PERFORMANCE OF THE MICROINSURANCE INDUSTRY IN GHANA: THE ROLE OF PARTNER AGENT MODEL

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ABSTRACT

The study focuses on the performance of the microinsurance industry in Ghana with specific reference to the role of partner agent model. The major theme for the thesis was to review the various existing microinsurance products and access the level of knowledge or awareness of the low income earners regarding the various formal microinsurance products available in Ghana.

A descriptive research which was largely qualitative was used for gathering and analyzing data generated from primary and secondary data.

The major findings indicated that there are currently three main microinsurance products in Ghana: Funeral (Anidaso), National Health Insurance Scheme (NHIS) and the Credit Life and Property insurance. Respondents exhibited average awareness about the NHIS but had little or no knowledge about the funeral and credit and life property policies. It was evident that the agent (MFIs) in the distribution of the funeral and credit life and property policies have not contributed to creating awareness on the various policies available for their clients but rather staff of the partner (Insurance Agency) contributed to creating awareness through frequent sensitization and marketing programs.

In order to improve the performance of the industry through increasing knowledge, the study suggests that partners involved in the partner agent model should avoid the over reliance on agents in the distribution and sale of microinsurance products.
INTRODUCTION

In everyday life, people are exposed to several risks that threaten their lives, health, and property. Although everyone is affected by these risks, low-income people are the most vulnerable as they do not have adequate means to manage or minimise their exposure to risk. For many of the poor, microfinance has provided a lifeline for poverty alleviation. It is increasingly acknowledged that households, especially poor households, need some level of protection against risk. Insurance can serve to reduce the negative impact of the onset of risk upon a household through the principle of pooling risk. Pooling risk together has the potential to provide more adequate compensation than an individual’s capacity to borrow or save (Mutesasira, 2000; Sebageni, 2002 & Churchill 2007).

Understanding the various risks facing the urban and rural in Ghana, and their coping strategies will enable the emerging microinsurance sector identify clearly insurable risks, covariant risks and idiosyncratic risks and further help in the development of appropriate products and delivery mechanism for formal microinsurance products.

Microfinance client have come to see the benefits of saving money, as well as maintaining a healthy credit relationship, to protect against future crises (McCord, 2000). In spite of the contributions of savings and credits to help in time of crisis, it has become clear that savings, though critical, only addresses the relatively simple life cycle events and minor emergencies. The issues of health care financing, deaths, and property loss, for example, often require a
greater level of financial support. For this and other reasons, there has been much discussion about the provision of insurance products to the poor in order to address the needs arising from risk and other insurable eventualities.

It is evident that the low income persons live in risky environment and are vulnerable to numerous perils. Microinsurance, like regular insurance, may be offered to protect the poor against a variety of risks such as health risks, property risks, credit risk, agricultural risks, etc.

Churchill, 2007 indicated that microinsurance products can be designed and delivered or sold through a variety of different channels, including small community – based schemes, credit unions, rural banks and MFI as well as multinational insurance companies. This strategic linkage has the potential of helping to improve the access to microinsurance products amongst the low income and the poor. McCord, 2007 also indicated that the interest shown by commercial insurers in the design and sale of microinsurance products has grown rapidly over the years and this development is expected to lead to product expansion on the insurance market and further offer an innovative alternative for some insurance firms to escape the stiff competition in the insurance market.

STATEMENT OF PROBLEM

In 2004, Ghana Life Insurance Company (GLICO) developed a microinsurance product by forming a partner agent relationship with six (6) Microfinance Institutions (MFIs). In 2006, Micro Insurance Agency (MIA) now Micro Ensure was also registered to developed and promote microinsurance products by providing a strategic linkage between the MFIs, NGOs, etc. and the main insurance companies. It is evidently clear that the various insurance
products currently available on the market for the low income earners are not known. The major theme of this research is, therefore, to establish the variety of microinsurance available on the Ghanaian market as well as the level of awareness of these products by the targeted population. It will also review the existing channels available for the distribution of microinsurance products.

LITERATURE REVIEW

The microfinance industry in providing credit or financial assistance to the poor for the past years has learnt significant lessons. Notable amongst them is the fact that the poor does not only need credit to improve on their livelihood. It is out of these lessons that microinsurance has become the newest discipline within the microfinance industry which aims at offering protection against risks faced by the poor (Kloppenburg 2006, Leftley and Mapfumo 2006, Llanto, et al, 2007).

RATIONALE OF MICROINSURANCE

Today, microinsurance promotion has become an integral part of poverty eradication programs to strengthen both the development of the financial, health and social security systems. This is because development experts across the world have come to the agreement that microinsurance is a potent tool for complementing micro credit in the fight against poverty by enabling poor households to pool risks, thereby, preventing them from falling deeper into the poverty trap at the occurrence of unforeseeable shocks (Wiedmaier-Pfister, Jowett, Portula, Llanto, 2007). The occurrence of an emergency or risk has the tendency to easily erode the hard earned incomes of poor households. This is specially the case when the
households have no formal insurance cover over them. The role of microinsurance like any effective risk management instrument is, therefore, to serve as a shock reliever to major risks and ensure that the household involved can continue on their route to escaping poverty (Leftley and Mafumo 2006, Cohen and Sabstad, 2006). The importance of microinsurance, therefore, is to serve as a safe net, with the ability of ensuring that the poor household possesses the ability to deal with a named risk and in addition ensure that these households are prevented from becoming poorer after the occurrence of a risk or an emergency. Microinsurance in summary has the ability to help boost the stability of the poor.

THE NEED FOR MICROINSURANCE

The goal of several poverty eradication projects or programmes embarked on by the Government of Ghana is to ensure a sustainable equitable growth, accelerate poverty reduction and protect the vulnerable (GSS, 2000). Although there are several projects aimed at accelerating poverty eradication and sustaining equitable growth in Ghana for the poor, there seems to be little or no attention to developing programs or projects targeting the protection of the poor or the vulnerable.

The 2000 population and housing census indicated that 80% of the working population in Ghana is found in the private informal sector. These people are characterized by lack of access to credit which constrains the development and growth of that sector of the economy. Lately it has also been noticed that the informal sector does not only lack access to credit but also lack other important products like insurance that has the ability to protect the poor and their gains from identified life cycle risk or emergencies by ensuring that the agenda for poverty eradication by the Government is continued.
The poor in developing countries like Ghana enjoy few safeguards against the numerous perils of life – illness, injury, natural disasters, or loss of property. This is so because most governments in developing countries are often unable to provide adequate social protection for their poorer citizens. At the same time, formal insurers in many markets do not see low-income people as viable clients since they consider the informal market as highly risky and expensive.

The absence of adequate social protection for the poor in Ghana has the ability to undermine the achievement of the country’s poverty eradication strategy programmes. There is, therefore, the need to promote the concept of microinsurance by governments as well as other private entities to ensure that the gains of the poor who are mostly in the informal private sector of the economy are provided with adequate social net to protect them and their gains from life vulnerabilities. In connection to the importance of microinsurance, there has been recent progress whereby some traditional insurance companies have introduced some simple products, such as life insurance and credit life for the poor or the low income earners (Latortue, Montesquiou and Ward 2008). This progress is mostly as a result of Non-Governmental Organizations providing financial assistance to certain insurance companies to consider developing products for the low end market.

A major vulnerability and exclusion study undertaken in Ghana by Snc Consult in 2006 indicates that there are five main risks which create vulnerability to poverty in Ghana and these are:
• Macroeconomic shocks
• Health shocks
• Life cycle shocks
• Natural environment and disasters
• Exclusion tendencies.

The work further indicated that although poor people in the informal sector are exposed to multiple risks, they lack effective risk management instrument to militate against the identified vulnerability. According to Vigano et al. (2007), in the absence of institutional opportunities to insure or cover against risks, households and individuals in developing countries may use different strategies to deal with them. For example, the traditional coping strategy of many poor households includes the selling of assets: land, livestock, borrowing at high interest rates, etc. These coping strategies in the end leave debt burdens for the affected individuals. In most cases it was noticed that this traditional method of coping or managing a risk rather undermines the low income person’s capability to survive future shocks. In other cases, the individual’s ability to become financially independent again after a risk or an emergency takes rather a longer time than expected after such incidence of vulnerability.

Microinsurance is an emerging industry and MFIs as well as similar institutions that serve the poor have come to recognize that their clients do not only need loans but a variety of financial services which includes insurance (Llanto et al,2007) Poor clients over time have articulated their need for risk protection. In response to these needs, many have formed organized groups and these groups have attempted to manage their own in house mutual benefit associations which have not been very successful. For example in Ghana, people join
social groups which may be based on religious, cultural or family affiliations or relationships. Most of these groups have welfare scheme systems that employ all members to contribute a minimum amount of money which is deposited in a central pool and managed by the leaders of the groups to be used to support paid up members in the event of a risk like death or sickness or any emergencies as agreed upon by all the members belonging to the group. The challenge of these indigenous welfare schemes, however, lies in the fact that the Mutual Benefit Associations (MBA) lack the technical knowledge required in the management of risks. In most cases it has been noticed that the schemes only provides only token assistance to the affected member which involves the purchase of a quantity of provision (milk, sugar, etc) to be presented to a hospitalized member. Another key challenge encountered by the MBA is that in some cases the pool of funds mobilized gets depleted before the occurrence of an emergency and members are, therefore, made to contribute an additional amount aside their regular contributions in order to enable them to support their troubled member.

For instance, in Ghana, most poor families support the cost of funerals by borrowing from traditional money lenders and or from relatives. The loans are paid from the revenues generated from the donations and contributions received during the burial ceremonies which in most cases cannot be guaranteed as source of repayment for the loan. Most low income earners or the poor, therefore, become indebted after performing the funeral rites of their loved ones, thereby, threatening their ability to improve on their livelihood. This has led to cases where children of school going ages are made to drop out of school to take up employment in order to support their parents or relations in paying debts brought about as a result of the cost incurred in organizing a funeral.
HISTORY OF MICROINSURANCE IN GHANA

The microinsurance industry in general and Ghana in particular has a long way to go, many lessons to learn and distribution and breakthroughs are yet to come. The business formally started in 2004 when CARE supported GLICO to design the first formal micro funeral insurance policy in Ghana. By the end of 2006 the micro funeral policy designed by GLICO and distributed through 6 MFIs was the only known micro insurance product available for the low income earners. In 2007 Micro Insurance Agency (Micro Ensure) was registered and incorporated as an insurance agent to promote the design, sale and distribution of microinsurance products by providing strategic linkages between the traditional insurance companies, MFIs, NGOs and the targeted clients.

DEMAND FOR MICROINSURANCE AMONGST THE POOR

Leaftley, 2007 indicated that without access to affordable and sustainable insurance products society will have no safety nets. The effect of the losses is that the entire community gets poorer and the poor faces an uncertain future where an emergency can rapidly erode the assets that hard work has taken many years to accumulate. (Leaftley, 2007). Although it is a fact that low-income households are extremely vulnerable, early research on the demand for insurance suggests that the target market may not consider insurance as an appropriate means of managing risks. Some very poor people may not also want to purchase insurance because they may not consider the expense to be a good use of their limited financial resources. Others actually think that they don’t need insurance but strongly believe that insurance is for
the poor. An insurance demand study conducted in Zambia clearly revealed that insurance would not be a high priority for many poor people. (Matul 2007, Churchill, Liber, McCord and Roth 2003).

The demand for Microinsurance has been found to be directly related to vulnerability and it grows out of the risks and risk management strategies of low-income households. Conducting a research on the impact of risk events and on how poor people cope with the shocks, gives a better picture of the need and demand of insurance. When crisis occur the poor adopts common coping mechanism in order to solve the accompanying challenges (Cohen and Sebsted 2006). It is, therefore, worth saying that understanding the various coping mechanism of the poor in the event of a risk management is an important lessons needed in accessing demand for microinsurance.

METHODOLOGY

This study adopted a descriptive and a qualitative approach which was based on the review of the performance of the microinsurance industry in Ghana. Primary data was gathered from the field by administering questionnaires to selected clients of Snapi Aba in Tema, Opportunity International (OI) in Mamprobi and some inhabitants of a local community (Adanklebi) in the Eastern Region.

In all 72 clients of selected MFIs involved in distributing microinsurance and 27 potential clients in farming community were selected at random to respond to a questionnaire. Information on risk management strategies were obtained through focus group discussions with clients and microinsurance agents.
FINDINGS:

Nature of Distribution Models

The research found out that there are two main distributing channels for microinsurance products in Ghana. These are the traditional partner-agent model and the “partner-agent-agent-model”.

Under the partner-agent model, the agent (MFI or NGO or cooperatives) becomes the “face” of the insurance company on the market. This linkage is made up of three key actors—insurers, MFIs and the low income people (McCord, 2006). An example of this linkage exists between GLICO and the rural and community banks (RCBs) and Women’s World Bank (WWB) in the sale and distribution of “Anidaso Funeral Product”.

The partner–agent-agent-model is being practiced by Micro Insurance Agency Ghana (MIA). In this type of linkage MIA serves as an intermediary between insurance companies and the MFIs or any organized group whilst still providing frontier contact with targeted clients for the sale and distribution of their products.

The main operational difference between these two distribution channels is that, in the case of the “traditional partner-agent model”, the partner is dependent on the agent to provide all the marketing contacts to the clients for the sale of the insurance products and the insurance company in turn bears the risk for all contract signed by the clients of the MFI. The success of the products under the partner-agent model is very much depended on the commitment of
the agent or the MFI. However, in the MIA distribution model (partner – agent - agent model) MIA provides additional frontier marketing directly to its targeted clients. MIA at the same time provides partnership with the MFI who intends provide marketing services on behalf of MIA for the sale and marketing of its products. In this type of linkage MIA offers individuals who do not have any relationship with any MFI the opportunity to purchase an insurance product.

**Types and Nature of the Main Microinsurance Products**

It was observed that there are currently three main types of microinsurance products available for the poor and the low income earners. These are:

**Micro Funeral Policy.**

The first micro funeral policy was launched in August 2004 and was referred to as Anidaso (hope). By the end of 2006, it was still the only funeral microinsurance product on the market targeting the low income or the poor mostly in the informal sector of the economy. The Anidaso microinsurance product has two components; life and investment policies. It was designed by Ghana Life Insurance Company (GLICO) with funding from CARE International.

**National Health Insurance Scheme (NHIS)**

The NHIS is a mutual health scheme launched in 2004 by the Government of Ghana to offer medical care especially to the poor and vulnerable. The scheme was to be supported by the monthly minimum payment of sixty Ghana Pesewas (US$0.60) to be paid by the poor who mostly are in the informal sector. It was mainly initiated to address the problem of financial
barrier to health care posed by the cash and carry system which requires an instant payment for health care at the point of service delivery, a practice which made health care unaffordable for the masses (GPRS11, 2005). Under the NHIS premium payment for workers in the formal sector is done by 2.5% deduction from the social security premiums paid on behalf of the workers (Medilinks, 2004). It is worth noting that before the launch of the NHIS, all the health insurance products available on the Ghanaian market only targeted the middle income earners or mostly people in the formal sector of the economy.

**Credit Life and Property Product (CLPP)**

The credit life and property microinsurance product was designed to protect the loan portfolio of MFI inorder to improve on the quality of their loans. It is a useful product that seeks to pay off any outstanding loan of an insured borrower as a result of death of the borrower or perils of goods due to a natural disaster. It was observed that most MFIs offering this product made it compulsory for all of its borrowers.

**DESCRIPTION OF DATA**

The main occupation of the 99 respondents indicated that majority of the respondents were traders (55.6%) who mainly form the bulk of the active clientele of the MFI partnering MIA, GH in the sale and distribution of microinsurance products. Artisans (17.2%) were made up of respondents with professions such as tailors, seamstresses, hairdressers and auto mechanics. Respondents interviewed who had professions such as teachers; professional drivers and working in formal institutions were treated as others (13%).
Relevance of Insurance among Respondents

89.9% of the respondents indicated that they were convinced that formal insurance products can help them solve risk or life vulnerabilities that they or their enterprises may encounter. It was evident that the understanding of the benefit of insurance was influenced by the sensitization by the staff of MIA. It was also revealed that the number of respondents who indicated that insurance had the ability to help them solve life vulnerabilities or risk had some relationship with informal insurance systems. They, therefore, concluded that if their welfare groups could provide certain levels of comfort to pay up members then they expected that a formal insurance product designed for the informal sector should be able to provide them with the needed ability to solve a named risk that they may encounter.

Knowledge of micro insurance products

52% of the respondents were aware of some insurance products on the market. The remaining 48% however, indicated that they were not yet aware of any such insurance product currently being sold on the Ghanaian market. It was, however, evident from this research that the knowledge about the microinsurance products currently available on the market was influenced greatly by a sensitization and marketing drive undertaken by MIA to the clients of its agents (Opportunity International and Snapi Aba Trust). Although some clients had credit life and property policy covers for the loans contracted from some MFIs, they were not aware that they had an insurance cover against loan default resulting from insurable natural disasters. A further investigation revealed that, officials of most MFIs sold
the credit life and property as a compulsory product to all clients and did not communicate the details of the products as well as the benefits available to clients in order to reduce the incidence of moral hazard.

Of the 52% respondents who indicated that they were aware of microinsurance products, 70% of them indicated that they were aware of the NHIS. 20% indicated their awareness about the micro funeral insurance products whilst the remaining 10% said they knew only about the compulsory credit life and property insurance.

It can also be deduced from the response received that promotion or advertising helps in the dissemination of information about the various microinsurance products and directly increases the awareness of these products as can be seen from the results. The products that enjoyed intensive promotion by way of marketing and sensitization were well known by the respondents.

Risk awareness

Majority of the low income earners in the informal sector are much aware of the fact that they or their enterprises face several risks or emergencies. 82% of the respondents interviewed were aware of the fact that they or their enterprises may encounter certain risk or emergency that can inhibit their bid to improve on their livelihood. The analysis, therefore, supports the fact that the poor in the informal sector are risk conscious as well as people in the formal sector. It can be deduced from the analysis that, the clients association with informal risk mitigating groups (welfare groups) is a clear indication of their preparations for
emergencies that may occur in future. 7%, however, indicated that they were not aware of any risk that they or their enterprises including their families could face. It was interesting to note that majority of the 7% were, however, members of groups that were contributing monthly dues meant for welfare activities. It can, therefore, be concluded that though the poor people may claim not to be aware of any life vulnerabilities, their actions are indirectly indications of their awareness of some life vulnerabilities.

Risk Management amongst Respondents

The essence of this was to find out from the respondents the strategy or strategies they would adopt to manage an emergency or a risk when it occurs. Respondents had the option to indicate as many strategies that may be available to them. 37% of the respondent indicated their interest in insurance that helps in the management of a future risk. This was directly influenced by a sensitization programme on insurance for the clients of some selected MFIs. 30% of the respondents revealed that they will borrow or depend on relations whiles 19% and 14% indicated that they will depend on their savings and loans from banks respectively to help manage some eventualities. Respondents who indicated their willingness to depend on insurance gave instances some negative experiences knew about when it comes to processing and paying of insurance claims. They also indicated that borrowing from bank or money lenders although was a reliable source; it was expensive and rather exerted too much pressure on their financial inflows.
CONCLUSION AND RECOMMENDATION

The research found out that the poor and low income interviewed perceived insurance as a relevant risk mitigating mechanism that could provide them with a “second chance” to continue on their way out of poverty. They indicated that such product will provide a relief for most of them to keep the assets they have acquired over time.

On the knowledge and awareness of the microinsurance products currently being offered, it came to light that the averaged educated client (clients with the educational levels up to the middle or junior secondary school) indicated their knowledge of at least one microinsurance product on the market. It was further revealed that the NHIS was widely known amongst the respondent whiles the other insurance products like funeral and credit life and property were not well known. Although there was a correlation between the level of education and the knowledge of microinsurance products, it was revealed that, sensitization and marketing activities play a key role in making the products and its associated benefits known to the respondents. It was indicative from the response received that, the key players in promoting the knowledge about the various microinsurance products were the staff of MIA who during the period of this research embarked on an intensive sensitization programme on insurance to clients of its agent MFIs. It was also observed that in the case of the NHIS, the National Health Insurance Authority (NHIA) rolled out an intensive sensitization and marketing program by employing the use of the electronic media as well as direct sales staff to provide answers and feedbacks on issues on insurance which were a bother to the targeted clients. The aggressive sensitization and marketing were found missing for the two major
microinsurance products (funeral and credit life and property) in Ghana and this negatively affected the level of knowledge for these products.

From the studies, it is indicative that a heavy reliance on the agent MFIs in promoting the awareness and knowledge about microinsurance products will not help in the growth of the industry and, therefore, should be avoided. Rather partners like insurance companies and insurance agencies should endeavor to employ key staff to work along with the field staff of the agent MFIs to provide direct marketing to the clients of the MFIs whiles the staff of the agent MFIs concentrates on selling their core products.

The research found out that the poor and the low income earners were much aware that their lives or their enterprises can be faced with risks and uncertainties that can make them poorer. The data collected indicated that the risk due to fire and accident were highly known by the respondents. The research, however, revealed that the risks known to the respondents were not necessarily related to the client insurance needs. For example although the clients profiled fire and accidents as the main risk known to them, clients who were given the opportunity to indicate which insurance policy they would want to purchase indicated the need for health and a funeral policy. It, therefore, revealed that developers of microinsurance products should not easily conclude on the insurance needs of the poor or the low income earners from the main risk known to these ones.
RECOMMENDATIONS

For microinsurance to fulfill its objective of providing protection against certain perils and serve as a natural complement to other financial and social services for the poor, it is necessary to develop an insurance culture among the low income market. An insurance culture is a pre-requisite for the success of microinsurance. NIC and other stakeholders should therefore team up and partner with the Ministry of Finance in Ghana and the Ghana Microfinance Institution Network (GHAMFIN) in the ongoing financial literacy sensitization workshops so that insurance issues and the various microinsurance products can be added to the main issues to be dealt with. Stakeholders in the industry should consider expanding the current access points by linking up with other institutions apart from the MFIs/RCBs to make the purchase of microinsurance policy more accessible.

Innovative partnerships can be developed with mobile phone service providers, churches, groups, association, market queens and taxis or vehicle stations to explore the possibility of using their platforms to increase the point of sales for microinsurance products.

Insurance needs of the poor are dynamic and, therefore, changes depending on the current happenings in their communities or countries. Stakeholders in the industry, therefore, should perform frequent market reviews in order to be abreast with the changing insurance needs of the people. Any insurance company or insurance agents seeking to enter into a partner agent model with formal institutions like MFIs/RCBs should avoid the over reliance on the agents.
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