



How can insurance protect and enable MSMEs? Regional African Workshop on Financial Inclusion:

**Best Policy Practice and Guidelines on Accounting and Insurance regulation
for Micro, Small and Medium-sized Enterprises (MSMEs)**

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An example of SME insurance coverage

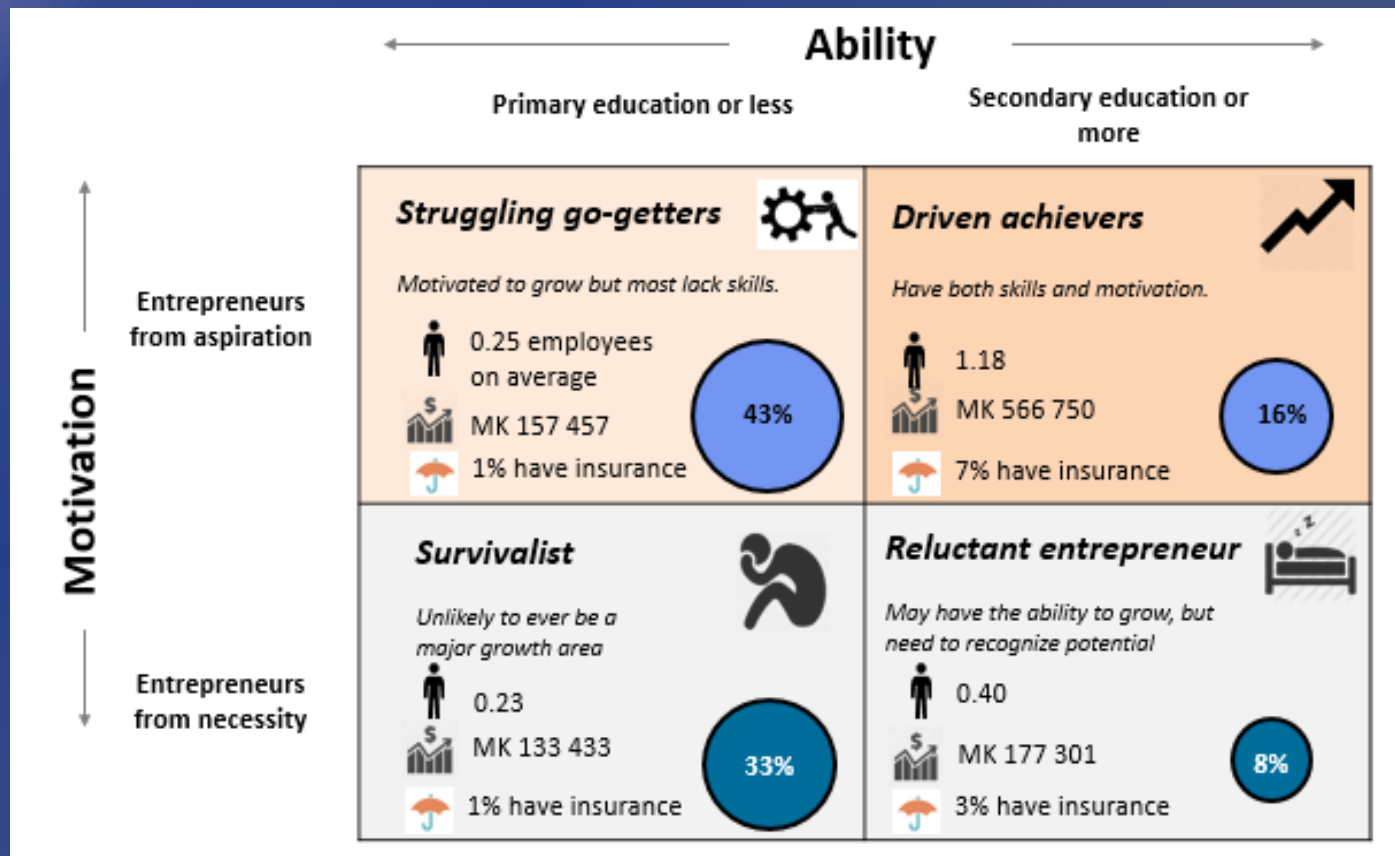


Figure 1. Segmenting SMEs by entrepreneurial motivation and ability. Malawbi, Study carried out by CENFRI



Relevant risks to SMEs



Fire



Fraud (internal incl.)



Credit



Weather related risks



Work accidents



Third party Liability



Potential insurance products

Risk	Potential insurance product	
Hazard risks	Fire and other property damage	Fire insurance Multi-risk property insurance
	Windstorm and other natural perils	Weather insurance
	Theft and other crime,	Theft insurance
		Political violence insurance
		Money insurance
		Fidelity guarantee insurance
	Personal injury	Personal accident insurance Workers compensation insurance
		Business interruption insurance
	Business interruption	Business interruption insurance
	Disease and disability	Health insurance Permanent disability insurance
Liability claims		Public liability insurance Products liability insurance
	Financial risks	Liquidity
Credit		Credit-linked insurance



Potential insurance products

Examples
seen in the
study

Hazard risks

Financial risks

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	Fidelity guarantee insurance
Personal injury	Personal accident insurance
	Workers compensation insurance
Business interruption	Business interruption insurance
Disease and disability	Health insurance
	Permanent disability insurance
Liability claims	Public liability insurance
	Products liability insurance
Liquidity	Trade credit insurance
Credit	Credit-linked insurance



Insurance: Challenges for coverage of the SMEs market

- SMEs face a range of insurance needs that reflect the blending of individual and corporate risks they face, including personal accident, business continuity, multi-risk property, and liability.
- However they have difficulties in accessing insurance services while insurers often lack relevant knowledge about SMEs needs and financial capacities, as face the distribution barriers that make reaching such clients costly.



Insurance: Challenges for coverage of the SMEs market

- **Product Design** Lack of knowledge of the needs and characteristics of SMEs results in inadequate products. SMEs face a range of insurance needs that reflect the blending of individual and corporate risks they face, including personal accident, business continuity, multi-risk property, and liability.
- **Distribution** - Identification of distribution channels in order to reach the critical mass needed to have a sustainable product
- **Lack of insurance culture and prevention** - SMEs are accustomed to their risk management mechanisms and assume that insurance is too expensive





Emerging Good Practices

Product Design:

- Multi-risk coverage
- Limits to customization of policies
- Prioritization of health coverage

Distribution:

- Collaboration with organizations and groups that can serve as aggregators of SME clients
- New technology to reach customers
- Alignment with the distributor's main business

Lack of insurance culture and prevention:

- Segmentation of SMEs according to their needs
- Invest in new ways to connect with SMEs





The role of Regulators

Stakeholders, in particular regulators are key at this stage

The role of regulators might need to go beyond the traditional function (establishing capital requirements, prices, and market behavior)⁵ alternative approaches to promoting inclusive markets:

Public provision approach

Directive approach

Concessionary approach

Nudge approach

Long-term market development approach





Key questions to consider when evaluating the implications of existing regulation

(1) How adequate are the regulations in terms of safeguarding the interests of SME clients? How are clients protected against fraudulent practices (education, complaints management)? Is there any concern about responding timely to policyholders' complaints?

(2) Which types of institutions are favored or hindered by the present regulatory framework? Do the regulations favor large companies by having high minimum capital requirements? Would it make sense to have special regulations for capital adequacy to promote non-traditional insurers?

(3) How can the cost of regulation and supervision be minimized, while at the same time ensuring quality services? How can supervision be effective and efficient?

(4) What can the regulatory framework contribute in order to motivate insurers to provide insurance to SMEs?



¿How to proceed?

- Market Conditioning Factors
 - Macroeconomic conditions
 - Infrastructure
 - Latent demand
 - Level of market development
 - Informality
 - Availability of public funds
 - Public infrastructure
 - Supervisory capacity

Tools available to regulators

Fiscal
Regulatory
Surveillance
Enforcement





From theory to practice

- Example 1: Increase access of SMEs to credit through the provision of multi-risk insurance
 - Objective of public policy: economic development, stimulation of innovation and productivity. Focus: Directive Tool: Regulatory Factors Required: Supervisory capacity, financial strength, market size
- Example 2: Promote resilience to natural disasters through tax exemptions to insurers offering insurance to SMEs against floods and earthquakes
 - Public policy objective- Increase resilience after natural disasters and lower government spending for recovery
 - Focus: Soft push Tool: Regulatory, fiscal
 - Factors Requirement: Availability of public funds, financial strength, data to create the products





Thank you!

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