Making insurance markets work for the poor: microinsurance policy, regulation and supervision

Uganda case study

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This document presents the findings from the Uganda component of a five-country case study on the role of regulation in the development of microinsurance markets. The objectives of this project were to map the experience in a sample of five developing countries (Colombia, India, the Philippines, South Africa and Uganda) where microinsurance products have evolved and to consider the influence that policy, regulation and supervision on the development of these markets. From this evidence base, cross-country lessons were extracted that seek to offer guidance to policymakers, regulators and supervisors who are looking to support the development of microinsurance in their jurisdiction. It must be emphasized that these findings do not provide an easy recipe for developing microinsurance but only identifies some of the key issues that need to be considered. In fact, the findings emphasize the need for a comprehensive approach informed by and tailored to domestic conditions and adjusted continuously as the environment evolves.

The project was majority funded by the Canadian International Development Research Centre (www.idrc.ca) and the Bill and Melinda Gates Foundation (www.gatesfoundation.org) along with funding and technical support from the South Africa-based FinMark Trust (www.finmarktrust.org.za)[1] and the German GTZ[2] (www.gtz.de) and BMZ[3] (www.bmz.de). FinMark Trust was contracted to design and manage the project. Together with representatives of the IAIS, the Microinsurance Centre and the International Cooperative and Mutual Insurance Federation (ICMIF) the funders are represented on an advisory committee overseeing the study. The project was undertaken under the guidance of the International Association of Insurance Supervisors (IAIS) and Consultative Group to Assist the Poor (CGAP) Joint Working Group on Microinsurance.

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Executive Summary

Introduction

This document forms part of a larger cross-country study looking at the micro-insurance experience in Colombia, India, the Philippines, South Africa and Uganda in order to develop a set of guidelines that can assist developing countries in creating a facilitative regulatory environment for micro-insurance.

The ultimate aim of this cross-country study is greater financial inclusion particularly for insurance products, and it is therefore important that an understanding of financial inclusion and its determinants forms the basis for the rest of the analysis. Financial inclusion is achieved when individual consumers (particularly low-income consumers) can access and sustainably use financial services that are appropriate to their needs. This involves looking at barriers (particularly regulatory ones) that entirely prevent consumers from accessing micro-insurance or prevent providers from making it available, as well as looking at barriers that discourage access or provision.

Micro-insurance is defined as insurance that is accessed by or accessible to the low-income population, potentially provided by a variety of different providers and managed in accordance with generally accepted insurance practices4. It does not operate in isolation, but forms part of the broader insurance market, distinguished by its particular market segment focus (which often translates into distinct means of distribution or distinctly structured products). In a low income country such as Uganda it is difficult to separate the two so this study looks at the functioning of both the micro-insurance and higher income markets.

Financial services and insurance market features

Country features. Uganda is a small country, both geographically and in terms of population size (with a total population of 29m and an adult population of 13.1m) (FinScope Uganda[5], 2006 and World Bank, 2007). It is characterised by a overwhelmingly rural agricultural economy and high poverty levels. More than 80% of the population are estimated to subsist on less than $1 per day (World Development Indicators, 2007). Despite this, Finscope reports that 42% (5.5m) of adult Ugandans say they have access to a mobile phone.

Financial services usage. Only 18% (2.4m) of the adult Ugandan population use any type of formal financial service, while another 3% (0.4m) use semi-formal[6] financial services. 17% (2.2m) use informal financial services only, while 62% (8.2m) do not use any type of financial service (Finscope Uganda, 2006.) These statistics indicate extremely low levels of financial usage and a population that is not actively engaged with by the financial sector, whether formal or informal.

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[4] To distinguish micro-insurance from social welfare, it should be funded by premiums and managed based on a generally accepted risk-management principles (IAIS, 2007).

[5] Finscope Uganda is a questionnaire administered to a representative sample of about 3000 Ugandan adults on usage and attitudes to financial services.

[6] e.g. micro-finance institutions, savings and credit cooperatives

Insurance usage. Only 3% (0.37m) of the adult Ugandan population currently use formal insurance products. The total insurance market in Uganda is small (gross premiums totalled 0.6% of GDP in 2005) and fragmented (that with a high number of small players relative to the size of the market). The life insurance sector is much smaller than the non-life sector and almost negligible in size (constituting only 4% of gross premiums in the insurance industry)[7].

Micro-insurance usage. Estimates place the number of microinsurance product users at about 0.6m, most of which is made up by compulsory credit life insurance[8] sold through micro-finance institutions (MFIs). Some of this is done through commercial insurers, while some is informally underwritten by MFIs themselves. There is little evidence of member-based (cooperative or mutual) insurance activity, though there is evidence of some use of community-based informal risk pooling activity and appeal to family networks in respect of funeral and health risks.

Distribution infrastructure is unavailable or underutilised. Uganda has limited infrastructure available for the distribution of micro-insurance. Banking networks are limited and they do not have an extensive, formalised retailer network. The limited infrastructure that is available, e.g. the bank network and cell phone platforms, are currently not actively utilised to distribute insurance.

Regulation

Bank sector regulation defines a tiered structure for institutions providing loans or taking deposits, and has implications for the channels of distribution that are available to the insurance sector. The Financial Institutions Act, the Micro Finance Deposit-taking Institutions (MDI) Act and the Co-operative Societies Statute define between them the tiers: commercial banks, credit institutions, micro-finance deposit-taking institutions, and then SACCOs and MFIs. The Acts restrict the banks and MDIs to distributing only insurance relating to loans they have given, and imposes controls on remuneration and who can intermediate within this.

Insurance sector regulation. The introduction of a regulatory framework for insurance has provided room for the formal development of the market and has contributed to increased foreign participation in the market. However, this formal insurance sector legislation, regulation and supervision has only been implemented in the last ten years, implying that the industry is still in the process of development. (Before this a department in the Ministry of Finance was regulating the insurance market.) Currently, regulation relevant to insurance includes:

- The Insurance Act, Cap 213 Laws of Uganda 2000, the Insurance Regulations, 2002; and Statutory Instruments No. 59 and 60
- The Motor Vehicle Insurance (Third Party Risks) Act, Cap 214 Laws of Uganda
- The Marine Insurance Act, 2002
- Co-operative Societies Act, Cap 112 of 1991; and

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[7] In part this is because much of what would ordinarily be classed as life insurance, such as credit life, is in fact written under the non-life classification, as personal accident insurance.

[8] 'Credit life insurance' is insurance taken out to cover a borrower's debt in the event of their death.

- Companies Act, Cap 110 of 1961.

Of particular relevance to micro-insurance is the Insurance Act, in that it:

- Draws a distinction between the categories of life and non-life insurance, but does not explicitly define a category for medical insurance.
- Restricts the institutions which may provide insurance to:
    - a company incorporated under the Companies Act;
    - an insurance corporation established by law;
    - a cooperative insurance society registered under the Cooperative Societies Act; and
    - a mutual insurance company.
- Provides the framework for setting a scale of minimum premium rates for certain product lines agreed between the industry association and the regulator.
- Limits distribution of insurance to registered brokers and agents.
- Restricts the collection of premiums on a credit basis to brokered business, which has been reported to hinder the development of direct sold insurance.
- Provides the framework for setting a scale of maximum commission rates to be agreed between the intermediary and insurer associations and the supervisor.

Key drivers of the micro-insurance market in Uganda

Structural or macro features, as well as the provisions outlined in the regulatory landscape, influence the shape that the insurance market in Uganda. To identify where improved regulation can enhance access to micro-insurance, non-regulatory and regulatory drivers of the current market for low-income insurance have to be separated.

Non-regulatory drivers

1. The extremely low and irregular average household incomes in Uganda mean less disposable income to pay for insurance purposes.

2. Insurance as currently provided in Uganda offers clients a poor value proposition, with a large portion of premium income being spent by insurers on administration costs and not on claims payments.

3. Focus group research shows that there is limited understanding of insurance and widespread mistrust of the insurance industry among the population.

4. There is however a strong consumer need for the mitigation of health risks, which has driven provider activity in this space, for example, Microcare and various health maintenance organisations.

5. There is a limited footprint of formal sector activity, such as banks and national retailers which could be used as channels to distribute insurance.

6. Particularly the domestic insurers in Uganda are small by international standards making it difficult for them to spread their fixed costs, A lack of actuarial and other insurance skills further hinders development.

7. Entry of foreign insurers into the Uganda market over the last ten years though is starting to lead to product innovation and a more competitive marketplace, as seen in the steady reduction in premiums on credit life insurance.

Regulatory drivers

1. Specific and inhibitive restrictions apply to market conduct: limiting distribution of insurance by banks and MDIs, setting minimum premium rates (which stifle competition), commission capping (which can make it uneconomical to distribute to lower income consumers) and restricting provision of credit on premium payments to brokers (which makes direct distribution unattractive).

2. Recent establishment of regulations and a supervisory body (the Uganda Insurance Commission) for the industry, which only occurred in the last decade, has meant that trust in the industry and a compliance culture is still developing.

3. But the regulatory attitude has been open to the benefits which foreign entry to the market can bring.

4. Absence of explicit health insurance regulation has created uncertainty for players in the space or potentially entering it, but has also created a gap for market development, with new entrants and product innovation occurring.

5. Size and other compliance restrictions on mutual insurers have contributed to discouraging the emergence of these providers, despite regulation making some concessions for them.

Key issues for the regulation of microinsurance in Uganda going forward

The challenges of expanding access to microinsurance in a very poor country. The Ugandan experience reveals the challenges of expanding microinsurance in a context of a poor developing economy with an underdeveloped financial sector. This is amplified by a lack of well developed informal risk pooling mechanisms. Where take-up has been achieved, microinsurance has been limited to credit life insurance and the need exists for other types of insurance to be established in the low-income market. To achieve this, low-income individuals need to be "won over" through positive experiences in credit life insurance and insurance in general to break the prevailing mistrust of insurance.

Regulatory lessons from the Ugandan experience. The introduction of a new regulatory regime offers the architects thereof a unique opportunity to pre-empt potential pitfalls and ensure a framework that will facilitate financial inclusion. While the Ugandan case has shown the impact that the introduction of greater certainty can have, it also illustrates the potential pitfalls to be avoided – namely the creation of regime that is restrictive in some aspects and that does not clear up all uncertainties in the market.

1. Introduction

This document presents the findings from the Philippines component of a five-country case study on the role of regulation in the development of microinsurance markets. The objectives of this project are to map the experience in a sample of five developing countries (Colombia, India, the Philippines, South Africa and Uganda) where microinsurance products have evolved and to consider the influence of policy, regulation and supervision on the development of these markets. From this evidence base, cross-country lessons are extracted that seek to offer guidance to policymakers, regulators and supervisors who are looking to support the development of microinsurance in their jurisdiction. It must be emphasized that these findings do not provide an easy recipe for developing microinsurance but only identify some of the key issues that need to be considered. In fact, the findings emphasize the need for a comprehensive approach informed by and tailored to domestic conditions and adjusted continuously as the environment evolves.

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This introduction to the study starts with a definition of micro-insurance applicable to Uganda. It then describes the structure and breadth of Ugandan financial services in general, and insurance in particular. It ends with an outline of the document structure.

Definition of micro-insurance

Micro-insurance has no specific definition in Uganda but internationally it is widely defined as insurance that is *accessed by or accessible to the low-income population*, potentially provided by a variety of different providers and managed in accordance with generally accepted insurance practices[12]. It does not operate in isolation, but forms part of the broader insurance market, distinguished by its particular market segment focus (which often translates into distinct means of distribution or distinctly structured products). In practice in Uganda this means that micro-insurance is mostly made up of compulsory credit life and health insurance. Though all members of society face risks that threaten their lives and possessions, the impact of such risks is particularly severe for the poor, as it results in costly interruptions to

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[9] Funded by the UK Department for International Development – DFID.
[10] Deutsche Gesellschaft für Technische Zusammenarbeit GmbH.
[11] Bundesministerium für Wirstschaftliche Zusammenarbeit und Entwicklung - Federal Ministry of Economic Cooperation and Development

[12] To distinguish micro-insurance from social welfare, it should be funded by premiums and managed based on a generally accepted risk-management principles (IAIS, 2007).

the difficult process of asset formation[13]. Outside of direct government provision, such risks may be mitigated through savings, informal support networks and semi-formal risk pooling mechanisms. Insurance can also play an important role in risk mitigation for the poor: whereas the individual may not be in a position to accumulate sufficient savings to cover losses when they occur (indeed this may be inefficient), she or he may be able to pay premiums relating to the risk.

However, formal insurance products that are affordable and appropriate to the needs of the poor are often not available, or the poor are not aware of the advantages posed by insurance. Thus the poor often use informal risk-pooling mechanisms or simply go without any form of insurance. In support of economic development, it is therefore relevant for governments to consider ways of promoting the provision of appropriate insurance products to the poor as a viable alternative to informal risk-sharing solutions. This will provide a way for the poor to manage their vulnerability to adverse shocks, including income loss, illness, death of a family member, etc.

Uganda background

Small country with high poverty levels. Uganda is a small country, both geographically and in terms of population size (with a total population of 29m and an adult population of 13.1m) (FinScope Uganda[14], 2006 and World Bank, 2007). It is characterised by a predominantly rural agricultural economy – 75% of the population live in rural areas; 82% earn their livelihood from agriculture and agriculture contributes 32% to GDP. It is furthermore characterised by extremely high poverty levels:

- Almost 40% of the Ugandan population are estimated to live below the national poverty line and in 2002 (the latest available survey year) 96% of the population was reported to live on less than $2 a day, while 82% of the population lived on less than $1/day (World Development Indicators, 2007; ILO, 2007). More than a third of adult Ugandans (4.7m or 36%) indicated that some of their household members do not own at least two sets of clothing (FinScope Uganda, 2006). It is highly unlikely that households where members do not own at least two sets of clothing would be able to afford purchasing formal insurance, even at efficient market prices.
- Furthermore, the majority of Ugandans receive their money on an irregular and infrequent (after periods longer than a month) basis (FinScope Uganda, 2006). This has particular implications for the design of financial services products that are appropriate for the Ugandan population.

[13] For example, Wood (2003) argues that the "destructive uncertainty" that poor people face causes them to discount future risks and needs to ensure survival and security in the present; this means they can then become locked into the informal institutions and networks needed to achieve these latter goals and which are perhaps not best suited to securing longer term needs or protecting against risks. They thereby tend to favour informal solutions, put on hold strategies for long-term asset formation and become trapped in a poverty cycle – a situation Wood describes as a "Faustian bargain".

[14] Finscope Uganda is a questionnaire administered to a representative sample of about 3000 Ugandan adults on usage and attitudes to financial services.

Financial services in Uganda

Use of formal or even semi-formal financial services is limited. To show this, Figure 1, below, captures the "financial access strand" for Uganda[15]. This shows the use of formal and informal financial services by categorising Uganda adults into four mutually exclusive groups:

- individuals using formal financial services, e.g. commercial banks, Postbank, other formal financial services;
- individuals using semi-formal financial services, e.g. micro-finance institutions, savings and credit cooperatives;
- individuals using informal financial services, e.g. informal savings groups, burial groups, "welfare funds", etc. (These are unregulated and unsupervised groups set up in a community with a specific financial services objective.)
- lastly, individuals that do not engage with any type of financial service and that are essentially unserved. (They are likely to store money in cash themselves, use family or friend networks to cope with financial shocks, etc.)

As can be viewed in Figure 1, only 18% (2.4m) of the adult Ugandan population use any type of formal financial service, while another 3% (0.4m) use semi-formal financial services. 17% (2.2m) use informal financial services only, while 62% (8.2m) do not use any type of financial service. These statistics point towards extremely low levels of financial usage and a population that is not actively engaged with by the formal financial sector:

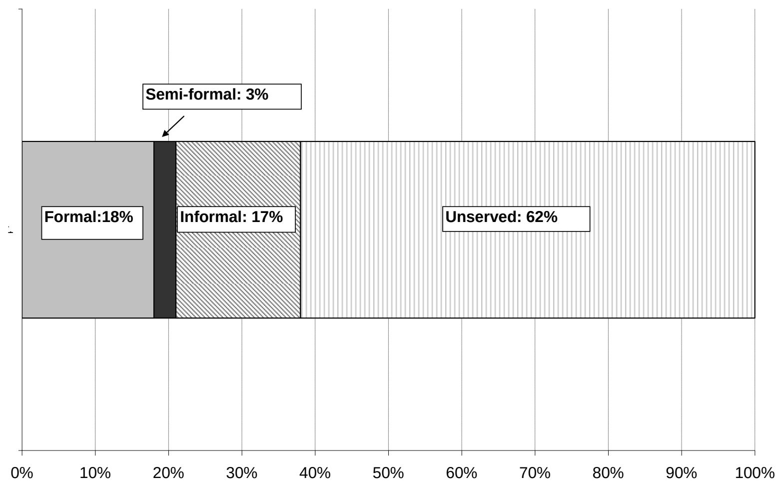

Figure 1: The Ugandan financial access strand

Source: FinScope Uganda, 2006

[15] The access strand methodology was created as part of a collaborative effort by the World Bank, the International Monetary Fund (IMF), the UK Department for International Development (DFID) and the FinMark Trust. – see World Bank, 2005. Indicators of Financial Access: Household-level Surveys

With the exception of promoting microfinance, financial inclusion has not been an explicit policy objective of the Ugandan government to date.

The Ugandan insurance market: usage and background

The conventional[16] *insurance market has even lower usage than general financial services*. No more than 8% (1m) of people use *formal or informal* risk pooling mechanisms[17] (FinScope Uganda, 2006). If only conventional (non-micro) insurance is taken into account, 3% (0.37m) of the adult Ugandan population currently use these products. The total insurance market in Uganda is small (in terms of gross premiums) with a high number of small players relative to the size of the market. The life insurance sector is much smaller than the non-life sector and almost negligible in size. Formal insurance sector legislation, regulation and supervision have only been implemented in the last ten years, implying that the industry is still in the process of development.

Micro-insurance coverage estimated to extend beyond conventional insurance, but limited to credit life. While no official statistics exist, the Ugandan micro-insurance market is estimated to reach about 600,000 individuals (almost 5% of the population) through compulsory credit life insurance[18] sold through micro-finance institutions (MFIs), as well as some health insurance. Some of this is done by commercial insurers, some by MFIs themselves. There exists little cooperative or mutual insurance activity, though there is use of community-based informal risk pooling activity and appeal to family networks in respect of funeral and health risks.

Past currency devaluation experience undermines trust in the industry. Uganda was subject to a large currency devaluation during the 1980s. This event has often been cited as the reason why there are low levels of consumer trust in the insurance industry and why the Ugandan life insurance market forms such a small component of the overall insurance market. The Ugandan economy was characterised by high inflation levels before this event. In order to normalise inflation levels and as part of a structural adjustment programme, the Ugandan government implemented a large currency devaluation in May 1987 and a 30% special across-the-board conversion tax rate that applied to all currency holdings, time and savings deposits, treasury bills and government stock held by the public (Baffoe, 2000). During the 1987 devaluation, the currency was devaluated to 1% of its original value. This would imply that a life insurance policy that, when originally purchased, had a value of USh1,000 would after the 1987 devaluation only pay out USh10. There is some limited evidence from focus groups that recollections of these events have undermined confidence in the insurance industry, especially for longer term, life products. However, the full set of barriers to insurance development is evaluated and prioritised in Section **Error! Reference source not found.** below.

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[16] By 'conventional' we mean the balance of the total formal insurance market not covered by micro-insurance, i.e. used by mid to high income people.

[17] This 8% includes community based societies for the pooling of risk, most of which do not guarantee benefits and are therefore not insurance.

[18] 'Credit life insurance' is insurance taken out to cover a borrower's debt in the event of their death.

Document structure

This document consists of five main parts:

- **Section Error! Reference source not found.** outlines the methodological approach followed
- **Section Error! Reference source not found.** provides an overview of the regulatory framework for insurance in Uganda. Since the regulatory framework for insurance is determined by both insurance-specific and other financial sector regulation, the section also provides a brief summary of the banking sector and the main legislation that applies to this sector.
- **Section Error! Reference source not found.** analyses the insurance market and, specifically, the micro-insurance market in Uganda, and describes the nature of take-up and demand for insurance
- **Section Error! Reference source not found.** highlights the drivers of the Ugandan insurance market: it describes the interaction between market and regulatory factors and how they shaped the development of the market
- **Section Error! Reference source not found.** concludes.

2. Analytical framework

This study applies a number of lenses to the evolution of microinsurance markets in the five countries. These lenses, collectively referred to as the analytical framework, in turn inform the synthesis of drivers and findings in the cross-country report. The full analytical framework is contained in Appendix 1. It covers:

- The financial inclusion framework
- The goal of microinsurance, namely increased welfare for the poor through risk mitigation to reduce vulnerability.
- The definition of microinsurance, namely insurance managed according to insurance principles, in exchange for a premium, that is accessed by or accessible to the low-income market.
- The parts of the insurance value chain covered, including underwriting, administration and intermediation/distribution.
- The distinction between formal and informal insurance and intermediation.
- The categories of risk identified, namely prudential risk, market conduct risk and supervisory risk.
- A typology of public policy instruments, namely policy, regulation and supervision.
- An overview of the insurance regulatory scheme (most notably financial inclusion policy or regulation, prudential regulation, market conduct regulation and institutional regulation)

Please refer to Appendix 1 for a detailed analysis of each of these areas.

2.1. Methodological approach

The following research process was followed in compiling this study:

- *Understanding the microinsurance market*. The microinsurance market is described in terms of: (i) the various players (corporate and mutual/cooperative, formal and informal) active in the low-income market; (ii) the products available and any low-income market product innovations; (iii) usage among the low-income population of formal and informal insurance products; as well as (iii) distribution channels employed in the low-income market and any distribution innovations. These findings are used to conclude on the key characteristics of the microinsurance market. Focus group research was used to identify the need for and understanding of insurance among the target market. This included an investigation into the risk experience, provider, product and channel preferences of the focus group participants, as well their trust in the insurance market in general.
- *Understanding the insurance regulatory framework*. Furthermore, the study gives an overview of the insurance regulatory framework, in general and as pertaining to microinsurance.
- *Drivers of microinsurance*. In light of the above, it seeks to draw out respectively the non-regulatory (market, macroeconomic and political economy context-related) and regulatory drivers of the state of microinsurance. These drivers are synthesised in the cross-country document.
- *Conclusion*. The drivers are used as the basis for highlighting conclusions on the development of the market, the impact thereon of regulation and other factors and the way forward for microinsurance policy, regulation and supervision.

The methodology consisted of desktop research as well as consultations with industry role players, regulators, supervisors and other stakeholders. It involved:

- Traditional demand and supply mapping
- Qualitative focus group research
- Regulatory and policy analysis
- Controlling for context and the distinctive evolution of the broader insurance market

2.2. Project scope

The scope of the study covers all life and non-life insurance products targeted at the low-income market, including savings products provided by insurers (endowments) where it includes an element of guarantee. Pure savings products and retirement savings products are excluded from the scope of the study, as is government social welfare and social security provision.

While capital health insurance products are considered, indemnity health insurance was excluded from the scope of the study. Indemnity health insurance is an extremely important product for the low-income market but requires a dedicated study as it is often regulated and supervised differently to other insurance business and is a complex field, intricately linked to health service provision.

The study covers all categories of providers and intermediaries, including informal markets.

3. The insurance regulatory framework in Uganda

This section starts by outlining the institutional landscape of financial sector regulation in general in Uganda. It then proceeds to focus on insurance regulation.

3.1. Bank, MFI and other financial sector regulation

Bank sector regulation, or rather the tiered structure that these regulations impose on the bank sector, is of relevance here since it has implications for the channels of distribution that are available to the insurance sector. The regulation of the Ugandan banking and deposit-taking sectors creates four tiers of financial institutions (Desphande, Pickens & Messan, 2006). These tiers are summarised in Table 1 below.

Tier	Institutions	Number	Functions allowed	Regulation
1	Banks	15 (132 branches end-2004)	May mobilise deposits, extend credit and perform foreign exchange transactions	Classified as "formal" Subject to prudential regulation **Supervisor**: Bank of Uganda **Policy maker**: Ministry of Finance, Planning and Economic Development
2	Credit institutions	2	Same as Tier 1, but may not perform foreign exchange transactions	
3	Microfinance deposit-taking institutions	4	Same as Tier 2, but not allowed to operate cheque accounts	Classified as "semi-formal" Subject to prudential regulation **Supervisor:** Bank of Uganda **Policy maker**: Ministry of Finance, Planning and Economic Development
4	Cooperatives and MFIs	+/- 800	May mobilise savings only from members, not general public; may extend credit	Classified as "informal" Not subject to prudential regulation **SACCOs supervisor**: Registrar of Cooperatives **SACCOs policy maker**: Ministry of Trade, Tourism and Industry Non-SACCOs (e.g. MFIs) - effectively unregulated and unsupervised

Table 1: The structure of the banking or deposit-taking sector (formal and semi-formal) in Uganda

Source: Deshpande, R., Pickens, M. & Messan, H., 2006. Uganda: Country-level savings assessment. Consultative Group to Assist the Poor (CGAP) Savings Initiative

- **Tier 1:** *Commercial banks* are regulated under the Financial Institutions Act, 2 of 2004. These institutions are able to mobilise deposits, offer credit services and perform foreign exchange transactions. During 2006, fifteen commercial banks were operating in Uganda, with only two banks, Centenary Bank and Stanbic, actively targeting low-income and rural markets (Deshphande, Pickens & Messan, 2006). There were 133 commercial bank branches in Uganda at the end of 2004. Given a total population of almost 26m in 2004, it implies that there was one bank branch available for every 200,000 individuals (CGAP, 2005).

- **Tier 2:** *Credit institutions.* Similar to commercial banks, credit institutions are also regulated by the Financial Institutions Act, 2 of 2004. They can engage in the same financial activities as commercial banks (taking deposits, extending credit), but are not allowed to perform any foreign exchange transactions. There are currently two credit institutions active in the Ugandan market: Postbank and Commercial Microfinance Limited. **Tier 3:** *Microfinance deposit-taking Institutions* (MDIs) operate under the Micro Finance Deposit-taking Institutions Act, 5 of 2006. The Act allows these institutions to take deposits from the public and to on-lend these by extending credit, however, MDIs are unable to operate cheque accounts and are also not allowed to conduct any foreign exchange transactions. There are currently 4 MDIs operating in the Ugandan market: FINCA; PRIDE Uganda; Uganda Microfinance Limited; and Uganda Finance Trust. Before the Micro Finance Deposit-taking Institutions Act was enacted, these institutions were MFIs that were only allowed to take deposits from credit clients. The first three tiers of the system are usually referred to as 'formal'.
- **Tier 4:** *SACCOs and MFIs***.** The last tier consists of savings and credit cooperatives (SACCOs) and microfinance institutions (MFIs). Depending on their regulatory form (whether a SACCO or MFI), they are regulated by three sets of institutional legislation: the Co-operative Societies Statute of 1991, the Companies Act and the NGO Registration Act of 2006. These institutions are not subject to prudential regulation or market conduct regulations, but are also not allowed to mobilise deposits from the general public. SACCOs are only allowed to mobilise savings from their members, while similarly MFIs are limited to collecting compulsory savings from their credit clients. A census by the Financial Sector Deepening Project of Uganda during 2006/2007 revealed that there are about 800 institutions that form part of this tier. The question whether these institutions need to be subject to regulation recently appeared on the Ugandan government's regulatory agenda. At this stage, it seems as if a licensing framework (without any prudential regulation) for larger SACCOs with deposits in excess of a certain threshold is being contemplated. The financial services provided by MFIs and smaller SACCOs are likely to remain unregulated. These instititutions are generally described as being 'semi-formal'.

In addition, there are *unregistered organisations* that provide financial services to their members, including savings societies outside of these tiers. Some of these would be organisations that should register under one of the tiers above but do not. But more commonly they would consist of community-based organisations which do not have to register or satisfy any prudential or other regulatory requirements as their own members are responsible for their supervision.

Regulators and supervisors. The Tier 1-3 institutions, which are subject to prudential regulation, are supervised by the Bank of Uganda and regulated by the Ministry of Finance, Planning and Economic Development (MoFPED). Savings and credit cooperatives that form part of Tier 4 are under the supervision of the Registrar of Cooperatives, with final policy-making responsibility resting with the Ministry of Trade, Tourism and Industry. The non-SACCO institutions (e.g. MFIs) in Tier 4 are effectively unsupervised and unregulated.

There have been policy initiatives to strengthen access to microfinance. Some regulatory attention has been focused on promoting access to credit or microfinance. The Ministry of Finance, Planning and Economic Development's Poverty Eradication Action Plan (PEAP) of 2004 identifies rural financial services, mainly credit or microfinance, as a focus area for the elimination of poverty. To action the expansion of rural microfinance it has since created the Microfinance Outreach Plan. Though it cannot be classified as legislation, the policy stance embodied in the Microfinance Outreach Plan may be considered part of Uganda's body of financial inclusion policy.

3.2. Regulation relevant to insurance

One law, the Insurance Act (Cap 213 Laws of Uganda, 2000), governs all insurance business and is supplemented by the Motor Vehicle Insurance (Third Party Risks) Act (Cap 214 Laws of Uganda, 1989) that, amongst other things, makes third party insurance compulsory for all vehicle owners.

The Uganda Insurance Commission (UIC) is responsible for the supervision and regulation of the insurance sector. The Commission was established in 1996 after the enactment in 1996 of the Insurance Statute, the first comprehensive piece of insurance legislation. Before 1996, the industry was effectively unregulated, with nominal regulation by the Department of Trade, allowing fly-by-nights and insurance players unable to fulfil basic operational principles to operate as result of the regulatory void.

All insurers are required to register with the Commission and the Commission is tasked with ensuring compliance with the Insurance Act. In doing this, it is directed by its mission of ensuring "a sound and stable insurance industry" (Uganda Insurance Commission, 2005; Cap 213 Laws of Uganda, 2000). Given the still quite recent enactment of insurance regulations, operating according to the aforementioned mission does not always allow room for pursuing other objectives such as access to insurance. Rather, the stability and soundness of the industry take precedence.

The final policy-making responsibility for insurance in Uganda resides with the MoFPE. The Ministry determines or sets the mandate of the Insurance Commission in terms of regulating the insurance industry and the Commission is responsible for the setting and implementing policy within its given mandate.

The insurance regulatory framework in Uganda distinguishes between life and non-life business, with no separate demarcation for medical insurance. In fact, medical insurance receives no explicit mention within the current regulatory regime. The Uganda Insurance Commission is currently exploring where and how medical insurance should be incorporated into the insurance regulatory framework.

No separate regulatory framework for micro-insurance exists in Uganda and the Insurance Act does not make any regulatory concessions to micro-insurance. The government of

Uganda also has not expressed the intention, at this stage, to capture micro-insurance or access to insurance as a policy objective.

The Uganda insurance regulatory scheme consists of the following components:

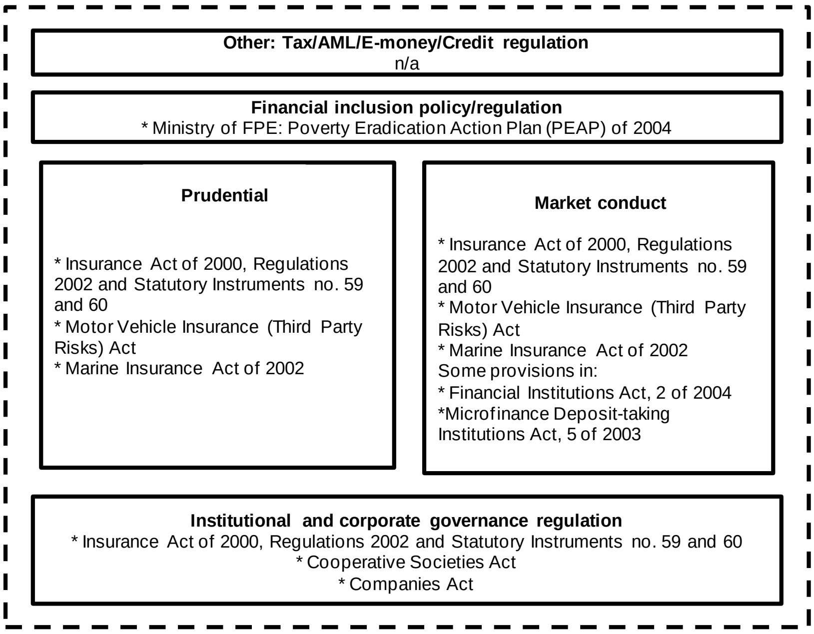

Figure 2. The insurance regulatory framework in Uganda.

Source: various acts.

Institutional, prudential and market conduct regulation

This part of the framework determines who can provide insurance, on what terms and through what processes and consists of the following acts (and their supporting regulations):

- The Insurance Act, Cap 213 Laws of Uganda 2000, the Insurance Regulations, 2002; and Statutory Instruments No. 59 and 60 (containing prudential, institutional and market conduct regulation)
- Motor Vehicle Insurance (Third Party Risks) Act of 2000, Cap 214 Laws of Uganda
- The Marine Insurance Act, 2002;
- Co-operative Societies Statute, Cap 112 of 1991 and
- Companies Act, Cap 110 of 1961.

Other financial sector regulation that has implications for market conduct regulation

In addition to the institutional and prudential legislation, some conditions on the distribution of insurance by non-insurance intermediaries are contained in the Financial Institutions Act, 2 of 2004 and the Microfinance Deposit-taking Institutions Act, 5 of 2003. These laws thus form part of the body of market conduct regulation.

As mentioned above, there is no general financial inclusion policy, through the Poverty Eradication Action Plan of 2004 does focus on the expansion of micro-finance, thereby indirectly of relevance to micro-insurance via the compulsory credit life channel.

In the sub-sections to follow the main pieces of regulation relevant to micro-insurance are described in more detail, starting to highlight some of the effects of each act where relevant. These impacts are then explored in more detail in Section **Error! Reference source not found.**.

3.3. The Insurance Act, Cap 213 Laws of Uganda 2000

In 1996, the Insurance Statute for the first time introduced legislation regulating the provision of insurance in Uganda[19]. The Statute not only provided a set of functional regulation that applies to the insurance industry, but also established the Insurance Commission. Before 1996, the insurance industry was effectively unregulated, with nominal supervision by a Department of Insurance within the Ministry of Finance. In 2000, the Statute was transformed to an act when the Ugandan government recoded its entire set of legislation to become acts[20]. The regulations to the Act were first issued in 2002. In reading the description of the Act that follows, it is thus important to bear in mind that it is a fairly recent piece of legislation that is still evolving to reflect the realities of the Ugandan insurance sector. In fact, in recognition of this, the Ministry of Finance, Planning and Economic Development in 2005 commissioned a review and evaluation of the Act to determine whether it was consistent with best practice internationally[21]. The recommendations are not publicly available. Regulatory action on the recommendations made is still awaited and there is an ongoing review of the Act and regulations thereunder (Uganda Insurance Commission, 2006).

The main areas of the Insurance Act relevant to this study are described below.

Establishment of the Insurance Commission. The Act allows for the establishment of “a Uganda Insurance Commission” as a “body corporate with perpetual succession” (Section 14(1)). It defines the “objects and functions” of the Commission, inter alia to “promote a sound and efficient insurance market in the country” (Section 14(3)(h)). The Act specifies that the “Minister may give directions of a general nature to the commission on matters of policy, and the commission shall give effect to the directions” (Section 16). It therefore establishes a clear delineation of policy making versus policy implementation responsibilities, with the Minister of Finance, Planning and Economic Development being responsible for policy formulation and the Commission executing the policies and regulations that have been made.

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[19] It is not clear what catalysed the creation and implementation of the Insurance Statute 1996. It is probable that the country had managed to achieve sufficient economic and political stability at the time to start paying attention to the regulation of different sectors of the economy and that the implementation of insurance regulation was a natural step.

[20] While some international literature on insurance in Uganda may still refer to the Statute, we here use the term Act to reflect the current situation.

[21] The review was undertaken by the consultants LeBoeuf, Lamb, Greene and MacRae. The consultants submitted their final report to the Ministry of Finance in April 2005, after which the Commission commented on the recommendations at the Minister’s request. The content of the report is not publicly available.

Definition(s) of insurance. The Act does not contain a substantive definition of insurance. It is defined as simply including “assurance and reinsurance”, with no further definition of these two terms provided. By convention rather than definition it seems that provision of benefits without any guarantee falls under informal risk pooling rather than insurance.

Act distinguishes between life and non-life insurance. The Act distinguishes between life and non-life insurance. Life insurance is not defined according to specific product categories but is viewed as self-explanatory and appears in practice to incorporate longer term policies. Non-life insurance, however, is defined as consisting of the following product categories: fire insurance; burglary insurance; personal accident insurance; employers liability insurance; public liability insurance; marine hull insurance; marine cargo insurance; aviation insurance; motor vehicle insurance; crops, fishing and livestock insurance; bonds; contractors all risk insurance; machinery breakdown and installation and boiler explosion insurance; and a miscellaneous category of non-life insurance (Section 5(b)(i)-(xiv)). In practice non-life broadly corresponds to shorter-term policies and in fact the miscellaneous category has been used extensively to write personal accident and short term life cover on outstanding credit, which is covered in more detail in Section 4.3. In other jurisdictions non-life insurance is also often known as general insurance, or short term insurance. A “composite” insurer is defined as one licensed to write both life and non-life business.

No separate regulatory category for medical insurance. Since no explicit mention is made of health or medical insurance within the Act, the Commission interprets it as residing under non-life insurance and, specifically, under the product category of “any insurance other than specified above” (the miscellaneous category) (Section 5(b)(xiv)). However, a number of Ugandan companies providing health insurance-type products (these organisations are typically known as health maintenance organisations or HMOs) have argued successfully that health insurance is sufficiently different from non-life insurance and deserves separate regulatory treatment. Until the necessary changes have been made to the Insurance Act to facilitate separate treatment of medical insurance, some of these companies are therefore not willing to register as insurers, even though the products that they provide carry typical insurance risks and logically fall within the ambit of the Act. Their reluctance to register has prompted reconsideration by the Commission of the way that health insurance is treated within the regulatory framework. The Commission plans to undertake a review to find a proper regulatory space for medical insurance.

Regulation of reinsurance. In addition to the two main categories of insurance, the Act identifies a third category, namely reinsurance business. Different capital requirements apply to re-insurers than to life and non-life insurers.

Institutions that may provide insurance. According to the Insurance Act, insurers are required to be “bodies corporate” (Section 4). It then proceeds to identify four types of institutions that are allowed to carry on insurance business in Uganda (Section 4(a)-(b)):

- a company incorporated under the Companies Act;
- an insurance corporation established by law;
- a cooperative insurance society registered under the Cooperative Societies Act; and
- a mutual insurance company.

Space created for mutual organisations. The Insurance Act defines a mutual insurance company as a "company of which by its constitution only policyholders are members of the company and which has no share capital" (Section 2(l)). It proceeds to specify that a mutual insurance company requires at least 25 members, but no more than 300. These members need to subscribe their names to a memorandum of understanding (Section 9(1), and the company does not have to be incorporated under the Companies Act). In addition, less onerous capital requirements apply to mutual insurers than non-mutual insurers (see below). The inclusion of a mutual insurance company as an institutional category able to write insurance business and the specifications associated with this category seem anomalous. On the one hand, its mere inclusion indicates some willingness on the part of the Ugandan government to facilitate insurance provision by smaller mutual entities. On the other hand, the limit placed on maximum membership (300 members) is not high enough to facilitate the creation of a large enough risk pool to write insurance. The other type of member-based organisation that is able to provide insurance under the Act is a cooperative insurance society registered under the Co-operative Societies Act. The definition of a cooperative institution is contained in the Co-operative Societies Act. The contents of this Act that are relevant for insurance provision are described in Section 3.5. Both mutuals and co-operatives providing insurance are regulated by the UIC.

Capital requirements. The capital requirements are currently USh1 billion (about US$580,000[22]) for a life or non-life license. A composite insurance license, would thus require capital of USh2 billion (about US$1.15m). The minimum capital required for a reinsurance license is currently USh2.5 billion (about US$1.4m).

With the issuing of the insurance regulations in 2002, the capital requirements were increased to these levels from USh200m (about US$115,000) for a local insurer to obtain a life or non-life license and USh1 billion (about US$580,000) for a foreign insurer to obtain a life or non-life license. The requirements for foreign insurers thus remained the same, while it increased for local insurers. The issuing of the insurance regulations in 2002 and the increase in capital requirements is described by McCord, Botero and McCord (2005: 2) as an attempt by the Commission to "reduce the number of insurers to between eight and ten". The insurance market decreased from 30 to 20 insurers in the period between the establishment of the Commission and 2007, in part due to the capital requirement changes, however, the full intended scale of market consolidation was not realised.

Lower capital requirements apply to mutual insurance companies (but not to cooperatives) than to other institutional forms of insurers. There is no up front capital requirement for mutuals. On an ongoing basis though, a mutual insurer is required to hold "a surplus of not less than 15 percent of its assets over its liabilities *or such other percentage that may be determined by the commission*" (Section 10(2), emphasis added). So for a mutual insurer entering the insurance market with liabilities or debt to the value of USh100m (US$60,000), this would imply that the insurer would have to have assets to the value of USh115m (US$66,000). The up-front capital requirements that apply to mutual insurers could be less than the requirements that apply to other insurers. However, the Commission has indicated that although technically the Act allows room for lower capital requirements for mutual

[22] Converted, here and henceforth in the document, at the average interbank exchange rate for September 2007: USh1732.25.= US$1

insurers, each application for an insurance license by a mutual would be judged on its own merit.

Registration requirements. Apart from meeting the capital requirements noted above, a prospective insurer is required to provide the Commission with detailed information on its board of directors, shareholders, management staff, capital structure, business plans and any other information that could influence an evaluation of the viability of the insurance company (Section 29).

Actuarial requirements. The actuarial requirements that apply to insurers are detailed in Section 55 of the Act. The Act requires every insurer that carries on *long-term business* to appoint an actuary as soon as it commences with the long-term business – this is not clearly defined but generally refers to policies longer than a year in duration. It is not specified that the actuary needs to be a full-time employee of the insurer. Furthermore, every *life* insurer (whether writing short or long-term business) is required to have a full actuarial investigation by an actuary at least once every three years (or any shorter period if so prescribed) into the financial condition of the business. The actuarial report has to be submitted to the Commission within the parameters of a prescribed form. A complete actuarial investigation into the financial condition of a life insurance company is also required before the life insurer distributes profits to its shareholders. While all insurers carrying on long-term business are required to appoint an actuary, only life insurers are required to submit actuarial reports. Non-life insurers carrying on short-term business (generally one year policies or less) are thus not required to have an actuary or submit actuarial reports.

	Life insurer	Non-life insurer
Long-term business (i.e. policies longer than a year)	• Appointment of an actuary • Full actuarial investigation by actuary every three years • Complete actuarial investigation before distribution of profits to shareholders	• Appointment of an actuary
Short-term business (i.e. policies of a year or shorter)	• Full actuarial investigation by actuary every three years • Complete actuarial investigation before distribution of profits to shareholders	• No actuarial requirements apply

Table 2: Summary of actuarial requirements that apply to insurers

Source: Republic of Uganda, 2000. Insurance Act, Cap 213 Laws of Uganda 2000: Kampala, Uganda.

Compulsory reinsurance. Section 64 of the Insurance Act makes it mandatory for insurers to place some of their premiums with two African reinsurance companies. Insurance companies are required to place a minimum of 5 percent of their reinsurance cessions with the African Reinsurance Corporation (Africa-Re) and a further minimum of 10 percent of their reinsurance cessions with the Preferential Trade Area Reinsurance Company (ZEP-RE).

There are currently efforts underway to establish a national reinsurance company, Uganda Reinsurance Company, in an attempt to reduce the reinsurance premiums leaving Uganda. The Uganda Insurers Association presented a proposed amendment to the Insurance Act to the Ministry of Finance, Planning and Economic Development that will make it compulsory for Ugandan insurance companies to place a certain percentage of reinsurance business with the national reinsurer (Bwogi, 2007).

Product regulation. The Insurance Act establishes the legal basis for product regulation by the Insurance Commission. It requires insurers, before issuing any policy or making changes to an existing policy, to have a) the text or format of the policy, b) the proposal forms and c) the premium rate, rating scales and commission rates approved by the Insurance Commission (Section 35). The Act does not detail specific requirements that policies need to meet in terms of the above aspects and the Commission judges every policy according to its own merit. The Commission considers, amongst other things, issues like the experience of the insurer in writing the particular type of business, the data and calculations underlying the pricing. A couple of possible micro-insurance products have been rejected by the Insurance Commission for failing in these respects.

Minimum premiums. The above legal requirement to have product premiums approved by the Commission, as well as the prohibition on the lowering of premiums without the permission of the Commission (Section 36), establishes the regulatory basis for a system of agreed minimum premiums. Furthermore, the Act explicitly states that it is one of the functions of the Commission to “approve minimum rates of insurance premiums” (Section 15(d)), in the first instance as a way of ensuring solvency.

The Uganda Insurers Association and Uganda Insurance Commission have entered into a process of negotiation to arrive at a set of agreed minimum premiums, based on the market average, for different product lines. The Commission views this process as necessary to prevent undercutting and potentially reckless pricing behaviour by insurers. The negotiation process is complicated by constantly changing (and decreasing) premiums, however, the first finalised set of minimum premiums was agreed upon in 2007 and is now being implemented. Uganda does not have anti-trust or competition regulation that would prevent the setting of minimum premiums. If these minimum premiums are in fact adhered to they may contribute to improving solvency of insurers, but they are more likely to restrict access by making insurance more expensive than it needs to be.

Distribution of insurance limited to brokers and agents. The Insurance Act provides that only brokers and agents are allowed to act as insurance intermediaries (Sections 72). A broker is an independent contractor working for commission, while an agent is appointed by an insurer to solicit applications for insurance in exchange for commission. Brokers are required to be bodies corporate or companies incorporated under the Companies Act. Legally, companies may be agents but in practice most agents are licensed in their capacity as individuals. The Act expressly prohibits employees of insurance companies from being insurance agents (Section 80(b)(i)), implying that insurance agents cannot have an employee relationship with the insurers whose products they are selling. The licensing and renewal of a license of an intermediary will only occur if the Commission is convinced of the following aspects (Section 76(1)(a-f)):

- That the broker or agent is of sound financial standing;
- That the "principal officer" (broker or agent) has sufficient knowledge, experience and skills (the minimum required levels of knowledge, experience and skills are not described);
- That, in the case of a broker, the indemnity insurance policy is current and satisfactory;
- That the applicant is not in any way disqualified under the Act; and
- That the prescribed fee has been paid by the broker or agent. An annual licensing fee of USh200,000 (about US$11,5[23]) applies to brokers (or brokerage companies), while agents are required to pay an annual licensing fee of USh50,000 (about US$30) (Uganda Insurance Commission, 2002) which is a significant amount for many people in Uganda. In addition, broking companies are required to have prescribed paid-up capital of USh50m (about US$30,000).

Collection of premiums on a credit basis. The Act does not allow insurance agents to provide credit on insurance premiums payable for more than thirty days except for business emanating from a broker licensed under this Act (Section 34(1)). This implies that if an insurance policy was to be sold by an agent or directly, and the policy was written for a period longer than a month, clients would not be allowed to pay premiums on a monthly basis. This has constrained at least one insurer which tried to sell direct business. Thus, for an annual policy, a client would have thirty days available after the purchase of the policy to pay the full premium for the year up-front. There is nothing in the Act that stops insurers from writing monthly renewable policies except that these policies will not be able to guarantee premium rates for longer than a month.

Remuneration of intermediaries limited to registered brokers and agents. The Insurance Act limits the payment of commission or intermediary remuneration to agents and brokers registered under the Act (Section 37). These intermediaries can only be remunerated through the payment of "commission and other approved incentive or bonus schemes paid in accordance with the commission scales and plans approved by the Commission" (Section 88(1)), agreed together regularly by the Commission, insurance industry and intermediary representatives. The Act is also clear on the fact that any incentive or bonus scheme would first have to be approved by the Commission (Section 88(2)). Maximum commission limits for different product lines are arrived at through a process of consultation between the Ugandan Insurance Association and the Uganda Association of Insurance Brokers. The finalised commission levels applying to both brokers and agents are then approved by the Insurance Commission. Maximum percentage commissions may make it unfeasible for intermediaries to sell low value insurance policies.

Consumer protection, as a part of market conduct regulation, is limited. The Act does not contain any prescriptions on how the sales process should be conducted and whether the client is entitled to advice or product disclosure and what this should entail. It, however, establishes the obligation for the Uganda Insurance Commission to provide a bureau where members of the public can submit complaints related to insurance (Section 15(f)). It also explicitly prohibits misleading advertising by stating that any person that makes him/herself guilty of false or deceptive advertising or the provision of false information related to insurance and insurance policies commits an offence and is liable for a fine of up to USh1m (about US$600) (Section 40). During 2005, the Complaints Bureau (housed in the Commission) received only 38 complaints, of which 21 were related to delays in claims settlement (Uganda Insurance Commission, 2006). The low volume of complaints is at least in part due to the fact that the Complaints Bureau does not seem to be well advertised.

3.4. The Motor Vehicle Insurance (Third Party Risks) Act, Cap 214 Laws of Uganda 2000

Legal compulsion for third party insurance. The Motor Vehicle Insurance Act establishes legal compulsion for third party insurance for all vehicle owners in Uganda. The Act states that it "shall not be lawful for any person to use, or to cause or to permit any other person to use, a vehicle on a road unless there is in force in relation to the use of the vehicle by that person or that other person, as the case may be, a policy of insurance in respect of third party risks that complies with the requirements of this Act" (Section 2(1)).

Other areas covered by the Act. In addition, the Act details the scope of third party insurance policies, the proof of a third party insurance purchase and how it should be displayed by the policy owner, the duties placed upon vehicle owners once an accident occurs and considerations during the claims process. The Act also establishes a Nominal Defendant Council, a council consisting of representatives of government and Ugandan insurers to deal with matters related to third party insurance. A variety of other areas and considerations, of limited importance to this study, is also covered by the Act.

This insurance can be purchased from fuel stations (i.e. does not have to be purchased from a licensed broker, agent or directly from an insurer) so it is widely accessible. This is mainly because the insurance is compulsory and is relatively commoditised. So fuel stations have not been allowed to sell other insurance products.

3.5. The Co-operative Societies Statute, 1991

Historical context. The history of cooperatives in Uganda is characterised by phases of growth and decline. The first agricultural cooperatives were created as early as the 1910s to facilitate participation in produce markets. During the 1970s, cooperatives were extensively used to facilitate political interests and they received large-scale state funding which was reported to undermine their governance and accountability to members. However, the adherence to strict structural adjustment requirements from 1987 onwards implied the loss of state funding and development support. In 1991, the Co-operative Societies Statute, legislation replacing the preceding Co-operative Act of 1970, was introduced after the strong lobbying efforts of the Uganda Cooperative Alliance (Uganda Communications Commission, date not available).

Cooperatives are currently experiencing another phase of government attention. The Ugandan government is focusing on providing development support and wholesale financing to cooperatives, as well as formalising cooperatives in Uganda, as part of its Microfinance Outreach Plan under the Poverty Eradication Action Plan (PEAP) of 2004. Cooperatives feature in the PEAP under "Pillar 2: Production, competitiveness and incomes", with rural financial services and support to agricultural marketing and cooperatives forming explicit priority areas.

Registration requirements. According to the Co-operative Societies Statute (1991), any "society which has for its object the promotion of the economic and social interests of its members in accordance with co-operative principles" may register under the Statute if it is an organisation with limited liability (Section 2). An application for registration has to be lodged with the Registrar of Cooperatives, under the Ministry of Trade, Tourism and Industry (MTTI). No registration requirements apart from the minimum number of members required apply. However, when applying, cooperatives are required to submit a copy of their by-laws (Section 4(3)). The Statute allows for the registration of a primary cooperative if it has a minimum of 30 members (Section 2). No membership requirements, apart from having to be at least eighteen years old and a resident within the cooperative's area of operation (Section 12), apply. The Statute also allows for the constitution by primary co-operatives into secondary co-operatives, and of secondary co-operatives into tertiary or apex bodies.

Provision of insurance. Co-operatives are allowed under the Insurance Act to write insurance. The Co-operative Societies Statute makes no explicit mention of the possibility of cooperatives providing insurance or other financial services but in practice when they register they need the explicit approval from the Registrar of Cooperatives to write insurance. The same capital requirements that apply to other insurers also apply to cooperative insurers. Cooperatives can distribute insurance if they are registered as intermediaries under the Insurance Act and have an explicit resolution to do this which has been approved by the Registrar of Cooperatives (Mwesigwa, 2007).

3.6. The Financial Institutions Act, 2 of 2004

The Financial Institutions Act houses the functional regulation that applies to all banks and credit institutions (Tier I and II institutions). Its main role in the insurance regulatory scheme is to define the ability of banks and credit institutions' (including Postbank) to intermediate insurance. It thus forms part of the body of institutional and market conduct regulation that applies to the insurance industry.

Limits the distribution of insurance to credit products. The Act limits the distribution of insurance by institutions regulated under it to credit or credit life insurance products, i.e. product areas in which banks have a direct insurable interest (Section 37(a)). Furthermore the Act does not forbid making this insurance *compulsory* on the taking of a loan. The policy is issued by the insurance company directly to the borrower, with the bank listed as a loss payee or beneficiary of any payment as a result of a claim on the policy (Mwesigawa, 2007).

However, the Act places strict limits on the intermediation of these products by the institutions. For instance, banks and credit institutions are not allowed to receive any form of remuneration for the provision of the credit and credit life insurance products and bank staff are not allowed to sell the insurance products Section 37(a) & (Mwesigawa, 2007). The products have to be sold by a registered agent or broker, and according to the Insurance Act, bank staff are not allowed to register as agents.

3.7. The Micro Finance Deposit-taking Institutions Act, 5 of 2003

The Micro Finance Deposit-taking Institutions Act allows for large microfinance institutions to become deposit-taking institutions if they are able to fulfil the prudential and other requirements set in the Act. Its enactment is seen as the first step in the formalisation of the microfinance industry in Uganda. Similar to the Financial Institutions Act, this Act relates to the insurance regulatory scheme where it defines microfinance deposit-taking institutions' (MDIs) ability to intermediate insurance.

Limits the distribution of insurance to credit products. Exactly the same insurance intermediation limits that apply to institutions regulated under the Financial Institutions Act also apply to MDIs (see Section 19(b)).

Amendments in the pipeline? A number of insurance players and the Insurance Commission itself indicated that changes to the Financial Institutions Act and the Micro Finance Deposit-taking Institutions Act are being contemplated by the MoFPDE. If implemented, these changes would allow banks and MDIs to distribute not only credit insurance, but also non-credit insurance products. As these prospective changes are neither finalised nor public it is not clear whether they will (1) provide institutions with the freedom to market insurance products directly without having to work through a broker or agent, or (2) whether they will permit banks and MDIs to be remunerated for intermediating insurance products.

3.8. Other regulatory developments

National Health Insurance Scheme. The Ugandan government, specifically the Ministry of Health, recently proposed the establishment of a National Health Insurance Scheme. Under the scheme it has been proposed that formally employed Ugandans and their employers will be required to contribute 4% each to the National Health Insurance Scheme. The funds will be paid over to the Uganda Social Health Insurance Corporation, a parastatal organisation that will be establish to administer the scheme (Bwogi, 2007).

4. The micro-insurance market in Uganda

This section provides an overview of the micro-insurance market in Uganda, considering the formal and informal players, the distribution models utilised, the products offered and the take-up thereof amongst the low-income population. It is necessary to understand the context of the overall insurance market in order to understand the development of the micro-insurance market. The description of players and distribution thus focuses on the insurance market as a whole, noting specific examples related to micro-insurance where relevant. However, the product sub-section is limited to available micro-insurance products.

Box 1: Key features of the micro-insurance market in Uganda

- *Small market*. The Ugandan insurance market is small, both in terms of take-up of insurance products (only 3% or 0.4m of the adult population have any insurance product) and total market penetration (gross premiums totalled 0.6% of GDP in 2005).
- *Dominance of non-life insurance*. Life insurance forms a very small component of the total insurance market (only 4% or gross premiums of US$3m in 2005) and non-life insurance

dominates (gross premiums totalled US$49m in 2005).

- *Limited interest from conventional insurers in the low-income sector.* Until now, traditional insurers in the Ugandan market have displayed limited interest in creating products for and serving the low-income market.
- *Micro-insurance mostly limited to credit life*. The little micro-insurance that is available in the Ugandan insurance market is compulsory credit or credit life insurance, tied to credit extended through commercial banks, MFIs and MDIs.
- *Infrastructure unavailable or underutilised in supporting distribution, e.g. retailers, cell phone platforms, bank network.* Uganda has limited infrastructure available for the distribution of micro-insurance. For example, it does not have a widespread formal retailer network which could be used to roll out products. However, the infrastructure that is available, e.g. the bank network and cell phone platforms, are currently not actively utilised to distribute insurance in part due to regulatory constraints.\

1. Insurance underwriting: players and market features

Formal players

Small insurance market (in terms of total premiums) relative to some African and other developing countries. The insurance market in Uganda is small relative to insurance markets in other countries and even in comparison to other African insurance markets. During 2005, gross total premiums expressed as a percentage of gross domestic product was 0.6% (Uganda Insurance Commission, 2006). Using this measure, within Africa a number of countries, including South Africa, Morocco, Egypt, Tunisia, Kenya and Namibia, have larger insurance markets (Uganda Insurance Commission, 2006). However, while its neighbour Kenya has a larger insurance market in relative terms, the Nigerian insurance market has the same size relative to GDP as the Ugandan market as can be viewed in Figure 3. In absolute terms, total gross premiums collected in 2005 was USh90 billion or (US$52m).

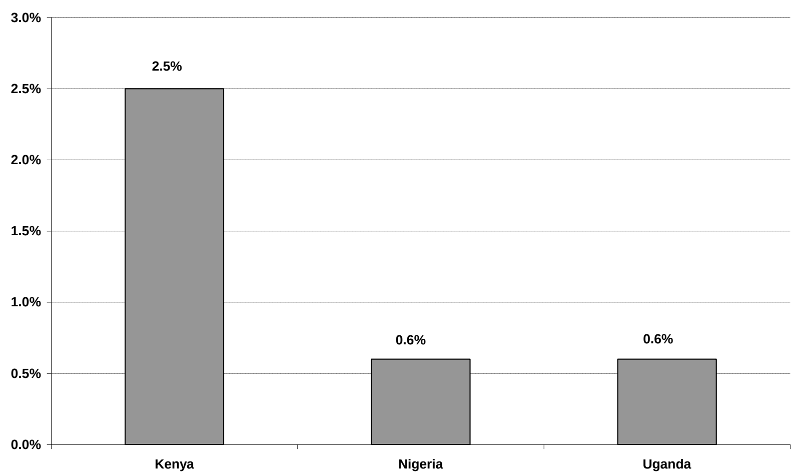

Figure 3: Gross premiums as percentage of GDP in peer countries during 2005

Source: Uganda Insurance Commission, 2006. ***2005 Annual Insurance Market Report.*** *December 2006. Uganda Insurance Commission: Kampala; Swiss Re****. World in insurance in 2005****. No.5/2006. Swiss Re.*

Almost constant relationship between total insurance premiums and GDP. As can be viewed in Figure 3 (below), gross premiums has (at least since 2002) almost remained constant as a percentage of gross domestic product (GDP) in Uganda. This would imply that relative growth of total gross premiums has not exceeded the growth experienced by the economy as a whole.

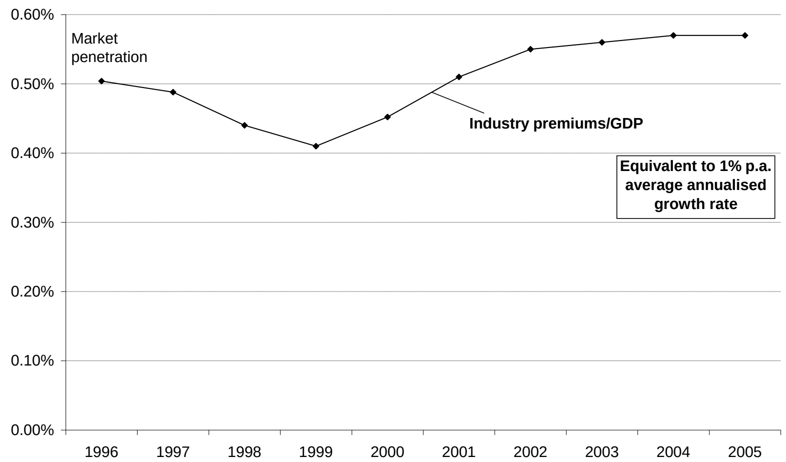

Figure 4: Relationship between insurance market and GDP over time

Source: Uganda Insurance Commission, 2006. ***2005 Annual Insurance Market Report.*** *December 2006. Uganda Insurance Commission: Kampala.*

Why the limited growth? A number of factors explain the limited growth that has been experienced in the insurance market relative to GDP. This includes insurers fighting for the same group of insured clients within the urban centres, a lack of product innovation and reluctance to introduce new products. Market development outside the traditionally insured groups has been limited. This explanation is elaborated on in the discussion of market drivers below.

Current players. There are 20 registered insurers in Uganda. Of these, one (Liberty Life) is a life insurer only, 4 insurers have composite (life and non-life) licenses and 15 have non-life licenses. The sale of a number of insurance companies to foreign companies during the last two years, together with a number of foreign players already present in the market, have resulted in 12 out of the current 20 insurers being foreign-owned (see Table 3 for a description of sizes and ownership status of insurers in Uganda). No official regulatory category for health insurance exists and one non-life insurer, Microcare, is thus writing health insurance on its non-life license (see Box 2 for a description of Microcare and its operations).

Government ownership of insurance companies limited. During 2005, the Ugandan government sold a 60% stake of the National Insurance Corporation, the largest composite insurer, to a Nigerian insurance company. The intention is for the remaining 40% government stake to be sold off to private investors in the near future. (This is the only government shareholding in an insurance company in Uganda.)

Company	Type of insurer	Ownership	Total non-life 2005 premiums (in Ush '000)	Total non-life 2005 premiums (in USD)	Market share of total non-life premiums. 2005	Total life 2005 premiums (in Ush '000)	Total life 2005 premiums (in USD)	Market share total life premiums 2005
AIG Uganda Ltd	Non-life	Foreign owned	19,990,915	11,540,000	23.5		…	…
United Assurance	Life and non-life	60% foreign, 40% government	12,756,026	7,364,000	15.0	668,931	386,000	12.9
Jubilee Insurance	Life and non-life	Foreign owned	11,825,435	6,287,000	13.9	3,894	2,000	0.1
Goldstar Insurance	Non-life	Foreign owned	6,930,344	4,001,000	8.2	…	…	…
National Insurance	Life and non-life	Foreign owned	5,579,958	3,221,000	6.6	2,665,298	1,539,000	51.5
East Africa Underwriters	Non-life	Locally owned	4,018,239	2,320,000	4.7	420,539	243,000	8.1
Excel Insurance	Non-life	Locally owned	3,388,455	1,956,000	4.0	…	…	…
Statewide Insurance	Non-life	Locally owned	3,165,836	1,828,000	3.7	…	…	…
Insurance Company of East Africa	Life and non-life	Foreign owned	3,067,995	1,771,000	3.6	1,419,239	819,000	27.4
Phoenix of Uganda Assurance	Non-life	Foreign owned	3,037,775	1,754,000	3.6	…	…	…
First Insurance	Non-life	Locally owned	2,956,839	1,707,000	3.5	…	…	…
TransAfrica Assurance	Non-life	Foreign owned	2,100,421	1,213,000	2.5	…	…	…
Lion Assurance	Non-life	Foreign owned	1,890,428	1,091,000	2.2	…	…	…
Leads Insurance Ltd	Non-life	Locally owned	1,810,614	1,045,000	2.1	…	…	…
East Africa General Insurance	Non-life	Foreign owned	821,014	474,000	1.0	…	…	…
Microcare Insurance	Non-life (medical)	Locally owned	479,921	277,000	0.6	…	…	…
Rio Insurance	Non-life	Locally owned	400,402	231,000	0.5	…	…	…
Paramount Insurance	Non-life	Locally owned	394,185	228,000	0.5	…	…	…
NICO Insurance	Non-life	Foreign owned	386,383	223,000	0.5	…	…	…
Liberty Life	Life and non-life	Foreign owned	…	…	…	Not yet available	Not yet available	…
Total			85,001,185	48,531,000	100	5,177,901	2,989,000	100

Table 3: Description of insurers operating in the Ugandan market

Source: Uganda Insurance Commission, 2006. 2005 Annual Insurance Market Report. December. Uganda Insurance Commission: Kampala, Uganda; additional information on ownership for 2006 provided by the Insurance Commission

Medical insurance limited to one insurer. The Ugandan market in health care financing is characterised by two types of operators:

- Medical insurer(s), which provide guaranteed cash benefits or services in return for regular premiums or contributions, e.g. Microcare.
- Health maintenance organisations (HMOs), historically providing pre-funded accounts which can be used to cover medical costs, so the risk that the account is insufficient to cover the medical cost remains with the member. An example of this sort of organisation is African Air Rescue (AAR). The use of HMOs is generally confined to expatriates and higher income people in urban areas.

As mentioned, Microcare is the only licensed insurer with medical insurance as a primary focus operating in the Ugandan market. Anecdotal evidence gathered from interviews indicates that some HMOs in fact do provide insurance services by guaranteeing benefits in exchange for a pre-set premium, for instance, providing capitated services for groups of clients[24]. Both sets of operators are therefore in practice taking on some levels of insurance risk. One other non-life insurer, (mainly focusing on asset insurance) recently also started to offer medical insurance products.

Microcare and its operations are described in more detail in Box 2 below.

Box 2: Microcare – a health insurer serving the low-income and informal market

Microcare, an insurer providing health insurance products to both formal and informal sector clients, has undergone a process of dramatic transformation since its establishment as a non-profit research organisation, Microcare Limited, in 2000. Since then, it changed to a commercial health manager, Microcare Health Limited, in 2004 and also established Microcare Insurance Limited, a licensed non-life insurer in 2005 (Noble, 2006). Microcare Health Limited continues to operate as health maintenance organisation, providing pre-funded access to health care. During its first six years of existence, Microcare received extensive financial support from a number of donors, including DFID's Financial Deepening Challenge Fund and Financial Sector Deepening Unit in Uganda. It also received financial support from Cordaid, the Austrian Regional Bureau, the EU Suffice Program and the McKnight Foundation (Noble, 2006).

Target market and client base. In order to limit the possibility of adverse selection, Microcare targets groups of clients. These groups include employer-based groups in the formal sector and informal sector groups reached through MFIs and other community-based organisations such as burial societies. In order to limit adverse selection amongst MFI clients, it is preferable that at least half of a MFI group join as clients, but it is often difficult to achieve this level of take-up (Noble, 2006). During 2007, about 60,000 lives were covered in the formal sector, while the Kisiizi (informal, low-income) product covers 20,000 lives (Wits Business School, 2007).

Products. At the end of November 2006, the Kisiizi product (aimed at the rural informal sector) was sold at an annual premium of US$15 per family of up to 5 members. However, the actual premium required to cover treatment, administration and reinsurance costs associated with the product is US$25 (Noble, 2006). This would then imply a subsidy of US$10 per product. The product provides access to unlimited cover for out-patient services, but with limits on in-patient services (Wilms, 2006). Interestingly, Microcare also started offering group personal accident (for formal employers and MFIs) and workers compensation insurance in 2005 (Microcare, 2005).

[24] Capitation is a form of group risk transfer where say an employer pays on behalf of a group a premium per member and the provider agrees to provide a pre-agreed set of medical services to the group as required by its members.

Service delivery. Microcare follows a “multi health service provider, multi client” model. Using their Microcare insurance, clients are able to obtain health services from a number of selected health service providers. Microcare categorises its different service providers according to costs and quality. While Microcare clients are allowed to use any service provider, Microcare will only provide cover to the limits associated with the client’s particular product. While the highest cost products provide access to all categories of service providers, the Kisiizi product only provides access to the lowest category of service providers (Wits Business School, 2007). About 85% of the providers are private institutions, 10% missionary health institutions and 5% government-owned (Kibuuka, 2007). Table 4 below sets out the number of different health services providers with which Microcare has a standing relationship.

Location	Hospitals	Clinics	Pharmacies
Kampala	8	10	2
Outside Kampala	18	67	…

Table 4: Microcare health service providers

Source: Kibuuka, J., 2007. Personal Communication. Marketing manager, Microcare. July.

Distribution. Microcare currently distributes its products through 6 direct agents and 5 registered brokers. The registered brokers tend to focus on the corporate market providing access to a range of products and not only health insurance. The agents are given the opportunity by MFIs to solicit business from their client base.

Premium collection. Group distribution allows Microcare to eliminate many of the costs associated with collecting premiums. The MFIs that are targeted as part of the Kisiizi scheme simply write one cheque annually for the premiums of all their participating clients or deposit the money directly into Microcare’s account (Wits Business School, 2007).

Financial management. During 2006, Microcare was operating in partnership with AON, the largest brokerage in Uganda. The partnership existed to satisfy the terms of the Financial Sector Deepening Fund support that has been awarded to Microcare. At the time, AON was playing a supervisory role over Microcare. At the time, the board was informed by Microcare management that the company would soon be insolvent. However, upon examination of the financial affairs, it was discovered that there was US$500,000 in uncollected debt. This was followed by a decision to end the partnership with AON and continue on their own (Wits Business School, 2007).

Sustainability. In order to be sustainable, Microcare has to serve a combination of formal and informal sector clients. To achieve required economies of scale, Microcare estimates that a client base of at least 50,000 clients is required (Noble, 2006). Roll-out and achievable scale is much easier to realise in the formal sector than in the informal sector. A higher demand exists from formal sector employers for insurance for their employees than from MFIs for insurance for their clients. During 2006, a subsidy of at least US$10 per Kisiizi product applied. However, the management of Microcare does not see their corporate business subsidising their low-income or community business. Rather, they argue that “the company is using overhead costs optimally by bringing in high volumes in both sectors” (Wits Business School, 2007: 11).

Right price. According to another Ugandan health maintenance organisation currently transforming to an insurer, the biggest constraint to serving the low-income market on a sustainable basis is setting a price that will cover these individuals in a profitable manner. Microcare acknowledges that the premiums of even their cheapest products are still considered too high by low-income communities (Kibuuka, 2007).

Sources:

Kibuuka, J., 2007. Personal Communication. Marketing manager, Microcare. July.

Microcare Insurance Limited, 2005. Directors’ Report and Financial Statements. 31 December. Microcae Insurance Limited.

Noble, G., 2006. Microcare: Affordable access to quality healthcare. Presentation at the

Microinsurance Conference, Cape Town. 22 November.

Wilms, A., 2006. The financial impact of formal health insurance schemes: Evidence from Uganda. Vrije Universiteit, Amsterdam.

Wits Business School, 2007. Microcare Limited: Insurance for Affordable Access to Quality Healthcare in Uganda (draft). Unpublished case study prepared for the FinMark Trust for forthcoming book.

Majority of business is non-life. The largest proportion of gross premiums written in Uganda is non-life business – non-life business constituted 94% of all premiums collected during 2005 (Uganda Insurance Commission, 2006). Available data on the insurance industry does not allow the separation of commercial from retail business. However, according to industry players the majority of non-life insurance is purchased by commercial business, with corporates purchasing insurance to protect their assets.

Figure 5, below, details the contributions of various sub-categories of insurance to gross insurance premiums. Miscellaneous accident insurance is the biggest contributor to total non-life premiums at 41% or US$20m of total non-life insurance (a large proportion of credit insurance is written under this insurance category), while motor insurance is the next biggest non-life category of insurance, contributing 35% (or US$17m) to total non-life premiums. Both comprehensive motor insurance and motor third party insurance is written under the latter category. The main contributing category to total life premiums is group life insurance, constituting 52% or US$1.6m of total life premiums. Some credit life insurance is also written under this category. Individual life insurance contributes only 5% or US$1.4m to total life premiums.

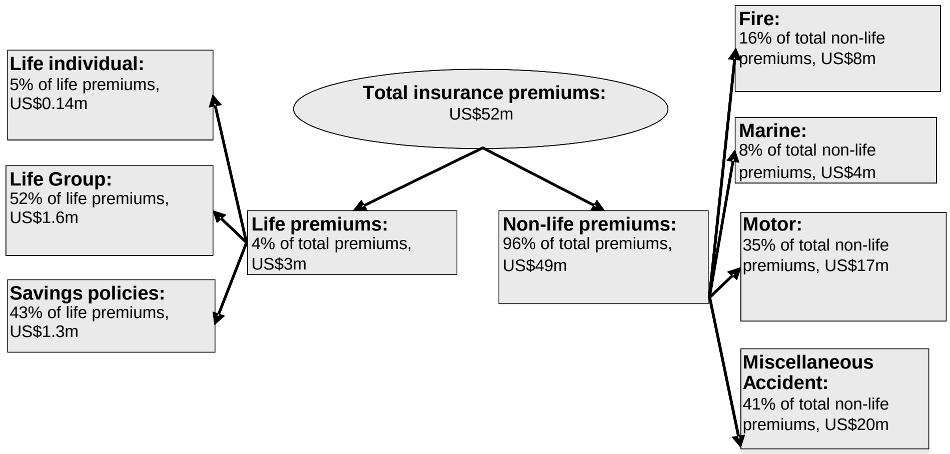

Figure 5: Composition of total premium income for the Ugandan insurance industry

Source: Uganda Insurance Commission, 2006. 2005 Annual Insurance Market Report. Uganda Insurance Commission: Kampala, Uganda.

Miscellaneous accident has been a key driver of the increase in non-life gross premiums between 1996 and 2005. Non-life insurance business has experienced quite high growth rates during the last few years, increasing by 20% between 2002 and 2003, 27% between 2003 and 2004 and 12% between 2004 and 2005 (Uganda Insurance Commission, 2005). The increase in gross premiums for various categories of non-life insurance and for life insurance (as a whole) is presented in Figure 6 below. Given a large increase in borrowers over nearly the same period, it is highly probable that growth in credit insurance (written under "miscellaneous accident") has had a significant influence on the overall growth of the category. A similar increase in numbers of vehicles on the roads in Uganda over this period has driven the increase in compulsory motor insurance.

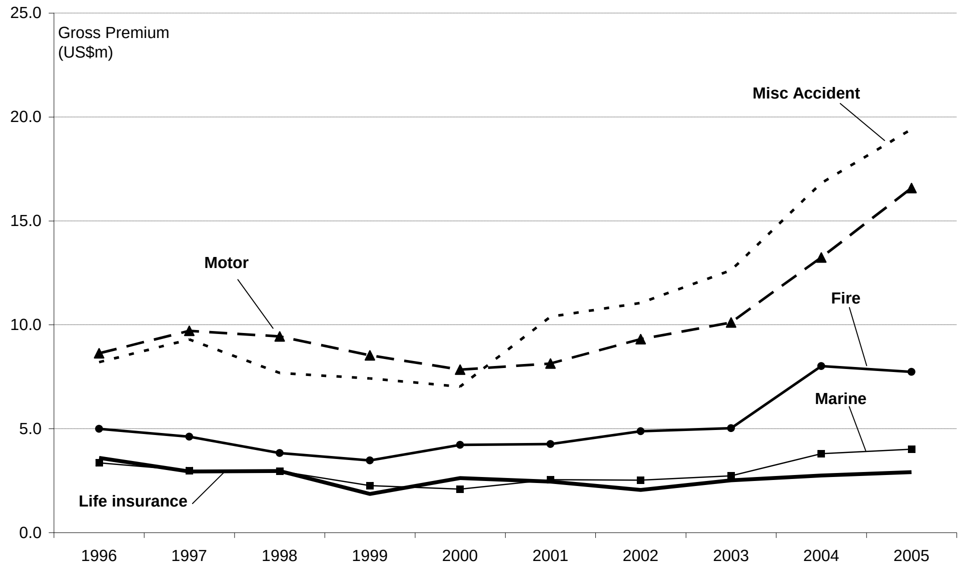

Figure 6: The change in gross life and non-life premiums (various categories) between 1996 and 2005

Source: Uganda Insurance Commission, 2006. 2005 Annual Insurance Market Report. December. Uganda Insurance Commission: Kampala, Uganda.

Large number of small (in both absolute and relative terms) insurers. The company with the largest market share in 2005 for life and non-life premiums combined is AIG Uganda, a non-life insurer with 22% of the market, followed by United Assurance (a composite insurer) that collected 15% of total premiums, Jubilee Insurance (a composite insurer) with 13% of market premiums and the National Insurance Corporation (a composite insurer) that managed a market share for life and non-life business of 9%. Given a total market size of $52m, the presence of 20 insurers does not translate into large premium volumes per insurer. During 2005, the average gross premium generated per insurer in the Uganda market was $2.8m. This is much smaller than the average gross premium of $14.1m per insurer for the 42 insurers in the Kenyan insurance market and $7.2m per insurer for the 100 insurers in the Nigerian insurance market (see Figure 7 below). This has two implications for the Ugandan insurance market:

- Firstly, it indicates growth potential not only for individual insurers, but also for the market as a whole.
- Secondly, the lack of large insurers indicates that poorer economies of scale in the Ugandan insurance industry compared to the other markets. As can be viewed in Figure 7 below, there are at least 8 very small insurers generating gross premiums of just slightly more than US$1m or less than US$1m per year in the market[25].

[25] It is important to note that the reason why Microcare is one of these players is that it only starting operating in the Ugandan insurance market in 2005 and gross premiums at the time were still very small.

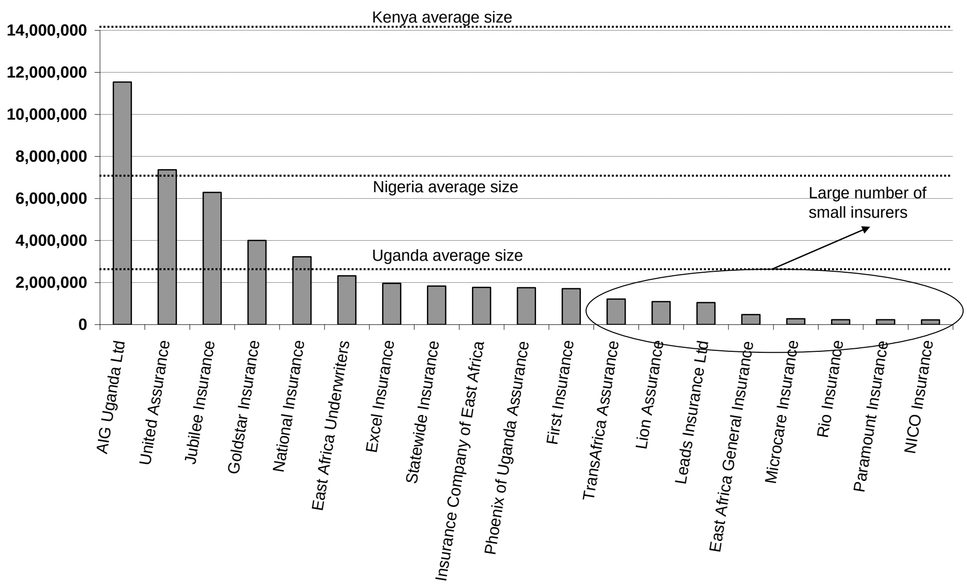

Figure 7: 2005 Non-life premiums per insurer

Source: Uganda Insurance Commission, 2006. 2005 Annual Insurance Market Report. December 2006. Uganda Insurance Commission: Kampala;Kenyan Insurance Commission Report, 2005; Heritage Foundation, 2005.

Limited consolidation over the last few years. The Ugandan insurance market has been characterised by the absence of any real consolidation over the last few years. A large number of small insurers in a small insurance market do not contribute to market efficiency and the achievement of economies of scale.

Market characterised by low claims and high expense ratios. Compared to the South African and Kenyan markets the Ugandan non-life insurance industry as a whole returns relatively little in the way of claims to its customers, a good indicator of the value that customers are deriving from their insurance products. The low proportion of premiums returned as claims may have many different causes, for instance, inefficiencies in insurer operation, low levels of genuine price competition, and low customer awareness of how to claim, but the result is the same: that non-life insurance in Uganda does not currently provide a good value proposition to its policy holders.

Figure 9 below splits up the net earned premiums[26] for 2005 for the three insurance markets according to the proportions applied to the main industry cost components:

- net claims[27];
- commission payments; and
- total expenses. [28]

[26] Net earned premium is defined as premiums accrued relating to risk covered in a time period, net of any reinsurance premiums paid out.
[27] Net claims are defined

South African insurance firms are represented by two columns in the graph: the first denotes the relevant information for all non-life insurance firms in South Africa, while the second denotes the same data for the non-life insurers which are similar in size to Ugandan non-life insurers. A column containing only the claims ratio data was included for the Kenyan non-life insurance market – the other data was not available. South Africa is included to be representative of a developed, competitive insurance market, though obviously the market has many features which would make it difficult for Ugandan insurers to perform in the same way. For example, banking and postal services are more developed and efficient which make doing business and client communication easier. The firms in the same size range as Ugandan insurers have been split out to control for possible differences in scale as explaining differences in performance. Kenya has been included as a country more similar than South Africa to Uganda (in many respects) to provide data more comparable to the current Ugandan market.

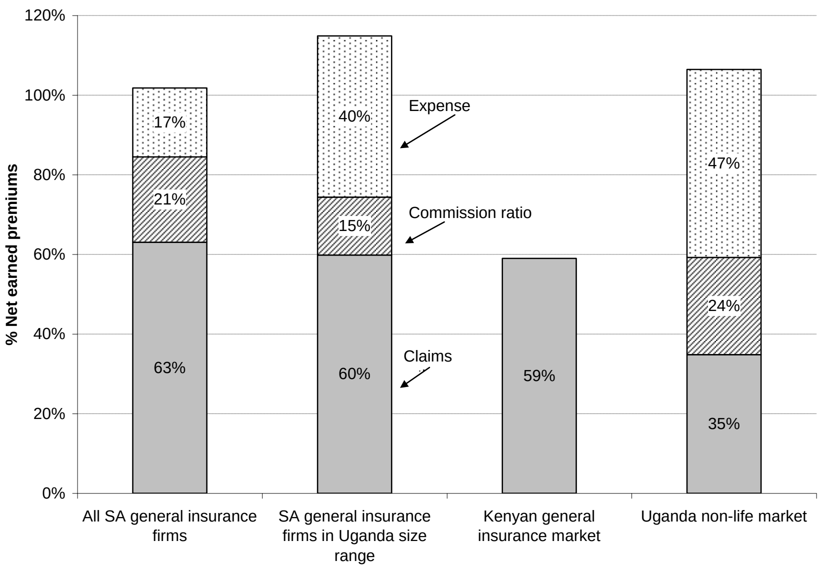

Figure 8: Net earned premiums for 2005 for three African insurance non-life insurance markets, decomposed according to cost components

Source: Uganda Insurance Commission, 2006; Financial Services Board, 2005; Kenya Commissioner of Insurance 2005 Annual Report

Focusing on the claims component in the figure it is clear that Ugandan non-life insurers only return 35% of net earned premiums to clients in the form of insurance claim pay-outs. This is in contrast to nearly double the same percentage for all South African general insurance, for the subset of South African general insurance firms similar in size to Ugandan insurance

[28] These proportions generally add up to over 100% of net premium suggesting that the industries run at an underwriting and expenses loss, which is internationally common, as most short term insurers make a large portion of their profits from investment income which is excluded from this picture. This doesn't change the conclusions reached here which are focused on the claims paid to customers as a proportion of premiums paid.

firms and for the Kenyan general insurance market[29]. Whether this is due to inefficiencies in Ugandan firms or simply low awareness of insurance and thus low claims ratios, the conclusion is that insurance in Uganda does not represent as cost-effective a risk-mitigation vehicle for customers as in the other two countries.

Looking at commissions in Figure 8, the proportion of net premium spent on this component is not far off the South Africa industry.

On the expense side, the Ugandan ratio of 47% far exceeds the same ratio for the South Africa general insurance industry at 17%. However, controlling for firm size by isolating those South Africa firms in the same size range as Ugandan ones reduces this difference to 7%. This suggests that the structural differences in the markets are perhaps not that important. It also suggests that if consolidation and economies of scale were achieved in the Ugandan market the proportion of premium spend on management expenses could decrease. This would create some room for more money to be returned to clients as claims without jeopardising profitability and solvency.

Efficiencies and value for money probably differs between product lines but data at this level of granularity is unavailable. However, this analysis does indicate that non-life insurance customers in Uganda do not generally receive a good return on their premiums paid. It also indicates that in the Ugandan market as a whole competition in has not yet had the effect of increasing claims ratios, and reducing expense ratios, providing customers with more cover for lower premiums. (Though there is some evidence of this happening in the market providing personal accident and life cover on outstanding credit.)

It is not possible to perform the same analysis for the life market as the Ugandan market is too small, and the disaggregation of one year's premiums into cost components is not relevant to longer term products.

Insurance market characterised by skills deficit. In conversations with industry players it was noted that the Ugandan insurance industry is characterised by a skills deficit. Ugandan tertiary institutions do not offer insurance-related qualifications and there exists a lack of qualified actuaries. Even the Insurance Commission does not have a full-time actuary and insurance companies often contract in the services of non-Ugandan actuaries.

Entry of foreign players changing competitive dynamics in the market. In 2005 60% of the government-owned National Insurance Corporation was sold to a Nigerian company. Imperial Insurance Company Ltd was also sold to a foreign-owned organisation in 2005 (Uganda Insurance Commission, 2006), while East Africa Underwriters, a composite insurer, sold its life license to Liberty Life, a South African life insurer, in 2007. Early indications are that the entry and presence of more foreign players is generating greater competition in the market. Two recently introduced micro-insurance products, a school fees insurance product and an old age savings product distributed through SACCOs, are offered by two foreign-

[29] Including South African firms similar in size to Ugandan firms allows for the elimination of economies of scale as a possible source of inefficiency when comparing claims ratios between countries.

owned companies, Liberty Life and the National Insurance Corporation. Furthermore, the four companies that exited the market between 1999 and 2005 were all locally owned[30].

Informal players[31]

Informal savings or risk-pooling groups play an important role for the poor in mitigating risks or lifecycle expenses. Various sources note the usage of informal groups to save, borrow or mitigate risks in Uganda[32]. Thus, for example, Rutherford (1999: 17) notes the existence of "munno makabi" in Uganda and describes these groups as "loose groupings of neighbours who start off their relationship by pooling cash to buy sets of equipment used for social occasions – pots and pans, lanterns, canvas and so on". Social occasions for which this equipment can be used include funerals, weddings and other celebrations. After buying the equipment, the group might contribute small amounts of money to build up reserves that could be used in case of unspecified emergencies (Rutherford, 1999). Other savings groups which can also provide to an extent for unexpected mishaps include rotating savings and credit associations (ROSCAs) and village-level savings associations (VSLAs). The reasons for belonging to informal financial groups provided by individuals in FinScope Uganda 2006 lends support to the idea that these groups exist to help individuals deal with risks or specific financial expenditures. Most individuals say they belong to informal financial groups to "save money for a particular purpose", and say that group membership provide them "help when there is an emergency, e,g. death of a family member, sickness, loss of property, etc." (FinScope Uganda, 2006).

Wide variety of informal risk-pooling arrangements. The focus groups revealed that the nature of informal risk pooling arrangements in Uganda vary widely. While some groups may be used to provide financial support for death only, others provide general savings mechanisms where the members of the group would be willing to assist if an unexpected emergency occurred (e.g. medical emergencies). Certain groups offer financial benefits, while others offer non-financial support during difficult times, e.g. death and bereavement. The quotes below illustrate the wide range of groups, their levels of formalisation, and how they are used:

> **Savings:** "Actually it is one way of saving. There is this group of mine, they sit every week but they do not save per se, every week they give a member some money. So if they are 20 people in a group and you are the first to get, you have to pay until the 20th person gets. In Mbarara, yah, they are there; at least I belong to two of them." **(Male, 46-59 years, Mbarara)**

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30 Empire Insurance Group (1999), Global Insurance Company Limited (2000), Uganda Co-operative Insurance (2000) and HQ Insurance Company Limimted (2002).

31 During the course of this study, 12 focus groups discussions were held in the rural and urban areas of Uganda. These groups included males and females classified as very low-income (earning US$1-3 per day), lower-income (earning US$3-9 per day) and middle to higher-income (earning more than US$9 per day) individuals. The objectives of the focus group discussions were to form an understanding of the way Ugandans view financial risks, what they perceive as the most threatening financial risks, how they would deal with these risks and their attitudes to and perceptions of insurance. The information derived from these groups thus not only help us create a picture of the usage of informal insurance or risk pooling mechanisms, but also provide much of the primary information used in Section 3.3 on aspects of product take-up.

32 McCord, Botero & McCord, 2005; Rutherford, 1999;

Savings: "Me I have a group with Pelican hotel, so when we get salary we say now, each one will contribute fifty thousand shillings per person, then we give it to a member of the group, the person will go and do what she feels like with the money that's how the group operates." **(Female, 46-59 years, Mbarara)**

General emergency insurance: ""Nigiina" – provide household items to group members. In case of a disaster, e.g. famine or drought they can provide food to the worst affected homes." **(Female, 26-35, Iganga)**

Burial/funeral insurance: "Basically in Banyankore, they call it 'Mwezikye' meaning that "lets bury ourselves". If you have lost a relative or family member, they come in. They have their own rules and regulations. All members have to participate in organizing the burial ceremony. Like digging the grave among other things." **(Male, 46-59 years, Mbarara)**

Burial/funeral insurance: "Now like death, when that happens some people have come up with a provision of putting money together as a group so that in case death occurs we can use that money to help in burial arrangements." **(Male 46-59 years)**

Emergency credit: "'Gemma Kumwin' – this deals with finances, weddings of group members Genna Kumwino takes 6 hours to approve an individual's claims. We always have urgent money with the treasury about USh 100,000. You write a letter to the chairman of the group who takes it to the loan committee and money is given out after 6 hours from the time claim is made." **(Female, 25-36, Iganga)**

Organisation of groups vary. The level of formalisation of these groups vary, but some informal groups may have group leaders and a board consisting of a chairperson, secretary, treasurer and other committee members that establish and enforce a set of rules for the group and its members.

"We have a chairperson, secretary, treasurer, loan committee, and committee members. However, we have no bank account. We collect money and give it to members on a rotational basis." **(Female, 26-35, Iganga)**

Vulnerabilities. Although the groups allow individuals to handle financial risks when they occur, they also have weaknesses. Members try to exploit loopholes, the board or group members can steal from the accumulated funds and members are not always guaranteed a pay-out at a certain level[33].

"Some people at times do not have money at that particular time so you end up getting less money than you are supposed to have got. This is so in groups where money is given to group members on a rotational basis" **(Female, 26-35, Iganga)**

[33] While the absence of a guarantee on pay-outs would be a problem if it occurred in the formal insurance sector, it is less or a problem in the informal sector where groups operate on common law principles and most members of the group would understand that their pay-out is dependent on the finances of the group when a specific emergency occurs.

"For us in our group we had a police officer who ran away with our money." **(Female, 26-35 years, Iganga)**

Slightly less than a quarter of the population use informal, but still organised groups for financial services. These are unregulated, unsupervised groups based in communities but which still have some kind of constituted structure and organisation. (This differentiates them from the more fluid and uncodified family and community-based support networks that many people use.) 22% (or almost 3m) of the Ugandan adult population therefore belong to some type of informal financial services group (FinScope Uganda, 2006). Of these 3m individuals:

- 38% (1.1m) belong to rotating savings and credit associations (ROCCAs),
- 22% (0.6m) belong to accumulating savings and credit associations (ASCAs),
- while 15% (0.5m) belong to investment clubs,
- 13% (0.4m) to savings clubs
- and around 13% (0.4m) to welfare funds (or burial groups).
- The remaining 4% (0.1m) belong to other types of informal financial services groups[34].

These usage figures and memberships are not mutually exclusive and may overlap.

4.2. Insurance distribution: players and market characteristics

Distribution channels

By law distribution of insurance products in Uganda is limited to distribution by brokers and agents (see Section 3.3). During 2005, there were 22 registered brokers (or broking companies) operating in the Ugandan market. In the same year, there were 351 registered agents distributing insurance (Uganda Insurance Commission, 2006). Although direct sale of products by an insurer to the public is not prohibited by legislation, this distribution channel is used on a very limited basis, as the business of solicitation of sales is restricted to agents who may not be employees of the insurer. As there currently exists no call centre distribution channels, clients have to approach an insurance company (go to the insurance company offices) and ask to purchase a product directly.

Broker distribution. During 2005, brokers generated 46% premiums in the Uganda insurance market. The broker market is dominated by AON, followed by Alexander Forbes. AON generated 33% of all insurance premiums payable and received 41% of total gross commission during 2005. In contrast, Alexander Forbes generated 11% of all premiums payable and received 20% of total gross commission during the same year (Uganda Insurance Commission, 2005).

Bancassurance. As noted in Section 3.6, banks and MDIs are prohibited by regulation from distributing insurance products, except products in which they have an insurable interest, i.e. credit-related products. This exception allows banks and MDIs to sell credit life insurance to clients that have taken out loans or credit. MFIs are also allowed to do this. In this case, a

[34] Due to rounding to the nearest 100,000, these figures add up to 3.1m and not 3m. Due to rounding the percentages add up to 101%.

registered intermediary (broker or agent) has to be involved to facilitate the transaction between the lending institutions and client. This model has dramatically increased the take-up of credit life products (usually written under the “miscellaneous accident” category of non-life insurance licenses, which has grown about 20% a year between 2000 and 2005 as can be seen in Figure 6).

The increased competition in the credit life insurance market has placed pressure on the prices of these products – during the last ten years the cost of credit life insurance has decreased from as much as 2% of the value of the loan to as little as 0.35% of the value of the loan. (See Box 3 for a description of Micro Insurance Agency, an insurance intermediary that provides credit life products to financial institutions.) By law, the lending institution is prohibited from receiving any commission or remuneration for the distribution of the product, but in practice “administration fees” or contributions to marketing and other costs are widely paid. The regulation also seems broad enough to allow for distribution of other insurance products (such as funeral cover or further life insurance cover) bundled along with credit insurance, as long as credit insurance is the main component of the bundle. For instance, as noted in Section 3.3, much credit life insurance is written as a personal accident insurance policy in the miscellaneous category of a non-life license. This is legal as long as personal accident can be justified as being the core element of the policy, with other elements then added on.

Possibility of cell phone distribution. 42% (5.5m) of adult Ugandans say they have access to a mobile phone. Of the adults that live in rural areas, 37% (3.6m) have access to a mobile phone, while 58% (1.9m) of urban adults can access a mobile phone (FinScope Uganda, 2006). Even if those owning a phone are a subset of those with access to one, a significant portion of the Ugandan adult population could potentially be reached through mobile phone by insurers or insurance intermediaries for either selling or premium collection purposes.

Box 3: Micro Insurance Agency

Micro Insurance Agency is a Ugandan registered insurance intermediary composed of registered agents, that provides financial institutions (commercial banks, MDIs, MFIs, SACCOs) with access to affordable credit life and credit insurance products for their borrowers. It was established in 2005 and is owned by Opportunity International, a large international microfinance network.

MIA acts as intermediary between the National Insurance Corporation (for which it is licensed as an agent) and financial institutions by helping to structure products appropriate to the needs of its clients. In addition to product development, it also provides administration services to its institutional clients through sophisticated management information system (MIS). It currently services 45,000 individual clients through 6 credit providers (institutional clients). In terms of its customer service, it achieves a maximum turnaround time of 14 days to pay the benefit to the MFI, providing it with a competitive edge over many Ugandan insurers that play in the credit life space and often take weeks to settle claims. However, even though it is able to achieve a fast turnaround time, once the money has been paid to the MFI it often takes months for the MFI to pay out the benefit to the client.

MIA is currently considering becoming a broker in order to obtain products from a greater variety of insurers, allowing it to provide clients with the best value offering possible.

Sources:

Kaheru, F., 2007. *Personal communication*. Country Manager: Uganda, Micro Insurance Agency. 19 September 2007.

Micro Insurance Agency, 2007. *Internal corporate profile document*.

Premium collection

There are three ways of collecting premiums in Uganda. Individuals with bank accounts can initiate a debit order on their account with the monthly premium automatically deducted from their balance and paid over to the insurance company. Finscope Uganda suggests this would be an option for about 16% of adults. Individuals can also pay their premiums with a cheque or cash collected by their broker and then passed on to the insurance company or paid directly at the offices of the insurance company. We were unable to find information on the relative sizes or frequency of these payment methods, but it seems as if the majority of premiums are collected via cash or cheque payments. A weak payments system also makes collection of premiums difficult. The Bank of Uganda only recently started implementing an interbank settlement systems and the weak payment system was highlighted as a serious concern during the Financial Sector Assessment (FSAP) by the World Bank and IMF in 2001.

Cost of distribution

Maximum commission levels are agreed between the Uganda Insurers Association and the Broker Association and then approved by the Insurance Commission. Different maximum commission levels are determined for different classes of insurance and these levels vary between 25% for consequential loss and 5% for motor third party insurance. Overall, commissions account for about 24% of net premiums received by insurers in the Ugandan non-life market (Uganda Insurance Commission, 2006).

Wider distribution of micro-insurance in Uganda would be expensive for the following reasons:

- *Geographically dispersed nature of the population.* According to the World Development Indicators (2007), only 13% of the Ugandan population live in urban areas.
- *The absence of infrastructure in rural areas*. If only the branches of Tier 1 institutions (commercial banks) are considered, there were 133 commercial branches in Uganda at the end of 2004. Given a total population of almost 26m in 2004, it implies that there was one bank branch available for every 200,000 individuals (CGAP, 2005). It is, however, important to keep in mind that the majority of bank branches are situated in urban areas and that almost 70% of the population resides in rural areas. If all possible distribution points, i.e. all Tier 2, Tier 3 and Tier 4 institutions are taken into account it implies a ratio of 26,155 individuals per branch or point of interaction (CGAP, 2005). The situation would be far worse for insurers that have limited representation in rural areas and would thus have to send brokers and/or agents to serve the population residing in rural areas and, additionally, given the generally low purchasing power of people in these areas. The intermediation cost includes the cost of cash or cheque collection, client communication, etc. The limits placed on using even the institutions available in rural areas to serve individuals leads to high upward pressure on the cost of intermediation relative to the value of the policy which can be sold.
- *Low levels of financial literacy and insurance awareness.* The Ugandan population is characterised by low levels of financial literacy and limited awareness and understanding of insurance (see next section). Given the need for education on insurance and the increased effort that intermediaries have to apply in the sales process, there is a strong case for allowing higher commission levels on micro-insurance products.

4.3. Products and take-up

Insurance take-up in general and amongst low-income individuals is very low. In the discussion below, insurance take-up (or the lack thereof) is placed within the context of the financial risks that Ugandans face and some alternative (non-insurance) risk mitigation mechanisms available to them.

We estimate the size of the insurance market to be in total around 8% of the population, or 1m people, with 0.4m classified as conventional insurance, and probably around 0.6m classified as micro-insurance. These estimates are described in more detail below.

Insurance take-up and financial risks

From Finscope Uganda data we estimate that only 3% (0.37m) of the population use any form of formal insurance[35]. The usage of various categories of insurance is described in Table 5 below. It is important to note that the total number of individuals that use various insurance products in Table 5 exceeds the number of adult Ugandans that use *any type of formal insurance* as some individuals use more than one type of insurance.

Insurance type	Number of adult population	Percentage of adult population
Life assurance or insurance or funeral cover	143,769	1.09
Home owners' insurance (e.g. insurance on building)	19,964	0.15
National Social Security Fund (NSSF) insurance	131,390	1.00
Retirement annuities – e.g. voluntary contributions to NSSF or any other licensed welfare fund	44,472	0.34
Medical insurance	42,926	0.33
Education insurance	22,100	0.17
Household content insurance	16,946	0.13*
Car insurance/comprehensive insurance	39,728	0.30
Personal injury/accident insurance	12,059	0.09*
Total	**473,354**	

Table 5: Usage of various categories of insurance in Uganda

Source: FinScope Uganda 2006

*These percentages are not statistically different from zero (at a 5% level of certainty).

Self-reported usage of insurance is likely to be an underestimate. Finscope Uganda estimates that about 33% of Ugandan adults have some form of borrowing from formal or informal financial institutions, many of which probably require insurance cover for the outstanding credit. Against this it is interesting to note that despite the existence of a relatively large credit life or credit insurance market (written under the category of "accident miscellaneous") only 1% of the adult population say they have life or funeral insurance, while only 0.1% of adults say they have personal injury/accident insurance. These extremely

[35] The confidence interval at a 5% level of significance ranges between 2.22% and 3.42%. The number is therefore statistically different from zero.

low or negligible usage figures (relative to industry statistics on gross premiums) could be explained by limited awareness by individuals that have credit life and/or personal accident insurance. And this is likely to be due to the fact that a large component of both life and non-life insurance is sold to credit providers and not to the individuals covered. (It is also likely that the marketing terms used to sell and explain the products differ from the regulatory categories, like "personal accident" insurance.. The features of credit or credit life insurance as a micro-insurance product are explored in more detail later in this section.

Credit life the main Ugandan micro-insurance product. Given the levels of poverty in Uganda, most users of credit facilities would be classified as poor. Therefore the main micro-insurance product is credit life or credit insurance linked to the use of credit provided by a bank, MDI, MFI or even SACCO.

Size of the credit life market. The micro-finance market in Uganda has grown rapidly over the last few years (although off a very low base), implying large growth potential for insurers focused on providing credit life or credit insurance to banks, MDIs and other semi-formal financial institutions. Data from AMFIU suggests that there are between 500,000 and 800,000 micro-credit borrowers in the country with credit insurance. Data from FinScope Uganda (2006) is consistent with this, revealing that 600,000 individuals currently have loans outstanding with institutions that are *likely* to provide credit insurance (Bank of Uganda-regulated institutions, MFIs and SACCOs). However, not all of these institutions are currently providing credit insurance on loan products and of those that are providing credit insurance, some are not providing credit insurance on all of their products. At least one commercial bank with mainly low-income clients indicated that it only has credit insurance available on its salaried worker loan products as the cost of the credit insurance product would have quite a large (negative) impact on clients' (that have taken out other products) ability to afford loan repayments. Furthermore, some MFIs and MDIs choose to "self-insure", i.e. rather charge clients a slightly higher interest rate to cover any outstanding credit balances when their clients pass away. For at least one credit provider that previously obtained credit insurance through a non-life insurer, this decision was mainly motivated by the long claims payment processes they experienced.

Competition in credit life market. After the initial success of AIG Uganda with the provision of insurance on credit outstanding to MFIs (written through a personal accident policy), competition in the market for this insurance has increased significantly. This has had positive impacts for the individuals using credit – although prices fluctuate, the cost has decreased from as high as 2% of the total loan value to as low as 0.35% for a credit life product distributed by the Micro Insurance Agency.

Who are the users of formal insurance? Given the small total percentage of the Ugandan adult population that use formal insurance, it is difficult to develop detailed profiles. Below, we describe the users of insurance in terms of three dimensions with data from FinScope Uganda (2006):

- **Urban/rural**: A disproportionate number of insurance users live in urban areas. Of the individuals that use any form of formal insurance, 36% (0.13m) live in urban areas, which is 10-25% higher than the estimated proportion of the population living in what are defined as urban areas.

- **Gender**: 56% of formal insurance users are male. Given that FinScope Uganda used a sampling design of 47% male and 53% female, this implies a strong male bias in terms of insurance usage.
- **Source of income**: As a proxy for income size or category[36], we use main source of income. The majority of insurance users (more than 70%) derive their income from one of three main sources of income:
    - Running their own business (non-agricultural) – 35% or 0.13m of users.
    - Employment in the formal sector, e.g. working in an office – 26% or 0.1m of users; and
    - Selling food crops (beans, maize, cassava, sweet potatoes, etc.) produced on their own farm – 12% or 0.05m of users.

Health-related financial risks feature prominently. According to data from FinScope Uganda, the biggest perceived risk (by 58% or 7.6m of the adult population) is serious illness of a member of household, followed by loss of household items due to fire, flood, destruction and/or theft (43% or 5.7m) and loss of a family member (42% or 5.5m). The importance of health-related financial risks in terms of overall household wellbeing was confirmed by a recently published study. It was found that almost two thirds of households in 36 village communities in Central and Western Uganda that sunk into poverty during the last 25 years[37] did so due to ill health and health related costs (Krishna, Lumonya, Markiewicz, Mugumya, Kafuka, & Wegoya, 2006).

The importance of financing health expenses is understandable, given the prevalence of both malaria and HIV/AIDS in Uganda as well as general high morbidity rates. During 2003, 44% of the total Ugandan population experienced at least one episode of malaria (Global Health Facts, 2003), while 6% of the total Ugandan population are estimated to be living with HIV/AIDS (Marco & Bernard, 2006).

The prominence of health-related financial risks is also borne out by the main financial risks identified during focus group discussions. Sickness or ill health was consistently mentioned first as an unexpected expense. The statements below capture some focus group participants' perceptions on ill health as financial risk:

> "Well, it is sickness because you are not sure and it is your life. You can forego a wedding but you cannot forego sickness. You have to attend to it immediately." **(Female, 26-35 years)**
>
> "Also sometimes I receive some phone calls from the village informing me that your grandmother is sick and you do not expect such a thing then you begin to spend." **(Female, 46-59 years, Mbarara)**

Availability of alternative (non-insurance) risk mitigation mechanisms. According to FinScope Uganda (2006), responses to the three biggest perceived financial risks (discussed above)

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[36] Income data for FinScope Ugandan was collected in the form of an open-ended question. Many individuals did not provide their income and in the absence of an alternative income measure to estimate the size of their income, this leads to a indirect (and puzzling) relationship between insurance usage and income.
[37] 15% of households in these communities moved into poverty during this period.

would vary, but would mostly entail firstly obtaining support from the individual's social network, selling assets or relying on savings. The different responses to these risks are detailed in Table 6 below.

	Serious illness of member of household (% of respondents that noted it as financial risk)	Loss of household items (% of respondents that noted it as financial risk)	Loss of family member (% of respondents that noted it as financial risk)
Weighted base for question	7,617,135	5,675,213	5,483,954
Ask neighbours, relatives and friends to give me a donation of money	32%	30%	38%
Sell assets, e.g. land, livestock	17%	23%	13%
Take a loan from friends and family	11%	14%	10%
Take a loan from an informal organization	6%	8%	6%
Take a loan from a formal financial institution	2%	6%	2%
Apply for more credit	2%	2%	3%
Withdraw savings I had kept aside	27%	21%	18%
Don't know what I would do to cope	13%	19%	20%

Table 6: Coping responses to the three biggest perceived financial risks

Source: FinScope Uganda 2006

Evidence gathered during focus groups further attested to the importance of social networks (including friends, neighbours, the larger local community and family members) and reciprocal social obligations as the preferred instrument formitigating financial risks:

> "Very good friends, if the person has a problem you help that person out of that problem and so on." **(Female, 26-45 years, Mbarara)**

> "When it is your relative even if it is a distant one and you are informed you are expected to be there unless you can give a very good excuse." **(Male, 26-35 years, Kampala)**

While use of these risk mitigation mechanisms are likely to be partlyascribable to cultural factors, the fact that friends and family have to be relied on for the mitigation of financial risks also speaks of the absence of an insurance industry focused on meeting the needs of low-income individuals.

*Demand-side barriers to insurance take-up***.** Survey data provides usage data and a subjective picture of access barriers, so it can assist to identify those areas insurers need to focus on to facilitate a larger insurance market. The main, self-reported reasons for not taking out insurance as noted by FinScope Uganda (2007) are:

- the high cost ("can't afford it" – 56% of the adult population or 7.3m),
- limited knowledge of insurance ("don't know about insurance or how it works" – 45% of the adult population or 5.9m)
- and limited knowledge on how to buy it ("don't know how to go about buying insurance" – 19% of the adult population or 2.5m).
- Despite the negative perceptions of insurance and insurers (see below), only 3% (0.5m) of adults cited "some insurance companies con people out of their money" as a reason for not having insurance. Interestingly, this reason enjoyed more prominence in the focus group discussions than is evidenced by the FinScope data.

Knowledge, understanding and trust of insurance

Perceptions of high costs were common in focus groups:

> "It's commonly for those rich people with big businesses." **(Non-user, 18-25, female, Mukono)**
>
> "………….it is very expensive to afford it is usually big organisations and the rich." **(User/Lapsed 36-45 male Kampala)**

The focus groups revealed a strong *lack of awareness and knowledge* of insurance, but at the same time also indicated a willingness to be educated on insurance. The focus group participants expressed the issue as follows:

> "Sincerely this community knows nothing about insurance. Most of the insurance companies are based in the city. Those that we know, we see adverts as we go to Kampala". **(Non user Female 26-35 Iganga)**
>
> "If they sensitized me about insurance and the policy and am really convinced, then I would join insurance." **(Non user, 18-25yrs, male, Kampala)**

The conceptual problem of insurance. The focus groups discussions revealed that individuals struggle to understand how a product that requires monthly premium payments and only pays out or delivers any benefit if the insured risk event occurs, could offer them much value. There was a demonstrated lack of understanding that with insurance premiums they are paying for peace of mind and so should not be seen as money wasted. Rather, some individuals indicated that they would prefer to save the money for other purposes and dip into it should they experience a financial shock. It is important to note that this conceptual problem is not specific to Uganda, but is found in various other countries where insurance awareness is low.

> "There is one reason why I would not go for insurance, even if it is charging me one shilling, you say you have insured me for let us say burglary, no burglar comes even close to my house to take anything. At the end of the year I would have given the insurance company free money**." (Male, 26-35 years, Kampala)**

For many participants lack of knowledge led to a *lack of trust* of insurance providers:

> "I don't trust insurance companies because I cannot trust something I don't have full knowledge about. I need to be educated fully about it and therefore I can decide whether to trust it or not." **(Non user, 18-25yrs, male, Kampala)**

In the focus groups, much more emphatically than Finscope revealed, mistrust of insurance providers was widespread:

> "I can trust insurance only after understanding it." **(Male, 36-45 years, Masaka)**

> "I do not trust them. They are profit making companies. They do not benefit people…" **(Male, 18-25 years, Kampala)**

> "Previously insurance was okay. Government use to honour claims but eventually they failed and people completely lost the idea of insurance." **(Male, 26-35 years, Kampala)**

> "…the insurance company is reaping from where it did not sow." **(Male, 26-35 years, Kampala)**

> "They take long to compensate their customers when risks occur. That is what I have heard but I don't know whether it is true." **(Female, aged 18-25, Mukono)**

Available micro-insurance products

This sub-section follows from the earlier discussion of take-up and explores the features and examples of micro-insurance products.

Apart from credit insurance products, we identified at least four other insurance products currently available to relatively low-income individuals. These are discussed below:

- *Microcare health insurance product.* The Kisiizi health insurance product provided by Microcare is targeted at low-income individuals employed in or generating income from the informal sector. More information is provided on this product in Box 2.
- *Last Expense funeral insurance product.* This product, developed by a brokerage, Padre Pio brokers, was launched during 2007 and is currently still being rolled out. The product, underwritten by United Assurance, provides access to funeral services provided by Uganda Funeral Services as well as a cash pay-out. The policy provides cover for the nuclear family (father, mother children) as well as elderly parents up to a maximum age of 85. It is also targeted at the corporate market, with a minimum number of 10 employees per employer required to join. Four different packages are available: Noble, Classic, Executive and Royal. The monthly premiums vary from USh20,000 (US$11.50) for the Noble package (for an individual aged 0-50 years) to Ush85,000 (US$49) for the Royal package. In addition to the normal Christian burial package, the policy is also available in a Muslim package, providing funeral services specific to the Muslim religion. The distribution strategy of this product focuses on the targeting of groups (employer groups, burial societies, SMEs, etc.). The product is being actively marketed through

radio talk shows and various other means. Premiums will be collected through cash payments by clients at the branches of United Assurance and agents will also be able to collect premiums in cash or cheque.

- *Education insurance/school fees insurance.* The National Insurance Corporation (NIC) has developed a product that will allow for the payment of school fees upon permanent disability or death of one or both parents. The policy is being distributed by targeting schools and participating schools require all parents to purchase the policy (i.e. within the school group, the policies are being distributed on a compulsory basis). Premiums increase commensurately with the level of cover required for school fees and the benefit levels cover future increases in school fees.
- *Old Age Savings product introduced by East African Underwriters and Liberty Life,* which has been recently launched to SACCOs, with a target market of approximately 0.5m members. This product is described in more detail in Box 4: The Old Age Savings Insurance Scheme (OASIS) below.

Box 4: The Old Age Savings Insurance Scheme (OASIS)

The Old Age Savings Insurance Scheme (OASIS) was launched by East Africa and Underwriters and Liberty Life Assurance Uganda Limited in September 2006. Liberty Life officially entered the Ugandan market during 2007, after purchasing the life license of East African Underwriters (it previously owned both a life and non-life license). The product was thus transferred from East Africa Underwriters to Liberty Life.

The OASIS product consists out of two components: savings for old age and life cover. The product is being distributed through the Uganda Cooperative Alliance (UCA) to savings and credit cooperatives (SACCOs) and their individual members on a voluntary basis.

Product description. The product was designed in such a way as to allow clients to save a small amount (USh5,000 or about US$3) at their convenience. For every USh5,000 saved, the client receives a stamp which they can paste onto a card that the SACCO obtains from Liberty Life and distributes to participating clients. A card is complete once stamps to the amount of USh100,000 (about US$60) have been pasted onto it. The completed card is then submitted to Liberty Life and, in turn, the client receives a savings certificate to the amount of USh100,000. This savings amount earns interest on an annual basis. Clients can purchase more than one savings certificate and for every savings certificate purchased, the client receives life cover to the value of USh150,000 (about US$90).

Costs. Clients are required to pay a membership fee of USh2,500 (about US$1.50) when they purchase the savings certificate. Liberty is not actively pushing this product at the moment as it is currently re-evaluating its pricing model.

Distribution and premium collection. The UCA plays a key role in reaching clients with the product. Some field officers of the UCA are registered as agents of Liberty Life. Liberty Life regularly hosts “sensitisation” seminars on the product throughout Uganda. All premiums are collected in cash by the UCA and paid over to Liberty Life. When clients wish to withdraw their savings, Liberty Life pays over the savings amount as well as accrued interest to the UCA and the UCA, in turn, pays it over to the client.

Accessing savings. After the savings certificate has been in force for at least one year, the client is allowed to access their savings. The value of the savings is guaranteed to not be less than USh100,000. However, if savings are accessed within a period shorter than 10 years a penalty of 5% applies. After a period of 10 years, the full balance of the savings may be drawn down without any penalty applying or the client may choose to leave the savings with the insurer to continue earning investment income.

Sources:

Almeida, J., 2007. *Email communication*. General Manager, Liberty Life Assurance Uganda Limited. 17 September 2007.

Liberty Life, undated. Uganda Co-operative Alliance Old Age Savings Insurance Scheme: “OASIS”. Internal document.

New products being introduced by foreign players. Three of the four micro-insurance products described here (except for Kisiizi product) were introduced by foreign insurers. It appears as if these insurers are approaching product development in a much more dynamic way than local insurers and drawing on international product examples when designing new products.

Unsuccessful micro-insurance product attempts. In addition to these products, some unsuccessful attempts have been made to launch cattle insurance, leased implement insurance, legal insurance and maize pricing insurance. Part of the obstacle in launching these products has been obtaining product approval from the Insurance Commission. Two products potentially targeted at the low-income market have been turned down during the last two years due to concerns related to the absence of data that would allow for the accurate pricing of these new products. Despite attempts and an already existing market delivered by banks' provision of credit for leased products and maize production, USAID Rural Speed was unable to convince Ugandan insurers to provide leased implements and maize pricing insurance to a leading low-income bank in Uganda.

5. Drivers of the Ugandan micro-insurance market

What factors explain the key features of the micro-insurance market (or the limited nature thereof) in Uganda? More specifically, to what extent can these key features be ascribed or related to regulation? In the sections below, we draw on the evidence in preceding sections and distinguish the non-regulatory drivers of market development from the regulatory drivers.

5.1. Non-regulatory drivers of market characteristics

There are a number of non-regulatory drivers or factors supported by our analysis that explain evolution (or the lack thereof) of the Ugandan insurance and micro-insurance sectors.

1. Low and irregular household income means less disposable income to pay for insurance purposes

The development of a conventional insurance market requires a population with sufficiently high disposable incomes to spend their money on formal insurance (and its associated charges). Uganda has a very poor population with highly irregular incomes. As mentioned, 40% of people are below the national poverty line with the overwhelming majority of the population living on less than $2 a day. So many people struggle to buy basic survival necessities and so unable to afford insurance products.

2. Insurance offers clients a poor value proposition

The Ugandan insurance industry has, at least until now, have been unable to offer clients a good value proposition. This conclusion is supported by at least two areas of evidence. Firstly, risk mitigation alternatives to insurance are widely used and seem to be preferred in meeting individuals' financial needs when risks occur, i.e. insurers have not been able to tempt people away from these alternatives. As discussed in the section(s) above, two types of alternative risk mitigation mechanisms are widely used:

- the risk household and/or social network mechanisms, e.g. friends and family; and

- informal community-based mechanisms, such as burial groups.

Secondly, Ugandan insurance clients are receiving far less money back for every shilling spent on insurance than their counterparts in other African countries, as illustrated by Figure 8. If the low expenditure on claims was merely due to lack of awareness of insurance ownership and therefore fewer claims submitted, it would (in an efficient functioning market) lead to a decrease in insurance premium prices, with prices stabilising when the equilibrium claims ratio (relative to net premiums earned) had been achieved. The fact that claims ratios for Ugandan are not similar to those achieved in the comparator countries points towards a relatively poor value offering by insurers to clients.

There are several reasons for this low return of net premiums in the form of claims to clients. Among them are a lack of competition in parts of the industry (which would push loss ratios up), and the high costs associated with relatively weak and expensive communications and payment infrastructure.

3. Limited understanding of insurance, and mistrust of the industry

The focus group discussions clearly illustrated that Ugandans and, especially low-income Ugandans, have limited knowledge on and awareness of insurance.

Insurance is credence good in economic terms: the customer parts with their money on an up-front basis and relies on the seller to deliver the promised product at an indeterminate future date. Trust in the insuring institution is therefore a critical element determining insurance take-up. Trust takes time to build and spread in a society, but can be destroyed quickly if claims are refused or substantially delayed. It is clear that knowledge about insurance is a necessary but insufficient condition to build trust in insurers.

From the focus groups discussions and interaction with various individuals in or close to the insurance industry, it is evident that historical events and only the recent regulation of the insurance industry has contributed to widespread mistrust of insurance industry. In fact, one market observer described the industry as a “rogue” industry before the introduction of insurance regulation. The quotes below accurately convey the current state of mistrust and lack of credibility of insurers in the eyes of Ugandans:

The poor value proposition on offer from insurance in Uganda and mistrust has meant that there has been little incentive to find out more about insurance. Good experiences with insurance have been few and therefore information or recommendations to use it have not spread far through the population. This holds true even for the relatively well-off urban populations. (The implication is that campaigns to inform the population about insurance will have to be accompanied by efforts to ensure that products deliver good value for money.)

4. Strong consumer need for mitigation of health risks

The Ugandan population faces significant health risks, including malaria, HIV and diseases driven by poverty or poor living conditions. State services are overwhelmed by demand, and there is a shortage of private healthcare services. It is clear from the focus groups and Finscope that health is a risk priority for most Ugandans.

> "Because whether I have money or I don't have money, anything concerning healths you have to find a way of dealing with it and it is always expensive". **(User/Lapsed user Male 36-45 Kampala)**

> "I think I am mostly concerned about sickness because I can avoid it, and when I fall sick or another member of the family, I have to spend a lot of money on treatment". **(Non user Male 36-45 Masaka)**

The absence of a social health insurance system or sufficiently resourced public health system, have prompted the emergence and growth of private health provision and related insurance products to spread health risks, such as Microcare and the HMOs.

5. Limited formal sector footprint

Uganda is characterised by low levels of urbanisation – only 13% of the total population live in urban areas (World Development Indicators, 2007). The challenges to insurance distribution posed by dispersed populations can normally be countered by, for example, utilising concentrated points of sale, e.g. bank infrastructure or retailers.

However, in Uganda the distribution and policy management problems associated with this dispersed population are aggravated by the following factors:

- The lack of banking network with wide footprint (even if all the branches of the four tiers are included the concentration of number of people per branch is still far too high);
- An underdeveloped payments system;
- A largely cash-based economy, slow to capture possible efficiencies in premium collection and claims payment provided by technology; and
- The absence of a national retailer network which could serve as a platform for widespread distribution or payments.

6. Relatively small providers and limited insurance and actuarial skills hinder development

The Ugandan insurance market is characterised by the presence of a large number of small insurers. Even the bigger insurers in the market are small by international standards. As argued in Section 0, this implies that it has been difficult to achieve the economies of scale captured in South Africa and Kenya that would allow for the reduction of administration costs per policy,

A commonly cited reason for the relatively slow pace of innovative product development in Uganda has been a lack of insurance and actuarial skills or qualifications in the country. Actuarial services have to be obtained from abroad – usually Kenya or South Africa, and there are few people who have managed to obtain overseas insurance qualifications. Technology like electronic administration systems is also reputed to be costly in Uganda, where many insurance systems still rely on paper-based administrative systems.

7. Entry of foreign insurers leading to a more competitive market

Since the establishment of the Insurance Commission in 1996, a number of foreign insurers have entered the Ugandan Insurance market. Share of foreign ownership of licensed insurers in Uganda has increased from 15% to over half in 2005 (Uganda Insurance Commission, 2006 & 2002). The foreign presence operationally as well as in ownership, has led to greater competition in the market, with at least two new micro-insurance products (school fees insurance and the old age savings product) being introduced by foreign insurers. Local insurers have picked up on this dynamic and a few insurers have now copied the school fees insurance product and added it to their insurance product offering. Large foreign insurers like AIG and Liberty bring access to efficient back office systems and processes which will allow them to reduce costs and offer better value for money products.

5.2. Regulatory drivers of market characteristics

1. Specific and inhibitive restrictions apply to market conduct

Limits on distribution of insurance by banks, MDIs. The Financial Institutions Act and Microfinance Deposit-taking Act restrict the involvement of banks and MDIs in the distribution of insurance to insurance products that limit their credit risk, i.e. credit life insurance. They are not allowed to intermediate these insurance products directly (bank staff are not allowed to sell insurance) and cannot legally be remunerated by brokers or agents for facilitating insurance business, even for credit life insurance. Finding appropriate client touch points is often the biggest challenge in rolling out insurance to low-income individuals. Given the potential role that bank and MDI infrastructure can play in the intermediation of insurance and reaching individuals that already own some form of financial services product, this forms a serious obstacle to reaching uninsured individuals. Use of the extremely limited formal financial infrastructure for the distribution of insurance is inhibited by this restriction. The policy objective should be to maximise use of existing infrastructure.

Commission capping. Commissions are currently capped between 20% and 25% for most lines of business by agreement between the Insurance Commission, the intermediary and insurance associations. Given the low premiums on micro-insurance products, basic commission amounts required to viably sell such products, though low in absolute terms, are high relative to the value of the premium. Unless commission levels are high enough or even uncapped, intermediaries may have limited incentives to try and serve a market that can only afford to buy low premium policies. Given the difficulties associated with selling to this market, i.e. limited education on and knowledge of insurance and concentration in rural areas, it is obvious that the remuneration margins for intermediaries on these products would have to be higher than on other products. Therefore the practice and levels of commission capping on all insurance products and product lines should be reviewed to ensure that this is not restricting development of the micro-insurance market in Uganda.

If fully implemented, the regulation of minimum premium rates is likely to be a driver obstructing access to micro-insurance going forward. A final set of minimum premium rates has been agreed upon and are in the process of being implemented. According to the Insurance Commission, minimum premiums will be used as a tool to ensure the prudential stability of the insurance sector. The Commission and certain market players have also mentioned that it will be used as a mechanism to prevent the under-cutting of insurance premium prices. It forms a serious obstacle to market and price efficiency for the insurance market as a whole, but even more so for the micro-insurance market as prices are likely to matter more for those less able to afford insurance. It has, however, been difficult for the industry to agree on minimum premiums for different products and product lines as prices have falling during the negotiation process, for instance, the decline in credit life premiums is a good example. This suggests that the industry has been moving towards delivering products with improved value for money, but that this beneficial competition and development of the micro-insurance market will be inhibited by minimum premiums.

2. Recent nature of regulation has meant that trust in the industry and a compliance culture is still developing

Insurance regulation is very recent in Uganda, and the supervisor (in operation for only ten years) is still developing a culture of supervision and testing the regulation. There has not yet been an opportunity to remove regulations which have revealed unintended consequences. Neither has there been time for the regulator to strengthen its supervision and remove undesirable practices. As a consequence, best practices are not yet established in the industry and neither have benchmarks been set.

Insurance (micro or otherwise) is a business particularly reliant on the trust of customers in the providers they deal with. And this trust, both in specific providers and the industry as a whole, takes time to be built up, as prudential and operational requirements and best practices are developed and observed. Combined with the poor experiences people had with insurers during the inflation and devaluation period, this helps to explain why mistrust in the industry is fairly widespread and long-term products are rare.

Additionally, since the primary focus of the Insurance Commission by necessity has been the soundness of the industry, it has not focused at all on issues of financial inclusion in the insurance sub-sector. Neither, for that matter, does it have a statutory mandate (such as the Indian insurance regulator) to look at the development of the micro-insurance market.

3. Regulation has facilitated entry of foreign insurers into Uganda

The Commission has been open to foreign involvement in the Ugandan insurance market over the last decade, seeing the proportion of foreign owned or partially owned companies in the market increase steadily. For instance, it equalised capital requirements for local and foreign firms and has not imposed additional requirements on foreign firms. This is bringing increased innovation, expertise and competition to the market, and over time can be expected to result in better value for money products for customers at both the high and low income ends.

4. Absence of health insurance regulation creates uncertainty, but has also created a gap for market development.

The lack of clarity around regulation of health insurance has had contradictory effects. Firstly, lack of regulation or enforcement of existing regulations on operators providing health insurance has allowed the space for this market to develop and innovative products to be introduced. On the other hand, it has created an un-level playing field as some market participants have chosen not to enter the health insurance market due to concerns about not being appropriately regulated.

The lack of comprehensive regulatory oversight of the health insurance sector makes analysis difficult as data is not collected and many industry participants are reluctant to talk about developments in this area. This means that solvency problems can easily go unnoticed, putting clients at risk. Microcare's brush with insolvency (from which it quickly recovered) is an example of this.

5. Restrictions on mutual insurers may have prevented emergence of these providers

According to the Insurance Commission, no informal mutual groups have applied for an insurance license during the period when this option has been available to them. There is a regulatory limit of 300 members imposed on membership to mutual insurers in the Insurance Act which, from a risk pooling perspective, makes it impossible for these institutions to offer formal insurance on a viable and sustainable basis. It may also be that the mutual groupings are simply not aware of the regulatory option available to them or that they may also not have any desire to transform to formal insurers. The mutual form should be interesting to some players (unlike the cooperative insurer form) as it entails less strict prudential requirements than a full insurance license.

6. Other regulatory issues

There are some other areas of regulation which in other markets have been drivers of market behaviour, such as capital requirements, assets available for investment and external initiatives to prompt consolidation. In Uganda these were found to have limited impact though are discussed here because they are raised in other countries as potential drivers.

Capital requirements are not excessive when compared to other countries, but could still be high relative to the size of market and affordability thresholds of member-based organisations

The capital requirements imposed on companies that want to write insurance (life and non-life business) cannot be considered excessive when compared to the capital requirements imposed on insurers in some of the study countries (e.g. US$20m for formal insurers in the Philippines, $1.5m for life insurers and half this for non-life insurers in South Africa) This conclusion is further supported by the fact that while some consolidation did occur, it was not as much as expected when the Insurance Commission increased capital requirements. Although lower or affordable capital requirements for insurers and community-based insurers may be a necessary condition for the development of the micro-insurance market, it is important to bear in mind that it may not be sufficient.

However, even at these levels the capital requirements are unaffordable for most member-based organisations, such as mutuals or cooperatives. This is evidenced by the exit of the only Ugandan cooperative insurer from the market for capital reasons. Given that members take responsibility for the management of these institutions, and with appropriate restrictions on the risk of the products they care allowed to offer, a case can be made for lowering capital requirements for member-based insurers.

Product regulation delays introduction of new products rather than preventing it.

From interaction with industry players and the Insurance Commission, it seems as if product regulation and the process of product approval rarely leads to the rejection of a specific insurance product. The Commission might ask insurers to change the policy wording or make price adjustments before approving it, rather than outright rejecting the product. Only two products have in recent years been rejected on grounds that the companies were unable to persuade the Commission that they had sufficient data or experience in the product lines attempted. However, delays with product approvals have been raised by the industry as an unnecessary impediment to innovation.

Shortage of matching assets has not really hindered market development

Insurance contracts create liabilities on the insurer, which need to be backed with corresponding assets. In general, short term liabilities should be matched with short-term, liquid assets. In Uganda much of the insurers' investment portfolio is made up of property investments which are not a good match for the types of liabilities they hold. This mismatch increases risk of insolvency and leads the regulator to pay relatively more attention to other aspects of prudential regulation to compensate, for example, product or premium regulation. However, from the point of view of the industry lack of matching assets has not been a factor hindering their own product development.

6. Summary and conclusions

This document provided an overview of the microinsurance market, its evolution and regulatory framework in South Africa in order to identify the core market and regulatory drivers of the development and current state of the microinsurance market.

- **Section 1** introduced the study
- **Section 2** provided an overview of the methodology and project scope
- **Section 3** then went on to sketch the insurance regulatory framework in Uganda
- **Section 4** provided an overview of the microinsurance market in Uganda
- **Section 5** highlighted the drivers of microinsurance development – both regulatory and non-regulatory

The following key insights emerge from the analysis:

Market context

Uganda is a small, very low-income country. In the 1980s it was subject to a period of hyperinflation, followed by a large currency devaluation[38], from which the country took a long time to recover. Of the total population of 29m (of which 13m are adults) 87% still reside in rural areas (this presents a key complication for the distribution of financial services), 96% live on less than $2/day, and 82% live on less than $1/day (World Bank, 2007). Uganda thus faces many development challenges, one of which is the development of its relatively underdeveloped financial sector. Only 21% of the Ugandan adult population use any type of formal or semi-formal[39] financial service, and 17% use informal financial services only. This implies that 62% of the adult population do not use any type of financial service (Finscope Uganda, 2006). The insurance sector is even more underdeveloped than the financial sector at large, with gross premiums totalling less than 1% of GDP.

The policy, regulation and supervision context

Until 1996, the insurance industry in effect operated in an unregulated domain (with only nominal supervision by the then Department of Insurance within the Ministry of Finance). Formal insurance sector legislation, regulation and supervision have only been implemented over the last decade. The Insurance Commission was established as supervisor in 1997. The recent nature of the regulation has meant that trust in the industry and a compliance culture is still developing.

The Insurance Act draws a distinction between the categories of life and non-life insurance, but does not explicitly define a category for medical insurance. It restricts the institutions which may provide insurance to companies, insurance corporations, cooperative insurance

[38] After the devaluation, a life insurance policy would only pay out 1% of its original value.

[39] The banking sector is tiered by regulation into 4 types of financial services, the first three of which are classified as "formal" and the latter as "semi-formal": banks; credit institutions; microfinance deposit-taking institutions; and cooperatives & MFIs. Banks (tier 1) may mobilise deposits, extend credit and perform foreign exchange transactions; tier 2 may do everything as tier 1 except perform foreign exchange transactions; tier 3 may do the same as tier 2, except operate cheque accounts; tier 4 may mobilise savings only from its own members, not the general public, and may extend credit.

societies and mutual insurance companies and provides for minimum premium rates for certain product lines to be agreed between the industry association and the regulator. Furthermore, it limits the distribution of insurance to registered brokers and agents (with restrictions on bancassurance) and it restricts the collection of premiums on a credit basis to brokered business (which has been reported to hinder the development of direct insurance sales by insurers).

Salient market features and challenges to market expansion

Uganda has a small, relatively young insurance market with a high foreign presence. It is distinguished from the other sample countries in that it has very low levels of informal market activity[40]. The microinsurance market is estimated to virtually exclusively comprise credit life insurance. The development of microinsurance has therefore been on the back of microfinance – through compulsory credit life insurance. Many challenges are faced in expanding the insurance market:

- The extremely low and irregular average household incomes in Uganda mean less disposable income to pay for insurance purposes.
- There is limited understanding of insurance and widespread mistrust of the insurance industry among the population.
- Insurance as currently provided in Uganda offers clients a poor value proposition.
- There is furthermore a limited footprint of formal sector activity, such as banks and national retailers which could be used as channels to distribute insurance.

At the same time, the generally low income levels imply that any expansion of the reach of the insurance sector is likely to entail "microinsurance". Focus groups have indicated a strong need for the mitigation of especially health risks. Entry of foreign insurers into the Uganda market over the last ten years is also starting to lead to product innovation and a more competitive marketplace, as seen in the steady reduction in premiums on credit life insurance.

Drivers of market development

Non-regulatory drivers

1. The extremely low and irregular average household incomes in Uganda mean less disposable income to pay for insurance purposes.

2. Insurance as currently provided in Uganda offers clients a poor value proposition, with a large portion of premium income being spent by insurers on administration costs and not on claims payments.

[40] The anomaly of a very small informal sector is difficult to explain, as in many other countries the poor tend to pool risk informally in the absence of formal market options. Though the research did indicate some evidence of informal savings clubs and social support structure, little informal risk pooling mechanisms (outside of the family circle) was found in the available data – which may be a data anomaly.

3. Focus group research shows that there is limited understanding of insurance and widespread mistrust of the insurance industry among the population.

4. There is however a strong consumer need for the mitigation of health risks, which has driven provider activity in this space, for example, Microcare and various health maintenance organisations.

5. There is a limited footprint of formal sector activity, such as banks and national retailers which could be used as channels to distribute insurance.

6. Particularly the domestic insurers in Uganda are small by international standards making it difficult for them to spread their fixed costs. A lack of actuarial and other insurance skills further hinders development.

7. Entry of foreign insurers into the Uganda market over the last ten years is however starting to lead to product innovation and a more competitive marketplace, as seen in the steady reduction in premiums on credit life insurance.

Regulatory drivers

1. Inhibitive market conduct provisions undermine effective distribution, namely: restricted distribution of insurance by banks and MDIs, minimum premium rates (which stifle competition), commission capping (which can make it uneconomical to distribute to lower income consumers) and restricting provision of credit on premium payments to brokers (which makes direct distribution unattractive).

2. Recent establishment of regulations and a supervisory body (the Uganda Insurance Commission) for the industry, which only occurred in the last decade, has meant that trust in the industry and a compliance culture is still developing.

3. But the regulatory attitude has been open to the benefits which foreign entry to the market can bring.

4. Absence of explicit health insurance regulation has created uncertainty for players in the space or potentially entering it, but has also created a gap for market development, with new entrants and product innovation occurring.

5. Size and other compliance restrictions on mutual insurers may have discouraged the emergence of these providers, despite regulation making some concessions for them.

Key issues for the regulation of microinsurance in Uganda going forward

The challenges of expanding access to microinsurance in a very poor country. The Ugandan experience reveals the challenges of expanding microinsurance in a context of a poor developing economy with an underdeveloped financial sector. This is amplified by a lack of well developed informal risk pooling mechanisms – implying that the overwhelming majority of the population is vulnerable to financial shocks, without any risk mitigation apart from family support. Insofar as it has achieved some take-up, microinsurance has been limited to credit life insurance. As the market develops, it is therefore important for non-credit life insurance to be established in the low-income market. To achieve this, low-income individuals need to be “won over” through positive experiences in credit life insurance and insurance in general to break the prevailing mistrust of insurance.

Regulatory lessons from the Ugandan experience. The introduction of a new regulatory regime offers the architects thereof a unique opportunity to pre-empt potential pitfalls and ensure a framework that will facilitate financial inclusion – an objective especially important in a country with such high poverty levels as Uganda. While the Ugandan case has shown the impact that the introduction of greater certainty can have, it also illustrates the potential pitfalls to be avoided – namely the creation of an overly restrictive regime designed without explicit regard for financial inclusion and that does not clear up all uncertainties in the market.

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Meeting list

Organisation	Person met	Position
Post Bank Uganda	Stephen Mukweli	Managing Director
MTN Uganda	Harriette Kasirye	Product Manager
Uganda Insurers Association	Olli-Pekka Ruuskanen	Executive Officer
	Solomon Rubondo	Chairman (also GM of Goldstar Insurance Company)
DFID Financial Sector Deepening Project Uganda	Paul Rippey	Manager
Alexander Forbes Uganda	Kwame Ejalu	Managing Director
Rural SPEED	Richard Pelrine	Rural Finance Advisor
	Robert Ocaya	Rural Finance Specialist
Foundation for International Community Assistance (FINCA)	Fabian Kasi	Chief Executive Officer
Uganda Insurance Commission	George Okotha	Deputy Commissioner (Technical)
	Rachel Kabala	Senior Legal Officer
	F Magezi	Commissioner for Insurance
	Henry Mwebe	Legal advisor
	Peter Mpiso	Data & Analysis
National Insurance Corporation (NIC)	Toyin Sanyaolu	Team Leader: Business Development
	Edgar Muzahura	Senior Underwriter
	Samuel Lukooya	Senior Manager: Life and Pensions
East African Underwriters	Barrie Cambridge	General Manager / CEO
Ministry of Finance, Planning and Economic Development	Fredrick Matyama	Principal Economist: Macroeconomic Policy Department
	Martin Anthony	Ag. Senior Finance Officer / Economist: Macroeconomic Policy Department
	Henry Mbaguta	Ag. Assistant Commissioner: Microfinance Department
Association of Micro Finance Institutions of Uganda (AMFIU)	David Baguma	Executive Director
Steadman Group	Antony Munyua	Country Manager: Uganda
	Anthony Tenywa	Field Manager
Uganda Co-operative Alliance	Leonard Msemakweli	General Secretary
Centenary Rural Development Bank	Joseph Lutwama	Head: Credit
Micro Insurance Agency	Flora Kaheru	Country Manager: Uganda
Padre Pio Insurance Brokers	Irene Kego	Chief Executive Officer
Y-Save Cooperative Savings and Credit Society	Danstan Kisuule	Chairman
Uganda Microfinance Limited	Moses Malinga	
Liberty Life	Joseph Almeida	General Manager
World Bank Mission team	Vijaysekar Kalavakonda	World Bank: Financial Analyst, Insurance and Contractual Savings, Operations and Policy Department
	Denis Garand	President: Denis Garand and Associates
	Natalie Groos	Stiftungskollege fur internationale Aufgaben
Shonubi Musoke & Co. (Attorneys)	Noah Edwin Mwesigwa	Partner
AIG Uganda Limited	Bosco Kalema	Manager - Accident and Health

Organisation	Person met	Position
FINCA Uganda	Fabian Kasi	Chief Executive Officer
Microcare Insurance	Joseph Kibuuka	Marketing manager
AAR	Frank Tindyebwa	Marketing Director

Appendix 1: Analytical framework

Financial inclusion framework

The five country studies explored the drivers of financial inclusion within the insurance market, in particular considering the impact of regulation. Ultimately, more inclusive financial systems are the desired outcome of the emerging guidelines proposed in this report.

Financial inclusion is achieved when consumers across the income spectrum in a country can access and sustainably use financial services that are affordable and appropriate to their needs. The overall level of inclusion achieved is determined by a variety of factors affecting the individual directly (demand-side factors) as well as the institutions providing the services (supply-side factors). Figure 9 indicates this schematically:

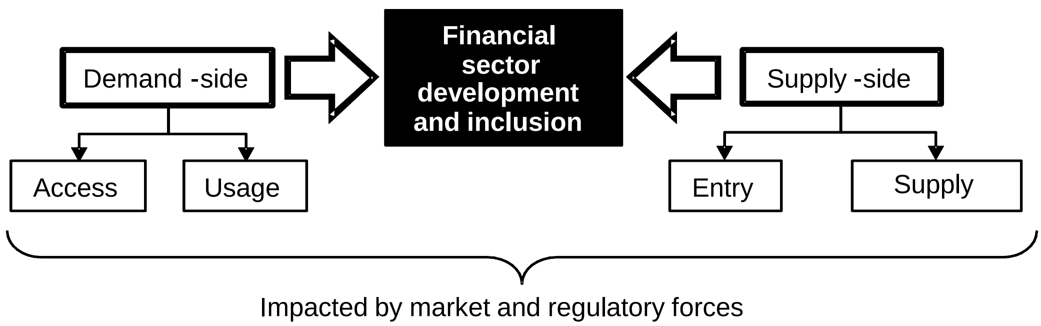

Figure 9. Financial inclusion framework

Source: Da Silva & Chamberlain, 2008

These factors may explicitly exclude individuals from using a particular service (referred to as **access** barriers) or may discourage users from using a particular service even if they are not explicitly excluded (referred to as **usage** barriers). Similarly, impacts may completely exclude or may discourage financial service providers from providing a particular financial service to the lower-income market – termed **entry** and **supply** barriers respectively. These concepts are briefly explained below.

- **Access** barriers consider the factors that make it impossible for a individual to use a particular financial service. The FinMark access methodology41 identifies five factors that impact on access: physical proximity, affordability, eligibility, appropriate product features/terms and regulation.
- **Usage** focuses on factors that may discourage individuals to take up formal financial services even if they do not present an absolute barrier. Usage decisions involve the exercise of judgment by individuals on the value of the product and its ability to meet their needs based on their experience and knowledge. This judgment is exercised within

[41] For more information see the discussion contained in Chamberlain (2005).

a complex set of considerations, constraints and priorities. Usage drivers may include: the value proposition of the formal product (e.g. the perception of "throwing money in the water" by paying insurance premiums when you do not necessarily claim); relative cost (e.g. compared to informal alternatives); the "hassle factor" (e.g. of filling out forms); and perceptions of formal products and institutions (e.g. the fear of "officialdom" and the belief that financial institutions are for the rich).

- **Entry** factors include market and regulatory forces that may prevent particular players from operating in the low-income market, or may make it difficult for informal providers to become formal sector players. This may include regulations restricting the type of legal entity that may for example provide insurance.
- Similar to the demand-side, **supply** factors do not explicitly prohibit institutions to enter into the low-income market but may discourage them from doing so. These may for example include proportionately increased regulatory costs on low-value transactions that undermine their already marginal profitability. While not necessarily making it impossible to serve the low-income market, it makes operating in this market unattractive.

The state of financial inclusion in a particular country is a composite of these four factors. The particular question that this project seeks to answer is how **regulation**, propagated through the various drivers of access, usage, entry and supply, impacts the overall level of financial inclusion in the insurance sector.

Goal of microinsurance

The country studies presented in this report accordingly focus on the role that the insurance market can play in reducing the vulnerability of the poor. Why would one want to develop microinsurance markets? The ultimate goal of microinsurance is to enable the poor to mitigate their material risks through the insurance market, in order to reduce vulnerability, thereby increasing their welfare. To be successful, microinsurance should therefore mitigate the most material risks faced by the poor client in a way that is affordable and appropriate to the low-income market.

In the process of mitigating their risk, microinsurance may also stimulate the provision of other services that are important to the poor, for example, credit services, funeral services or health services. This is achieved by providing more predictable income flows to providers that ensure viability of the provision of such services to the low-income market. Therefore microinsurance enhances the welfare of the poor by addressing material risks as well as supporting the delivery of critical services.

It must be noted that the availability or even take-up of insurance *per se* is not sufficient to achieve the goal of reduced vulnerability and improved welfare. To deliver value, low-income insurance products should also be affordable and appropriate to the needs of the poor. This requires sufficient awareness of the availability and value of insurance amongst the poor as well as the ability to claim on policies. Providers and intermediaries should also treat consumers fairly. If it is difficult or impossible for a low-income client to make a legitimate claim on their insurance policy it will not reduce vulnerability and renders the product of little value.

The country evidence discussed in this document shows that microinsurance take-up is often not the result of voluntary strategies by the poor to mitigate their material risks, but is rather the outcome of compulsion by *credit providers* seeking to cover their own exposure to default. In this case, microinsurance may still deliver significant value to the client but care needs to be taken to ensure fair treatment of the low-income consumer.

Definition of microinsurance

Conceptual definition. Microinsurance is defined by the IAIS (2007b) as "*insurance* that is *accessed by [or accessible to[42]] the low-income population*, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums". It therefore excludes social welfare as well as emergency assistance provided by governments, "as this is not funded by premiums relating to the risk, and benefits are not paid out of a pool of funds that is managed based on insurance and risk principles".

This definition encompasses three concepts that require further explanation in the context of this study: "insurance, "accessible to/accessed by", the "low-income population".

- *Insurance.* Generally, insurance denotes a contract in terms whereby an insurer, in return for a premium, undertakes to provide policy benefits. It is distinguished from e.g. social welfare in that it is funded by premiums relating to the risk, and in that benefits are paid out of a pool of funds that is managed based on insurance and risk principles (IAIS, 2007). Benefits may include one or more sums of money, services or other benefits, including an annuity. Microinsurance forms part of the broader insurance market, distinguished by its particular low-income market segment focus (that often requires distinctive methods of distribution or distinctly structured products).
- *Accessible to*. Microinsurance products need to be accessible and appropriate to the low-income population, i.e. that the low-income population be in a position to sustainably use such products (including claiming).

The low-income population. This study does not propose any specific income cut-off for the microinsurance target market. Instead, the target market should be defined within the local country context. Microinsurance is not strictly limited to those living under the national poverty line or the comparative measures (e.g. $1 or $2 adjusted for purchasing power parity). Many of these households may actually be beyond the reach (e.g. affordability) of an insurance mechanism and will remain the dependent on the social security system. Furthermore, generally low income levels means that even the middle-income class (not classified as poor under the national poverty line) in a particular country will have relatively low income levels and, therefore, require low-premium products.

Operational definition. Definitions based on the income levels of the purchaser or the client are difficult and costly to implement in practice. As result, the practical definitions applied by the market or regulator mostly define microinsurance policies by setting benefit or premium

[42] Authors' own insertion.

limits, thereby ensuring that it is mostly (but not exclusively) targeted at the poor. Other functional criteria used to define microinsurance (virtually always in c*ombination with a bene*fit cap) include the following:

- Product categories that particularly reflect the needs of the poor (e.g. funeral insurance, or insurance for motorcycles or cell phones important to the low-income market for business purposes)
- Distribution channels, especially channels accessible to the poor;
- Simplicity of terms, conditions and processes;
- Contract characteristics, for example limiting exclusions that may be difficult for clients to understand or allowing clients to catch up on occasionally missed premiums without lapsing the policy

The insurance value chain

Delivering an insurance product to a client comprises a number of activities collectively referred to as the insurance value chain. Unlike the transaction banking value chain, where the activities are often performed by the same legal entity, the various activities comprising the insurance value chain are typically performed by more than one legal entity. The risks attached to the various activities differ and they are regulated by different regulators and supervisors or not at all.

Figure 10 presents a picture of the generalised structure of the insurance value chain:

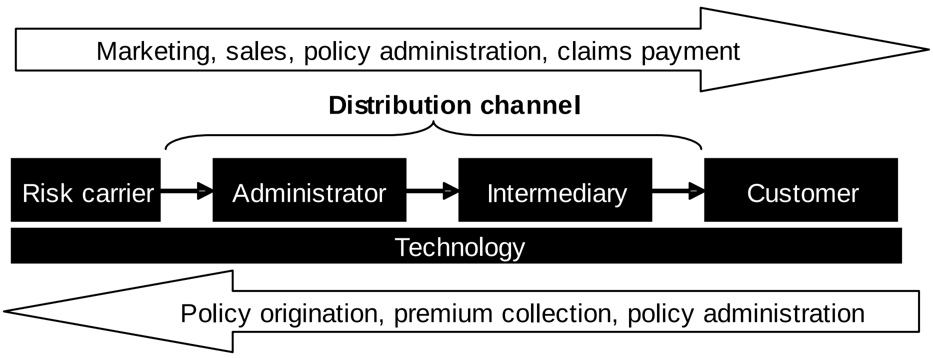

Figure 10. Insurance value chain

Source: Chamberlain, Bester et al, 2006, quoting Leach, FinMark 2005.

The functions of the various components of the insurance value chain are:

- *Underwriting:* This is the responsibility the risk carrier, defined as the entity that in the final instance is liable for the insurance risk. In the formal financial sector, the risk carrier is usually a registered insurer (that may obtain re-insurance) or another entity (such as a cooperative) authorised to provide insurance.
- *Administration:* Administration may be done at the level of risk carrier, intermediary or may even be outsourced to a specialised entity that often does not fall under the

jurisdiction of the insurance supervisor. Administrative costs contribute a substantial proportion to overall insurance costs and innovation on this aspect is, therefore, of particular interest for microinsurance.

- *Intermediation:* Intermediation deals with all aspects of client contact and related activities (e.g. product origination) and may take a variety of forms including an insurer's direct sales division, captive or independent agents, retailers, banks and non-bank financial service providers, NGO MFIs, credit cooperatives, etc. Different types of intermediaries may be more or less suited to distribute microinsurance and may also be affected differently by regulation.
- *Technology:* Technology plays a role across the value chain and may include a variety of technologies ranging from sophisticated electronic solutions such as the use of mobile phones to social technologies such as premium collection through self-help groups. The appropriate use of technology may facilitate better risk management as well as lower the costs for microinsurance.

Understanding microinsurance in a particular market therefore requires focusing on more than just insurers and products. Particular attention has been paid to the intermediation of insurance in the markets reviewed in order to understand the regulatory ramifications on each part of the value chain. This is especially true for emerging technologies and innovations (for example mobile phone payments, distribution through retailers, etc.).

The distinction between formal and informal

Throughout this document, reference is made to informal and formal (or regulated and unregulated) markets, products, providers or distribution channels. Key issues to consider include the reasons for informality and what the appropriate policy and regulatory response should be. It is therefore important to clarify upfront what is implied by informality:

Formal. Formal financial products and services are defined as products or services provided by financial service providers[43] that are registered with a public authority in order to provide such services[44].

Informal. Informal financial services, therefore, refers to everything that is not formal as defined above and includes a wide range of providers. At its simplest this includes completely informal societies that are often of a community and mutual nature. In some cases informal markets may also include formal legal entities (e.g. funeral parlours) providing insurance without being regulated for the purposes of doing so. Informal insurance is not necessarily illegal. Specific providers or products may be exempted from insurance regulation or may simply be operating in the absence of regulation. Where a particular section of the formal market is regulated in theory but not supervised in practice, it may actually present similar risk and challenges to the informal sector.

The informal financial sector can play a critical role in financial sector development. The existence of large informal markets can be a key indication of demand for insurance products not met by the formal market as well as potential barriers to formalisation and

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[43] In turn defined broadly as any provider of financial services – in this instance insurance.
[44] This is the definition generally applied by the World Bank.

market development. Informal institutions often fill the vacuum created in the process of formalisation by acting as distribution mechanism or providing the service themselves. The scale and number of informal insurance providers may provide a reality check on the challenges facing supervisors and regulation that attempts to formalise these markets. In many cases, the supervision of this sector may simply fall beyond the logistical or resource capacity of the supervisor.

From an inclusion perspective, the objective is to facilitate the development of the formal sector and encourage formalisation while at the same time preserving the critical services provided by the informal sector.

Categories of risk

The definition and analysis of risk and its various drivers is central to the analysis and proposals contained in this document. In this section we note the definitions and concepts that are applied in the discussion of risk.

The Insurance Core Principles (ICPs - IAIS, 2003) hold that “the supervisory authority requires insurers to recognise the range of risks that they face and to assess and manage them effectively” (ICP 18) and to “evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums” (ICP 19). ICP 18 states that the insurance supervisor plays a critical role by reviewing the insurer’s risk management controls and monitoring systems and by developing prudential requirements to contain these risks. In the final instance, it is the responsibility of the board (via good corporate governance practices) to ensure that risk is adequately managed.

The risk of insurance business stems from a variety of reasons. To simplify the discussion in this document we distinguish three (interdependent) categories of risks: prudential risk, market conduct risk[45] and supervisory risk:

- *Prudential risk* refers to the risk that the insurer is unable to meet its obligations under an insurance contract. Insurance provides benefits on a defined risk event in return for premiums that are paid in advance. A contractual commitment to provide benefits create the risk that the insurer’s liabilities in respect of expected future claims at some point in time may exceed the assets they have available to meet those claims. This is driven by a number of more specific risks categorised by the International Actuarial Association as underwriting risk, credit risk, market risk, operational risk and liquidity risk (IAA, 2004). Prudential risk is in the first instance determined by the nature of the insurance products in an insurance portfolio (underwriting risk determined by the likelihood and size of exposure) and secondly by how the insurer is managing and providing for its obligations under these policies. Key features of the insurance product that impact on risk are: the nature of the risk event covered and its expected frequency and impact; the duration of the product contract; the benefit value; product complexity

[45] These categories as are in line with the solvency methodologies as outlined in IAA (2004) and IAIS (2007a).

of the product. The product-driven nature of underwriting risk is a key feature of risk that we return to later in this document.

- *Market conduct risk*[46] refers to the risk that the client is not treated fairly and/or the does not receive a payout on a valid claim. Effectively this is the risk that clients will be sold products that they do not understand, are not appropriate to their needs, and/or will not be able to claim on. This risk is driven by various factors including: the nature of the product (e.g. product complexity, level of cover provided), the nature of the intermediation process (e.g. compulsory/voluntary nature of the purchase, standalone/embedded nature of the product, the level of disclosure or advice, nature of the claims process) and the nature of the client (e.g. level of sophistication and financial literacy). In some insurance literature market conduct risk may also refer to the risk arising from the insufficient disclosure of financial information by the insurer to investors and supervisors. This is **not** included in the definition of market conduct applied in this document.
- *Supervisory risk* refers to the risk that the supervisor is unable to sufficiently supervise (due to limited capacity) specific components of the market. The result of this is that an insurer or insurance product with low technical/underwriting risk may actually turn out to have a high risk to the system because it is not appropriately supervised.

Policy, regulation and supervision

<u>Regulatory vs. non-regulatory drivers of market development</u>

This report is about the impact of regulation on the development of microinsurance markets. Many insurance markets initially developed in an unregulated environment. The first pitfall to guard against is therefore to think that markets develop as a result of regulation. Largely they do not. The insurance sector is impacted by external factors in the financial sector and by the economic and country context more broadly, such as the macro-economic environment, the political economy, the general and financial sector infrastructure, and the demographic profile of the country (gender, age, income levels and the distribution of income). For example, a country undergoing financial liberalisation or recovering from a financial sector crisis or recession will face different policy challenges impacting on its insurance regulatory framework than other countries. Likewise, a country where the majority of the population is poor, or where the financial sector and other infrastructure is poorly developed, will face different circumstances and goals than other countries.

The first challenge is therefore to distinguish between the regulatory and non-regulatory drivers of market development. Whereas this distinction is quite clear in certain cases, causality is often a matter of degree and even opinion. The approach followed in this study is to identify the non-regulatory drivers of market development at a high level to provide the general context for tracing the impact of regulation. As far as possible we identify all the potential impacts of regulation, even though in many cases regulatory drivers may have been overridden by other market factors.

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[46] Market conduct concerns may impact on prudential risk in that the reputational damage may, e.g., lead to an insurer becoming insolvent but it is still quite distinct from it.

Purpose of insurance regulation

It is important to note that regulation is not an end-goal in itself, but is the means to ensure the existence and development of a well-functioning market. A well-functioning market includes serving the broadest possible client base, including the poor. In seeking to achieve the goal of a well-functioning market policymakers, regulators and supervisors pursue a number of more specific objectives including:

- *Stability of the sector*. This objective is sought by ensuring the soundness of operators and may resonate in capital requirements, corporate governance requirements, fit and proper requirements and other aspects of the regulatory framework. Among the regulatory objectives, this is often the one that has been pursued for the longest time.
- *Consumer protection*. While this is also an implicit goal in the stability objective, this objective most often resonates in market conduct/intermediation regulation (both in terms of the intermediation channels permitted, the due process to be followed, the commissions that can be charged and the requirements placed on the intermediaries themselves).
- *Improving market efficiency*. This may entail preventing anti-competitive behaviour and overcoming information asymmetries. In its application such regulation may overlap with both stability and market conduct regulation.
- *Market development* (or financial inclusion more specifically) is sometimes included as an explicit policy or regulatory/supervisory objective – for example in India, where the supervisor (IRDA) is also explicitly tasked with a development mandate.
- *Other strategic objectives*. This can for example include the prevention and control of financial crime as required by international standards imposed by the Financial Action Task Force or the economic empowerment of previously disadvantaged citizens as is the case in South Africa.

Given the ultimate goal, none of these individual objectives should be pursued at the cost of a well-functioning market. Some objectives may also conflict. For example: where an authority has the explicit mandate to develop the market, this may require the relaxation of regulations imposed for stability purposes. Therefore the market development objective may clash with the way the stability objective was pursued. Often, various objectives however mutually enhance one another.

Public policy instruments

To achieve its stated objective, a government uses three categories of public policy instruments to influence markets:

- *Policy*. The term "policy" denotes the declared intention of a government on how it wishes to order the financial sector and the objectives that it wishes to achieve. The trade-offs between various government objectives (for example consumer protection and financial inclusion) is therefore managed within the policy domain. Such policy can be contained in a specific policy document (i.e. can comprise a dedicated policy framework), but can also be the stated intention of government more broadly/generally, be contained in speeches, in the preamble to legislation and in other documents (i.e. the general policy stance). Policy may sometimes be sufficient, in itself, to achieve government objectives even without regulation following from the policy. This may be the case particularly where government wants the market to achieve the stated goals. In most instances, however, policy is the canvas against which *regulation* is then developed.

- *Regulation*. Technically speaking, the statutes of a country are termed *legislation*. It is passed by the national legislative authority (be it parliament or congress). Legislation represents a relatively rigid public policy tool that is normally difficult and time consuming to pass and difficult to amend. In addition to legislation, *subordinate legislation* may be issued by the executive authority or regulator. Such instruments are more flexible, yet still have the force of law. In the event of conflicts, legislation will take precedence. In some jurisdictions, subordinate legislation is referred to as *regulations*. When referring to regulation, this document bestows a broader meaning on the term than subordinate legislation, namely: the various legal instruments with binding legal powers (legislation as well as subordinate legislation) that together comprise the regulatory body or regulatory framework pertaining to insurance. Regulation furthermore includes the action of regulating the insurance industry to achieve the policy goals. This in turn includes the development of *regulatory* requirements. The regulator may issue *guidance* in relation to regulation. Such guidance can be in the form of memoranda or circulars. It does not have the force of law, but can be converted into legally binding regulations if required.
- *Supervision*. Supervision describes the functions whereby the state seeks to ensure compliance with regulation. The supervisor's role can therefore be defined as the oversight and compliance, on behalf of the state, of the implementation of regulation by private entities, with the power to impose the penalties allowed for in regulation if not adhered to.

Generally, the policymaker will be the national government or the ministry with jurisdiction over the insurance industry, the regulator will be the ministry issuing the legislation pertaining to insurance or a statutory body issuing subsidiary rules, and the supervisor will be a statutory body for implementing such regulation, e.g. an insurance commission or financial services board, superintendence or authority more broadly. In many jurisdictions the supervisor as defined here can therefore simultaneously be the regulator.

<u>Insurance regulatory scheme</u>

Different categories of regulation are used to influence the behaviour of participants in the insurance value chain. These are collectively referred to as the insurance regulatory scheme, which can be captured in the diagram below. The report uses this scheme to analyse the impact of policy and regulation on the development of microinsurance markets in the sample countries.

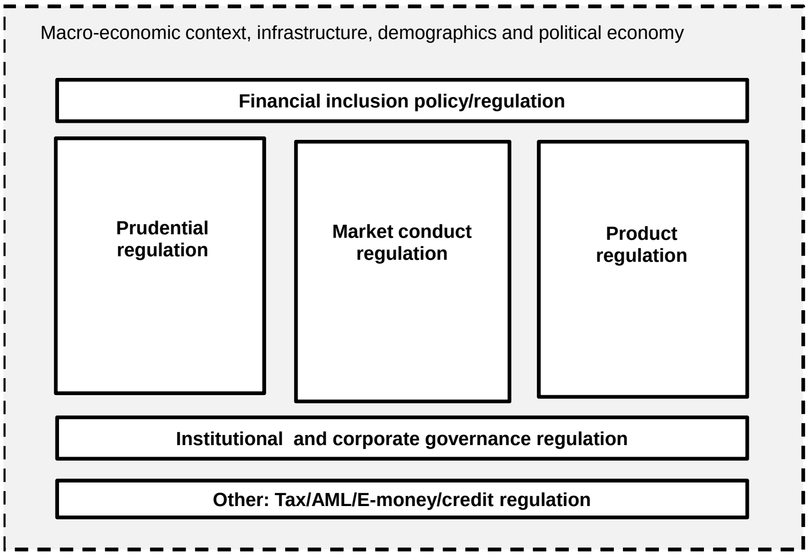

Figure 11. The insurance regulatory scheme

Source: authors

Financial inclusion policy/regulation refers to policy or regulation promulgated with the objective of extending access to and usage of formal financial services by persons who are either excluded from or who do not use formal financial services (provided by registered/licensed and supervised financial institutions). Such regulation can take various forms, for example compulsory or consensual quotas targeting defined population segments, financial literacy provisions, tax incentives, extending the reach of the formal payment system, etc. Sometimes a government may choose not to regulate financial inclusion, but simply to adopt financial inclusion policies with the explicit aim that financial institutions would pursue inclusion on a voluntary basis. Although these do not have the force of law, they will directly impact the conduct of providers.

Prudential regulation seeks to ensure that insurers are able to meet their contractual obligations to their clients. This is done by, for example, setting minimum entry requirements such as minimum levels of capital and requiring compliance with a set of prudential regulations governing the functioning of the insurer.

Market conduct regulation refers to the regulation of the distribution or intermediation of insurance products. Regulation of this kind could include requirements as to who can intermediate insurance, fit and proper requirements for agents and brokers and other intermediaries, regulation of the selling process, including disclosure requirements and giving of advice, regulation of the payment of commission, statutory requirements that make the take-up of certain types of insurance compulsory (for example credit life insurance may be declared compulsory when taking out a non-collateralised loan), etc.

Product regulation can be distinguished from prudential and market conduct regulation in that it does not relate to the insurer or the sales/intermediation process, but rather to the product in question. While provisions relating to product regulation are usually contained within either prudential, institutional or market conduct legislation, it therefore represents a distinct regulatory angle. Product regulation aims to ensure stability and consumer protection by regulating the nature and structure of insurance products. In the most basic form, regulatory systems are often structured around definitions of specific products or product categories.

Box 5. Aspects of product regulation.

Product regulation may involve one or more of the following:

- *Registration/ approval*. In some jurisdictions, regulation stipulates that products need to be filed with the regulator/supervisor, with a window period for response by the supervisor, before the product is launched. If no objection is made by the supervisor within the stipulated time frame, the product is automatically approved. In other instances, explicit approval is required by the regulator before products may be offered. This may be used as a means of compensating for an otherwise light regulatory burden and to allow innovation.
- *Standards*. Regulation may require microinsurance to meet specific standards on simplification, standardisation, documentation, cool-off periods, term, exclusions, etc. In some instances, requirements relating to terms and provisions may be quite onerous; in others it may facilitate innovation.
- *Price control*. Regulation may set specific minimum or maximum prices for product categories. Premium floors are mostly aimed at trying to ensure solvency of the insurer by avoiding price competition, whereas premium ceilings are mostly motivated by consumer protection considerations (though in practice they often serve to protect insurers against intermediaries with bargaining power, rather than protecting the consumer.
- *Demarcation*. Regulation may also prohibit the provision of insurance products by particular players (e.g. non-corporates) or may determine that certain types of products may only be provided by certain types of providers (demarcation).Creating a product-based approach to microinsurance where a regulatory space is created for those who can comply with product standards is therefore a further instance of product regulation. The intention is to limit the risk, thereby justifying different market conduct and prudential standards.
- *Compulsory products*. Lastly, regulation may compel insurers to offer specific products.

Institutional regulation, which includes corporate governance regulation, refers to those statutory requirements that determine the legal forms or persons, for example public companies and cooperatives that can underwrite insurance, as well as the regulatory corporate governance requirements applicable to these legal forms. The nature and extent of the corporate governance requirements normally determine whether that particular legal institution is suitable to manage the risks inherent in underwriting insurance. The institutional and corporate governance regulation is generally not specific to the insurance sector (although some countries have a tradition of passing specific statutes for individual insurance firms, especially mutuals), but generic across sectors.

Other regulation. A number of other regulatory requirements could also impact the development of the microinsurance market. Although not insurance-specific, they impact the underwriting and intermediation of insurance products. Examples include anti-money laundering provisions, taxation, regulation of the payment system (that impacts the ease whereby premiums can be paid), regulation of the microfinance sector and credit regulation generally.

It is not only regulation *per se* that impacts market developments. The absence of regulation can play an equally powerful role. Similarly, even if regulation exists, a supervisory approach of "benign neglect" or "forbearance" can allow the market to develop in ways that cannot be foreseen ex ante by a regulator.