The potential of remittance-linked insurance products in sub-Saharan Africa

May 2020

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1. Introduction

This note explores the potential of remittance-linked insurance products to improve the resilience of households in sub-Saharan Africa (SSA). Remittances are particularly important on the continent, yet insurance products that enable the sustained flow of remittances or the resilience of senders and receivers remain unexplored in SSA. This note outlines why remittance-linked insurance products are important, what forms they could take, the business case for such products and the regulatory challenges that still need to be overcome to enable the introduction of such products on the continent.

An important capital injection for SSA. In 2018, the value of remittance flows into SSA was greater than the value of other foreign capital sources into the region such as overseas development assistance (ODA) and foreign direct investment (FDI)[1] (Cooper et al., 2018). In 2018 alone, SSA received USD84 billion in personal remittances, which accounted for on average 3% of gross domestic product (GDP) in SSA (World Bank, 2018). In some countries, this figure is even higher – in South Sudan, remittances accounted for 36% of GDP in 2019 and in Senegal they accounted for 10% of GDP (World Bank, 2020).

Much bigger than formal numbers indicate. When comparing formal remittance figures to migration estimates, it is clear that sending remittances through informal channels remains pervasive (Cooper & Esser, 2020). Moreover, while the uptake of digital remittance services is increasing, it is estimated that most remittances in SSA are still received in cash[2], with only 15% to 20% of formal remittances being estimated to be digital (Cooper & Esser, 2020 and The Economist, 2020).

A lifeline to households. While remittances can take many forms, they often entail a working migrant that sends regular amounts of money to support their family back home for a specific intended purpose. As remittances are a relatively stable and reliable source of income, they play a significant role in consumption smoothing and can help receiving households to respond better to unexpected expenses. A **study conducted with 1,146 remittance senders** in the United Kingdom (UK) that send remittances digitally to either Cameroon, Kenya, Nigeria or Uganda found that senders often remit with a specific intended purpose in mind. The most commonly cited purposes were everyday expenses such as household expenses and bills, bigger-ticket items like school feels and unexpected expenses such as health and funeral expenses[3].

Even more important in times of crisis. Remittances are particularly important in times of crisis, whether it be a family crisis, local economic crisis or global crisis like the ongoing COVID-19 pandemic. When the crisis is global, the implications are amplified, as both senders and receivers are negatively impacted. Disruption in economic activity caused by crises has excruciating impacts on vulnerable, low-income households, many of whom are likely to be remittance receivers. A recent study conducted by BFA on the effects of COVID-19 found that 73% of Nigerian

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1 In 2018, FDI to SSA was USD47 billion and ODA was USD55 billion (World Bank, 2018).

2 Sent through money transfer operators and redeemed in cash by the recipient

3 Eighty-four percent (84%) of respondents sent for health purposes; 82% for household expenses; 78% for celebrations; 75% for school fees; 65% for bill payments; 62% for no specific reason 58% for funerals; 36% for business reasons; 25% for loan repayment and 21% for insurance purposes.

respondents stated that their income has decreased and 49% indicated that their expenses have increased as a result of the COVID-19 pandemic (BFA, 2020). A study publish by insight2impact in April 2020 found that 55% of respondents in Nigeria said that it was not at all possible for them to come up with emergency funds, and a further 32% indicated that it was not very possible (i2i, 2020).Nigeria[4] is the largest remittance recipient in SSA, and it is likely that many of the households who have lost their income, are unable to come up with emergency funds and are facing new levels of financial stress will start to depend even more heavily on remittances for everyday expenses, like putting food on the table for their families.

Flows negatively affected by economic crises. Ironically, history shows that remittance flows are often eroded at the times when they matter most. During global economic crises, migrants might lose their jobs in their host country or face reduced economic circumstances. This has a negative impact on the value of remittances sent home. For example:

- The 2008/9 financial crisis resulted in a 5% decrease in remittance flows globally, after five years of more than 10% year-on-year growth. In SSA, remittance flows decreased by 3% (Guillen, 2015; Mohapatra et. al, 2010).
- As a result of COVID-19, one payments company that allows individuals to send from the United Kingdom to Africa had (at the time of writing) already seen an 80% decrease in transfers, whereas another payments company that operates from Italy to Africa had seen a decrease of 90% (The Economist, 2020).
- The World Bank estimates that remittance flows to sub-Saharan Africa will drop by around 23% to USD37 billion in 2020, down from USD48 billion in 2019, due to COVID-19.

Reduced remittance flows have a significant impact on remittance receivers' poverty levels and household resilience, as they are less able to manage both everyday expenses and unexpected financial shocks.

Insufficient financial solutions to ensure sustained flows. The effect of crises on remittance flows and, with that, on resilience, highlights the need for financial products that enable remittance senders to continue to send remittances when risk events like economic and health shocks occur, or to cover the impact of such shocks on remittance receivers. However, any insurance uptake beyond government-subsidised health insurance remains low throughout the sub-continent, with less than 10% of adults in most SSA countries being insured (Schlemmer, 2020).[5] This indicates that there is a large risk protection gap in SSA, leaving many households with inadequate mechanisms to respond to risk events.

4 In 2019, Nigeria received USD23.9 billion in remittances (World Bank, 2019).

5 Fifty-four percent (54%) of adults (122 million) in 11 SSA countries (Democratic Republic of the Congo, Ghana, Kenya, Madagascar, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe) faced an insurable risk within the last year.

2. The potential for remittance-linked insurance products

Senders and receivers in need of appropriate coping mechanisms. Both senders and receivers face unexpected risk events that have negative effects on their livelihoods:

- **Sender risk events:** Senders face the risk of not being able to send remittances back when they are faced with unexpected shocks, such as death, disability, accident or illness. Exposure to risk events is exacerbated by the fact that many migrants work in the informal sector and are unable to access basic safety nets. Senders additionally face income shocks when remittance receivers face a risk event which has a large financial implication and require senders to send additional money to receivers to cover the financial cost of the risk event. These types of events are unplanned and therefore put additional financial strain on remittance senders.
- **Receiver risk events:** Remittance receivers face shocks to their disposable income due to health, life, asset or business-related risks, which in turn negatively affect their ability to maintain their livelihoods. When this happens, receivers require greater support from remittance senders. Additionally, receivers also face reduced income if senders face shocks and are unable to send money to them. This could be shocks to the sender such as health or business risks, but also more severe risk events like disability or death.

Remittances already used as risk coping mechanism. Remittance senders are not only helping receivers to smooth consumption on everyday household expenses; they also help with risk coping. Receivers often request money to be sent when they face an unexpected financial shock. In this way, remittance receivers are transferring the financial cost of risk events that they face to remittance senders. For example, 84% of senders in the UK study reported that they sent remittances for health purposes (Rinehart-Smit, et al, 2020).

Scope for remittance-linked insurance products. Distributing insurance through remittance service providers (RSPs), e.g. remittance-linked insurance products, has the potential to build resilience by unlocking greater formal remittance flows to SSA, as well as by increasing insurance uptake to help close the risk protection gap. Transferring risk to an insurer will enable the continued flow of remittances despite remitters facing a risk event. Consequently, the welfare of the remittance receivers, who are often highly dependent on remittances for their livelihoods, is protected by ensuring that remittance flows are sustained despite risk events faced by senders. Insurance can also help to smooth the financial burden on senders when remittance receivers incur a shock and require senders to help tide them over.

Signs of existing demand in SSA. Previous studies have shown that migrants (remittance senders) have a desire to purchase insurance for their loved ones back home, and, to some extent, for themselves. In Spain, a study by SegurCaixa found that migrants want to be able to cover themselves when they visit their home country, as well as their family members. A study by AIC conducted on migrants in the Turks and Caicos found that they wanted to transfer the financial costs of the risks that their family members face to more formal channels (Powers, et. al, 2012).

Already intended to be used towards insurance premiums. The same study on UK digital remittance senders who send to Cameroon, Kenya, Nigeria and Uganda found 21% of respondents reported sending money back home to cover the cost of insurance premiums. This indicates that senders see the value in insurance for their loved ones back home (Rinehart-Smit, 2020). However, a separate study conducted in South Africa on funeral insurance found that convincing remittance receivers to spend remittances on insurance is challenging, especially when they have lower income levels (Powers et. al, 2012).

Desire to remit directly to insurance institutions. Twenty-one percent (21%) of senders in the UK study reported that they would remit directly to an insurance company if they were given the ability to do so. Twenty-nine percent (29%) of all senders surveyed reported that being able to remit directly to an institution would have a positive effect on their remittance sending behaviour in that they would either remit more money or more frequently. This indicates that senders would like to have greater control over how remittances are spent and see insurance as an important use case (Rinehart-Smit, et. al, 2020).

Various attempts previously, but market gap in SSA. The concept of providing insurance coverage for migrants is not new as much as been written about the need to develop insurance products specifically targeted at migrants. A number of products, some with RSPs as distributors, others with banks or MFIs, have been rolled out in various geographies, predominately for migrants from Asia and South and Central America, residing in the US, Europe or Hong Kong (Magnoni, et al, 2010). Upon the publication of this note, most of these products seem to have been discontinued. In a recent scan, we came across two remittance-linked insurance products in existence – both of which were offered by AXA – one targeted at migrants in Malaysia[6] and one targeted at migrants in the UAE[7]. At the time of our search in, no products covered senders from or receivers in SSA.

But enabling factors are making these products more viable. While the supply of remittance-linked insurance products is limited globally and nascent in SSA, there is strong potential for their existence. Advances in technology and the emergence of digital financial services is making such products more feasible and less onerous from a business case perspective. Additionally, innovative insurance arrangements are more supported by governments including critical enablers like digital IDs and signatures.

The rest of the section identifies different potential models for serving this unmet need and considers the potential business case remittance-linked insurance from the insurer as well as RSP's perspective.

2.1. Models of remittance-linked insurance products

Based on stakeholder consultations with insurers and RSPs and regulatory feasibility assessments of two corridors (United Kingdom to Nigeria and France to Côte d'Ivoire), we have identified four remittance-linked insurance model opportunities, which are outlined in more detail below. The models below are meant to be illustrative, as their design and the roles and responsibilities split may differ slightly depending on regulation within the sending and receiving countries as well as partnership agreements between insurers and RSPs.

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6 In Malaysia, AXA and MerchantTrade (the largest remittance service provider in the country) partnered to offer protection solutions for migrant workers and their families to cover disability, death, hospitalisation and funeral risks (AXA, 2018).

7 In the UAE, global insurer AXA, insurtech platform Democrance and MTO Hello Paisa partnered to offer customers of Hello Paisa free personal accident insurance when sending money home (Ben-Hutta, 2020)

1. Model 1: Covering senders' health, life or asset risks

This model covers remittance senders' risks in the host country. The sender would use claims to ensure a consistent remittance to the recipient, despite personal shocks suffered, thereby safeguarding the remittance flows. As illustrated by Figure 1, all aspects of the insurance value chain (including the distribution, premium collection and claims pay-out) occur in the host country, making this model the simplest from a partnership and regulatory point of view. This type of model could reach scale, as it can serve senders from different countries of origin.

Model 1 features

- *Underwriting:* An insurer in the host country would be the underwriter.
- *Risks covered:* The product would cover senders' risks, such as health, life, funeral, disability, critical illness or asset related in the host country.
- *Policy holding:* This could either be a group insurance product in which the RSP is the master policyholder with senders covered on the master policy, or an individual insurance product in which the sender is the policyholder.
- *Distribution:* The RSP in the host country would serve as the distribution partner for the insurer and sell the product to its customers, remittance senders.
- *Premium collection:* If an individual policy, the RSP would collect the premium from the sender and then transfer the funds to the insurer. If a group policy, the RSP would transfer the premiums directly to the insurer.
- *Claims pay-out:* If a group policy, the RSP would be responsible for transferring the claims payments to the sender, or potentially even directly to the receiver. If an individual policy, claims would be transferred directly to the sender from the insurer. The sender could choose to use the claims pay-out directly towards remittance transactions at his/her discretion. If the product covered the life of the sender and the sender passes away, the claim could be paid out (in either a lump sum or a number of instalments) through the RSP to the receiver in the home country as a policy beneficiary.

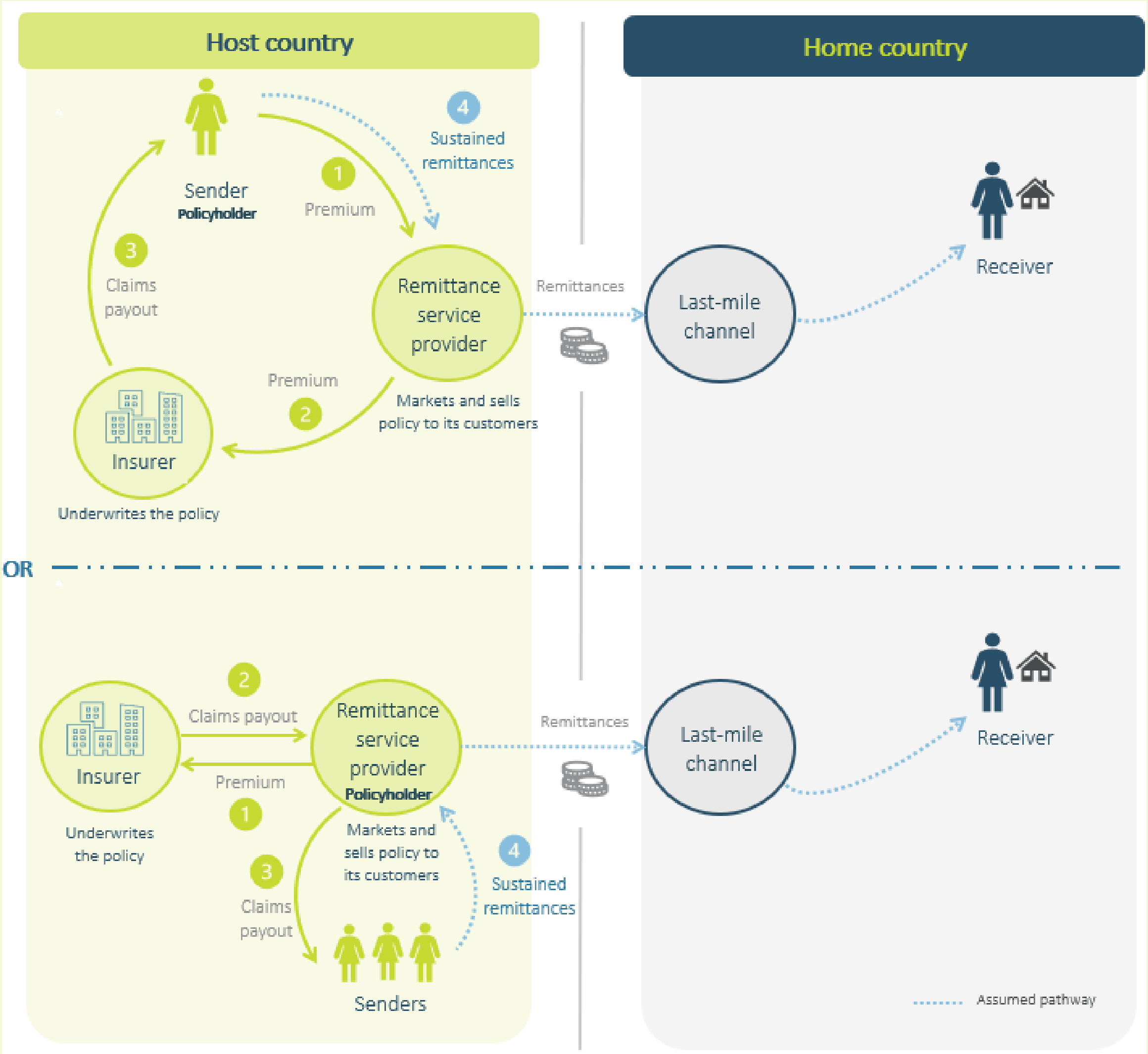

Figure 1: Model 1 – Covering senders' risks

2. Model 2: Covering senders' duty of support

This model covers the financial burden that arises due to the obligation of senders to send funds to receivers when risk events occur that receivers are unable to financially handle themselves. When these unplanned events happen, an obligation arises for the remittance senders to send more money than usual and they experience a financial burden. Thus, although the risk event happens to the receiver, the cover provided is for the knock-on financial burden on the sender. As illustrated by Figure 2 below, all aspects of the insurance value chain take place in the host country.

Model 2 features

- *Underwriting*: An insurer in the host country would be the underwriter.
- *Risks covered*: The product would cover remittance senders' duty of support risk in the host country.

- *Policy holding*: This could either be a group insurance product in which the RSP is the master policyholder with senders covered on the master policy, or an individual insurance product in which the sender is the policyholder.
- *Distribution*: The RSP in the host country would serve as the distribution partner for the insurer and sell the product to its customers, remittance senders.
- *Premium collection*: If an individual policy, the RSP would collect the premium from the sender and then transfer the funds to the insurer. If a group policy, the RSP would transfer the premiums directly to the insurer.
- *Claims pay-out*: Some sort of verification would need to be submitted to the RSP or insurer in the host country to prove that the underlying risk event that created the financial burden on the sender did happen. Claims pay-outs would be directly transferred to the sender from the insurer for an individual policy. If it is a group policy, claims would be transferred to the sender via the remittance provider.

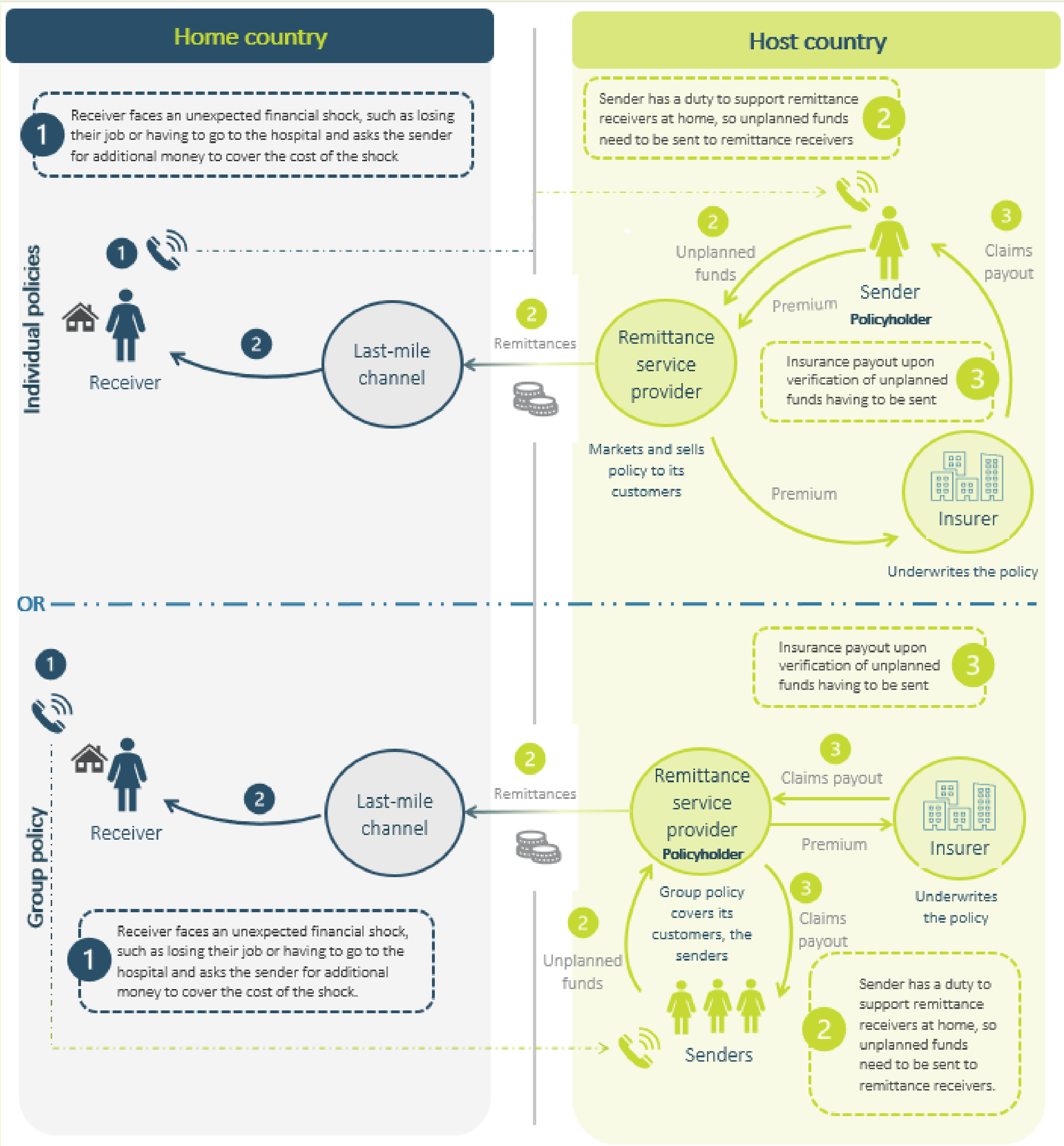

Figure 2: Model 2 – Covering senders' duty of support risk

3. Model 3: Covering remittance receivers' risks

This model covers remittance receivers' risks, such as health, life, business or asset-related risks. The receiver would be the policyholder. The sender would pay the premiums on behalf of the receiver, and the RSP would help to facilitate premium payments. This model could be extended to cover the recipients' loss of income in the event that the sender dies and is no longer able to send remittances.[8] As illustrated by Figure 2, aspects of distribution and premium payment would occur in the host country, whereas all other aspects of the insurance value chain would occur in the home country.

Model 3 features

- *Underwriting:* An insurer in the home country would be the underwriter.
- *Risks covered:* Risks of the remittance receiver, such as health, life, business or asset-related, would be covered. It is possible for the remittance sender's life and/or repatriation costs to be covered as well.
- *Policy holding:* This would be an individual insurance product in which the receiver is the policyholder. If a life policy that covers the sender, the sender or the receiver could be the policyholder.
- *Distribution:* The insurer and its distribution partners in the home country could sell the policy to receivers. The RSP in the host country could also market the policy to its customers, the remittance senders. However, as the receiver is the policyholder, paperwork would need to be submitted by the receiver and the policy taken up in the home country.
- *Premium collection:* The sender would be responsible for making premium payments on behalf of the receiver, and the RSP in the host country would facilitate the premium payments to the insurer in the home country.
- *Claims pay-out:* Claims pay-outs would be directly transferred from the insurer in the home country to the policyholder, the receiver.

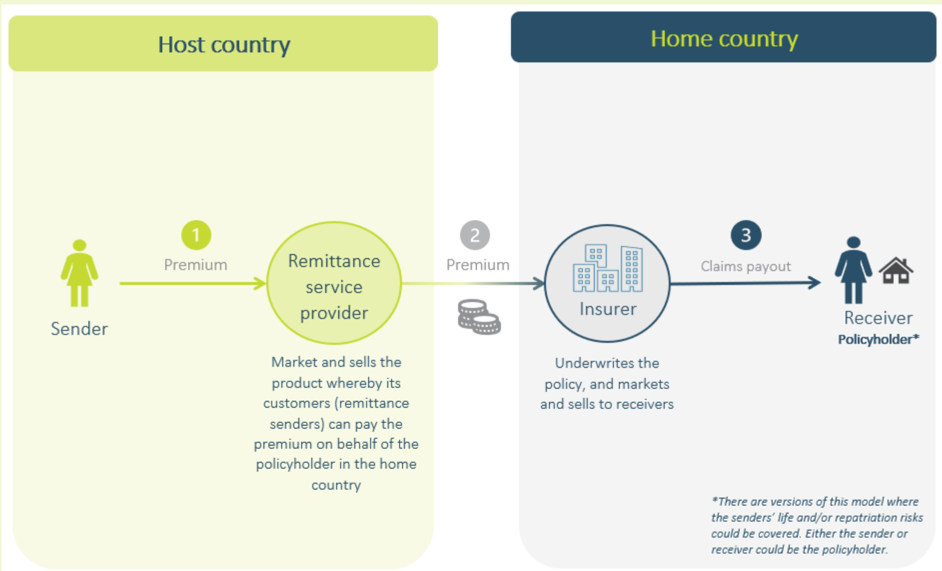

Figure 3: Model 3 – Covering receivers' risks

8 This could either a be a life insurance policy that a sender takes out and the receiver is the beneficiary, or a life insurance policy that the receiver takes out on behalf of the sender.

4. Model 4: Covering cross-border household unit risks

This model would cover one family across jurisdictions. Ideally, this would be a single policy underwritten in one country which covers both the sender's risks and the receiver's risks. There would be one policyholder that pays one premium for the portfolio of cross-jurisdictional risks. This would best fit the needs of cross-border families but is the most complex from a regulatory perspective at this stage. Figure 4 illustrates a version of this model where most aspects of the insurance value chain would occur in the host country, but some aspects such as claims settlement and verification of receiver claims may require partnership between the host country insurer and an insurer or technical service provider in the home country. Alternatively, this could be reversed where the underwriter is based in the home country and partnership is required for claims settlement and verification of sender claims in the host country.

Model 4 features

- *Underwriting:* This could work in two different ways: (1) where an insurer in the host country would underwrite the sender's and receiver's risks or (2) where an insurer in the home country would underwrite the risks of both the sender and receiver.
- *Risks covered:* Risks of both the remittance sender and the receiver (such as health, life, critical illness or funeral) would be covered.
- *Policy holding:* This could be either a group insurance product in which the RSP in the host country is the master policyholder with senders covered on the master policy, or an individual insurance product in which the sender is the policyholder.
- *Distribution*: The RSP and insurer could work together to market the package product on both sides, although it would make the most sense for the sale of policy to be to the sender in the host country who already makes the remittance payment.
- *Premium collection*: The sender pays the premium for both himself/herself and the receiver. If a group policy, the RSP would transfer the premiums directly to the insurer in the underwriting country (in this instance, the host country). If an individual policy, the RSP would collect the premium from the sender and then transfer the funds to the insurer in the underwriting country.
- *Claims pay-out*: In the example below, the insurer in the host country is the underwriter and therefore would verify and pay the claims directly to the sender. Verification and settlement of receiver claims in the home country would likely require partnership with either an insurer or a technical service provider in the home country or could be done digitally in the host country depending on the nature of the claim. If the underwriter was an insurer in the home country, the partnership agreement would be flipped.

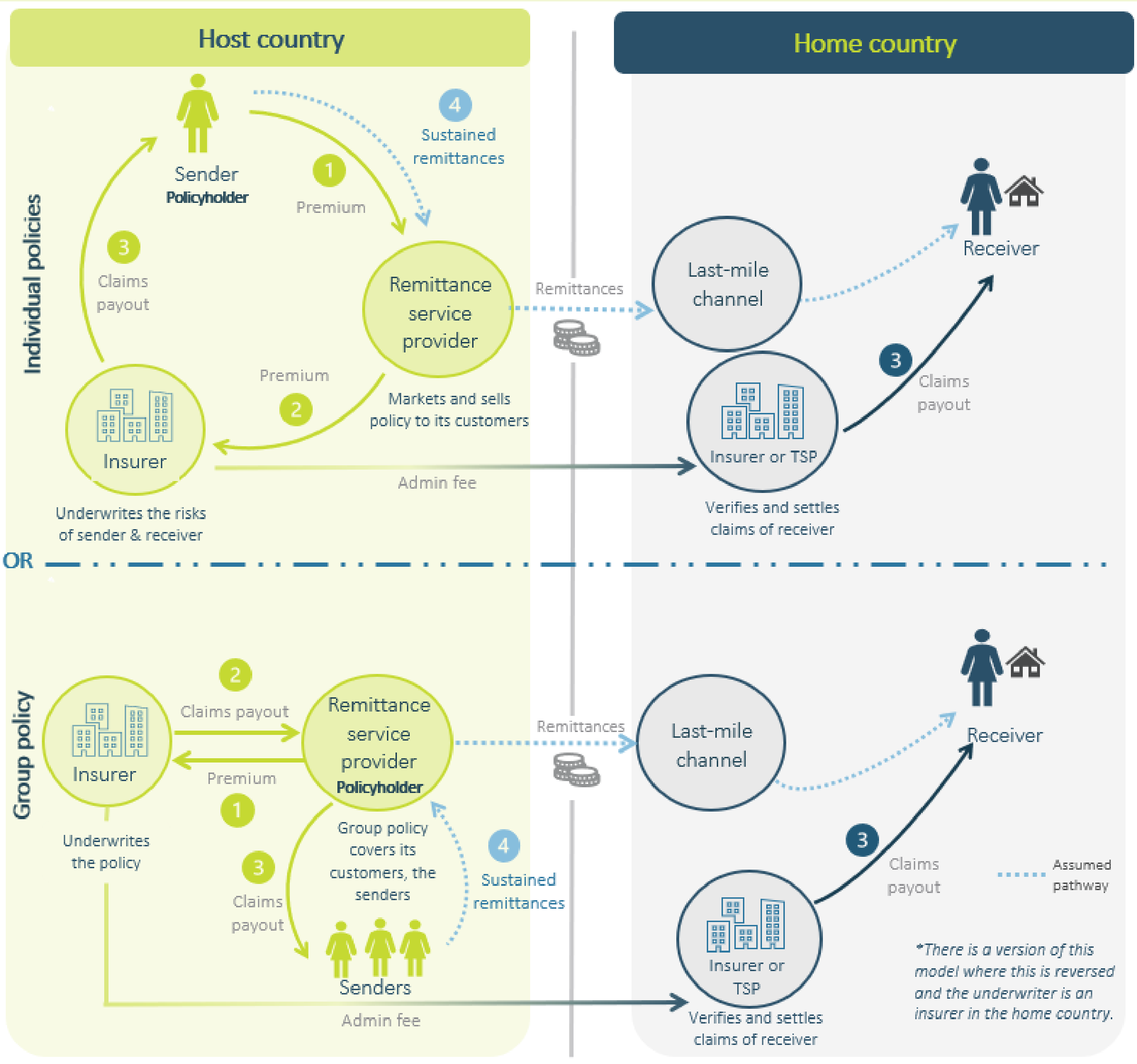

Figure 4: Model 4 – Household unit risks

2.2. The business case for remittance-linked insurance products

As indicated in Figure 5 below, there is a clear in-principle business case for insurers and RSPs to work together to distribute insurance products to remittance senders and receivers:

- **For insurers:** RSPs are a strategic distribution partner for insurers, as many of them already aggregate a large number of individuals onto a single platform. This enables insurers to target a large new target market segment. In addition, many RSPs have created a strong relationship with their senders, built on trust and consistent engagement. The RSPs have an established payments channel and known bank account for senders and, often, receivers, which can enable insurers to more easily collect premiums and make claims payments. This might, in turn, help to reduce policy lapse rates. Distributing insurance products through RSPs, especially digital ones, can help to reduce policy origination costs for insurers.

- **For RSPs:** By serving as a distribution partner for insurers, RSPs can earn a passive commission on each insurance policy sold, thereby increasing their bottom line. These types of products also have the potential to increase both the value and volume of remittance flows, as in Model 1 and 2 senders will be protected against risk events that happen to them. This will help to ensure the sustained flow of remittances even when senders face a risk event. Additionally, research shows that senders would be willing to send more money or send more frequently if they could send directly to an insurer in the home country (e.g. Model 3: Covering remittance receivers' risks) (Rinehart-Smit, et. al, 2020). Distributing insurance products would give RSPs a unique value proposition over competitors and simultaneously can create customer loyalty.

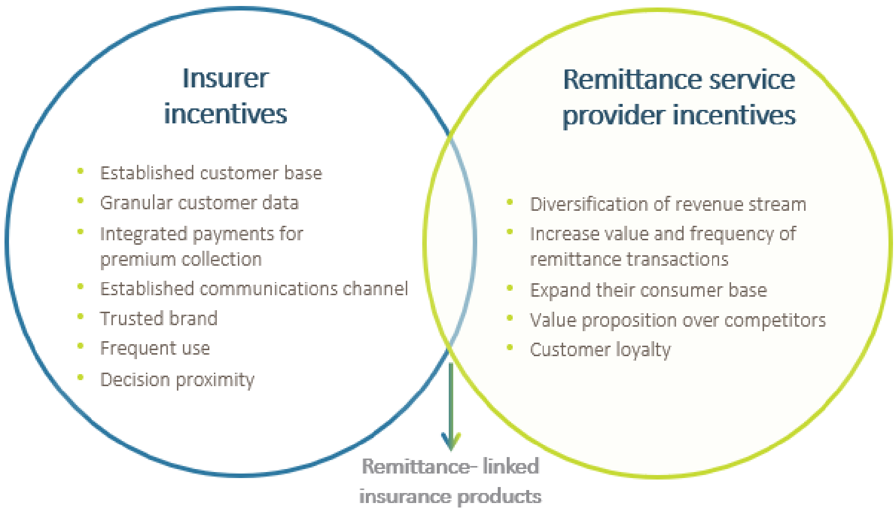

Figure 5: Incentives for insurers and RSPs

3. Why are there not more remittance-linked insurance products?

If the business case for remittance-linked insurance products is clear to both insurers and RSPs, why are we not seeing more of these products globally – and none in SSA? Remittance-linked insurance products remain limited globally and unexplored in SSA, due to four key barriers:

- **Partnership complexity:** Offering remittance-linked insurance products requires partnership between at least two entities: *insurers* who will underwrite the product and RSPs who will distribute the product. In Models 3 and 4, the partners will be in different geographies, governed by different regulatory regimes, which adds further complexities to the partnership. This comes in addition to other partnership intricacies such as IT systems integration and the need to coordinate partnership strategies on aspects such as commission structures, claims verification and administration, access to data and clients, etc.
- **Regulatory uncertainty:** Many insurers see the potential in partnering with RSPs to distribute insurance products but are unclear whether the regulatory architecture and frameworks in which they operate are conducive to such products. Their hesitance to incur costs to navigate the regulatory environment prevents them from partnering with RSPs to offer such products.
- **Regulatory grey areas:** Remittance-linked insurance products cut across the mandates of multiple regulators[9] and, as such, are subject to more than one set of regulatory requirements. This requires coordination among regulatory bodies and means that certain aspects of these products may fall in regulatory grey areas.
- **Regulatory barriers:** In some regulatory environments, the digital nature of remittance-linked insurance products would not be appropriately provided for in regulation and, in some instances, would be directly prohibited. Moreover, for the models that cut across multiple jurisdictions, there are key regulatory barriers in some jurisdictions to foreign entities that play a role in the insurance value chain. The existence of such regulatory barriers shapes the nature of the models.

Below, we consider the regulatory considerations for each model in more detail before outlining common regulatory grey areas and barriers.

3.1. Key regulatory considerations

A number of regulatory themes and questions determine which model(s) of remittance-linked insurance products are supported within a particular country's regulation and what regulatory requirements they would be subject to. These themes are outlined in the first two columns of Table 1 below. Whether the questions are asked with regard to the host (sending) country or the home (receiving) country regulation depends on where the insured risk is located and within which jurisdiction the underwriter is licensed.

To better understand the implications of regulation in practice, we applied the considerations in Table 1 to conduct regulatory feasibility assessments for remittance-linked insurance products in

9 Regulatory authorities responsible for: insurance, payments, AML-CFT, data privacy and security, electronic signatures

two corridors: United Kingdom to Nigeria and France to Côte d'Ivoire. For each corridor assessment, we looked in depth at regulation governing insurance, payments, anti-money laundering and countering the financing of terrorism (AML-CFT), data protection and sharing, as well as electronic communications and transactions.

The third column in Table 1 summarises the findings from the feasibility assessments. It suggests some of the key regulatory grey areas or hurdles to look out for based on the experience of the case study corridors. We will publish separate in-depth notes for each corridor to detail the exact regulation for that corridor.

Theme	Key regulatory considerations	Overall finding from two corridors
Jurisdictional: Underwriting, marketing communicating and intermediation across borders	• Are foreign insurers permitted to: - *underwrite local risks?* • Are foreign insurers and/or RSPs allowed to: - *sell insurance products locally that cover foreign risks?* - *market products locally that cover foreign risks?* - *communicate locally with customers around products that cover foreign risks?* • Are foreign RSPs permitted to: - *collect insurance premiums locally that cover foreign risks?*	Foreign underwriting of local risks differs among the focus countries. In some instances, foreign insurers are permitted to underwrite risks locally, but they first have to get authorisation from the local regulator. In most of the focus countries, this was, however, not permitted. There is a grey area around whether local RSPs can market or sell foreign insurance products. Communicating and marketing by insurers and RSPs varies by jurisdiction.
Intermediation: Selling and collecting premiums	• Are RSPs permitted to: - be insurance intermediaries? - collect insurance premiums?	Generally, yes; but in some SSA regulation, this is a grey area.
Insurable risk: Duty of support	• *Is the risk of increased duty of support on the remittance sender due to a risk event happening to the receiver an insurable risk?*	Uncertain, not yet extensively tested in regulation although the products would comply with the typical definition of insurable risk.
Customer due diligence (CDD)	• If RSPs are intermediaries for insurance products, will they be required to: - collect additional CDD information? - verify existing CDD information? • If so, what type of additional CDD information is required for what type of product and/or transaction value?	Mostly no, but additional CDD may be required for (1) life insurance policies; (2) claims pay-outs over a certain value threshold which require a higher tier of CDD than with normal remittances; or (3) if the beneficiary of the insurance policy is not the remittance receiver (e.g. a child or the elderly[10]).

10 In this instance, the elderly or the child's custodian or guardian (e.g. the remittance receiver) would need to provide guardianship and the beneficiary would need to be CDD-ed to prevent money laundering to anonymous beneficiaries as this has become more prevalent recently.

Theme	Key regulatory considerations	Overall finding from two corridors
Digitisation: E-signatures and data protection and sharing	• Are electronic signatures permitted? • Are electronic signatures made outside the country accepted (to allow cross-border sign-up)? • Can consumer data be sent outside of the country?	Electronic signatures are permitted in regulation but in practice are seldom approved in product design in SSA. There is no reference in regulation about whether foreign[11] electronic signatures are permitted. Consumer data can be sent outside the country as long as protection measures are adhered to.
Group policy holding	• Can an RSP be a group policyholder? • *Can a foreign RSP be a group policyholder?*	RSPs can be group policyholders, but there is a grey area around whether foreign RSPs can be group policyholders for local products.
Bundling	• Can insurance products be bundled with other financial services, such as payment services?	Generally, yes; but in some instances, if the product is opt-out, there must be no premium charged.

Table 1: Key regulatory considerations for remittance-linked insurance products

Questions in italics are considered regulatory grey areas or challenges.

3.2. Common regulatory grey areas and challenges

This section explores the common regulatory grey areas and barriers that were identified in the regulatory feasibility assessments undertaken in the two case study corridors: United Kingdom to Nigeria and France to Côte d'Ivoire.

Cross-cutting barriers

There are several broader regulatory barriers that affect the feasibility of remittance-linked insurance products, regardless of what model is being pursued. These are outlined in more detail below.

Double regulation across different jurisdictions. For some models of remittance-linked insurance products, different aspects of the insurance value chain are located in different jurisdictions. This means that the product is being regulated by two countries' laws and, in some instances, may result in the same activity being subject to two different jurisdictions' regulation.

Digitisation barriers. Some regulation consulted, particularly in SSA, had not explicitly considered the increasing digitisation in their markets, giving rise to the following grey areas and/or barriers that may hinder the development of remittance-linked insurance products in their markets:

- **Intermediation:** In some instances, digital aggregators such as RSPs do not neatly fall into any of the categories of permitted insurance intermediaries. In other instances, intermediation regulation requires all staff members of the insurance intermediary to obtain a specific professional certification to sell products. These types of provisions are important when staff members serve as agents but are less relevant when sales are digital and could serve as a barrier to digital distribution. RSPs may have little incentive to obtain a separate agent or

11 Electronic signatures which are made outside of the country in which the insurance product is being approved.

broker licence, so allowing RSPs to act as intermediaries for insurance without additional licensing requirements would be important.

- **Premium collection:** Certain regulation in SSA creates explicit barriers for intermediaries such as RSPs to collect premiums digitally. In one instance, regulation prohibits intermediaries from collecting premiums unless they are in cheques made out to the underwriter or in cash up to a certain threshold.
- **E-signatures**: E-signatures are legally permitted in all the jurisdictions where we undertook the regulatory feasibility assessment. However, there is lack of clarity on the legality of them in many SSA markets, making industry hesitant to apply them.

Customer due diligence (CDD) barriers. Customer due diligence, also known as Know-Your-Customer (KYC) processes and requirements, can lead to exclusion in remittances and insurance, as some countries' KYC requirements require the verification of identity based on key documents (e.g. ID document, proof of address or passport) that are inaccessible to lower-income individuals, the elderly and children. In some instances, the KYC requirements for insurance products (particularly life) are stricter than the KYC requirements for RSPs, and tiered CDD may become an issue when claims pay-outs are made over a certain threshold and require CDD verification of end beneficiaries such as the elderly or children who may not have such documentation. However, when insurance policies are of low value, there is limited AML-CFT risk. Under a risk-based approach (RBA) as allowed for under global standards to AML-CFT[12], this would warrant proportionately lower KYC requirements. However, many countries in SSA have yet to implement an RBA. This means that KYC requirements are not yet proportionately aligned with the risk posed by the product, person or specific transaction. As a result, there is not space for financial institutions to apply reduced or simplified measures even when the risks of money laundering or terrorist financing are demonstrably low.

Model-specific grey areas or barriers

In addition to these cross-cutting barriers, there are specific regulatory barriers that apply to each of the models introduced in Section 2.1.

Model 1: Covering senders' risks

Regulation generally supportive. As all aspects of the insurance value chain occur in the host (sending) country, this model is by far the least complicated in terms of partnership and regulatory considerations. Both the regulation consulted in the sending countries and the regulation consulted in the receiving countries were supportive of this type of remittance-linked insurance product model.

Model 2: Covering senders' duty of support

Uncertainty on whether duty of support can be defined as an insurable risk. Similar to Model 1, all aspects of the Model 2 insurance value chain occur in the host (sending) country. However, the risk being covered in this model is the senders' duty to financially support remittance receivers when they experience an unexpected shock and are unable to cope financially. It is unclear whether insurance sector regulation supports this, in that there is a grey area as to whether an insurer in the host country could cover a risk that is triggered by a risk event in the home country. Nothing within

12 As set by the Financial Action Task Force (FATF)

consulted regulation expressly prohibits this, but clarification is needed in discussion with the relevant regulatory authorities.

Model 3: Covering receivers' risks

Uncertainty regarding the role of MTOs as intermediaries and premium collectors. In Model 3, the underwriter is based in the home country and the risk event is triggered in the home country. However, the RSP – which is the intermediary and the premium payer (the sender) – would be based in the host country. While regulation does not explicitly prohibit this from happening in the home or host country, it does not address this type of model, leaving it in a regulatory grey area. Key remaining questions include:

- **Local RSP selling foreign products and collecting premiums:** Does an RSP in the host country require special authorisation or licensing from the host country regulator to sell insurance products and collect premiums for a product that is underwritten in another jurisdiction?
- **Foreign RSP selling local products and collecting premiums in another jurisdiction:** Does an RSP in the host country require special authorisation or licensing from the home country regulator to sell insurance products and collect premiums in a jurisdiction outside of where it is underwritten?

Model 4: Covering cross-border household unit risks

Jurisdictional issues due to the cross-border nature of this model. In Model 4, there is one insurance policy and one underwriter, but the risks of the sender in the host country are being covered and risks of the receiver in the home country are being covered. This results in jurisdictional issues due to one of the risk events being in one jurisdiction and the underwriter being in another. Many markets, particularly in SSA, do not regulate financial intuitions by activity, but rather where the risk occurs. Home countries typically require local risks to be underwritten locally, which would require onerous regulatory arrangements to make such models feasible, despite the benefit of additional capital and resilience that could flow into the home country. Bringing such a product to market would require either regulation being changed to allow for insurers from foreign markets to underwrite local risks or collaboration among the regulators in both jurisdictions to determine which insurance activities are regulated within which jurisdiction.

- **Underwriting across borders**. Regulation typically prohibits foreign insurers from underwriting local risks. The host country underwriter therefore requires exemptions to underwrite home country risks, and vice versa.
- **Selling, marketing and collecting premiums across borders.** Whether MTOs can market, sell and collect premiums for products that are underwritten by a foreign insurer is unclear within regulation. This would only be relevant if the underwriter was based in the home country as the RSP in the host country would be the intermediary.

4. Imperatives to unlock remittance-linked insurance products for SSA

Although remittance-linked insurance products are limited globally, this note has shown that there is a clear potential for these types of products to increase the value of remittances being sent from the developed world to SSA and to increase insurance uptake in SSA, thereby improving the resilience of vulnerable households. However, a number of business-case barriers and regulatory barriers remain, which mean that proactive steps are needed to enable the introduction of these products.

Imperatives for regulators:

- Taking a clear stance that they will support remittance-linked insurance products and that they are willing to address barriers identified to support development policy objectives, potentially including exemption from the local risk requirements for remittance related products.
- Collaborating with regulators from other jurisdictions to avoid double regulation
- Recognising licensing in other jurisdictions and considering allowing entities to conduct the activities they are licensed for in another country in their own jurisdiction
- Implementing regulation in support of digital models and RSPs as intermediaries and premium collectors for insurance products
- Prioritising the implementation and supervision of a risk-based approach (RBA) to KYC requirements
- Implementing the **tools at their disposal to enable innovation** by accommodating or pilot-testing remittance-linked insurance products

Imperatives for insurers:

- Partnering with RSPs to reach new segments of the market
- Willingness to take risk and introduce products that do not already exist
- Starting with simpler remittance-linked insurance models and building offerings from there
- Actively engaging regulators to test models and refining how they can work to include and protect consumers
- Leveraging e-signatures and innovative e-KYC solutions
- Sharing learnings to trigger broader market initiatives that will make such products more common

We are committed to working with regulators and insurers to unlock these products for SSA. Please contact us at **kate@cenfri.org**, should you be in interested in working with us.

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