Micro-insurance: The untapped prospects

By Evans BOAH-MENSAH

THE idea of taking insurance to the grassroots has been bandied around in Ghana for decades, yet insurers keep tinkering with the initiative despite the many opportunities that abound in the micro-insurance sector of the economy.

Over the years the insurance sector regulator, National Insurance Commission (NIC), with support from the German government through its development cooperation arm Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) in a bid to protect the vulnerable and help deepen insurance uptake in the country, have been pushing to get insurance companies to strengthen their micro-insurance business -- which is through the provision of insurance policy cover for low-income people and traders against specific perils in return for regular payment of premiums proportionate to the likelihood and cost of the risks involved.

Evidence however suggests that tapping into the prospects of an unconventional market is a challenge that many insurers are yet to overcome, despite getting the necessary legal backing under what is called "market conduct rules" to make micro-insurance boom.

Currently, only 13 insurance companies out of the 43 licenced insurance firms have ventured into the micro-insurance arena by providing products for people. This is a marginal increase over the 11 companies that operated micro-insurance products in 2012.

Interestingly, 11 of the current insurance companies that provide micro-insurance policy cover are life insurance businesses -- with only one general insurance company that has a product for the micro sector, while the other is a full micro-insurance company providing both life and general policy cover to serve a niche market.

Meanwhile, the structure of the Ghanaian economy is a perfect fit for micro-insurance uptake as more than two-thirds of economic activities are controlled by people and enterprises in the informal sector, who have no protection whatsoever in the event of an unforeseen mishap.

Insurance companies that have entered the micro-insurance sector are already seeing the huge business potential of the sector, with year on year increases in policyholders and premium income.

In fact, between 2012 and 2014 policyholders increased by 127 percent from 710,695 in 2012 to 1,614,688 in 2013. In 2014, it increased by 17 percent to 1,890,708. Premiums on the other hand increased by 48 percent from GH¢2.2million in 2012 to GH¢3.2million in 2013, but decreased to GH¢2.9million in 2014 -- largely on the back of difficulties in the economy.

It is therefore not out of place for one to think that in spite of the many licenced insurers in the country, not many are 'daring' enough to cover the risks that come with businesses and individuals which operate in areas many insurers would shy away from; mainly the informal sector. Meanwhile, those already into micro-insurance have recognised that the bottom of the pyramid constitutes a significant business opportunity that can be developed in the search for alternative market segments.

Micro-insurance is thus seen as the best bet for insurers to provide a shield for low-income earners, and to also increase insurance penetration in a country where insurance uptake is under two percent in a market of more than 26 million people.

Indeed, in Africa outside of South Africa, only about seven countries have insurance penetration above 2%.

The NIC therefore believes that micro-insurance holds the key to future growth of the insurance industry, having proven in some African countries to be one of the best models for insurance penetration in developing markets. Through micro-insurance, insurers in South Africa, Namibia, Kenya and Uganda have succeeded in extending their services to small-scale businesses in commerce as well as in agriculture.

The general consensus is that if insurers in Ghana stepped out of their comfort zone and dared to cover risks associated with doing business in non-traditional sectors, it could mark the beginning of massive insurance penetration in the country.

Some insurance companies in Ghana are beginning to heed the call to do more micro-insurance business with a funeral insurance policy at the heart of the promotion, while others are partnering with telecom companies to provide mass market access to their products through mobile micro-insurance.

These developments are encouraging to the growth of insurance in Ghana, but until deliberate efforts are made to confront the challenges that have been identified as impediments to micro-insurance development and uptake, micro-insurance will still be very low in the country.

First of all, awareness levels on insurance for the informal and agric sector and access issues are still low and need to be ramped up to make low-income earners conscious of the existence of products they can buy to protect themselves and their families against uncertainties. It is when high awareness creates a pull that insurers can give better value for money.

Currently, insurance in Ghana -- especially at the micro level -- is considered a push product as people, despite the threats to their lives and businesses, are not coming up and demanding insurance products.

So, as has been noted in a research study by NIC and GIZ, the awareness-creation and access issues must be addressed alongside the need to actively promote education on insurance for low-income clients to improve current knowledge level.

Therefore, insurance companies must train their sales teams and agents adequately to be able to educate the uninformed, discuss with the informed, and give options to the well-informed. Also, the terms and conditions of a product need to be explained well enough to the potential customer before a deal is signed off.

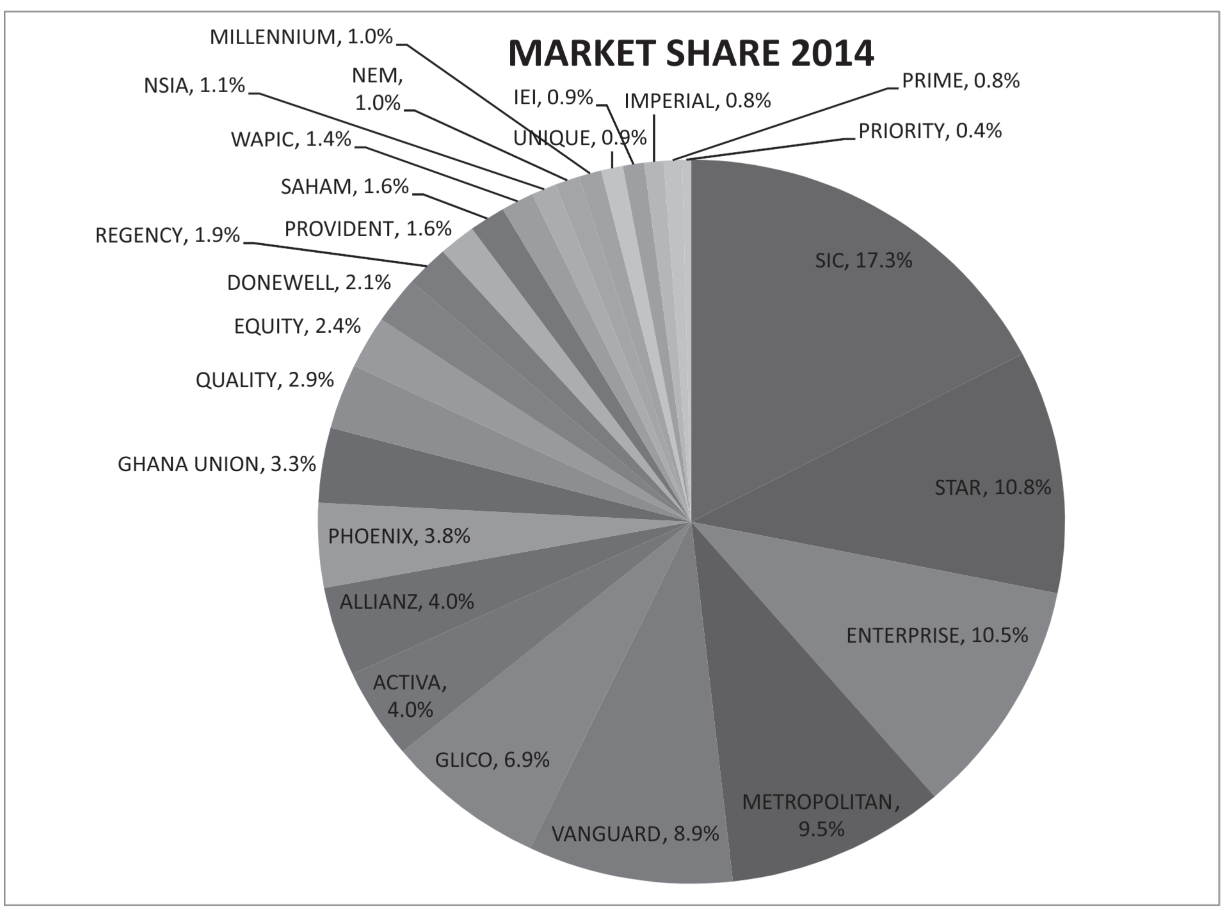
So far, there is a lot of mis-selling of insurance products in the country -- often creating friction between the insurer and the insured, which eventually creates public mistrust for insurance companies. The research study published by NIC and GIZ this year indicates that less than half of people who bought insurance in Ghana are satisfied with their products, which is not a good thing for insurers hoping for improved referral businesses.

As the findings showed, the common issues faced by micro-insurance consumers included refusal of insurance companies to disclose account balance; delays in withdrawals and paying claims; refusal of insurance companies to receive premiums in installments; and disagreements about amounts paid in claims.

These show there is need for the regulator to ensure that insurers institute an appropriate mechanism for complaint resolution to meet the unique needs of the market's low-income segment.

More importantly, the regulator must enforce sanctions when market conduct rules are not complied with. This is especially needed to sanitise the industry and instil public trust and confidence into a sector that has suffered public mistrust for so long.

As of now, the micro-insurance sector holds a key to repairing the image of the insurance industry, which has been battered over the years primarily because of trust issues; and the regulator and other stakeholders need to do more in ensuring that insurance companies use micro-insurance to make a material impact in Ghana, and not play with it as they have done in the past.



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