The role of insurance in inclusive growth: Ghana in brief

Note 2

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DFID has partnered with the World Bank, FSDA and Cenfri to conduct a series of diagnostics to understand how insurance market development can contribute to sustainable and inclusive growth.

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Abbreviations

Cenfri	Centre for Financial Regulation & Inclusion
DFID	Department for International Development
FDI	foreign direct investment
FII	Financial Inclusion Insights
FSDA	Financial Sector Deepening Africa
G2G	government-to-government
G2P	government-to-person
MoF	Ministry of Finance
NIC	National Insurance Commission
USD	United States dollar

USD/GHS Exchange rate

The local currency in Ghana is the Ghanaian Cedi (GHS). The United Stated dollar (USD) equivalent shown throughout this document was calculated using a sixth-month average exchange rate (between 30 Sept. 2017 and 30 Mar. 2018) of GHS4.48/USD (Oaanda, 2018).

1. About this note

This is the second in a series of six notes that explore the role of insurance in sustainable and inclusive growth in sub-Saharan Africa (SSA) from three perspectives: (i) in building household resilience, (ii) in supporting business resilience and enterprise development and (iii) in capital market development. The notes in this series are summaries of larger diagnostic studies funded by DFID and FSDA and in partnership with the World Bank to explore the development path and contribution of the insurance market in four countries: Ghana, Kenya, Nigeria and Rwanda.

The series is organised as follows:

- Note 1 introduces the series and positions the scope of the diagnostics.
- Notes 2 to 5 respectively present the findings for each of the case study countries.
- Note 6 synthesises key themes across the case study countries and draws conclusions and recommendations for SSA on how to further develop insurance markets to support sustainable growth and economic development.

This note explores the state of the insurance sector in Ghana and unpacks the key drivers of market development, its current role in inclusive growth and what can be done to enhance its role. It draws on desktop research, quantitative analysis of Financial Inclusion Insights (FII) (2015) and Integrated Business Establishment Survey (2017) and over 65 country stakeholder consultations between January and April 2018.

2. Drivers of market development

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

Relatively small insurance market, with potential to serve more people. 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). Only 6% of the adult population reported having an insurance product excluding health in 2015 (FII, 2015). It is estimated that a further 5.5 million adults could feasibly be served with insurance.[1]

Table 1 below outlines summary indicators for Ghana:

Demographics	Population Population urbanised	29 million 15.9 million
Macroeconomic	GDP per capita Inflation rate	USD1,641 12%
Financial inclusion	Banked population Mobile money accounts	34% of adults 39% of adults

[1] This is based on our target market analysis in the longer Ghana Insurance for Growth Diagnostic. This is based up individuals' source of income, bank account ownership, mobile phone ownership, poverty line status and urbanisation status.

Insurance uptake	Insurance uptake Insurance uptake excluding health	65% of adults 6% of adults
Size of the insurance market	Insurance market penetration Number of life insurers Number of general insurers Number of local reinsurers Life insurance: GWP (2016) General insurance GWP (2016)	1.14 % of GDP 24 27 3 USD220 million USD274 million
Value and performance	Life insurance expense ratio Non-life insurance expense ratio Non-life insurance: average claims ratio	65% 94% 39%

Table 1: Key statistics

Sources: World Bank (2017), NIC (2016), FII (2015), Global Findex (2017)

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[2] reflect growing stability following a period of high inflation and significant volatility. This, coupled with political stability and an explicit policy commitment to economic and social development[3], have contributed to growing investor confidence.

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. Additionally, the Ministry of Finance (MoF) 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.

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 predominately 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[4], 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.

[2] 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).

[3] 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).

[4] Airtime deductions are permitted by regulatory exemption only.

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.

Focus on compulsion limiting the ability and incentive to innovate. In 2016, motor vehicle insurance accounted for 48% of all non-life premiums and 28% of total industry premiums written (NIC, 2016). 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 to innovate in the design and delivery of retail products to consumers.

High costs affecting business sustainability and client value. The average expense ratio across the industry is 65% of premiums for life insurers and 94% for non-life insurers (NIC, 2016). 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.

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 (Stakeholder Interviews). 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.

Growing alternative distribution channels. Agents and brokers account for most of corporate and traditional product distribution in Ghana, with 30% of all insurance premiums being distributed through each of them. However, bancassurance and mobile distribution are steadily growing and account for 16% and 6% of gross written premiums respectively (EY, 2016). In 2015, there were 2.7 million mobile insurance policyholders, but this figure is likely to have grown substantially.

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. Foreign reinsurers play a significant role to manage larger domestic risks and contribute 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.

Against this backdrop, how is insurance in Ghana faring in supporting household resilience, business growth and capital market development, respectively; and where do the main opportunities and imperatives lie?

3. Current role in sustainable and inclusive growth

3.1. Role of insurance in individual and household resilience

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[5] 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).

Education savings a significant driver of voluntary retail premiums. Endowment policies[6] 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 the majority, 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).

3.2. Role of insurance in business resilience and enterprise development

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).

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[5] 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 suggests that either individuals may not be aware that they have insurance products, or that individuals have multiple policies.

[6] 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.

Few smaller enterprises covered by insurance. Smaller businesses[7] 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.

3.3. Role in intermediation of capital

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. 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.

[7] Including all domestic firms classified as micro, small and medium-sized in IBES II (Ghana Statistical Service, 2017a).

4. What can be done?

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.

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