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Microinsurance in Uganda: Tectonic Shift In The Near Future?

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The microinsurance sector's fate is largely decided by regulations, governments' developmental plans and poverty related policies. In the case of Uganda, these determinants have recently undergone change. The Insurance (Amendment) Act, 2011 of Uganda, has promoted an entirely new regulatory framework under the Insurance Regulatory Authority (IRA). In addition, the government's National Development Plan (2010/11-2014/15) (NDP) also envisages new approaches for economic and social growth with a strong focus on poverty-reduction. These two developments are likely to influence the microinsurance sector.

This Note analyses the possible impact of these regulatory and political changes on the microinsurance sector, and predicts the state of the sector in Uganda in near future. Some of the salient aspects of the new regulatory regime are outlined below.

Insurance Companies Will Be Highly Regulated

The regulation puts an end to composite insurance licenses. From now on, only specified life and non-life insurance companies with minimum paid up capital of UGX3-4 billion (US$1.2-1.5 million)[1] will be permitted. The regulator, concerned about undercutting of prices[2] and non-compliance, has required that all the products, prices and documents be approved by the regulator. Licenses for companies and intermediaries must be renewed every year.

Channels To Be Regulated Too

The Act also regulates all agents, and other insurance intermediaries.[3] It requires exclusivity of agents, so that an entity or a person can only be an agent for one life and one non-life insurance company. All agents must pass the Certificate of Proficiency (COP) in Insurance examination conducted by the Insurance Institute of Uganda (IIU).

Bancassurance Channel Has Opened Up

To date, banks and financial institutions,[4] could sell only credit-linked insurance to their existing customers. The new regulation opens the option of bancassurance, where these institutions can deliver a variety of insurance companies' products. Moreover, the exclusivity clause does not apply to the bancassurance channel. Thus banks and FIs can become intermediaries of more than one life and/or non-life insurance companies.

Institutional Regulation For Microinsurance

The IRA has decided to formulate a separate microinsurance regulation with specific provisions for health and bancassurance categorised under non-life insurance. However, the regulation is silent on how a microinsurance policy covering life risks will be categorised. The regulator also seems to favour a separate institutional category for microinsurance. It has proposed separate minimum capital requirements for microinsurance providers. It is expected that, following advice from global experts, the minimum paid up capital for microinsurance will be less than UGX200 million (US$80,000).

In addition to the NDP, the Microfinance Outreach Plan (MOP), Health Sector Strategic Planning III (HSSP III), National Health Policy II (NHP II), Uganda National Minimum Health Package (UNMHP) and National Health Insurance Scheme (NHIS) are some of the government policies that might impact microinsurance business in the country. Some of the expected trends are discussed below.

Improved Access to Financial Services

Uganda is ranked 126th among 139 countries assessed for financial inclusion.[5] It has only 1.94 bank branches per 100,000 adults and 154 accounts per1,000 adults. NDP targets to have at least one bank branch in every district and an MFI in every sub-district by 2014. The government incentivises MFIs (SACCOs and NGO-MFIs) serving rural areas through free technical assistance and tax relief. With a planned investment of UGX31.4 billion (US$12.6 million), the national fibre optic cable network is also expected to link the country and improve the payment and core banking systems. Moreover, the plan proposes to increase competition in the financial industry by licensing more financial institutions under a strict but transparent regulatory system. All of these initiatives are expected to improve the status of financial inclusion in Uganda.

Improved Rural Economy

With an expected investment of UGX71.4 billion (US$28.6 million), the irrigation systems of Uganda are to be modernised. The NDP also promotes modernisation of the production and marketing of agricultural produce. These initiatives should result in higher disposable income of farming communities in rural areas (73% of the population). Hence, the affordability for financial services is also expected to improve.

[1] UGX3bn for life and UGX4bn for non-life business; Uganda Insurers' Association; October 2011
[2] Which may lead to poor claim ratio and ultimately compromise client interest
[3] Brokers, claim settling agents, loss assessors, surveyors and risk managers
[4] Regulated by Financial Institutions' Act 2004 and MDI Act 2003

Improved Health Status
The major focus of HSSPIII and NHPII is to improve health awareness and primary health care. Through these programmes, the government is emphasising access to preventive health care along with sanitation, child health and health literacy campaigns. The experts do, however, suggest that the fiscal health expenditure is insufficient to take care of all the health related issues of the country. Hence, private-public partnerships will be necessary to effect significant, sustainable change in health indicators.

Limited Health Insurance Coverage
The Ministry of Health is in the process of designing a universal National Health Insurance Scheme (NHIS). The plan will cover only the public and private sector employees for the first seven years, followed by the poor and informal sector players thereafter. The timeframe for universal coverage is fifteen years. However, unless the revenue and premium model undergoes a radical change, there is limited potential for such a scheme to attract either health service providers or the insurers.

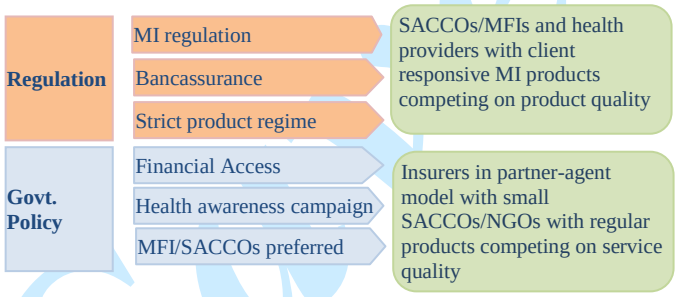
The microinsurance regulation might take one more year to be formulated. Though challenging to predict, some of the trends that the new regulatory regime might dictate are discussed below.

A New Microinsurance Regime Will Be Established
We believe that the microinsurance regulation will comprise a mix of functional and institutional regulations.[6] The type of risks to be underwritten under microinsurance will be specified, and new legal forms (e.g. funeral societies, MDIs) will be allowed to underwrite only microinsurance policies. However, in the absence of any global microinsurance player, and with the limited expertise of conventional insurers in microinsurance, local players with experience of informal risk pooling, are expected to take the microinsurance licenses. Given the interest of Ugandan policymakers in cooperatives, it is expected that cooperatives will also be allowed to underwrite microinsurance.

New Microinsurance Players Will Enter The Market
Due to the relaxed capital norms in the microinsurance and health insurance markets, an increase in new players in this space is to be expected. Apart from the localised players, health insurance might be spearheaded by health service providers. The takeover of erstwhile micro-insurer Microcare, by the International Medical Group (which has a chain of health clinics across the country) is an indication that some health service provider chains might enter the health insurance and microinsurance space.

Distribution Will Determine Competition
With the advent of the bancassurance regulation, banks, MDIs and MFIs will be able to distribute more than just credit-life insurance products. The new microinsurance regulation is also expected to allow new distribution channels specifically for microinsurance such as cooperatives, SACCOs and NGOs. It is important to note that the regulator is going to establish a strict product approval regime. It is therefore safe to assume that insurers will focus on optimising distribution rather than on developing innovative products to be competitive in the market. It is also possible that the conventional insurers will try to "push" their existing credit-life microinsurance products, through their new distribution channels.

Development of Microinsurance (MI) Market in Uganda



Product Quality And Service Will Be The Two Edges
Local players, SACCOs, MFIs and health service providers lack the distribution advantage. However, they have an edge in understanding the local context. Thus, their products should be more responsive to the needs of the local clientele. Conventional insurers, entering the microinsurance field, therefore will have to compete with these local players by delivering customised solutions. One potential result might be that local players compete on product quality, and conventional players, banking on their distribution advantage, compete on quality of service.

Awareness Of Microinsurance Will Increase
Though NHIS is initially meant for public and private sector employees, it certainly will enhance awareness of people in Uganda about health insurance. The market is set for a renewed pitch and associated publicity on health insurance by the new entities entering the microinsurance market. Promotional campaigns by Uganda Insurer's Association will also enhance awareness. Both of these efforts will make the concept of health insurance better known and potentially more popular, and thus will help to stimulate the latent demand for health insurance in Uganda.

Conclusion
Our predictions are based on the assumption that the IRA will be a strong regulator and national policies will be sincerely and effectively implemented. Though it is still a speculative to pre-empt the market, we believe that conventional insurers, as well as microfinance players will soon be able to realise the strategic potential of microinsurance in their portfolio.

[6] When microinsurance is considered as a sub-sector of conventional insurance, it is "functional regulation"; whereas regulation promoting separate institutional treatment of microinsurance is called "institutional regulation" - (IAIS).