G:ENESIS

Making insurance markets work for the poor in Botswana, Lesotho, Namibia and Swaziland – scoping study

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FOREWORD

This document presents the findings of a scoping study on access to insurance services by the poor in Botswana, Lesotho, Namibia and Swaziland that was done over a three month period at the end of 2003. The study was commissioned by the FinMark Trust as a follow-up to earlier more general studies on Access to Financial Services in Botswana, Lesotho, Namibia and Swaziland and will form the basis for developing their strategies to improve access in the insurance sector.

As a scoping study, the objective and time allocated to the study was limited to provide an overview of the current situation in these markets from publicly available sources of information. It was not intended to provide an in-depth analysis of the economy or insurance sector, but rather to outline the current market structure and to document the dynamics and current initiatives. Although the report seeks to provide an objective and thorough assessment of the situation in each of the countries studied, it does not pretend to be 'the authoritative source' on the insurance sectors of the various countries. It should rather be seen as a tool providing the framework for discussion around these issues.

In the process of compiling this report many people involved in the insurance industries of the various countries have given freely of their time and expertise. We would like to express our sincere gratitude to all who contributed to this study and our understanding of the various issues. We hope that this report will contribute to their endeavours by providing information, facilitating discussion and encouraging people to consider the issues of access to insurance to financial services by the lower-income households.

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INTRODUCTION AND RISK FRAMEWORK

1. INTRODUCTION

Internationally, there is an increasing recognition of the role of insurance in fostering and securing economic development. The experience in the South African Customs Union is no exception to this and insurers are experiencing increasing pressure by governments to serve the lower-income market. Of course, these households have always been faced with risks and have dealt with these in various ways. Risk is, therefore, not a new concept; access to formal insurance in many cases is.

The fact that households are faced with various risks, most of which are not covered by formal insurance, compels the consideration of the broader risk framework when evaluating any notion of access to insurance services. It also raises the question of whether access to formal insurance is the appropriate question to consider or whether access to risk mitigation services of all kinds are of concern. It is, furthermore, important to note that risk mitigation extends beyond insurance (formal and informal) and includes other mitigation options such as savings. Insurance is often not the appropriate option to mitigate risks faced by lower-income households as the risks are often simply predictable life events for which the household did not or could not prepare. Hence, not all risks faced by lower-income households conform to what is considered to be insurable.

Consequently, this study commences by reviewing broader risk mitigation context within which lower-income households exist. With this as context, it continues to outline the various providers of risk mitigation services, including government and informal provision for Botswana, Namibia, Lesotho and Swaziland.

2. THE RISK MITIGATION FRAMEWORK

To do justice to a study on “making insurance markets work for the poor”, it is essential to consider the structure, risks and risk mitigation options of poor households. The role of insurance products for low-income households only becomes apparent when analysed against the backdrop of other ways that such households have to reduce risk or to deal with loss. A lack of formal insurance does not necessarily imply a lack of cover for a particular risk. This is important to keep in mind when evaluating “appropriate” levels of access to formal insurance. To put it bluntly: poor households must be able to reduce and manage their risks. It is less evident that they need insurance per se. Hence, the use of a risk mitigation framework as a basis for this study.

Such a risk mitigation framework allows the consideration of all risks that poor households face and the options available, both insurance and other, for mitigating those risks. The approach taken is, therefore, based on needs, rather than formal insurance products available.

This chapter is also an opportunity to clarify terms. Consider the term *household.* The household itself is a way of pooling risks within a family or kinship group. But people who live under one roof do not necessarily support one another when adverse events occur and an extended family in which risks are shared may not live in the same home or even town. Therefore we use the more precise notion of a *risk household* – by which we mean a group of people that share responsibility for dealing with the fall-out of an adverse event.

When a risk household has little income, its ability to deal with an adverse event is limited and therefore the impact of the event on the lives of people is magnified. It is this *vulnerability* of poor households in the face of risk that gives urgency to the issues discussed in this report.

However, even the poorest household has, before the event, *risk mitigation strategies* and, after the event, *coping* strategies. Insurance is potentially a risk mitigation strategy – and particularly for those risks that are *insurable*. With this as basis the following sections will take a closer look at the various *risk categories.* The terms italicised in this introduction are discussed in further detail below.

As an antidote to all this theoretical apparatus the chapter concludes with a report on an actual adverse event, a fire on 6 October 2003 that destroyed 96 shacks in a settlement to the south of Johannesburg in South Africa. On that spring day notions of risk, vulnerability and coping became terrifyingly real for the people involved.

Box 1: Sarah's story

Sarah is a middle-aged woman who came from the Free State to Johannesburg in search of work. She came to live in the Alberton North station settlement near Johannesburg when she lost her job and could no longer afford the monthly rent of R500 at her previous abode. Sarah makes a small income by running a spaza shop attached to her shack.

In the recent devastating fire in the settlement, one side of Sarah's shack was destroyed. All of the stock for her shop was ruined, as well as her fridge and sofas, which had been given to her by her previous employer. She was able to save her generator for running the fridge.

Sarah has repaired her shack using the materials delivered by a local charity. However, she cannot replace her fridge and sofas. She has borrowed R1 000 from her brother, an electrician in Bloemfontein, to try and restart her business. Most of the money will be used to purchase chips, tobacco, fruit and other stock for her shop, but business is slow with many people having lost money and savings in the fire. She will have to repay the loan and is concerned that she will not be able to, given the drop in business since the fire.

She was luckier than her boyfriend whose entire shack, with everything inside it, was destroyed. His greatest loss was the money he had been saving from selling fish and maize meal. He now lives with Sarah and helps with her business.

Source: Personal interview

2.1. THE RISK HOUSEHOLD

Cultural, social and family ties are an integral part of the risk mitigation strategies of households. In our view, therefore, the correct unit of analysis is *that group which has a shared responsibility for managing the consequences of an adverse event that befalls any of the individuals in the group.* That group, defined by its shared destiny, will be referred to as the risk household. The notion of the risk household helps to evaluate and understand the decisions made by household members in managing their financial and social life.

Traditionally, of course, formal insurance is structured around the individual or the nuclear family[1]. In a traditional life policy, for example, the risks are evaluated on the individual level and the payouts are defined in terms of core family dependents. This atomistic view of society is often described as Western or Westernised, a

[1] For this analysis, a 'nuclear family' is defined as consisting of directly related family members (parents and children). This is in contrast to the concept of an extended family which could include grandparents, grandchildren, brothers and sisters (and their core families) of core parents as well as non-family members that are associated with the family in a cultural/community context.

cliché that does have a grain of truth. In the case of Westernised and higher income households, the risk household is often the nuclear family.

But in many cases family and social dependency relationships extend beyond the nuclear family, with the result that many people and perhaps the majority of people in low-income households, do not deal with risk in the way envisaged by traditional insurance. Death of a breadwinner may, for example, result in some-one outside the deceased's nuclear family taking up the burden of looking after his or her children. The key point is that the members of this and any other risk household share the impact of realised risks: they rely on their shared income for mitigation and, consequently, have an incentive to mitigate those risks on a group level. The risk household may consist of a number of core families.

Small business risk and the household. When a member of a risk household runs a small business, this introduces particular risks to the group. Small business risks have origins – market conditions, crime and other commercial factors – different from those of the other risks faced by the household, but can still directly affect the income of the household. Conversely, if the business relies on the household for labour or capital, it is indirectly exposed to the risks faced by the rest of the household.

The poor are more vulnerable to adverse events. This vulnerability has been described as an "inability to deal with the losses or costs resulting from the occurrence of a risky event" (Brown & Churchill, 1999:1). What causes this vulnerability among the poor? Usually one or more of the following: uncertainty of income, low level of income, the absence of the buffer provided by an asset base and tenuous and equally vulnerable support structures.

The poor are not only more vulnerable, but they are also more at risk. They usually end up working and living in environments with a higher probability of infection, accidents, theft and fire (Manje & Churchill, 2002:22). Thus the higher risks faced by the poor is combined with a diminished ability to insure against them or manage their fall-out.

The limits and opportunities of risk pooling. The purpose of risk mitigation in this context is to protect the asset base and income generating potential of lower-income households. As the factors causing both the level of risk and vulnerability to it are beyond the control of the household, the only option is to pool or transfer the risks and exposures. As an illustration, millions of low-income individuals in the SACU region belong to burial societies and stokvels; at the same time, cultural norms encourage the sharing of income and risks amongst members of extended families. However, risk pooling is only effective where the group within which it is shared extends beyond the pool of individuals affected by the risk event: burial societies can cope well with 'normal' mortality experience, but may have difficulty in remaining solvent if a number of their members are struck by HIV/AIDS. Where risks affect the whole informally gathered group, the risk sharing system of formal insurance becomes essential. Reinsurance, often using massive international capital bases, achieves the widest possible level of risk sharing.

2.2. RISK MITIGATION STRATEGIES

Households have five options available to them to manage their risks:

- *Risk lowering/avoidance – that is, reducing the probability of an adverse event.* This requires a change in the behaviour or circumstances of members of the risk household. Examples include moving to a less risky area, diversifying income, improving nutrition and, in the case of a small business, pooling funds with neighbouring firms to hire security.
- *Savings.* Family savings is a major buffer against the impact of risks. But for the household the primary purpose of saving is usually an increase in the income and assets of the family. The fact that savings is a fairly low-cost way for families to tide over the impact of risk events is a secondary benefit. Consequently, households will often obtain some form of insurance cover even in the presence of a savings pool – in effect to protect the savings. We note studies that claim that some people prefer to manage risks through savings rather than insurance given the higher liquidity of the former (Manje & Churchill, 2002:75).

  The notion of the wider risk household may have a perverse impact on savings behaviour. A nuclear family that is successful in building up a pool of funds may be expected to provide assistance to other families in the risk household. In a high-risk environment, this will provide a disincentive to save, particularly as little control can be exerted over the risks faced by other members of the wider risk household. In principle insurance may reduce this perverse effect. By obtaining some kind of insurance, all families may in normal times be asked to contribute to the insurance pool from which risks are covered. This would reduce the leakage from nuclear family savings in the event of a crisis.
- *Emergency loans.* In the absence of savings or insurance, a loan may be the only coping option available to households. Given the credit market for low-income households, this can be expensive, potentially placing the household in an unserviceable debt position. Becoming a member of a member-based saving society providing such loans could be seen as pro-actively establishing a loan facility that can be accessed in need. In this case it forms part of a risk mitigation strategy.
- *Insurance:* Brown and Churchill (1999: viii) define insurance as the "pooling of risk over a large number of similar units, such as households, persons or businesses". Thus both formal and informal insurance, for example through member-based schemes, are included. Targeted savings schemes are not considered as insurance but as a savings product as there is no risk pooling.
- *Emergency assistance from government and aid organisations*: Once again, this type of assistance is generally not considered as part of a risk mitigation strategy but rather as coping strategies as government is the provider of last resort and often does not guarantee assistance. However, there is some evidence that poor households do factor government assistance into their risk mitigation strategies.

These strategies can all be applied in various ways:

- On an individual and/or group basis;
- on a business and/or family/personal level;
- on a formal and/or informal basis; and
- for life or short-term cover.

Not mutually exclusive. The strategies are not mutually exclusive. Optimal behaviour may well comprise simultaneous reliance on a number of strategies.

Informal provision. For a low-income household, the absence of formal insurance does not necessarily mean that there is no risk cover. For example, a stokvel can support the following strategies: (i) a savings vehicle through forced savings; (ii) insurance cover in the form of a payout on death of a member or cover for funeral expenses; (iii) emergency loans against savings; and (iv) as a risk lowering strategy as the members of the pool have an incentive to cooperate to reduce one another's risks.

Coping. Given the absence of successful risk mitigation strategies, households faced with an adverse event have to fall back on coping strategies. Some of these are:

- Cutting household consumption;
- taking children out of school to reduce education costs and to earn an income working; or
- selling productive assets.

Perhaps the greatest tragedy is the tendency of an acutely adverse event to push the low-income household into a survival mode where future benefits are highly discounted and long-term strategies for improvements in well-being are abandoned. In addition, this household may find itself entirely without resources to cope with any further adverse events.

2.3. INSURABILITY

Insurance was defined above, as "the pooling of risk over a large number of similar units, such as households, persons or businesses". Which household risks can be managed by the provision of insurance? The following characteristics determine insurability:

- *Probability of occurrence.* If the event is quite certain (for example, the education of child) it is best dealt with through savings. Only if it is uncertain (for example, a car accident) does the risk pooling mechanism of insurance add value.
- *Level of control over event*. If the event be predetermined and controlled (for example, divorce or gambling losses) it creates insuperable moral hazard

problems; the more a risk is beyond the control of the affected party; the more readily it can be insured.

- *Expected exposure on event*. A risk event with a low probability of occurrence, but high impact (once it occurs), is suitable to be insured. A risk with a small impact relative to the asset base of the risk household can simply be absorbed by the household, with no need to incur the transaction cost of purchasing insurance.
- *Idiosyncratic versus covariant risks*. It is more feasible to pool the risk of adverse events that occur randomly in the insured community than those that affect large proportions of the insured community at the same time (for example, natural disasters).

These characteristics have an impact not only on what can be insured, but also on the structure of insurance contracts, as a simple example shows. Death is notoriously one of life's two absolute certainties, but usually with no certainty as to *when* it will happen. But the insurer faces the risk that the insured party may be desperate enough to commit suicide in order to provide for his/her family. Insurers may also face significant covariant risk if a region is affected by, for example, a war. Consequently, in order to make this an insurable risk, a life policy may exclude both suicide and covariant risks such as war.

Table 1 provides an example of how one insurer assesses the insurability of a risk. This particular insurer requires compliance with all the principles for it to consider a risk 'insurable'.

Principle	Description
Large number of similar units exposed to the risk	• All risks similar in nature • Large number of insured risks relative to total population
Limited policyholder control over the insured event	• Policyholders' influence over whether losses occur is limited or explicitly controlled
Existence of insurable interest	• Policyholder is the one who suffers the loss if risk event occurs
Losses are determinable and measurable	• Ability to verify that a loss has occurred • Capacity to measure the cause and amount of the loss
Losses should not be covariant	• Insured risks should be unlikely to cause losses for a substantial portion of the population at the same time
Chance of loss is calculable	• Accurate information available to be used in setting premium
Premiums are economically affordable	• Calculated premiums are within the potential policyholders' capacity to pay

Table 1. Principles of insurance

Source: Compass Insurance

What is not insurable? In light of the above, insurance will not be considered as an appropriate solution for:

- Losses that are very certain to occur;

- small losses because administration and transaction costs would make the product too expensive;
- for risks affecting many people in the risk pool at the same time – although reinsurance may be used to diversify the risk pool; and
- events over which people have control.

The cost of insurance. It must be noted that a risk may, in principle, be insurable but at a rate which is too costly for the market. *Transaction costs* in selling, premium collection and claims administration cannot be too large relative to the size of the insurable risk. Another contributor to cost is *claims experience*, which refers to the frequency, size and nature of claims expected and determines the cost of providing such insurance. A high claims frequency, whether from high underlying risk or from fraud, can render insurance unaffordable. This points to a key role of the state, albeit one which falls outside of the scope of FinMark: the need to reduce the ambient risks faced by low-income households in the region.

2.4. RISKS FACED BY HOUSEHOLDS

The impact of the diverse risks faced by households mostly comes down to one or both of the following:

- A reduced ability to generate income; or
- unexpected expenses and/or loss of assets.

Of these two, the *loss of income* is by far the largest risk that lower-income households face. Unfortunately, this is also the area that is the most difficult and costly to address and, in most cases, formal insurance solutions will be beyond the reach of lower-income households. This explains the existence of and provides the justification for various government grants and social insurance programmes. The risks that households face are summarised in Table 2.

Risk category	Risk event	Risk mitigation strategies available	Effect: Loss of Income	Effect: Unexpected Expense	Probability / frequency of occurrence	Prevention/ control	Spectrum of risk mitigation providers: Savings	Informal Market	Formal Market	Government
Asset/Property	Theft of productive assets or loss due to, e.g., fire	Short-term insurance; Credit-life insurance	Potential long-term loss of income if assets are difficult/expensive to replace	Cost of replacing or substituting	High probability of occurrence, but may not occur at all	y	y	y	y	n
Asset/Property	Theft of non - productive assets or loss due to, e.g., fire	Short-term insurance; Credit-life insurance		Cost of replacing	High probability of occurrence, but may not occur at all	y	y	y	y	n
Asset/Property	Farming: Loss of crop; Trading: theft of stock	Crop insurance; Credit-life insurance; Short-term insurance	Loss of income for this season or trading period	Cost of replanting or servicing loans on current crop without income generated from it	High probability of occurrence, but may not occur at all	limited for farming	yes, but difficult due to potential size of loss	y	y	n
Disability	Disability of income generating member of risk household	Health insurance	Permanent loss of or reduction in income	Medical costs	No certainty as to when this will occur (except in AIDS case). May not occur at all	limited	y	limited	y	y
Disability	Disability of non-income generating member of risk household	Health insurance		Medical costs, Contribute to support costs/loss of income of other family	No certainty as to when this will occur (except in AIDS case). May not occur at all	limited	y	limited	y	y
Health	LT illness of income generating member of risk household	Health insurance	Long-term loss of income	Medical expenses over long period	No certainty as to when this will occur (except in AIDS case). May not occur at all	limited	limited	limited	y	y
Health	LT illness of non-income generating member of risk household	Health insurance		Responsibility to help with medical expenses over long period or take care of family member	No certainty as to when this will occur (except in AIDS case). May not occur at all	limited	limited	limited	y	y
Health	ST illness of income generating member of risk household	Health insurance	Temporary loss of income if not sick leave	Medical costs	Fairly high probability of event occurring. Can re-occur	y	y	Y	y	y
Health	ST illness of non-income generating member of risk household	Health insurance		Medical costs	Fairly high probability of event occurring. Can re-occur	y	y	Y	y	y
Life	Death of income generating member of risk household	Life/funeral insurance	Permanent loss of income	Funeral costs	No certainty as to when this will occur (except in AIDS case). Will definitely occur	limited	limited	limited (only funeral costs)	y	limited

Risk category	Risk event	Risk mitigation strategies available	Effect		Probability / frequency of occurrence	Prevention/ control	Spectrum of risk mitigation providers			
			Loss of Income	Unexpected Expense			Savings	Informal Market	Formal Market	Government
Life	Death of non-income generating member of risk household	Life/funeral insurance		Funeral costs	No certainty as to when this will occur (except in AIDS case). Will definitely occur	limited	y	y	y	limited
Life-cycle events	Unemployment of income generating member of risk household	Unemployment insurance/savings/ credit	Potentially long-term loss of income		Relatively high probability of occurrence, but at the same time, may not occur at all	limited	limited	limited	y	y
Life-cycle events	Educational fees	Savings/credit		School fees	Certainty of occurrence but there may be uncertainty about the exact cost	na	y	y	y	y
Life-cycle events	Marriage	Savings/credit		Cost of ceremony	High probability of occurrence but there may be uncertainty about the exact cost	na	y	y	y	y
Life-cycle events	Birth of child	Savings/health insurance/credit		Medical costs	High probability of occurrence but their may be uncertainty about the exact cost	na	y	y	y	n
Life-cycle events	Retirement	Savings		Cost of retirement	Certainty of occurrence but their may be uncertainty about the exact cost	na	y	y	y	y
Mass/Covariant Risks	Natural disaster	Government disaster relief programmes	Potentially long-term loss of income for whole family risk mitigation unit, death of earning and non-earning family members	Funeral costs	No certainty as to when this will occur. May not occur at all	n	limited	n	y	y
Mass/Covariant Risks	Natural disaster	Government disaster relief programmes	Loss of productive assets	Cost of replacing housing, clothing and other assets	No certainty as to when this will occur. May not occur at all	n	limited	limited	y	y

Table 2: Risks faced by households

Source: Genesis Analytics

2.5. A CASE STUDY: THE ALBERTON FIRE

On October 6 2003 a fire destroyed 96 shacks in the informal Alberton North Station Settlement near Johannesburg in South Africa. Although no lives were lost, many people lost all of their belongings, including their identity documents:

- *Assets lost*. Owners of small businesses in the settlement, such spaza shops and shebeens, lost not only their personal assets, but also assets from which they derive income, including fridges, stock and cash. In addition, a car, locked in a garage of one shack, was destroyed. Some of the residents lost goods which they bought on hire purchase. They indicated that they will try to negotiate for their debt to be cancelled and for the amount already paid off to be returned.
- *Loss of cash savings*. Most residents keep excess cash in their shacks, much of which was lost in the fire. One resident lost his full salary payment of R1 800 which he had just received.
- *Loss of future income*. The loss of cash amongst residents in the settlement has resulted in reduced business for the spaza shops and shebeens. One resident repairs radios for a living. Many of his customers' radios were damaged or destroyed in the fire, leaving him with less work and little opportunity to earn an income.

This case study shows how very poor households (in this case LSM categories 1 and 2) deal with adverse events. The point here is, therefore, not to say that formal insurance can feasibly be provided at such low-income levels but to illustrate the risks faced by these households and how they cope with it in the absence of insurance. In particular, it illustrates the workings of other risk mitigation options such as government or community support.

Hundreds of thousands of South Africans live in circumstances similar to the victims of the fire. Alberton North Station Settlement is an informal settlement situated in and around the Alberton Station buildings. There are approximately 700 shacks in the settlement with up to five people living in each shack. Most of the people living in the settlement are not originally from Johannesburg, but have migrated to the city in search of jobs. Having not found employment and having no-where else to go they have been forced into informal settlement. Discussions with residents and organisations working in the area suggested that unemployment could be as high as 80%.

Shacks cost between R250 and R500 to build and construction takes about two weeks. Materials necessary to build shacks include nails, wooden boards, corrugated zinc sheeting (for the roof and sides), plastic sheeting and wooden poles. The typical contents of a shack include: tables, chairs, beds and blankets, cupboards, kitchenware, a paraffin stove and a radio. It takes the average township resident a substantial amount of time to accumulate these assets, the total value of which could be in excess of R2 000.

Fires occur relatively frequently in the settlement with five having occurred in the last year. This was an exceptionally bad year with far fewer occurrences in the two or three years before. Fire in the settlement is particularly destructive due to the close location of shacks to each other and the materials used to construct the shacks. Inhabitants consider fires to be their biggest problem, followed by a lack of food, income and decent ablution facilities. These problems are seen to be more pressing than cold, rain, flooding, illness and theft.

At present a small non-profit organisation called Uplift Body, Soul and Environment (UBSE), run by an ex-colonel of the South African defence force, is active in the area to help improve the lives of those living in the settlement.

2.5.1. STRATEGIES TO MITIGATE RISK OF FIRE AND DAMAGE TO PROPERTY

Preventing fires. UBSE are trying to address the fire problem through their "Nip it in the Bud" programme. The first fifteen minutes of a fire are the most important and also the time before the fire fighters arrive. If correct procedures can be put in place then the spread of fire can be prevented. One of the strategies is to make sure that fire extinguishers are full and operational and that residents know about evacuation procedures and how to use an extinguisher. However, this did not work well on the morning of the October fire. There were four fire extinguishers in the settlement, which could have been used to prevent the spread of the fire had they not been empty. Residents had to wait for the municipal fire department to arrive to stop the fire and it apparently took over an hour before they arrived on the scene.

Managing the fall-out of a fire. At present, settlement residents rely on 'the authorities' (municipality) and UBSE interventions to ease the cost of fires and have no plan of their own. UBSE organised tents to temporarily house the affected households as well as food, blankets, candles and clothes. Food was provided until the Friday following the fire and thereafter the affected residents were left to rely on support from the wider settlement community. Once the initial crisis was dealt with, UBSE began to source donations of wood and zinc sheeting to help the residents rebuild their shacks.

Relying on <u>savings</u> to reduce the impact of fires is not an option with little savings activity taking place in the settlement. At present there is no informal savings society, as people do not have a consistent stream of income to pay monthly premiums. The only form of <u>insurance</u> identified in the settlement is that offered by retailers (i.e. credit life insurance) on furniture. From what could be ascertained the membership of burial societies or other similar groups is very low. This is due to the lack of consistent disposable income needed to pay monthly membership. In general, people in the settlement believe that insurance is too expensive for them, with household income being used on a daily basis for survival. Residents did, however, indicate that they would find affordable insurance attractive.

Role for insurance at this income level. Unfortunately, there does not seem to be a role for insurance in helping such low-income households mitigate their risks, due to:

- *Lack of disposable income*. The first major and obvious obstacle is the level and lack of disposable income available to squatter residents. In addition, even if some of the households could technically afford it, they have so many other spending priorities that it does not seem realistic to think that they would spend it on insurance.

- *Means to collect/pay premiums*. A major problem is the obvious lack of bank usage. This was highlighted by the significant amount of cash that was lost in the fire, due to people keeping it in their shacks rather than in a bank account. People were asked why their money was not in a bank account. Some of the responses were:
  1. "The bank is not for people like us."
  2. "Bank charges are too high."
  3. "I'm scared of the bank; it won't understand me."
  4. "If my money is in a shack, it is immediately accessible whilst banks are not accessible for depositing or withdrawing money."
  5. "I am never able to save any money: I use money immediately when I get it."
  6. "I'm not educated enough to have a bank account."

- One resident mentioned trying to open a bank account with R500 he had saved. Standard Bank, First National Bank and ABSA all refused to open an account for the man as he could not provide proof of employment and residential address. When he mentioned that he ran his own spaza shop to earn income, they requested a copy of his business licence – something which he did not have. Unlike many other settlement dwellers his persistence paid off and he was eventually able to open an account with Perm.
- With the non-existent usage of bank accounts and the high unemployment amongst people in the settlement, collection of premiums would provide a problem.
- *Moral hazard.* The difficulty of controlling for moral hazard may make it difficult for an insurer to serve this market.

Possible approaches. To extend insurance to the people of the camp, the following can be considered.

- *Lump sum payments* on a six monthly or annual basis could be considered to reduce the cost and burden of premium collection.
- Insurance may be done on a *group basis* where the community itself takes responsibility for premium collection. The question remains why such groups have not evolved for short-term insurance as they have for, for example, funeral insurance.
- *Compass Insurance* is setting up a small group scheme experiment in a township outside Kimberley. The scheme will work on the basis of the community creating a 'risk fund' through contributions to cover short-term claims. Initially Compass will provide funding for claims to allow the group to build up sufficient funds. This experiment is done from a social responsibility point of view and is not expected to result in the development of such products on a commercial basis.

PART II: NAMIBIA

1. INTRODUCTION

This section provides an outline of risk mitigation services in Namibia. These include risk mitigation provided by informal providers, government, as well as by the formal long-term and short-term insurers.

The risk exposure of individuals and particularly lower-income households is dependent on general economic conditions and the environment. We, therefore, start this discussion with a brief look at the economic and demographic environment in Namibia. It is clear that insurers are, too a large extent, reliant on the banking infrastructure for payment collection and distribution. In addition HIV/AIDS is perceived as a major barrier in serving the lower-income households. A brief discussion of these issues will provide the necessary context.

With this as background, the document will proceed to review the current situation in the various areas of risk mitigation identified above and will conclude with a discussion of the major issues that have emerged and their impact on access.

1.1. ECONOMIC ENVIRONMENT

Namibia is a very young republic and the last of the BLNS countries to have become independent.[2] In 2000, it had a GDP equal to about 3% of that of South Africa and a population of 1.8m people (4% of that of South Africa). The majority of the population is found in three regions: Khomas region around Windhoek, the Oshana/Oshikoto region around the towns of Oshakati, Ondangwa and Ongediwa and the coastal Erongo region around Walvis Bay. The remainder of the country consists of large areas that are sparsely populated. Estimates from the Namibia All Media and Product Survey (NAMPS) 2001 indicate that 27% of the population live in urban areas. Although Namibia has a high per capita GDP, it is also characterised by extreme inequality, as measured by a Gini coefficient of 0.7 (the highest in the world in 1997). The richest 5% of the population enjoys 44% of the total income (Bank of Namibia, 2001:18).

Total population (2002)	1 826 854
Adult population (>16) (2001)	1 051 000
Average population growth (1991 to 2001)	2.6%
Unemployment: broad definition (1997)	35.4%
Unemployment: narrow definition (1997)	19.5%
GDP (N$ million) (2002)	30 606
GDP per capita (N$) (2002)	16 016
Percentage of population in urban areas (2001)	27.0%
Inflation (2002)	11.3%
HIV prevalence among pregnant women (2002)	22.3%

Table 3. Namibia at a glance

Source: Bank of Namibia, NAMPS 2001 & NEPRU

[2] Namibia achieved independence in February 1990.

The last decade has not been easy for Namibia and it went through quite a volatile period immediately after independence. Government deficits showed significant variance, moving from 2% of GDP in 1996 to 6.3% of GDP in 1997. Although deficits were targeted in the Namibian National Development Plans, the Government has had difficulty keeping to these targets. In the 2001 financial year, the deficit increased to 5.3% of GDP. Real GDP growth varied from 7% 1991 to a negative 1.6% in 1992, to a positive 6% in 1993, before stabilising at a more moderate 3% per annum (see Figure 1). Although this rate of growth is sufficient to sustain the population at its current level of income, it is not sufficient to alleviate poverty and unemployment.

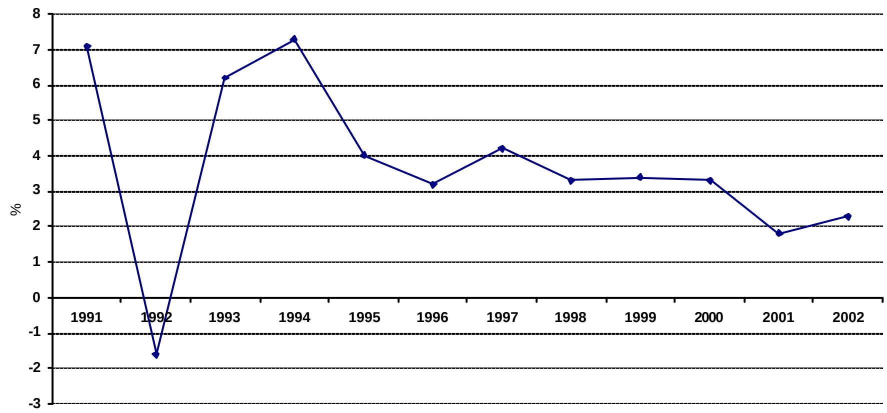


Figure 1. Real growth in gross domestic product

Source: Bank of Namibia

The composition of the economy has remained stable over the last few years. The economy is also fairly balanced with no clearly dominant sector. Since 1996, the mining and manufacturing sectors have grown somewhat in their contribution to GDP while agriculture, construction and transport and communication have declined. The government services category was still the largest component of GDP at 23% in 2000. This is a reduction from its 25% level in 1996, but is still fairly high compared to other middle-income countries. Mining and quarrying contributed just over 14% to GDP in 2000. Although agriculture contributes a fairly small 6% and has declined somewhat since 1996, seven out of ten Namibians are dependent on farming for their livelihood (SADC, 2001).

In the 1997 Labour Force Survey, unemployment broadly defined was estimated at around 35% of the labour force. If individuals not actively looking for work are excluded, this figure declines to 19.4% (Bank of Namibia Annual Report 2001:7). This significant difference is ascribed to the large number of people involved in subsistence farming. The agriculture sector is still the largest employer but the percentage of the workplace employed in agriculture has declined from 47% in 1991 to 37% in 1997. The Government of Namibia has recognised the SME sector as an important source of employment and growth, especially in the rural areas has launched several projects to promote and develop this sector. One of the major risks faced by smaller farmers is drought.

The Namibian economy is fairly open and exports have been a significant component of economic activity over the last decade, contributing on average about 50% to GDP. South Africa is not the main export destination, having received only 18% of exports in 2000. However, 84% of Namibian imports are still sourced from South Africa.

Industry	1996	1997	1998	1999	2000
Agriculture and forestry products	7.2	6.4	5.3	6.0	6.2
Fishery products	4.6	4.3	5.5	5.3	5.4
Mining and quarrying	11.3	11.4	10.8	10.5	14.4
Manufacturing	9.8	10.9	12.0	11.2	11.3
Electricity and water	2.3	2.4	2.7	2.9	2.6
Construction	3.3	2.9	3.1	2.6	2.2
Wholesale and retail trade, repairs	9.6	10.0	10.2	10.0	9.6
Hotels and restaurants	1.6	2.0	2.1	1.9	1.9
Transport and communication	7.2	7.2	6.5	6.7	6.4
Financial intermediation	3.5	4.0	3.8	4.0	3.6
Real estate and business services	11.3	10.7	10.6	10.9	10.4
Community, social and personal services	1.0	0.9	0.9	0.9	0.9
Producers of government services	25.1	24.8	24.3	25.0	22.8
Other producers	2.2	2.2	2.1	2.1	2.0

Table 4: Percentage contribution to GDP by economic sector

Source: Bank of Namibia

Namibia's literacy rate was estimated at 76% in 1999 (SADC, 2001). Although this is quite high, there is a serious shortage of entrepreneurial and management skills. Furthermore, the Africa Competitiveness Report of 2000 showed that the lack of skilled human resources was one of the principal impediments to attracting foreign direct investment (Bank of Namibia, 2001:11). This affects the insurance sector in various ways. Firstly, a lack of financial literacy is seen as a major problem for selling insurance as this can lead to abuse. From the policyholder side, people are often sceptical about insurance as they do not understand the product. Secondly, skills levels also affect the provision and regulation of insurance services. The Namibian labour market is very small and obtaining and retaining the appropriately skilled staff is a major problem for the regulator and players. In addition, being an insurance agent is sometimes seen as employment of last resort and therefore may not attract skilled individuals. Together with the low financial literacy, this creates the possibility for misunderstanding or mis-selling. This is one of the reasons why the Namibia Financial Institutions Supervisory Authority (NAMFISA) is considering implementing conduct regulation similar to the FAIS Act in South Africa (see section 6).

Namibia is far less dependent on SACU receipts for its government revenue than the other BLNS countries. The main sources of government revenue are domestic taxes on goods and services (35% of revenue), taxes on international trade and SACU receipts (29%) and direct taxes on income profits (23%) (Bank of Namibia, 2001:9).

As the majority of Namibia's population lives in the three densely populated areas mentioned above, these areas are also the main targets for insurers and other financial services. Beyond these areas the population is sparsely distributed over vast areas with limited communication and other infrastructure. Access to financial services in Namibia is therefore currently mostly limited to the high concentration areas. Although cellular telephony and direct selling may provide a solution to serving other areas, it has not been successful to date. The main reasons for this are the low potential business volumes and that clients (particularly in these rural areas) place a high premium on face-to-face contact with the institutions that serve them.

Recent information collected through the FinScope (2003) survey provides interesting information on basic household characteristics, risks faced by households and methods applied to mitigate these. It is important to note, however, that due to weighting problems, the FinScope results cannot at this point be interpreted as a nationally representative sample. For example, micro-loans are significantly underreported with only 1.4% of respondents reporting to have a loan from a registered micro-lender at the moment (suggesting 11 000 individuals). The results, therefore, need to be interpreted with caution and are indicative.

In terms of income distribution, about 50% of the population is estimated to earn less than N$1 000 per month (NAMPS 2002; FinScope, 2003) and in the rural areas this is closer to 60%. Households below N$1 000 per month are generally considered to be unviable by insurers. This does not mean that they are excluded, but the experience has shown very high lapse rates for these policies.

Reason	Total	Urban	Rural
Illness of an income earning household member	29.8	25.9	33.2
Whilst caring for an ill person an income earning household member is unable to work	11.1	10.9	11.2
Household member lost a job	14.7	22.8	7.6
Household member got a new job	2.9	4.1	1.8
Business was not good or did not make the expected return	13.5	13	13.9
Crop did not yield the expected return	37	0.5	68.6

Table 5. Of the group of respondents who indicated that income varies from month-to-month, the percentage who gave the following reasons for income fluctuations

Source: FinScope Namibia 2003

The vulnerability of these households is further illustrated by the fact that about a third of respondents in the FinScope survey reported that both their income and expenditure levels are constantly fluctuating. On the income side, the main reasons given for the variation were illness of income earners and lower than expected crop yields. When asked about unexpected events that can impact on financial security of the households, the main first responses were death or illness in the household. About 50% of respondents also mentioned funeral expenses, either as a first, second or other response.

Event	First mention			Second mention			Other Mention		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Illness in the household	35.3	27.3	42.7	21.9	19.3	24.2	10.9	8	13.5
Death of a household member	23	28.4	18	21.5	20.4	22.5	12	10.1	13.7
Funeral expenses	8.8	12.6	5.2	7.8	9	6.6	33.8	32.5	35.1
Loss of job	8.4	14.2	3.1	6.2	9.5	3.1	9.6	15.2	4.5
Loss of agricultural crop	7.9	0.5	14.7	9.4	1.3	16.8	10.4	1.5	18.5
Poor economic situation in country	4.9	5.7	4.3	9.9	12.6	7.3	12.8	14.9	10.9

Table 6. The percentage of respondents who mentioned the following unexpected events that impact on household financial security

Source: FinScope Namibia 2003

Probing further into the responses around illness and death in the household, some 14% of respondents indicated that someone in the household was suffering from a 'long-term illness'. In addition, significant variation was found across the regions with Caprivi, Kavango and Omahele reporting 19%, 25% and 24% respectively. Significantly, <u>in 79% of these cases, the affected individual contributed to household income</u>.

Response	TOTAL	Urban	Rural
Ability to put money away in savings and to be able to draw on savings when I want and the amount I want[3]	38.3	35.4	40.1
Health insurance	26.5	45.8	14.5
Financial help to take care of ill person	21.6	29.2	16.8
Social Welfare Assistance, e.g. with school fees	18.9	19.8	18.3
Life insurance	13.8	22.6	8.3
Easy access to loans	10.7	20.3	4.7
Borrowing money from family/ friends	6.9	1.4	10.3
Help from family/ friends (no mention of money)	6.2	1.4	9.1

Table 7. Of the group of respondents mentioning illness as a major impact on household finance, the percentage who felt the following would help mitigate the impact

Source: FinScope 2003

[3] It is not clear whether the "ability to put money away" response refers to sufficient income or to the facility to do this.

For respondents mentioning illness as a major impact on household finance, Table 7 shows what they consider would help them in mitigating this risk and clearly shows the limited penetration/knowledge of insurance in the rural areas.

In terms of dealing with formal financial institutions, 35% of adults indicated that it is a problem, in that they have difficulty in accessing money placed with these institutions. A similar proportion indicated that not being able to get their money *immediately* when they need it is a problem. This probably refers to the physical accessibility of the institution, with the consequent implications for accessibility. 40% of respondents indicate that they do not qualify for services. 50% indicated that institutions are too far away and expensive to get to. The interpretation of the above responses is complicated by the fact that it does not distinguish between credit, savings or insurance services. It does, however, still provide a picture of interaction with formal institutions.

Currently have	Total	Urban	Rural	Income level (N$'000)				
				<1	1 to 4.9	5 to 9.9	10 to 19.9	20<
Membership of a burial society	10.2	13.9	6.9	7	17	30.2	25	50
Funeral policy	30.6	37.1	24.6	23.5	52.8	69.8	50	100
Life insurance policy (long-term)	19.6	31.4	8.8	5	47.7	72.1	87.5	100
Retirement annuity/Provident f./Pension f.	22.5	33.5	12.3	10.1	47.2	67.4	75	100
Endowment/Investment policy	8	12.9	3.6	1	18.2	41.9	25	100
Hhold/car insurance (short-term)	7.8	13.9	2.1	1.9	12.5	39.5	62.5	100
Medical aid	19.1	32	7.3	6	44.3	72.1	50	100
Hospital plan	10	12.1	8.1	6.5	13.6	20.9	37.5	50
Disability insurance	9.5	15.5	4	3.6	19.9	34.9	62.5	100
Education insurance cover	8.9	14.4	3.8	3.1	19.3	32.6	37.5	0

Table 8. Percentage of respondents using various financial products

Source: FinScope 2003

Table 8 illustrates the reported usage of various financial products across urban and rural populations and across income levels. Again, it must be pointed out that the survey is not nationally representative and these results can only be interpreted as those of a fairly large survey. However, it is worth noting that:

- There is fairly low take-up of burial societies, other than in the middle income levels. The high proportion at the highest income level may reflect sampling issues.
- There is fairly extensive usage of funeral insurance, mostly in the income levels of N$1 000 to N$9 999. The surprisingly high usage by higher income levels may be due to sampling problems.

- Life insurance is clearly used extensively at higher income levels. The surprisingly extensive usage amongst people in the N$1 000 to N$4 999 level would need to be investigated further.
- Household insurance and car insurance are clearly limited to higher income levels.

1.2. HIV/AIDS

Official HIV/AIDS statistics places the HIV prevalence rate at about 22.5% of the population in 2001. This estimate is based on infection rates found amongst pregnant women and various significantly among the various regions of the country. According to Government statistics on prevalence amongst pregnant women, the most heavily affected regions are next to the Angolan border in the North, around Walvis Bay on the west coast, at Caprivi around Katima Mulilo on the Zambian border (on the main transport route to Zambia) and in Khomas around the capital Windhoek. Of concern is that areas like Walvis Bay, Oshakati and Windhoek are also areas of high economic activity. Unofficial statistics indicate much higher infection rates than the national average for certain regions with Caprivi in the worst position with an estimated 60% prevalence rate, Okavango with about 40% to 45% and Windhoek closer to 30%.

The National AIDS Control Programme was established in 1990 to ensure effective control and prevention of the spread of HIV. Under this programme a number of medium term plans were launched, focussing on issues such as education, management, counselling and monitoring of the disease. The programme was reviewed in 1996 at which time it was proposed that the programme should be taken beyond the scope of the Ministry of Health and Social Services to include all sectors.

Namibia was recently one of the beneficiaries of funding made available by the US Emergency Plan for HIV/AIDS over a period of five years and has also received funding from the UN AIDS Fund. Government is also planning to introduce anti-retroviral treatment (ART) in all 35 state hospitals, with the programme expected to provide treatment to more than 160 000 patients by 2006. The focus will initially be on prevention of mother to child transmission (Namibia Economist, 2003). Indications are that this programme will commence on a limited basis in 2004.

Health workers in the industry have raised concerns about the effectiveness of the potential ART intervention in the presence of poverty. For the ART programmes to be effective, it is essential that it is combined with proper nutrition and wellness management. Wellness programmes administered by clinics have been successful in helping HIV positive clients remain healthy and productive even six years after they were first diagnosed.

1.3. THE BANKING CONTEXT

The banking sector sets the basis for service provision by insurers as they are largely dependent on debit orders for premium collection.

The banking sector in Namibia currently consists of five commercial banks, an investment bank and a savi ngs bank: Bank Windhoek, First National Bank of Namibia, Standard Bank Namibia, Commercial Bank of Namibia, SWABOU Bank, Nedcor Investment Bank and NamPost Savings Bank.

Recent banking history in Namibia started with its independence in 1990. Despite the uncertainty during the early nineties, the banking sector remained remarkably stable throughout this period. In addition to the political turmoil, the central bank was only established in 1990 and therefore had a steep learning curve. Until then, the banking sector was regulated by the South African Reserve Bank under South African laws and regulations. Therefore, it was necessary to enact the necessary local legislation to take over regulation and define the responsibility of financial sector regulation.

Year	Description
1979	SWABOU Building Society established with the amalgamation of the United SA Perm, Allied, Natal, Provincial, Southern Trident and Trust Building Societies.
1981	Saambou Building Society incorporated into SWABOU Building Society
1987	Barclays Bank purchased by Anglo American Corporation, De Beers and Southern Life Assurance company and the name changed to First National Bank of Southern Africa Limited.
1997	NIB Namibia established through merger of three South African financial service institutions, Syfrets, UAL Merchant Bank and Nedbank Investment Bank.
2002	City Savings & Investment Bank merge with SWABOU building society to form SWABOU Bank
2003	SWABOU Holdings merge with FNB Holdings. SWABOU Bank operations absorbed into First National Bank.

Table 9. Closures, mergers and take-overs in the banking sector

Source: Various media publications and company financials

In 1993, the Namibian Post Office (Nampost) established Nampost Savings Bank as a division of the post office. This bank was aimed at providing savings facilities, especially to the rural population through the extensive post office network (see Table 10). Nampost Savings Bank did not offer any loans and the deposits were mostly placed with other banks on the inter-bank market. Recently, the Nampost Savings Bank has started looking at models to extend its operations into the provision of credit.

Bank	Branches	Agencies	ATMS
Commercial Banks:			
Standard Bank	21	16	68
Bank Windhoek	24	10	50
Commercial Bank of Namibia	9	2	n/a
First National Bank of Namibia	28	10	71
SWABOU Bank	15	1	n/a
Government Banks and Credit Institutions:			
Agribank of Namibia	6	-	-
Namibia Post Office Savings Bank	90	-	-
National Housing Enterprise	4	18	-

Table 10. Distribution network of commercial banks and government financial institutions (2002)

Source: Various

The Namibian banking sector is dominated by South African Banks. *First National Bank* and *Standard Bank* operate under their own brands while *Absa* and *Nedcor* have large shareholdings in Bank Windhoek and Commercial Bank respectively. In addition to the South African banks, there were until recently, two fully Namibian-owned banks, City Savings & Investment Bank and SWABOU Building society. These two institutions merged operations in April 2002 under the *SWABOU Bank* brand.

Type of Account	Number	% of Adult Population
Population older than 16	1 051 000	100
Cheque and transmission accounts	103 000	9.8
Saving account[4]	471 000	44.8
Investments/Sub/Paid up Shares	6 000	0.6
Credit card	20 000	1.9
Petrol/Garage card	12 000	1.1
ATM card	225 000	21.4
Personal loan[5]	6 000	0.6
Mortgage/Loan/Bond	9 000	0.9
Hire purchase (HP)	5 000	0.5
None of these[6]	687 000	65.4

Table 11. Number of bank accounts by product type for all commercial banks
Source: NAMPS 2001

In May 2003, SWABOU Bank was absorbed into the First National Bank structure after the merger of FNB Holdings and SWABOU Holdings. This effectively removed the last local player from the market. Table 10 shows the distribution network of the commercial banks and government financial institutions as at August 2002.

As in other BLNS countries, the commercial banks are being criticised for not doing enough to extend access to their services. Some of the criticisms against Namibian commercial banks are that there is high market concentration with little effective competition. Banks are also accused of not having sufficient rural representation (Bank of Namibia, 2001:56). However, this critique is based on the location of bank branches only and did not take into account the number of agencies. Other research has shown that, if the geographical spread of the population is taken into account, there seems to be reasonable access to banking across the country (Godana, 2001:61). Furthermore, in terms of banking density, Namibia (with 20 000 individuals per bank branch) is second only to South Africa (with 11 000 individuals per bank branch[7]) in the SACU region and is better off than most other Southern African countries.

Despite these concerns, access to transaction services compares well with the other BLNS countries.

[4] NAMPS grossly underestimated the number of savings accounts held at NamPost Saving's bank to be 42 000, whereas the correct figure is close to 200 000. The figure shown here has been corrected to reflect the correct amount for NamPost. The other figures seemed reasonable.
[5] This figure is not a fair reflection of the loans provided by the banks as it does not seem to include the micro-loans provided by several of the banks (which, on its own, is more than five times the figure given here).
[6] This figure has not been corrected for the changes in savings accounts.
[7] The latest figures indicate that the ratio for South Africa is actually closer to 7000 individuals per bank branch.

2. GOVERNMENT PROVISION

The Constitution of the Republic of Namibia (Chapter 11/Article 95) assigns Government with the responsibility of actively promoting and maintaining the welfare of citizens by adopting appropriate policies and measures. Government is currently pursuing this responsibility through interventions by several government bodies: the Social Security Commission (SSC), the Ministry of Health and Social Services, the Ministry of Women and Child Welfare and the Ministry of Agriculture. The fragmentation of social service provision across government departments has been criticised in the past (World Bank, 1996) as it results in inefficiencies, regional bias, exclusion errors and fraud.

Two types of social security schemes can be identified: namely social insurance and social assistance.

Social insurance can be defined by the following typical characteristics:

- The scheme is financed by contributions, which are normally shared between employers and employees. Contributions are accumulated in special funds out of which benefits are paid.
- Participation is compulsory (with few exceptions).
- A person’s right to benefits is secured by his or her contribution record without any test of need or means and contribution and benefit rates are often related to what the person is or has been earning.

The Maternity, Sick Leave and Disability and the Employment Compensations schemes administered by the Commission are based on the social insurance model. These schemes are discussed in more detail below.

Social assistance, on the other hand, can be described as a programme of income support and other support benefits. The main distinguishing feature of this scheme is that it is entirely financed from Government revenue. In Namibia, social assistance is provided in the form of old age pension grants, disability grants, war veteran pensions, pensions for the blind, family maintenance grants and foster parent grants (SSC, 2003:2). The schemes administered by the Ministry of Health are based on the social assistance model and will be discussed in more detail below.

2.1. SOCIAL SECURITY COMMISSION

The SSC was established on January 15 1995 and commenced operations on March 1 1995. The primary purpose of the SSC is to:

- Administer funds and
- Make recommendations to the Minister regarding possible changes and amendments to the Act.

The administration of funds involves the collection of contributions, registration of members (employers and employees), payment of benefits and investment of funds (SSC, 2003).

The two principle Acts governing the SSC are the Workmen's Compensation Act, Act 30 of 1941, amended as Employees Compensation Act, Act 5 of 1995 and the Social Security Act, Act 34 of 1994.

Employees Compensation Fund. The Employees Compensation Act calls for the establishment of two funds, the Accident Fund and Accident Pension Fund, commonly referred to as the Employees Compensation Fund (ECF). These funds provide the framework for insuring employees against loss of earnings resulting from employment injuries and diseases contracted in or out of the workplace. The basic contingencies covered are temporary and permanent disablement and sickness and death resulting from employment related incidents. Employers contribute to this fund on an annual basis, with the amount varying based on a risk assessment of the business and industry in which it operates. Benefits include:

- Medical expenses according to prescribe tariffs (treatment covered for up to two years).
- Temporary incapacity at a rate of 75% of earnings.
- Permanent incapacity according to the degree of disability. Lump sum payments are made for cases of up to 30% disability and monthly pensions are paid for cases where the employee is more than 30% disabled.
- Widow and children pensions are paid out in all cases of fatal accidents due to an employment related accident or fatal disease. Beneficiaries are currently defined to only include the spouse and children of the employee and not the extended family.

The disability benefits are activated once the period of disability extends beyond the income the employer is obliged to pay under the Labour Act (sick leave). Contributions to the fund are compulsory for all employees earning less than N$72 000 per year and membership currently stands at 20 000 employers and approximately 120 000 employees.

Maternity, sick leave and death benefit (MSD) fund: This fund applies to all employed people with the exception of those who are irregularly employed for less than three days per week. Membership stands at approximately 33 000 employers and 290 000 employees which equates to about 70% of those who should be covered. The current contribution to the MSD fund is 1.8% of basic salary of which half is paid by the employer. The fund is currently over-funded with about 4 to 5 years in reserves. The SSC is currently considering reducing the contribution to leave the fund with about 2 years' reserves.

The fund provides loss or reduction of income cover in the event of pregnancy, illness or death of the employee (both work and non-work contingencies are covered) and does not replace the responsibility of the employer as it only commences once the paid sick and maternity leave of the employee is exhausted. The benefits are as follows:

- Maternity benefit to female members equal to 80% of basic remuneration for a maximum period of 12 weeks (three months), with a minimum of N$240 per month and a maximum of N$2 400 per month.
- Sick leave benefit equal to 60% of basic salary for the first six months (minimum N$180 per month and maximum N$1 800 per month) and 50% for a further 18 months (minimum N$150 per month and maximum N$1 500 per month).
- Death, retirement or disability benefit, to the family of the deceased or to the member in the case of the latter two benefits, of a single payment equal to N$2 500 (currently looking at increasing this to N$3 000).

National Medical Benefit Fund (NMBF). This fund has not yet been established and the SSC is in the process of consultation and research to determine the viability and structure of such a fund. Currently medical treatment is only covered where the employee was injured on duty. The intention is that this fund will extend cover to include all medical contingencies irrespective of whether they are work related or not. The goal would be to insure that the employee can return to work as soon as possible. This would require additional contributions by members – the extent of which has not been determined. The intention is that it will also cover HIV/AIDS and will go hand-in-hand with Government's anti-retroviral programme that is currently in the pilot phase.

National Pension Fund (NPF). This fund has not been established yet and the SSC is in the process of consultation and research to determine the viability and structure of such a fund. The intention is that it should extend the current small lump sum benefit provided to members to a basic pension. It is envisaged that the cover will also include a funeral grant.

Social Security Development Fund (SSDF). This fund has not been established yet and the SSC is in the process of consultation and research to determine the viability and structure of such a fund. The intention is that this fund will extend the coverage of the SSC to include historically disadvantaged citizens who are unemployed or students through employment creation schemes, training and financial assistance for education.

2.2. MINISTRY OF HEALTH AND SOCIAL SERVICES

The schemes provided by the SSC and the Ministry of Health and Social Services currently overlap. The intention is to introduce some form of means testing which will prevent people from benefiting under programmes from both institutions. Some of the grants provided by the Ministry are:

- *Foster parent grants* are given to any person who undertakes the temporary care of any child who has been placed in his/her custody.
- *Maintenance grant* consists of a parent's grant (N$160) and a children's grant (N$60 per child for the first three children). Parent's grant is given only to single women who either have never been married, or are divorced, or widowed or have been deserted by their husband for a period of three months or longer; or to women whose husband is in receipt of a social pension; or whose husband has been certified to be unfit for remunerative work, or is imprisoned.
- *A place of safety grant* is awarded for very brief periods to any family willing to accept a child found in difficult situations or is being abused.
- *Disability and blind person's pensions.* Government programs include rehabilitation, disability prevention and logistical and financial support.
- *Subsidies to welfare organisations.* The formula for the calculation of the subsidy varies from one type of welfare organization to another, but roughly the Government bears about 30% of the actual expenditure. The program is administered by the Department of Social Welfare.
- *Remission of rent.* The Department of Social Welfare assists the local authority with the rent and service fee of the needy. The scheme is confined to urban towns. In actual practice, the scheme provides for remission of rent of those who defaulted.
- *School-feeding programme.* The Ministry of Basic Education and Culture runs a school-feeding program.
- *The Government's Build Together (BT) housing programme* seeks to assist low-income households who have little access to private sector housing finance, or to the finance offered by the National Housing Enterprise.

Additional programmes include:

- *Food or Cash-for-Work Programs*. These programs, largely donor-funded, have been implemented during years of drought.
- *Labour-based works programs*. Labour-based work programmes have proven to be economically and technically feasible and appear to be an especially good option for drought-prone countries. In Namibia, pilot projects have been in operation in the North. Recently, a Green Paper was written by a group of technical experts designed to encourage public debate on the feasibility of extending labour-based methods in all the activities of line Ministries.

Administration of these grants are said to be a problem resulting in a long waiting period to receive benefits.

2.3. MINISTRY OF FINANCE

The Motor Vehicle Accident fund administered by the Ministry of Finance is similar to that in South Africa. It funding is derived, through a fuel levy, which has not been sufficient to fund current claims and there is a large backlog and long delays in claims to be settled. In an attempt to deal with the claims, the government has instituted limits on the claims that can be paid out.

In addition to the above initiatives, the Ministry of Women and Child Welfare provides childcare grants and the Ministry of Agriculture provides drought relief assistance. Details of this programmes could, however, not be obtained in time for the publication of this report.

3. INFORMAL PROVISION

Informal savings, credit and insurance groups are not common in Namibia. To a large extent, it is ascribed to the fact that informal public gatherings were banned until independence in 1992 and groups could, therefore, not easily be managed.

According to the regulator there is only one major burial society in the North. This is, however, not strictly a burial society as it is run for profit and does not rely on a group structure. It seems to merely offer funeral insurance on an unlicensed basis by copying the products offered by registered insurers. This ‘society’ was only recently established, but has already invoked an agent force of about 100. NAMFISA is in discussion with them about registration. There may be many smaller informal burial societies, but no information exists on these and they are not regulated.

10% of respondents in the FinScope survey reported to be members of a burial society. This seems higher than expected in light of the above discussion and would need to be investigated further.

4. SHORT-TERM INSURANCE

4.1. OVERVIEW

The short-term insurance industry is governed under the Short-term Insurance Act, Act 4 of 1998. The Act stipulates the reporting requirements for insurers, reinsurers, brokers and agents, but is not currently fully enforced by NAMFISA. Consequently, very little financial data has been collected by the regulator and until recently it relied on the annual financial reports of the insurers, which makes it difficult to standardise and aggregate for analysis. The lack of accurate financial data made it difficult to effectively regulate the industry. Since January 2003, short-term insurers are required to submit standardised quarterly reports to NAMFISA.

There are currently eight registered short-term insurers in Namibia, one special risk insurer (NASRIA), one special dispensation[8] insurer (Lloyd's) and one local reinsurer (Namib Re), with total assets of about N$450m (1.5% of GDP) in 2002. From Table 12 it is clear that the market is dominated by the largest two insurers who share 80% of the market in terms of gross premium income. This figure becomes even higher when considering that, until recently, only SWABOU competed in the general insurance market. The market is therefore highly concentrated.

Market/Institution	Gross Premium Income N$m	Market share	Target market
General Insurance Market			
Mutual & Federal (incl. FGI)	309	50%	All types of short-term insurance but focus on retail
Santam	187	30%	All types of short-term insurance but focus on retail
Insurance Company of Namibia	84	14%	Focus on corporate insurance
SWABOU	12	2%	Small retail portfolio
Lloyd's	25	4%	Competes on large contracts and re-insurance
Hollard	n/a	n/a	Commenced operations in August 2003. All types of short-term insurance
Niche Markets			
Legal Shield (estimate)	20	n/a	Legal indemnity insurance.
Structured Insurance	1	100%	Insurance on hire purchase and leasing contracts
Corporate Guarantee	60	100%	Self insurance market
NASRIA (estimate)	13	100%	Special risks insurance
Re-insurance			
Namib Re (estimate)	13	100% of the business it wants through re-insurance agreement	

Table 12. Short-term insurers operating in Namibia, including gross premium income, market share and description of target market (2002)

Source: NAMFISA and direct communication with insurers

[8] Lloyd's is allowed to operate in Namibia without being registered locally.

Legal Shield is a relatively young company that initially focused purely on providing legal indemnity insurance to clients at a fixed monthly rate. The product range was recently expanded to include medical insurance as well as funeral insurance[9]. The company is highly creative in its business model and distribution. They do not use agents or brokers and sell their products through telesales and direct marketing. The products are simply defined and aggressively priced. Their client base is considered to be highly price sensitive and have almost doubled over the 2001/2002 reporting period (while they were still only selling legal insurance). As a marketing drive and to ensure the regular payment of premiums, they have a monthly lottery type of system, whereby one of their policyholders can win a large cash prize. This has been highly successful.

Structured Insurance is in the process of setting up their local operations and is still running a very small book. They intend to focus on hire purchase and lease insurance. As such, they work through hire purchase and lease companies and do not use brokers or agents to sell directly to the public.

Corporate Guarantee helps their clients to set up their own self-contained insurance schemes.

NASRIA was set up initially with government funding but is privately run and not supported by government on an ongoing basis. Their focus is to insure special risks and their policies are sold as an optional add-on with normal insurance policies. As such, they do not deal directly with the public and do not make direct use of brokers and agents.[10]

Hollard Insurance set up operations in Namibia in August 2003. This is essentially a rebirth of the old FGI which was bought out by Mutual & Federal in 2002 with the senior management of FGI now in charge at Hollard. The short-term insurance market is said to be driven by relationships between brokers and insurers and this is clearly reflected in the fact that Hollard has managed to regain almost 80% of the old FGI business on exactly the same terms offered before and grow to about 5% market share in only four months. They currently only have a short-term insurance licence but may consider registering as a long-term insurance concern at a later stage. This will benefit them as they can link long-term and short-term products to better serve clients needs. They currently do not offer funeral insurance (which may be provided under a short-term or long-term licence), as it attracts too much VAT under short-term regulations, which makes it uncompetitive compared to offering it under a long-term licence. They currently focus on household content and credit-life insurance and are also looking at potential products that can be offered to lower-income households. Hollard seems to be the only short-term insurer in the general retail market that develop products locally and consider this as an advantage and part of their strategy for entering the market. The short-term market is considered to be fairly competitive on price but not competitive at all when it comes to product types and features.

[9] The gross premium income figure shown in Table 12 was for the period before operations were expanded to include medical and funeral insurance.

[10] There products are, however, indirectly sold by the brokers and agents of the insurers.

4.2. COMPETITION

Once again, the available information does not allow for a detailed analysis of competition in the industry. It seems, however, that there is fairly tough competition for the higher end of the market, but very little interest in the lower-income market. There is certainly no sign of competitive pressure forcing insurers to expand their view of the market. Until now, the above mentioned competition did not drive product development and products are in most cases developed in South Africa. The entry of Hollard into the market and the potential for innovative products that they have identified may change this.

4.3. REINSURANCE

With the recent withdrawal of Harvest Re, there is currently only one local reinsurer, Namib Re. Namib Re was established by Government through the Reinsurance Corporation Act (1998), which forced insurers to reinsure 25% of gross premium income, placing 20% of this business with Namib Re.

The main purpose of the Act was to stem the outflow of the funds through offshore reinsurance placements, which was estimated to be around N$100m in 1999 (Moyo, 1999). Ironically, Namib Re currently keeps a very small proportion of the business on its own books and reinsurers the remainder with offshore reinsurance companies. In effect, the Act has, therefore, simply created another stopover in the flow of funds offshore. In defence, Namib Re was only established recently and, therefore, still has to build up its capital in order to retain more of the risks on its own book. To meet the requirements of the Act, it is expected that Namib Re should gradually increase the proportion of business retained on its own book. Currently Namib Re only provides reinsurance to short-term insurers.

The first leg of the Act was particularly problematic to the insurance industry as it implied the compulsory reinsurance of risks that would otherwise not be re-insured, which would lead to significant cost increases. After the industry lost a court challenge against the government, a ‘gentleman’s’ agreement was reached between the government and the industry (July 2001) in which Government agreed not to enforce the Act for a period of five years.[11] In return the insurers agreed that they will give Namib Re an option on all reinsurance business before placing it offshore. This agreement, therefore, allows the placement of reinsurance business offshore if it cannot be handled by Namib Re. The agreement will be revisited at the end of the five years.

[11] See Section 5.3 for NAMFISA’s involvement in this arrangement.

5. LONG-TERM INSURANCE

5.1. OVERVIEW

The long-term insurance industry is governed under the Long-term Insurance Act, Act 5 of 1998. The Act defines the areas of business for which insurers must register and sets limits on the commission payable and is closely modelled on its South African predecessor. Insurers may not operate both short-term and long-term businesses under a single insurance licence. The Act furthermore stipulates the reporting requirements for insurers, reinsurers, brokers and agents, but this is not currently fully enforced by NAMFISA. Very little financial data has been collected by the regulator and until recently the regulator relied on the annual financial reports of the insurers, which makes it difficult to standardise and aggregate for analysis. The lack of accurate financial data made it difficult to effectively regulate the industry. Since January 2003, long-term insurers have been required to submit standardised quarterly reports to NAMFISA.

Income Category	Monthly Household Income (N$)	Percentage of population age>16	Rural percentage of category	Percentage of category with no education or only some primary
Lower market				
Non-viable[12]	< 1 000	50	80	39
Low-income	1 000 to 3 000	25	49	16
Middle market				
Low middle	3 000 to 4 999	11	35	7
Emerging middle	5 000 to 9 999	9	23	3
Upper middle	10 000 to 15 999	3	3	3
Higher market				
High income	16 000 to 20 999	1	10	0
High net worth	>21 000	1	0	0

Table 13. Distribution of population across income categories

Source: NAMPS 2001

Although it is not an official policy, life insurers generally consider individuals with household incomes of less than N$1 000 per month to be ‘unviable’. They do not refuse policies to these individuals, but find that the policies lapse very quickly. The most recent income distribution information comes from NAMPS 2001. Table 13 shows the standard income classifications applied by insurers and how these relate to the income distribution. From this it is clear that half of the adult population falls into the supposedly ‘unviable’ category and can be expected to have very limited access to insurance services. Although the results are not weighted and, therefore, cannot be considered to be nationally representative, the latest FinScope Survey 2003 results were in line with that of NAMPS 2001.

[12] From an insurer’s point of view, households with income of less than N$1,000 per month are not considered to be ‘viable’ customers. They are not refused policies but lapse rates are very high in this category.

There are currently 12 insurers operating in the long-term insurance market. Of these, two are only registered for funeral insurance. The remaining insurers are registered for all classes of insurance, but a number of them specialise in specific product areas (see Table 14). Most of the insurers operating in the market (and particularly the largest operations) form part of international insurance and/or banking groups and in most of these cases the foreign parents have a majority shareholding in the locally registered companies.

Insurer	Class of business for which registered	Target market and products	Ownership/Association
Sanlam	All classes	Provides full spectrum of products. Targets middle to higher income market. Current cost structure does not allow them to serve the lower-income market.	Sanlam SA
Old Mutual	All classes	Provides full spectrum of products. Targets middle to higher income market, but also have products aimed at lower-income markets (e.g. funeral)	Old Mutual Plc
Metropolitan	All classes	Provides full spectrum of products. Initially targeted lower-income market, but this market has since increased their income to middle to higher income. Approximately 70% of business from Government employees.	Subsidiary of Metropolitan Group SA
Channel Life	All classes	n/a	Standard Bank
Swabou Life	All classes	Lower to middle income market	Belong to FNB Holdings Namibia after the takeover of Swabou Holdings
Regent Life	All classes	Offer all products but focus on credit-life and funeral insurance (equal split between these). Due to product focus will necessarily have large exposure to lower-income market.	Bank Windhoek owns 50% and Regent SA owns the remaining 50% (Capricorn merged under Regent)
NamLife	All classes	Lower to middle income market. Large proportion of business from funeral insurance	49% owned by African Life
Investment Solution	Fund assurance only	Fund assurance only	Alexander Forbes SA
Capricorn Life	All classes	Only provided credit-life insurance on Bank Windhoek products. Now merged under the Regent brand.	Previously fully owned by Bank Windhoek. Now merged under the Regent brand with 50/50 shareholding between Bank Windhoek and Regent SA.
Bonben Life	Funeral only	In the process of closing down	Independent, but currently winding up operations
United Funeral Insurance	Funeral only	Funeral insurance only	Independent
Prosperity Lifecare Insurance	All classes	n/a	n/a
Commercial bank applying for life licence that must still be approved (Cover Sure)			
Standard Bank is applying for life licences that must still be approved (Charter Life)			

Table 14. Long-term insurers operating in the Namibian market, including ownership and target markets

Source: Namfisa

Consolidation. Over the last few years, there has been significant consolidation in the insurance sector in general and also the long-term market. The most recent example was when one of the only significant long-term insurers that was majority locally owned, SWABOU Life, was absorbed into the FNB structures through the merger of FNB Holdings and SWABOU holdings. This merger was concluded around May 2003. In 2002, SWABOU Holdings also took over the operations of one of the most prominent local banks, City Savings & Investment Bank, which provided it with a large portfolio of low-income clients. In addition, Regent and Capricorn insurers are also in the process of merging operations under the Regent brand with equal shareholding by Bank Windhoek and Regent South Africa. Capricorn, previously a wholly owned subsidiary of Bank Windhoek, was created to provide credit-life insurance on Bank Windhoek products. Regent provides a wider range of products but focuses on credit-life and funeral insurance with almost 50% of business coming from the latter. The majority of their business comes from government employees through payroll deductions.

In addition to the local market dynamics, increasing pressure for bancassurance relationships may be expected from the international parents as they develop these relationships in their own country. These may be with different banks from the ones with which their local subsidiary traditionally associated.

It is clear from Table 15 that the long-term insurance market is quite concentrated with the largest two companies (Old Mutual and Sanlam) controlling almost 80% of the market and the largest three insurers (adding Metropolitan) controlling 97% of the market in terms of net premium income for 2002. This has increased significantly from 68% and 86% respectively in 2000. The same dominance is revealed in the total asset figures for 2002 with Sanlam being the largest insurer in terms of total assets.

SWABOU Life and NamLife are the main competitors for the low-income market and focus exclusively on this market. Old Mutual also offers products in this market, but does not see it as a core focus. Metropolitan started off by serving the lower middle income market when they began operations almost 30 years ago, but due to improved income, their client base has actually moved out of the lower-income category. Of the two low-income insurers, SWABOU Life has recently been merged into the FNB Banking Group. NamLife does not have a strong relationship with any of the banks and would have to rely on alternative distribution strategies in order to secure and improve its market share.

Life Companies	Gross Premium Income						2002
	2000		2001		2002		
	N$m	*% of market*	N$m	*% of market*	N$m	*% of market*	Total Assets N$m
General Life Insurers	**1 570**		**1 713.1**		**1 960.4**		**9 220.4**
Old Mutual	809.3	*51.5*	724.5	*42.3*	852.9	*49.8*	3 774.5
Sanlam	260.3	*16.6*	374.5	*21.9*	497.2	*29.0*	4 074.7
Metropolitan Life	280.0	*17.8*	296.4	*17.3*	312.4	*18.2*	805.2
Channel Life	166.5	*10.6*	209.9	*12.3*	155.0	*9.0*	345.3
Swabou Life	28.1	*1.8*	36.4	*2.1*	42.6	*2.5*	77.4
Capricorn Life	15.0	*1.0*	30.2	*1.8*	5.1	*0.3*	12.6
Investment Solutions	-	-	18.6	*1.1*	18.6	*1.1*	20.0
NamLife	9.1	*0.6*	17.9	*1.0*	26.3	*1.5*	34.5
Regent Life	1.9	*0.1*	4.8	*0.3*	50.3	*2.9*	76.1
Prosperity Life	-	-	-	-	-	-	n/a
Funeral Insurers	-		-				
United Funeral Insurance	-	-	-	-	-	-	n/a
Bonben Life	-	-	0.4		1.2		0.6
GRAND TOTAL	**1 570.1**		**1 713.6**		**1 961.5**		

Table 15. Long-term insurance gross premium income and total assets 2000 to 2002
Source: NAMFISA

5.2. COMPETITION

On the face of it, the industry is said to be competitive in both the lower- and higher income markets. Due to the absence of sufficient information on the market, it is not possible to evaluate the extent of price competition or competition in specific product markets. What is clear is that the smaller insurers feel the competition more than the larger ones which have traditional market segments which they serve. In this sense, the market has developed a certain unspoken acceptance of who does what, particularly in the higher income market.

In addition, the larger insurers do not compete on product features and are offering the vanilla products that are in most cases developed by the parent company in South Africa. Although the local firm can request certain products to be developed, there is no sign of innovative developments amongst the larger firms. This may provide opportunities for newcomers to capture market share through fresh and innovative product design.

6. REGULATION

The Namibia Financial Institutions Supervisory Authority Act, Act 3 of 2001, established the new regulator NAMFISA, which became operational in November 2001. Before that, regulation was the responsibility of the Financial Institutions Department under the Ministry of Finance.

NAMFISA is responsible for regulation of all non-bank financial institutions including insurers, medical aid funds, retirement funds and unit trust investment funds. Until independence, financial institutions in Namibia were regulated under the appropriate South African legislation and the Namibian regulation is, therefore, closely related to the South African counterpart.

Low financial literacy was raised by most insurers as a problem. It has also been pointed out that the position of insurance intermediary is often considered as employment of last resort resulting in a relatively low level of education amongst intermediaries. This combination presents problems as it creates an environment for abuse and mis-selling. As a result, NAMFISA is planning to implement legislation similar to the FAIS Act in South Africa as early as next year. But the conditions that motivate new conduct regulation also pose problems for its implementation. Conduct regulation in South Africa requires intermediaries to have certain minimum qualification levels. Given that education is particularly low amongst intermediaries in Namibia, this may present a significant problem as many of the current intermediaries may be disqualified and would have to go through retraining. This may result in significant costs to the industry, which will eventually result in higher premiums and, ultimately, lower levels of access.

The impact of conduct regulation in Namibia may be worse than in South Africa as the direct selling market is underdeveloped (partly due to communications infrastructure and low potential business volumes) and may not be able to fill the gap left by the intermediaries potentially exiting the market. In anticipation of similar regulation being implemented in Namibia, most of the larger insurers have started bringing their operations in line with what is expected under the FAIS act.

NAMFISA is experiencing significant capacity constraints. Consequently, although current regulation includes the registration and regulatory reporting by brokers and agents, it is not enforced. Only brokers are registered at the moment and do not report any financial information to NAMFISA. Agents are considered to be regulated by the insurer they are tied to and no information is collected on these individuals. Limited capacity also prevents the appropriate analysis of data provided by insurers.

NAMFISA is spending much effort in implementing the appropriate systems and capacity to enable it to fulfil its regulatory duties. It is imperative that this be implemented for the current regulation before moving to conduct regulation. This will also allow for the gathering of information on the intermediaries it intends to regulate, which will enable a better understanding of the potential impact of implementing such regulation.

NAMFISA also enforces various other regulations such as the local asset requirement, Namibianisation of insurers and monitoring of compliance to the Namib Reinsurance Act.

7. INNOVATION

For most of the large insurers operating in Namibia, product development is done in South Africa. The local insurer may in some cases request certain changes to existing South African products but even this is limited due to the cost of development.

The only significant innovation was done by TrustCo around the marketing and design of their product. On the marketing side they use a lucky-draw system to entice clients and to ensure monthly payment. Ironically, there are concerns over whether this is acceptable business practice.

On the product design side, TrustCo started their operations offering legal insurance through their Legal Shield product. This proved to be highly successful and in the last year, they have expanded their product range to include medical and funeral insurance (Medi-shield and Funeral shield). TrustCo is registered as a short-term insurer (initially only for legal insurance) which results in some questions about the types of policies that they sell.

8. CONCLUSIONS

The following were identified as key issues shaping the development of the insurance sector in Namibia and, therefore, also the access provided to lower-income households.

8.1. BANCASSURANCE

Developments around Bancassurance seems to be one of the key dynamics in the Namibian financial sector at the moment with several of the banks in the process of registering their own insurance licences. Several of the insurers currently have an association with a bank and this may be dramatically affected by the banks' move into the insurance sector.

The main thrust behind the bancassurance drive seems to be competition for the higher income market and not to use bank distribution mechanisms to access the lower-income market. But one of the competitive dynamics in this process may have an impact on the low-income market. That is the use of 'preferential' debit orders to secure priority payment for party of choice. In the case of insurance premiums, the banks can therefore ensure that their partner or subsidiary insurers are first in queue to receive payment.

8.2. COMPETITION IN THE KEY MARKETS

In the short-term insurance market, competition seems to be limited to the higher income market, with limited pressure on product development or expansion of markets to include lower-income households.

In the long-term insurance market, a number of players are competing for the lower end of the market. For those also serving the higher income market, it can be expected that their attention will be on retaining the higher end rather than pursuing the lower-income market.

8.3. HIV/AIDS

Very little information is available on HIV/AIDS and insurers are managing their risk through market selection and exclusion periods. The lower-income players seem to be particularly affected by the disease and are adjusting their products and procedures to cope with it.

8.4. FINANCIAL LITERACY AND GENERAL DISTRUST OF FINANCIAL INSTITUTIONS

Financial literacy has been mentioned as the number one concern and barrier by several of the insurers interviewed. NAMFISA is in the process of designing a consumer education programme that may begin to address this.

8.5. DISTRIBUTION

Distribution in the Namibian market is currently restricted to brokers and agents. Due to the cost of using these distribution methods and the difficulty of dealing with the large areas of low population concentration, this makes it difficult to serve a large proportion of the population and particularly the lower premium clients.

Telephone marketing. Some of the insurers have tried telephone marketing but with little success. There are no direct sales operations currently operating in Namibia.

Brokers and agents. There are also problems with the qualification and quality of agent forces as becoming an agent is considered to be employment of last resort. Brokers and agents are furthermore not effectively regulated. Currently brokers have to register with NAMFISA but are not required to submit financial returns (although this is required by law). Agents are not currently required to register with NAMFISA as they are considered to be regulated through the regulation of the institution for which they work.

Several of the larger brokerages (both short-term and long-term) are owned by the banks. This favours the insurers with relationships with these banks and forces the others to rely on the smaller broker and their agent forces. The smaller brokers, of course, often do not have the scale benefits and efficiency of the larger brokers resulting in higher costs in dealing with them. The potential implementation of legislation similar to the FAIS Act in South Africa will put further pressure on consolidation. If this leads to the disappearance of smaller brokers in Namibia, this may also put the insurers without bank associations in a difficult position. In anticipation of this problem, these insurers have generally relied on agency forces.

The Post Office. One interesting potential development is the use of the Post Office for distribution and payment collection. Several of the insurers are in discussion with NamPost. At this stage the cost of working through the Post Office seems to be a deterring factor.

8.6. PREMIUM COLLECTION

Bank accounts and debit orders. Although bank account usage is relatively high compared to other BLNS countries, it is still limited. These accounts also include special savings accounts, which do not allow for debit orders and can therefore not be used by insurers for premium collection. Furthermore, a large proportion of the 'banked' population have accounts with the NamPost Savings bank. These accounts currently do not allow debit orders.[13]

Payroll deductions. Due to the low penetration of bank accounts in Namibia, there is a large reliance on employer-based business where the premiums can be deducted directly off the payroll. Government is one of the major employers in the country and hence there is strong competition for serving the civil servant market. Some of the large insurers derive more than two-thirds of their premium income from Government employees.

Due to the attractiveness of this market and the ease of payroll deductions, the Namibian Government is experiencing problems similar to those in South Africa where Government employees were completely overcommitted in terms of financial obligations. The Government payroll operations have recently been outsourced to an independent administration company and with this it also instituted 'affordability' tests stipulating minimum levels of 'take-home' pay.

8.7. CONDUCT REGULATION

NAMFISA is considering the implementation of similar legislation to the FAIS Act in South Africa. Initial indications are that they want to move forward with this at some stage in 2004, but it is not clear whether this will be feasible. The move towards intermediary regulation is driven by concerns about the low financial literacy of the population and the potential for abuse by brokers and agents.

Intervention in the area of conduct and disclosure may be justified, as illustrated by an example of loans offered against insurance polices (by some insurers). Due to the five-year term limit on savings policies, insurers may not offer savings policies with a shorter term than five years. To get around this they are offering savings policies against which the holder can take 'interest free loans'. This is misleading as such loans carry significant administration fees. In addition, these loans also decrease the pay-out value of the policy. In cases like this, it is essential that the policyholder understands the nature of the product and the costs involved.

As discussed, the concern with conduct regulation is its effect on the overall level of access for low-income households.

8.8. PAYMENT DISCIPLINE AND PREMIUM PERSISTANCY

Several financial institutions have raised the issue of payment discipline as a potential concern. In numerous cases individuals neglect to pay the premiums on their policies even though they have the funds available. In other cases, the funds are simply spent on alternative expenses. From the FinScope results shown in section 1.1 it is not clear whether this is due to 'discipline' or due to volatility in financial circumstances of lower-income households.

[13] Allowing debit orders is currently being investigated and may be addressed in 2004.

Very little information on lapse rates is available, but it is clear that lapse rates vary between companies (with lower-income providers showing higher lapse rates), among product types (with funeral insurance – the primary low-income offering – showing higher lapse rates) and also among the regions. Indications are the market lapse rate could be as high as 40% on funeral insurance. This is a problem that needs to be investigated further.

PART III: BOTSWANA

1. INTRODUCTION

This section provides an outline of risk mitigation services in Botswana. These include risk mitigation provided by informal providers, government, as well as by the formal long-term and short-term insurers.

The risk exposure of individuals and particularly lower-income households is dependent on general economic conditions and the environment. The discussion, therefore, commences with a brief look at the general economy in Botswana.

With this as background, the document will proceed to review the current situation in the various areas of risk mitigation identified above and will conclude with a discussion of the major issues that have emerged and their impact on access.

1.1. ECONOMIC ENVIRONMENT

Botswana is a country of great contrasts and contradictions. Despite having achieved strong economic growth over the last decade and having a high GDP per capita (three times that of Swaziland), Botswana is still struggling with high levels of unemployment. Furthermore, little success has been achieved in economic diversification, despite several attempts by government.

Total population (2001)	1 678 891
Formal employment	273 782
Of which central & local government	105 156
Average monthly earnings of citizens (Pula, 2001)	1 945
GDP per capita (Pula)	18 521
GDP per capita (excl. mining) (Pula)	12 016
Unemployment (1998)	19.6%
Percentage of population in urban areas (2001)*	51.0%
Inflation (2002)	8.1%
Rand/Pula exchange rate[14]	1.46

Table 16: Botswana at a glance (2002)

Source: Bank of Botswana, 2002

The surface area is approximately half of that of South Africa, but at the last census in 2001, the population consisted of a mere 1.7m people (less than that for the Johannesburg metropolitan area). The majority of this population is found in the urban centres along the eastern border with South Africa. The large areas towards the west are sparsely populated. Estimates from the 2001 census indicate that 51% of the population live in urban areas.

[14] December 2003.

The small population provides both benefits and challenges to development. On the one hand the small market makes it difficult to foster a diversified and stable economy. On the other hand, the government is able to provide for the needs of a large part of the population from its income from diamonds. Since their discovery in 1966, they have become the mainstay of the Botswana economy, providing government with a large income stream from taxes and mineral rights (contributing about 30% to GDP and 75% to export figures over the last decade (Bank of Botswana, 2001). The wealth created by the diamond industry contributed to a GDP per capita of P18 521 (R27 040)[15] in 2001/02. Despite contributing this much to the economic bottom line, the diamond industry provides only about 4% of formal employment.

Over the last decade Botswana has experienced an average real growth rate of 5.2% translating into a per capita growth rate of 2.7%. The economy grew by 2.3% in real terms in the 2001/02 financial year (predicted growth was 5%). The weaker than expected growth was due to a 3.1% decline in mining output, illustrating the sensitivity of the economy to changes in this industry.

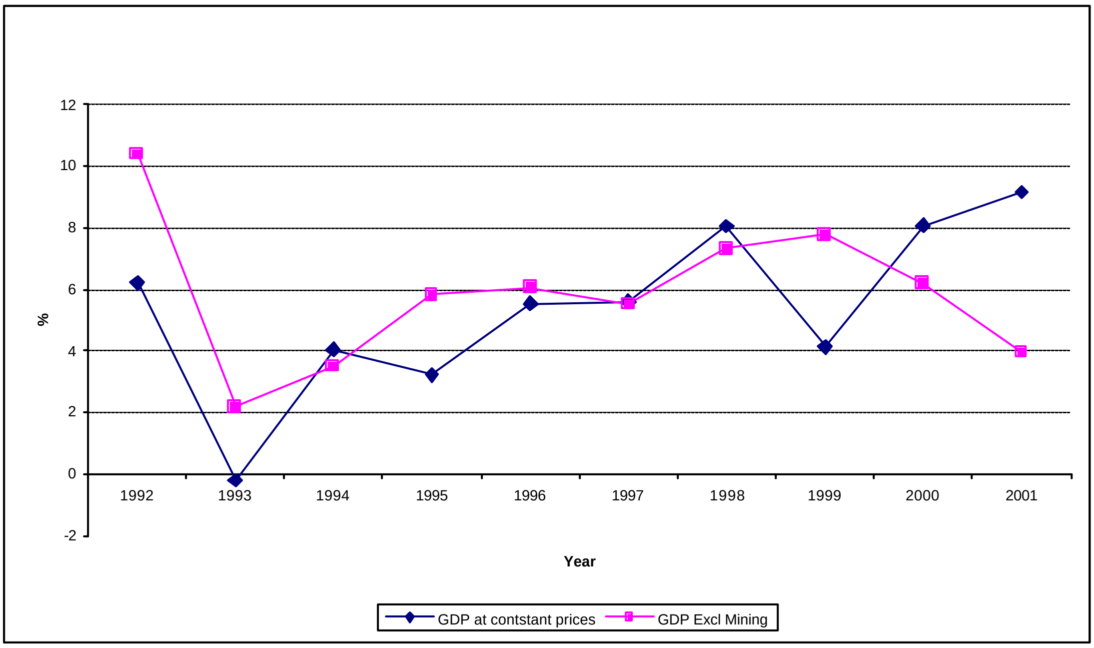


Figure 2: GDP growth in Botswana, 1992 to 2001

Source: Bank of Botswana Annual Report, 2001

Non-mining GDP, however, grew by 5.5%. This drops to 4.5% when the government is excluded. Performance in the remaining sectors varied largely. The Trade, Hotels and Restaurants sector did well, growing by 8.2% over the period. Together with the Financial Services Industry, these two form the mainstay of

[15] At July 2002, the Rand/Pula exchange rate was approximately R1.70/1Pula.

government's hope of diversifying the economy. The Banks, Insurance and Business Services industry also performed well, with growth rising to 7.1%. Transport and communications grew by 7%.

It was expected that economic growth will improve to 5% for 2002/03 as the manufacturing, construction and finance sectors expand (non-mining sectors are projected to expand at 7% while mining is expected to expand by 4.5%).

Formal employment grew at 2.7% over the 2002/03 financial year, which is marginally faster than employment growth in 2001/02 and is still above the population growth. Efforts have been made to reduce the role of government in the economy, but government still provides over 38% of all formal employment. At March 2002 average monthly earnings were estimated at P1 945 (R2 840).

Industry	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture	4.8	5.4	4.5	4.1	4.3	3.5	3.6	3.2	2.8	2.6
Mining	41.1	37.1	38.0	35.4	35.4	40.6	39.7	32.7	35.2	37.0
Manufacturing	5.4	5.3	4.1	5.3	5.4	5.2	5.2	5.5	5.2	4.9
Water and electricity	2.2	2.5	2.3	2.3	2.0	1.9	1.9	2.2	2.4	2.5
Construction	8.2	7.1	6.8	6.6	6.5	6.0	6.0	6.6	6.0	5.6
Trade (excl. hotels & restaurants)	4.5	4.3	6.8	8.4	8.8	8.6	8.4	9.2	9.0	9.2
Hotels & restaurants	1.5	1.5	1.6	1.7	1.8	1.9	2.0	2.3	2.4	2.3
Transport	3.6	4.0	3.9	4.0	3.8	3.4	3.5	4.0	3.9	3.9
Banks, insurance & busincess services	8.9	10.7	11.0	11.5	11.9	10.4	10.8	11.8	11.6	11.4
General government	15.5	17.2	16.4	16.1	15.6	14.6	15.1	18.3	17.2	16.7
Social and personal services	4.4	4.9	4.5	4.6	4.5	4.0	3.9	4.2	4.2	3.9

Table 17: Contribution to GDP by sector (%)

Source: Bank of Botswana, 2001

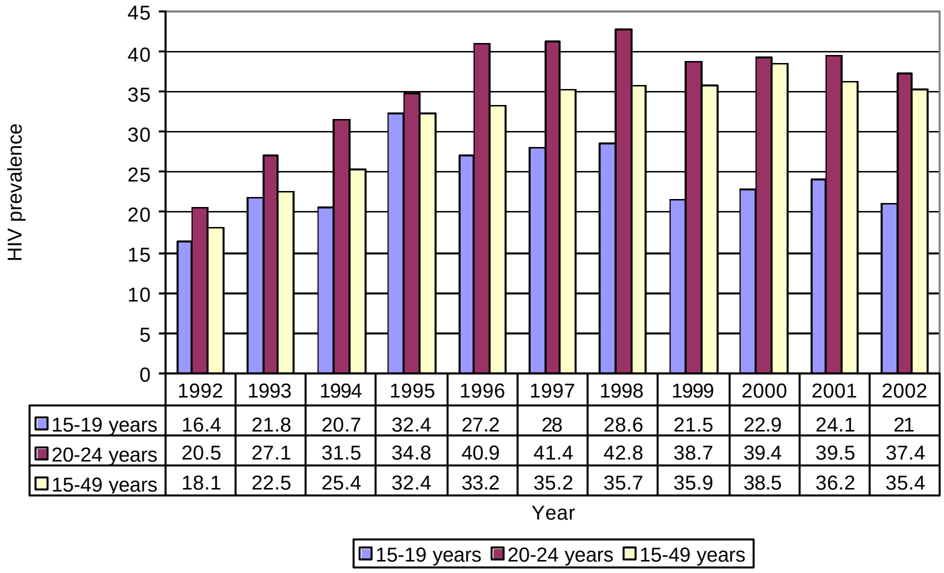
Although the composition of the economy has remained stable over the last ten years, there do seem to be gradual changes. Mining is still the dominant sector (contributing 35.1% to GDP in 2002), but its contribution has declined consistently since 1992. Agriculture has decreased from a small contribution of about 5% in 1992 to an even smaller contribution of 2.5% in 2002. These reductions may in part be due to governmental attempts to strengthen other economic sectors and provide a more sustainable base for future economic growth. Although this move is understandable, it may be a little premature, as agriculture still directly or indirectly supports more than 70% of the population.

The Trade sector showed strong growth, increasing its share of GDP from 4.5% to 9.1% over the period. Banking, Insurance and Business Services have also increased from 8.9% of GDP in 1992 to 11.4% in 2002. The financial sector is already contributing significantly more to GDP than the comparable industry in other BLNS countries. Although General Government's contribution to GDP is smaller than in the other BLNS countries, it is still the second largest contributor to GDP in Botswana.

1.2. HIV/AIDS

HIV/AIDS poses a significant threat to Botswana's economy. The government has developed a National Strategic Framework for HIV/AIDS and is in the process of rolling out a comprehensive programme to combat the disease, which includes free provision of anti-retroviral drugs across the country. AIDS policy is co-ordinated by the National Aids Co-ordination Agency (NACA).

A number of problems have been pointed out with the data available on AIDS infection, but these are the most accurate official figures available. HIV prevalence among pregnant women in Botswana is shown in Figure 3. Unofficially the infection rate is estimated to be as high as 40%. A Botswana Institute for Development Policy Analysis (BIDPA) study showed, however, that there are indications that the infection rate has peaked and may be decreasing (BIDPA, 2000:32). This is similar to the finding of the insurers.



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
15-19 years	16.4	21.8	20.7	32.4	27.2	28	28.6	21.5	22.9	24.1	21
20-24 years	20.5	27.1	31.5	34.8	40.9	41.4	42.8	38.7	39.4	39.5	37.4
15-49 years	18.1	22.5	25.4	32.4	33.2	35.2	35.7	35.9	38.5	36.2	35.4

Figure 3: Percentage of HIV prevalence amongst pregnant women, Botswana 1992 to 2002

Source: National Aids Co-ordinating Agency, 2003

The targets of the National Strategic Framework are shown in Table 18. Strategies in place to achieve these targets inlcude increasing access to voluntary counselling and testing, improving utilisation of the Prevention of Mother to Child Transmission (PMTCT) programme and ART programmes. It is intended that the number of people with advanced HIV infection eligible for therapy and receiving highly active antiretroviral treatment (HAART) in the last 12 months be increased to 85 000 by 2009 (the current figure is 8 000). A key component of the plan is to increase capacity in government.

Impact indicators	Baseline Year	Target Year	
	2001/2002	2006	2009
Percentage increase of HIV prevention knowledge of people aged 15 to 49	34%	80%	100%
Percent of adoption of HIV prevention behaviours of people aged 15 to 49 in Botswana by 2009	n/a	50%	80%
Percent reduction in infants born to HIV infected mothers who are infected at 18 months	21% to 40%	50%	100%
Percent decrease of HIV prevalence in pre-transfused blood and blood products	9%	100%	100%
Percent decrease of the HIV incidence among the sexually active population	6%	50%	80%
Percent decrease in the STD prevalence among the sexually active poulation (i.e. syphilis)	2.4%	50%	100%

Table 18: National goals and objectives for prevention of HIV infection

Source: National Aids Co-ordinating Agency, 2003

In addition to the government initiative, some of the larger employers in Botswana have contracted providers of wellness programmes to set up such interventions in their Botswana operations. These seem to be funded directly by the employers and there no insurance product to cover the provision of such treatment.

1.3. THE BANKING CONTEXT[16]

The development of Botswana's financial sector was quite unusual. At independence (1966) it did not follow the lead of other SACU countries and create a central bank or issue its own currency. Instead, it remained part of the South African monetary system using the South African currency until about 1976, when the local central bank was established. Before this, the banks lent out less than half of their deposits to local borrowers and placed the remainder in South Africa. Botswana was also subjected to monetary policy dictated by South Africa. This policy was not designed with Botswana's interest in mind and as such, did not stimulate or contribute to local economic development (Harvey, 1998:10).

Until 1990 there were only two commercial banks in Botswana, Standard Chartered and Barclays Bank, both of whom where controlled from regional head offices in Johannesburg. These two banks provided banking services to the Botswana public for over 40 years and enjoyed large oligopoly profits culminating in the eighties with returns on equity in excess of 50% (Harvey, 1998:26). This changed dramatically in the 1990s when the market was opened up for other competitors and the profits of these two institutions were greatly reduced through increased competition. Since then, six commercial banks have entered the market of which three are still operating (First National Bank Botswana, Stanbic and Bank of Baroda). The distribution network of the various banks is shown in Table 19.

[16] See Harvey (1998) for a detailed history of the financial sector in Botswana.

Bank	Branches	Business Locations[17]	ATMS
Barclays Bank	32	38	39
Standard Chartered	14	23	-
First National Bank	12	12	34
Stanbic	6	5	-
Bank of Baroda	1	1	1
Investec	1	1	-
ULC	2	2	-
Botswana Building Society	9	9	-
Botswana Savings Bank[18]	1	1	n/a

Table 19: Distribution network of commercial banks and government financial institutions

Source: Banking Supervision Annual Report, 2000

In addition to the commercial banks, there are three other types of banks operating in Botswana: merchant banks (African Banking Corporation), investment banks (Investec) and statutory banks (National Development Bank (NDB), Botswana Savings Bank and Botswana Building Society). See Figure 4 for an overview of the financial system in Botswana.

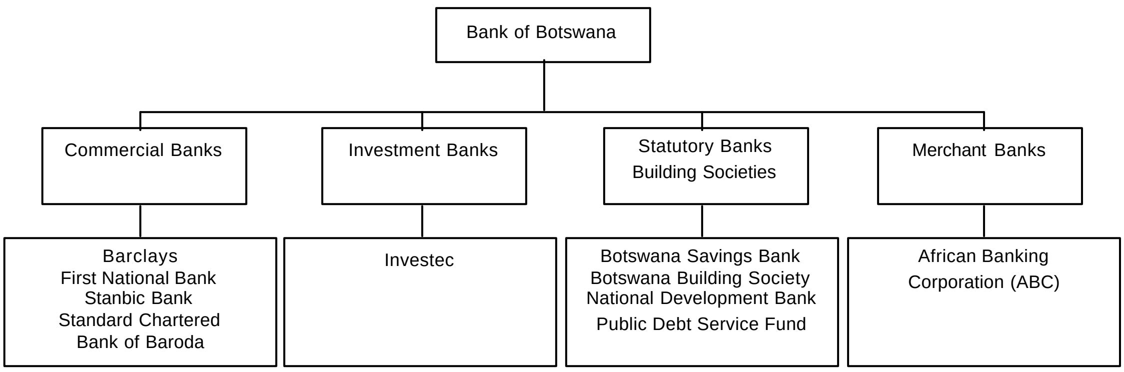


Figure 4: Structure of the banking industry in Botswana

Source: Central Bank, 2001:71

With this as background, the following sections will provide an overview of insurance provision across the spectrum of providers: government, informal and formal long-term and short-term.

[17] Branches, sub-branches, agencies and encashment points (2000).

[18] Botswana Savings Bank uses Post Offices (112) for provision of services to the public.

2. GOVERNMENT PROVISION

Government provides significant risk-mitigation services to the Batswana and has enacted several pieces of legislation that indirectly mitigate risks.

Government provides direct coverage for risks in four areas:

- HIV/AIDS;
- destitution;
- death or personal injury arising from a motor vehicle accident caused by negligence; and
- rural disaster.

Additionally, several pieces of legislation mitigate risks for workers. These include the Employment Act and the Worker's Compensation Act, Act 23 of 1998.

Government also has a motor vehicle insurance scheme for its employees (which comprise approximately half of the formally employed in Botswana). The management of this is outsourced to one of the insurers. There is no legislation in place that forces vehicle owners to take out third party insurance.

2.1. HIV/AIDS

HIV/AIDS treatment is being rolled out to all areas in Botswana. There are currently 11 distribution centres. At present this is affordable, but it is unclear whether universal coverage will be sustainable for the government. Botswana has a National Aids Co-ordination Agency (NACA), which seeks to co-ordinate public and private sector HIV/AIDS initiatives.

2.2. RURAL DISASTER RELIEF

Government provides substantial coverage against weather-related risks in rural areas. Both drought and flood relief are provided on an *ad hoc* basis to rural inhabitants.

In terms of agriculture, the recently established National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD), the Botswana government's agricultural development initiative, is looking at introducing an agriculture insurance fund to improve risk mitigation for farmers. At the time of preparing this report, the NAMPAADD administration was preparing a tender document for the development of the insurance fund.

2.3. MOTOR VEHICLE ACCIDENT FUND

The Motor Vehicle Accident (MVA) fund was established in terms of the Motor Vehicle Fund Act, Act 6 of 1998. The Fund provides compensation to victims of accidents caused by the wrongful driving of motor vehicles and is modelled on the South African Road Accident Fund.

The MVA Fund is currently in the process of attempting to extend coverage to all victims of motor accidents and not just those of accidents caused by negligent driving.

2.4. WORKER'S COMPENSATION

The Worker's Compensation Act requires employers to compensate employees where an employee becomes incapacitated due to a work-related injury or occupational disease. The Act requires that employers be insured against this potential liability. It is unclear what proportion of business complies with the Act, although it seems unlikely that many small businesses are compliant. It would appear that the number of claims made in terms of the Act, are limited.

Table 20 shows the number of cases reported, cases solved and cases pending.

Type of injury	Cases reported	Cases solved	Cases pending
Temporary	87	87	-
Permanent partial	322	104	218
Permanent total	-	-	-
Fatal	21	3	18
Total	430	194	236

Table 20: Worker's Compensation statistics (2002)

Source: Department of Labour

3. INFORMAL PROVISION

Informal providers of insurance, such as burial societies and funeral parlours, do not appear to play as significant a role in household risk mitigation as they do in South Africa. Only a small number of NGOs with limited activities are present in Botswana and they do not play a significant role in insurance provision or risk mitigation in general.

Burial societies that do exist are exempt from the Insurance Industries Act, Act of 1987. There is currently no information available on the number of burial societies in operation or the extent of their activities.

4. SHORT-TERM INSURANCE

Moving to the formal insurance market, it is interesting to note that similar to the other BLNS countries, the insurance sector in Botswana are dominated by foreign-owned companies. There are 11 insurers in Botswana, nine of whom have a foreign controlling shareholder. The two exceptions are Sesiro (Pty.) Ltd. (diamond miner Debswana's captive insurer) and the Export Credit Insurance & Guarantee Co. (Botswana) Pty. Ltd., which is wholly owned by the Botswana Development Corporation.

Company	Foreign Owner
Botswana Eagle Insurance Co. Ltd.	South African Eagle (SA)
Botswana Insurance Co. Ltd.	Zimbabwe National (Zim)
Botswana Insurance Fund Management	African Life Assurance (SA)
Botswana Life Insurance Ltd.	African Life Assurance (SA)
Metropolitan Life of Botswana Ltd.	Metropolitan (SA)
Mutual & Federal Insurance Co. of Botswana Ltd.	Mutual & Federal (SA)
Prefsure (Botswana) Ltd.	Relyant Insurance (SA)
Regent Insurance (Botswana) Pty. Ltd.	Regent Insurance (SA)
Regent Life Botswana Ltd.	Regent Life Assurance (SA)

Table 21: Foreign ownership of Botswana insurance companies

Source: Report of the Registrar of Insurance for the year ended December 31 2001

The short-term insurance market in Botswana consists of nine companies. These are Botswana Eagle, Botswana Insurance, Export Credit Insurance & Guarantee Company, General Insurance Botswana, Mutual & Federal, Prefsure Botswana, Regent Insurance, General Insurance Botswana and Sesiro. Of these, Regent currently offers only vehicle insurance while the others have about 50% of their business in each of vehicle and other short-term insurance respectively. All except Sesiro and Export Credit & Guarantee Company are foreign-owned. Sesiro is a captive owned by Debswana.

The range of short-term products available in Botswana is very similar to what is available in South Africa and includes:

- Vehicle insurance;
- fire insurance;
- worker's compensation/employer's liability;
- personal accident and sickness insurance;
- marine and aviation insurance; and
- credit and suretyship (trade).

The nine short-term insurers operating in Botswana are very similar in their business and the product range they offer. In aggregate motor premiums made up about half of total non-life premiums in 2001. Fire insurance premiums comprised about 20% of non-life gross premium income. Motor insurance premium income grew by 3.7% in 2001 and fire insurance business increased by 27.1%. The relative importance of different short-term policies is shown in Table 22.

Type of Policy	2000 (Pm)	*% of total*	2001 (Pm)	*% of total*
Motor	130.0	*52.8*	134.8	*47.6*
Fire	45.1	*18.3*	57.3	*20.2*
Miscellaneous	44.2	*18.0*	59.5	*21.0*
Worker's compensation/Employer's liability	15.2	*6.2*	16.6	*5.9*
Personal accident and sickness	5.9	*2.4*	8.4	*3.0*
Marine and aviation	3.3	*1.3*	3.2	*1.1*
Credit and suretyship	2.5	*1.0*	3.2	*1.1*

Table 22: Types of policy by gross premium income (Pula million)

Source: Report of the Registrar of Insurance for the year ended December 31 2001

4.1. MOTOR INSURANCE

At the end of 2001 there were an estimated 170 000 motor vehicles in Botswana with an outstanding loan amount of which approximately 50% were insured. A large proportion of vehicle insurance is compulsory, as banks require financed vehicles to be insured. Most people choose not to insure their vehicle once the loan has been repaid.

The claims ratio on motor vehicle business was 71.3% in 2001 and was similar in 2000. According to the Annual Report on Road Traffic Accidents (2000)[19], 14% of all registered vehicles in Botswana were involved in a reported accident in 2000.

4.2. TARGETING THE LOW-INCOME MARKET

The short-term insurance industry does not explicitly target a specific income group, but rather target those with the assets to insure. This, however, translates into indirectly targeting the middle and upper income groups. The regulatory environment and requirements for short-term insurance are the same as those for the long-term insurance market. There is no general minimum policy amount that short-term insurers prescribe and at least one insurer was willing to write policies for premiums as little as P300 per year.

[19] Prepared by the Department of Road Transport and Safety.

4.3. REINSURANCE

Short-term insurers spent P46.1m on reinsurance in 2001, which constituted a reduction of 40% on reinsurance in 2000. As there are no reinsurers registered in Botswana, all reinsurance business is placed offshore. Changes in risk retention are shown in Table 23. Risk retention increased between 2000 and 2001, possibly due to insurers' attempts to improve their underwriting results and the increased cost of reinsurance internationally.[20]

Type of Policy	2000 (%)	2001 (%)
Motor	82.2	97.8
Fire	31.7	60.7
Miscellaneous	54	82
Worker's compensation/Employer's liability	92.5	99.5
Personal accident and sickness	60	59.2
Marine and aviation	20.8	39.2
Credit and suretyship	77	74

Table 23: Risk retention between 2000 and 2001

Source: Report of the Registrar of Insurance for the year ended December 31 2001

[20] Report of the Registrar of Insurance for the year ended December 31 2001.

5. LONG-TERM INSURANCE

There are currently only three life insurers operating in Botswana: Botswana Life, Metropolitan and Regent. Of the three, only the first two are of significant size. Regent entered the market recently and is focused on credit-life insurance. Insurance licences have, however, recently been awarded to Momentum Life and several other insurers

Total life premiums received in 2001 were P358.4m, up from P243.7m in 2000. Approximately 81 040 new policies were written in this period. The total number of policies and premium income in 2001, increased by a third and a quarter respectively, compared to 2000. 3 604 policies were surrendered and 10 140 lapsed (compared to 5 104 and 14 364 in 2000).

Saving plans form the basis of the long-term insurance industry. Funeral and life cover have been added more recently. When new insurers enter the market, they typically start by issuing only savings plans and retirement annuities. As they get to know the market they gradually add life insurance and funeral benefits.

5.1. CREDIT LIFE INSURANCE

In addition to these products, the long-term insurance industry also offers credit life insurance on loans. Credit life insurance is issued in response to a loan granted by a bank, a non-bank term lender or a retailer through retail credit. Banks, term lenders and providers of retail credit insist on this type of insurance when issuing loans. As credit life insurance also covers death from HIV related causes, this is convenient for the lenders as they can issue loans without having to judge or cost these risks. Although this type of insurance is quite expensive, it does not seem to be a prohibiting factor relative to the other costs involved in getting access to a loan. Although it comes as a potentially high cost, credit-life insurance does make it possible for lenders to issue loans to individuals who would otherwise have been excluded due to their HIV status.

Credit life does bring a measure of both moral hazard and adverse selection into the credit environment and the retailers selling the products have little incentive to control the risks. HIV positive people may, for example, have an incentive to ‘borrow and spend’ as their liabilities are covered by the credit life policy. Research done by an insurer confirms this in finding that the HIV infection rate for life policy holders is approximately 26% whereas the infection rate for credit-life policy holders is as high as 70%. The insurer subsequently stopped issuing these policies.

Although credit-life insurance increases access to loans and credit, it is not a sustainable situation and it can be expected that life insurers will move away from issuing this type of insurance, become stricter on the selection of potential policyholders or exclude HIV/AIDS.

5.2. TARGETING THE LOW-INCOME MARKET

Life insurers are naturally biased towards targeting middle and upper income individuals, as these are lower risk individuals that can afford larger and more profitable policies. Only one of the life insurers explicitly excludes people at the bottom end of the scale by applying an 'affordability criteria' specifying that the individual must earn at least P850 (R1 445) per month to qualify for the standard life insurance policies. However, the same company does have an 'industrial' product that is aimed at individuals below this threshold and operates on a 'savings book' principle in an attempt to reduce administration costs.

As an illustration, the minimum monthly premium that Botswana Life underwrites is P80 per month, although clients can select a number of different products to make up this minimum amount.

5.3. HIV/AIDS

Until recently, it was still possible to get life insurance without taking an HIV test from one of the insurers. To cover their risks, the insurer issuing these policies excluded HIV from its death benefits. This was not regarded as 'fair business' by the public and the company has subsequently switched to including HIV under its death benefits, but does not issue policies without doing an HIV test. If the client is HIV negative on inception of the policy and then contracts the disease, the policy will be honoured. HIV positive individuals can get life insurance, but at a much higher cost.

It is unofficially estimated that up to 40% of the total Botswana adult population may be HIV positive. Insurers are, however, of the view that the population at risk is already infected and that for people not currently infected, the probability of becoming infected is significantly reduced. They are, accordingly more comfortable selling insurance products covering HIV/AIDS as long as the policyholder is not HIV positive at inception.

5.4. USAGE

The information on the extent of *take-up* of long-term insurance products is not readily available. As a result two methods of estimation were followed in order to get an estimate of usage (Genesis Analytics, 2003).

- The first is based on the data provided by the life insurance companies from which it was possible to get a rough estimate of the number of life policies (and then also the number of people with life policies).
- The second method used the total number of life policies as provided in the annual report of the registrar of insurance companies, adjusted for double counting.

These methods of resulted in estimates of take-up as percentage of adult population of 18% and 32% respectively suggesting that the take-up should fall somewhere between these values.

6. REGULATION

Insurance regulation in Botswana appears to be efficient and flexible. In terms of the Insurance Industries Act:

- Insurers may not deal in both life and non-life business in Botswana.
- Insurers must be registered with the Registrar of Insurance and must have P2m in paid up capital to register.
- Insurers must transfer 25% (long-term) or 15% (short-term) of their net profits (after taxation) to a Capital Reserve Account. These funds must be used (at least every five years) to increase the paid-up share capital of the insurer in line with current and projected liabilities.
- A broker may not own more than 5% of any insurance service provider that it brokers for.
- Broker commissions are not capped.
- Burial societies are exempt from the provisions of the Act.

The Registrar of Insurance is responsible for setting standards in the conduct of insurance business, which can be divided into the following four general areas:

- Licensing;
- prudential issues;
- market conduct; and
- corporate governance.

While regulatory requirements do not appear to be significantly onerous, the requirement that a broker may not own more than 5% of an insurer (the limit is 25% in South Africa) may be limiting the distribution of insurance products through banks (the “bancassurance” model). This is so as many South African banks have significant shareholdings in South African insurers and both these banks and insurers have significant market shares in Botswana. This requirement effectively results in an additional layer of costs, as banks are forced to become agents of brokers, who demand a share of the income stream.

7. DISTRIBUTION AND PREMIUM COLLECTION

7.1. DISTRIBUTION

There were 19 insurance brokers and 66 insurance agencies in Botswana in 2001. All insurers and agents must be registered with the Registrar in terms of the Insurance Industries Act. Brokers placed about half of all gross premiums in 2001: approximately 81% of non-life business and 28% of life business. According to the Registrar's report, the brokerage business was profitable in 2001. Significantly, the largest short-term broker placed 54% of non-life business placed with brokers and 44% of all non-life business.

7.2. PREMIUM COLLECTION

Insurance premiums are generally collected monthly or annually through the banking system. However, until very recently, there has not been a payment and settlements system in place in Botswana and premiums have had to be paid by cheque. Even where insurers do make use of debit orders, most banks require that debit orders come off current accounts only. However, banks in Botswana generally require that clients who wish to apply for a current account earn more than P2000 per month. Even for clients who do have a current account, debit orders are not widely used, due to the lack of a payments system. Average monthly cash earnings in Botswana are approximately P2000.[21] Additionally, according to a Southern Africa Trade Research Network (SATRN) study, there were 430 accounts per 1000 adults in Botswana in 2000 (Gabaraane, 2003). This combined with the payments system limitations places an upper limit on the potential reach of insurance products.

There are a few smaller brokers who are willing to accept premiums in cash, but this practice does not appear to be widespread and a banking account is generally required. Botswana Life offers a product called Ipolokeng through the Botswana Postal Services specifically to cater for the unbanked, although it is unclear what the take-up of the product is.

[21] Bank of Botswana Annual Report, 2002

8. COMPETITION

The market for insurance in Botswana is relatively small as there are only about 270 000 formally employed adults in Botswana. Nevertheless, there are nine insurers offering individual and corporate products in life and non-life business. Although there may be causes for concern, the market appears to be largely competitive.

8.1. NEW PLAYERS AND INNOVATION

8.1.1. GENERAL INSURANCE BOTSWANA

General Insurance Botswana (GIB) commenced business in April 2002. GIB offers a range of agricultural insurance products over and above standard short-term insurance products, including crops, livestock (cattle, pigs, sheep and game) and poultry.

8.1.2. NAMPAADD

The National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD) is the Botswana government's agricultural development initiative. NAMPAADD has been in operation for approximately one year and has been mostly involved with marketing activities to date. NAMPAADD does not specifically target the poor and requires that farmers have a minimum of approximately 150 hectares. Nevertheless, NAMPAADD seeks to introduce an agriculture insurance fund to improve risk mitigation for farmers.[22] At the time of preparing this report, the NAMPAADD administration was preparing a tender document for the development of the insurance fund.

8.2. CONCENTRATION

One cause of concern is the apparently high level of profitability and concentration in the long-term market. Botswana Life and Metropolitan are currently the only significant players in this market, with Botswana Life dominating the market. An insurance licence has recently been awarded to Momentum Life (of South Africa). The market is now contestable and is likely to benefit from greater competition in the future. Claims ratios in the life business appear to be exceptionally low, which may be a contributor to exceptional profits. The claims ratio of the life sector was only 28.7% in 2001, although this constituted an increase of 12.3% over the previous period.

The non-life business is significantly less concentrated as there are nine short-term insurers. Short-term insurers do not appear to be making excess profits, particularly due to losses on vehicle-related claims. Net claims amounted to 69.9% of net earned premium income in the non-life industry, which is fairly standard for the industry. Claims ratios for different areas of business are shown in Table 24.

[22] Government White Paper No. 1 of 2002 (Section 40A)

The market does appear to be contestable, with the entrance of General Insurance Botswana in 2002.

Type of Policy	2000 (%)	2001 (%)
Motor	71	71.3
Fire	69	36.4
Miscellaneous	47	60.9
Worker's compensation/Employer's liability	43	49.7
Personal accident and sickness	59	63.9
Marine and aviation	45	10.9
Credit and suretyship	12	13.4

Table 24: Claims ratios for different policies

Source: Report of the Registrar of Insurance for the year ended December 31 2001

Brokerage of short-term business appears to be highly concentrated, with the largest broker writing 44% of non-life business and 54% of broker-placed non-life business.

9. CONCLUSIONS

The insurance market in Botswana is dominated by several South African insurance companies that, as is their practice in South Africa, do not appear to focus on the low-income market in any significant way. Interventions made in the South African market to improve the workings of financial markets for the poor are likely to spill over into the Botswana market.

There do not appear to be significant regulatory obstacles to making insurance markets work for the poor, besides the bank shareholding restrictions, which are discussed below. Thus, scope for interventions that could improve access to insurance markets for the poor are therefore fairly limited. However, the key issues that relate to the improvement of the working of financial markets for the poor are:

- *Bank shareholding restrictions.* A bank may not act as a broker for insurance companies in which the bank has a shareholding of greater than 5% (although they may act as an agent of a broker). This restriction does not apply in South Africa where many of the banks and insurance companies operating in Botswana are headquartered. This is costly for banks, which are forced to introduce an extra layer of costs by becoming an agent of a broker and means that business models cannot be easily transplanted from South Africa to Botswana in this area of business. In turn, this may reduce access to insurance for the low-income market.
- The *banking system* appears to place significant restrictions on expansion of access to insurance for low-income households. Although premium collection is available in some cases in cash and there is a product offered through the Botswana Postal Services, there appears to be little room for expansion of access for the low-income market without greater access to banking products.
- The *agricultural insurance fund* that NAMPAADD is in the process of establishing could be of significant benefit to low-income farmers. Initial research is to be conducted in the near future on the form that the fund could take.
- *HIV/AIDS.* There appears to be considerable scope for the provision of HIV/AIDS coverage through private insurance companies in Botswana, particularly in the provision of “wellness” programmes and other HIV/AIDS management programmes. Public-private partnerships may have a role to play here.

PART IV: SWAZILAND

1. INTRODUCTION

This section provides an outline of risk mitigation services in Swaziland across the spectrum of providers: long-term and short-term insurers, informal providers and the government.

The risk exposure of individuals and particularly lower-income households is dependent on general economic and social conditions. It is, therefore, appropriate to start this discussion with a brief look at the economic and demographic environment in Swaziland.

With this as a background, the current situation in the various areas of risk mitigation identified above will be reviewed. Initial focus will fall on the regulatory environment in Swaziland which is in the process of considerable change. The extent and pace of change will determine the future structure of the formal insurance market. HIV/AIDS is perceived as a major barrier in serving lower-income households and is a serious problem in Swaziland. A section will highlight the extent of HIV/AIDS and the problems faced by providers of risk mitigation services.

Finally, the major issues that have emerged and their impact on extending access to insurance services to lower-income households will be discussed.

1.1. ECONOMIC ENVIRONMENT

Swaziland is a very small, lower middle-income, landlocked country. It is one of only three monarchies in Africa. It has a small but established economy that is focused on exporting, especially to its larger neighbour, South Africa, with whom it shares a customs and monetary union.

The population is small, approximately 1 million people and many still live a traditional Swazi lifestyle. As of 1997, just less than 70% of the population lived on Swazi National Land (SNL), a term given to land held in trust by the King for the nation and administered by a system of traditional chieftaincies. Despite originally rejecting the western system of law and government during early independence in favour of the monarchy, Swaziland has gradually moved to incorporate elements of democratic rule. Currently, both systems function simultaneously in the country, not without friction.

Apart from the primary industries, most of Swaziland's measurable economy is concentrated in a relatively small geographic area. This area consists of the largest two settlements, the capital Mbabane and the commercial centre Manzini, which are 40km apart. A large proportion of the industrial output comes from the Matsapha site, which is next to Manzini. Most high-value tourist facilities (as well as the airport) are also located near these cities. Table 25 shows a few key indicators of Swaziland, from population size, to unemployment, to the estimated percentage of the population with HIV/AIDS.

Population (est. total, 2001)[23]	1 035 456
Population>16 (est. 2001)[24]	548 792
Unemployment (est. 2001)	40%
Employment (total, formal & informal) (2000)	111 578
Employment (total, formal, informal & subsistence farming)	270 000
Percentage of population in urban areas (2001)	23%
Percentage of population with HIV/AIDS (est. 2002)	34%
Inflation (2001)	7.5%
GDP per capita (2001) (Emalangeni)	9 286

Table 25: Swaziland at a glance

Source: Central Bank Annual Report 2001, Business Year Book 2001 and 2002 Budget Speech

In 2001, Swaziland had a GDP per capita of E9 286 ($1 100), which placed it somewhat above the levels of the poorest countries. This compares well against a Sub-Saharan African average of about E4 000 ($474)[25]. Given the small size of the country and the high concentration of income, these numbers may be misleading.

According to a World Bank report[26], Swaziland's economy needs to grow by 5% per annum to prevent the number of poor rising[27]. Even if this result could be achieved, the current high levels of poverty would still not be addressed[28]. Long-term trends in the country's development, already hinted at above (with economic growth being both slower and less beneficial to the population) suggest that dramatic changes would need to take place to counter unemployment and poverty. Within this context, risk mitigation services are vital in helping lower-income households reduce the effects of poverty.

Figure 5 shows the breakdown of GDP for 1999. Structurally, the economy relies heavily on manufacturing (35.9% of GDP in 1999[29]) and services (41.9% of GDP, of which government services are 16.2%).

[23] Estimated by applying average growth rate for past decade to 1997 estimate of 912 878

[24] Population aged 16 and older estimated to be around 53% of total population.

[25] Word Bank WDI database.

[26] Report No. 19658-SW, "Swaziland: Reducing Poverty through Shared Growth", January 12 2000.

[27] Given the current high level of inequality in income distribution.

[28] Although it is impossible to measure poverty levels objectively at this stage, evidence suggests that the bulk of the population is living at an unacceptably low level of welfare. It is estimated that more than a third face food shortages even in better times, with the vast majority unable to cope in difficult times. See the above-mentioned World Bank Report for details.

[29] Central Bank Annual Report 2001.

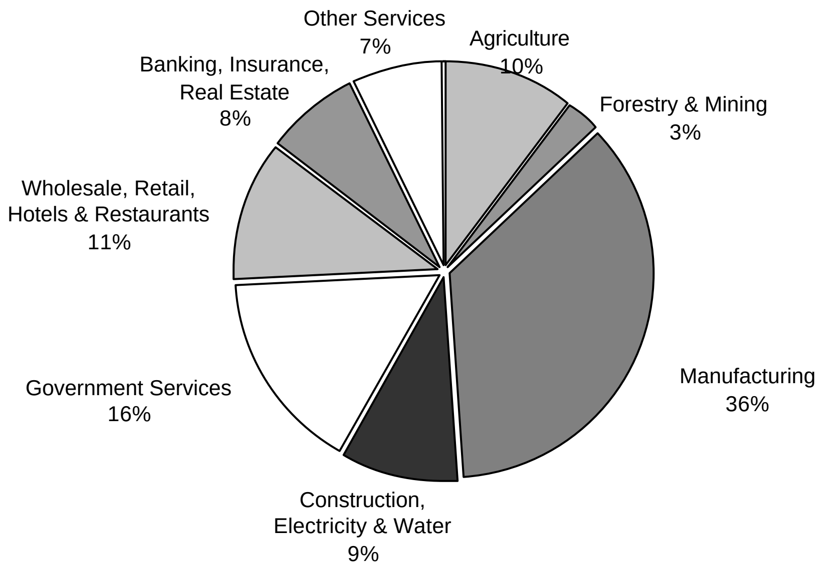


Figure 5: GDP breakdown for Swaziland (1999)
Source: Central Bank Annual Report 2001

Despite the large proportion of the population that depends on agriculture, it only makes up 10.4% of the economy. However, agriculture is important in supplying inputs to many of the secondary industries and is also a major earner of export earnings. Banking, insurance and real estate contribute 8% to GDP. This broad measure of financial services contributes less to GDP than the approximately 15% that it contributes to GDP in South Africa.

1.2. HIV/AIDS

HIV poses a serious threat to Swaziland. The full effect of the disease has not been felt by the financial sector, but the following estimates provide an idea of the challenges ahead:

- The first AIDS infection in Swaziland was reported in 1987 (Business Yearbook, 2001:8).
- 31.6% of pregnant women are HIV positive (Business Yearbook, 2001:8).
- 60% of reported HIV infections are in people aged between 20 and 49 (Business Yearbook, 2001:153).
- The HIV infection rate is currently estimated at 34% of the population (2002 Budget Speech).

Some of the early effects of the HIV pandemic are:

- Swaziland has lost out on foreign direct investment due to AIDS fears. For example, Nein Tsing garments, a Taiwanese company, was planning to open a factory in Swaziland, an investment of $93 million and potential employment for 5 000 workers. They decided to relocate to Lesotho because the government refused to allow them to use imported workers and Nein Tsing refused to spend large amounts of money on training individuals that would fall ill within a year or two (Hall, 2002).
- The government employees' pension fund reported in 1999 (Panafrican News Agency, 1999) that about 76% of its paid out claims were to beneficiaries of those who died of AIDS related diseases. The fund was not designed to cope with this and may run into difficulty if this trend continues. The fund is obligated to provide education for children of the deceased members until they are 18 years old. As people are dying younger, sometimes leaving behind small children, this represents a considerable burden to the fund.

1.3. THE BANKING CONTEXT

The banking sector in Swaziland currently consists of three commercial banks, a statutory bank and a mutual building society:

- Nedbank;
- Standard Bank;
- First National Bank;
- Swazibank (100% government owned); and
- Swaziland Building Society (mutual society).

At March 2001, the combined assets of these institutions were E2.8bn (about 26% of GDP). As shown in Table 26, in 2001 there were 35 bank and building society branches and nine agencies, declining from about 40 branches and ten agencies in 1995. The number of ATMs, however, increased significantly, from ten in 1995 to 42 in 2001.

	1995	1996	1997	1998	1999	2000	2001
Number of banks	5	5	5	4	4	4	4
Branch network (banks)	36	36	37	33	31	32	30
Agencies	10	9	13	12	11	11	9
ATM network (banks)	10	14	40	36	37	40	42
Number of building societies	1	1	1	1	1	1	1
Branch network (building soc.)	4	5	5	5	5	5	5
Non-banking fin. institutions	5	5	5	4	5	5	5

Table 26: Branches, agencies and ATMs of banks, the building society and other non-bank financial institutions

Source: Central Bank

1.4. THE INSURANCE MARKET

The insurance market in Swaziland is dominated by Swaziland Royal Insurance Company (SRIC), which has had an official monopoly in both short term and long term insurance in Swaziland for the last 30 years, conferred by the Insurance Act of 1973. Since about 1994, legislation (the Insurance and Retirement Fund Act) has been in the pipeline to end the monopoly and allow other insurers to operate in Swaziland. From discussions with the Central Bank, the Ministry of Finance and other players in the insurance industry, this legislation has apparently been passed by parliament and is awaiting the King's signature before it is enacted. The King is expected to sign the legislation into law in the middle of 2004. Others, however, believe that the process will drag on for another few years and that the legislation may never become official.

2. GOVERNMENT PROVISION

The following discussion briefly outlines a few examples of where the Swazi government intervenes to help mitigate some of the risks faced by lower-income households.

2.1. MOTOR VEHICLE FUND

This fund operates as a parastatal and is similar to the Road Accident Fund in South Africa. The fund has been set up to compensate the victims of negligent driving. As in South Africa, the compensation is only for medical expenses and does not cover repairs to vehicles.

Investigators from the fund have to interview all persons involved before they certify a claim, which is a timeous process, meaning that victims usually have to pay up front for medical expenses and claim back later.

Ordinary passengers can claim up to a limit of E12 000 if their driver is negligent and no other car is involved. If another car is involved where the other driver is negligent then there is no limit on the amount that can be claimed. A negligent driver is not covered, but has no limit on the amount claimed if the other driver was negligent.

2.2. OTHER INTERVENTIONS

Social safety net. There is no old age pension.

Public medical care. A medical scheme for civil servants is offered. In addition, subsidised medical care at specific public medical facilities exists. These are predominantly in the rural areas and an average treatment costs around E10.

Drought. Drought is a problem in Swaziland and especially for those farming on Swazi Nation Land as discussed in Box 2.

Box 2: The perils of traditional farming
Most people living on SNL are small-scale farmers, farming small plots of land with maize and/or cattle and in some cases augmenting these with cash crops. Livestock, the traditional denomination of wealth, is still used to a large extent as a savings instrument. Although the vast majority of the population lives on SNL and it constitutes two thirds of non-urban land,[30] the contribution to GDP of crops produced on this land is small. Agricultural GDP of privately owned farms is about twice as much as the contribution of SNL agriculture.[31] Yet, there are about ten times more people living

[30] Of course, this is not to imply that all of SNL is actively farmed. (Swaziland Annual Statistical Bulletin 1999, Data originally from 1997 Census).
[31] Central bank of Swaziland Annual Report 2001.

on SNL than on private farms.[32] This would support the view that most Swazi people farm mainly for subsistence and do not share in the income created by the agricultural sector.

Furthermore, because of this dependence on the land, Swaziland's population is highly vulnerable to natural catastrophe. Unfortunately such catastrophes, especially in the form of too little or too much rain, occur periodically. In 2002, Swaziland underwent a second year of very low maize yields, firstly because of flooding and secondly because of insufficient rainfall during a critical period in the crop life cycle in 2001. This led to food shortages, food price increases and ultimately to hunger, especially where no money is available to households as a result of the very few employment opportunities that exist. According to the World Food Programme,[33] the net result of the food shortages were that 144 000 people in Swaziland required food aid, which is more than 14% of the population.

When farmers are threatened by crop failures, they may sell off livestock to earn income in order to survi ve. When this happens to many people at the same time, livestock prices can quickly collapse, illustrating that livestock is not a suitable savings instrument.

Provident fund (similar to UIF). Employers contribute to the fund on behalf of the employee. If the person loses her job, she gets the money or the money goes to her family.

Philani Maswati. A charity organisation administered by the Queen to provide food and blankets for the aged.

[32] Unfortunately, there is no data available that would indicate to what extent people living on SNL actually earn their income from SNL and not from private farms or other sources.
[33] http://www.wfp.org/newsroom/in_depth/Africa/sa_swaziland020607.htm

3. INFORMAL PROVISION

3.1. BURIAL SOCIETIES AND FUNERAL PARLOURS

Burial societies do exist in Swaziland, but their scope is unknown. There is no apex body for burial societies. The extent of funeral parlours offering illegal insurance products is also unknown.

3.2. IMBITA

Imbita was an NGO established in 1991 to address the lack of financial services offered to women. Initial funding for setup and operating costs was provided by DFID and the predecessor of Swazibank (the Development and Savings Bank). From 1994 to 1997 Imbita also received support from Dutch donor organisations. Imbita operates both a savings and lending scheme and has about 13 000 members, virtually all of whom are female.

Credit life insurance (also covering HIV/AIDS related deaths) on loans is provided through Old Mutual. HIV/AIDS definitely impacts on members and relatives of Imbita. Imbita is willing to refinance loans for good customers in the case of HIV related problems. The default rate on loans is currently about 8% to 10%.

In addition, Imbita is considering developing a *funeral policy* for members where the monthly premium will be deducted from a person's savings. Imbita is also planning to apply to the Ministry of Finance to become *insurance brokers*. This would open up a new distribution channel and indeed market for providers of insurance.

4. FORMAL INSURANCE

SRIC provides both long-term and short-term insurance policies and retirement annuities. At the end of 2000, SRIC's total assets were E175m (2% of GDP) and it had 28 184 policyholders with about 36 000 life policies. In addition, it also had 15 863 funeral policies on its books. In 2001 the estimated total population was around 1 million, with about 100 000 people in formal employment. Thus, only a small percentage of the population is actually accessing insurance products.

As part of the demonopolisation process a number of international insurers have become shareholders in SRIC, as shown by the approximate breakdown[34] in Figure 6.

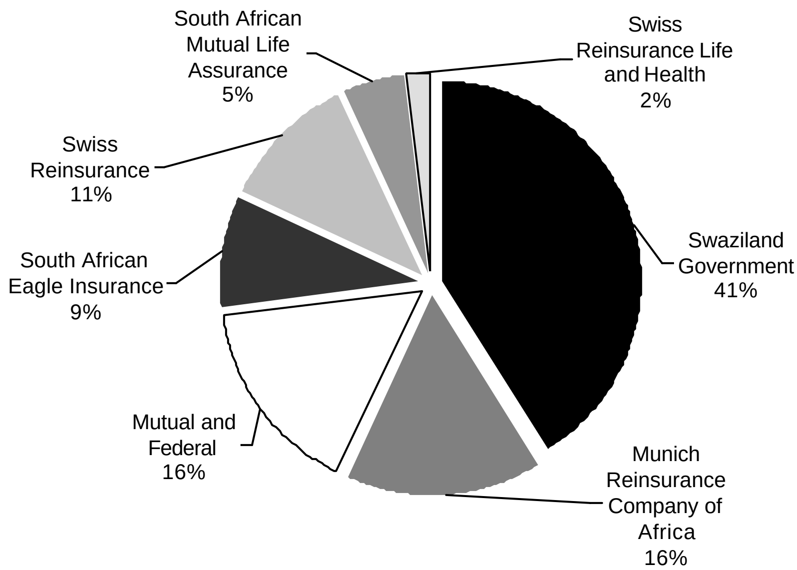


Figure 6: SRIC Shareholders

Source: SRIC

Government has indicated that they would like to reduce their shareholding to about 20% as part of the demonopolisation process and the opening up of the market. According to senior officials of SRIC, this shareholding has remained roughly the same for the last ten years.

As demonopolisation has become imminent, SRIC has tried to consolidate its position as the foremost provider of insurance services in Swaziland through creating a diverse range of products. As a result, the Swaziland insurance market may be difficult for new insurers to break into, where affordability of products will be

[34] According to discussions with the CEO (Robert Magagula) and the Finance Manager (Dumisani Dhlamini) of the SRIC.

key to successful entry. This is illustrated in assistance business[35] where SRIC is still the preferred provider of assistance policies. SRIC offers far better rates in pricing for the risk than South African insurers, as a result of having a longer and better claims experience of the market. South African insurers, in general, have a price advantage on the long term side (World Bank, 1996), which will improve with greater claims experience. Thus, market information of insurers is important in improving the access affordability of lower-income households to insurance.

SRIC controls 100% of the short term market, where the short term gross written premium increased by 29% , from E133 million in 2001, to E171.2 million in 2002 (SRIC Annual Report, 2002). Net earned premium also increased by 21%, from E77.1 million in 2001, to E93.1 million in 2002 (SRIC Annual Report, 2002).

Whereas short term premiums showed substantial growth, the long-term gross written premium increased by about only 1%, from E47.8 million in 2001 to E48.3 million in 2002. SRIC estimates that it controls only about 10% of the long-term market premiums and this is generally the middle to lower-income bracket of the spectrum of people who can afford insurance. The rest of the long-term market has been underwritten by South African insures, as a result of the much more attractive terms available from South African insurers (World Bank, 1996). An obvious distortion in the long-term market is that the lower to middle income group are paying for more expensive policies through SRIC, whilst the wealthy obtain more attractive policies through South African insurers. A possible reason for this is the better financial literacy of the wealthy, combined with access to more enterprising brokers. The larger the policy, the smaller the transaction cost implicit in purchasing a South African product as a proportion of the broker's revenues from the purchase.

It seems that there is competition in the long term insurance market, with almost 90% of the long term premiums going to insurers outside of Swaziland. However, due to the complicated process through which brokers have to go to offer these external products, the costs of these products to the final consumer will be higher than what they would otherwise have been. This suggests that it would benefit Swazi consumers if the new Insurance and Retirement Fund Act were passed. This would open up the market for greater competition as foreign insurers enter Swaziland and offer their products without the need for special permission. Effective competition will reduce prices resulting in access improving in terms of price affordability, not least for middle and low-income customers.

SRIC believes that the Swaziland market is too small to support more than one insurer and although insurers may enter once they are allowed to do so, they will not stay in the market for long. This view depends on whether foreign insurers are allowed to open branches in Swaziland or whether they would be required to set up and register a new firm to serve the Swazi market. Opening branches and operating through banks would be less costly, reducing the price of products

[35] According to discussions with insurance brokers.

offered. Lower prices may lead to greater penetration of the market and a larger number of people accessing insurance.

If the view that the insurance market is too small, is correct (which seems unlikely given the penetration already achieved by South African insurers on the long term side) and insurers then exit the market, the new legislation may in any event result in a fall in the transaction cost of accessing insurance products from South Africa: in this way the SRIC may still be forced to cut costs and increase benefits. The net effect would be to the benefit of Swazi customers.

Finally, SRIC have indicated that they are prepared for the current and future effect of HIV/AIDS and the rising claims that may result from AIDS related deaths.

5. REGULATION

Insurance in Swaziland is essentially unregulated and is administered by the Ministry of Finance. From discussions with the Ministry of Finance, their responsibility seems to extend only to appointing brokers, granting permission for brokers to sell non-SRIC insurance products and sitting on the board of the SRIC. At this point they seem understaffed to even execute these responsibilities effectively. In appointing brokers, the Ministry of Finance stills needs SRIC's recommendation, which in effect gives SRIC control over those who sell insurance products in Swaziland.

According to the Insurance Act, it is illegal for someone to hold an insurance policy with a foreign insurer. The Ministry will, however, waive this prohibition if SRIC does not offer a similar product or if the product at SRIC is more expensive than the foreign product. With the latter point, a broker needs to present a case as to why they wish to access the cheaper product from the foreign insurer. In addition, the broker is required to obtain a quote from both SRIC and the foreign insurer. This process may be costly and complicated and although people are able to obtain insurance externally (i.e. the market is more competitive than it may seem) the extra costs may prevent this. At present, the long term premiums for SRIC products are relatively high and low returns are offered – as a result a substantial amount of long term insurance is obtained through foreign insurers. On the short term side, no special dispensation is granted for people to obtain insurance from another insurer besides SRIC

Once signed by the King, the *Insurance and Retirement Fund Act* will end the monopoly controlled by SRIC and allow for other licensed insurers to enter the Swaziland market. The Act will also make provision for a registrar of insurance to be appointed, whose role, besides registering new entrants into the market, is still uncertain. The insurance registrar will chair an Advisory Council of Insurance and Pension funds and the council will advise the registrar on the performance of his/her functions as specified by the legislation.

As discussed in a World Bank report (1996), the main part of the draft legislation of the Insurance and Retirement Fund Act provides for:

- The licensing of insurance companies;
- the requirements for registration; and
- the circumstances under which registration can be refused by the registrar.

The legislation also provides a statutory regulatory framework for the supervision of insurance companies and intermediaries to ensure that they are managed with due diligence and professionalism. As the present legislation is out of date, the overall aim of the new Act is to modernise the insurance industry and bring it into accordance with international standards. The Act will cover both long-term and short-term insurance.

6. DISTRIBUTION AND PREMIUM COLLECTION

6.1. BROKERS

Most insurance business in Swaziland is distributed through independent brokers, with branches located mainly in Mbabane and Manzini. This limits the distribution of insurance, especially to those people living outside of these major urban centres.

Brokers in Swaziland sell both short-term and long-term SRIC products, as well as long-term products of foreign insurers. As discussed, to sell foreign products the brokers need to apply to the Minister of Finance for a special dispensation.

6.2. BANKS

In South Africa banks are essential in the distribution of insurance (cross-selling), as well as in the collection of premiums. In Swaziland, however, their role is restricted to the latter and, except for credit-life insurance, banks do not act as agents for insurance. This may change dramatically once the new legislation is enacted and South African insurers try to use bancassurance as an easy entrance into the market. However, this form of distribution is also limited as branches are only found in larger towns.

At present *credit-life insurance* is available and normally compulsory on loan products.[36] Medical tests are compulsory for insured loans exceeding E100 000. If the applicants are HIV positive they can get insurance, but at a higher cost. If the applicants are HIV negative, they can get access to the normal products, but insurance generally does not cover AIDS-related death. SRIC's policy is not explicit about this, but several cases have been reported where they refused to pay out for

36 For example Alexander Forbes organises the credit life for Wesbank loans using Metropolitan Life as the underwriter. FNB is also currently the biggest participant in the Small Business Credit Guarantee scheme with an exposure of about E600 000.

AIDS related deaths. A few policies that cover AIDS-related deaths do seem to be available (e.g. through Old Mutual – see section 3.2).

Of all the banks, Swazibank has always been the most pro-active in serving lower-income households. Much of this can be ascribed to its less strict credit screening process, a factor that has also contributed to the bank's financial problems. As it does not have access to a standard set of products from a parent company, Swazibank has developed products suited to the local market.

Swazibank has traditionally focused on government employees, but since restructuring Swazibank has expanded its target market to include non-government clients, focusing on the lower and middle-income group. They still administer the *government employee housing scheme*, which offers housing loans at preferential rates to civil servants.[37]

The only instance where Swazibank offers insurance is as a component of their home and car loans:

- For both home and car loans they offer a *Mortgage Protection Plan*, which covers the remaining amount of the outstanding loan if the person paying the loan dies.
- For home loans there is the *Home Owners Comprehensive Plan*, which covers the property against damage due to fire and floods.
- For car loans there is the *Motor Vehicle Fleet Policy*, which offers damage and third party cover.

These classes of cover are compulsory for all loans that are taken out with Swazibank and end as soon as the loan is repaid. The underwriter is SRIC and the business is organised through Aon Brokers.

Swazibank offers debit order facilities for people to pay their insurance premiums.

6.3. SWAZILAND BUILDING SOCIETY

A *burial scheme*[38] has been developed for Swaziland Building Society customers with a premium of R16.09 per month and a benefit of about R5 000 for those who have been designated as belonging to the family unit. No medical tests are necessary and the age limit is around 60, but apparently Swaziland Building Society is in the process of getting the age limit removed for a higher premium.

As part of a home loan from the Swaziland Building Society, a person is obliged to take out *Household Insurance* and a *Mortgage Protection Plan*. This is organised through Alexander Forbes with SRIC fronting the policy and Metropolitan as the underwriters.

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37 The preferential rates are justified by the fact that payments are deducted directly from salaries, thereby significantly reducing the risk of default.

38 SRIC are the underwriters.

The Swaziland Building Society offers *stop order* facilities for customers to pay their insurance premiums. For this facility to be set up, the policyholder has to sign forms, which the insurer submits to the bank. Swaziland Building Society then registers a stop order for the policyholder and deducts the relevant premium.

About 80% of land in Swaziland is SNL. This land is administered by chiefs as representatives of the King and, although people can use this land and build property on the land, no-one can own this land. The absence of private ownership may, therefore, complicate the writing of insurance, for example, for a house on such land. From discussions with Swaziland Building Society this does not present a problem for insurance because, although the land cannot be insured, anything on the land can be insured.

6.4. COOPERATIVES

The cooperative movement is prominent in Swaziland and many people save at and obtain credit from these institutions. They are currently supervised by the Minister of Agriculture and Co-operatives through the Cooperative Societies Act of 1964. This Act requires a cooperative to:

- Register with the Commissioner of Cooperatives;
- submit annual financial reports;
- have a common bond amongst members; and
- only take savings from and issue loans to members (the co-operatives are allowed to obtain additional credit from banks to increase their lending capacity, but this is not encouraged).

The Cooperatives Act is currently being revised. The proposed changes to the legislation will give more autonomy to the cooperatives and will reduce the powers of the commissioner. Cooperatives will also be required to notify the commissioner when writing off bad debts. With the new legislation, cooperatives are encouraged to become self-sufficient and to run themselves like an independent business.

Savings cooperatives potentially offer a good channel through which to distribute insurance products and to collect premium payments.

6.4.1. SWAZILAND ASSOCIATION OF SAVINGS AND CREDIT COOPERATIVES

Swaziland has a massive network of savings and credit cooperatives (SACCOs) providing basic financial services to a large segment of the population, notably those who are not being serviced by the formal financial sector. The Swaziland Association of Savings and Credit Cooperatives (SASCCO) is the apex body for savings and credit cooperatives and speaks on behalf of 24 000 members of 36 cooperatives. An additional 30 newly formed savings and credit cooperatives are registered with the commissioner of cooperatives but are not yet members of SASCCO.

SASCCO provides several services to member cooperatives including a risk management programme, training, liquidity management and lobbying on behalf of members.

The *risk management programme* effectively acts as a larger risk pool, offering credit-life insurance. It is strictly speaking illegal, as SASCCO is not registered as an insurance company. The policy covers the outstanding loan amount (up to E150 000), also pays out an additional E10 000 funeral benefit and covers AIDS fully.

SASCCO is considering offering a stand-alone *funeral insurance policy* to its members. It has not been decided who will underwrite this policy, but it will most likely be Metropolitan life.

6.4.2. CREDIT COOPERATIVE UNION

The Credit Cooperative Union (CCU) is the apex body for farmer and multi-purpose cooperatives and is not involved in savings and credit schemes. About 52 cooperatives are members of CCU.

CCU offers a *Group Funeral Policy* (underwritten by SRIC) that provides funeral benefits for the families of members of cooperatives. The minimum number of group participants is 25. The maximum age is 65, with no medical tests being necessary. As at June 2002, the premiums varied from E63 to E160 per month (depending on the amount of coverage selected) and covered the member and his/her spouse and six children (below the age of 21). The policy also allows for the coverage of more than one wife (polygamous culture) at an additional cost of E25 for each wife. The members of the farmers' cooperatives are generally older and therefore less affected by HIV. This group funeral policy can be extended to any group, as long as there are more than 25 members. For example these could include church, village or employee groups.

CCU Insurance Brokers. CCU also offers insurance brokerage services to members. These include life and general insurance products and are all underwritten by SRIC. In June 2002, it had about 268 general insurance policies on its book (all types including liability, vehicle and theft insurance) and no life insurance policies.

CCU brokers used to sell crop insurance underwritten by 'Sentraoes' of South Africa (now part of Santam), but the contract has been terminated due to low-take up. CCU brokers suggested that the venture was unsuccessful as Swazi people are unaccustomed to insurance, seeing it more as a "dangerous animal" than a support in times of need. In their view, better education of Swazi people about insurance and the associated benefits and costs, is required.

CCU brokers offer sugar cane insurance underwritten by SRIC, with Admiral doing the reinsurance. It is available to both subsistence and commercial farmers, but at this stage it is difficult to determine the usage of this insurance. Damage from hail storms, fires, malicious intent, transit, strikes and riots are covered, but drought is not. If the crop is damaged at an early stage, the farmer is reimbursed for the costs involved in planting. If the crop is damaged near harvesting, the farmer is reimbursed for the sales value.

7. CONCLUSIONS

At present only a small percentage of the Swaziland population makes use of formal insurance products. This is due to price affordability of products and, to some extent, the geographic location of distribution as well as of facilities to pay premiums.

At this stage the effect of HIV/AIDS on the insurance industry is a little hard to predict. With an estimated 34% of the population affected by HIV/AIDS this will surely pose a significant challenge to the insurance industry. Both SRIC and any new insurers may have difficulty in pricing products and may err on the side of caution in charging higher premiums. These higher premiums, in conjunction with less disposable income[39], will certainly limit the affordability of insurance products to anyone beyond the wealthiest segment of the population.

There are three areas of potential leverage.

ONE: THE NEW INSURANCE AND RETIREMENT ACT MUST BECOME LAW

The most important mechanism to improve access is the new Insurance and Retirement Fund Act which needs to become law. This Act will increase competition and may force insurers to open up new channels of distribution in order to grow and maintain market share. Effective competition will also reduce prices, resulting in price affordability and improved access. New channels may include banks, cooperatives and NGOs like Imbita.

TWO: THE POTENTIAL OF THE COOPERATIVES MUST BE HARNESSED

Swaziland's extensive cooperatives may assist to improve access to insurance at three levels:

- Product development – through innovative and low-cost group schemes;
- distribution – as new channels of marketing that can overcome information asymmetries and assist in educating customers; and
- premium payment – as the cooperatives are often collection points for cash and can also deduct premiums from savings accounts.

[39] From higher medical costs and not being able to work and earn an income.

THREE: CONSUMER EDUCATION AND FINANCIAL LITERACY

Education of the Swazi consumer about insurance is another area that has been identified. Financial literacy and general distrust of financial institutions has been mentioned by a number of the people interviewed in Swaziland. People must be taught that insurance is something that can provide extensive benefits in times of need, in exchange for a nominal payment each month.

PART V: LESOTHO

1. INTRODUCTION

This section outlines the risk mitigation services provided in Lesotho by long-term and short-term insurers, informal providers and the government.

The risk exposure of individuals and particularly lower-income households is affected by general economic conditions and environment. Therefore, it is appropriate to commence this discussion with a brief look at the economic and demographic environment in Lesotho.

With this as a background, the discussion will proceed to review the current situation in the various areas of risk mitigation identified above. Certain key issues are identified, one being the threat of HIV/AIDS in Lesotho and the potential barrier it creates for insurers in serving lower-income households. HIV/AIDS is a serious problem in Lesotho with about 31% of the population estimated to be infected.

Finally, the discussion concludes with an analysis of the major issues that have emerged and their impact on extending access of insurance services to lower-income households.

1.1. ECONOMIC ENVIRONMENT

Lesotho is a small landlocked country with a very open economy. Its GDP is approximately 0.5% that of the South African Economy (in 2001). The surface area is about 30 355km² (2.5% of South Africa) with the population estimated to be about 2.1m in 2000 (5% of the South African population).

Parliamentary democracy was established quite recently, with the first democratic national elections in 40 years[40] held in 1993, ending a long period of political turmoil (SADC, 2002; Uwechue, 1996:887). The 1998 elections where once again disputed by three political parties leading to an attempted coup d'etat. On request of the Lesotho Government, order was restored through SADC military intervention. Following the intervention, political negotiations were held, which led to the agreement that another election would take place (SADC, 2002). In the subsequent 2002 elections the ruling Lesotho Congress for Democracy remained in power by winning 55% of the vote. Table 27 shows a few key indicators of Lesotho, from population size, to unemployment, to the estimated percentage of adults living with HIV/AIDS.

[40] Elections were held in 1970 and one was also planned for 1985. The former was, however, declared null and void by Chief Jonathan (of the BCP party) after his party allegedly failed to retain their parliamentary majority (the government halted publication of election results). The 1985 elections where effectively cancelled when all the opposition parties withdrew in protest against being denied access to the voters' rolls. This allowed the government to stay in power without the casting of a single vote (Uwechue, 1996:887).

Population (2000)	2 144 131
Economically active population (2000)	1 193 474
Employment (est. 1999)	617 566
• *Inside Lesotho (est. 1999)*	*514 067*
• *Government sector (ext. 2001)*	*35 787*
Unemployment (2002)	40% to 45%
Percentage of population in urban areas (1996)	17%
Estimated number of adults living with HIV/AIDS (2000)	108 174
Inflation (2001)	7.6%
GDP (2000) (Mm)	6 153
GDP per capita (2000) (M)	2 870

Table 27: Lesotho at a glance

Source: Central Bank and Bureau of Statistics

The 1997 labour force survey indicated that about 40% of all paid employees earn less than M500[41] per month. If it is assumed that the income distribution has remained the same over the last five years, this means that these individuals still earned less than about M700 in 2002.[42] In addition, it is estimated that about 80% of all paid employees earn less than M3 000 per month.

The economy showed fair growth during the early nineties that picked up significantly in 1996 and 1997, as shown in Figure 7. This was mainly due to the Lesotho Highlands Water Project (LHWP). The 1998 political problems are clearly reflected in the economic contraction of just over 4%. The situation was aggravated by a severe drought and severe financial weaknesses in a number of state-owned enterprises (SADC, 2002). Growth has subsequently recovered to positive levels.

The structure of the economy has remained stable over the last ten years with the biggest contributions to GDP coming from construction, manufacturing and agriculture. Agriculture, however, continued its declining trend in contribution to GDP. This decline already started during the 1960s when agriculture was contributing more than 40% of GDP.

Manufacturing has shown slight increases in its contribution to GDP up until 2000, reflecting the government's efforts in expanding this section of the economy. The construction and electricity and water sectors have shown growth in their contribution to GDP, much of this due to the LHWP. The scheme was expected to be fully operational by 2003 and its contribution to GDP will increase significantly.

The public administration system has shown slight growth, but its contribution to GDP is still small in comparison with countries like Botswana where the government contributed about 17% of GDP in 2000. Financial intermediation, however, has disappointed with its contribution to GDP of just 4%, a figure that has been declining over the last decade.

[41] The local currency is called the Maloti (singular: loti) and is pegged on a one-to-one basis to the South African Rand.
[42] Extrapolating the 1997 figure using the inflation rate.

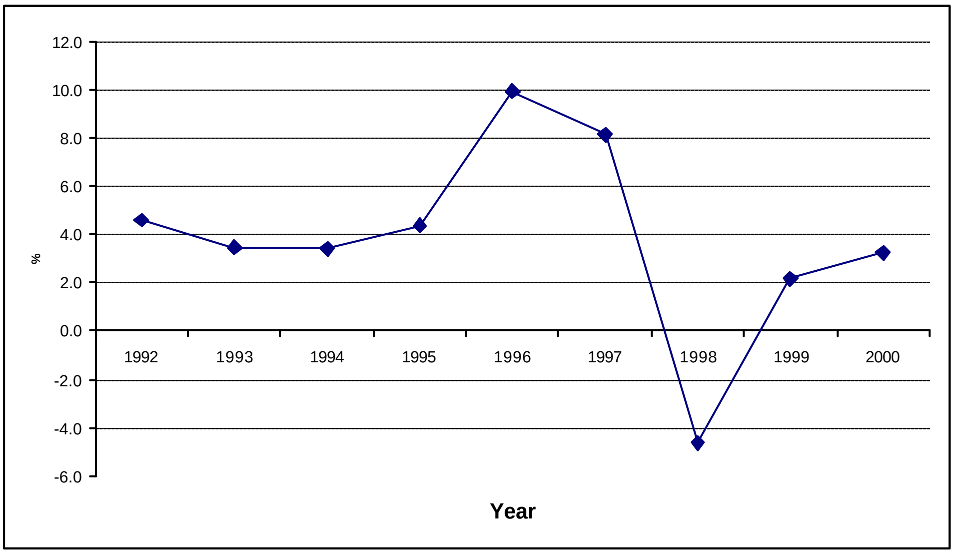

Figure 7: Lesotho real GDP growth

Source: Central Bank

Despite the improvements in certain sectors, the Lesotho economy is still struggling to provide for the needs of the population. Economic growth is expected to improve but will probably still fall short of the 7% per annum that is required (Ministry of Finance and Development Planning, 2002) to alleviate poverty and unemployment. Within this context, risk mitigation services are vital in helping lower-income households reduce the effects of poverty. However, formal provision of these services may be unaffordable and unattainable given the low levels of disposable income and the low usage of bank accounts.[43]

1.2. HIV/AIDS

According to UNAIDS Lesotho has the fourth highest infection rate in the world. It is estimated that 330 000 Basotho are infected with HIV (approximately 31% of the population). The Lesotho government has recently established a National Aids Commission which will replace the Lesotho Aids Programme Co-ordinating Authority.[44] Such a high infection rate will pose significant problems for the insurance industry in the years to come, as increasing claims are made and policy lapses increase – given the reduction in household income from people falling ill and not being able to work.

[43] As will be discussed, a minimum monthly wage of M3 000 is necessary to open a bank account. With 80% of paid employees earning less than this per month, only a limited segment of the population will be able to make use of a bank account.

[44] www.undp.org.ls/National%20Efforts%20towards%20Scaling%20Up%20the%20Fight%20against%20HIV_AIDS

According to a Southern African Regional Poverty Network (SARPN) report (2003) on the impact of HIV/AIDS in Lesotho, it is already:

- Reducing agricultural yields, as young people are severely affected by AIDS and play a large role in agriculture;
- increasing the rate of school drop-outs, as children are forced into helping with farm work;
- reducing the incomes of HIV/AIDS infected households; and
- resulting in productive assets, such as farm ploughs, being sold to mitigate the effects of the disease.

1.3. THE BANKING CONTEXT

In 2003, the banking sector in Lesotho consisted of two commercial banking entities: Nedbank and Standard Bank.[45] Standard Bank started operations in Lesotho in 1995 when it took over the operations of Barclays Bank. Initially, the bank intended to keep Barclays Bank's corporate focus, but over the last two years, this has been expanded to include retail banking[46]. There used to be a development bank called the Lesotho Agricultural Development Bank, which was liquidated in 2000.

Currently the Central Bank of Lesotho is looking into introducing a three-tiered banking structure (Central Bank of Lesotho, 2003), where tier one will comprise mainstream commercial banks. Tier two will be made up of cooperative banks, which are currently registered under the Cooperative Law (2000) and tier three will be made up of micro-banks in an attempt to incorporate them into the formal financial sector so that they can be more easily regulated.

One salient feature of the Lesotho market for financial services is the low level of intermediation achieved. The government (and many other employers) still pays its employees by cheque, which undermines the financial intermediation role of banks by limiting the use of bank accounts. Only a small proportion of people have a bank accounts and these are often SA bank accounts. In contrast to the other BLNS countries, the commercial banks in Lesotho offer extremely limited functionality on savings accounts. The basic savings account, for example, does not allow electronic transfers, debit orders or the use of other banks' ATMs. The only way to issue non-cash payments is to request a bank cheque, which typically costs M50. This adds additional costs to premium payments if a person uses this means to pay for insurance.

In addition to the high costs, the absence of debit orders makes it impossible for these individuals to get access to insurance and contractual savings products and therefore limits the expansion of access to these financial services. To get access

[45] Standard Bank recently (2001) took over the entire shareholding of Lesotho National Bank.
[46] As it became clear that the corporate market is not sufficient to sustain their operations.

to a current account, a minimum salary of M3 000 per month is required, effectively excluding the estimated 80% of all paid employees earning less than this.

2. GOVERNMENT PROVISION

Social welfare services in Lesotho are provided through public assistance to individuals, families and communities who are unable to meet basic needs. These include social security schemes for the elderly, child welfare services and education for the disabled and the destitute. However, these interventions are implemented on a limited scale due to lack of resources (Ministry of Development Planning, 2000).

The Government's social security strategy currently seems to focus on the provision of free education and improving access to basic healthcare and HIV/AIDS treatment.

Besides these interventions, the Government has followed a continuous strategy of trying to promote entrepreneurship in an attempt to diversify the economy and cope with reduced employment on the South African mines. Examples of these interventions are the Rural Finance and Enterprise Support, the Basotho Enterprises Development Corporation (BEDCO) and various public works programmes. There is also a compulsory workers' compensation insurance scheme in Lesotho, but compliance is reported to be low.

3. INFORMAL PROVISION

Burial societies, or what are known in Lesotho as Mpate Sheleng, are an important source of informal finance. These societies fall under the supervision of the Commissioner of Credit Cooperatives.

A report prepared for the Ministry of Agriculture estimates that 74% of Basotho are members of a burial society (Ministry of Agriculture, 2002) and that each of the 8 000 villages in Lesotho has at least one burial society. The report suggests that a large proportion of rural savings is vested in burial societies and in order to mobilise these savings, burial societies could be converted into micro-finance institutions, along the lines of K-Rep of Kenya[47]. The report notes that certain burial societies also provide loans from the funds they accumulate through premiums.

Metropolitan indicate that they have been approached by and underwrite, a number (not more than ten) of burial societies. However, Metropolitan do not see this as an area in which to grow or extend their business, as societies often run out of funds and are unable to continue their premium payments.

[47] This is an example of where a successful commercial bank has developed out of what was initially an informal cooperative movement.

Certain rural financial services in Lesotho do pose significant risks to consumers. In particular, there are two funeral undertakers conducting large-scale illegal insurance business that the registrar is concerned about. One of the micro lenders interviewed also had an in-house insurance scheme whereby premiums are added onto the loan, to cover the risk of the loan not being repaid if the borrower dies (death by AIDS is covered). This is illegal, as a licence is required to sell insurance and the micro lender has no formal underwriter insuring the risk pool.

4. FORMAL INSURANCE

4.1. SUPPLY

The insurance industry in Lesotho is dominated by Lesotho National Insurance Company (LNIC), which has a 70% share in premium income. 50% of LNIC is owned by Government and 46% is owned by African Life. LNIC is the holding company of two subsidiaries: Lesotho National General Insurance Company (LNGIC) offering vehicle and other short-term insurance and Lesotho National Life Insurance (LNLife) offering life insurance.

Total assets for LNIC were M157m in 2000 (4% of GDP). If it is assumed that total assets correspond to premium income (and, therefore, that LNIC also has 70% of the market share in terms of assets), the total assets for the insurance industry in 2000 can be estimated at around M224m[48] (6% of GDP).

Other locally incorporated insurers operating in the market are:

- Metropolitan (life insurance and health care);
- Alliance (life and short term insurance);
- Customer Protection Insurance Company (furniture credit insurer); and
- Sentinel[49] (short term insurance).

A standard range of short-term products is available through *LNGIC*. In 2002 they had about 4 620 policies (less than 0.5% of the economically active population and this figure may still include double-counting and several categories of insurance) on their book of which 1 253 were private vehicle insurance policies. In addition, they also underwrite government's third party insurance scheme (funded by fuel levies). LNGIC indicate that they are a broker orientated business.

Figure 8 shows the change in premium income, over the last ten years, for general insurance and life assurance business of LNIC. In Figure 8 we can see that the level of premium income from general insurance is far higher than life assurance, although, over the last two years, net premium income from life business has closed the gap considerably on net premium income from general business. It is

[48] In 1999 the total assets of the Insurance Industry (using data from the three largest insurers) was M216m, implying that total assets of M224m in 2000 is a good estimate.
[49] Sentinel has only recently entered the market.

also interesting to note that about half the premiums from general insurance business have gone to reinsurance. Generalising the results of Figure 8 (as LNIC has a 70% share of premium income) to the overall Lesotho market, one can conclude that much greater use is made of general insurance, which showed rapid growth in the mid-1990s, but has slowed since. Life assurance is a much smaller market by premium sizeand has shown constant growth throughout the decade.

Metropolitan is registered as a separate company in Lesotho although it is linked to Metropolitan South Africa. Metropolitan offers both dynamic life (individual life) and group life policies. The group life policy is a relatively standard product including life cover and funeral benefits for the member, spouse and the extended family. Clients include employees of the government, electricity providers, Standard Bank, Lesotho Highlands Water Project and Maluti Mountain Breweries. Discussions with Metropolitan reveal that the effect of HIV/AIDS is already being felt especially in group schemes where HIV/AIDS testing does not take place. The result is that re-rating[50] of policies is happening more often now than previously.[51]

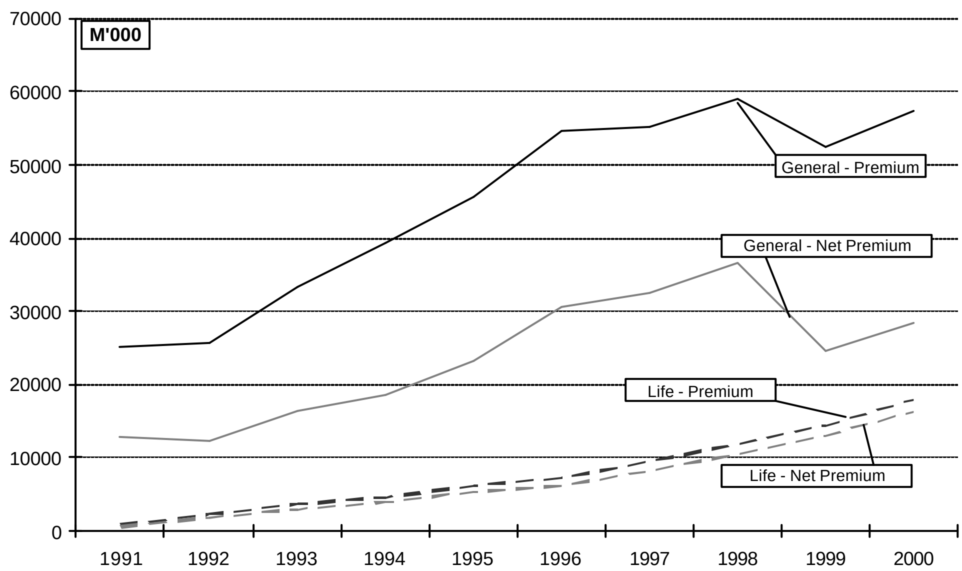

Figure 8: General insurance and life assurance premiums (LNIC)

Source: Lesotho National Insurance Holdings Limited Annual Report (2000)

Alliance is the only insurer to offer credit-life insurance, a product that was introduced in 2001. In the middle of 2002 they had 250 policies on their books. Alliance, as the only effective competition to LNGIC in the general insurance market, is still fairly small and had total assets of about M12.9m in 2000 (8% of

[50] Re-rating involves, either or both, increasing premiums or reducing benefits.

[51] According to Metropolitan, re-rating used to take place every five years, whereas the most recent re-rating was after only three years and they expect this to become a yearly process.

LNIC). They have 3 500 individual vehicle policies on their book. They estimate that only 5% of vehicles in Lesotho are insured.

Insurance regulations stipulate that only locally registered insurance companies may offer insurance products in Lesotho. This is, however, very difficult to enforce and according to local insurers many South African firms are offering their products in Lesotho[52] and to Lesotho people working outside the country. With high numbers of people working as migrant labourers in South Africa, they are in a good position to obtain insurance policies from South African insurers.

4.2. USAGE

It is extremely difficult to obtain accurate estimates of insurance coverage for Lesotho. In general, the insurance industry is reluctant to make its data available. However, sources close to the industry provided enough information to generate rough estimates. Of the total population of 2.1m, only about 20 000 people are estimated to have some form of life insurance (about 1%). The above figure only reflects estimates of the policies with locally registered insurers and will, therefore, underestimate the total number of policy holders in Lesotho. However, the number of policies underwritten by South African insurers will not change the general picture that access to insurance is very limited.

5. REGULATION

The insurance market in Lesotho is not effectively regulated. The industry is supervised by the Supervisory Policies and Regulation Division in the Central Bank. Each year the insurance companies have to apply to the Central Bank to renew their license. Reporting to the registrar of insurance is limited to the annual reports of insurers and regulation is based on the data contained in these reports. As annual reports, they do not provide the necessary level of detail to assist with the pro-active management of risks in the industry. Furthermore, the reports come out more than six months after the period they are reporting on and no aggregate data on the insurance industry is made available.

The Lesotho Insurance Act of 1976 is currently being reviewed[53]. In the new act, a distinction will be made between long-term insurance, short-term insurance and funeral insurance. It is also intended that IAIS (International Association of Insurance Supervisors) principles be incorporated into the new Act and that capital requirements and solvency requirements, which are presently too low, be reviewed. The purpose of this review process is to modernise the legal regulatory framework of the insurance industry, as well as to build capacity in key areas such as on-site examinations and off-site surveillance (Central Bank, 2003). A new unit, housed within the central bank, is to be established as soon as the act is passed and will be responsible for the Insurance Industry.

[52] Numerous South African insurers have offices in Ladybrand, which is near the Lesotho border.
[53] The Financial Sector Reform and Strengthening Initiative (FIRST Initiative) is assisting the Central Bank in this review process.

6. DISTRIBUTION AND PREMIUM COLLECTION

With good roads, communication and electricity often lacking, large areas of Lesotho are difficult to access. Consequently, it is difficult for insurers to distribute products to these places and even more difficult to collect premiums, as cash collection would be dangerous and expensive and banks do not have braches in these areas. Thus, with a significant proportion of the population living in these areas and not having easy access to banking services, their ability to use insurance products is limited. As a result, those people who have managed to access insurance are employed (generally civil servants), from higher income groups and generally live in major urban areas.

6.1. AGENTS

Agents are one channel through which insurance is sold. The extent of overall business being sold by agents is difficult to determine, but according to Metropolitan, about 90% of their business is sold through agents.

6.2. BROKERS

Brokers are another channel through which insurance business is sold.[54] According to the Insurance Act, brokers are not allowed to place business with a foreign insurer, but brokers can apply for a special dispensation to offer South African products if the product is not available in Lesotho.

In addition to selling products, brokers also act in collecting premium payments. According to discussions with LNGIC, brokers collect about 80% of their total premiums.

6.3. BANKS

As debit orders are not available on most bank accounts, insurers have reverted to using salary deductions and cash payments. This increases the distribution costs and risk of default significantly and is a major barrier to the expansion of insurance access.

A number of initiatives aimed at improving the current situation where debit orders are not used and insurers face greater risk in collecting premiums, include:

- LNGIC mentioned that, to a limited extent, premiums are paid by banks. For example, Standard Bank would offer an insured loan to a customer

[54] Some of the larger brokers are Mamoth, Mathabo McCloy and Aon

and then pay his/her insurance premium. Standard Bank would then recover the loan from the customer, charging interest.

- Metropolitan and Standard Bank are working on a partnership to pay claims electronically. This is still in the early stages of formulation.
- Over the last year, Nedbank has been pro-active in reducing minimum balances to allow more people to get access to both savings accounts as well as investment products and have increased the interest paid on deposits. This initiative will induce a greater usage of bank accounts, making it increasingly worthwhile for banks to offer debit order facilities on, for example, insurance products. In turn, this would reduce the costs of collecting premiums and improve the access of people to insurance products.

Finally, credit life policies are compulsory on personal loans granted by Standard Bank. These policies cover HIV and no medical tests are required (due to the small loan amounts). The insurance is brokered by AON and underwritten by Alliance.

7. FRAUD

A major problem faced by insurers in Lesotho is the inability to identify people and validate a claim, given the lack of ID documents amongst the population. For example, when a person dies, it is impossible to thoroughly validate that the dead person is the actual person covered by the policy, due to the ease with which death certificates and other documents can be forged. Metropolitan suspect that up to 30% of annual claims may be fraudulent.

The result of such high levels of fraud is that re-rating takes place more often and that the risk of fraud has to be priced into the cost of policies, making them more expensive. This extra cost will reduce the price affordability of insurance for poorer households and limit the access of insurance to only those who can afford higher prices.

8. CONCLUSIONS

In summary, obstacles that prevent greater usage of insurance products are:

- *The limited use of bank accounts and debit orders*. Reorganising the banking sector into a three-tiered structure may set the framework for greater usage of bank accounts but it will take some time for these changes to take place. This, in turn, will encourage banks to offer debit order facilities to their customers, which will make premium collection easier and cheaper for insurers. In turn this will improve price affordability of insurance products. One of the main problems, however, remains the lack of infrastructure to communicate with and access the remote areas. The change in regulation will not change this.
- *The lack of ID documents.* It must imperative that the national identification system be improved as the absence of this makes it possible for financial institutions to enforce contracts with individuals.
- *The threat of HIV/AIDS*. This affects the cost of products, through continual re-rating and affects the level of household disposable income
- *The inability to access certain areas of Lesotho*. Due to bad roads poor means to communicate, distribution of insurance products to these areas is difficult.

In order to make a more comprehensive analysis of the market, aggregate data needs to be compiled by the relevant authorities responsible for insurance. At this stage the Supervisory and Regulatory division in the Central Bank is responsible for insurance. Only with sound aggregate data will a full understanding of the Lesotho Insurance market be possible.

PART VI: SUMMARY

SUMMARY

The above sections provided an overview of the insurance and risk mitigation environment in each of the BLNS countries and across the spectrum of providers of such services. Although it is clear that the situation in each country is different, several of the key issues that arose are similar. In summary, it is worthwhile reviewing these issues.

HIV/AIDS

It is clear and not unexpected that HIV/AIDS is a major issue throughout the SACU region. Prevalence rates are high and healthcare is constrained by resources. While in Botswana and Namibia, the social security network may be in a position to alleviate some of the pressure on affected households, this is not the case in Lesotho and Swaziland where the social security system is very limited.

In this scenario, it must be acknowledged that insurance does not provide an easy answer to the problem and probably cannot address the problem at the lowest income end where it will remain the responsibility of government. Insurance can, however, play an important role to not only insure lives but also facilitate treatment for those lower-income households who are employed and have access to such services through their employer. A number of the larger employers in the SACU region have implemented such programmes or are in the process of doing so. Designing the appropriate insurance products to complement existing wellness programmes will make it easier for companies to sustain their efforts and manage their exposure. It may also place it within reach of smaller employers to provide such programme to its employees. The programmes often extend to the direct family of the employee and, therefore, can reach a large number of people.

In terms of broader product development, there is also a shift from only ensuring the inevitable outcome of HIV/AIDS to adjusting existing products to address the needs of households faced with such risks. As an example of this, funeral insurance is one example where the product ensures one of the costs in the progression of HIV/AIDS, but was not sensitive to the circumstances and needs of policyholders. In the progression of HIV/AIDS, the affected individual may contract AIDS and be incapacitated through a prolonged illness before he/she succumbs to the disease. During this time, he/she is unable to work and, therefore, unable to pay the monthly insurance premiums. As a result, the policy lapses and, ironically, the cover is lost just months before it is actually required. New generation insurance policies are increasingly taking the needs and circumstances of the policyholder into account by building in a premium waver period.

DISTRIBUTION AND PAYMENT COLLECTION

Distribution and payment collection is a key problem in extending access to insurance. This is particularly the case where premiums are relatively small and the cost of distribution and payment collection is, therefore, relatively more significant. In the case of the BLNS countries, this situation is exacerbated due to the topography and demographic distribution of the population. In Botswana and Namibia insurers have to cope with vast and sparsely populated areas with limited transport and communication infrastructure. In the case of Lesotho, the mountainous terrain makes it impossible to easily reach a large proportion of the population. Here also transport and communication infrastructure is extremely limited.

Furthermore, the insurance industry is in most cases dependent on the banking infrastructure for payment collection (through e.g. debit orders). This represents a significant barrier as access to transaction banking is still quite limited. In Botswana and Namibia, the post office infrastructure presents a potential alternative. This is, however, still in the process of being developed to facilitate the transaction process.

REGULATION

In all four BLNS countries, the regulatory regime is still in the process of development. Botswana and Namibia have already come a long way and the regulators are in a good position to manage the industry. In Swaziland and Lesotho this is not the case. Swaziland is still in the process (which have been continuing for the last decade) of passing legislation to remove the insurance monopoly. In Lesotho, the legislation is in place, but capacity to enforce is limited and regulation is essentially non-existent. In general, regulators are also faced with capacity constraints and difficulty in finding and retaining skilled staff.

LACK OF MARKET AND DEMOGRAPHIC INFORMATION

In general, there is a lack of information on the potential market for insurers. They, consequently, do not have a clear idea of the potential, needs, characteristics and risk profile of the market. This makes it very difficult to develop and price products as they have to learn by the expensive process of trial and error. In the absence of information that signals a potentially profitable market, it is to be doubted whether insurers will have the appetite to experiment. If properly executed, the FinScope survey may go a long way in addressing this.

DOMINANCE BY FOREIGN INSURERS

The insurance markets of all four BLNS countries are dominated by foreign and, in particular, South African insurers. This trend is expected to increase due to the relatively small size of the respective markets and the cost of setting up company only to serve such a small market. The positive result of the presence of such firms is that it leads to a fast learning curve in terms of product development and management as the products are simply taken from the operations in the parent countries. Due to the small size of these markets, it is, however, also the case that these institutions tend to view them as branches with little incentive for local product development.

INFORMAL PROVIDERS

Particularly in Lesotho and Swaziland, informal provi ders of financial and risk mitigation services play and essential role serving lower-income households. In Swaziland the cooperative movement is comparable to the banking sector in the number of people it serves. In the absence of the cooperatives, these households would simply have been excluded from such services (which often includes savings, credit and funeral insurance). In Lesotho, the informal movement is not as defined or as strong, but evidence clearly suggests that these institutions are playing an important role in the remote areas where the banks and insurers simply cannot reach.

Despite the promise of such institutions, the experience of trying to tap into these networks or formalise some of the structures have been problematic. It is, therefore, clear that they have an important role to play, but not as clear on how that role should be supported and how that should fit into the formal financial sector and regulatory framework.

CONSUMER EDUCATION AND FINANCIAL LITERACY

The lower-income market in the SACU countries are characterised by general low levels of financial literacy. Even where insurance products can be provided to these households it tends to be problematic due to the complex nature of the products and the potential for abuse. It is clear that the long-term development of participation in the financial sector by lower-income households will require significant investments in improving the level of financial literacy.

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GLOSSARY

AIDS	Acquired Immune Deficiency Syndrome
AML	Anti-Money Laundering
ART	Anti-retroviral Therapy
ARV	Anti-retroviral
BEDCO	Basotho Enterprises Development Corporation
BEE	Black Economic Empowerment
BIDPA	Botswana Institute for Development Policy Analysis
BJM	Barnard Jacobs Mellet
BLNS	Botswana Lesotho Namibia and Swaziland
CCU	Credit Cooperative Union
ECF	Employees Compensation Fund
FAIS	Financial Advisory and Intermediary Services
FICA	Financial Intelligence Centre Act
FIRST	Financial Sector Reform and Strengthening Initiative
FSA	Financial Services Association
FSB	Financial Services Board
FSP	Financial Services Provider
GIB	General Insurance Botswana
HIV	Human Immunodeficiency Virus
HP	Hire Purchase
IAIS	International Association of Insurance Supervisors
IDS	Insurance Data System
IFAD	International Fund for Agricultural Development
LHWP	Lesotho Highlands Water Project
LNGIC	Lesotho National General Insurance Company
LNIC	Lesotho National Insurance Company
LNLife	Lesotho National Life Insurance
LSM	Living Standard Measure
LT	Long Term
M&F	Mutual and Federal
MSD	Maternity, sick leave and death benefit
MVA	Motor Vehicle Accident
NAMFISA	Namibia Financial Institutions Supervisory Authority
NAMPAADD	National Master Plan for Arable Agriculture and Dairy Development
Nampost	Namibian Post Office
NAMPS	Namibia All Media Product Survey
NASRIA	Namibia Special Risks Insurance
NEPRU	Namibian Economic Policy Research Unit
NMBF	National Medical Benefit Fund
NPF	National Pension Fund

PDSF	Public Debt Service Fund
PMTCT	Prevention of Mother to Child Transmission
PPR	Policyholder Protection Rules
RAF	Road Accident Fund
REs	Rural Entrepreneurs
RFES	Rural Finance and Enterprise Support
ROSCAs	Rotating Savings and Credit Associations
SACCOL	Savings and Credit Cooperative League
SACCOs	Savings and Credit Co-operatives
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARPN	Southern African Regional Poverty Network
SASCCO	Swaziland Association of Savings and Credit Cooperatives
SME	Small Medium Enterprise
SNL	Swazi National Land
SRIC	Swaziland Royal Insurance Company
SSC	Social Security Commission
SSDF	Social Security Development Fund
ST	Short Term
STD	Sexually Transmitted Disease
UIF	Unemployment Insurance Fund

APPENDIX A: LEGISLATION

SOUTH AFRICA

Financial Advisory and Intermediary Services Act, Act 37 of 2002

BOTSWANA

Employment Act

Insurance Industries Act, Act of 1987

Motor Vehicle Fund Act, Act 6 of 1998

Worker's Compensation Act, Act 23 of 1998

LESOTHO

Lesotho Insurance Act of 1976

NAMIBIA

Employees Compensation Act, Act 5 of 1995

Long-term Insurance Act, Act 5 of 1998

Namibia Financial Institutions Supervisory Authority Act, Act 3 of 2001

Reinsurance Corporation Act, Act of 1998

Short-term Insurance Act, Act 4 of 1998

Social Security Act, Act 34 of 1994

Workmen's Compensation Act, Act 30 of 1941

SWAZILAND

Cooperative Societies Act of 1964

Insurance Act of 1973

APPENDIX B: LIST OF MEETINGS HELD IN NAMIBIA

Person	Company	Position	No. (09 26461)	Email
Koos du Toit	NAMLIFE	CEO	202 3000	kdutoit@namlife.com
Basie Engelbrecht	SANTAM	MD		Basie.Engelbrecht@santam.co.za
Bertie van der Walt	Old Mutual	MD	299 3502	bvdwalt@oldmutual.com
Louis du Toit	Old Mutual	Fin Dir	299 3502	
Tertius Stears	Sanlam/LAAN	MD/chairman of LAAN	294 7419	
Gersom Katjimune	Mutual & Federal	Managing Director	207 7201	gkatjimu@mf.co.za
Jan Jones	Legal Shield	General Manger (Trustco)		jan@tgi.na
Frans van Rensburg	NAMFISA			
John Uusiku	NAMFISA			
Frans Saenen	NIBA		274 620	fsaenen@glenrandmib.co.za
	Jacque Malan			
Hadiz Tilahun	United Funeral Insurance Ltd		249 473	
Maria	City Funeral Ltd		234 123	
Melinda Maasdorp	UNDP			melinda.maasdorp@undp.org
Hester du Toit	Pinaccle mngmnt consultants			
Kurt Alkema	Standard Bank Brokers		294 2643	alkemak@standardbank.com.na
Christoph Storke	NEPRU	Researcher	277 500	ChristophS@nepru.org.na
Lovisa Showalo	Ministry of Agriculture: Cooperative Development Division		208 7620	shiwalol@mawrd.gov.na
David Keendjele	Social Security Commission	Acting CEO	280 7999	david@ssc.org.na
Mr. Calle Schlettwein	Permanent secretary (Ministry of Fin)	Permanent secretary		cschlettwein@mof.gov.na
Leeba Fouche	Metropolitan Life	MD	297 3011	lfouche@metropolitan.com.na
Mr Gardener	Nampost Savings Bank	General Manager	201 3115	

APPENDIX C: LIST OF MEETINGS HELD IN BOTSWANA

Organisation	Contact person	Position	No. (09 267)	Email
Alexander Forbes	Niko Koster	Broker	390 8562	niko@afrs.info.bw
Regent Insurance/Life	Abe Botes	Branch manager	318 8153	abeb@regent.co.za
Metropolitan Life	Mr Nathan Kgabi/ Frikkie Augustyn	Managing Director/Marketing Manager	390 6685	faugustyn@metropolitan.co.za; nkgabi@metropolitan.co.za
Botswana Insurance Company	Mr. Jim Parton	Consultant	360 0500	shirley_madande@stpaul.com
Marsh	Aiden Rose	Broker	318 8000	aiden.rose@marshmc.com
Actuarial Solutions	David Schneider	Managing Director	390 1598	ds@as.co.bw
Botswana Life	George Williams/Isang Tshoagong/Rob Holgate	Interim MD/National Broker Manager/Broker Manager	3951791	gwilliams@lifeinsurance.bw; rholgate@lifeinsurance.bw; itshoagong@lifeinsurance.bw
Botswana Insurance Brokers Association/AON	Patrick Honnet	Chairman/Senior broker	361 7300	
BIDPA	Prof. Jay Salkin	Senior Research Fellow	397 1750	jsalkin@bidpa.bw
National AIDS Coordinating Agency	Dr. Khan	National Co-ordinator	390 3188	akhan@gov.bw
Botswana Eagle	John Main	Manager	318 8888	john.main@saeagle.co.za
General Insurance Botswana	Bright Nyirenda	General Manager	318 4310	bnyirenda@gib.co.bw
Ministry of Labour and Home Affairs	Mrs R. Sigiwele	Asstnt. Commissioner of Labour	361 1510	rsigiwele@gov.bw
Donor	Sennye Obuseng	Senior Economist	395 2121	sennye.obuseng@undp.org
FNB Botswana	Alex Park/Cliff Jones	Assistant MD	391 1669	apark@fnbbotswana.co.bw
Motor Vehicle Accident Fund	Leonard Sechele	Deputy CEO	318 8533	sechele@mva.bw
National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD)	Mr M Mphathi	Co-ordinator of Nampaadd	319 0030	mmphathi@gov.bw ; lmakubate@gov.bw
Ministry of Finance and Development Planning	Elaina Gonsalves	Director Insurance & Pensions	395 0338	egonsalves@gov.bw

APPENDIX D: LIST OF TELEPHONE MEETINGS – SWAZILAND

Name	Institution and Position	No. (09 268)	Email
Mr Martin Dlamini	Central Bank (Governor)	408 2000	martind@centralbank.org.sz
Mrs Nina Dlamini	Min of Finance (Insurance)	404 8149/7	
Mr Graham Fitzgerald	Min of Finance (Legal)	404 8149/7	grahamf@gov.sz
Mr Robert Magagula	SRIC (CEO)	404 3231/9	
Mr Dumisani Dlamini	SRIC (Finance Manager)	404 3231/9	
Mr Ambrose Dlamini	Nedbank (MD)	404 9131 602 8241	amdlamini@nedcor.com
Mr Kevin Reed	Nedbank (Head of Credit)	404 3351	
Mrs Victoria Dlamini	Swazibank (Insurance)	404 2551 ext 1136	
Mr Petros Shongwe	Swazi Building Society (Operations Manager)	404 2107 ext 125	shongwepd@buildingsociety.sz
Mr Mandla Simelane	Vista Brokers (MD)	404 8686	
Mr Aubrey Nhlabathi	Alexander Forbes – s/t (Technical Manager)	404 8001	nhlabathia@aforbes.co.sz
Mrs Lois Cartwright	Alexander Forbes – l/t	404 1728 602 3641	
Mrs Winile Dlamini	SASCCO	404 0278	sascco@realnet.co.sz
Mrs Grave Dludlu	CCU (PR)	505 2787	
Mr Shabangu	CCU Insurance Brokers	505 7190	
Mrs Sibongile Mthembu	Imbita	505 5507	imbita@realnet.co.sz
Mrs Lomalanga Matsebula	Motor Vehicle Fund (MD)	404 5569	
Mr Dumasani Dlamini	Min of Enterprise & Employment	404 1971	
Mr Louis Nxumalo	Tibiyo	518 4306/8 518 4390	

APPENDIX E: LIST OF TELEPHONE MEETINGS – LESOTHO

Name	Institution and Position	N0. (09 266 22)	Email
Mrs Nthabiseng Liphapang	Central Bank (Head Insurance)	314 281 ext 2152	cbl@centralbank.org.ls rurfinun@adelfang.co.za
Mrs Thandiwe Metsing	Central Bank (Head of Supervisory Policies and Regulations Division)	314 281 ext 2040	
Mr Kepa	LNGIC	324 426	
Mr Molatsili	Metropolitan (Sales Manager)	322 419	