National Insurance Commission in Nigeria
The National Insurance Commission is a statutory agency of the Federal Government of Nigeria established by the law to regulate and supervise the Nigerian Insurance Sector. The Commission derives its regulatory powers from the National Insurance Commission Act 1997 and the Insurance Act 2003. The principal object of the Commission is to ensure the effective administration, supervision, regulation and control of insurance business in Nigeria. Accordingly, insurance/reinsurance companies, Insurance Brokers, Loss Adjusters and Agents fall within the regulatory purview of the Commission.

www.naicom.gov.ng

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a federal enterprise which supports the German Government, particularly the German Federal Ministry for Economic Cooperation and Development (BMZ), in achieving its objectives in the field of international cooperation for sustainable development. GIZ operates in more than 130 countries worldwide and offers demand-driven, tailor-made and effective services for sustainable development in many fields. In Nigeria GIZ works in the following fields: Sustainable Economic Development, Sustainable Infrastructure, Security, Reconstruction and Peace, Governance and Democracy.

www.giz.de/Nigeria

Making Finance Work for Africa
The Partnership for Making Finance Work for Africa (MFW4A) is an initiative to support the efforts of African Governments and the private sector to boost economic growth and fight poverty by developing dynamic, well-run and efficient financial services and banking systems in Africa. The Partnership works to promote better cooperation, communication and coordination to maximise the impact of diverse, individual financial sector development efforts.

www.mfw4a.org

Munich Re Foundation
The Munich Re Foundation seeks to provide answers to overarching questions from a variety of perspectives in order to find sustainable solutions in the area of risk prevention. Questions concerning development are linked to risk management and poverty reduction. Together with the Microinsurance Network, it jointly hosts the annual Microinsurance Conference.

www.munichre-foundation.org

Nigerian Insurers Association
Established in 1971 as an umbrella organisation for all insurance companies in Nigeria, the NIA promotes and upholds the universally accepted standards of business ethics and professional integrity among its members. The goal of the Association is to protect and advance the common interests of Insurers in Nigeria by creating and sustaining a positive image for the Insurance Industry and contributing to legislation, and decisions made by the Government and other Public Authorities in the best interest of the industry in particular and the national economy in general.

www.nigerianinsurers.org

Microinsurance Network
The Microinsurance Network is the only global multi-stakeholder platform for individuals and organizations involved in microinsurance. Its mission is to promote the development and delivery of effective insurance services for low-income people by encouraging shared learning and knowledge generation. The Microinsurance Network works with a broad range of stakeholders and maintains in all its activities low-income at its center, prioritizing work and actions that meet clients’ needs and protect their interests and well-being.

www.microinsurancenetwork.org

The National Insurance Commission (NAICOM) of Nigeria together with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Making Finance Work for Africa (MFW4A) and the Munich Re Foundation organized an ‘International Microinsurance Conference’ in partnership with the Nigerian Insurers Association (NIA) and the Microinsurance Network. The conference took place on September 10th and 11th, 2013 at the Transcorp Hilton Hotel in Abuja.

The event was meant to be an incubator of new ideas where the key stakeholders of the Nigerian insurance sector and related parties discussed approaches for promotion and practical implementation of microinsurance. Sessions were designed to focus on future developments and how issues, lessons learnt and international best practices can be adapted for Nigeria.

The conference provided:
- An opportunity for policy makers, private sector innovators, representatives from civil society and technical assistance providers to network with their peers, discuss their experience, exchange knowledge from good practices and discuss innovative approaches to promote microinsurance in Nigeria;
- A market place to showcase innovative ideas, tools, expertise and initiatives to support development of the Nigerian insurance sector and to match demand and supply; and
- Presentations of activities and achievements in the development of microinsurance in Nigeria and around the globe.

INTRODUCTION AND OPENING ADDRESSES

DAY 1, SEPTEMBER 10th, 10:00 a.m. – 10:30 a.m.

Introduction

A country rich in natural and human resources, Nigeria is known as the Giant of Africa. It is the continent’s most populous country, home to one of every six Africans. As of 2012, Nigeria has more people than East Africa, comprising Tanzania (47.78 million), Kenya (43.18 million) and Uganda (36.35 million).

What’s more, Nigeria’s population, having grown 268% from 45.21 million in 1960, is projected to overtake that of the USA (313.91 million) by 2045 and rival China’s by the end of the century.1

Its potential is gigantic, but if Nigeria is a giant, it has so far revealed itself as a sleeping one – even an ailing one. As much as 70% of its population must make ends meet below the poverty line, earning less than two dollars a day – a vast lowest segment of the market that could serve as a solid foundation for economic growth and development. And in no sector is that potential greater than one widely recognised as an effective tool to alleviate poverty: microinsurance. Few countries could match such pent-up demand from a ready target market of 118 million low-income people.

On September 10–11 there were signs at the Microinsurance Learning Session held in Abuja that the giant was beginning to stir and awaken. An alarm had gone off – that a neighbour gnome in the giant’s shadow, Ghana (25.37 million), already had 7% of its population covered by microinsurance while Nigeria stood at 0.68%. Over the two days in Abuja, if there was one declaration the 250 participants heard again and again, it was, “We will overtake Ghana in two years.”

Opening addresses

Fola Daniel, Commissioner for Insurance/CEO, the National Insurance Commission (NAICOM) of Nigeria, welcomed participants to Abuja, “the pride of Nigeria.” Abuja was chosen in 1976 as the “federal capital territory and centre of unity.” Equidistant from all parts of the country, it was carved out of four states that now adjoin it and in December 1991 formally became the capital when government offices moved here from Lagos. Mr Daniel said NAICOM organised this Learning Session of the International Microinsurance Conference in collaboration with its development partners – GIZ of Germany, Making Finance Work for Africa (MFWM), Munich Re Foundation, the Microinsurance Network and the Nigeria Insurers Association (NIA) – “as part of continuing efforts to deepen insurance market penetration and achieve financial inclusion in the country.”

“We are all going to be educated at this session”, he stated. “The emphasis is the exchange of ideas and discussion of various approaches for promotion and practical implementation of microinsurance in the country.” He added that the Commission would do all it can for this segment of insurance which is expected to create wealth and alleviate poverty.

Mr Daniel acknowledged “the invaluable support” of GIZ in sponsoring an Access to Insurance Initiative’s country diagnostic study in Nigeria in June 2012, which will help NAICOM review its draft microinsurance guidelines.

Sylvie Hoster, head of the GIZ financial sector reform programme in Nigeria, said the Learning Session, to which delegates and speakers from other countries were also invited, provides an “opportunity to exchange information on the current situation and the potential of microinsurance in Nigeria and learn from international best practices.” In the outcome and follow-up of the country diagnostic, according to Ms Hoster, continuing good cooperation among NAICOM, NIA and other stakeholders will be crucial.

Arunma Oteh, Director General, Security and Exchange Commission (SEC), Nigeria, noted the GIZ role in getting experts from around the world to the Learning Session as “a great opportunity.” Development of the insurance sector is critical to the progress of Nigeria and the focus on microinsurance is exciting, according to Ms Oteh. “Insurance provides investable assets, contributes to economic growth and helps transform the country.” Ms Oteh emphasised that NAICOM and its partners are advancing the insurance sector in Nigeria with zeal and commitment, adding: “SEC has maintained a good and mutually beneficial working relationship with NAICOM over the years and supports and identifies with the Commission in its microinsurance drive. This Learning Session is the beginning of more important work to do.”

Dirk Reinhard, Vice Chairman, Munich Re Foundation, Germany, stated the Learning Session is part of a programme to complement the annual International Microinsurance Conference with events targeted at a specific market. With the economic development that Nigeria is achieving comes the development of the insurance sector, according to Mr Reinhard. “But will it reach the working poor and small enterprises? Nigeria is the sleeping giant of the microinsurance world. More could be done to awaken the potential. The goal is to identify tangible activities to be undertaken in the wake of the diagnostic study.”
The first session presented findings of two studies—one surveying the landscape in Africa and the other diagnosing the market of Nigeria—and then reviewed the current state of microinsurance in Nigeria.

One cannot but be perplexed by the rank of Nigeria in microinsurance development. Results of the “The Landscape of Microinsurance in Africa 2012” study show that coverage in Nigeria—a large and resource-rich country—is only 0.68% of the population, less even than Congo (0.78%) and less than one tenth of Ghana (7%). See Figure 1. There is tremendous potential in Nigeria and exploring it is a priority; a country cannot have sustainable development without widespread insurance protection for its low-income people.

The study, conducted by the Microinsurance Centre, shows that, as a region, West Africa has achieved the highest growth rate, 268%, since 2008, spurred by the entry of several good insurers can drive the rest of the market, particularly if they are unencumbered by rapid regulation. The region also had the largest outreach of health insurance, mainly for low-income people.

In a range of five stages of microinsurance development, the study puts Nigeria in a middle stage of “hidden talents”—higher than “embryonic” and “fledglings” but lower than “aspirants” and “high flyers.” The “hidden talents” category encompasses most of the needed fundamentals and some microinsurance experience, but requires filling a number of gaps: back-office IT, collaboration among community-based schemes, commercial players, local capacity and perceived value.

As it pursues microinsurance development, Nigeria will need support from stakeholders at all levels (see Figure 2), and will have to address three specific barriers: insurers not recognising that the low-income segment presents a business model; lack of trust in insurance among potential customers; and lack of appropriate products on offer (a microinsurance product needs to be SUAVE: simple, understood, accessible, valuable, efficient).

“A grossly untapped opportunity” is how the insurance sector is described in Nigeria’s development plan, Vision 2020. And it is also how the diagnosis begins in a study just completed and funded jointly by NAICOM and GIZ. “Towards inclusive insurance in Nigeria: An analysis of the market and regulations.”

The study looks into the insurance sector within a challenging country context (see Figure 3). The main findings on the supply side:

- Recaptitalisation has reduced numbers of insurers from 107 to 59
- Overreliance on corporate accounts and mandatory products
- Low average claims ratio of 24% indicates little value to clients
- High profit level at 33% of premium
- Insurance and microinsurance largely limited to urban areas
- Distribution is mainly through brokers and agents
- Other channels—MFIs, microfinance banks, co-ops, esusus and NGOs—require investment in infrastructure and capacity building to be effective

On the demand side:

- A large potential market, but little knowledge of insurance and lack of confidence and trust
- Rural areas have limited access to insurance
- Resistance among farmers to voluntary agricultural insurance products
- Informal community-based schemes are used to manage risk
- Microinsurance can harness the accepted practice of using esusus and co-ops
- There is space for takful insurance and its profit-sharing interests among some non-Muslims as well as Muslims, but focus groups indicate it is not a solution for improving demand among the majority of Muslims

On the policy side:

- More cohesive policy-making can improve the unlevel playing field across insurance products and providers
- Incentives, such as removing taxation on microinsurance products, can spur growth
- Subsidies in agricultural insurance may be limiting innovation and competition
- The study’s main recommendations are listed above, and are analysed and summarised in a table annexed to this report

Figure 1 Source: McCord, Michael. Presentation “The Landscape of Microinsurance in Africa” - International Microinsurance Conference Learning Session Nigeria 2013.

Figure 2 Source: McCord, Michael. Presentation “The Landscape of Microinsurance in Africa” - International Microinsurance Conference Learning Session Nigeria 2013.

Moving forward

Macro level support:
- Policy and regulations – reduce ambiguity
- Collaboration among stakeholders

Meso level support:
- Actuarial capacity
- Insurance association strengthening
- Local training institutions (e-learning?)
- Market education efforts (medium term)

Micro level support:
- Market responsive, SUAVE products and processes

Country Context
- Population 150 million+
- Life expectancy to age 55
- 609 per capita USD 2000 USD, 70% below poverty line
- 70% workforce in Agriculture
- Inflation at 10.8%
- Rank 133 out of 183 Corruption Index, improved since 2001
- Rank 133 out of 183 Doing Business 2012 Report
- Rank 133 out of 183 Corruption Index, improved since 2001
- 12th highest use of mobile phone in the world, 91 million mobile phones
- 60 million electrical generators in Nigeria
- Access and quality of health care is low
- 60 million electrical generators in Nigeria

Figure 3 Source: Garand, Denis. Presentation “Niger is country diagnostic study.” International Microinsurance Conference Learning Session Nigeria 2013.

Diagnostic study recommendations

The industry needs to focus on providing better value to customers by improving claim payments record and changing business practices, product design, distribution and customer service.

Insurers need to invest in microinsurance expertise, market research, IT systems, improving sales skills and cheap, efficient distribution and premium payment channels that reach the uninsured market.

Focus on improved practices before advertising.

Conduct an impact evaluation of the agriculture subsidy program.

Microinsurance providers and stakeholders should work to increase the capacity of potential intermediaries.

Regulations need to balance openness and safety for microinsurance. The current Draft Microinsurance Guidelines should be reviewed.

The National Health Insurance Scheme needs to review capitalisation to make it more attractive to rural operations.

Reporting requirements and transparency need to be improved in financial statements to ensure credible, complete information.

Provide space for takful operators.

International Microinsurance Conference Learning Session Nigeria 2013.
Microinsurance products on offer in Nigeria at the moment are: credit life, 70%; savings life and health insurance each, 10%; personal accident, 7.5%; and property insurance, 2.5%. Fewer than 6% of all registered insurers provide microinsurance.

How can the supply side be more engaged, to expand covers and broaden outreach? [See Figure 4.] A prime need in the low-income market is healthcare, which consumes about 5.8% of the GDP. The Nigerian Insurers Association (NIA) believes this government expenditure and support should be reduced so private insurers can assume a bigger share of the burden.

Creating similar links to other programmes and institutions already serving the low-income market would also enable insurers to help reduce financial exclusion, which the NIA estimates at 39.7%.

The industry’s ability to design and develop microinsurance products and systems is limited, and the NIA suggests more collaborative initiatives among regulators, development partners and insurance providers to build intensive capacity and expertise locally.

A major challenge for insurers is the high level of illiteracy in the target market and lack of public awareness of the benefits of insurance. The NIA believes there has been an improvement in customer trust and confidence over the past decade but “we have far to go”: “If we are good enough to collect premiums from the low-income market we must be good enough to pay their claims.” Also needed is “backward integration” or a buy-in on the part of an insurer’s governance structure; the board of directors representing shareholders must be engaged and convinced of the business case for microinsurance.

In the wake of the diagnostic study, NIA suggests that the regulatory framework, in addition to defining market entry conditions and opportunities, should encourage bundled products, integrate insurance education into financial literacy programmes, and prescribe microinsurance training for staff of insurers to enhance disclosure and quality service delivery. For other specific measures it has called for, see Figure 5.

NAICOM for its part is making sure the draft microinsurance guidelines are reviewed and revised to follow international standards, defining the microinsurer status, undertaking educational programmes, and setting up a consumer complaints bureau. NAICOM will compile microinsurance regulations and will publish a microinsurance workplan which has already been developed. To implement the diagnostic study’s recommendations, a steering committee is being formed that represents major stakeholders.

NAICOM has set for itself the objective to deepen the insurance market and increase the number of people who have access to insurance. One way we want to do this is through the promotion of microinsurance. Earlier, while proposing microinsurance involvement to the 59 insurers it regulates, NAICOM encountered a number of “excuses” for rejection, among them: it is long-term capital-intensive; it requires a large number of employees to go to rural areas; and the potential consumers are illiterate about insurance. It believes insurers need to be convinced that there is a business case for microinsurance and that entering the low-income segment of the market can be profitable. Companies can sell millions of policies to millions of people at low premiums.

At the moment, there are at least 112 million potential microinsurance customers in Nigeria – an immense potential for huge growth. The risk is predictable, and moral hazard and lapses can be contained by enforcing measures such as “no premium, no cover.” Insurers can reduce their cost using technology and good operational systems. Microinsurance also protects the loan portfolio of microfinance banks, helping their customers prevent bankruptcy and destitution. With insurance, low-income people are able to engage in profit-making activities knowing that their assets are protected, that their loans can be repaid if they die, and that there will be a payout if their crops fail or their microventures fail.

In NAICOM’s view, critical success factors for insurers are to:

- Understand what risk protection people have and what they really need, and then offer viable, simple and appropriate products, with innovations to meet their real needs
- Encourage claims
- Take a long-term view of the investment
- Keep costs low with IT and simplified processes
- Recruit a core group in the company (underwriter, claims manager, actuary) to get involved in microinsurance
- Create awareness
- Educate the market and earn its trust
- Maximising efficiencies
- Leveraging existing relationships, MFIs, coops and social organisations

Specific Measures

- NAICOM should consider exempting income from microinsurance products from taxes
- Consider exploring tax incentives for microinsurance
- Institutionalising risk-based capital requirements that are sensitive to microinsurance risks
- Creating clear guidelines that will allow the use of individuals and legal persons who can act as intermediaries in respect of microinsurance business
- Institute regulatory reporting system that will encourage competition as well as enhance market discipline through greater transparency
- NAICOM must sustain the present internal regulatory and supervisory capacity building in microinsurance

Figure 4: Source: Olorundare, Thomas. Presentation “Responses to the country diagnostic study: Next steps in market development from the insurance perspective.” International Microinsurance Conference Learning Session Nigeria 2013.

Figure 5: Source: Olorundare, Thomas. Presentation “Responses to the country diagnostic study: Next steps in market development from the insurance perspective.” International Microinsurance Conference Learning Session Nigeria 2013.
The session dealt with the role of the regulator when there is no up-and-running microinsurance market to speak of, components of the regulatory framework in a developing market and in a developed country, and plans in Nigeria to foster market development.

In the early stages, as microinsurance is introduced, the regulator essentially needs to create an enabling environment and then help develop the market by supporting innovation among providers and, for specific elements of regulation and supervision, following a proportionate approach adapted from the mainstream market.

Public-private collaboration

In 2008, the state of the insurance industry in the Philippines was similar to Nigeria’s now. Insurers were focused on well-to-do urban segments, and insurance awareness and literacy were low in the low-income rural sectors where a prospective customer was reluctant: “Why should I pay for insurance when I don’t get any benefits now?”

The Philippines formally began its microinsurance drive in 2009 by bringing all government policy and regulatory bodies together with the private sector in technical working groups for public consultations before drafting a framework.

Representing the private sector were not only insurance providers – commercial, co-ops and mutuals – but also intermediaries, MFIs and other major stakeholders.

The focus of the input was on what financial protection was really needed by people in low-income sectors. To expand outreach, options were considered for MFIs, NGOs and co-ops/mutuals to formalise their informal schemes. A draft framework went through another round of public consultations before it was finalised.

When guidelines and regulations were issued, training seminars and workshops were held nationwide. The main thrust was that the framework should go beyond just consumer protection and address market conduct, financial literacy and advocacy as well as product innovation and development so the markets can work for all stakeholders (see Figure 6).

Delegation of supervision

In Germany, all-in-one supervision for banks, insurers and securities is provided by the integrated Federal Financial Supervisory Authority (BaFin), set up in 2002. It supervises 1850 credit institutions, 700 financial service providers, 680 insurance undertakings, 30 pension funds, 80 asset management companies and 5,900 domestic investment funds. Probably from autumn 2014, the European Central Bank will supervise about 130 large banks in the Eurozone.

The insurance market generates premiums of 187.4 billion euros, with a density (premiums per capita) of 2,000 euros and penetration (premiums as a percentage of GDP) of 7%. The insurance sector under BaFin’s solvency supervision includes private insurers and pension funds.

One of the BaFin principles is separation of lines but, unlike many regulators, it does not approve products. The liberalised European law 1994 brought a change from product- and price-related supervision to financial supervision and an end to licensing of products. It has meant less regulatory influence in the market but, with fewer standardised and more new and combined products, greater competition. However, the concentration of financial supervision spotlights the role of investments and indirectly influences product design.

Proportionality is another basic principle BaFin follows. Requirements are based on the nature, scale and complexity of the business, making simplifications for simple risk profiles possible. For example, under Solvency II, for small and medium enterprises (SMEs), the function of actuaries can be carried out by existing staff with additional qualification.

BaFin can transfer and delegate supervision to a state regulator closer to the local scene. While 600 life and non-life insurers are supervised federally, states supervise 859 small insurance companies, pension funds and mutual associations. BaFin believes local players help create confidence and trust. Delegation locally is one of the ways a regulator can foster market development (see Figure 7).

No whereas, no heretofore

In line with the diagnostic study recommendation that Nigeria needs a dedicated microinsurance regulatory framework, NAICOM has put in place a comprehensive set of guidelines to ensure market viability and fairness. It deals with market conduct, product and policy features, provider and intermediary responsibility, and entry and exit conditions as well as consumer protection.

Simplicity is a primary concern. The policy may be just a page but must contain all the essential ingredients in easy-to-understand terms. No "whereas," no "heretofore," and no outlandish exclusions. The microinsurance client does not want to hear about “nuclear plants” and “radioactive contamination.”

Registration requirements for a microinsurer include a satisfactory five-year business plan. For a conventional insurer, a distinct microinsurance department headed by a qualified and experienced officer is a must.

At the top of the list of distribution channels is an esusu/ adashi group. It is a credit institution of rural Nigeria, called esusu in the south and adashi in the north, in which individual members of a group make specified contributions at regular intervals, and the total amount collected is then handed over to each member in rotation.
also recognise mobile payment systems and telecom service operators as distribution channels. An MFI can enter the insurance business with the Commission’s approval.

The paid-up share capital requirement is NGN 150 million (USD 937 thousand) for a life microinsurer and NGN 200 million (USD 1.25 million) for non-life. (For mainstream insurers, the prescribed amounts are NGN 2 billion for life and NGN 3 billion for non-life.) The microinsurer must maintain a statutory deposit of 10% of the required capital. Product bundling and adequate reinsurance are also included in prudential standards. The existing legislative context in Nigeria is restrictive and NAICOM is doing what it can for microinsurance within its provisions. Take, for example, the prudential standards for investment (see Figure 8).

A steering committee, comprising representatives of major stakeholders, is set to go plan implementation of the diagnostic study recommendations.

### Prudential Standards – Investments

A Micro-insurer transacting either General and/or Life business in Nigeria shall not invest

- more than 10% of the Policyholders’ Funds in real-properties
- more than 5% of the Policyholders’ Funds in Unquoted Equity
- more than 40% of the Policyholders’ Funds in quoted equity
- more than 5% of Policyholders’ Funds in Equipment Leasing
- Policyholders’ Funds in any Subsidiary
- more than 25% of the Shareholders’ Funds in Associates, Subsidiaries and related Companies
- more than 20% of the total Equity Investments in the security of one company
- more than 25% of the total current accounts balances and bank placements in any one bank
- in its parent company

Figure 8: Source: Onyeka, Sam. Presentation “Regulation of microinsurance business in Nigeria.” International Microinsurance Conference Learning Session Nigeria 2013.
Trust is a foundation for sustainable market growth, and this session looked at ways it was fostered in various microinsurance markets in Africa and overseas. Among financial institutions and consumers abroad, trust and Nigeria do not go hand in hand. Over the years, unscrupulous perpetrators of the Nigeria 419 scam have undermined trust. It is not unusual to find a warning posted in a US bank: “Do not send a wire to Nigeria.” The “scam” involves an e-mail promising a share of a windfall following an upfront money transfer; the “419” is the section of Nigeria’s Criminal Code outlawing the practice.

Within Nigeria, though, the scam is unlikely to have touched low-income people and to present such a pre-existing hurdle to trust. Still, microinsurers must overcome what may be an equally serious hurdle: the lack of trust in insurance spread by policyholders whose claims have been underpaid or denied outright by insurers over the years.

In the Philippines, where the government and private players got together to jumpstart microinsurance, there was recognition early on that insurance is a business of trust and that it is sold, not bought. The overall objective was an enabling environment where all the players know the rules as well as their roles. The essential ingredients were clarity, transparency, consistency, literacy and simplicity; together they foster trust and build bridges. The process began with defining microinsurance and identifying providers, and involved 11 additional steps in four stages (see Figure 9).

Since 2008, commercial providers offering microinsurance have increased from 2 to 35, mutual benefit associations from 6 to 19, products approved from 7 to 89, and individuals covered from about 3 million to over 12 million.

Underpinned by trust, the market growth can be attributed to four principles:

- Clear rules and regulations provide better understanding and transparency.
- Consistency of implementation results in predictability – branding can help.
- Financial literacy is educating, not marketing; advocacy is convincing, not selling.
- Localised and simple alternative redress mechanisms promote effective after-sales service.

The three dimensions

In Ghana, the country’s largest locally owned insurer, Star, has built trust in three ways that are important to the microinsurance customer. First and foremost, the product itself has to be worthy of trust based on its characteristics: simple, understandable, accessible, valuable and efficient. Star made sure its loan protection, family and healthcare covers reflected these characteristics.

The customer should also be able to trust the provider. In Star’s view nothing builds that dimension of trust better than the insurer’s ability to pay claims promptly. Within days of a fire that gutted the Kantamanto and Agbogbloshie markets in Accra, Star and its partners MicroEnsure and Advans Savings and Loans made good on the promise of insurance and delivered cheques to victims.

Trust in microinsurance is built through the provider’s partner too. Clients of the partner have a level of trust in that institution – which is transferred to the insurer if the partnership works well to meet the clients’ needs. Star’s family and healthcare covers are distributed through Ghana Post branches. In September the media reported a prompt claim payment by Star and Ghana Post to an accident victim hospitalised in Mampang.

In Nigeria, Mutual Benefits Assurance Plc, too, has used the three-dimension approach in trust building (see Figure 10). The MBA believes that insurance – “an intangible not in the category of fast-moving consumer goods” – bundled with other products and services such as savings and loans, acquires “a kind of physical nature” and becomes more acceptable. In the process, insurance leverages the trust consumers have already placed in the bundled services.

The MBA has demonstrated such leveraging through insurance-bundling partnerships with two organisations. One involves a group life product offered through the Road Transport Employers Association of Nigeria (RITEAN), an institution known and trusted for its social welfare initiatives; and the other provides life insurance with savings for members of Okpara Multipurpose Cooperative Society, a product gaining acceptance among other co-ops too.

Upward mobility

Mobile microinsurance is taking off globally, including a number of markets in Africa. The reason is simple: telecoms, reaching three out of four people with their distribution and transmission networks in most emerging markets, can readily expand the outreach of insurers whose conventional distribution channels have barely managed to cover five out of a hundred people.

At the forefront of reaching the mass market via the mobile phone over the past five years is MicroEnsure, which now provides insuran- ce products and services to more than a million lives in Ghana alone. It believes success in microinsurance, as in most ventures, comes not necessarily from working harder but from finding new ways of doing things. Mobile insurance is a different game and, in particular, requires a good understanding of how the low-income segment thinks (see Figure 11).

<table>
<thead>
<tr>
<th>What were done</th>
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<tbody>
<tr>
<td>- Microinsurance Defined</td>
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<tr>
<td>- Microinsurance Providers Identified</td>
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<tr>
<td>- Branding and Slogan Conceived</td>
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<tr>
<td>- Formalisation Process Clarified</td>
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<tr>
<td>- Microinsurance Agents/Brokers created (CBOs Included)</td>
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<tr>
<td>- Prototype Product Developed</td>
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<td>- Protocols Simplified</td>
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<tr>
<td>- Performance Standards Formulated</td>
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<td>- Reporting Standards Established</td>
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<tr>
<td>- MBA chart of Accounts Revised</td>
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<tr>
<td>- Training on Advocacy and Seminars</td>
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<tr>
<td>- Alternative Dispute Resolution Mechanism Established</td>
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The three dimensions

In Ghana, the country’s largest locally owned insurer, Star, has built trust in three ways that are important to the microinsurance customer.

First and foremost, the product itself has to be worthy of trust based on its characteristics: simple, understandable, accessible, valuable and efficient. Star made sure its loan protection, family and healthcare covers reflected these characteristics.

The customer should also be able to trust the provider. In Star’s view nothing builds that dimension of trust better than the insurer’s ability to pay claims promptly. Within days of a fire that gutted the Kantamanto and Agbogbloshie markets in Accra, Star and its partners MicroEnsure and Advans Savings and Loans made good on the promise of insurance and delivered cheques to victims.

The three dimension approach in trust building

- Building trust in the product
- Building trust in the organisation
- Leveraging on already existing

Figure 10 Source: Biyi, Ashiru-Mobola. Presentation “Building trust in microinsurance.” International Microinsurance Conference Learning Session Nigeria 2013.

Trust and the Target Market

<table>
<thead>
<tr>
<th>Mobile/Upper Income Clients</th>
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<tbody>
<tr>
<td>- Like clear policy wording, even if they are lengthy documents</td>
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<tr>
<td>- Read contracts, know what they are buying</td>
</tr>
<tr>
<td>- Take comfort from legal protections</td>
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<tr>
<td>- Know how to complain if necessary</td>
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<tr>
<td>- Do not value formal legal protections</td>
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<tr>
<td>- Do not trust a lengthy legal document: They just want to know how to get their money back</td>
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<table>
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<tr>
<th>Low-Income Clients</th>
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<tbody>
<tr>
<td>- Do not trust a lengthy legal document: They cannot be bothered</td>
</tr>
<tr>
<td>- Do not trust a lengthy legal document: They have not bothered to complain formally</td>
</tr>
<tr>
<td>- They are less likely to complain formally</td>
</tr>
</tbody>
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- The low-income market will rush toward a product that is simple, valuable, reliable, and accessible; they pay for a product that gives value for money.
- The low-income market will rush toward a product that is simple, valuable, reliable, and accessible.

Figure 11 Source: Gross, Peter. Presentation “Trust in mobile insurance.” International Microinsurance Conference Learning Session Nigeria 2013.
While conventional microinsurers may struggle to simplify policy down to one page, MicroEnsure has come up with a policy in Ghana that is acceptable to the Insurance Commission but has only 420 characters.

Telecoms and good microinsurers establish trust in similar ways: simplicity, value, and reliability. Trust is demonstrated through uptake and growth reflecting client satisfaction, which then must be reinforced with claims payment performance and recognition.

Problems with trust can prove fatal. Ecolife Zimbabwe, a partnership of Trustco and Econet, took off with a million subscribers in nine months but product features were complicated and the partnership value was not shared equally. Unable to come to terms, the partners went to court – only to see the venture fizzle out in six months.

A mobile microinsurer can build trust without agents but, in a trade-off, needs to leverage existing staff, educate the customer whenever in contact, mirror the partner’s marketing strategies, and pay many claims visibly.

**Trusted tips**

Don’t overpromise and underdeliver. Processes in the back office should also be simplified and efficient: as Steve Jobs said, “Simplicity is the ultimate sophistication.”

Design a product that would help the distributing partner sell its own product or service.

Pay a claim through the partner organisation, and do so even without checking when the need is urgent. Investigate and verify later.
TAKAFUL – POTENTIAL TO IMPROVE ACCESS TO RISK PROTECTION FOR UNDERSERVED PARTS OF THE POPULATION

DAY 2, SEPTEMBER 11th, 08:30 a.m. – 10:30 a.m.

The session covered the principles of Islamic insurance or takaful, its operational experience in Malaysia and Kenya, and its potential in Nigeria.

Takaful (pronounced with accent on the second syllable, takaful) is one of the faster growing segments of insurance, but relatively little is known about how it works. In an instant poll of the session participants on three questions, 46% thought takaful was non-profit, 76% believed it would increase insurance take-up in Nigeria, and 37% viewed it as complementary to regular insurance (while 27% considered it a competitor).

By the end of the session all would know that takaful is not non-profit, nor is it for Muslim policyholders only. Whether it would increase insurance penetration in Nigeria remains to be seen. As an open-minded inclusive approach, it could certainly coexist in the insurance sector, complementing other providers and competing with them when needed.

Mutuality in essence

Under Islamic law, an insurance contract, like any other contractual arrangement, has to be free from elements like riba (interest) and qimar or masir (gambling). Policyholders contribute a prescribed sum to a common pool in the spirit of “bearing one another’s burden” and helping those in need. When policyholders pay a premium, they help others, not just protect themselves.

Policyholder funds are separated from shareholder funds. Any underwriting surplus is shared and, when there is a loss, shareholders provide an interest-free loan. No one party benefits at the expense of another. But a takaful provider, like any business owner or manager, can make a profit from operations. In essence takaful is the cooperative or mutual form of regular insurance, though there are differences (see Figure 12).

Takaful started in the wake of Islamic banking in 1979 in the United Arab Emirates (Islamic Arab Insurance Co) and Sudan (Islamic Insurance Co.). Now there are 150 takaful providers in 40 countries, with 10 retakaful companies and 4 “Islamic windows” run by conventional reinsurers. Premiums (or contributions, to be precise) amount to USD 12 billion. The largest share of USD 5.68 billion comes from the GCC countries (members of the Gulf Cooperation Council: UAE, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait), and the second largest of USD 2 billion from Southeast Asia.

Takaful products are not exclusive to Muslims. Competitively priced and sold through the right channel, they could attract any consumer irrespective of faith – as in Sri Lanka and Malaysia.

Feasibility in the secular context

Malaysia’s population is 60% Muslim. It has a secular modern economy and common law system. The regulatory framework accommodates takaful as well as mainstream insurance. Malaysia was the first country to adopt specific legislation on takaful operations. The Takaful Act of 1984 formally accepted takaful as an insurance approach. Risk-based capital requirement guidelines were later introduced. A number of takaful regulations and requirements are the same as for conventional insurance, but some are different, particularly if the product is different.

A singular feature of the takaful regulatory framework is that it ensures not only an operator’s compliance with Islamic law but also the products’ feasibility in the secular context. That may be one reason why some takaful providers in Malaysia overall have more non-Muslim than Muslim clients. Yet, the takaful market is one-seventh of conventional insurance. Its contributions in 2012 totalled USD 1.9 billion, while conventional insurance premiums were USD 14.8 billion.

Minimum capital requirements are keeping some niche players from entering the market. Easing or removing them would facilitate faster growth of the takaful sector.

The sector’s biggest product is family takaful – a long-term contract with risk funds segregated by type of risk and model design. A key lesson operators have learnt is that it is vital to get the model and pricing right the first time.

Inclusion in practice

Efforts to launch a takaful operation in Kenya started in 2002, leading to a licence in 2011 – the East Africa region’s first. After two years of successful operation (claims at USD 2 million in 2011, premiums of USD 5 million in 2012), Takaful Insurance of Africa is now licensed and rolling out in Somalia, and positioned for Tanzania, Uganda, Djibouti and Ethiopia.

Only 5% of Kenya’s people are Muslim and 80% are in the low-income sector. Yet, Islamic banks and other financial services have grown fast over the past five years. Kenya Retakafu is set up as a subsidiary of Kenya Re. Both the takaful and retakaful companies were licensed under the existing regulatory framework, and all the Insurance Act guidelines apply to them equally. A distinct and more conducive set of regulations is hoped for under the current review of the legislation.

Takaful Insurance of Africa has distinguished itself by understanding the real needs of the clients and educating them, designing products for value and simplicity (a one-page policy, for example), and providing good service. “Remember, consumers pay for service. Therefore, serve.”
Takaful Insurance of Africa targets the whole population, not just Muslims, and 20% of its volume is from non-Muslims. It promotes financial inclusion rather than the religious angle. Yet, misconceptions about Islam in the society do pose a challenge ("How many limbs will I lose if I defraud your company?")

Transition to prudential standards

The large Muslim population in Nigeria (84.4 million) and a developing economy with low insurance penetration mean a huge potential for takaful. Takaful insurance is built on elements of solidarity, mutuality and profit-sharing, which appeal to not only Muslims but non-Muslims. For many Nigerians takaful may be an avenue for spiritual fulfillment as well as financial protection.

NAICOM’s approach to takaful has evolved from a reactive stage in 2007, when it approved some products in window operations, to the developmental phase in 2013, when it issued guidelines to facilitate the transition to stand-alone takaful companies with prudential standards.

In addition to conventional governance requirements, the guidelines impose some fiduciary duties for funds segregation, shariah compliance, and oversight by an advisory council residing with the regulator. Also required are a minimum deposit and risk-based capital, and a benevolent loan (qard hassan) as a mechanism to align the interests of operators and participants.

While NAICOM sees bright prospects for takaful in the market, it recognises a number of challenges to overcome as it continues to support takaful development (see Figure 13).

Challenges for Takaful in Nigeria

- Lack of Awareness
- Ineffective Distribution Channel/committed agency force
- Dearth of experienced Ulamas in Islamic Finance
- Competition/Sustainability – Changing the Mindset, Higher Premiums of upstarts, special risk, etc.
- Very few Fund Management and Investment options
- Technical expertise & Retakaful in-wis Capacity constraints
- Government business is largely interest-based
- The "Environmental Factor" – Distraill, Impunity, etc.
- Building the right takaful culture of honesty/innocency...

Figure 13 Source: Jankara, Ibrahim. Presentation “Regulation of takaful-insurance in Nigeria.” International Microinsurance Conference Learning Session Nigeria 2013.
This session presented best practices in deploying technology for microinsurance in Africa and their potential for Nigeria. An instant poll of the audience showed that 57% thought technology was the missing link in Nigeria.

Technology is a tool to explore the potential and possibilities of enhancing a product or service and delivering it more efficiently and cost-effectively, thereby achieving scale. Danny Hillis, an American inventor, scientist, engineer, entrepreneur, author and co-founder of Thinking Machines Corporation, is quoted as saying: “Technology is the name we give to things that don’t work yet. When it works we don’t call it technology anymore.”

Why some markets are growing faster

One thing that has worked well in Africa is mobile phone technology, simply called mobile. Over the past three years mobile insurance, for which the customer can register and enroll via the cell phone, has revolutionised access to the mass market (see Figure 14).

A key point to keep in mind is that mobile is not the solution; it’s the channel. Technology is not the product and not a panacea for microinsurance. The product is the product and technology could make a bad product even worse, exposing its weaknesses and exacerbating problems. Product features, brand, network and trust come first; technology is secondary.

MicroEnsure’s Tigo Freemium Insurance in Ghana, Tanzania and Senegal is driven by simplicity, value, access, efficiency and trust:

- No enrolment form or claim form
- No waiting period or medical examination
- No exclusions for HIV/AIDS, pre-existing conditions
- Easy, customer-centric claims process (2,500 claims paid)
- Loss ratios stable due to large volumes, low sums assured
- Clients see value for money through claims marketing

Reliability demonstrated to the Freemium client base of more than a million is then leveraged for Xtra Life in stage 2:

- Current subscribers can double their free insurance by paying GHS 1.30 (US$0.65) per month from airtime
- 400,000 have purchased paid products; uptake much higher after prior sensitisation through ‘free’ insurance
- First use of SMS and USSD for policy sales

How weather index insurance works

Conventional crop insurance has proved too costly to work in rural parts of developing countries – for farmers, insurers and even governments. Instead, weather-index insurance is showing promise in a number of countries. The payment to a farmer is not linked to a crop failure, but triggered by a weather index such as rainfall data.

Technology makes it work in four steps:

- An automatic weather station measures local conditions.
- The station transmits data to a server via GPS or SMS.
- The server has contract triggers set for low rainfall (drought) or high rainfall (flood).
- Once trigger thresholds are reached, payments are made automatically to the farmer.

In 2012, two weather-index insurance pilot projects were started in Mozambique, involving Hollard as one of the insurers and covering maize farmers in the district of Chimoio and cotton production in the districts of Lalaua and Monapo.

Mozambique is a poor country with few resources. Agriculture involves 81% of the population and accounts for 32% of the GDP.

Customers in the projects’ target market do not have addresses, so the locations are based on x, y and z axes in the GPS. Remote sensing technology monitors covered perils, as the index based on crop science determines when and where there is a loss and how much should be paid. It is critical to understand elements of the index: what temperature and amount of rain will do what to a particular crop.

A big challenge is the lack of historical data on exposure and crop yield to be used for product design and basis risk.

How to make the most of technology in health insurance

The first thing to remember in designing health microinsurance is that the goal is health, not health insurance. People don’t care about the product, but about their own lives. Instead of offering what product is available, offer what insurance can do as an enabler to help them get what they cannot afford.

Health microinsurance can involve five stages of care: health tips and sickness prevention information, telemedicine, including dial-a-nurse or dial-a-doctor; community health worker, plus mobile dispatch unit if needed; primary care clinic; and in-patient/outpatient care.

In MicroEnsure’s experience, a telemedicine service can handle 70% of the clients’ issues.
Technology plays a key role in the first two stages – health education and telemedicine – and can be put to use effectively in other stages of health care. Medicines often are the single most important component of impoverishing care costs. With mobile technology, airtime loans for medicines can be worked out.

Demand for health insurance is extremely high in the mass market. In a mobile offer, there is no need for conventional underwriting; statistical probabilities will do: so many of the so many million will get HIV/AIDS, etc.

How to use technology for microinsurance

Test operations and the chain of functions for scale, or find partners that can help achieve scale, in marketing, education, enrolment, premium collection, customer service, and claims payment. There are two key questions to ask: Can my business serve a million customers in each of these stages, and if not, who can? Can technology help the partnership do any of these functions faster and cheaper?

For seven applications of technology and four steps to maximise its value, see Figure 15.

How to leverage advantages of technology

In Ghana, Star Microinsurance Services has succeeded by concentrating on business processes that leverage advantages of technology.

To reach the mass market, it looks for the most appropriate products, distributors and the technical tools. A guiding principle is to develop low-profit-margin products and then support them cost-effectively by micromanaging the back office, streamlining premium collection and claims payment, and process-mapping to monitor and maintain efficiency.

While choosing a partner/distributor, Star looks for its infrastructural reach, operational ability and use of a good payment platform. An example is its partnership Abusua Nkyemfa with Ghana Post, which has a massive network of 350 offices and 300 agencies and a unique payment platform, the cash-post, which reaches across the country.

How technology can help at the heart of operations

LAPO (Lift Above Poverty Organization) in Nigeria helps the poor, especially women, raise their socio-economic status by learning income-generating skills such as sewing, food processing and soap making. In 2011, LAPO Microfinance Bank Ltd launched a microinsurance scheme for clients in collaboration with GoldLink Insurance Plc. It is mandatory for all microfinance clients. For a premium of 0.6% per loan amount, it provides life, fire (in the marketplace) and medical (hospitalisation only) insurance. About half a million women are benefitting from the scheme.

At the outset, LAPO counted on a good management information system (MIS) to collect and analyse baseline data, and use the findings for designing covers. The most help needed by target clients was for the cost of birth delivery, which impacts finances of low-income households particularly in case of surgical intervention. Cover for fire in the market was equally desirable among trader clients.

Using the MIS beyond data processing, LAPO has built awareness campaigns and claims management systems. Through SMS, it regularly educates clients and speeds up claims payment and grievance procedures. LAPO believes the MIS should be flexible and multi-purpose, allowing ongoing evaluation, product modification, even negotiation of pricing with the insurer, and monitoring of claims to cut costs. It discovered, for example, that fraud often involves a bad loans officer who knows the system, and that 57% of the deaths among clients were from maternal bleeding. Both findings led to remedial action.

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Facilitator:
Michael McCord
The Microinsurance Centre, USA

Speaker:
Dirk Reinhard
Munich Re Foundation, Germany

Caroline Phily
ILD Microinsurance Innovation Facility, Switzerland

Sabbir Patel
International Co-operative and Mutual Insurance Federation, UK

Thomas Olorundare
Nigerian Insurers Association, Nigeria

In the final session, each facilitator presented lessons learnt and activities suggested in his or her session, which were then discussed and modified by the plenary. The focus was on practical and concrete steps which would actually be taken in the months to come to drive market development in Nigeria.

Following are the facilitators’ reports on the five sessions [lessons learnt and activities planned], leading to a “Next steps – Summary” (Figure 16) which recaps things to do, incorporating any additional suggestions agreed upon in the plenary.

THE LANDSCAPE OF MICROINSURANCE IN NIGERIA

Lessons
- Nigeria is far behind the region in microinsurance.
- There are massive opportunities, BUT much work needs to be done.

Activities [Objective: surpass Ghana]
NIA
- In the next Council meeting, see how existing policies and approaches can be leveraged.
- Create a system to monitor development of new microinsurance products.
- Begin to implement peer reviews [these are aimed at up-scaling local and state activities to the federal level in order to institutionalise measures countrywide, and enabling peer-learning between the states to make the sector more conducive for the outreach of insurance services].

NAICOM
- Prepare a schedule for making microinsurance regulations available.
- Establish a standing consultation committee for that process.
- Develop and implement a capacity-building plan (with stakeholders and NIA).

HOW REGULATION CAN FOSTER MARKET DEVELOPMENT

Lessons
- More interaction and collaboration on microinsurance regulations is necessary.
- The regulator has an important market-development role.
- There is a need to design proper sequencing for implementation.

Activities
- Create a platform for expanded dialogue among a broader range of relevant stakeholders.
- Define a broad microinsurance strategy.
- Clearly define an implementation strategy.

CREATING TRUST IN MICROINSURANCE

Lessons
- Transparency and customer participation are key elements.
- Product value and an open process lead to institutional trust.
- Government has an important role to play in building trust.
- Insurance providers must honour their commitments.

Activities
- Education for all major stakeholders on what it means to offer microinsurance products – as part of a capacity-building strategy developed in conjunction with the Insurance College.
- Publish claims durations and other indicators.
- Once there are SUAVE products available, implement a microinsurance advocacy programme.

TAKAFUL – POTENTIAL TO IMPROVE ACCESS TO RISK PROTECTION FOR UNDERSERVED PARTS OF THE POPULATION

Lessons
- Takaful can be a profitable venture.
- Takaful is for Muslims and non-Muslims.
- An inclusive environment to enable a variety of insurance providers increases access for the underserved.
- The biggest challenge is education/awareness.

Activities
- Make sure that lessons learnt from other jurisdictions are considered in takaful development, identify case studies and other evaluations of approaches to takaful.
- Consider the wider infrastructure needed for takaful: investment, retakaful, and technical expertise; create and implement a takaful stakeholders group to identify gaps and develop recommendations.
- Ensure a clear message: takaful is for all, and is not a threat to commercial insurance; formally assess the current approach to takaful to identify it more as a specialised mutual.

HOW TO REDUCE COSTS AND REACH SCALE THROUGH EFFICIENT DISTRIBUTION AND TECHNOLOGY

Lessons
- Technology success =right product+right partnerships
- Technology CAN enhance value. Technology is only as good as the product.
- Don’t just focus on the glamour of technology, use it to improve efficiency.
- Make regulations flexible to suit the market.

Activities
- An inclusive environment to enable a variety of insurance providers increases access for the underserved.
- Establish a support programme for insurance companies to be able to effectively publish their performance e.g. claims ratio, claims rejection ratio.

Creating Trust in Microinsurance

- Develop a M.I. capacity development strategy which includes trainings for industry stakeholders e.g. Insurance companies, distribution channels.
- Develop a M.I. advocacy programme.
- Develop a support programme for insurance companies to be able to effectively publish their performance e.g. claims ratio, claims rejection ratio.

Takaful and improving access

- Guidelines and operations of Takaful should be reviewed to identify capacity development gaps for further development, Mobilizing Takaful experts to help industry better appreciate Takaful. Workshop with experts is planned soon.
- Distribution and technology – Reducing costs and reaching scale.
- Assessing distribution and back office.
- Establishing new partnerships e.g. Civil Societies, Telcos.
- Evaluation of internal processes – process mapping of business lines to identify ways of optimizing the process bottleneck.

Next Steps
Landscape of MI in Nigeria
- Design a schedule to Establish MI regulation.
- Establish a standing consultation committee for that process.
- Commence consultation with council to see how to leverage existing policies.
- Institute peer review mechanism.
- Establish a committee to monitor and mentor the development of MI products.
- Develop a plan towards developing and implementing capacity building measures (holistic approach – all stakeholders on board). This includes to introduce certificate course on MI and Takaful.

Regulation and Market development
- Create a broader platform for stakeholders dialogue e.g. NIA, NAICOM, Central Bank (CBN), the Federal Agriculture ministry, and the Brokers association; Technical working groups will be established to look into the specific issues of MI.
- Stakeholders consultation on draft MI guidelines.
- Define a broad MI strategy and an implementation roadmap.

Figure 16: Source: Mark Achaw, “Next steps – summary”, International Microinsurance Conference Learning Session Nigeria 2013.
**Analysis**

**Recommendations**

### Policy level

- More cohesive policymaking is needed to remove unlevel playing field across insurance products and providers (e.g., different standards for cooperative insurance and insurance provided by NAICOM-regulated entities).
- Create a microinsurance steering committee with participation of relevant private and public sector stakeholders.
- Create and implement a cogent policy and respective action plan for microinsurance, recognizing the need to reform industry practices as top priority.
- Increase coordination and information sharing with other authorities (e.g., cooperative supervisors, Ministry of Agriculture) in implementing a more favourable regulatory and supervisory framework.
- The relevant authorities should continue efforts to increase capacity in the cooperative sector, including NCIS, so that qualified players can be both underwriters and intermediaries of microinsurance.
- Potential synergies between the social welfare programs and microinsurance development could be explored.
- Initiate talks with government officials in charge of social welfare programs and the industry to explore potential to link microinsurance to these programs.
- The subsidy policy in agricultural insurance may be limiting innovation and competition.
- Conduct impact evaluation of the subsidy policy and set strategy for development of agricultural insurance.
- Increase transparency on NAIC’s policies, procedures and performance, with regard to the subsidies.
- Incentives for microinsurance could be considered.
- NAICOM could consider lifting fees and levies for microinsurance.
- NAICOM and the government should keep an eye on next generation issues such as taxation of microinsurance.

### Demand and supply sides

- There is public distrust in insurance providers and products.
- There is little confidence that claims will be paid and good customer service will be delivered.
- Instead of investing heavily in consumer education, providers should invest first in offering better value to customers.
- There is lack of awareness, knowledge, interest and expertise in microinsurance, by insurance companies.
- There is very limited innovation and continuous reliance on large corporate and compulsory accounts.
- Emphasis should be made to go beyond large corporate accounts and mandatory coverage.
- Insurers should invest in building microinsurance expertise, including at the top management level.
- Potential new regulated underwriters should aim to reach similar levels of capacity and expertise.
- Insurers should invest in IT systems, consumer-oriented products and distribution, and premium payment channels that are cheap, efficient and reach the uninsured population. Sales skills should also be improved.
- Further market research to support better commercial strategies for microinsurance should be conducted.
- Companies are expected to start with simpler products and gradually expand to more complex products.
- The current insurance and microinsurance offer is largely limited to urban areas.
- The broker-agent model may not be adequate for microinsurance.
- The industry should invest in a variety of intermediaries that reach the microinsurance client.
- Microinsurance providers and other stakeholders should make efforts to increase capacity of potential intermediaries including MFIs, banks, cooperatives, NIPF, NACCRDB.
- Providers should use the emerging mobile payment platforms as a distribution channel for very simple products, and as a premium collection and claims payment channel in general. Similar arrangements could be sought with NIPF.

### APPENDIX

**DIAGNOSTIC STUDY NIGERIA: SUMMARY OF RECOMMENDATIONS**
### Analysis Recommendations

#### Regulatory framework

- **There is resistance to NAIC's voluntary products by farmers.**
  - NAIC needs to engage more closely with farmers and provide higher quality services and products.

- **There is plenty of room to improve performance and capacity of cooperative insurance.**
  - NCIS should improve its current line of businesses before entering additional markets.
  - Nigerian authorities should collaborate to improve the cooperative sector.

- **There is no regime currently for voluntary products by farmers.**
  - The regulation limits institutional performance and capacity of cooperative insurance.

- **The regulation needs to balance prudential and product regulation to limit prudential arbitrage, and set parameters to delineate the microinsurance business.**
  - NAICOM should examine the current prudential and operational standards in detail and set specialized requirements for microinsurance, including reinsurance, provisioning, investments, account diversification, etc. Ideally, this review would be accompanied by the gradual implementation of a risk-based regime, including for capital adequacy.

- **The regulation needs to clearly delineate between entities that will act as intermediaries and entities that are licensed as underwriters to ensure regulatory arbitrage is minimized.**
  - NAICOM should coordinate with the authorities in charge of potential microinsurance underwriters [and intermediaries] to provide clear guidance to them, and consider issuing joint public statements in the matter.

- **There is no clarity for a variety of legal persons to act as microinsurance intermediaries.**
  - The market believes that CBN regulated entities are not allowed to receive fees for acting as insurance intermediaries.

- **There is no microinsurance product regulation.**
  - Composite microinsurance products are not explicitly allowed.

- **There is a very strong belief in the market that composite licenses are no longer issued by NAICOM.**
  - NAICOM should clarify, publicly, whether new composite licenses can be issued or not.

- **There is no microinsurance product regulation.**
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- **The existing standards for market conduct and consumer protection are not sufficient.**
  - Set minimum standards for claims processing that work for microinsurance clients.
  - Introduce flexibility with regards to microinsurance agent commissions.
  - Avoid setting maximum commission in the regulation.
  - Implement minimum requirements for price and information disclosure, advertisement and marketing, and complaints handling by insurance companies.

- **Co-branded products with mobile network operators are made difficult by CBN regulation.**
  - CBN should review its policy at least in the context of microinsurance.

- **There is no microinsurance product regulation.**
  - Composite microinsurance products are not explicitly allowed.

- **The national capitation rate for health insurance may render rural health insurance unattractive.**
  - NHIS should review the flat national capitation rate and set more flexible rates for microinsurance depending on the location of the service.

#### Supervisory framework

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  - NAICOM should review the Microinsurance Draft Guidelines.

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