Financial Inclusion: Best Policy Practices and Guidelines on Accounting and Insurance Regulations for Micro, Small and Medium sized Enterprises (MSMEs)

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Background

- The Insurance Regulatory Authority (IRA) is charged with the mandate of **ensuring effective administration, supervision, regulation and control of the business of insurance in Uganda**.

- Promoting a sound and efficient insurance market in the country is one of its prime functions.

Developments in the insurance industry (Micro insurance)

- The level of development of the insurance industry in Africa (and Uganda in particular) is still low with focus mainly on commercial and urban scale populations.
- Finscope III, a financial inclusion study in Uganda done in 2013 revealed interesting statistics (3% of households demanded formal insurance compared to 41% that demanded informal insurance).
- Some 43% of the population was classified (in 2009/10) as

"non-poor but insecure" compared with 32.6% classified as middle class

- The above facts point to the fact that there is a lot of scope for microinsurance to serve these currently underserved or un-served populations.
- What comes out clearly in analysis of these populations is that they have unique characteristics that will call for unique regulations. Regulatory flexibility will be required if we are to break-even in this promising business niche.
- We have been working with **Access to Insurance Initiative** (A2ii) in a unique partnership between international development agencies and the International Association of Insurance Supervisors (IAIS) with the mission to inspire and support insurance supervisors to promote inclusive and responsible insurance, thereby reducing vulnerability.

Micro Insurance Regulatory Framework

- Given the existence of a large, unserved population segment and the keen interest from a variety of stakeholders, efforts have been made to further strengthen and develop the microinsurance market in Uganda.
- It is noteworthy that the Authority has already taken concrete steps to create an enabling regulatory framework to specifically promote microinsurance
- In that regard, draft micro insurance Regulations have been developed.Awaiting to be included in the general regulations to the Insurance Act 2017
- The regulations are underpinned by the fact that the targeted market is a unique niche and therefore simplicity is fundamental – SIMPLE POLICIES, SIMPLE REPORTING, SIMPLE ACCOUNTING, etc…
- Even with established capital requirements, Dedicated Microinsurers will require less capital (about USD 30,000); and we also recognize bundled products.

Strategies for Microinsurance Market Development

- **Research**: in Uganda, promising distribution options beyond financial institutions have not yet been tested. With a large population not being served by formal insurers and living in rural areas, new ways of reaching them should be identified.
- **Training**: given the relatively limited experience of most Ugandan microinsurance players, targeted training for insurers and potential delivery channels should be offered in order to help them get kick-started.
- **Product development**: in specific areas, such as agriculture or health, direct involvement and substantial support in product development would certainly be warranted, as related expertise may be insufficient in the market.
- **Awareness campaigns**: in order to better educate the public on general insurance principles, the value of insurance and customer rights, a broad awareness campaign could help individual players to move forward quickly – providing that claims settlement has increased noticeably

Roles of accounting and insurance policies

Some of the functions of the Insurance Regulatory Authority of Uganda include:

- Safeguarding the rights of insurance policyholders and insurance beneficiaries to **any insurance contract;**
- And approving texts of policies and proposal forms

Prudential requirements

- There are some core prudential requirements specified in the Act in relation to insurers, which are supplemented by the Insurance Regulations and the Insurance (Investment of Paid-Up Capital and Insurance Funds) Regulations.
- In summary the Act requires licensed insurers to maintain:
- minimum paid-up capital (section 6)
- a security deposit (section 7)
- insurance reserves (usually referred to as technical provisions) (section 47).
- Insurers are required to hold as investments assets in Uganda at least equal to "the funds in the insurance business shown in the balance sheet" (section 48).

The Insurance Act requires for the provision of accounts in a prescribed format to enhance the safeguarding of the rights of policyholders

Accounts and audit

- Insurers are required to prepare specified types of annual

accounts, which must be audited.

- The audited accounts must be submitted to the Authority within 90 days of the end of the financial year, together with other specified documents.

NB: Like I said earlier, these standards exist and apply to all the other conventional insurers. However, with Microinsurance, standards will exist but Regulators will have to recognise that **THIS IS A DIFFERENT BUSINESS AREA, AND SUSTAINABILITY WILL REQUIRE FLEXIBILITY** -----requirements for reporting, accounting, reserving etc.

“Bundling or embedding insurance – will underpin successful Microinsurance operations”

- Key in microinsurance products

- Bundling of insurance with another product or service has flourished and is an effective way of achieving scale

- Very important where there is low demand or it is costly to distribute the microinsurance product as a standalone product

“Microinsurance is an opportunity for insurers to be relevant“

Joan Lamm-Tennant CEO, Blue Marble Microinsurance

IT WILL NOT BE EASY OFCOURSE, BUT IT IS A GREAT OPPORTUNITY FOR US TO SERVE THOSE IN THE GREATEST NEED FOR OUR SERVICES…

EVERY **ENDING**
IS REALLY JUST A
NEW BEGINNING


Thank you