

# **High-Level Seminar on Microinsurance Regulation for Supervisory Authorities**

**- Towards A Reform Agenda for Africa**

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# Regulatory Responses to Market Dynamics

## MICROINSURANCE REGULATION – GHANA’S APPROACH

by

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# Presentation Outline

- Key Challenges faced in the Microinsurance Sector
- Six Key Areas needed to support the Development of MI in Ghana
- Rationale for a new Insurance Act
- Structure of new legislation
- Brief overview of major changes
- NIC's objectives for microinsurance
- Definition of microinsurance
- Product and contract issues
- Delivery channels
- Consumer protection
- Implementation timelines
- Key Messages

# Key Challenges faced in the Microinsurance Sector

In September 2008, NIC commissioned a **feasibility study** to assess the state of Microinsurance in Ghana which highlighted challenges at all levels:

## **Micro level:**

- Lack of insurance awareness among the population
- Narrow product range with credit-life insurance dominating
- Many products seem to be weakly designed and are not tailored to demand
- Delivery channels tend to be weak

## **Meso level:**

- Limited data and research available
- No existence of microinsurance specific training

## **Macro level:**

- No specific provisions for microinsurance in the legal and regulatory framework (not yet in line with IAIS International Core Principles)
- Limited capacities of NIC to perform supervisory functions

- Although the microinsurance market in Ghana is developing rapidly the market is still at its infant stage of development and is therefore confronted with an array of challenges which needs to be addressed on a consistent basis to ensure the success of microinsurance in the country.
- Access to insurance services in Ghana is very limited, especially among the low-income population. Only 4.1% of the total population of Ghana held any insurance policy in 2010 (excluding public health insurance). Insurance penetration stood at 1.89% in 2010.

- Nevertheless, the market for MI is developing with more and more commercial insurers and intermediaries seeking to expand their services to the informal sector.
- The NIC is actively spearheading the development of the insurance market.
- Therefore collaborating with GIZ to develop and promote the MI market.

# Six Key Areas Identified to support the Development of MI in Ghana

The six key areas that need to be addressed to support the development of MI in Ghana are as follows:

- Regulation and Supervision
- Actuarial Capacity Development
- Research and Development
- Information Systems and Technology
- Technical Services
- Insurance Awareness

Projects are ongoing in each of these areas to support the promotion of MI in Ghana ( Overall project dubbed ProMiGH).

# Rationale for a new Insurance Act

- To comply with International Standards;
- To enable NIC to adopt Risk Based Supervision; and
- To include appropriate provisions for the development and regulation of microinsurance (improve financial inclusion).

The new legal and regulatory framework will therefore have appropriate incentives to encourage insurers to design and sell microinsurance products.



# Structure of new legislation

- Bill (Act)
- Regulations
- Code (Insurers and Intermediaries)
- Guidance

Codes to be issued by the Commission. This arrangement will allow the Commission the flexibility to review the microinsurance provisions to adapt to future developments in the microinsurance sector.

# Brief overview of major changes

- Emphasis on Governance and Risk Management ( committees and key functions)
- Prudential requirements (technical provisions, assets, capital adequacy, investments etc)
- Microinsurance

# NIC's objectives for microinsurance

- The legal and regulatory framework for microinsurance in the proposed legislation is designed to:
  - encourage private sector engagement in risk protection for the low-income segment, and the development of the microinsurance market in a sustainable manner, including motivating consumers to buy insurance (MARKET DEVELOPMENT);
  - protect the interests of customers by requiring transparency with respect to product offering and servicing and by requiring insurers and intermediaries to treat their customers fairly (CONSUMER PROTECTION);
  - require microinsurance providers to act in a prudently sound manner (STABILITY); and
  - secure that providers are able to meet claims (SOUNDNESS).

# Regulatory approach

- The NIC decided to adopt the functional approach to the regulation of microinsurance.
- Existing insurance companies are being allowed to sell microinsurance as a line of business as opposed to creating a separate regulatory tier for microinsurance.
- This has made it possible to start active microinsurance business with very minimal adjustments to regulatory procedures.

It will also help to utilise the resources and network of the companies for microinsurance.

# Definition of microinsurance

- In order to ensure legal certainty, the NIC avoided both qualitative and quantitative definitions.
- A microinsurance product is simply defined as an insurance contract that a licensed insurer has designated as a microinsurance contract.
- An insurer that develops a microinsurance product has the responsibility to determine (using specified criteria) whether the product is a microinsurance product.

# Criteria for determining MI product

An insurer must not designate a product as a microinsurance product unless;

- the product was designed and developed with the intention of meeting the needs of and being marketed to low income persons.
- the premium is affordable and the products are accessible to those low income people for whom it is developed.

# Product and Contract Issues

- A short term insurer will be allowed to sell short term life products if certain conditions are met.
- An insurer may use community pricing for MI products instead of specific risk profile of each individual policyholder.
- New insurance products do not need NIC prior approval; only prior notification (file and use).

# Delivery Channels

- Sale of MI products by some specified unlicensed intermediaries will be permitted.



# Consumer protection

- MI contract will be required to be written in simple, easy to understand language.
- MI claims will be required to be settled and paid within a specified time frame in order to boost trust and public confidence
- MI policyholders will also have access to quick complaint resolution mechanism.

# Implementation timelines

- The draft Bill has been submitted to the Minister of Finance for cabinet approval
- Get Act passed before end of 2012
- Finalise Codes and guidance by end of 2012
- Transitional arrangements

# Key Messages

- Ghana is due to be among the few countries with a dedicated regulatory framework for MI which promises a higher level of consumer protection, more demand-oriented products and strengthened financial inclusion.
- The new framework takes a new and groundbreaking approach. Instead of using criteria, whether quantitative or qualitative, to define microinsurance, it is proposed that insurers should be given the power to designate an insurance product as microinsurance.
- NIC is the key driver in the revision process and works closely with the industry and the Government (Ministry of Finance and Economic Planning) to guarantee a successful revision process.

# Key Messages contd.

- It is important to strive for the establishment of an adequate legal and regulatory framework with the 'right' degree of flexibility (e.g. licensing requirements of MI agents).
- The revision process needs to go hand-in-hand with efforts to increase the level of insurance literacy among the population which is essential for market development and consumer protection.

We believe that these provisions, among others, will provide proportionate regulation and also give insurance companies the flexibility to design and sell microinsurance products.

**THANK YOU**

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