Encouraging the industry in Africa to provide sustainable insurance services to the unserved

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The growth of inclusive insurance markets and enhanced access to suitable inclusive insurance products and services for low-income populations depends on the ability of the insurance industry to offer services sustainably and profitably. For this to happen, the industry expects regulators to enable it to distribute innovatively to reach millions cost-effectively, support the development of innovative products that serve the needs of the uninsured and regulate proportionately to lower the cost of regulation for serving this segment.

Proportionate regulation is critical for the development of inclusive insurance markets. This includes assuring good standards of market conduct, as well as overseeing product oversight and setting the right prudential standards for the industry, all with the aim of providing clients with optimal protection and value. Whilst ensuring consumer protection and value, regulation should also attempt to avoid burdening service providers with extra costs; in fact, effective regulation should look to reduce costs and increase value. Inclusive insurance products have lower associated prudential risks and these risks are further diversified over a large number of policies. Proportionate regulation[1] will make it more cost-effective for insurers to offer simple products with simplified documentation, in turn reducing costs and increasing access for the consumer.

Enabling access to the right type of distribution is a key challenge in incentivising the industry. Regulators should support the industry in gaining access to channels and technology that allow them to reach millions in a cost-efficient way. Traditional insurance channels tend to be cost-heavy (e.g. agency channels) and also have inherent limitations in terms of scale. One need only look at markets where mobile insurance is bringing huge numbers under insurance coverage to appreciate the opportunity that non-traditional channels can provide when permitted. Therefore providing conducive regulation for partnerships between insurers and supporting industries (mobile operators, retailers, associations, MFIs etc.) is critical in the development of a successful inclusive insurance market. This also calls for closer collaboration between regulators from the cooperating industries i.e. banking, insurance, telecom etc. to harmonise regulations across sectors.

"Regulation is essential for good market conduct, maintaining the price balance and setting the right standards for the industry."

Alhaji Kaddunabi Ibrahim Lubega, IRA, Uganda

"We, as industry, also rely on regulation to assist us. Retail and microinsurance are to be the future of the industry in Africa"

Ekpe Ukpabio, Equity Assurance Plc, Nigeria

"As a regulator, I want to see more self-regulation by the insurers and not have them wait for regulators to step in."

Jonathan Dixon, IAIS & FSB, South Africa

[1] Where the Insurance Core Principles (ICPs) are implemented proportionate to nature, scale and complexity of the risks inherent in the individual insurance business.

Market development for inclusive insurance has to focus on all stakeholders involved: regulators, insurers and clients. Regulators need to build their capacities by customising regulations to suit the low-income markets and learning from more advanced microinsurance markets. The industry also needs to build its capacities to innovate and offer suitable, accessible products by leveraging technology. Challenges also exist in terms of market information and knowledge, consumer education and awareness, and regulators will have to come together with the industry to undertake studies to better understand the markets and make low-income segments more aware and informed so that they can take full advantage of the services and products on offer.

Open discussions and knowledge sharing among stakeholders in the market is very important. We have seen in Nigeria how open dialogue between regulators and industry can lead to regulations that allow for more players to enter the low-income market. This has led other markets such as Egypt to start engaging the industry on similar lines. Overall, national financial strategies often ignore insurance as a financial service so there is also a need for policy frameworks that include insurance.

KEY TAKE-AWAYS

FOR INSURERS

Offer the right products for the right market segments by moving away from the complexities inherent in traditional insurance. Insurers should offer products that are easy to understand and focus on the claims side of service delivery.

Improve the industry's image through better communication with clients. Create awareness and clearly explain the benefits of the products to existing and potential clients, which will go a long way to develop the market.

Aim towards self-regulation and do not wait for the regulators to step in on every issue. When insurers deliver good value and display good market conduct, regulators have no reason to step in.

Share knowledge and successes with regulators from advanced and successful markets. Flexibility is important to react to innovations as technology is making the market more dynamic.

FOR REGULATORS

Assist and encourage the industry to embrace technology and allow innovative distribution channels. Regulators need to review the appropriateness of applying regulation designed for traditional insurance markets to the low-income market. The focus needs to be on identifying and supporting channels that can reach remote clients and the ability to scale.

Take the lead in educating the consumer and assist the industry in building its capacities to address the needs of the inclusive insurance market. Regulators can play a huge role by supporting market studies and analyses that help the industry better understand the market, and leading client education and awareness raising will set the bar high for the industry.

Direct and tangible benefits like a softer tax regime for microinsurance business has the potential to engage the industry further. It will act as a direct motivation for the industry to get involved in the low income market and bring down their cost of business and the benefits of it can be passed on to the clients as well.