

# Making insurance markets work for the poor: microinsurance policy, regulation and supervision **Uganda case study**

Presentation at FSI conference

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# 1. Uganda context

Country characteristic	Data	Source
Small adult population, large economically inactive population	13m adults, 29m total population	FinScope Uganda, 2006
Predominantly rural country (topographical challenges)	75% rural	FinScope Uganda, 2006
Low and fluctuating incomes	96% earned less than US\$2 per day (2002), 40% of total population live below poverty line (2007)	World Development Indicators, 2007; World Bank, 2002
Agriculture an important source of income - seasonal and uncertain income flows	82% of workforce employed in agriculture; agriculture contributes 32% to GDP	CIA World Factbook, 2007
<b>Tiering of financial services:</b> <b>Tier 1 - Banks;</b> <b>Tier 2 - Credit institutions;</b> <b>Tier 3: Microfinance deposit-taking institutions;</b> <b>Tier 4: Cooperatives, MFIs</b>	Tier 1 - 15 banks - 132 branches at end of 2004; Tier 2 - 2 institutions; Tier 3 - 4 MDIs; Tier 4 - about 800	CGAP, 2005
Significant health risk	44% of Ugandan population experienced at least one episode of malaria (2003); 7% of Ugandan population between 15 and 49 living with HIV/AIDS (2006)	Global Health Facts, 2003; Human Development Indicators, 2007/08

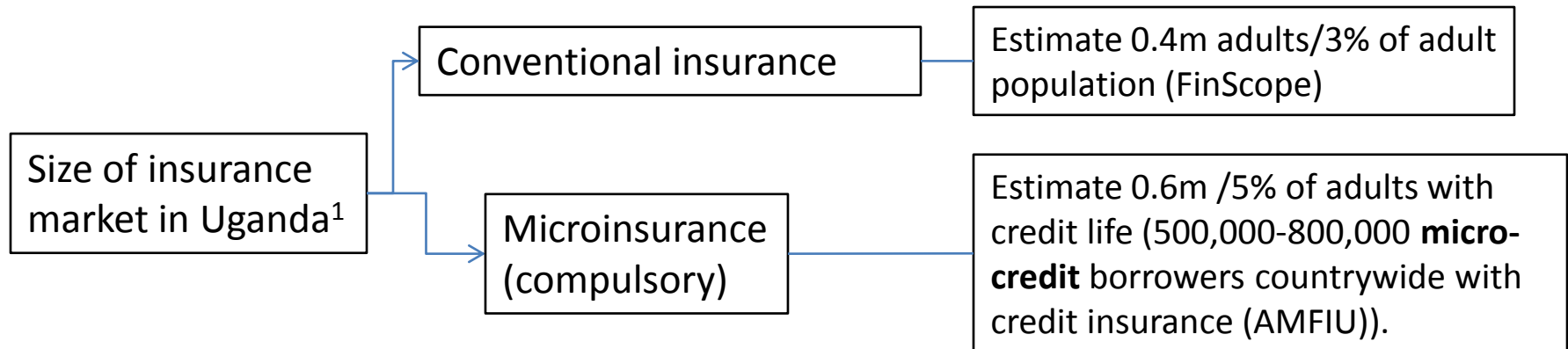
# 1. Uganda context

- Limited financial sector outreach (FinScope, 2006):
  - Formal and semi-formal financial services: 21%
  - Informal 17%
  - Unserved 62%
- Limited infrastructure (physical and electronic), aggregators and distribution networks
  - Limited bank branches mostly in urban areas
  - Limited payment system (cheque/cash-based system)
  - Existing networks (e.g. banks, credit institutions and MFIs) underutilised partly due to regulatory restrictions
  - No other easily accessible network or client aggregators
  - Fuel stations used for compulsory 3<sup>rd</sup> party but not allowed to distribute others
- Strong and increasing foreign presence: 12/20 insurers

## 2. Microinsurance market

### Key features:

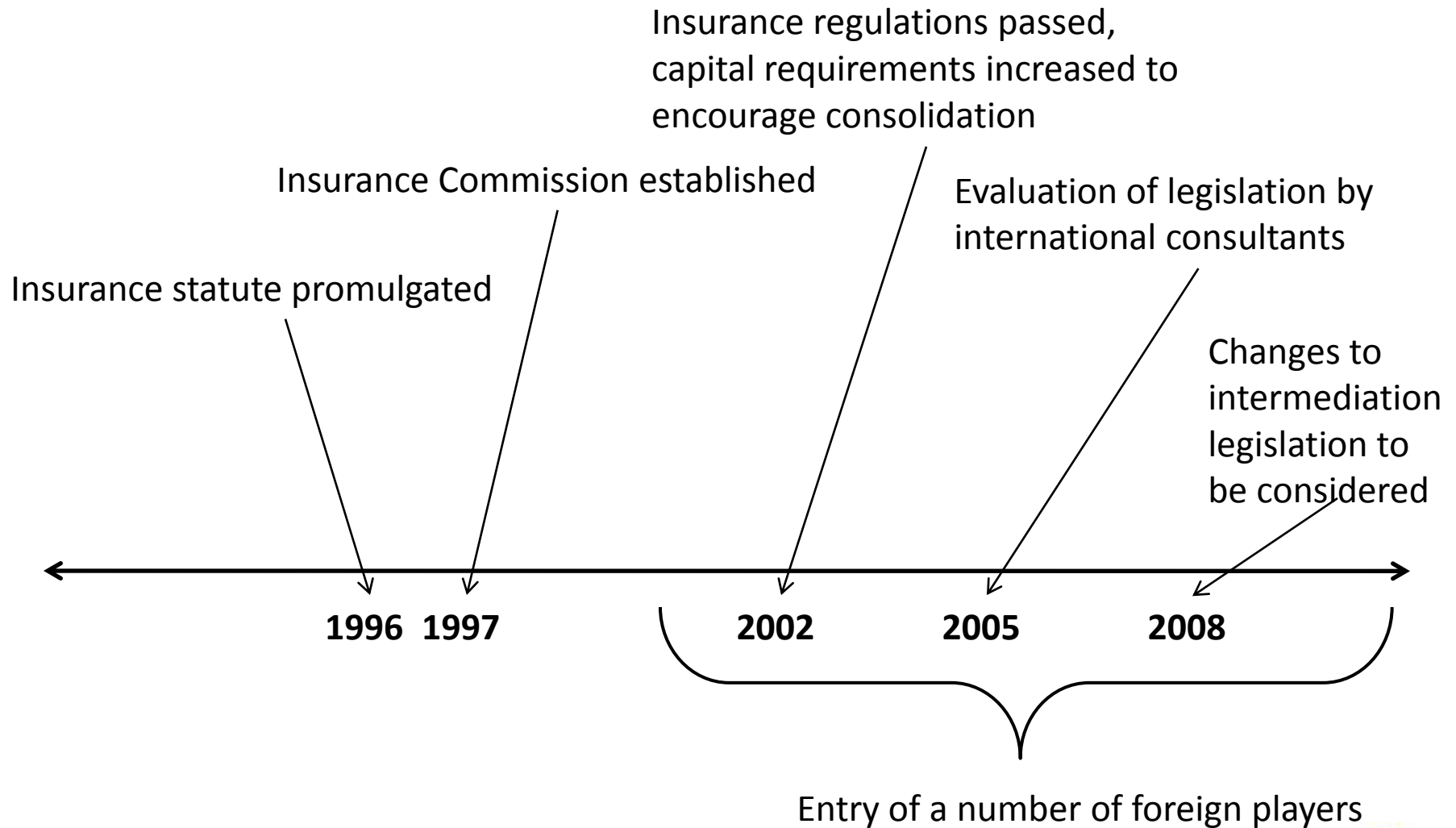
- Low overall insurance penetration (0.6% of GDP)
- **Non-life** dominates (96% of premiums, 15/20 insurers have non-life licenses)
- Largest category is **personal accident (credit-based)** (41% of premiums)
- Relatively small insurers with high administration costs
- **Low claims ratios** (35% non-life vs 60% for peer countries)
- Estimate **600k** (5% of population) microinsurance clients (**larger** than non-MI)
- Mostly **formal** (negligible informal picked up in data)
- Low consumer **awareness**



1. Excludes indemnity health insurance

# 3. Impact of policy, regulation and supervision

## Recent regulation



# 3. Impact of policy, regulation and supervision

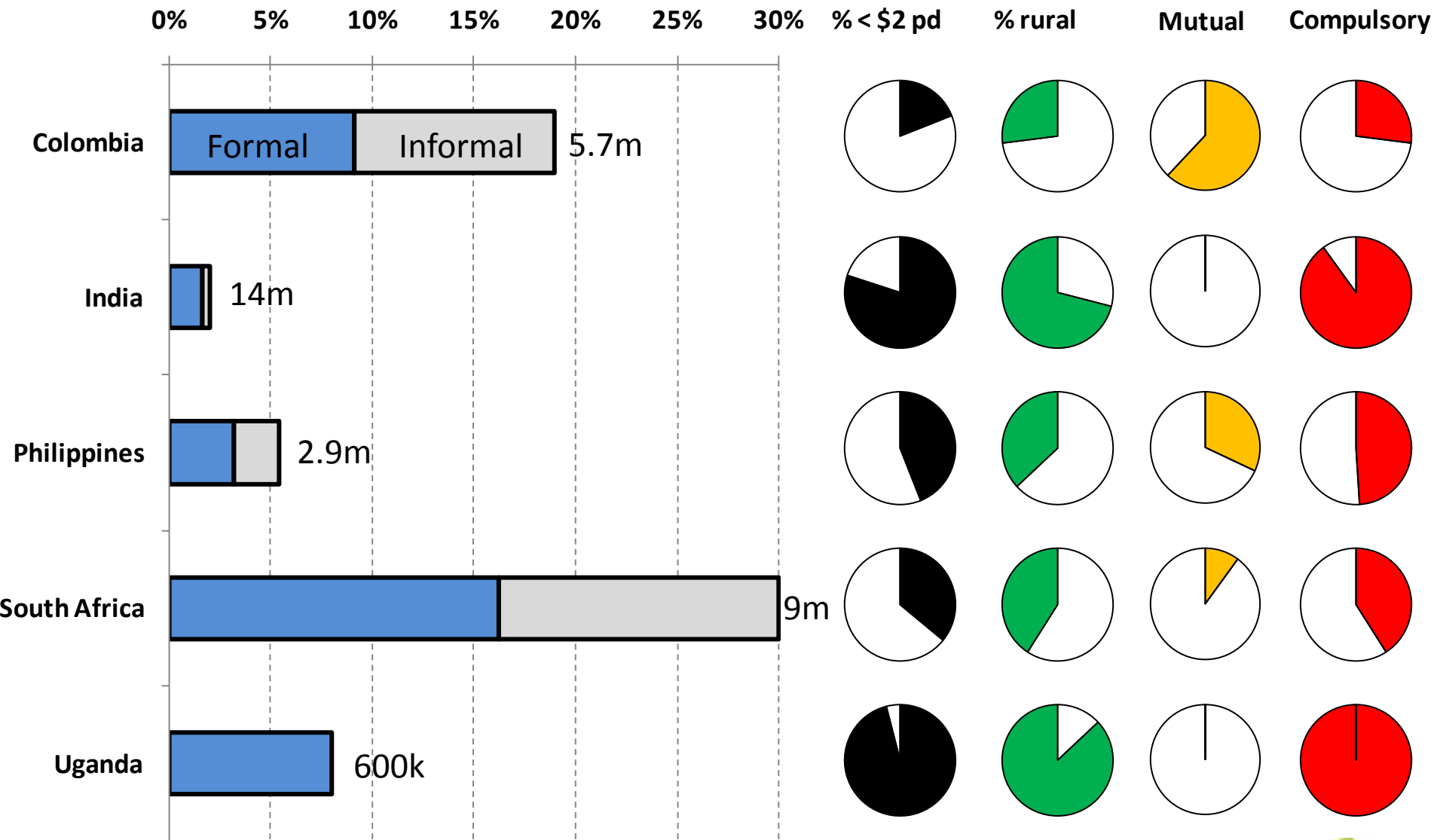
- Financial **inclusion policy limited to credit**, indirect impact on credit life
- **Cooperative** insurers allowed by legislation but none currently
- **Mutual** insurers allowed in theory but members limited to 300, which renders non-viable
- **Distribution limited to brokers and agents:**
  - Banks, credit providers and deposit-taking MFIs (tier 1, 2 and 3) may not receive **commission** on insurance sales; and
  - may only intermediate where **insurable interest** (credit/credit life insurance).
- Price controls: **Commission capping** and **minimum premiums**
- **Limited market conduct** regulation
- **Demarcation:** Uncertainties regarding health and credit life discourages legitimate players

# 3. Key findings

- Severe economic and infrastructure constraints
- **Skills shortages** present constraint
- Very **low** insurance **awareness** and informal activity
- **New regulatory system:** Introduction greatly benefited market development
- **Increased entry and competition** is pushing market extension
- Some **uncertainties** remain creating distortions and avoidance
- **Restrictions on intermediation** undermine key distribution networks
- Insurance value proposition still limited by **high admin ratios**, **low claims ratios**
- **Market data** (FinScope) supports increased activity

Thank you!

# Summary of salient features<sup>1</sup>



1. Excludes indemnity health insurance

