

In Focus: Actuarial Capacity Building

Promoting Insurance in Ghana - PromIGH

Subject

Access to insurance services in Ghana is very limited, especially amongst the low-income population. The national (micro-) insurance sector is, however, on its way to reaching scale. Insurers and intermediaries are currently expanding their services to the low-income population and coverage ratios are rising. To promote further sustainable growth of the sector, proper design and pricing of insurance products are crucial.

Only well-designed and appropriately priced products lead to consumer satisfaction by offering value to the insured and guarantee long-term profitability on the supplier side. This is where actuaries come into play.

Actuaries deal with the financial impact of risk and uncertainty. They advise and assist on topics such as pricing investments and risk, product development, financial management of operations-investment strategies, risk management, planning and analysing performance, reporting to others including regulators on aspects of financial performance, prospects and condition of entities. The inability of insurers to quantify and assess risk may lead to a tendency of setting higher or lower premiums than would be mathematically correct. In the case of too high premiums, potential clients will likely be discouraged from taking out insurance; in the case of too low premiums, insurance companies may not have enough funds to pay claims when they arise.

Actuarial functions at insurance companies are also a prerequisite for an insurance sector's compliance with international regulatory standards issued by the International Association of Insurance Supervisors (IAIS). Among these standards is the adoption of risk-based supervision (RBS)¹ by national insurance

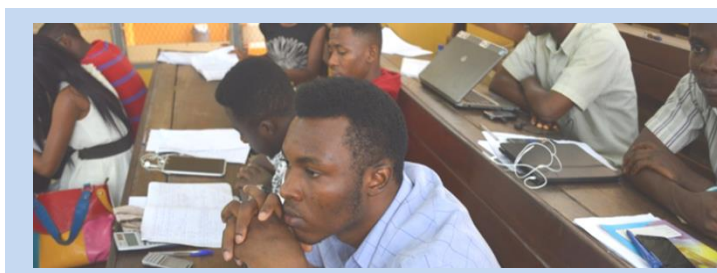
¹ Under risk-based supervision (RBS), the supervisory authority identifies and assesses various categories of risk faced and posed by individual insurers and their ability to manage those risks. Based on the assessment, supervisory efforts are allocated and capital requirements for insurers are set accordingly.

supervisory authorities, which in turn requires insurers to implement risk-based management carried out inter alia by actuaries.

Project name	Promoting Insurance in Ghana (PromIGH)
Programme name	Programme for Sustainable Economic Development (PSED)
Project region	Ghana
Name of component activity	Actuarial Capacity Building
Duration	2009 – 2019; current commission: April 2016 – March 2019
Cooperation	National Insurance Commission (NIC)
Local partner	National Insurance Commission (NIC), Actuarial Society of Ghana (ASG), Ghana Insurers Association (GIA), Ghana Insurance College (GIC), academic community
Target group	Direct: insurance sector Indirect: policyholders (among them low-income households)
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Challenges

A new legal and regulatory framework proposed by the National Insurance Commission (NIC) shall propel Ghana's insurance



The availability of competent actuaries is crucial to ensure appropriate pricing of (micro-)insurance products. Given the limited number of fully qualified actuaries in Ghana, the project aims at increasing the number of actuaries with the requisite skills, training and local knowledge.

industry close to international standards. Building actuarial capacity in Ghana is therefore necessary for future compliance of insurance companies with national regulation. The following shortcomings are currently hindering the building of actuarial capacity:

- Ghana's academic qualification standards for actuarial students do not yet been adjudged internationally. Actuarial science students graduating from Ghanaian Universities are only able to claim exemptions in a few subjects from International Actuarial Associations.
- Currently there are very few, fully-qualified actuaries within Ghana.
- Despite their value to insurance companies, the formation of actuarial departments or in-house actuarial functions is currently often not a priority for directors and management of insurance companies.
- Owing to this lack of actuarial capacity, insurance companies seek the temporary services of more expensive foreign actuaries (mainly from the UK, USA and South Africa).
- When the new regulatory framework becomes effective, in-house actuarial functions will, however, be mandatory as from 2017. Hence, insurance companies have to start investing now in order to being able to comply with future regulation.

Solution

In 2012, an Actuarial Capacity Development Committee (ACDC) was formed to develop an actuarial capacity development strategy. The committee consists of representatives from the NIC, the Actuarial Society of Ghana (ASG), the Ghana Insurers Association (GIA), the Ghana Insurance College (GIC) and the academic community. The Actuarial Capacity Development Strategy aims at defining the actuarial function and enabling insurers to comply with said regulation. To achieve its objective, the following activities have been or are being conducted:

- Determine minimum standards for actuarial educational programmes among universities in Ghana in alignment with guidelines issued by the International Actuarial Association (IAA).

- Introduction of a Certified Actuarial Analyst (CAA) Programme and tutorial sessions for CAA-exam preparation at the Ghana Insurance College in cooperation with the UK's actuarial society.
- Introduction of actuarial tutorial courses for the preparation on examinations of the Society of Actuaries in the USA (SOA) in partnership with the Actuarial Society of Ghana (ASG) and the Actuaries Without Boundaries (AWB) of the International Actuarial Association (IAA).
- To encourage establishment and investment in building actuarial capacity by the industry, sensitization workshops among insurance companies on the actuarial function were organized.

Lessons learnt

- Prior to any capacity building efforts, an Actuarial Landscape Study assessing the status quo of actuarial capacity in the country and a capacity gap analysis should be conducted to identify current shortcomings.
- Building up a network encompassing the relevant stakeholders (e.g. championing insurers and actuaries, the country's actuarial association, the regulator, academic institutions and colleges, leading actuaries, etc.) helps to develop capacities and a joint vision.
- Getting the regulator on board as early as possible is important to ensure that intended efforts are oriented towards enabling insurers to comply with the requirements laid down in future regulation. Since immediate compliance by all insurers might not be possible once the new regulation becomes effective, close cooperation with the regulator is crucial for defining transitional arrangements.
- Involving the industry is necessary since investment by insurance companies is required in order to build up actuarial capacities and the actuarial function within insurance companies. Insurance companies thus need to be convinced of the benefits of building actuarial capacity (e.g. via sensitization workshops).
- Cooperating with international actuarial societies offers access to expertise and resources for the formulation of the capacity development strategy and the provision of training.

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