access to insurance initiative

Inclusive Insurance

A missing piece in many National Financial Inclusion Strategies

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POLICY NOTE

Policy makers and supervisors have been recognizing the importance of National Financial Inclusion Strategies (NFIS) and Financial Sector Strategies as policy tools for financial inclusion. More recently, the topic of insurance has become an integral part of these strategies. Its integration is particularly relevant as insurance market development supports national policy objectives, promotes financial sector development, builds resilience of vulnerable households, enterprises and communities, fosters sustainable growth of households, enterprises and communities, and mobilizes funds for investments. This note provides a summary of a stock-taking jointly implemented by the Access to Insurance Initiative (A2ii)[1] and the Alliance for Financial Inclusion (AFI)[2], including the main results of a survey and examples from the case study countries Malaysia, Papua New Guinea, Paraguay and Tanzania.[3]

Why does insurance matter?

Insurance products adapted to their clients' needs can provide households, enterprises, and communities with the means to protect themselves against the financial consequences of different kinds of shocks, such as the death of the breadwinner, an accident, fire or crop-loss, or natural disaster. Thereby, insurance can prevent them from falling back into poverty[4], with both a positive **micro and macroeconomic impact:**

By providing a **safety net**, insurance makes households, enterprises, and communities more resilient. Hence, it supports **public policy objectives** such as poverty reduction, agricultural development and food security, employment generation, development of health and education systems or climate change adaptation.[5] The reduced risk helps to **funnel investment** into micro, small and medium-sized enterprises in productive sectors, indirectly benefiting socio-economic growth.[6] From a financial inclusion perspective, insurance can be combined with other financial services such as loans (e.g. bundled products like credit life) or saving accounts that are bundled with life or accident insurance. Finally, mobile insurance can **push the digitalization** of the financial market place.

What are the obstacles of inclusive insurance?

To fully leverage the potential of insurance for vulnerable households, enterprises, and communities, insurance products need to be adapted to the situation and demands of underserved or excluded populations ("inclusive insurance").

Despite the clear benefits of inclusive insurance, coverage in most emerging markets and developing countries remains low due to **challenges on both the supply and demand side.** Insurance providers may not see a compelling business opportunity to offer products to the low-income population or lack the expertise or required data to do so. At the same time, potential clients may not fully understand the benefits of formal insurance. **Barriers in regulation and supervision** can hinder the development of innovative products that may be more appropriate to client needs, restrict the use of non-traditional delivery channels (e.g. using non-financial channels or digital technologies) or impose identification requirements that are difficult to meet.

How can NFIS promote inclusive insurance?

To strengthen the development of an inclusive insurance market, an increasing number of countries are anchoring insurance within their NFIS, alongside other financial services such as credit, savings and payments relevant for improving access. These **NFISs are multi-stakeholder initiatives** to support financial policy makers and motivate supervisors as well as other public and private stakeholders to jointly work towards **increasing access to quality financial services**, including insurance. The associated roadmaps comprise activities in the insurance sector in areas such as capacity building for the industry, insurance literacy or microinsurance regulation.

Policy makers' and supervisors' confidence in NFIS as a policy tool is demonstrated clearly by the **growing number of countries** that have already formulated a strategy or are in the process of doing so. As of March 2018, 43 AFI members (48% of the AFI network) had adopted an NFIS, and another 22 countries (26% of AFI member countries) were at various stages of developing one.[7]

To which extent is insurance integrated into existing NFIS?

To encourage policymakers and supervisors to integrate insurance into their NFIS effectively and more broadly, A2ii and AFI conducted a joint **survey to analyze the status quo and generate ideas** for the way forward. The survey was carried out amongst Central Banks, Ministries of Finance, Insurance Supervisors as well as other financial regulators involved in the development of NFIS. In addition, **four country case studies** have also provided detailed insights. Among the 36 countries that responded to the survey, 26 have already adopted a financial inclusion strategy, while four are in the process of developing one. Six countries have not yet started drafting a financial inclusion strategy but are planning to do so. In half of the countries, insurance is or will be included in the NFIS or other similar strategies as a main pillar.

Lessons learnt from the survey: How to include insurance in NFIS?

The results of the survey have shown that the **potential benefits of integrating insurance into NFIS are not yet fully realized.** While many countries have already included the topic of insurance in their NFIS, the intensity and depth of integration differ widely. The challenges identified lead to the following **lessons learnt and recommendations** for the process of NFIS strategy development and implementation:

- A clear **definition of inclusive insurance** is required to separate inclusive from traditional insurance.[8] It is recommendable to formally define inclusive insurance at an early stage and not only during strategy implementation. This allows to assess the status quo during market diagnostics accurately and to develop appropriate indicators for the strategy. Stakeholders from the insurance but also the banking and cooperative sector should collaborate and agree on a formal definition.

- **A timely and profound diagnostic** is key for developing an adapted strategy. The data collected provide evidence for strategy design and stakeholder consultation and serves as a baseline for monitoring the success of interventions. There are several approaches for the realization of a diagnostic: Most countries that participated in the survey have implemented a financial sector diagnostic prior to strategy development. Others have implemented profound diagnostics (or a series of studies) on insurance supply, demand and regulation. If an in-depth analysis at the start is not possible, a "light" insurance diagnostic or an assessment at a later stage represent second-best options.

- The full **participation of relevant insurance-related stakeholders** at an early stage is crucial for meaningful diagnostic, strategy development and implementation. Insurance supervisors should be among the lead institutions in the assessment and strategy development process, support drafting stakeholders and have permanent seats on the related committees. Insurance industry actors should participate in stakeholder consultations and throughout the entire process.

- Good **indicators** in the strategy document include **not only access and usage but also the quality dimension** of the insurance on offer. Objectives need to be carefully defined and respond to the needs of the target group. Going beyond access and usage indicators such as "insurance penetration" or "coverage with microinsurance" is important: Indicators should also inform about the value of the insurance coverage for the clients (e.g. claims ratio). This also includes whether policies are renewed (e.g. renewal ratio) and if clients understand the product.

- The **Secretariat of NFIS** plays an important role for the implementation process, as it pushes activities and coordinates tasks of the various stakeholders. However, the Secretariat will only be successful when embedded in a well-coordinated implementation structure in which all stakeholders have clear responsibilities and tasks as well as a dedicated budget. As part of this structure, a permanent **insurance working group** consisting of stakeholders such as the insurance supervisor, and representatives of the insurance industry, government, and development partners can jointly promote the topic of inclusive insurance in a systematic way.

Learnings from country case studies

- **Malaysia** took an integrated approach by subsuming the topic of financial inclusion into its current financial sector development plan for the years 2011 to 2020.[9] Accordingly, inclusive insurance is addressed under the chapter on financial inclusion. The Central Bank of Malaysia coordinates both the development of the strategy and its implementation. Cross-departmental collaboration inside the Central Bank led by the financial sector department has been key in the development of the strategy as well as in setting objectives and goals laid down in the strategy.

- In **Papua New Guinea**, inclusive insurance was integrated into the first national strategy[10] only on the sidelines. The presence of a pioneering, globally active mass distributor required a stronger regulatory involvement, which motivated the more comprehensive integration of the topic in the second National Financial Inclusion Strategy (NFIS).[11] Both the content of the strategy and its implementation were guided by a Working Group on insurance which had been created in 2014 under the first strategy and was therefore based on longstanding cooperation between public and private stakeholders.

- The case of **Paraguay** has shown that a common definition and understanding of "micro and inclusive insurance" is vital for diagnostic studies or surveys serving as basis for the development of the strategy. Both public and private sector actors should elaborate on this definition jointly. In the strategy[12] itself, insurance is considered across various thematic areas (financial education, consumer protection and vulnerable populations) and hence, included as a cross-cutting theme in different work streams. The inclusion of insurance in the NFIS has already led to a growing offer of (social) microinsurance in the country.

- In **Tanzania**, a comprehensive evaluation process of the first financial inclusion framework[13] including a demand and supply side study has proven to be crucial to developing the current strategy.[14] A main insight gained during this process has been to improve stakeholders' engagement, including the private insurance sector. National events on financial inclusion have been successful in increasing public awareness and peer learning among financial inclusion stakeholders and the international community. Finally, it became clear that ratios and indicators beyond mere insurance coverage can provide information about the quality of the insurance coverage and are therefore very valuable.

Outlook

The integration of insurance in a NFIS makes financial inclusion efforts more comprehensive. NFIS constitute an important opportunity to improve access, usage, and quality of relevant financial services, including insurance for underserved client segments. In future, all NFIS should cover inclusive insurance as recommended by international guidance (see "Further Reading"), involving stakeholders from the insurance sector as equal partners from the outset. The learnings summarized in this policy note should be expanded by a deeper analysis of selected aspects, like the identification of good indicators or methodologies for rapid diagnostics.

Further Reading

A2ii (2017): 21st A2ii-IAIS Consultation Call on "Measuring insurance development: beyond the insurance penetration rate", 23 March 2017. Available at https://a2ii.org/en/report/consultation-calls-consultation-call-reports-market-development/21st-a2ii-iais-consultation.

AFI (2016): National Financial Inclusion Strategies. A toolkit. Guideline Note No. 20. Available at: https://www.afi-global.org/sites/default/files/publications/2016-08/Guideline%20Note-20%20FIS-Toolkit.pdf.

World Bank Group (2016): Template for the Design of a National Financial Inclusion Strategy. Available at: http://pubdocs.worldbank.org/en/379031452203008464/WBG-FMGP-Template-for-Designing-a-NFIS-Jan-2016-FINAL.pdf.

1 The Access to Insurance Initiative is a global partnership with the mission to inspire and support supervisors to promote inclusive and responsible insurance, thereby reducing vulnerability. The Initiative is the implementation partner of the global standard setting body for insurance, the International Association of Insurance Supervisors (IAIS) on access to insurance. Our partnership triggers the reforms in regulation and supervision required for the development of inclusive insurance markets.
2 The Alliance for Financial inclusion is global network of Central Banks and other financial regulatory institutions from developing countries on financial inclusion policy and regulation.
3 A2ii and AFI, 2018. Inclusive Insurance in National Financial Inclusion Strategies. Survey Report. Published by: Alliance for Financial Inclusion, Access to Insurance Initiative (
4 GIZ, IFC & Women's World Banking, 2017. Mainstreaming Gender and Targeting Women in Inclusive Insurance: Perspectives and Emerging Lessons. A Compendium of Technical Notes and Case Studies.
5 IAIS, 2015. Issues Paper on Conduct of Business in Inclusive Insurance; GIZ, 2017. Inclusive Insurance and the Sustainable Development Goals.
6 Microinsurance Network, 2018. Why we do it. A2ii, n.d. Inclusive insurance protects households and promotes economic growth.
7 According to forthcoming AFI publication on the current state of practice on NFIS.
8 To approach this challenge, many countries conduct separate studies to inform strategy development, which may not capture the most relevant data, or not define what is meant by "inclusive insurance" e.g. to exclude informally provided insurance.
9 Bank Negara Malaysia, 2011. Financial Sector Blueprint 2011-2020.
10 Bank of Papa New Guinea, 2014. Papua New Guinea National Financial Inclusion and Financial Literacy Strategy 2014-2015.
11 Bank of Papua New Guinea, 2016. Papua New Guinea. (Second) National Financial Inclusion Strategy 2016-2020.
12 Estrategia Nacional de Inclusión Financiera, 2014. Paraguay. National Financial Inclusion Strategy 2014-2018.
13 Tanzania National Council for Financial Inclusion, 2014. National Financial Inclusion Framework. A Public-Private Stakeholders' Initiative (2014-2016).
14 Tanzania National Council for Financial Inclusion, 2018. National Financial Inclusion Framework. A Public-Private Stakeholders Initiative (2018-2022).

Access to Insurance Initiative
Hosted by GIZ Sector Project Financial Systems
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