

PROVIDING INSURANCE PRODUCTS IN DEVELOPING COUNTRIES – Challenges for formal insurance companies

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Contest

1. Why is insurance so special?
2. Insurance in Africa
3. Challenges in providing insurance in developing countries (case: Uganda)
4. Conclusions

Focus on private insurance companies

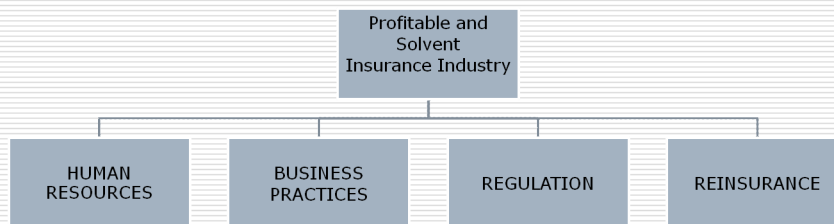
What is insurance

- Insurance is protection of policyholder against specific perils in exchange for premium that is proportionate to the likelihood and cost of the risk involved.
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Insurance as business

- Revenue before expenditure
 - Pricing problematic
 - Claims stochastic process
 - Solvency requirements
 - Accumulated funds
 - Need for regulation
 - Need for consumer protection
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Four pillars



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Insurance in the World

- Worldwide premiums in 2006 were USD 3 723 billion.
 - Life Insurance was 2 209 billion.
 - Non-Life Insurance was 1 514 billion.
 - Industrialized countries accounted for 92 percent of the premiums.
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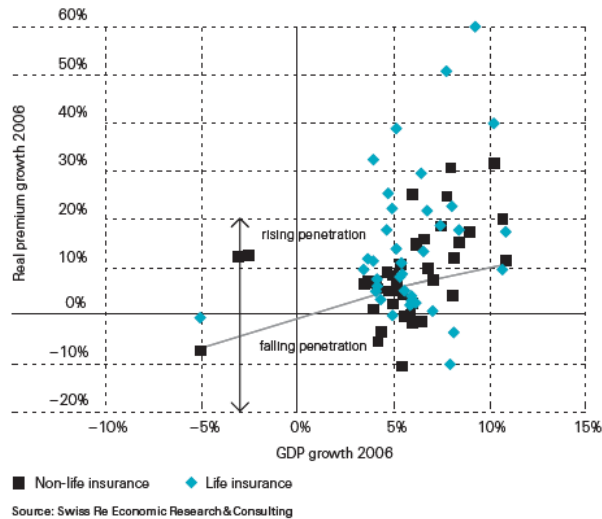
Insurance in Africa

- In Africa premium income was USD 50 billion
 - There are about 700 insurance companies.
 - Africa accounts for 1.33 percent of world insurance market.
 - Share of GDP 2.2%, population 14 %
 - Without South-Africa
 - Africa's share of world life premiums is 0.1 percent
 - Africa's share of world non-life premiums 0.44 percent
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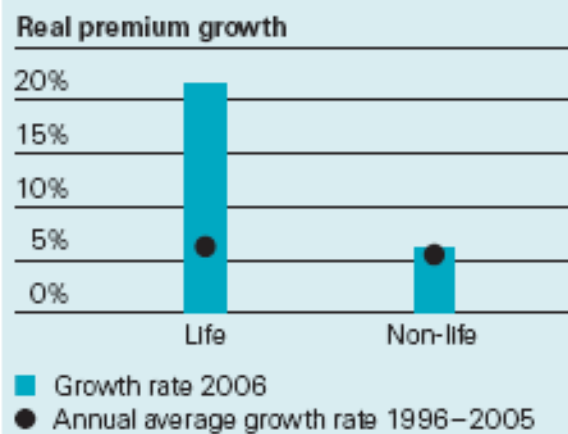
World real premium growth 2006

	Life	Non-life
Emerging markets	21.1%	10.8%
Industrialised countries	6.6%	0.6%
Total	7.7%	1.5%

Premium versus GDP growth in emerging markets



Real premium growth in Africa



Why low penetration

- Per capita incomes low
 - Large informal sector
 - Majority of the workforce in agriculture
 - Not many companies
 - Small industrial sector
 - Short life – expectancy
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Additional problems

- Uncertain asset values
 - No recent mortality tables
 - Undeveloped payment systems
 - Poor juridical system
 - Corruption
 - Poor law enforcement
 - No national identity card
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Regulatory problems

- Outdated insurance legislation
 - Poor enforcement
 - Usually regulator not independent
 - Unmotivated, poorly paid staff
 - Lack of information and statistics
 - No consumer protection
 - No corporate governance
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Why agricultural insurance is so low?

- Family based agriculture
 - Commercial farming can be insured
 - Moral hazard after policy
 - Difficult to assess claims
 - Novelty: Index based insurance
 - Amount of rain
 - Wind speeds
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What is microinsurance

- Microinsurance has been defined as protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.
 - Example: In 2006 four companies offered microinsurance products in Uganda.
 - They had 50.000 customers. Population 28 million.
 - 20.000 health.
 - 30.000 credit life and personal accident.
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Traditional insurance products

Non-Life

- Fire
 - Motor Third Party
 - Comprehensive Motor
 - Accident/Health
 - Workers compensation
 - Marine/Aviation/Transport
 - Fidelity guarantees
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Life

- Term Life
- Credit Life
- Endowment policies

Case: Motor insurance in Uganda

- Broken down road network
 - Vehicles second (fourth) hand cars
 - Japan-> South Korea-> Middle East-> Uganda
 - 90 % of driving licences forged
 - 1 police for 3000 people
 - No enforcement of drunk driving laws
 - Statutory Motor Third Party Liability in only 40 % of cars
 - Premium pricing has to be very high.
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Insurance business in Sub-Saharan Africa

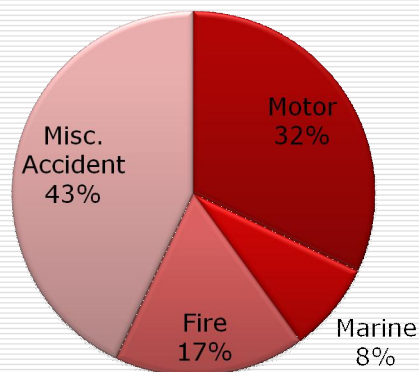
- Size of the companies small
- Poor investment possibilities
- Requires profitable underwriting
- Heavy use of reinsurance
- Hard to find skilled workforce



Insurance companies in Uganda

- 21 insurance companies in 2007
 - 15 Non-life companies
 - 5 Composite companies
 - 1 Life Company
 - Premiums 2007 USD 75 million (+24%)
 - Non-Life dominates with 94 %
 - USD 2.2 premiums per capita in Uganda (penetration 0.54 %)
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Distribution of non-life premiums in Uganda



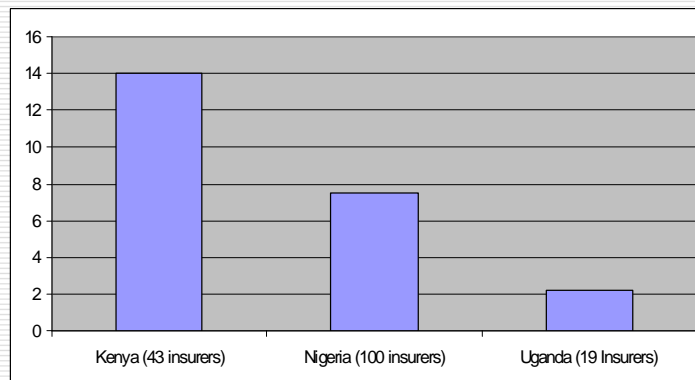
Inefficient scale

- Due to small size companies have high costs
 - Acquisition costs high
 - Management expenses high
- Balance sheet cannot absorb risks
 - Reinsurance



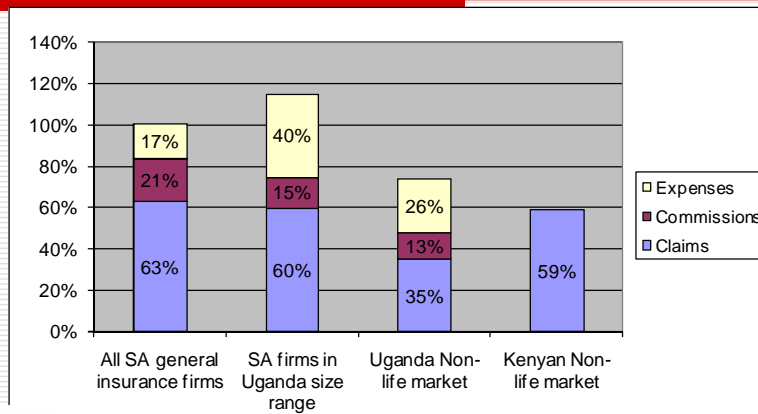
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Average premium per insurer \$m



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Costs % of net earned premiums



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Poor investment possibilities

- Capital markets are underdeveloped
- Mainly in bank accounts or government bonds
- Asset values hard to determine
- Asset values fluctuate
- Assets difficult to realize
- Thin and inefficient stock exchange



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Inadequate reinsurance cover

- Too small market – does not interest
- Poor data on demographics, asset values and claim behaviour
- Pricing is arbitrary, lack of actuarial knowhow
- One shoe fits all treaties
- Inadequate or unsuitable covers
- Need for local reinsurance capacity



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Intermediation in insurance

- Companies have not developed their own distribution channels
- Restrictive legislation major problem
- Brokers tend to have an upper hand
 - High commissions
 - Credit on premiums
 - Poor claims management
 - Poor customer information



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Lack of insurance specialists

Uganda:

- 1000 people working in the industry
 - 3 actuaries
 - 35-40 have advanced insurance degree
 - 150 have passed Certificate of Proficiency
- 1 Salesperson per 50.000 people
 - USA 1 salesperson per 250 people



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Future

- Economic growth
- Middle class and SMEs
- Life insurance takeoff
- Pension liberalization
- Housing markets and mortgages
- Bank lending development
- Agricultural insurance
- Microinsurance



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Conclusions

- ❑ There is universal need for insurance.
 - ❑ Developing countries especially challenging for insurance.
 - ❑ Lack of almost everything.
 - ❑ Proper regulation vital for growth.
 - ❑ Need for training, new products, sensitization.
 - ❑ Good growth prospects in long run.
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Thank you



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