community) banks (RCBs)</td>
<td>3.1</td>
<td>0.8</td>
<td>2.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Microfinance institutions (MFIs)</td>
<td>1.3</td>
<td>0.3</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total: Banks and NBFIs</strong></td>
<td><strong>96.6</strong></td>
<td><strong>24.8</strong></td>
<td><strong>73.3</strong></td>
<td><strong>57.7</strong></td>
</tr>
<tr>
<td>Assets under management by trustees (AUM)</td>
<td>4.1</td>
<td>1.05</td>
<td>3.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Temporary pension fund account (TPFA)</td>
<td>2.7</td>
<td>0.7</td>
<td>2.1</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total: Private pensions</strong></td>
<td><strong>6.8</strong></td>
<td><strong>1.7</strong></td>
<td><strong>5.2</strong></td>
<td><strong>4.1</strong></td>
</tr>
<tr>
<td>Social security and National Insurance Trust (SSNIT)</td>
<td>8.9</td>
<td>2.3</td>
<td>6.8</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>Total: Pensions</strong></td>
<td><strong>15.7</strong></td>
<td><strong>4.0</strong></td>
<td><strong>12.0</strong></td>
<td><strong>9.4</strong></td>
</tr>
<tr>
<td>Fund management</td>
<td>15.7</td>
<td>4.0</td>
<td>11.9</td>
<td>9.4</td>
</tr>
<tr>
<td>Life insurers</td>
<td>2.2</td>
<td>0.6</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Non-life insurers</td>
<td>1.5</td>
<td>0.4</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total: Insurance</strong></td>
<td><strong>3.7</strong></td>
<td><strong>1</strong></td>
<td><strong>2.8</strong></td>
<td><strong>2.2</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>131.7</strong></td>
<td><strong>33.8</strong></td>
<td><strong>100</strong></td>
<td><strong>78.7</strong></td>
</tr>
</tbody>
</table>

**Table 20: Breakdown of financial institutions’ and subsectors’ assets**

*Source: BoG (2016b), NIC (2016), NPRA (2016) and SEC (2016)*

### 7.2.1. Banks and NBFIs

**The financial sector is dominated by banks and NBFIs licensed and regulated by the BoG.** Table 1 indicates that DMBs have the largest share of financial sector assets (62.7%) and that they control more than 85% of the assets of banks, NBFIs, RCBs and MFIs. The total assets of banks and NBFIs constitute more than 70% of financial sector assets and the equivalent of more than half of Ghana’s GDP.

**Banks and NBFIs are the main providers of capital, but have recently been lending less.** In 2013, loans and advances by DMBs, NBFIs, RCBs and MFIs represented 44% of their total assets (BoG, 2013). The World Bank’s Enterprise Survey was conducted during that year and,
per ToC 2, 50% of firms indicated that they regard ‘access to finance’ as the biggest obstacle facing their business (World Bank, 2013). By 2016, loans and advances by DMBs, NBFIs, RCBs and MFIs was only 38.4% of these financial sector players’ assets (BoG, 2016a). As such, the relative size of loans and advances – as proportion of these institutions’ assets – has decreased over time, which means that enterprises are struggling even more to get credit at affordable rates.

*With increasing NPLs, banks and NBFIs are increasingly fragile and potentially risky investments.* As indicated in Section 0, NPLs increased from 12% in 2014 to 19.8% in 2017 (World Bank and First Initiative, 2018). Moreover, NPLs are projected to grow further after the 2016 Asset Quality Review, which will require banks to reclassify their loans. As NPLs grow, the fiscal health and sustainability of the affected institutions deteriorate, rendering them more risky investments.\(^{73}\)

### 7.2.2. Pensions

*The pensions sector holds the longest-term assets.* The pension sector mobilises 12% of financial sector assets or GHS15.7 billion (USD3.5 billion). The National Pensions Act (Act 766 of 2008) established a contributory three-tier pension system, covering compulsory and voluntary schemes including a private pension system to complement the Social Security and National Insurance Trust (SSNIT). Following the ratification of the Act, the three-tier system was fully implemented in 2010, at which point Tier 1 had already been in place, via SSNIT, for more than 40 years (NPRA, 2016). As such, the NPRA leveraged the existing infrastructure, footprint and membership of SSNIT to collect mandatory contributions for Tier 2 pensions via country-wide SSNIT branches.

*Significant pension growth over recent years.* Between 2013 and 2016, the total number of active pension members, for all three tiers, grew from 1.4 million to 2.8 million (which represents 208% growth). Moreover, between 2012 and 2016, private pensions grew from GHS805 million (USD435 million) to GHS6.8 billion (USD1.7 billion) (which represents 844% growth). Box 14 provides a detailed breakdown of the pension system in Ghana.

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\(^{73}\) In August 2018, the BoG revoked the licences of five insolvent banks and merged them into a new, government-owned bank called the Consolidated Bank Ghana Ltd (Dzawu, 2018).
**Box 14: The pension system in Ghana**

The pension system has three tiers. The three-tiered pension system is regulated by the National Pensions Regulatory Authority (NPRA) and consists of: The Mandatory Basic National Social Security Scheme (Tier 1), the Mandatory Occupational Pension Scheme (Tier 2) and the Voluntary Provident Fund, Group and Personal Pension Scheme (Tier 3). Tier 1 is managed by SSNIT and provides defined benefits: monthly pension, survivors benefit and invalidity pensions. Tier 2 is privately managed by approved trustees with the assistance of pension fund managers and pension fund custodians, is a defined-contribution scheme and provides a lump sum payment at retirement and for other contingencies. Tier 3 is managed like Tier 2 and is also a defined-contribution scheme, but is primarily designed for people who are self-employed and for workers in the informal sector.

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Voluntary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defined-benefit scheme</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Defined-contribution scheme</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

**Table 21: Structure of the pension system**

*Source: Authors' own, based on NPRA (2016)*

**Long-term sustainability of SSNIT challenging.** According to Kwabla-King (2017), “benefits and administrative costs are increasing faster than the increase in contribution inflows”. This issue has only been aggravated by the fact that, as indicated above, since 2010, SSNIT receives 5% less in contributions than it used to (which is now transferred to Tier 2) while benefits remain the same. This means that action is needed to ensure the sustained solvency of SSNIT, since “the current rate of contributions at the current rate of growth of the members is not enough to sustain the payments of benefits into the near future” (Kwabla-King, 2017). Stakeholder interviews indicate the NPRA is working with an actuarial team to strengthen and improve the resilience of SSNIT.

**Mandatory contributions to Tier 1 and 2 are equivalent to 18.5% of employees’ monthly basic salary (of which 2.5% is transferred to the NHIS).** To make up this 18.5%, employers contribute 13% and employees contribute 5.5% to Tier 1 and Tier 2 schemes (KPMG, 2018). Tier 1 receives 13.5% – SSNIT retains 11% and transfers 2.5% to the National Health Insurance Fund for medical insurance and the National Health Insurance Levy. Tier 2 receives the remaining 5% of the total contribution.

**The minimum contribution period to Tier 1 and Tier 2 is 15 years.** Individuals must contribute to the mandatory schemes for 180 months (in aggregate). Individuals who are unable to make payments for the full minimum contribution period are paid out a lump sum amount. This lump sum amount is “equal to the contributions made with an interest of 75% of the prevailing government treasury bill rate on the total contributions” (KPMG, 2018).

**Tier 3 is voluntary, aimed at formal and informal sector workers and the minimum contribution differs.** Tier 3 consists of voluntary defined contribution pension plans that can be either provident funds or personal pension schemes (NPRA, 2016). Personal pension schemes are available to individuals who wish to increase their pension benefits beyond the mandatory and provident fund schemes or individuals who are working in the informal sector and are not covered under the mandatory schemes (National Pensions Act, 2008). If Tier 3 scheme members withdraw their accrued benefits on or after retirement, their benefits are tax exempt. Tier 3 scheme members in the formal sector who are younger than retirement age may withdraw some, or the total amount, of their accrued benefit after 10 years from the date of their first contribution. If they withdraw before 10 years have passed however their benefits are subject to “the appropriate income tax for contributors in the formal sector” (National Pensions Act, 2008).
informal sector who are younger than retirement age, the timeline for tax-exempt withdrawal decreases to five years from the date of first contribution.

**Main actors are trustees, fund managers and fund custodians.** Pension fund trustees, managers and custodians fulfil different, yet crucial functions in the pensions sector. Their functions are codified in the National Pensions Act (2008) and the National Pensions (Amendment) Act (2014). The main functions of each of these players are provided below:

- **Pension fund trustees.** The functions of pension fund trustees, whether individual or corporate, include “securing scheme registration”, “maintaining investment policy statements and internal control procedures” and “ensuring that the investment of funds of the scheme is diversified to minimise investment risk”. Given that trustees, fund managers and custodians must be independent of each other, insurance groups may include only one of the categories. Most insurance groups choose to be corporate trustees, given the potential opportunity to leverage their administrative skills and engage in cross-selling activities.

- **Pension fund managers.** Pension fund managers’ functions include “advising the trustee on the investment of pension funds and assets in accordance with the provisions of the National Pensions Act” and “advising the trustee on the investment of pension funds in different investments to minimise investment risks”.

- **Pension fund custodians.** Pension fund custodians’ functions include “receiving contributions remitted by the employer under the National Pensions Act on behalf of the trustees” and “holding pension fund assets in trust for members”.

**The maximum total asset-based fees chargeable on pension funds is 2.5% per annum.** This maximum fee consists of the fees receivable by approved trustees, pension fund managers, pension fund custodians and the NPRA. The NPRA guidelines on fees and charges (2011) indicate that the maximum fee (per annum) for approved trustees is 1.33%, for pension fund managers it is 0.56% and for pension fund custodians it is 0.28%. The NPRA levies a charge of 0.33% per annum (NPRA, 2011).

**Up to 60% of pension fund assets may be invested in GoG securities, with a minimum of 35% invested in long-term securities.** The maximum allocation of pension fund assets to GoG securities is 60%. As per the NPRA guidelines (2016) however this allocation must reflect “a balance between long term and short term securities”. Moreover, the Investment Guidelines state that a minimum of 35% must be invested in long-term GoG securities, which are defined as “securities with maturity of two (2) years or more at the time of purchase” (NPRA, 2016).

**Pension fund managers have limited incentive to engage in research and development activities to develop the capital markets.** Despite the significant growth in private sector pension fund assets, the Ghanaian capital markets have not witnessed a concurrent deepening and development. Interviews indicate that most trustees do not require fund managers to compete on returns, but rather on cost. This reduces the incentive to build skills and data to do research and development to unlock higher returns or better diversify portfolios. Pension fund managers earn a regulated maximum of 0.56% of a pension fund’s assets per annum (NPRA, 2011). Stakeholder interviews indicate that, in practice, fund managers often earn much less than this maximum amount. The implication of the small fee earned by pension fund managers is that their ability to engage in research and development activities is hampered, which incentivises them to invest pension fund assets in short-term instruments that are the easiest to invest in, have relatively high returns and low risk. Given the size of private pension assets, this conservative investment strategy has a significant impact on the capital markets and the demand for more complex, higher risk-return ratio instruments.

**Tier 3 provides opportunity for innovations.** Although the coverage and development of Tier 3 is limited, relative to Tiers 1 and 2, there is evidence of innovation in the voluntary
pensions space. United Pensions Trustees, for example, is currently collaborating with Fidelity Bank, Bora Capital Advisors and MTN Mobile Money to create a voluntary pension product called ‘My Own Pension’. Providers may be incentivised to develop innovations in the provision of Tier 3 pension schemes, since they have the potential to reach a significant, untapped informal market. Innovations in distribution-mechanisms, through digital and mobile channels, for example, and payment terms, allowing clients to pay small amounts regularly, may allow providers to expand the voluntary pension market.

**Large number of pension funds may limit efficiency gains of scale.** On one hand, the large number of licensees in the pensions sector (78 pension fund managers and 34 corporate pension trustees) may mean that it is challenging for any one of them to effectively pool assets at scale. On the other hand, numerous smaller pension funds may be better-suited to a market that is characterised by limited investment options.

### 7.2.3. Fund management

**Fund management mobilises a similar amount to pensions.** Fund management includes individual advisors as well as institutional investors such as collective investment schemes. Fund management institutions collectively mobilise GHS15.7 billion (USD3.5 billion), similar to pensions but across a larger number of institutions and individual accounts.

**Collective investment schemes mobilise a significant amount and growing quickly.** Collective investment schemes (CIS) can be registered as unit trusts or mutual funds. According to SEC (2016), the CIS sector “was designed to open up the capital market to small investors”. Between 2015 and 2016, the growth of the total net asset value for the sector was 55.5% (from GHS727.6 million to GHS1.13 billion) (SEC, 2016). The number of shareholders also grew by 36.9% over the same period (from 209,321 to 286,578). Given the increase in the net asset value and number of shareholders, it is clear that CIS is a growth industry with significant potential to pool funds and diversify assets.

### 7.3. The insurance sector

The following sections discuss the role of the insurance sector in capital markets and provide a more detailed breakdown of the extent to which the Ghanaian insurance sector fulfils the various direct and indirect functions that it can theoretically play to enable the deepening of the local capital markets.

#### 7.3.1. Mobilisation and pooling of capital by insurers

**Insurance sector plays a limited role in mobilising capital directly given limited premiums and retention.** Insurers mobilised GHS1.9 billion (USD435 million) (NIC, 2016) in premiums in 2016, resulting in retained capital of 2.2% of financial sector assets at the end of that year. Life insurers collected a total of GHS859 million (USD220 million) in gross premiums, while non-life insurers collected GHS1.07 billion (USD274 million). Relatively little premiums are retained as most contracts are short-term and a significant amount of non-life premiums are collected by foreign providers, especially for oil and gas.

**Most significant capital market role played by enabling lending and business investment.** Most domestic property investment or loans, as well as foreign investment are dependent on insurance to protect against key risks. Foreign direct investment alone makes up
USD4.9 billion, which is over four times the current assets retained by the insurance sector (Ghana Investment Promotion Centre, 2017).

Insurance groups have a significant role to play in mobilising long-term savings in pensions. Insurers are one of the few institutions with the incentive to mobilise voluntary savings such as pensions, to leverage existing infrastructure, data and skill and to cross-sell other products. Insurance groups consist of separate companies that can have either corporate trustee or pension fund manager or pension fund custodian licences. Enterprise Group and Glico Group, for example, include separate companies that have corporate trustee licences. In the market as a whole, corporate trustees who are part of insurance groups make up 54.7% of corporate pension trustees’ total assets under management (AUM) and Enterprise Trustees’ market share alone is 28.5%, which renders it the single largest corporate trustee (with AUM of GHS1.1 billion – USD282 million) (NPRA, 2016).

Amount of capital retained by insurers will grow if annuity markets grow. Annuities are expected to increase in coming years as retirements are expected from the private pension market in the next few years. Annuity growth will result in far greater mobilisation and retention of capital by insurers, although such changes are likely to take time.

At present, there are very few annuity products in the Ghanaian market and awareness of the existence of such products is low. During the course of interviews, more than one stakeholder indicated that there are “none” (including the NPRA), although the NIC confirmed that there is one company currently offering annuity products. The present absence of a wide-range of annuity products is problematic, since Ghanaians are receiving a lump sum upon retirement and annuities act as a mechanism with which individuals can effectively manage their post-retirement income stream. A number of insurers, such as Vanguard Life, Enterprise, Databank and Old Mutual are currently developing annuity products. With the development of the annuity market, insurers’ role as aggregator of capital is likely to grow.

7.3.2. Allocation of capital by insurers

Term deposits, land and buildings and receivables make up over 60% of assets. Of investments, 36% are held in term deposits, followed by 12% each in land and buildings and receivables across life and non-life. Shorter-term or more liquid assets make up over 70% of life investments (including government securities\(^4\)). Term deposits and cash are particularly significant, making up almost 50% of assets. Receivables and term deposits are equally significant for non-life, at around 23% each, see Figure 32 below for details.

Longer-term investments make up 25% of assets. The term of securities is not reported on. Assuming items such as equity, corporate debt and land and buildings are longer-term assets, these make up 25% of current assets, with land and buildings the most significant for life and non-life insurers. Life insurers hold 27% or GH$567 million (USD145 million) and non-life insurers hold 17% or GH$362 million (USD67.2 million) in long-term assets, as set out in Figure 32 below.

\(^4\) Government securities are reported together and not split out according to term.
Insurers do not have scope to extend investment horizon given current liability profile. Insurers’ investment time-horizon exceeds their average liability term for the industry as a whole, but largely matches for life insurers. Longer-term liabilities are held largely for educational endowment products and make up an estimated GHS600 million\(^{75}\) (USD153 million) in liabilities. Longer-term assets for life insurers make up GHS560 million (USD143 million) in assets, largely matching liabilities. Non-life insurers have insignificant longer-term liabilities, yet still hold GHS360 million (USD92 million) in long-term investments. Risk-based approaches are expected to better align asset liability matching in the future. At present, investment gaps restrict options open to insurers. Table 28 in the Appendix C provides a detailed breakdown of insurers’ assets.

Insurance groups also control allocation of certain pension assets. Insurers do not only allocate their own assets, but also determine the investment policy of pensions for whom they are the corporate trustees. Since they make investment decisions on where to allocate the capital, they determine the extent of investment into longer-term products. Moreover, they have a significant role to professionalise the trustee landscape and to take the lead in encouraging research and development and the development of more innovative products.

Given high returns and low risk on short-term instruments, insurers have limited incentive to diversify their investments or deepen their asset management experience. Box 15 shows that the interest rate on short-term government securities, such as the 91-day treasury bill (T-bill) and the one-year note, in 2015 and 2016 exceeded 20%. This rendered them very attractive investment instruments for institutional investors seeking high returns and low

\(^{75}\) The term profile of liabilities was not available at the date of this report. The upper end long-term liability figure was therefore calculated, to assess if there is a greater opportunity for longer-term investment. The approach adopted was as follows: Interviews indicated that around 80% of Life insurer books were made up of education endowment products with average terms of five years remaining. The upper-end long-term liabilities of GHS600m was therefore calculated by applying these figures to the total policyholder liabilities held by Life insurers reported by the NIC and (generously) assuming that longer-term means longer than two years.
risk. Equity falls short in comparison given the volatility of returns and the often-significant drops in market prices as reflected by the GSE Composite Index. Insurers and other institutional investors therefore have very little incentive to seek alternative, higher-risk investment instruments, since they are receiving good returns on GoG and BoG securities and bank deposits. Insurers’ present investment strategy – the buy-and-hold approach involving easy, risk-free investments – means that their asset management experience is limited.

Recent shifts – such as decreasing interest rates, inflation and government lending – are increasing the need to look at alternative investment options, which will catalyse a further demand for a broader set of instruments. Box 15 shows that, over recent years, interest rates on short-term GoG securities have started to decline. Decreasing inflation and government borrowing, also mean the returns that insurers can earn on fixed-income instruments have dropped. The changing macroeconomic conditions will shift insurers’ incentives regarding what to invest in, particularly as they are dependent on investment returns for solvency given underwriting losses (see Section X). This may encourage investment in a diversified set of instruments and create demand for new instruments (like infrastructure bonds or REITs, which allow investment in property but with the benefits of unit trust withdrawals) and therefore potentially deepen the capital market.

However, the drive to look for better returns is also accompanied by risks, particularly given the relatively limited range of instruments currently available and lack of credit ratings available to consider default risk. In an attempt to maintain high returns, some insurers are moving their investment in term deposits from licensed banks to riskier NBFIs, for example, which could pose significant risk to the insurance sector. Another expected change, which in the long term will constitute a substantive shift in the overall term of liabilities, is the growth of annuity products. This is likely to change the short-term nature of liabilities, as well as the increasing demand for secure funds with good returns to diversify investment portfolios and match longer-term liabilities.

Few instruments exist to match these changing incentives, although the GoG has started issuing longer-term bonds. The limited instruments that are currently available in the Ghanaian capital markets affect the options available to institutional investors, especially given the recent shifts. Nevertheless, the GoG has started issuing longer-term securities recently and medium-term GoG securities have started taking off. In March 2017, the GoG raised more than GHS3.4 billion (USD772 million) in the country’s first 15-year bond and raised GHS1.4 billion (USD318 million) in a seven-year bond (the interest rate on both is 19.75%). This shift towards longer-term debt instruments not only bodes well in terms of diversifying the instruments available to investors, but it also paves the way for better-functioning capital markets that are able to bring together the demand and supply of longer-term capital. Box 15 provides more details on the instruments available in and missing from the Ghanaian capital markets.
**Box 15: Investment options and instruments in Ghana**

The investment options and instruments in Ghana are limited and some are highly volatile. Table 22 below provides a detailed breakdown of the available investment instruments in the Ghanaian capital markets and gives an indication of their return and volatility.

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan-15</th>
<th>Jan-16</th>
<th>Jan-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies (main market and GAX)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>35.0</td>
<td>43.0</td>
<td>41.0</td>
</tr>
<tr>
<td>GSE Composite Index (GSE-CI)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,174.0</td>
<td>2,004.1</td>
<td>1,776.4</td>
</tr>
<tr>
<td>Year-on-year change (%)</td>
<td>-7.8%</td>
<td>-11.4%</td>
<td></td>
</tr>
<tr>
<td>GSE market capitalisation (GHS m) (USD)</td>
<td>63,233.9</td>
<td>56,963.5</td>
<td>54,048.7</td>
</tr>
<tr>
<td>Year-on-year change (%)</td>
<td>-9.9%</td>
<td>-5.1%</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity volume traded (GHS m) (USD)</td>
<td>15,232,797.5</td>
<td>29,495,855.9</td>
<td>19,224,381.5</td>
</tr>
<tr>
<td>Year-on-year change (%)</td>
<td>93.6%</td>
<td>-34.8%</td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of corporate bonds</td>
<td>2.0</td>
<td>17.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Value of corporate bonds (GHS m) (USD)</td>
<td>29.02</td>
<td>185.9</td>
<td>408.8</td>
</tr>
<tr>
<td>Market turnover – corporate debt securities (GHS m) (USD)</td>
<td>0.8</td>
<td>715.7*</td>
<td></td>
</tr>
<tr>
<td>Government bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of GoG bonds</td>
<td>114</td>
<td>104</td>
<td>90</td>
</tr>
<tr>
<td>No. of GoG bonds &gt; five years</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Value of GoG notes and bonds (GHS m) (USD)</td>
<td>9,396.3</td>
<td>9,179.5</td>
<td>21,683.6</td>
</tr>
<tr>
<td>Market turnover – GoG notes and bonds (GHS m) (USD)</td>
<td>290.17</td>
<td>401.4</td>
<td>20.2</td>
</tr>
<tr>
<td>Interest rate (% on most recent issue): 91-day T-bill</td>
<td>25.8%</td>
<td>22.7%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Interest rate (% on most recent issue): one-year note</td>
<td>22.7%</td>
<td>25.8%</td>
<td>19.5%</td>
</tr>
<tr>
<td>Interest rate (% on most recent issue): 15-year bond</td>
<td>-</td>
<td>-</td>
<td>19.8%</td>
</tr>
<tr>
<td>Euro bonds (USD)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of euro bonds (USD)</td>
<td>2.0</td>
<td>2.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Local USD notes and bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of local USD notes and bonds</td>
<td>0.0</td>
<td>0.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Value of local USD notes and bonds (USD m)</td>
<td>0.0</td>
<td>0.0</td>
<td>94.6</td>
</tr>
<tr>
<td>Bank deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit rate: three-month time deposits</td>
<td>13.9%</td>
<td>13.5%</td>
<td>13%</td>
</tr>
<tr>
<td>Deposit rate: 12-month time deposits</td>
<td>12.3%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Deposit rate: 36-month time deposits</td>
<td>-</td>
<td>-</td>
<td>15.2%</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of USD100 (GHS)</td>
<td>324</td>
<td>383</td>
<td>427</td>
</tr>
<tr>
<td>Year-on-year change (%)</td>
<td>-8.2%</td>
<td>-11.5%</td>
<td></td>
</tr>
</tbody>
</table>

Table 22: Return and volatility of Ghanaian capital market investment instruments
The Ghana Stock Exchange (GSE) has three main components: the official list or main equities market, the Ghana Alternative Market (GAX) and the Ghana Fixed Income Market (GFIM). The main equities component of the GSE started trading in November 1990 and was officially launched in January 1991. The focus of the main equities market differs from the GAX, since the latter aims to accommodate “start-ups and existing enterprises, both small and medium” by making listing and compliance less expensive and onerous (Ghana Stock Exchange, 2018). While the first two components are primary markets, the GFIM, which was established in 2016, is a secondary market for trading of all fixed income securities (GSE, 2016).

The volatility in the performance of the Ghanaian equity market renders it a less attractive option for investors. Table 22 indicates that, in total, only 41 companies had listed on the main market and GAX by January 2017. While there was a significant rise in the volume of equity traded between 2015 and 2016, between 2016 and 2017 it declined again: from a 93.6% increase to a 34.8% decrease. The GSE Composite Index (GSE-CI) constitutes “the major stock market index which tracks the performance of all equities trading on the Ghana Stock Exchange” (SEC, 2016). As indicated in Table 22, between both the 2015 to 2016 and the 2016 to 2017 periods, the GSE-CI posted a negative return. The market capitalisation of the GSE also decreased during both periods. In the period between 2011 and 2015, the returns on the GSE-CI also varied substantially – between 78.8% in 2013 and -12.7% in 2015 (GSE, 2016). Broadly speaking, the equity market does not, therefore, constitute a highly attractive or ‘safe’ investment option, given its volatility and the varying returns across periods.

The debt market in Ghana is dominated by GoG securities. Between January 2015 and January 2017, the number of corporate bonds grew from two to 25 and the value of corporate bonds increased from GHS29 million (USD7.8 million) to GHS409 million (USD93 million). Nevertheless, the value of GoG notes and bonds has consistently dwarfed that of corporate bonds – in 2017, the value of the former was 53 times larger than the value of the latter.

The yield curve of GoG or BoG instruments is somewhat inverted, although interest rates declined. As at January 2017, the fixed interest rate on two and three-year instruments was higher than the interest rate on five, seven and 10-year GoG bonds, as well as the 15-year fixed rate note. This is contrary to the ‘normal’ yield curve, where short-term debt instruments’ yield is lower than long-term debt instruments’ yield, provided the credit quality of the instruments is the same. Nevertheless, Table 22 indicates that the interest rate on the most recent issue of 91-day T-bills has been declining over time and even though the interest rate on the most recent issue of one-year T-bills was higher in 2016 than in 2015, it decreased between 2016 and 2017.

The deposit rate on time deposits at banks is consistently lower than the interest rate on government debt instruments. Longer-term time deposits at banks have only recently become available in the Ghanaian market – 2017 is the first year in which the BoG reports data on 36-month time deposits. Table 22 indicates that the deposit rate on longer-term time deposits is higher than the deposit rate on shorter-term time deposits. The deposit rate on shorter-term time deposits appears to be declining over time, however, while the deposit rate on longer-term time deposits appears to be rising. Nevertheless, even the longest-term time deposit available offers a lower interest rate than any of the GoG debt instruments.

Yield on property is relatively low, but there is potential for growth. According to the property barometer produced by Broll (2017), a commercial property services company that operates in numerous countries across Africa, the average sector yield for office property in Accra in the first quarter of 2017 was 12%. The average sector yield for retail property in Ghana during the same period was 8% to 10% (Broll, 2017). Average yield on office and retail property is less, therefore, than government debt instruments and the deposit rate on time deposits at banks. According to the Oxford Business Group (2017), however, “future prospects for real estate are promising”, given the continued economic stabilisation (as detailed in Section 1). Moreover, as at 2017, the


*Data from January 2018
housing deficit was estimated to be 1.7 million (Centre for Affordable Housing Finance Africa, 2018).

*There is only one Real Estate Investment Trust (REIT) in the market at present, hence there is a large untapped opportunity.* According to the SEC (2017), the HFC Real Estate Investment Trust (HFC REIT) was created by the Home Finance Company Limited and has been present in the market for more than 20 years. In 2016, its net asset value was GHS61.4 million (USD15.7 million), rendering it the third biggest unit trust, it had almost 6,000 shareholders and its annualised yield was 18% (SEC, 2016). Stakeholder interviews, however, reveal there is speculation on whether the HFC REIT actually fulfils the function of a REIT, which is described as providing investors with “exposure to real estate properties and mortgages” (JSE, 2013). Nevertheless, the presence of only one such instrument in the market indicates that there is a significant potential for growth.

*Infrastructure bonds are also largely absent from the Ghanaian market, despite the significant positive impact that they could have on infrastructure deficits.* Section 3 emphasises the extent to which businesses in Ghana are affected by infrastructure issues (such as unreliable and expensive electricity and water shortages. Despite the fact that the NPRA guidelines on the investment of pension fund assets explicitly mentions infrastructure bonds (whether issued by the GoG, the local government or corporate entities) as a permissible investment instrument, stakeholder interviews indicate that infrastructure bond market instruments are not available. The development of instruments with an attractive risk-return profile could potentially ameliorate Ghana’s difficulties with infrastructure.

*Commodity instruments are emerging and derivatives are absent, but in design.* More sophisticated capital markets instruments are largely undeveloped in Ghana. For example, the Ghana Commodity Exchange (GCX) is a platform for trading listed commodities that was only piloted for the first time in April 2018 (Ghana Commodity Exchange, 2018). Initially, the GCX plans to only be trading in spot contracts for physical agricultural products, such as maize, paddy rice, beans and groundnuts (GoG Official Portal, 2018). Stakeholder interviews also indicated that the regulator intends to develop and introduce derivatives into the market in the near future.

*The market lacks a domestic ratings mechanism.* Credit rating agencies give investors peace-of-mind that, for example, bonds are of a sufficient quality to invest in. Given the lack of domestic ratings mechanism in Ghana, debt instruments are not a very secure investment options. As such, the risk of investment in these instruments is enhanced, which evokes more significant penalties through Risk-Based Assessment (RBA) models. Stakeholder interviews indicate that the GoG is looking into developing these types of mechanisms.

**Insurers contribute to bank liquidity and longer-term deposits through a substantial bank portfolio.** Term deposits held at a licensed bank constitute 44% of life insurers’ assets and 25% of non-life insurers’ assets (NIC, 2016). Given that insurers alone invest more than GHS1 billion (USD256 million) in term deposits, they are likely to play an important role in bank lending and liquidity.

**Insurers also contribute, to a limited extent, to government borrowing through investments in government securities.** Insurers invest GHS378 million (USD97 million) in GoG securities, making up 11% of assets for life insurers and 13% for non-life insurers. As such, insurers contribute to government borrowing through investments in government securities, although in 2016, their holding of domestic debt represented only 0.3% of total government debt (BoG, 2016).

**Solvency requirements favour more liquid investments.** In order to meet the NIC’s solvency requirements, insurers are incentivised to invest in those instruments that have a small discount applied. The discount applied by the NIC, in terms of their role as assets held by

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76 The discount rate can be described as an “enterprise’s risk adjusted opportunity cost of capital” (The General Insurance Study Group of the Institute of Actuaries, 1987).
insurers, on GoG and BoG securities is 0%. The discount applied on cash and term deposits held at a licensed bank, as well as corporate debt is 5%, whereas securities listed on the GSE (excluding securities that are corporate debt) is discounted at 15%. Such requirements are necessary to protect the insurance market. Alternative instruments such as credit ratings could be useful to allow smaller discounts on independently assessed longer-term products.

7.3.3. Institution building and governance

*Professionalisation of trustee community.* Pension fund trustees control the bulk of long-term assets in Ghana but are seldom educated for the role. Corporate trustees such as insurance groups have an important role to play to professionalise pension fund trustees. This includes their oversight role of pension activities, the reporting they require from pension funds, but also the investment incentives they set for the fund management community. Interviews indicated that most trustees require fund managers to compete on cost rather than on the quality of investment, which inhibits capital market development. Insurance groups can play a role to change this approach.

*Governance valuations, auditing and accounting standards.* Valuation approaches of investment firms and the implementation of auditing and accounting standards by business vary in quality across the industry, according to interviews. This inhibits trust and transparency, which affects investment in Ghana. Investment professionals, including insurers as institutional investors, have a significant role to play to improve the quality of such institutions.

*Liability cover to financial sector.* Most financial service providers require liability cover to operate in Ghana. This is particularly significant for larger providers or more complex groups. Such risks are often off-shored to limit contagion in the financial sector. Appropriate cover is not always available according to interviews, especially for larger pension funds.

7.4. Gaps and opportunities

7.4.1. Market gaps and opportunities

*Limited opportunities for insurers to build long-term capital, given short-term liabilities.* Insurers mobilise largely short-term assets given the current liability profile of the market. The largest contribution that insurers currently make to the capital market is likely by enabling business to invest. Section 6 above sets out key opportunities in this space.

*Annuity market development is main driver of future long-term behaviour by insurers.* Insurers have a major role in the provision of pension annuities. This market will grow in coming years as people retire from the newly formed private pension sector. Building effective regulatory frameworks, data and investment options to issue such annuities will be significant to benefit from this growth. The impact of such changes will likely be felt in the medium to longer-term.

*Potential for insurers to play greater role in pensions to develop capital markets.* Insurance groups play a significant role as a corporate trustee. This could be extended to professionalise the trustee community to improve investment behaviour, mobilise voluntary pensions (especially for self-employed individuals or individuals working in the informal sector) and engage in research and development activities that will allow the sector to diversify and grow.
New long-term investment options required given increasing supply of capital. As indicated above, over the past four years, due to pension reform, the Ghanaian capital markets have witnessed a significant influx of private sector capital – from GHS805 million (USD435 million) to GHS6.8 billion (USD1.7 billion), which represents 844% growth. This influx constitutes a significant opportunity for the capital markets to develop and deepen, since this private sector capital requires diversified investment portfolios that include longer-term, secure assets.

The limited instruments offered to institutional investors in the Ghanaian market affect their ability to develop the domestic capital markets and to branch out beyond a conservative, risk-averse investment approach. The development of long-term instruments with an attractive risk-return profile is critical to incentivise institutional investors to diversify their investments away from short-term, low-risk GoG debt instruments. The development of long-term instruments such as REITs and infrastructure bonds has the additional benefit of potentially contributing to addressing the present housing shortage. Insurers can play a role to develop such instruments given their dependence on investment returns for profitability and sustainability.

Liability cover needed for financial service providers. Liability cover products are needed to meet regulatory requirements for financial service providers and as a core tenant of ensuring the stability of the financial sector.

7.4.2. Regulatory gaps and opportunities

Insurance participation in pensions to be encouraged. Although the provision of provident funds and personal pensions by insurers is not explicitly prohibited in the legislation, stakeholder interviews indicate that there is confusion surrounding whether or not insurers may directly engage in the distribution of voluntary pensions and whether cross-selling is allowed where insurance groups include corporate trustees. This limits the extent to which insurers are currently playing a role in the distribution of pensions, which could be enhanced by more formal clarification on the part of the supervisors regulating the insurance and pension sectors.

The explicit inclusion of insurers in the creation of a capital markets development strategy can extend the role that they play. By taking the potential roles and functions of insurers into consideration in the development of a capital markets development strategy, supervisors have the opportunity to better coordinate the insurance sector’s contribution to the Ghanaian capital markets.

Credit ratings to be considered to improve safety of debt instruments. Significant amounts of insurance and pension assets are invested in bank and other financial institution debt instruments with limited due diligence by the investors. Independent assessments, such as credit ratings, could be useful to avoid the risk of default. Alternatively, diversification of investments will be critical to avoid the build-up of risk.
8. Conclusion

This study explored the development path and present state of the insurance market in Ghana to understand the current and potential role of insurance from three perspectives: (i) in building household resilience, (ii) in supporting business resilience and enterprise development and (iii) in capital market development.

The role of insurance for development in Ghana. The study found that the insurance market plays a significant role in inclusive growth and development, particularly for enterprises.

- **Insurance contributes to the resilience of some Ghanaians, but many remain unserved.** Few Ghanaians have insurance at present; however, the market is growing and micro-insurance is particularly popular. Six percent (6%) of adults reported having insurance cover in the most recent FII demand-side survey, and only 1% of Ghanaian adults reported using insurance as a coping mechanism when experiencing a financial shock, compared to 12% reporting to sell assets and 16% reducing their expenses. A total of 2.8 million microinsurance policies have been sold, of which 60% (largely funeral cover and loss of income products) are through mobile channels. Education endowment policies are also very popular and make up most life insurance books. Forty percent (40%) of people are covered by National Health Insurance, although out-of-pocket health expenses as a percentage of total health expenses are still high (36% in 2015). Other health insurance, employee benefits and agricultural products are not common.

- **Insurance significant for foreign investment and larger enterprises, but few smaller enterprises are covered.** Some of the main productive and growth industries all rely on insurance – mining, oil and gas, construction and transport and storage rely heavily on property, liability, motor, marine and aviation, engineering and other specialist insurance lines. Domestic insurers currently retain 35% of related non-life risks, with consortiums covering some of the larger risks, including an oil-and-gas pool which retains 5% of the related risks. Foreign direct investment is significant for growth, making up 80% of new investment at USD4.91 billion. This is significant compared to the full size of the local insurance industry at USD1 billion in assets. Crops, especially cocoa, is the second-fastest growing industry after oil and gas, but it has access to limited insurance cover. Droughts, floods and pests are significant risks for most farmers. The Ghanaian Agricultural Insurance Pool (GAIP) covers all agricultural risks, with 4,000 existing policies. Few smaller businesses have access to insurance; however, they employ 2.6 million people and contribute 1.7% to GDP (Ghana Statistical Service, 2017a).

- **Insurance plays a limited role in capital market development.** Insurers in Ghana mobilise a relatively small portion of total financial sector assets at 2.8% or USD1 billion. Over 75% of these assets are short-term, with almost 50% in cash and term deposits. Land and buildings are the most significant long-term investment. Current long-term assets already exceed long-term liabilities, which constrains insurers’ ability to invest longer term. Insurance groups also contribute to capital market development through their role in the pension sector, where they direct the

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77 Including all domestic firms classified as micro, small and medium-sized in IBES II (Ghana Statistical Service, 2017a)
allocation of 55% of pension assets as corporate trustees and they are mobilising pension assets with the introduction of new voluntary pension products.

Priority opportunities for development. Significant potential remains to extend the insurance market in Ghana. Socio-economic, macro-economic and political conditions are increasingly favourable, as are regulatory and policy conditions. Eight priority opportunities were identified to enable insurance markets to contribute more to development:

- **Design products to meet consumer needs and provide value.** Few insurers use consumer data in their product design and public data is limited. Interviews indicate very limited demand-side research is undertaken by insurers themselves. Insurers should leverage new and existing types of consumer data to gain a better understanding of potential customers, their needs and nuances of insurance behaviour and usage. Better understanding customers’ needs and behaviour and leveraging technology to develop innovative product solutions will help to build the perception of insurance among Ghanaians as products provide greater value to households and businesses.

- **Broaden distribution options.** The success of MNOs as a distribution channel shows the potential for further digitisation of distribution, including call centres. The further digitisation of insurance distribution through aggregators such as platforms and the development of effective digital payments offer opportunity. To reach small businesses on a sustainable basis, regulation that restricts bancassurance to retail customers should be revisited.

- **Digitise for efficiency and value.** High cost ratios, limited digitisation or legacy systems have made many insurers inefficient, which in turn limits their ability to offer value to consumers by paying claims. The existing market structure, nature of competition and limited skills availability all contribute to the status quo. The digitisation of key processes throughout the insurance value chain offer a significant opportunity to improve the efficiency of the industry and extend the effective reach of insurance products.

- **Improve enterprise risk management.** Enterprises face risks that can undermine the sustainability and longevity of their businesses. Few insurers are playing an active role in helping business clients manage and prevent risks. However, insurance can play a critical role by providing financial support in the event of a risk event occurring and by employing their technical expertise and technology to prevent the likelihood of the risk occurring in the first place.

- **Build long-term capital.** The short-term nature of insurers’ liabilities limits their ability to contribute to long-term capital in Ghana. A limited range of long-term investment instruments and the relative return of short term investments further contribute to insurers’ predominantly short-term investment profile. Developing and building on products that mobilise long term capital, such as annuities and endowments, may constitute an opportunity for insurers to further contribute to the building of long-term capital in the economy. The harmonisation of insurance and pension legislation could further contribute.
• **Consider key policy trade-offs and questions.** It is crucial that policymakers consider not just how policies contribute to insurance market development but also the impact on broader economic development. Examples in Ghana include leveraging global risk sharing, compulsory products, the market development mandate of the regulator and the growth of the digital payments ecosystem.

• **Consider key regulatory constraints.** Fragmentation and unsustainable businesses practices have contributed to the negative perception of insurance. Improving this perception may require the exit or merging of struggling institutions. A treating-customers-fairly approach to market conduct, with effective complaints and recourse mechanisms will further build trust. To foster more sustainable business practices and innovation, skills development, cost-sharing structures and the use of data should be prioritised alongside providing the industry clarity on the legality of e-signatures and airtime deductions.

**Key actions to unlock potential.** To unlock the potential of insurance markets for development in Ghana requires the implementation of a range of actions as discussed throughout this study. The priority actions that have the greatest potential to unlock the opportunities above are set out below. Implementing these activities will not always be simple but achieving them can play a significant role in developing insurance markets and the economy.

<table>
<thead>
<tr>
<th>Opportunity action or activity</th>
<th>HH resilience</th>
<th>Business resilience</th>
<th>Capital market development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement regulatory interventions to resolve unsustainable or poor-performing insurers to build trust and improve value, including effective coordination with other regulators</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Deepen digitisation to improve efficiency, convenience and trust</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Broaden NIC mandate to explicitly encompass market development that considers economic development and inclusion objectives</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Build critical capacity for product value, delivery and risk management potential – including underwriting, data, actuarial and cost management skills</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Grow central services industry to manage cost and share skills. Consider new regulatory structures such as new cell captives/syndicates or new types of intermediaries to improve efficiencies and innovation incentives.</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Review localisation requirements to ensure they support economic development objectives</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collect data to understand the market and develop more tailored products, including products for women and SMEs</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Proposal</td>
<td>Action</td>
<td>Action</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>Improve conduct and recourse mechanisms for better value and simpler complaints mechanisms</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Amend regulation to allow bancassurance to serve small businesses</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Assess whether GAIP is the best structure to provide value to the agricultural sector or consider opening the market</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Retain airtime deductions as an interim MNO approach, but collaborate with payments industry to build alternative digital options</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Deepen nascent employee benefits market for middle class, consider group life as an opt-out option linked to pensions</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Develop annuity infrastructure to retain retiree funds to limit old-age poverty and build capital market, including the required regulations, data and skills</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<tr>
<td>Encourage insurer distribution of voluntary pensions to build capital</td>
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<td>✓</td>
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<tr>
<td>Engage professional investment managers in insurance to diversify portfolios and catalyse more innovative products</td>
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<td>✓</td>
<td></td>
</tr>
<tr>
<td>Consider credit ratings or alternative mechanisms to ensure safety of insurer investment into term deposits and other credit instruments</td>
<td></td>
<td>✓</td>
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<tr>
<td>Improve indemnity cover and consider removing regulatory restriction of this business line to local only provision, particularly for larger providers or groups</td>
<td></td>
<td>✓</td>
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</table>
Bibliography


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List of referenced laws

Anti-Money Laundering Act (No. 749/2008)

Banking Act (No. 637/2004)

Banks and Specialised Deposit-Taking Institutions Act (No. 930/2016)

Banking (Amendment) Act (No. 738/2007)

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Payment Systems and Services Bill, 2017
Securities Industry Act (No. 929/2016)
Value Added Tax (Amendment) Act (No. 948/2017)

List of referenced guidelines, frameworks, regulations and rules

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Bancassurance Guidelines, 2010
Governance and Risk Management Framework (Life), 2016
Governance and Risk Management Framework (Non-life), 2016
Guidelines for E-Money Issuers in Ghana, 2015
Guidelines on Claims Management for Life Insurers, 2014
Guidelines on Claims Management for Non-life Insurers, 2014
Market Conduct (Microinsurance) Guidelines, 2013
Market Conduct (M-insurance) Rules, 2017
Solvency Framework for Life Insurers, 2014
Solvency Framework for Non-Life Insurers, 2014
Reinsurance Guidelines, 2017
Appendix A: Context drivers of market development

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<th>2016</th>
<th>2017</th>
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<td>Mortality rate, under five years (per 1,000 live births)</td>
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<td>61.0</td>
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<td>Prevalence of HIV, total (% of population ages 15–49)</td>
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<td>Children (ages 0–14) newly infected with HIV</td>
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<td>Life expectancy at birth, total (years)</td>
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<td>Prevalence of underweight, weight for age (% of children under 5)</td>
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<td>Current health expenditure (% of GDP)</td>
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<td>5.9</td>
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<td>Domestic general government health expenditure (% of GDP)</td>
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<tr>
<td>Domestic private health expenditure (% of current health expenditure)</td>
<td>50.1</td>
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<td>Out-of-pocket expenditure (% of current health expenditure)</td>
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<td>Adult literacy (%)</td>
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<td>Mean years of schooling</td>
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Table 23: Health and educational outcomes

Source: UNDP (2014); World Bank (2018) and WHO (2018)
Appendix B: Policy and Regulation

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<th>Class of business</th>
<th>Rate for brokers (%)</th>
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<tr>
<td>Fire</td>
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<tr>
<td>Contractors – all risks</td>
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<td>Engineering</td>
<td>18.5</td>
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<td>Marine cargo</td>
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<td>Marine hull</td>
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<tr>
<td>Motor comprehensive</td>
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<td>12.5</td>
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<td>Motor third-party</td>
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<td>Workmen’s compensation</td>
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Table 24: Commission rates for insurance intermediaries

*Source: NIC (2015)*

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Table 25: Insurance regulatory framework

*Source: Authors’ own (2018)*

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<th>Asset</th>
<th>Discount to be applied (%)</th>
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<td>Money market mutual funds</td>
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<tr>
<td>Land and buildings held as an investment</td>
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<tr>
<td>Land and buildings occupied by the insurer for its own use</td>
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<td>Plant, equipment and furniture</td>
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<td>Motor vehicles</td>
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<td>ICT</td>
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<tr>
<td>Amount due from reinsurers less than six months old</td>
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<tr>
<td>Any asset, other than an asset listed above, except assets required to be deducted from core capital</td>
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Table 26: Asset class discounts for non-life insurers

*Source: Solvency Framework for Non-life Insurers (2014)*
<table>
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<th>Asset</th>
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<td>Land and buildings held as an investment</td>
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<tr>
<td>Land and buildings occupied by the insurer for its own use</td>
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<td>Plant, equipment and furniture</td>
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<td>Motor vehicles</td>
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<td>Amount due from reinsurers less than six months old</td>
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Table 27: Asset class discounts for life insurers

*Source: Solvency Framework for Life Insurers (2014)*
Appendix C: The role of insurance in capital market development

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<th>Life insurers</th>
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<tr>
<td><strong>Other</strong></td>
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<tr>
<td>Other securities</td>
<td>30,854,716 (USD7.9m)</td>
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<tr>
<td>Other investments</td>
<td>10,500,500 (USD2.7m)</td>
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<tr>
<td>Other assets</td>
<td>1,305,392 (USD352,808)</td>
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<td><strong>Long-term</strong></td>
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<td>Securities listed on GSE</td>
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<td>Land and building held as investment</td>
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<td>Intangible assets</td>
<td>3,226,455 (USD827,296)</td>
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<td><strong>Medium-term</strong></td>
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<tr>
<td>Property, plant and equipment</td>
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<td>Equity-backed mutual funds</td>
<td>59,019 (USD15,133)</td>
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<tr>
<td>Corporate debt</td>
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<td><strong>Short-term</strong></td>
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<tr>
<td>Term deposits held at a licensed bank</td>
<td>938,217,992 (USD240.6m)</td>
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<td>Statutory deposits</td>
<td>21,026,008 (USD5.4m)</td>
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<tr>
<td>Receivables</td>
<td>96,515,981 (USD24.7m)</td>
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<td>Other-term deposits</td>
<td>66,192,291 (USD16.9m)</td>
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<tr>
<td>Money markets mutual funds</td>
<td>34,064,539 (USD8.7m)</td>
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<td>Investments in and subordinated loans to connected persons</td>
<td>51,866,619 (USD13.3m)</td>
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<td>GoG securities</td>
<td>234,138,916 (USD60m)</td>
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<td>Cash</td>
<td>109,773,267 (USD28.1m)</td>
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<td>BoG securities</td>
<td>Non-life insurers</td>
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<tr>
<td>----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td></td>
<td>12,222,056 (USD3.1m)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,131,695,630 (USD545,588,623)</td>
</tr>
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</table>

**Table 28: Breakdown of insurers’ assets (GHS, 2016)**

*Source: NIC (2016)*
# Appendix D: Stakeholder interviews

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<th>Institution</th>
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<td>Akosua Ansah-Antwi; CC Bruce Jnr; Jacqueline Benyi; Paul Ampadu Yeboah; Phyllis Woode-Nartey</td>
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<td>SEC</td>
<td>Emmanuel Ashon-Katai; Frank Donkor; Paul Ababio</td>
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<td>Ralph Agbeko; Vera Kate Haizel-Cobbina</td>
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<td>Kwame Asare boakye; Seth Ofori Twumasi</td>
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<td>Charles Odartey Mills; Faris Attrickie</td>
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<td>Alhaj Ali Muhamad Katu ACII; Evelyn Rose Afanyedey</td>
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<td>Sampson Akligoh; Benjamin Torsah-Klu; Richard Ofori Addo</td>
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<td>Department for International Development</td>
<td>Louis LaPaz</td>
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<td>16/05/2018</td>
<td>Prudential Africa</td>
<td>Catherine Clark</td>
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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.

About the World Bank

The World Bank Group is a global partnership of five institutions that are working for sustainable solutions that reduce poverty and build shared prosperity in developing countries. It is one of the world’s largest sources of funding and knowledge for developing countries.

About DFID

The Department for International Development (DFID) leads the UK’s work to end extreme poverty. It is tackling the global challenges of our time, including poverty and disease, mass migration, insecurity and conflict, with the aim to build a safer, healthier, more prosperous world for people in developing countries and in the UK.

About Cenfri

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 the Centre for Disaster Protection

The Centre for Disaster Protection finds better ways to stop disasters that devastate lives and economies. It does this by supporting countries to better manage disaster risk.