access to insurance initiative

Swaziland microinsurance review

A market and regulatory analysis

RIRF

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This document is published under the umbrella of the global **Access to Insurance Initiative** and applies the methodology developed by the Access to Insurance Initiative. As such, the Swaziland experience will contribute to the growing body of learning internationally on policy, regulatory and supervisory responses to microinsurance.

About the Access to Insurance Initiative

The Access to Insurance Initiative (the Initiative) (www.access-to-insurance.org) is a global partnership by insurance supervisors and development agencies. The Initiative is designed to increase voluntary usage of suitable insurance products. It does so by contributing to sound, proportionate and effective policies, regulation and supervision. Reforms are triggered through best-practice, guidance and standards. Under the primacy of the IAIS, building on supervisors' leadership and contributions, it generates knowledge, contributes to the IAIS standard setting and contributes to capacity development measures for supervisors.

The Initiative was founded in October 2009 as a partnership between the International Association of Insurance Supervisors (IAIS), the German Federal Ministry for Economic Cooperation and Development (BMZ) together with the German Technical Cooperation (GTZ), the Consultative Group to assist the Poor (CGAP), the International Labour Organisation (ILO) and FinMark Trust. The United Nations Capital Development Fund (UNCDF) and Asian Development Bank (ADB) joined as partners in 2010. The German Development Cooperation (GTZ) is hosting the Secretariat on behalf of BMZ.

The Initiative conducts diagnostics of the insurance market and its policy, regulatory and supervisory environment in selected countries. The diagnostics are used to both develop country-specific recommendations and to generate cross-country learning on the most suitable approaches to facilitate the growth of microinsurance and to contribute to the standard setting process of the IAIS.

The Initiative also supports implementation efforts to enhance access to insurance markets on a selective basis. Regular dialogue and dissemination events to develop the capacity of supervisors and other authorities complement the service line of the Initiative.

List of Abbreviations

A2ii	Access to Insurance Initiative
CDD	Customer Due Diligence
CSO	Central Statistics Office
FSE & CC	Federation of Swaziland Employers and Chamber of Commerce
FSRA	Financial Services Regulatory Authority
GDP	Gross Domestic Product
HHI	Hirfindahl-Hirschman Index
IAIS	International Association for Insurance Supervisors
ICPs	Insurance Core Principles
IMF	International Monetary Fund
KYC	Know Your Customer
MFI	Microfinance Institution
NAMBOARD	National Agriculture Marketing Board
RIRF	Registrar of Insurance and Retirement Funds
RoE	Return on Equity
SACCO	Savings and Credit Cooperative
SACU	South African Customs Union
SADC	Swaziland Development Community
SASCCO	Swaziland Association of Savings and Credit Cooperatives
SHI	Social Health Insurance
SHIES	Swaziland Household Income and Expenditure Survey
SME	Small and Medium Enterprises
SNL	Swazi National Land
SRIC	Swazi Royal Insurance Corporation
SWADE	Swaziland Water and Agriculture Development Enterprise
TDL	Title Deed Land
UNAIDS	United Nations Programme on HIV and AIDS
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WB	World Bank

Executive summary

This report was commissioned by the Office of The Registrar of Insurance and Retirement Funds (RIRF) in Swaziland. The report sets out to provide an overview of the supply, demand and regulatory framework of insurance in Swaziland, in order to conclude on the current state and potential for microinsurance and to make policy and regulatory recommendations in this regard.

The report draws on desktop research as well as a number of consultations with a broad range of stakeholders conducted in March 2011. The draft findings were tested with stakeholders at a workshop in June 2011. The report also draws on qualitative demand-side research conducted by market research firm CRC in March 2011 through focus groups and individual interviews.

KEY FINDINGS

The socio and macroeconomic **context** forms the backdrop to insurance market development:

- *Small population, persistent poverty*. Swaziland has a population of just more than 1 million people, of which more than three quarters reside in rural areas and almost two thirds live below the international poverty line of USD1.25 per day. Growth has been tardy, with average growth between 1999 and 2009 well below the African average.
- *Vibrant informal economy, government largest formal employer*. According to the latest Swaziland Integrated Labour Force Survey, almost half of the 400,000-strong labour force is active in the informal economy. The majority of adults earn their living from informal trading or smallholder farming. There are only around 200,000 formal sector employees, with the public sector and parastatals being the single largest employers.
- *Fiscal crisis*. The single biggest context factor shaping the environment at present is the ongoing fiscal crisis: knock-on effects from the recent global economic recession, and a revision to Swaziland's share of Southern African Customs Union (SACU) receipts have led to a significant reduction in government revenues, leading to an estimated fiscal deficit of 14% for 2010/2011. Given the important role of the public sector in economic activity, the corresponding fiscal adjustments will have a ripple effect on the economy at large. It is also likely to inhibit investment decisions by insurers over the short-term.
- *Broad-reaching financial infrastructure.* Swaziland has a relatively large banking sector footprint. This is counterintuitive given the size of the country and economy, but may be due to the close link with South Africa. Almost half the adult population is estimated to have a bank account and financial sector infrastructure such as branch, ATM and POS penetration compares favourably with other African countries.

The insurance **market analysis** rendered the following key findings:

Small insurance market. As at June 2011, Swaziland had a total of ten insurance companies split between three short-term companies, six long-term companies and one composite insurer. Gross premiums as a percentage of GDP for 2009/2010 were 2.1%, against an African and World average of 3.3% and 7% respectively. Short-term business accounts for almost 60% of premiums.

Foreign influence. All the insurers have foreign majority shareholding. Nine of the insurance companies have South African parents and one is Zimbabwean owned. Swaziland's insurance sector was subject to a state-mandated monopoly from 1973 to 2005, where Swaziland Royal Insurance Corporation (SRIC) was the only insurer. The insurance market was liberalised in 2006 following the enactment of the Insurance Act in 2005. This led to a wave of new entrants into the market, many of whom had however been operating unofficially in Swaziland from across the border during the era of state monopoly. More recently, a second wave of new entry has been witnessed.

SRIC still strong position. SRIC is the only insurer allowed to hold both long-term and short-term licences. It remains the biggest insurer with a short-term market share of almost 100%, Though recent entry of three short-term insurers may change the dynamics in coming years, SRIC's incumbent position is likely to remain strong. On the long-term side, its official share of total premiums has reduced to 48% in 2009.

Relatively high insurance usage. According to the 2011 Swaziland FinScope survey, 17% of the adult population is estimated to have some form of formal insurance, translating to 100,000 people. This is significantly higher than the 7% and 1% respectively recorded in for example Kenya or Nigeria, both of whom have higher premiums as percentage of GDP. Nevertheless, the majority of the population remains unserved.

Funeral insurance most common. An estimated 66% of the insured population (both formal and informal) have a funeral insurance product. Each of the long-term insurers offers at least one funeral insurance product. The cheapest funeral insurance product charges a monthly premium of E16 and funeral cover options range between E13,000 and E30,000. FinScope also reports that 5.1% of the adult population belongs to an informal *Masingcwabisane* or burial society. This would imply that informal risk management in Swaziland is limited to funeral insurance. Life insurance other than funeral makes up only 16% of all insurance usage. This would include credit life, which has grown in prominence along with expansion in credit extension.

Short-term product usage relatively low. The 2011 FinScope survey estimates that 31% of those with a formal insurance product have short-term insurance. Under short-term, the most pervasive product is motor vehicle insurance, making up 50% of all short-term policies.

Strong role of brokers. Insurance in Swaziland is mainly distributed through traditional brokers, credit providers and funeral parlours. The strong position of the broker profession is a key feature of the market. Brokers are in many regards the face of the insurance industry and traditional corporate brokers are reported to account for up to 80% of all distribution. Most of the funeral insurance business is distributed through funeral parlours, some acting as brokers and others as agents of insurers. In an effort to obtain a foothold in the market, new entrants are considering agent sales. Some insurers are also starting to think of ways to tap into alternative distribution channels such as retailers or mobile network operators, but at the time of writing no initiatives in this regard had been launched.

Several aggregator groups present opportunities for expansion. There are a number of potential client "aggregators" or groups that insurers can tap into for cost-effective distribution of microinsurance. The unserved formally employed market is a first-order opportunity (for example, medical insurance usage is still very low even among government employees). Beyond the formally employed, those with a bank account or who are microfinance clients also present a “ready” opportunity. Various other aggregators, including the savings and credit cooperative (SACCO) client base, represented by the Swaziland Association of Savings and Credit Cooperatives (SASCCO), church groups and agricultural value chain organisations such as the Swaziland Water and Agriculture Development Enterprise (SWADE) can also be explored.

Affordability and trust barriers to be overcome. The demand-side research revealed that many low-income people struggle to make ends meet, but are generally knowledgeable, with a fair grasp of financial management practices. Most earn their income from trading or run small businesses. The most prominent risk faced is death and the associated funeral expenses, though funerals tend not to be as elaborate and expensive as in some other African countries. People tend to cope with risks in a variety of ways including calling on one’s immediate family. Most respondents indicated that, in the difficult economic times facing all, community support outside of the family can no longer be counted on. Most have heard of insurance, mostly funeral insurance, but do not feel that they can afford it, though knowledge of actual cost is low. Some have had bad previous experiences with insurance, or are discouraged from taking up insurance from the negative claims experiences of others. It would seem that perceptions drive behaviour, and such perceptions are often negative.

Regulatory framework:

Insurance in Swaziland is governed by the Insurance Act of 2005 along with the 2008 Regulations and Directives issued under the Act. The insurance and retirement funds industries are regulated under the Office of the Registrar of Insurance and Retirement Funds. Following the enactment of the Financial Services Regulatory Authority (FSRA) Act in 2010, the FSRA is now being set up as an umbrella non-banking financial services regulator.

Who may be an insurer? The Insurance Act allows public companies to register either as long-term insurers, short-term insurers or assistance business insurers (with assistance business defined to entail life policies with a benefit below E50,000). No composite insurers are allowed, with the exception of SRIC. Short-term insurers may however provide life benefits with a maximum term of 12 months under the accident and health class of policies. Health insurance is not regulated separately, but may be provided as part of the accident and health product class under either a long-term or a short-term licence. The business of a medical scheme is defined as outside of the definition of “insurance business” in the Act. This will change under FSRA, which will have jurisdiction over medical aid schemes.

Insurance business is also defined to exclude the activities of friendly societies (an unregulated mutual form) as well as agricultural cooperatives. Apart from that, mutuals and cooperatives can only gain access to insurance underwriting by setting up a company.

New regulator and legislation. The Insurance Act and the Registrar’s office are still fairly new. The Act commenced in 2005 and the RIRF was established subsequently. In such a scenario, set-up is the first priority and certain elements, such as the enforcement of AML/CFT requirements, and the issuing of policyholder protection rules have not yet been implemented. An insurance adjudicator was appointed in April 2011. In some ways, this has created flexibility that has fostered market development; in other ways it may have implied that enforcement and supervision is not yet consistent in all regards and across all players.

The insurance Act is currently under review. Combined with the formation of FSRA, this provides a key opportunity for reform. The study reaches the following conclusions regarding the interplay between the regulatory framework and market development:

- *Well crafted legislation, but some areas of uncertainty.* The Insurance Act, Regulations and Directives are relatively modern instruments and well crafted. Nevertheless, there are a few areas where there are gaps and uncertainties, for instance the demarcation between short-term and long-term insurance.
- *Prudential requirements thus far not a barrier to entry.* The minimum share capital (of E2 million) has thus far not proven to be a barrier to entry. The fact that there already is a second tier of licence for assistance business (funeral insurance), with significantly lower capital requirements, provides a precedent for microinsurance. The assistance business space has however largely not been utilised so far. The first assistance business licence was awarded in May 2011.
- *Intermediation requirements do not yet accommodate the realities of microinsurance distribution.* The current regulatory framework only allows brokers and agents to intermediate insurance. Though the agent category is defined very broadly, there is need for more explicit accommodation of third-party client "aggregators" such as retailers, cooperatives and funeral parlours.
- *No clear framework for health insurance.* Health insurance is the insurance product with the lowest reach currently. The demand side research revealed that health microinsurance would be a definite need in the low-income market. Thus far, there has been no consistent framework for the regulation of medical aid.
- *Local investment limitations.* Consultations with industry highlighted the current 30% local investment requirement was a regulatory constraint to market growth.

Drivers:

Swaziland is a very small market, characterised by recent liberalisation, a new regulator and supervisor and high poverty rates. Yet in a number of measures it is far ahead what would have been expected given its socio-economic and demographic conditions: it outstrips much larger African economies in insurance penetration and has quite a broad product suite for such a small market. Why is that? What drives the current market situation and what is likely to condition the development of the microinsurance market going forward?

The study identifies three underlying drivers:

1. **The size of the market defines the opportunity**. The small size of the Swaziland market, population-wise, means that the scope for growth is limited. At the same time, the small physical size of the country implies that even rural areas are within easy reach of urban infrastructure. In this way, the size of the country places a limit on the opportunity on the one hand, creating an imperative for insurers to position themselves as "first movers" to capture the unserved market opportunity, but on the other hand softens distribution challenges.

2. **The close link to South Africa**. Swaziland's close proximity to South Africa and the fact that nine of the ten insurers are wholly or partly South African-owned, lies behind a number of market dynamics and part-determines the regulatory imperatives going

forward. The fact that Swaziland is within the Common Monetary Area and close to South Africa means that it can in many respects be regarded as a low-risk testing ground for international expansion, rather than a large strategic market opportunity being pursued independently. Foreign-owned insurers furthermore may take their cue from mother company policy. Where this is the case, there will be drivers outside of Swaziland (e.g. strategic choices, investment decisions, product priorities or profitability trends at head office level) that will part-determine the direction that the Swaziland insurance market will take with regard to microinsurance. At the same time, it means that Swaziland can benefit from the product and distribution innovation within the group elsewhere.

Another important implication of foreign ownership is that the social objectives of the host country do not take first place on the agenda of foreign insurers. Their primary objective is branching out profitably into a new country. Thus far, insurers have followed a wait and see approach with regard to microinsurance, but as competition for the high-end market increases, the importance of finding new market segments will increase.

3. **An increasingly individual society**. The fact that community provision can no longer be counted on and that an elaborate funeral is not so highly valued, culturally, combine to create at least three implications for the microinsurance product suite, and hence regulation, going forward:

    - *Funeral insurance, while it can still be positioned as an anchor risk, is not the be all and end all of microinsurance*. The market is likely to value a package of cover or features that can also provide ancillary value around the funeral.
    - *Micro-life insurance, rather than pure funeral insurance, will have appeal*. Life insurance can be pitched at people's sense of having to safeguard their family when they pass away – something that in some other societies the community could be expected to take care of. In the same vein, health insurance or even asset insurance may have appeal.
    - *A comprehensive microinsurance space*. At the regulatory level, the need for a broader product suite creates an imperative to broaden the microinsurance space beyond pure assistance business and to allow for composite products that may bundle in life and non-life components to provide a package of benefits for families who can no longer rely on their community.

Conclusion: regulatory imperatives

The salient market features and underlying drivers create a number of specific regulatory imperatives for microinsurance growth at scale (detailed recommendations on each aspect are submitted separately to the office of the RIRF):

1. **Create a second tier for microinsurance.** At first glance, the fact that the current regulatory framework does not pose high barriers to entry and that there is already demarcation flexibility, as well as that the limitation of insurance licences to companies does not pose a real barrier, all suggest that no dedicated space for microinsurance provision is required within regulation. However, with the planned regulatory reforms the entry barriers will increase. There is also a potentially important role for smaller, local insurers to grow from the bottom (community-level) up. At the same time, larger established insurers need to be allowed to reach

down into the same space to ensure a level playing field. All of this suggests that there may be value in creating a dedicated microinsurance regulatory space.

A separate regulatory space for microinsurance can only be created if it is clear what the products are that should be accommodated in such a space. Microinsurance therefore needs to be defined in regulation. International examples show that the most common approach is to define microinsurance along the lines of product parameters. Certain product parameters, most notably the size of the insurance benefit and the duration of the contract term, can be set to bring down the insurance risks entailed by the product category, thereby warranting tailoring of regulation to the risk profile of the category, for example in the form of lower capital requirements.

2. **Define microinsurance across the demarcation divide.** The current assistance business space can form the starting point for an expanded microinsurance space in Swaziland. The demand-side driver highlighted above however implies the need for a broader product bouquet than just assistance business. In order to expand the microinsurance product offering beyond funeral insurance, it may be that short-term insurers may need to provide life-related microinsurance products (and *vice versa* for long-term insurers). Some may also want to provide composite products incorporating long-term as well as short-term components. By including a short contract term (maximum 12 months) as one of the parameters that all microinsurance products have to adhere to, the demarcation divide between short-term and long-term insurance can be crossed for the purpose of microinsurance. That is, because they will all exhibit the same risk features, composite microinsurance products may be allowed.

3. **Open up the intermediation space.** There is an imperative for the broadening of distribution beyond traditional one-on-one broker and agent sales. Regulation should create a clear space that caters for a variety of existing and new distribution channels (for example MFIs, SACCOs, church groups, retailers) and that explicitly allows for intermediaries to fulfil a suite of functions including administration, underwriting management and premium collection. It may also require that one entity is allowed to distribute the products of more than one insurer.

4. **Seek synergies with emerging international best-practice.** Swaziland is not the first country to be confronted with the need to develop the insurance market to serve a larger proportion of the population. As Annexes 2 and 4 show, there is significant existing country experience to draw on, as well as emerging guidance being developed by the IAIS and Microinsurance Network Joint Working Group on Microinsurance. The fact that South Africa is moving towards a microinsurance regulatory regime and that the Swaziland insurance sector has such a close link to South African parent companies, means that companies may respond by rolling out microinsurance strategies developed at headquarter level in Swaziland, should Swaziland create a microinsurance regime along similar lines as that proposed for South Africa (which in turn is aligned with emerging international best-practice). This may lead to innovation spillovers. Therefore Swaziland can gain from seeking synergies with international trends, while ensuring that any regulatory response remains attuned to local realities.

1. Introduction

Rationale for the study. This report was commissioned by the Office of The Registrar of Insurance and Retirement Funds (RIRF). The objective of the research was to map the landscape of insurance in general and microinsurance in particular in Swaziland, including an overview of the supply-side, the demand-side and the regulatory framework, as well as the context that forms the backdrop to market and regulatory developments. The purpose of this exercise is to conclude on the potential for microinsurance in Swaziland and to make policy and regulatory recommendations in this regard. Ultimately, the desired outcome is greater financial inclusion in the insurance sector. By providing a safety net for more and more ordinary people, the market mechanism can further the goal of social protection and poverty reduction, a goal that is particularly important to the RIRF and to the Ministry of Finance more broadly.

What is microinsurance? Microinsurance is defined by the International Association of Insurance Supervisors (IAIS) and international Microinsurance Network (MIN) Joint Working Group on Microinsurance (2007)[1] as "insurance accessed by the low-income market". In this simple phrase lies a wealth of meaning:

- Microinsurance is, in the first instance, **insurance**. That means that it is provided according to generally accepted insurance practices. Hence it is not social welfare or social assistance, but a complementary market solution. As such, it needs to be viable for insurance companies and must be funded by premiums.
- For microinsurance to be **accessed by** the low-income market, it needs to be affordable and appropriate to the target market's needs and within convenient reach of them. This means that, though similar to conventional insurance, microinsurance often has unique product features in line with the income and other realities of the target market. Furthermore, it requires innovative approaches to distribution so as to cost-effectively reach masses of people that may not be formally employed or have a bank account.
- Lastly, microinsurance needs to be accessible to the **low-income market**. The question of what can be regarded as "low-income" is core to the microinsurance concept. It will essentially differ from country to country and is not necessarily limited to one national or international poverty line cut-off. In the case of Swaziland, as in many if not most other developing countries where the majority of the population can be considered poor, there is a convincing argument not to regard microinsurance as "microbusiness". Where the bulk of the population is poor, microinsurance is a mainstream rather than a peripheral topic. The microinsurance challenge is to expand the insurance market beyond the currently very limited reach i.e. the upper class and formally employed market, to the middle market and, eventually, down the income spectrum to the poor[2]. Indeed, the future growth of the insurance industry may be largely driven by microinsurance. Microinsurance is, in many ways, the innovation incubator for the insurance industry.

Methodology

[1] IAIS-MIN JWGMI (formerly known as IAIS-CGAP JWGMI), 2007. Issues in the regulation and supervision of microinsurance. Available at: www.iaisweb.org. See Annex 4 for a more detailed overview.

[2] It also recognises that some part of the population will be simply too poor to afford insurance premiums and will remain the social protection responsibility of the state.

This report is based on the diagnostic methodology developed for the Access to Insurance Initiative (A2ii) and as captured in the A2ii diagnostic methodology toolkit[3].

What is a diagnostic? A microinsurance diagnostic is an analytical study that analyses the demand for and supply of microinsurance products within a country and the impact that policy, regulation and supervision has on such demand and supply. The analysis depicts the current situation, as well as how the market has developed over time. The combination of a snapshot and market evolution analysis enables the diagnostic to build an understanding of the underlying driving forces of the market stemming from the regulatory framework, the structure of the insurance market, the demand features and the broader financial sector, macroeconomic and socioeconomic context. Armed with this understanding, the diagnostic can identify the barriers to and opportunities for the microinsurance market's development. Based on this, it then formulates recommendations for future development of the market.

In line with this methodology, the report covers five essential components of analysis:

1. *Context*. It is important to understand the socio- and macro-economic context within which the insurance market operates, as well as the broader financial sector of which the insurance sector forms part.
2. *Supply-side*. The supply-side analysis takes stock of the insurance providers in the market, their performance, as well as the product landscape and its features to investigate what the current availability of products appropriate to the low-income market's needs is. An important supply-side component is to consider the various current and potential channels for insurance distribution, in recognition of the fact that cost-effective distribution and premium collection is often the primary challenge to the development of microinsurance at scale. Thus the supply-side analysis takes a holistic view across the insurance value chain.
3. *Demand-side*. Equally important to understanding the context and supply landscape is to understand the demand angle and how consumers perceive and interact with financial services. This part of the diagnostic uses available survey data and qualitative market research to understand the target market's economic realities, the risks that they face, the coping strategies that they typically employ and the
4. *Regulation*. The regulatory framework sets the rules of the game within which the market operates. It is therefore important to understand the various aspects of the regulatory framework for insurance as well as other areas of regulation that may impact on the development of the microinsurance market.
5. *Synthesis of drivers of market development and conclusions on development imperatives arisin***g**. The final part of a diagnostic brings all the components together into a synthesis of key market features, opportunities, market and regulatory drivers of market development and the corresponding regulatory and market imperatives for supporting development. Note that, due to the fact that the study was funded by and primarily targeted at the Regulator, this was conceived as a "diagnostic-light" with a specific emphasis on the regulatory analysis and regulatory recommendations.

[3] Available at: http://www.access-to-insurance.org/fileadmin/data_storage/documents/internal_documents/2011%2010%2012%20%20Toolkit%201_01.pdf

Research components. The methodology emphasises stakeholder consultations as primary source of information. The report is therefore largely based on the findings of one week of consultations in Swaziland, undertaken in March 2011, enhanced by extensive desktop research. The country visit covered 31 meetings with representatives from the insurance industry, the brokerage industry, the MFI industry, industry associations and chambers of commerce, the banking sector, regulators, etc[4]. Though the list is not exhaustive, the consultations provided a relatively representative basis on which to build the analysis. The insights from the country visit were tested against and enhanced by desktop research. In addition, the demand-side analysis draws on dedicated market research commissioned as input to the study, sponsored by FinMark Trust.

The start of a process. This report should be regarded as a tool or input rather than an outcome in itself. It will form the first phase of a broader process whereby local stakeholders (under the leadership of the regulator) engage to remove barriers and develop the market. The results were presented at a stakeholder workshop in June 2011 to test the conclusions and solicit further inputs from industry and government. The stakeholder workshop was attended by 55 individuals from various spheres, including insurers, the banking industry and government. The insights gained from the workshop have been incorporated in the report. As a follow-up, the Registrar's office with the support of FinMark Trust hosted another stakeholder meeting in February 2012, where the need for the formation of a platform of engagement , chaired by the Registrar's office, was discussed alongside industry challenges to microinsurance development.

Structure of the analysis

The report is structured as follows:

- **Section** 2 provides an overview of the macroeconomic and socioeconomic context in Swaziland.
- **Section** 3 outlines the insurance market in Swaziland from a supply perspective
    - **Section 3.1** gives an overview of the players active in the insurance market and draws on available data to discuss industry health and performance
    - **Section 3.2** considers the product landscape and the total usage or penetration of insurance in Swaziland
    - **Section 3.3** considers the current and emerging distribution models in the market and discusses potentially important distribution avenues going forward
- **Section 4** brings in the demand-side angle. It gives an overview of the market research conducted as input to this report to better understand the target market's experience of risks, the coping strategies they employ and the role that insurance does and can play in risk mitigation.
- Armed with the market picture emerging from the previous sections, **Section** 5 gives a comprehensive overview of the regulatory framework pertaining to the insurance market in Swaziland, pointing out considerations for microinsurance stemming from international experience where relevant.

[4] See Annex 5 for the meeting list.

- **Section** 6 concludes on the potential for microinsurance in Swaziland and highlights key market and regulatory drivers likely to drive such development that emerged from the analysis. Based on this assessment, it details a number of regulatory imperatives going forward. These imperatives form the basis for a separate document with regulatory recommendations submitted to the RIRF.

2. Context

The insurance market, like any other market, is intricately linked to the socio-economic, demographic and macroeconomic context within which it operates. Trying to understand market trends and opportunities without an appreciation of the environment that shapes it will be a futile exercise.

2.1. Socio-economic and demographic

Small and rural population. The country's latest census, the 2007 Population and Housing Census, estimates the population to be 1,018,449 (CSO, 2007). This makes Swaziland the fifth smallest country in Africa by population. 78 per cent of the population reside in rural areas while only 22 per cent live in urban areas – a very low urbanisation rate. The urban/rural split has remained stable over the last three censuses.

Swaziland is one of the most densely populated countries in Africa with a population density of 58 persons per square kilometre (in contrast, a country such as Zambia has a density of only 17 people per square kilometre). Manzini is the most populated administrative region with 31 per cent of the population, whereas Hhohho has the highest density at 78 persons per square kilometre (CSO, 2007). The two regions house the country's commercial and political centres (the capital Mbabane is located within Hhohho region and Manzini is the commercial heart of Swaziland).

Young and slowly growing population. The 2007 census estimates that 40 per cent of the population is younger than 15. The country's population growth rate has declined considerably between the inter-census periods. For the period 1976 to 1986, the population grew at 3.2 per cent, declining to 2.9 per cent over the period 1986 to 1997 and only 0.9 per cent for the period 1997 to 2007. Much of this decline has been attributed to the country's HIV/AIDS situation; Swaziland has the highest prevalence rate in the world at 18 per cent of the population (UNAIDS, 2010).

High cell phone penetration rates. Swaziland's cell phone penetration rate stands at 90 per cent of the adult population or 55 per cent of the total population (World Bank, 2011). This compares favourably with countries like Kenya whose penetration rate stands at 47 per cent of the total population (Smith et al, 2010). Cell phones can facilitate growth of other financial services like banking and insurance.

High absolute poverty with modest declines in incidence. Swaziland has the highest poverty incidence in the SACU region with 63 per cent of its population living below the World Bank's USD 1.25 per day measure (see Table 1). The proportion increases to 81 per cent of the population if we consider the USD 2 per day measure. The poverty situation in Swaziland is however not as dire as it is in countries like Mozambique or Malawi, where in both cases

74 per cent of the population live on USD 1.25 per day or less. For both countries, the USD2 per day measure is 90 per cent.

	Population (%) Living on <$1.25/day	Population (%) living on < $2/day
Swaziland	63	81
vs Southern Africa Customs Union (SACU)		
Botswana	31	49
Lesotho	43	62
Namibia	49	62
South Africa	26	42
vs selected Southern Africa Development Community (SADC)		
Angola	54	70
Malawi	74	90
Mozambique	74	90
Zambia	64	81

Table 1: Absolute poverty in Swaziland and a cross-section of countries

Source: World Bank's Povcalnet[5]

According to the Swaziland Household and Expenditure Survey (SHIES) survey, the poorest administrative region is Lubombo with 69% of its population considered poor. The least poor is Manzini with only 58 per cent poor.

In terms of trends in poverty, the SHIES reports that the incidence of poverty, when measured using a minimum consumption poverty line, has declined by six percentage points over the period 2000 to 2009[6]. Stated differently, assuming similar populations between the two periods would imply that about 60,000 people moved out of the ranks of the poor in Swaziland.

All regions except Hhohho have witnessed a reduction in poverty rates between 2000 and 2009. The decline in poverty was highest in Shiselweni at 14 percentage points.

How poor are the poor in Swaziland? Poverty incidence (also called the poverty rate) refers to the percentage of the population that falls below the poverty line[7]. Another measure considers how far below the poverty line the poor are on average. This is referred to as *poverty depth*. The SHIES reports that on average, a poor Swazi has consumption expenditure that is 30% below the poverty line. On average, a poor Swazi spends E 323 (USD 48) per month on consumption (see Figure 1 below for a comparison between regions):

[5] Poverty measures are for the most recent surveys in each country.

[6] The SHIES arrives at a poverty line by examining the average basket of the bottom 50% of individuals ranked by standard of living, and computing how many calories this basket provides per adult equivalent (CSO, 2011: 7).

[7] In the SHIES, the poverty line was placed at E461 with the line for the very poor placed at E215.

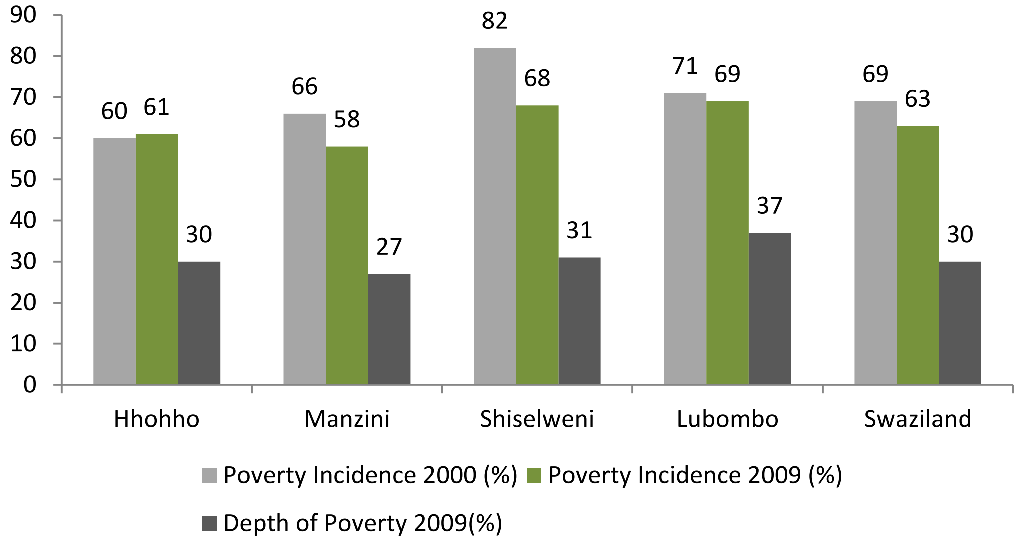

Figure 1: Poverty incidence and poverty depth in Swaziland

Source: Swaziland Household and Income Expenditure Survey 2009

Public sector employees among the least poor. The SHIES also provides a breakdown of poverty incidence and depth by main economic activity (see Figure 2):

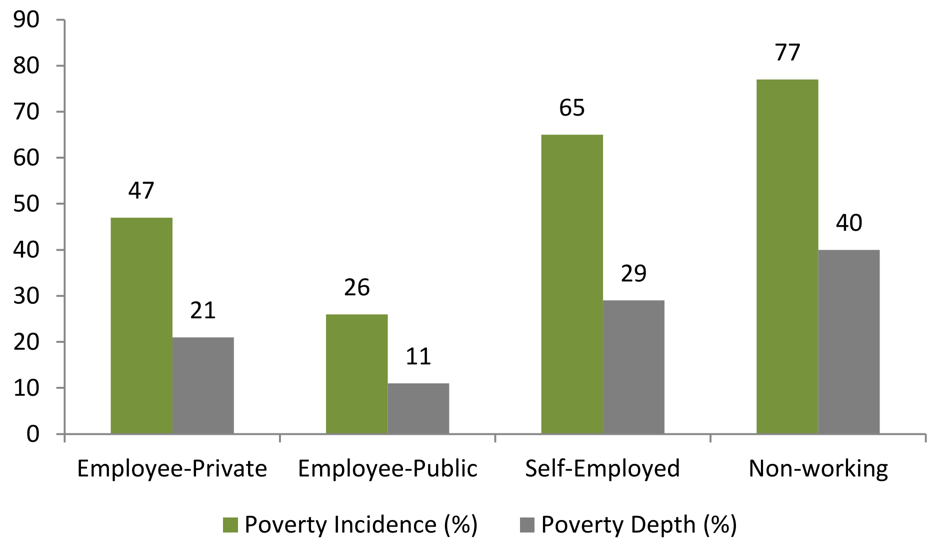

Figure 2: Incidence and Depth of poverty by main economic activity, 2009

Source: Swaziland Household and Income Expenditure Survey, 2009

Public sector employees are among the least poor with a poverty rate of 26 per cent. Those civil servants that are poor have a poverty depth rate of only 11 per cent. Private sector employees have the second lowest poverty incidence and poverty depth. Naturally, those not working have the highest incidence and depth of poverty.

2.2. Macroeconomic

Country in the midst of a fiscal crisis. The single biggest context factor shaping the environment at present is the fiscal crisis facing government. Knock-on effects from the 2007/2008 global economic crisis and a revision to Swaziland's share of South African Customs Union (SACU) receipts have led to a drastic reduction in government revenues. SACU receipts account for close to 57 per cent of total revenues and were down 13 per cent for the 2010/2011 fiscal year (Shaw, 2011)[8]. The crisis triggered by the reduction in SACU receipts has highlighted the over-reliance of Swaziland on its neighbour South Africa and the need for structural reforms in the economy.

On the expenditure side and prior to the fiscal crisis, the government approved an unbudgeted for wage increase for civil servants in April 2010. The sum total of all this has been a worsening of the country's fiscal deficit with the IMF projecting an overall fiscal deficit of 14 per cent for the 2010/2011 fiscal year, compared to 7 per cent in the previous year (IMF, 2011). In essence, the IMF therefore expects the government's funding gap to double.

Government is financing the deficit by drawing down its deposits with the Central Bank, which were expected to run out by June 2011 (IMF, 2011). The government has drawn up a Fiscal Adjustment Road Map which aims to reduce reliance on SACU receipts by increasing domestic revenue collection and reducing expenditure. A major part of the expenditure cuts may involve the retrenchment of some of the 33,000 civil servants, or at least a freeze in wages. As government is the single biggest employer and government and parastatals are such a big part of the "engine" of the economy, the fiscal crisis is likely to have a severe knock-on effect on the economy.

Tardy recent growth experience. Compounding all this is the fact that the country's recent economic growth history has not been impressive. Over the period 1999 to 2009, the average growth in the economy was 2.9 per cent, against an African average growth rate of 5 per cent (World Bank, 2011).

Steady inflation. Prices in Swaziland have been relatively stable over the last 10 years. The highest inflation rate was experienced in 2008, at more than 14 per cent, but inflation has now decreased to around 4 per cent. The relatively stable inflation is partly explained by the peg of monetary policy to that of South Africa. The fact that prices have been stable with no episodes of hyperinflation means that insurance customers have not had the real value of their policies eroded by rising prices, a fact that in some other countries (for example in Uganda and Zimbabwe) has greatly harmed the reputation of the life insurance industry in the past.

Economy dominated by industry and services, with declining importance of agriculture. As at 2008, industry was the biggest contributor to GDP at 49 per cent, virtually doubling its share from 26 per cent in 1985 (see Figure 3). Services also comprise a sizeable amount of the economy at 43 per cent for 2008. Agriculture has been declining in importance over the years from a high of 20 per cent 1985 to 10 per cent presently:

[8]Shaw, C., 2011. SACU receipts fell by over 13 per cent in 2009/2010. *Times of Swaziland.* 19 February 2011. Available at http://www.times.co.sz/News/25934.html (accessed April 2011)

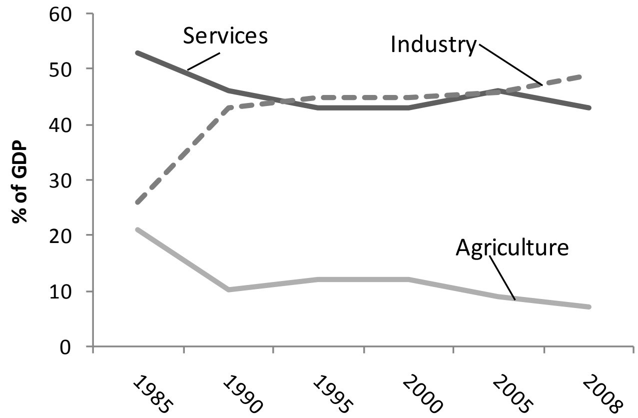

Figure 3: Structure of Swaziland economy 1985 to 2008

Source: World Bank e-Atlas of Global Development

2.3. Labour market

Relatively high level of informality. The 2007 Swaziland Integrated Labour Force survey reports that 48 per cent (or 190,000) of those who are working are engaged in the informal economy. Of these, 89 per cent (or 160,000) engage themselves in informal trading activities. These activities could vary from selling goods in markets or on sidewalks, to running a small business such as a barbershop or to cross border trading. In as much as informal sector traders may appear disparate, in reality informal traders are often represented by umbrella organizations that lobby on behalf of their members.

Civil service the largest formal sector employer. On the formal side of the economy, the survey reports that 199,000 Swazis are engaged in formal sector work that pays regular salaries. The single biggest proportion are civil servants and parastatal employees. Given the importance of state employment, the threat of retrenchments in the civil service in light of the country's current adverse fiscal situation will potentially have a ripple effect in the economy more broadly.

Other distinct groups under formal employment include the 10,000 working for private companies, of which the sugar industry has the biggest share, as well as those working for the labour movement and NGOs, which together constitute 9,000 employees:

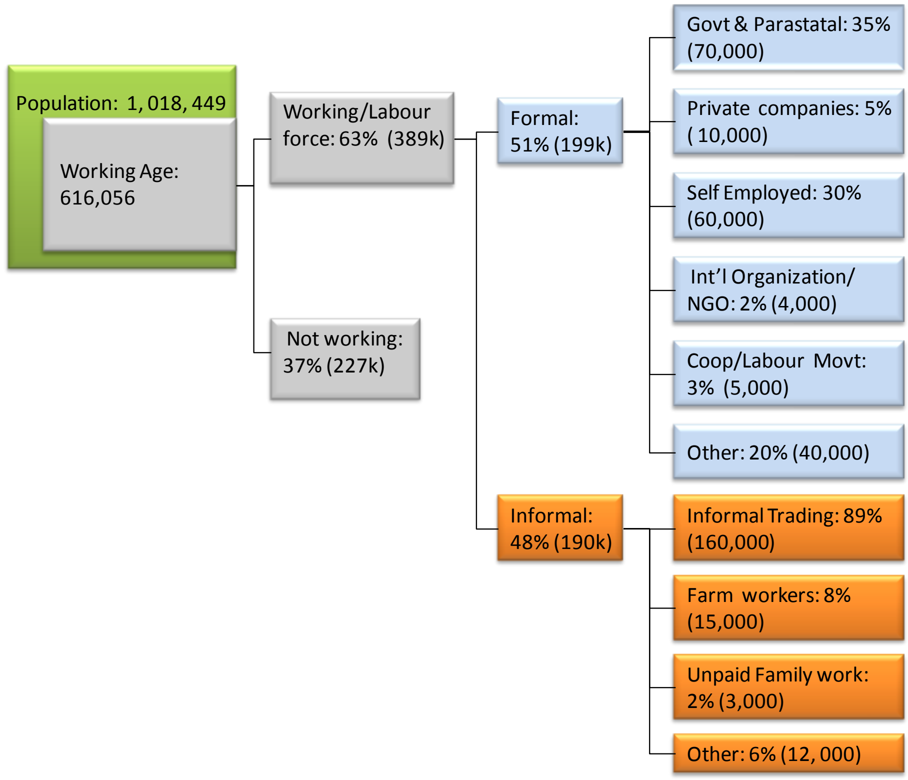

Figure 4: Structure of employment in Swaziland.

Source: Swaziland Integrated Labour Force Survey, 2007

2.4. Relevant non-financial sectors

A brief overview of the agriculture and health services sectors, respectively, is in order, as these are two areas of particular relevance to microinsurance (as will become apparent in the Market Analysis section).

Agriculture

Most Swazis in some way connected to agriculture. While manufacturing contributes significantly to the country's GDP, agriculture still plays a major role as the majority of manufacturing entities are agro-based. Agriculture in Swaziland provides a living for approximately 272,000 people (with most of them being small scale farmers) (Lukhele & Gumede, 2008). However, the Integrated Labour Force Survey of 2007 estimates total farm workers to only amount to 15,000.

The land tenure system in Swaziland comprises what is referred to as the Swazi National Land (SNL) which accounts for 60 per cent of the land in the country (Lukhele and Gumede, 2008). The SNL is held under customary law and in-trust by the King for the Swazi nation. Rights to the SNL are derived from social relationships that stipulate that land can only be used but not sold. Small-holder farmers are concentrated in the SNL. They mainly grow crops for subsistence purposes and only market the occasional surplus. Crops grown on the SNL include maize, cotton, sugarcane, vegetables and ground nuts. The rearing of livestock such as cattle, pigs, goats, chicken and sheep constitute the primary occupation of farmers on the SNL (Lukhele and Gumede, 2008).

The remainder of the land, about 40 per cent, comprises what is referred to as the Title Deed Land (TDL). The TDL is land that is owned on a freehold basis. The TDL is dominated by commercial farming on estates and individual farms. Crops grown on TDL include sugar cane, citrus and pineapples. The growing of commercial crops has led to the development of agro-processing industries such as the three sugar mills in Mhlume, Simunye and Big-bend (Lukhele & Gumede, 2008).

The importance of sugar. Sugar cane is grown both on Swaziland Nation Land and the Title Deed Land (TDL). In 2007, Swaziland produced 4.4 million metric tonnes of sugar cane, making it Africa's third largest producer. The sugar industry in Swaziland accounts for more than half of the agriculture output, contributing 18 per cent of GDP and 16 per cent of private sector wage employment (Lukhele and Gumede, 2008). In an effort to develop irrigation infrastructure on which the sugar industry relies, the country has launched two main projects: the Komati Downstream Development Project (KDDP) and the Lower Usuthu Smallholder Irrigation Project (LUSIP).

Cash crop sugar farmers and employees. Sugar cane is one of the few crops for which farmers are assured of a marketable surplus. In a 2000 report, UNCTAD estimated sugar farming to account for 25% of national employment. If we assume that percentage to hold and apply it to the total number of employed people (formal and informal) indicated by the 2007 Labour Force Survey (389,000), it would render 58,000 individuals who earn their livelihood from the sugar industry[9]. Note, again the discrepancy with the Integrated Labour Force Survey, which estimates total farm workers to only amount to 15,000.

Agriculture sector subject to risk of drought. Growth in agriculture has been adversely affected by recurring drought spells and poor rainfall distribution. For the 2010/2011 farming season, the government has forecast a drought which is expected to impact on the incomes and livelihoods of 70 per cent of the population, most of whom are engaged in farming on a subsistence level. The drought is, however, not expected to impact the country's sugar industry, as it relies on irrigation (Lukhele & Gumede, 2008).

Health services

Significant out of pocket expenses despite state-provided healthcare. Swaziland's Ministry of Health and Social Welfare (MOHSW) is responsible for the provision of public healthcare facilities. Healthcare provision is organised via the four main regions. Healthcare expenditure per person for 2009 was estimated to be USD 151 (or E1,100). 65 per cent of this amount was financed by the government while the rest, 35 per cent, was private health expenditure. Of the private expenditure, 17 per cent was from private health insurance (such as Swazimed), 43 per cent was out-of-pocket spending, 26 per cent from NGOs and 14 per cent from other sources such as the extended family. Government expenditure on healthcare as a percentage of total expenditure is relatively low at 6 per cent, well below the 15 per cent goal set by governments in the Abuja declaration (Mathauer et al, 2011).

[9] http://www.unctad.org/infocomm/francais/sucre/doc/poitcdcom28.en.pdf

Government considering social health insurance. In order to enhance access to health services, the government is considering the introduction of social health insurance (SHI). The aim of SHI will be to assure health coverage for all based on contributions from workers and employers , as well as subsidies for those unable to contribute. If introduced, SHI is projected to increase total health expenditure by government from the current 6 per cent to 11 per cent of total government expenditure by 2018 (ibid.).

High number of nurses indicative of relatively pervasive primary healthcare network, but physician density remains low. Swaziland compares surprisingly favourably to peers where the number of nurses and midwives per 10,000 in the population is concerned. There are 21 hospital beds per 10,000 population (Coppock et al, 2009[10]). Physicians per 10,000 are more closely aligned with a selection of African countries, with South Africa being an outlier:

	Nurses &Midwives per 10,000 population	Physicians per 10,000 population
Swaziland	**63**	**1.6**
South Africa	40.8	7.7
Uganda	13.1	1.2
Kenya	11.8	1.4
Zambia	7.1	< 1
Lesotho	6.2	<1
Tanzania	2.4	<1

Table 2. Health sector workers

Source: World Health Organisation database[11]

2.5. Financial sector

The financial sector context is important for the development of the insurance sector in general and for microinsurance in particular. A well developed financial sector provides the infrastructure that enables the payment of insurance premiums and the settlement of claims. Further, the financial sector provides an important distribution channel for the sale of insurance products and a ready client base to whom insurance can be cross-sold. With this in mind, this section provides a brief overview of Swaziland's financial sector.

Relatively broad-reaching banking sector. Compared to some other developing countries, Swaziland has a well-developed banking sector. Table 3, adapted from the IMF's recently launched Financial Access Database, compares some measures of financial sector development across eight African countries, including Swaziland:

	per 100,000 of the population		% of adult population with bank account
	Number of branches	Number of ATMs	
South Africa	8.1	52.4	84%
Swaziland	5.7	18.7	46%
Kenya	4.5	7.5	38%
Ghana	5.1	n/a	33%

[10] http://fic.wharton.upenn.edu/fic/africa/Swaziland%20Final.pdf
[11] http://apps.who.int/ghodata/?theme=country

	per 100,000 of the population		% of adult population with bank account
	Number of branches	Number of ATMs	
Lesotho	2.3	6.6	23%
Tanzania	1.9	0.9	13%
Uganda	n/a	3.3	17%
Ethiopia	1.4	n/a	1%

Table 3: Bank, branch and ATM penetration in Swaziland and selected African countries, 2009

Source: IMF Financial Access Survey, 2009

With the exception of South Africa, Swaziland fares best on all fronts compared to the rest of the sample. In 2009, 46% of Swaziland's adult population or 283,000 people were estimated to have a bank account according to the IMF's Financial Access Survey. The 2011 FinScope survey of financial services usage, estimates that 44% of the adult population has a bank account. This percentage is more than double that of for example Uganda or Tanzania. Indications from the consultations are that this number may have grown significantly over the past two years. Swaziland has 5.7 branches for every 100,000 people against 1.9 for Tanzania, 2.3 for Lesotho, 5.1 for Ghana and 4.5 for Kenya. ATM penetration is equally high, relatively speaking, at 18.7 ATMs per 100,000 of the population.

Stable banking sector, mostly South African subsidiaries. The country's banking sector has remained relatively stable with the last banking failure having occurred in the early 1990s. Of the four registered commercial banks, three are South African, namely Standard bank, Nedbank and First National Bank (FNB). The fourth bank, Swaziland Development and Savings Bank (or Swazi bank), is government owned. Table 4 looks at the financial infrastructure distribution among the four banks:

Bank	Number of branches	ATMs	POS devices
Standard	13	43	174
Swazi	12	27	0
FNB	10	56	361
Nedbank	8	20	34
Totals	**43**	**146**	**569**

Table 4: Branch, ATM and POS distribution among Swaziland banks, 2009

Source: Central Bank of Swaziland

Standard bank has the largest branch network, followed by Swazi Bank. First National Bank is well ahead of the rest in as far as ATMs and Point of Sale (POS) devices are concerned. It owns 66 per cent of the total number of POS devices in Swaziland.

Dramatic growth in the credit market. The IMF's Financial Access Survey shows that there has been an increasing trend in the number of adults accessing credit. Between 2004 and 2009, the number of adults with a loan outstanding grew from 52,600 to 150,000, representing 188 per cent growth. The biggest growth in credit access was among the commercial banks, growing the number of borrowing customers from 46,000 to 138,000, a 200 per cent growth rate. Other financial institutions such as the Swazi Building Society (SBS) and microlenders also experienced growth in their loan portfolios but not as dramatic as that experienced by the banks. Credit in Swaziland is also made available via the different SACCOs to mostly employee groups.

In addition to striving to capture all salaried employees, microlenders have been making in-roads into the non-salaried/informal sector by targeting small business owners whose incomes may be irregular but nonetheless significant. Banks have also joined in the fray by launching personal loan products that are marketed to small business owners in addition to government employees and private sector employees (in for example the cotton, sugar and timber industries).

Near-saturated payroll lending market. If we assume that all the 199,000 formerly employed Swazis (CSO, 2007 - Integrated Labour Force Survey) are eligible for credit, the figures indicated above would imply that Swaziland's readily accessible credit market is almost saturated. Banks and microlenders will therefore have to devise ways of extending credit to other segments of the population such as the 190,000 strong informal sector (ibid).

Worrying levels of indebtedness. The recent growth in credit access has led to concerns about the ability of borrowers to service their debt. Using data from the IMF's Financial Access Survey, we were able to estimate that the average loan amount outstanding per borrower in Swaziland stands at E35,148. Considering that Swaziland's GDP per capita stands at E17,100 (or USD2,533), this implies a high-level of indebtedness. As a way of mitigating this, the government via the Employment Act of 1973 requires that no one person's monthly debt service payments may exceed 33 per cent of monthly income. For their part, microlenders have set-up the Central Deductions Administrative Service (CDAS), a common payroll deductions platform that ensures adherence to the government's 33 per cent limit. Some concerns regarding over-indebtedness however persist, notably because not all credit providers (for example SACCOs) subscribe to CDAS.

Indirectly, the 33% payroll deduction limit is also relevant for the insurance market in that it implies that insurers will be constrained in the payroll deductions that they can make. In this way, credit and insurance compete for the same cut of the payroll, not just insurers among themselves.

Some level of productive lending. The Swaziland Development Finance Corporation (FINCORP) is the largest player in the productive lending market. FINCORP presently extends loan facilities to 3,000 productive lending clients with investments geared towards the sugar industry. A limited number of social MFIs[12] also extend loans to various groups. This includes Imbita lending to groups of women, the Inhlanyelo MFI that uses traditional structures to lend to individuals and the SMFE MFI that utilises group lending with forced savings (Bruynse, 2008).

In addition to the formal credit providers as outlined above, there are also a number of informal moneylenders or "shylocks" as the focus group participants referred to them who operate at community level.

Small and illiquid local investment opportunities. Shifting our focus from the banking and credit sector to the capital market more broadly, we see that Swaziland's capital and equity markets are still in their infancy. Local government bonds are rarely traded in secondary

[12] Defined for the purposes of this analysis as microfinance institutions with social objectives rather than profit motives, often supported or funded by donors and often following a group lending methodology.

markets and the turnover on the local stock exchange is very small. For example, the Swaziland Stock Exchange at the end of 2009 had five listed companies with a market capitalization of E1.5 billion (Swaziland Stock Exchange, 2009) against E6.6 billion in combined total domestic assets for the banking and insurance sectors (Coppock, 2009).

3. Market analysis

Small insurance market. Swaziland's insurance sector recorded premiums to the value of 2.1% of GDP in 2009/10. As Figure 5 indicates, this is below the African and world average:

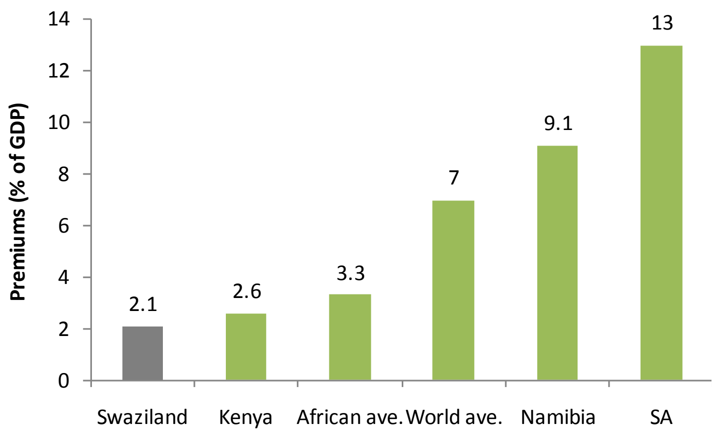

Figure 5: Insurance penetration in Africa and globally

Source: Swiss Re Sigma Reports, 2011 and RIRF Annual Report for 2009/2010

The penetration is however on the rise, having increased from 1.68 per cent in 2008. The growth in premium volumes for the period 2008 to 2009 was 26 per cent.

Short-term market biggest volume-wise. Short-term insurance accounted for 58 per cent of total premiums in 2009/10, compared to 42 per cent for long-term premiums:

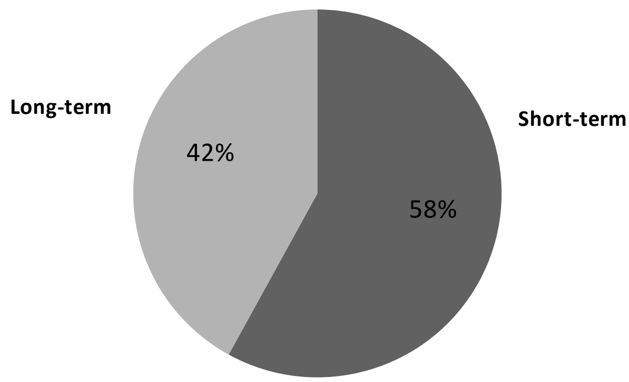

Figure 6: Premium share long-term versus short-term

Source: RIRF Annual Report for 2009/2010

The relative dominance of short-term insurance is in line with experience in other developing insurance markets. In 2008, the short-term share of total premiums was 67 per cent (implying a 33 per cent long-term share). Therefore the share of long-term insurance is growing on the back of an increase in 60 per cent in long-term premiums between 2008/9 and 2009/10. This, too, is in line with experience in some other developing countries. Once the insurance sector starts to penetrate the retail market, life insurance tends to “take off” albeit from a low base.

3.1. Players and performance

Formal sector

From one to ten insurers in the span of four years. The Swazi insurance sector was officially liberalized in November 2006 following the enactment of the Insurance Act of 2005. The Act removed the official monopoly that existed for close to 30 years. The industry has since liberalization registered nine new players bringing the total number of companies to ten (see Table 5). In the last RIRF annual report, last year alone (between 31 March 2009 and 31 March 2010), three new licenses were issued. Of the ten insurers, six are on the long-term side, three are short-term and one is a composite insurer:

Long-term insurers	Short-term insurers
Liberty Life Swaziland	Orchard Insurance
Metropolitan Swaziland	Lidwala Insurance
Momentum Life Swaziland	Getmed Insurance
Old Mutual Swaziland	
PFM Swaziland	
Safrican	
Swaziland Royal Insurance Corporation	

Table 5: Long-term and short-term insurers in Swaziland

Source: RIRF annual report for 2009/2010, with addition of Safrican in 2011

Only one composite insurer, all at least part foreign owned. SRIC is the oldest registered insurance company, operating in the country since the nationalisation of insurance in 1973. It remains the only composite insurer in Swaziland. The 2005 Insurance Act requires all other insurers to be either a long-term or a short-term insurer. All the insurers are majority foreign-owned. Of these, nine have South African-based parent companies or shareholders (Liberty Life Swaziland, Metropolitan Swaziland, Momentum Life Swaziland, Old Mutual, GetMed, Orchard, PFM Swaziland, SRIC and Safrican) and the 10th one, Lidwala Insurance, has Zimbabwean shareholding . Even though SRIC has some local shareholders, the majority shareholding is foreign. .

Entry patterns shaped by historical factors. The market was subject to a state-mandated monopoly from 1973, when Swaziland Royal Insurance Corporation was established as composite insurer by a King’s Order-in-Council in terms of founding legislation No. 32/1973, up to the liberalisation of the market in 2006 after the commencement of the Insurance Act of 2005. During that time, Swaziland was in a fairly unique situation whereby a few South African long-term insurers sold policies in Swaziland across the border, without formally operating as insurers in Swaziland. SRIC, on the other hand, was particularly strong on the short-term side. It is therefore important to note that some of the long-term insurers in Table 5 above have had an on the ground presence in the market for a much longer time than the official figures would suggest. Post-2005, all insurers doing business in Swaziland across the border were faced with the choice of setting up subsidiaries in Swaziland or having to wind down their existing books. This led to a first wave of new entrants into the Swaziland market and enhanced activity. More recently, a second wave of new entry was witnessed. This enhanced activity has increased competition and contributed to an overall growth in premiums.

SRIC remains biggest long-term player, but its market share has eroded significantly. SRIC has the biggest market share on the **long-term** side at 48 per cent. This is a decline from the "official" 100 per cent share that SRIC held before liberalization in 2006[13]. The new entrant that has gained the biggest market share in terms of premium is Metropolitan (at 30%) , followed by Liberty (11%). Note, however, that it was widely argued in the consultations that Old Mutual's actual share is underreported, as it still serves some of the market from head-office level:

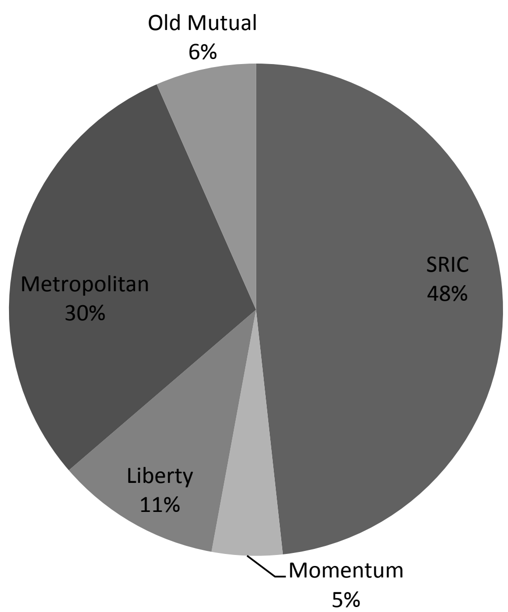

Figure 7: Long-term market shares

Source: RIRF Annual Report for 2009/2010

Insurers have different core focus areas. Momentum offers health and life insurance options. Liberty largely underwrites Standard Bank's credit book, as well as funeral insurance. Metropolitan's focus is on group life but it is looking towards growing its funeral and credit life business and has recently partnered with Swazi bank. Old Mutual's focus is on whole life as well as savings and investment products. PFM focuses almost exclusively on funeral insurance.

SRIC still accounts for virtually the total short-term market, new players only now emerging. The new entrants on the short-term side, GetMed, Lidwala and Orchard, have only set-up operations in the last year or so. Therefore for most of the post-liberalization period, SRIC has been the only insurer, commanding a 100 per cent share of the short-term market. The latest industry figures as contained in the RIRF annual report of 2009/10 do not yet capture any premiums by other players.

[13] Note that, due to the fact that other long-term insurers wrote business in Swaziland out of South Africa pre-2006, it is not clear what SRIC's actual share in terms of all premiums generated in Swaziland was.

Box 1. New players upsetting the status quo?

As indicated above, the landscape of the Swaziland insurance sector has changed significantly following the liberalization of the industry in 2006. Given the fact that most new entrant son the long-term side were not in actual fact new to the market, the status quo has not changed that dramatically on the long-term side. Nevertheless, the players are increasingly vying for a larger share of the pie.

The story is different on the short-term side, where SRIC was indeed the sole insurer. Over the last few years, three new players have entered on the short-term side. It is not clear to what extent the new players will upset the status quo. What is however certain is that the new players may have to be creative, perhaps by innovating or venturing into untapped sections of the markets, to make inroads into the SRIC market, given SRIC's entrenched and trusted position as incumbent. This is, for example, the strategy that GetMed is pursuing by offering health insurance, a product that did not exist before in the short-term insurance market in Swaziland. In the same vein, Lidwala is trying to enter the market by offering loan protection insurance and making use of direct marketing methods such as tied agents. Orchard has obtained its short-term licence largely to insure its own credit life and funeral book, but also seeks to branch out beyond that.

As the new players attempt to wrestle customers from the incumbent, interesting market dynamics are emerging that may lead to premium reductions for the end-consumer.

Industry concentration quite high despite growth in number of players. A competitive insurance sector is always desirable to the extent that it spurs innovation, encouraging cost efficiencies and all the while charging lower premiums. One of the many ways of assessing industry competitiveness is to calculate the Herfindahl-Hirschman index (or HHI for short)[14]. Using market share data in terms of premium per business line as reported in the RIRF 2009/10 Annual Report, the HHI for Swaziland's long-term industry is 0.34. This is a fairly high score, implying a fairly concentrated market. A threshold of 0.25 is often cited as the threshold above which an industry is considered to be relatively concentrated, with a score of 1 indicating a total monopoly. One way of reconciling this number with the fact that five additional long-term players have entered the industry, is that RIRF data seems to suggest that each long-term player is carving out a niche product line for themselves. For example, only one insurer was reported as providing whole life insurance. This was also the case for group funeral, health insurance and contributions from pension and annuity schemes. Both term assurance and group life only had three players each.

On the short-term side, the latest RIRF annual report data reflect only SRIC; therefore the HHI would automatically be one.

Industry well-resourced at senior management level, but shortage of technical skills in the industry. There has not been a comprehensive skills survey of the Swaziland insurance market. Our assessment from interviewing market participants is that there is no shortage of skills at senior management level. Most of the insurance companies are able to find people to satisfactorily fill positions at the Chief Executive Officer, General Manager and Chief Financial Officer levels, amongst others. The insurance regulatory framework requires that all insurance companies requesting a licence submit, along with their applications, details of the qualifications and levels of experience of senior management, including the board of

[14] The Hirfindhall-Hirschman index (HHI) is calculated by squaring the market share of each firm in the industry and then obtaining the sum of all the squared terms. An HHI of 0 implies that the industry in question is perfectly competitive and an HHI of 1 implies that there is only one firm in the industry.

directors. RIRF, however, has not set minimum qualifications requirements for such positions. The fact that holders of such senior positions need not have an insurance-specific background *per se* implies that insurance companies can readily attract staff from the more mature banking industry. The substantial bottlenecks in terms of insurance-specific skills are the absence of actuarial staff. Most, if not all, of the insurance companies consulted mentioned the fact that actuarial skills are not readily found in Swaziland. The insurance companies with South African parents usually leverage actuarial skills from their South African parents. Insurance legal skills were also pointed out as lacking.

Industry Performance

In this section we review the financial health of the insurance sector in Swaziland. Our assessment is limited by the fact that insurance data is only available for two years, implying that no historical trends in the financial performance of the industry can be highlighted.

A return to profitability. For 2009/2010 financial period, total industry profits were E156 million distributed as E68 million for long-term and E89 million for short-term[15]. This represents a 183 per cent growth over the previous year's industry loss of E9 million. The loss in 2008/2009 was the result of disappointing returns in investment income as a result of global market turmoil in 2008. Conversely, the positive performance in 2009/2010 was driven by good returns on the investment side following the return to normalcy in global equity and capital markets. For example, the RIRF reports that investment income on the short-term side grew from a loss of E12 million in 2008/2009 to a profit of E60 million in 2009/2010. This was also reflected on the long-term side, where investment income grew a full 3,700 per cent to E101 million from a loss of E2.7 million in 2008/2009.

A range of performance indicators to be tracked – but data limitations undermine conclusions. In Table 6 we present the key performance indicators for short-term business in Swaziland. Unfortunately, the same table could not be produced for long-term business due to a lack of comparable data. Note that the data only represents SRIC, as it was the only short-term insurer reporting data at the time of the last RIRF Annual Report (and the only insurer for which an annual report was available). It will not be possible to generalise the SRIC data to industry trends; nevertheless, we include an analysis below as indicative of the type of performance analysis that will be useful to track for the industry as a whole as part of the monitoring of microinsurance potential. We advise RIRF to track the data needed to calculate these ratios across all industry players.

The table is divided into three ratio categories, namely ratios measuring profitability, industry growth (a measure of product awareness) and financial prudence. The three ratio categories matter to the extent that they address the concerns of customers, investors and regulators. A profitable industry assures further investment from current and new investors. Good industry growth might signify that consumers consider insurance valuable, whereas solvency and liquidity are paramount concerns for the industry regulator:

[15] Swaziland's national currency, the Emalangeni, is pegged one-to-one with the South African Rand. At the time of writing, US dollar/Rand exchange rate was USD1 to R7.

		2008/2009	2009/2010
Profitability ratios	Incurred expense ratio	25%	27%
	Incurred claims ratio	60%	59%
	Combined ratio	85%	86%
	Net income ratio	7%	41%
	Return on equity	n/a	41%
Industry growth ratio	Premium growth	n/a	6%
Financial Prudence ratios	Solvency	146%	152%
	Liquidity	419%	428%

Table 6: Key industry ratios for short-term (SRIC)

Source: RIRF Annual report for 2009/2010

Box 2 provides an overview of how each ratio is calculated:

Box 2. Guidelines for calculating key performance ratios

1) Incurred expense ratio = Incurred Expenses / Earned Premium
2) Incurred claims ratio = Incurred claims / Earned premium
3) Net income ratio = Net income / Earned premium

   Where net income is defined as operating income "minus" claims expenses "minus" operating expenses in the period.
4) Return on Equity = Net income / Equity

   Where Equity is defined as ordinary shares "plus" other reserves "plus" retained earnings
5) Premium growth ratio = percentage change in earned premiums between current year and previous year
6) Solvency ratio = Admitted Assets / Liabilities

   Where admitted assets = Cash and cash equivalents "plus" investments (easily convertible to cash) "plus" other admitted assets. Liabilities refers to total liabilities as captured on the balance sheet
7) Liquidity ratio = Available cash or cash equivalents / short-term payables

   Short – term payables: the financials from RIRF do not separate liabilities into short-term and long-term. In this case, the suggested approach is to calculate 25% of insurance contracts/policy holders' liabilities and add other liabilities to it.

The above ratios are concerned mostly with assessing the financial health of the insurance industry. They are included in the Microinsurance Network's *Performance Indicators for Microinsurance: A Handbook for Microinsurance Practitioners* (Wipft & Garand, 2010)[16]. In addition, the Handbook defines a set of other ratios can be calculated that focus on the customer. For example, the coverage ratio and renewal ratio can be used to ascertain the extent of product awareness and customer satisfaction:

- The renewal ratio is a ratio of total number of renewals to the total number of potential renewals. For example, a renewal ratio of 90 per cent would suggest that out of a total of a 100 insured, 90 renew their insurance contracts while 10 do not.
- The coverage ratio measures what percentage of the targeted population is covered by

[16] Available at: http://www.microinsurancenetwork.org/file/PUBLICATIONS_Handbook.pdf

insurance.

There are also measures of service quality, for example the claims rejection ratio and the promptness of claims settlement:

- A claim rejection ratio of 10 per cent suggests that out of 100 submitted claims only 10 are rejected by the insurer in question.
- The promptness of claims settlement ratio simply measures how quickly a claim is processed (turnaround time) ,with a lower turnaround time preferable from a customer perspective.

Our analysis could not cover these ratios due to a lack of data. The reader is referred to the Handbook for a complete overview of microinsurance performance indicators.

Profitable, with stable, acceptably low expenses. Under **profitability**, we see that:

- The *incurred expense ratio* for 2009/2010 was 27 per cent, remaining fairly stable from the 25 per cent recorded in 2008/2009. The two ratios fall within the 25 to 30 per cent range that is followed by for example large, experienced, South African short-term insurance companies such as Mutual & Federal or Santam (see Mutual and Federal, 2008 and Santam, 2010). A low expense ratio shows that the industry is cost effective in selling its products.
- Conversely, a suitably high *claims ratio*, in the range of 60 to 70 per cent, signifies that the industry is delivering good customer value, because more than half the premiums are 'paid back' to consumers in the form of claims. For 2008/2009 and 2009/2010, the claims ratios were respectively 60 and 59 per cent.
- The *combined ratio* is the sum of the two ratios above and should ideally be below 100% (or else the insurer can only make profit on investment income). It stood at 85 per cent for 2008/2009 and 86 per cent for 2009/2010 - in both cases less than 100 per cent of earned premiums.

The last two profitability ratios are net income ratio and return on equity ratio:

- The *net income ratio* grew from 7 per cent in 2008/2009 to 41 per cent in 2009/2010. As highlighted earlier, a big driver of the increase in net income was the positive fair value adjustment following the recovery in global financial markets.
- The *return on equity (RoE)* is a measure of investor value. For 2009/2010, the RoE was 41 per cent. This is attractive considering that the returns on alternative investments such as government bonds have been about 8 to 10 per cent for the last 2 to 3 years (Coppock, 2009).

Slow premium growth. The premium growth ratio is a measure of **industry growth**. A very small ratio might either imply that the industry is mature or that the industry is struggling to attract customers. For 2009/2010 the premium growth ratio for SRIC on the short-term side was a modest 6 per cent.

Solvent and liquid with acceptable reinsurance record. A great deal of the viability of an industry depends on the degree to which debts or payables can be settled, as insolvency and illiquidity might lead to an insurer failing to settle customer claims. Failing to settle claims might leave a bitter taste in the mouth of customers, jeopardising the industry's future growth. However, in Swaziland's (or at least SRIC's) case, the two **financial prudential ratios** of *solvency* and *liquidity* are both above 100 per cent, implying that the industry is well able to meet its future obligations, including insurance claims not yet accounted for in the current year. In addition, data shows that both the long-term and short-term industry do obtain adequate reinsurance. For instance, in the last two years, the average reinsurance rate for the short-term industry stood at 34% of gross premium revenue whereas it was 18% of gross premium revenue for short-term. Insurers are also required to have a reinsurance strategy as part of the licensing requirements.

Microinsurance by incumbent firms likely to be financially sustainable? The above discussion has shown that SRIC at least, as a long-standing lone short-term player before the recent new entry, is efficient and cost effective and at the same time delivers value to customers. If this data were representative of the whole industry, it would bode well for microinsurance, which tends to be written on an annual or shorter-term basis. From the little data that were available for the rest of the industry, all insurers seem to be fairly profitable, with the biggest driving force in variable profitability across the years being investment returns. It is not possible to conclude much on the prospects for microinsurance from this limited data, but intuitively the outlook would look positive.

Informal sector

Community-based risk pooling exists, but limited outreach. The FinScope survey results show that around 5% of adults belong to a *Masingcwabisane* or burial society. There are furthermore indications that informal risk pooling also takes place to some extent through so-called *Inhlangano* (informal savings clubs). These community-based groups provide “helping hands” and financial support where members have a death in the family.

Limited informal self-insurance. It would seem that there is limited informal self-insurance (insurance provided by organisations not licensed to do so) in Swaziland. There are a few unlicensed funeral insurance schemes that the RIRF is clamping down on. Indications are that there are also some self-insuring funeral parlours, but the largest chains, such as Dups and B3, have underwriting by an insurer. Likewise, most microlenders would have formal credit life underwriting by an insurer, though it was mentioned in the interviews that some SACCOs may carry risk in-house for credit life as well as for funeral insurance. The health insurance provided by Swazimed and Swazicare is unregulated at present.

3.2. Products and usage

Below we consider the landscape of insurance products in Swaziland, with particular reference to those that may be regarded as microinsurance or may be relevant for microinsurance in future. This is followed by an estimate of current insurance usage as percentage of adults.

3.2.1. Product Landscape

Wide ranging product offering on the long-term side. The 2009/2010 RIRF annual report shows that long-term insurance in Swaziland has a diverse product universe:

Long-term product lines	2008/2009 premiums (E 000')	2009/2010 premiums (E 000')	% of total	Annual % change
Whole life	50 472	107 547	45%	113%
Group life	35 499	64 818	27%	83%
Term assurance	728	39 519	16%	5328%
Pension and annuity schemes	50 937	19 761	8%	-61%
Group funeral	11 298	8 928	4%	-21%
Health insurance	-	88	1%	100%
Capital disability	941	-	0%	-100%
Income disability	458	-	0%	-100%
Total	150 333	240 661	100%	60%

Table 7: Formal Long-term insurance product universe

Source: Company product brochures and RIRF Annual report for 2009/2010

There are 6 main product lines, each with individual sub product categories. Capital disability and income disability assurance were until 2009/2010 reported separately but have since been reclassified as either term or group life assurance. From our interactions with the industry, we were able to count at least 30 individual products on the long-term side. Below, we discuss the make-up of each product line and its contribution to total insurance premiums.

Whole-life insurance the biggest premium contributor. For 2009/2010, whole life assurance was the biggest contributor to total long-term premiums at 45 per cent of all long-term premiums and with premium growth of more than 100 per cent since the previous year. The typical products under whole life include pure life policies and savings and endowment products (see Box 3 for an example). Underwriting is done on an individual basis, based on a medical examination.

Box 3. Old Mutual's Investment Plan

Old Mutual's investment plan is a medium to long-term savings vehicle with minimum contributions of E150 per month for a term of 10 years or more. The maximum allowable monthly premium is E500 per month. The investor is allowed to make one part-withdrawal, in the first five years, to ease an unexpected financial burden. Such withdrawals, however, reduce the size of the final pay-out and are only available in five-yearly intervals. An investor may skip up to six premiums before the policy is deemed to be surrendered. The underwriting of the product is done on a group basis.

Benefits are paid on the policy reaching maturity or on the policyholder's earlier death or disablement. In this way the product, which is in the first instance a contractual savings product, incorporates a risk cover component. The policy also comes with certain value-added services such as health advice and HIV counselling and treatment.

Source: Old Mutual Investment Plan product brochure

Group life similarly strong and growing. The second most important product line is group life, contributing 27 per cent of total premiums. Typical products are disability cover, permanent income cover and standard life cover. RIRF data shows that for 2009/2010, three insurers offered group life products. Premiums growth over the previous year was 83 per cent.

Term assurance encompasses credit life. The third product line from a premiums perspective is term assurance. 16 per cent of total long-term premiums were due to term assurance. It is difficult to explain the higher than 5,000 per cent growth in term assurance premiums between the two RIRF annual report years. It may be indicative of some products moving into this category of reporting for the first year in 2009/10, or may be indicative of a data anomaly. The most typical product under term assurance is credit life, offered by 3 insurers and underwritten on a group basis. Other forms of disability cover also fall under this product category. Further peculiarities of credit life are discussed below under the microinsurance product landscape.

Pension and annuity premiums down. Pension and annuity schemes follow with 8 per cent of long-term premiums. Premium collections for this line were however down 61 per cent over the previous year reflecting the private pensions' industry response to the global economic crisis (RIRF Annual Report, 2010).

Reported share of group funeral insurance may be higher than actual. Group funeral stands at 4 per cent of total long-term premiums. Our consultations established that this product line is very relevant to the low-income section of the market. This was confirmed by the demand-side research (see section 4). Currently, all of the players on the long-term side have at least one product offering under group funeral. However, only one insurer reported data to RIRF under this line for 2009/10.

Health insurance almost negligibly small. The smallest contributor to long-term premiums was health insurance. Total premiums stood at E88,000 or 1 per cent of long-term premiums. It is, however, important to note that 2009/2010 was only the first year in which health insurance products were sold in Swaziland, as the only two registered health insurers have only recently entered the market, and only one of them on the long-term side.

Limited short-term product premium data. We could not carry out the same detailed analysis of the premiums per product line on the short-term side as this information is not reported in the registrar's annual report. Following the product typology adopted by SRIC (SRIC Annual report, 2009), which was until recently the only short-term insurer, we categorise short-term products as either domestic or commercial:

- Under **domestic** short-term, the typical products are motor vehicle, homeowners' insurance, household contents, personal liability and personal accident insurance.
- Under **commercial**, we found the following products: fire, office contents, money, public liability and group personal accident insurance.

Product brochures for the new players suggest that they too are following this way of categorising products.

Microinsurance product landscape

What can be regarded as "microinsurance" in Swaziland? The large and vibrant informal sector has direct implications for the microinsurance market: in terms of who the target market will be and in terms of the product features that would be needed to serve their needs. In fact, through our various discussions during our research the impression was that there is not necessarily a defined income cut-off below which it would be appropriate to say that the population is the microinsurance target market. Rather, the distinction between traditional insurance and microinsurance seems to be between those who are formally employed – the traditional target market of the insurance sector – and those who earn their living in the informal sector. The challenge for microinsurance is therefore to reach those outside of formal employee groups and microinsurance products can be regarded as **any products aimed at the informal sector**.

Microinsurance market more vibrant than the small overall data would suggest. Swaziland does not have separately marketed microinsurance products as you would have in more advanced markets like South Africa and Brazil. At first glance, no insurers offer "microinsurance" as such. We find, however, that some of the insurers whose core business is selling to the high-end of the market, do offer some products that might be referred to as microinsurance or "microinsurance-relevant"[17].

Funeral insurance the most prominent microinsurance-relevant product. Foremost among these is funeral insurance. Each long-term insurer markets at-least one type of funeral product. Funeral insurance seeks to provide a benefit, either cash or in-kind, on the death of a member in exchange for a premium which is often paid on a monthly basis. Along with credit life, funeral insurance is where most of the current market expansion has been taking place.The details of the different funeral products found in Swaziland are captured in Table 8. Note that the table is by no means exhaustive. For example, we could not source product information for funeral schemes such as those provided for SACCOs and other aggregator groups. In addition, not all of the products in Table 8 will qualify as microinsurance, but for some, the lowest price options will be. For others, funeral will provide the most "ready" product to roll out a microinsurance option for:

Underwriter	Product Name	Distribution channel	Monthly premium range per month	Cover range
Liberty	Dups funeral product	Funeral parlour broker	• Principal member only: E25 to E110 • Member plus spouse: E33-E151 • Option for children, parents and extended family	• Member:E3k to R50k[18] • Spouse: E3k to E20k • Children: R3k to R20k
Swazi Royal	B3 funeral product	Funeral parlour broker	• Principal member only: E129 to E350 • Member plus spouse: E159-E166 • Member plus children: E149-E166 • Parents: E89	• Member: E13k to E30k • Spouse: E16k to E23k • Children: E8 to E12k • Parents: E10k • Includes additional value-adds such as coffin transportation, food benefit and setting-up of tent at funeral house.
Swazi Royal	Litsemba funeral scheme	Swaziland building society	• Principal member only: E16 to E80 • Member plus spouse: E18 to E90 • Member plus children: E17 to E85 • Parents: E25	• Member: E5k to E25k • Spouse: E5k to E25k • Children: E5kto E25k • Parents: E3k

[17] We define microinsurance-relevant products as types of products that can be tailored to the microinsurance market, even if current product offerings may be priced too high to be attractive to the microinsurance target market or may not currently be distributed through channels accessible to the microinsurance target market.
[18] Note: "k" denotes thousands

Underwriter	Product Name	Distribution channel	Monthly premium range per month	Cover range
Swazi Royal	Wonkhe Wonkhe	Brokers and agents	• E24 to E120 (includes cover for immediate family up to 6 children) • Parents: E50	• Member: E5k to E30k • Spouse: E5k to E30k • Children: E5kto E30k • Parents: E5k
Old Mutual	Value plus	Brokers and agents	• Principal member only: E70 to E474 • Member plus spouse: E167 to E1,200 • Member plus children: E167 to E1,200 • Parents: E109 to E1,200 • Extended family: E97 to E1,671	• Member: E6k to E30k • Spouse: E6k to E30k • Children: E6k to E30k • Parents: E6k to E30k • Extended family: E6k to E30k
PFM Swaziland	Family benefit plan	Not available	• Principal member E69 to E145 (includes cover for immediate family up to 7 children)	• Member: E6k to E12k • Spouse: E6k to E12k • Children: E6k to E12k • Extended family: E6k to E10k
Liberty Insurance	Group funeral	Brokers and agents	n/a	• E2k to E15k
Metropolitan	Sitanani funeral plan	Brokers and agents	n/a	• E1k to E30k
Momentum	Funeral benefit	Brokers and agents	n/a	• E20k

Table 8: Overview of selected funeral insurance products

Source: product brochures sourced during consultation process

The following themes can be gauged from Table 8:

- *Leveraging existing infrastructure for distribution*. Lower-end products are sold by companies that either have the ability to cross-sell or the ability to efficiently distribute the product. For example, the Litsemba funeral product is marketed by the Swaziland Building Society (SBS) that cross sells the product to its microcredit customers. In addition, SBS has a presence in each of Swaziland's four regions. The same is also true of the Dups funeral product which is marketed by Dups insurance agency. Dups insurance agency is part of a holding company that includes an insurance brokerage and funeral parlour with significant presence across the country. It would seem that leveraging existing distribution infrastructure may be a prerequisite to low-premium products.
- *High-end underwriters starting to move down-market*. Table 8 also reveals that high-end underwriters are also beginning to "play" in the funeral insurance space. The likes of Old Mutual, Liberty, Momentum and Metropolitan all have funeral insurance products. The lion's share of the underwriting remains with SRIC.
- *Scope for innovation regarding packages, tangibility*. Most of the funeral products reviewed provide standard cash benefits in exchange for premiums and not much innovation has taken place in terms of product structure and features. Some insurers, however, are beginning to think about ways to make their products more attractive to their customers by making the benefits more tangible or adding additional features. In this regard, one of the providers has a product whereby the funeral benefit also covers incidental costs like transportation, catering services, provision of tent, chairs and tables. Another one of the new insurers is considering launching a product that provides a cow as benefit in lieu of cash.

Credit life another significant microinsurance product. Credit life has grown in prominence lately in line with growth in the microloans/consumer loans industry. Microlenders and banks have seen the opportunity to supplement interest income and fee income by partnering with insurance companies in distributing credit life as agents. This provides the opportunity to add for example a funeral insurance rider on credit life and/or to cross-sell other types of voluntary insurance products. An example here is the recent partnership between Metropolitan and Swazi Bank where the latter recently purchased a 33 per cent stake in the former (Times of Swaziland, 2010). Select Management Services, a microlender, has also registered its own insurer, Orchard insurance, whose core business is centred around credit insurance and funeral for Select's loans.

Health insurance very relevant for microinsurance, but still very small. Though it currently has virtually negligible penetration among low-income Swazis, health insurance is an insurance product with growing relevance to the low-income market.

Box 4. Why do the poor need health insurance?

"[Globally], research has shown that of all insurance products, health insurance is the most demanded by the poor. Public healthcare facilities often lack the capacity to provide an adequate standard of care. Although many people use private facilities, they often have to sell assets or take on debt in order to meet the cost of hospital care. This often has the greatest impact on women and children. An estimated 20 million people a year, or a quarter of those receiving healthcare, fall below the poverty line as a result of the high cost of medical expenses."

Source: MicroEnsure, 2011. Short film on micro health insurance[19].

The concept of health insurance as *insurance* is quite new to Swaziland. Up to recently, the only option for health insurance was Swazimed, a medical scheme reportedly covering 10,000 policy holders. The rest of the population meet their health care needs out-of-pocket. Recently, two insurers have entered with a particular focus on trying to break open the health insurance market, GetMed and Momentum (refer to Section 3.1 on players and performance for more details). GetMed insurance (see box below) offers two health insurance plans: Blue and Gold, with the former's pricing catering towards the insurance needs of the low-income market.

Box 5. GetMed: Providing Health Insurance options for the low-income market?

GetMed offers two types of health protection plans: Gold range and Blue Range. Below we discuss the blue protection plans.

The Blue plan comes in three options B100, B200 and B300, providing in-patient benefits for general care, accident care and motor vehicle accident. The plan also provides day-to-day benefits for acute medical care, pharmacist advice and dental care. Other benefits provided are casualty care, chronic medical care and neonatal care. The plan also has an optional funeral insurance product with a maximum family cover of E13,500 for a monthly family premium of E50. Specific details of the plan are contained in the table below:

Type of cover	**B100**	**B200**	**B300**
	Annual Limits		
	In-hospital Benefits		
General care	E25,000	E37,500	E75,000
Accident care	E25,000	E37,500	E75,000

[19] Available at: www.microensure.com

Motor vehicle accident	E75,000	E100,000	E100,000
	Day-to-day benefits		
Acute medical care(member)	E1,000	E2,000	E3,000
Acute medical care (additional beneficiary)	E300	E400	E500
Pharmacist advice	E160 per annum or E40 per event		
	Other benefits		
Casualty care	E1,000	E2,000	E3,000
Neonatal care	No benefit	E5,000	E10,000
	Monthly contributions		
Principal member/adult dependent	E141	E166	E240
Spouse	E106	E126	E180
Child	E36	E42	E60

Source: GetMed Blue Plan product brochure

Momentum's offering is more suited to the middle and upper-end of the market, offering inpatient and outpatient cover options. Inpatient cover ranges from E540,000 per beneficiary per annum for the standard option to E1,000,000 for the comprehensive option per beneficiary per annum. Outpatient cover ranges from E5,400 per beneficiary per annum for the standard option to E22,000 per beneficiary per annum for the comprehensive option. Premium levels for outpatient care range from E768 to E1,350.

Aside from health insurance, short-term microinsurance limited to group/personal accident. The only "microinsurance" short-term offering that we could identify is the *Ludvondvolo* accident cover marketed by Tibiyo Insurance Brokers and underwritten by SRIC. It is a voluntary policy providing cover for individuals, children, families and employees against ,amongst others, accidental bodily injury resulting from motor vehicle accidents, murder and assaults, recreational sports injuries and injuries on duty. Cover is also provided for serious illnesses such as heart attack, stroke, kidney failure and cancer (see Table 9 below):

Benefits	Option A	Option B	Option C	Option D	Option E	Dependent Children
Death cover	E50,000	E75,000	E50,000	E150,000	E200,000	E50,000
Permanent disability cover	E250,000	E250,000	E1,000,000	E2,000,000	E3,000,000	E250,000
Hospitalization cover (up to 180 days)	E500/ day	E1,000/ day	E1,500/ day	E1,500/ day	E1,500/ day	E500/ day
Monthly premium	E 29	E54	E94	E165	E236	E20

Table 9: Ludvondvolo accident product specifications

Source: Alexander Forbes product brochure

Ludvondvolo gives five cover options with benefits for death, permanent disability and hospitalization. The latter is offered up to a maximum of 180 days, benefits range from R500 per day to R1,500 per day for main member and R500 per day for children. This is interesting, as it also speaks to the target market's need for health insurance by giving some provision in the event of hospitalisation. The sum insured for death ranges from R50,000 to R200,000 for the main member. Children's death benefit is fixed at R50,000. Cover is also provided for permanent disability ranging from R250,000 to R3,000,000 for main member. The monthly premiums are likely to be attractive for low income earners, with three of the five options charging premiums less than a R100. The policy also extends cover to exposure, disappearance, repatriation and trauma counselling, among others.

The consultations did not reveal the presence of microinsurance products like cell phone insurance and legal insurance that are quite common in places like South Africa.

Agricultural insurance likely to be challenging. SRIC and the new insurer Lidwala are the only insurers that are currently offering agricultural insurance in the form of livestock insurance. The potential for livestock insurance as an affordable product is limited by the fact that it is underwritten in such a manner that premiums are collected for each risk making the product prohibitively expensive. Further, multi-peril agricultural insurance is a complex and expensive product and is internationally not regarded as a viable microinsurance product.

The trend, internationally, is therefore to rather experiment with weather index or other trigger-based crop or livestock insurance. No such pilots have been launched in Swaziland yet and weather data requirements may be a challenge on this front. The largest potential in the agricultural sector may therefore be to use agricultural aggregators as a distribution channel for other types of insurance (see the distribution discussion below).

Weather index insurance as response to the challenges facing multi-peril agricultural insurance: international evidence

Multi-peril insurance unsuitable for smallholder agriculture. Traditional crop insurance is expensive to underwrite: in determining the sum assured based on the projected value of the crops, but importantly also in assessing the damage at claims stage (individual farm-level loss adjustment). The latter is often simply not feasible in a smallholder farmer model and particularly not if the farmer is not well networked within the agricultural value chain. Furthermore, trying to provide financial services to small unit households can be inefficient and moral hazard, fraud and adverse selection are common in traditional crop insurance (Roth, McCord et al, 2007). It is also an insurance product subject to covariant risks (drought affects a whole region), calling for reinsurance or participation in catastrophe (CAT) pools[20]. Furthermore, transaction costs are high and delayed payouts may undermine the value of the product for the smallholders. For these and other reasons, traditional crop insurance for smallholders has failed (Devereux et al, 2008).

Index insurance to overcome multi-peril limitations. In response the failure of multi-peril agricultural insurance, a number of weather index pilots have been launched. Under an index approach, certain parametric triggers are defined upon which fixed payouts will be made. Therefore the insurance contract is written not against harvest failure, but against a local index (e.g. rainfall) that is correlated with harvest outcomes. For example, a rainfall index that uses measurements taken from secure weather stations is commonly used as an indicator of crop performance. Too little rainfall and too much rainfall can both result in poor production outcomes. Indices can also be constructed from aggregate statistics such as area yields (Devereux et al, 2008; Roth, McCord et al, 2007).

Index insurance has a defined threshold and a limit that establishes the range of values over which indemnity payments can be made. The threshold marks the point at which payments begin. Once the threshold is reached, the payment increases incrementally until the value of the index reaches the pre-defined limit. The payment rate for an index insurance contract is the same for each policyholder who has the same contract, regardless of the actual losses sustained by the policyholder. The amount of indemnity payment received will depend on the sum assured (Roth, McCord et al, 2007[21]).

[20] "CAT bonds are marketable securities with earnings tied to specific catastrophic events. Investors receive favorable rates of return if the catastrophic event does not occur or they stand to lose earnings or even up to 100 percent of the principal if the event does occur. The funds are used by the seller of the CAT Bonds to fund payments to insureds. Some CAT bonds have been structured using parametric indexes such as the Richter scale for earthquakes" (Roth, McCord, et al 2007).

[21] Selectively quoted directly.

Advantages to index insurance. Because the index is exogenous to policyholders, index insurance removes any moral hazard or adverse selection concerns. It also greatly reduces administration costs: it is easy to administer as it entails standard contracts and monitoring costs can be greatly reduced. Most importantly, no individual farm-level loss adjustments/claims assessments have to be made. This provides the scope for quicker payouts. This is often of utmost importance for smallscale farming in helping them to smooth income and to prevent expensive coping strategies such as selling of assets. By lowering transaction costs, index insurance can therefore bring agricultural insurance within affordable reach of smallscale farmers (Roth, McCord et al, 2007; Devereux et al, 2008).

Limited viability on a purely private basis. Despite these advantages, it is not clear from evidence to date that index insurance is a viable private insurance product. Where such models have been introduced, this has mostly been on a subsidised/public private partnership basis, or with financial support or technical assistance from donors or NGOs. On a commercial basis, premiums would be too high for smallholders (Devereux et al, 2008). Though intrinsically an attractive model for smallholder agriculture, index insurance poses significant cost-raising market challenges. It is best suited for correlated risks (severe, widespread events such as droughts and floods) and may not be an appropriate tool in all circumstances (Roth, McCord et al, 2007). Nevertheless, a number of weather index pilots and products have been launched in recent years throughout the world.

Susceptibility to basis risk imposes data requirements. The most notable disadvantage is that there will always be some variance between the index and the actual losses incurred – a phenomenon that is called basis risk. When designing a product, it is crucial to minimise basis risk by finding one or more indices whose movements correspond as closely as possible to changes in the value at risk. This requires long-term, accurate data on both changes in the value at risk, e.g. changes in crop yields, and changes in the index, e.g. rainfall. Only with accurate data can accurate pricing be achieved, which is in turn crucial to ensure solvency. The data requirements for developing a weather index product include (Roth, McCord et al, 2007):

- Preferably more than 30 years of weather data
- Limited missing and out of range values, with preferably less than 1% of weather data missing
- Data integrity
- Availability of a nearby station for verification
- Consistency of observation techniques: manual vs. automated
- Limited changes of instrumentation/orientation/configuration
- Reliable settlement mechanism
- Integrity of recording procedures
- Little potential for measurement tampering

Obtaining this data may be fairly difficult – and expensive – in developing countries.

3.2.2. Insurance usage

Relatively high formal insurance usage among adult population. The 2011 Swaziland FinScope survey placed formal insurance usage in Swaziland at 17% of the adult population, or 100,000 people. This figure compares favourably with penetration rates across the continent. For instance, insurance usage in Kenya and Nigeria is estimated at 7% and 1% respectively (see Figure 8 below). It is instructive to point out that Kenya and Nigeria have bigger insurance sectors (measured in terms of insurance contribution to GDP) than Swaziland.

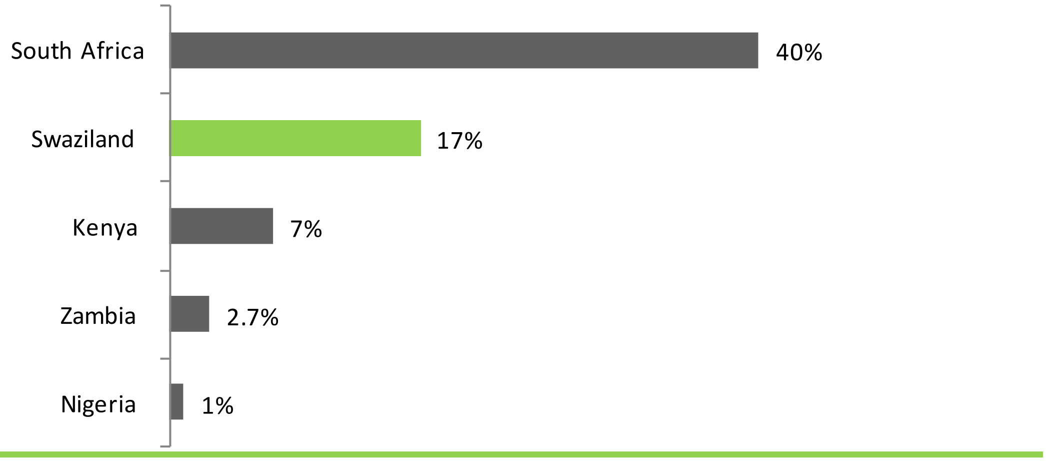

Figure 8: Formal insurance usage among adult population for Swaziland and selected countries.

Source: FinScope Swaziland (2011) launch presentation; FinScope South Africa (2010) launch presentation; EFInA Nigeria Access to Finance Survey (2010) as contained in De Vos & Hougaard (2011); FinAccess (2009) as contained in Smith, Smit et al (2010); Zambia FinScope (2009)[22]

The survey reports that 30% (or 39,600 adults) of all those with formal or informal insurance belong to a *Masingcwabisane* or burial society. This amounts to 5.1% of adults. The two numbers taken together would imply that total insurance penetration in the country (both formal and informal) is 22% of adults or 132,000 people.

Funeral insurance the most common. The 2011 Swaziland FinScope survey estimates that 66% of the insured population (both formal and informal) have a funeral insurance product. This translates to about 87,000 adults. Pure life insurance usage, on the other hand, makes up only 16% of all insurance usage, translating into 21,000 adults. It is important to point out that these numbers have overlaps as the survey does not isolate individual product categories. So for instance, some of the 87,000 adults who have a funeral insurance might also have a life product or belong to an informal burial society.

Low credit life penetration. The FinScope 2011 survey of Financial Services usage estimates that 3% of the formally insured population, or 3,000 adults, have a credit life policy. This would imply that only a very small proportion of the roughly 150,000 debtors in Swaziland, as estimated by the IMF's Financial Access survey, have access to credit life. Demand-side surveys may however underreport credit life usage, as some people may not be aware of the fact that they have credit life cover if it is bundled with the loan or may regard it as a prerequisite to the loan rather than as insurance.

Short-term product usage not as high as life. The 2011 FinScope survey estimates that 31% of those with a formal insurance product have a short-term product, whereas more than 70% has some kind of life insurance (including life, funeral and credit life). Under short-term, the most pervasive product is motor vehicle insurance, making up 50% of all short-term policies. The rest is comprised of property insurance (at 3.4% of total insurance), domestic/household insurance at 3.1% of total insurance, personal accident at 2.6%, money insurance at 1.9% and travel insurance at 1.2%.

[22] Note that the figure for Zambia is excluding pension plans for employees and civil servants. The total insurance usage figures, including these pension products, amounts to 3.9%.

Not much of the current market likely to be microinsurance. No data is available on the size of the current microinsurance market. Given how small the total market is and the relatively low penetration, it will be easy to assume that microinsurance – regarded for the purpose of this report as insurance outside of the formally employed market – still has a virtually negligible reach. However, preliminary findings from our demand side research suggest that funeral plans are fairly popular among lower-income respondents. A proportion of current credit life usage is also likely to be by the lower-income market, that is, can be regarded as microinsurance usage. Should we, optimistically, assume 20 per cent of insurance policies to be microinsurance policies, this would amount to 20,000 microinsurance policyholders or 3.2 per cent of adults. Clearly, there is still much ground to be gained in serving the potential microinsurance market. Section 6.3 will consider the opportunities in the microinsurance market in more detail.

3.3. Distribution

Distribution involves more than just sales. Conventionally, distribution refers in the first instance to marketing and sales, which is fulfilled mostly by brokers and agents. However, distribution or intermediation is a broader concept. It refers to all actions that happen in the insurance value chain between the underwriter and the client, that is: front-office marketing and sales of insurance, as well as back-office administration and servicing of the policy and claims settlement. In the microinsurance sphere an additional function comes to the fore, namely that of *aggregation* of clients. In some instances, an entity (be it a retailer, church, sports club, market association or cooperative) will act as an aggregation channel or "touch point" through which potential insurance clients can be reached.

The microinsurance value chain differs from traditional insurance. Together with insurers and reinsurers, brokers and agents fulfil most of the functions in the "traditional" insurance value chain. In the microinsurance value chain, aggregators are added over and above reinsurers, insurers, brokers and agents. Besides being an aggregation channel, aggregators may also take part in marketing and sales, as well as back-office functions, depending on the situation and the arrangement with the insurer. They may even input into product design by informing insurers of their client/membership base's unique needs and realities.

Furthermore, administration or underwriting management is sometimes done by a third party (which besides an aggregator may be a corporate broker or a professional administrator or underwriting manager). Such administrators are also important role players in the microinsurance value chain.

Premium collection a major challenge. Premium collection is one of the biggest microinsurance challenges. Clients are typically low-income and often do not have a bank account for debit order collection; nor are they as a rule formal sector employees that can have payroll deduction of premiums. How, then, do you collect cash premiums on a persistent basis from clients? The answer is to look to networks that such clients already belong to and to consider what other transactions they already make on a regular basis to which microinsurance premiums could be added. This could include shopping transactions, membership fees, repayment of loans, buying of airtime or payments made to individuals (e.g. farmers receiving money for their produce from a market or agricultural processor). All of these channels could be potential aggregators for insurance distribution purposes, including for premium collection.

Distribution landscape in Swaziland. In Swaziland, intermediation is still largely broker-based. There are a total of 135 licensed intermediaries in Swaziland, of which 22 are brokers, six are corporate agents and 53 are individual agents:

Entity	Licensed as at 2008/2009	Licensed as at 2009/2010	Percentage Growth
Brokers	22	29	32%
Corporate Agents	6	15	150%
Individual Agents	53	91	72%
Total	**81**	**135**	**67%**

Table 10: Registered Brokers and Agents

Source: RIRF 2009/2010 Annual Report

Overall, the number of brokers and agents grew by 67 per cent over the period 2008/2009 to 2009/2010. The growth in number of intermediaries tracks overall growth in the insurance sector.

Intermediation still largely broker-based. The broker industry is very strong in Swaziland, with the two largest players, Tibiyo Insurance Brokers and AON, reportedly accounting for 80 per cent of insurance distribution. For the most part, insurance in Swaziland is still targeted at employee groups. Therefore most brokers deal largely with corporate clients or other aggregators such as SACCOs.

Credit providers and funeral parlours as distribution channels. Banks tend to be registered as corporate insurance agents of an insurer, as are some of the aggregators/groups met such as the Swaziland Association of Savings and Credit Cooperatives (SASCCO) and microlenders such as First Finance and Select Management Services. Furthermore, a number of funeral parlours sell funeral plans underwritten by an insurer, a few of whom will be registered as brokers.

Limited direct sales. Direct sales, for example through call centres, are very limited in Swaziland at the moment, as are individual agent sales. A limited number of players, especially among the new entrants, have plans to roll out agency forces to create leads and sell door to door.

Below, we give an overview of the three main distribution models currently found in Swaziland as identified through the research, namely the broker model, the funeral parlour model and the credit provider model, as well as the emerging agency model.

Broker model

The broker model is the most typical insurance distribution model in Swaziland. From information provided during the consultations, we estimate that close to 80 to 90 per cent of all insurance business is channelled through this model. According to industry players, the lion's share of intermediation in the broker model is conducted by three brokers, namely Tibiyo Insurance Brokers, AON Swaziland and Dups insurance agency. Whereas the first two market a cross section of insurance products, Dups' intermediation role is limited to funeral insurance and we touch on this aspect below when discussing the funeral parlours distribution model.

Figure 9 indicates the interactions between different players in this model diagrammatically:

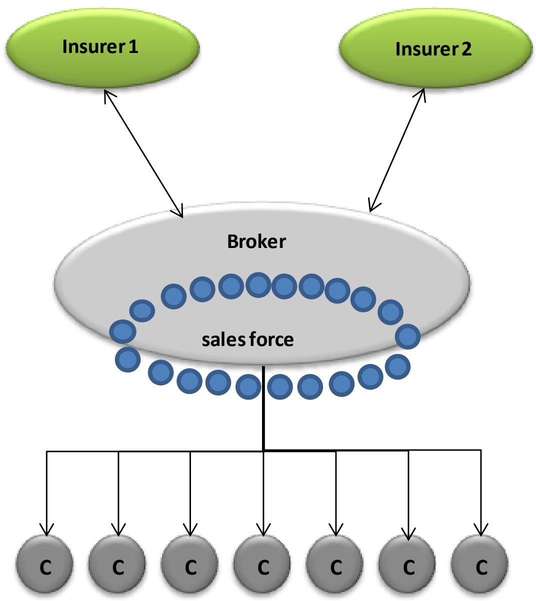

Figure 9: Standard distribution model

Source:authors' representation

In this model, a corporate broker facilitates the relationship between clients ("C") and insurers. In their marketing efforts the brokers, especially the big ones, are assisted by a sales force that goes round selling the product.

One broker may sell policies of more than one insurer. Given the fact that intermediation is broker-led in Swaziland, an insurer will usually approach a broker as a prospective partner. The fact that the broker is essentially the "face" of the insurance policy implies that it may face reputational risk if an insurer is not able to honour claims. Therefore the large corporate brokers will perform their own internal checks to assess the financial strength of the insurer.

Though a broker is by definition independent (an agent is a representative of an insurer, whereas a broker represents the client), some industry members suggested during the consultations that there are certain allegiances between brokers and insurers.

It is not clear at present what the exact split is between group sales and individual sales. Doing business with employee groups is attractive as premium collection can be done through the payroll. Walk-in customers will pay premiums in cash at various broker branches. The broker then remits the premiums net of commission to the insurance company.

Instances of broker-led innovation targeted at the lower-end of the market. The big insurers' competition for the same high-end customers has led to a situation where brokers have begun to witness stagnation in commission revenues. To overcome this, some of the brokers have recently been active in innovating with designing products that focus on the low-income segment of the market, which insurers can then underwrite. For example, Tibiyo Insurance Brokers, the country's biggest broker, recently launched a short-term school insurance product providing cover for school infrastructure against theft and/or damage. The product also incorporates accident cover and is underwritten by SRIC.

Funeral parlour model

The second distribution channel currently found in Swaziland is funeral parlours. The working of the model is depicted in Figure 10:

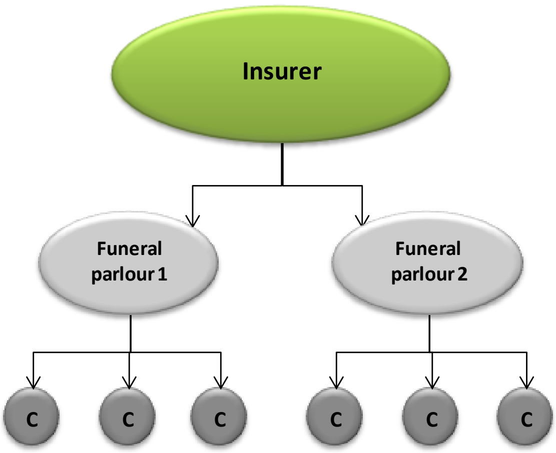

Figure 10: Funeral parlour distribution model

Source: authors' representation

This model involves a distribution partnership between an insurer and a funeral parlour. In Swaziland, the bulk of funeral insurance is distributed through funeral parlours that also serve as insurance "brokers". The leading player in this space is Dups which fulfils both an administrator and aggregator role. By leveraging off its funeral parlour business, Dups sells funeral insurance policies to its customers. These policies are underwritten by Liberty insurance company[23]. Dups collects premiums and administers claims settlement on behalf of Liberty. In this sense, Dups fits the profile of an agent more than that of a broker, as it is "tied" to one insurer. It furthermore acts as administrator. Other funeral parlours involved in this type of distribution model include Crucifix, B3 and Mbabane Burial.

Credit provider model

The third model found in Swaziland is what can be termed the credit provider distribution model. It refers to the situation where banks and microlenders provide credit life on outstanding loan amounts to their clients, underwritten by an insurer.

As the diagram indicates, each bank or microlender acts as agent for one insurer and then provides the insurance to the individual customers bundled with the loan:

[23] The Dups book recently moved from SRIC to Liberty

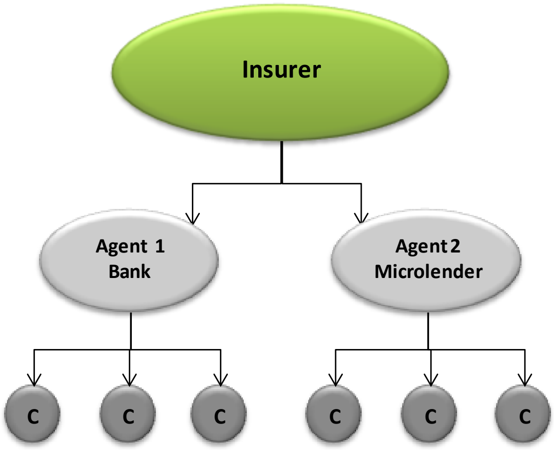

Figure 11: Credit Life distribution model

Source: authors' representation

Microlenders and banks alike are increasingly seeing the opportunity for cross-selling other types of insurance in addition to credit life, making use of their existing infrastructure and client reach. When done through the banking channel, this is typically known as bancassurance. The first step is often to add a funeral insurance rider to the credit life policy.

The credit provider partnership is ideal from a premium collection perspective because the agent (bank or microlender) simply adds the insurance premium to the loan repayments.

It is important to note that the credit provider channel is not necessarily limited to banks and microlenders. Some insurers have started to underwrite the credit life books of lenders such as Savings and Credit Cooperatives (SACCOs) and to sell other insurance policies such as funeral through the SASCCO network. Credit retailers such as Ellerines are further examples of alternative lenders offering compulsory credit life cover on products purchased on hire purchase.

Emerging agent sales force model

Figure 12 presents the structure of a model not yet found on a large scale in Swaziland, but that some players are starting to work towards, namely the individual tied agent model:

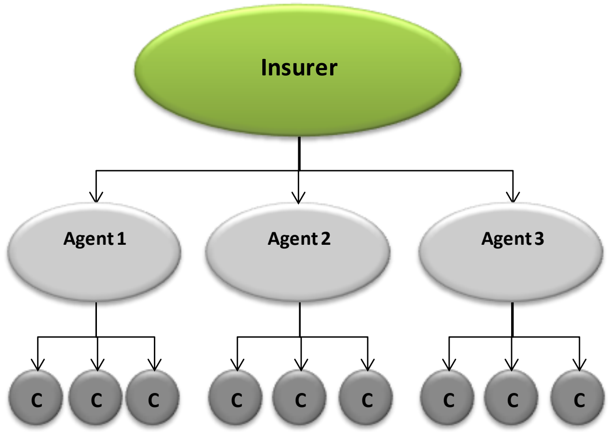

Figure 12: Individual tied agent model

Source: authors' representation

The insurer appoints a number of tied agents that go out into the community to sell the insurers' policies. This model is in line with the distribution needs of the recent entrants on the insurance side. Long standing alliances between insurers and brokers makes it challenging for new players to break into certain segments of the market. One way of overcoming this is to recruit and train a cadre of sales agents. Lidwala and Getmed, the two new players on the short-term side are currently experimenting with this mode of distribution. Some other insurers also indicated plans in this regard.

Looking ahead: the potential role of aggregators and alternative distribution channels

Groups will be key to low-income market intermediation. It is clear that, whether through brokers or agents or in direct partnership between insurers and aggregators, group intermediation is crucial to affordable distribution to the low-income market. It would appear that, apart from the large employee groups, the banks and microlenders, some SACCOs, some furniture retailers (for credit life) and a few funeral parlour chains, insurers have not started to proactively approach aggregators to forge partnerships. There is however an increasing realisation among insurers that aggregator distribution or alternative distribution as it is also known internationally (see Box 6) will be a prerequisite to breaking open the microinsurance market. In each instance where potential aggregator distribution is concerned, the question will be what the capacity of the aggregators is to serve as insurance distribution channel, what their interest would be, what role they could play and what the appropriate regulatory parameters should be with regard to their intermediation role.

Box 6. The role of alternative distribution in microinsurance

Achieving scale through cost-effective distribution is one of the biggest challenges facing insurers in low-premium environments, where customers are typically unfamiliar with insurance products and often sceptical of providers. In an effort to effectively reach as large a client base as possible, the emphasis is increasingly falling on innovative new distribution models as alternatives to traditional distribution approaches such as individual broker or agent sales. During the last decade, insurance providers and their distribution partners internationally have been experimenting with developing and extending products to clients in new and innovative ways. Innovation has included new partners, for example retailers (furniture, supermarkets), utility companies, bill payment networks and cell phone airtime providers as well as the use of technology. A number of models use short message service (SMS) to communicate to clients or remind them that premiums are due. Some even use the mobile phone as payment platform (either deducting premiums from airtime – which can be prohibitively expensive – or, where m-payments models are available, through mobile payments).

There is no fixed definition of what qualifies as an alternative distribution model as it is, in fact, the diverse, innovative and evolving nature of such models that defines them. It can be loosely defined as voluntary insurance models utilising partnerships with institutions traditionally not in the insurance space. Alternative distribution models typically share the following characteristics:

- *Scale through concentration*: Ability to achieve scale through targeting large client concentrations, i.e. specific non-insurance client groups such as clients of retailers, cell phone companies, utility companies, etc.
- *Presence of infrastructure footprint*: When entering into partnerships with organisations with large client concentrations, alternative distribution models typically rely on the presence of an infrastructure footprint that is larger than what could be achieved by an insurance company in isolation. The infrastructure could be physical (e.g. store buildings) or technological (e.g. a cell phone network).
- *Transaction platform*: The sales channel typically doubles as a premium collection platform, e.g. adding premiums onto a utility bill.
- *Standalone voluntary product*: Alternative distribution models distribute voluntary insurance products sold on an "opt-in" rather than "opt-out" basis. That is: buying the insurance is an explicit choice by the customer, rather than an automatic addition to another product or service.
- *Trusted brand*: While the majority of models rely on a distribution partnership with a well-trusted brand, some of the models do not have this benefit and, in these cases, it can be concluded to have negatively impacted the success of the models.

Source: Smith, A. & Smit, H., 2011. Beyond Sales: New Frontiers in Microinsurance Distribution. ILO Microinsurance Innovation Facility Microinsurance Paper No. 8. Available at: http://www.ilo.org/public/english/employment/mifacility/download/mpaper8_distrib_en.pdf

The report synthesises lessons from fourteen case studies of alternative distribution models, globally.

Fairly well-entrenched aggregator network provides distribution opportunities. Swaziland already has a number of aggregators or groupings that insurers could potentially tap into. During our research process, we came across the following list (not exhaustive) of different aggregator groups, some of whom have shown interest in acting as insurance agents or brokers:

- **SASCCO**. Even though SASCCO is already providing a channel to distribute credit life, there is significant potential for other types of insurance through this channel. SASCCO reports to have a membership base of 46,000, most of whom are salaried employees such as teachers and policemen.
- In addition to the SASCCO affiliated SACCOs, SASCCO estimates there to be in the order of 200 or more **other SACCOs** affiliated to World Vision with 10-15 members each.
- **Council of Swaziland Churches (CSC)**: The CSC has a membership of 100,000. It is the smallest network of churches, with the membership of the other church groups possibly as much as 700,000.[24] Over and beyond the CSC, opportunities exist to partner with

[24] The CSC estimates that 80% of the Swazi population (roughly 800,000 people) is Christian. Assuming that each Christian belongs to at-least one of the groupings gives us the estimate of 700,000.

other religious groupings such as the League of African/Indigenous churches, the Non-Aligned church movement and the Conference of Churches.

- **Social MFIs** like Imbita and Inhlanyelo are estimated to have a total of 28,000 members between them (Bruynse, undated).
- The **Small to Medium Enterprises (SME) network** represents 300 SMEs, each of whom has a few employees. The network could therefore be a potential aggregation channel for reaching individual employees in small-scale businesses.
- The **Federation of Swaziland Employers and Chamber of Commerce (FSE & CC)** represents 300 employer groups in Swaziland, among them some of the largest private sector employers. The total formally employed market is just under 200,000 people (Integrated Labour Force Survey, 2007), of which a significant proportion will not yet have insurance. The FSE & CC network could be leveraged to identify and contact those employers that do not yet have employee group schemes.
- **Trade unions** are another potential aggregator. There are a number of examples internationally, including in South Africa, where trade unions negotiate insurance group policies on behalf of members. The largest among the trade union groups is the Swaziland National Association of Teachers (SNAT). It has a membership of 11,000. Most trade union members are likely to also belong to a SACCO.
- The **Tinkhundla** network would be another potential distribution point. The 55 Tinkhundla centres are spread throughout the country and could be used as communication points with the community or even, potentially distribution points. For example: SASCCO is currently looking at setting up a women's SACCO for women in the informal sector using the women's representatives of each of the 55 Tinkhundla centres as a network. A similar arrangement could be foreseen for insurance.

Scope for retailer/telco-based distribution yet to be explored. Beyond these groups, of all whom have some "common bond" or trade/occupation, there are also a number of potential aggregators that merely provide a channel to reach people who do not have a specific affinity, other than being customers of this channel. Examples here would be Pep stores (with a store network of 18 stores spread throughout Swaziland), Shoprite, Pick n Pay, MTN (especially given the launch of its MTN Mobile Money platform in April 2011) or the Swazi Posts and Telecommunications Corporation (SPTC) which has recently been given the go-ahead to launch a mobile phone service (Biztech Africa, 2011). What makes these channels potentially attractive is their "customer footfall" as well as the fact that customers already transact through their infrastructure (be it purchases in-store or by buying airtime from a vendor network) on a regular basis. These outlets could therefore potentially be used as transaction platform for collecting cash premiums.

Potential for distribution via agriculture aggregators. As mentioned earlier, agriculture provides a livelihood for 70 per cent of the population. Its potential importance in microinsurance distribution is therefore irrefutable. Even if agricultural insurance itself may not be a first-order priority, agricultural aggregators could still distribute other forms of insurance, including credit life, funeral or even health, to smallholder farmers. There are a few core organisations that can act as aggregators of farmers for distribution purposes:

- The **National Farmers Union** is only now being established and is unlikely to have the capacity or reach to act as viable aggregator for the immediate future.

- The sugar industry is relatively well organised and generates an income for about 58,000 Swazis (a figure that is considerably more than the 33,000 estimated civil servants). Potential aggregators include the Swaziland Water and Agriculture Development Enterprise (**SWADE**) that manages several sugar irrigation projects across the country. Some of the larger single sugar employers, e.g. Royal Swazi Sugar Company (RSSC), could also be aggregators in their own right.
- Outside of the sugar industry, potential aggregators include marketing boards such as the **National Agriculture Marketing Board** (NAMBOARD) and the **Swaziland Cotton Board**.
- There are also a number of **agricultural cooperatives** (SASCCO estimates there to be in the order of 150 to 160 agricultural coops) who could be investigated as potential aggregator channel. Their membership is rural based, including poultry farmers, livestock breeders and fruit and vegetable farmers. It is not clear whether agricultural cooperatives will have the centralised capacity to act as viable distribution channel, but it is an avenue that should at least be investigated further.
- Another potential point of aggregation may be the **processors, supermarket chains or market places** that small-scale farmers sell their produce to. Consultations suggested that most of the small-scale vegetable farmers are paid via a bank account if they deliver their produce to a market and are therefore banked. This presents an opportunity for insurance distribution to piggy-back on the existing financial transaction infrastructure. Further investigation is needed of the exact size and feasibility of this opportunity.

4. Understanding the potential microinsurance customer

The preceding sections have outlined the market in terms of premium trends, product landscape, industry performance and total usage. The picture emerging is one of a hitherto small market with a corporate focus slowly starting to realise the need for expanding down the income spectrum. As competition for the corporate market increases, the competitive edge may increasingly lie in the retail mass market. Yet few have concrete plans in this regard yet and new thinking is required around ways of reaching the target market. It would seem, from the consultations at least, that insurers are still largely daunted rather than inspired by the mass market distribution challenge.

The supply-side is, however, just one side of the coin in understanding the potential for microinsurance development in Swaziland. Equally important is understanding the potential client base. This section shifts the focus to the demand-side and explores the features of the current and potential client market.

To fill in the demand-side picture of the market, FinMark Trust commissioned Johannesburg-based Corporate Research Consultancy (CRC) to conduct qualitative market research on the potential for microinsurance in Swaziland. The market research methodology entailed two aspects, both of which were conducted in the respondents' home language Siswati:

- **Focus group discussions** to better understand (i) people's income and expenditure realities, (ii) their risk experience, (iii) how they cope with risk events and (iv) their awareness of and engagement with insurance.
- In addition**,** one-on-one interviews were conducted with a number of individuals. Individual interviews provide the opportunity to further probe issues mentioned in the

focus groups and to talk to people who have had actual experiences of relevance to the study.

Box 7. Qualitative market research: rationale and methodology

Why the combination of two methodologies? The decision to combine focus group discussions with individual interviews arose from the fact that focus group discussions on the topic often lead to fairly standard responses across countries[25]. The rationale in Swaziland was to establish baseline findings, perceptions and issues in the focus groups, then to follow up on these issues in individual interviews. An individual interview gives the opportunity to probe a specific aspect in more detail. It also provided the opportunity for the moderators to follow up on leads generated in the focus groups, for example if one participant mentioned a negative experience that a friend or neighbour had with insurance, the moderator could afterwards approach that neighbour or friend for an interview to learn more.

For both methodologies it should be noted that, as the findings are *qualitative,* they cannot be used to draw valid conclusions on the population as a whole, but can only give an indication of the experience of the sample[26].

What are focus groups and how were they constituted? Focus group discussions (FGD) are a qualitative market research tool. The central methodology is to form small groups (usually 8 to 10 individuals) and then to test their views and perceptions on a certain matter through interactive discussion between the group and a professional moderator. The objective of the focus group discussions was to understand the lower-income market's income and expenditure profile, experience of risk (the severity of different risks) and interaction with insurance. It also prompted their decision-making criteria (whether to buy or not to buy insurance) and their perceptions of the insurance market. Though survey data can also shed light on these factors, it does not provide the level of qualitative insights required to understand perceptions and the motivation behind behaviour. Focus groups provide the opportunity to probe these issues through discussion.

Three focus groups were conducted in Swaziland, all of them in Mbabane and surrounding areas. Group members were selected according to gender, age and socio-economic status, as well as according to whether they owned insurable assets. Participants in the groups were mostly between 30 and 50 years of age. One group consisted of males only, the other two females only. At least half of the respondents in each focus group had some form of insurance, informal or formal.

How the individual interviews were conducted. 22 individual interviews were conducted with both males and females, mainly with over 30's and took place in Mbabane, Manzini and the peri-urban and rural areas within a 50km radius of these cities. Interviews were conducted with willing individuals on matters relating to the objectives. An attempt was made to find people with small businesses or people with a regular income, a home or assets that may be at risk. These conversations were all audio recorded and transcribed. When given permission, these interviews were also video recorded. A separate DVD contains excerpts from some of the interviews.

Below we provide an overview of the main findings from the market research. As the wealth of the research lies in the views of ordinary people that it captures, we include as many as possible direct quotes from the focus groups and interviews in the text below. The full market research report (CRC, 2011) can be downloaded at http://www.tinyurl.com/62z34gg.

[25] Previous focus groups referred to here include focus groups conducted for similar microinsurance studies in Zambia, Kenya, Brazil and South Africa. Though there are a few key differences between countries, the overall insights rendered are more or less the same.

[26] The first full-scale FinScope Swaziland survey results will be released soon. FinScope (www.finscope.co.za) is a nationally representative demand-side survey that establishes people's interaction with financial services. Once released, the FinScope findings will complete the quantitative side of the market picture and the qualitative insights rendered here should be tested against the FinScope findings.

4.1. Socio-economic realities

Generally low-income, struggling to make ends meet. All respondents were "low income", though no single income cut-off was used. They were recruited not to be the 'poorest of the poor', neither to be high or middle income. All respondents were under the impression of having to make ends meet and faced expenditure trade-offs as part of everyday life. At the same time, they did have more than just the bare necessities and were recruited to at least have a cell phone and some appliances. Many earned their income from trading or ran small businesses. Quite a number were unemployed, while the minority was formally employed. A goal for many younger people was to move out of their parents'/family's house and set up their own home.

Generally well educated population but low financial literacy levels. The impression from the focus groups was that the participants are fairly well educated and knowledgeable. This is confirmed by the 2011 FinScope Survey, which reports that 80% of the population has secondary school level education or less. They may be poor, but they are not uninformed and do seem to manage their finances proactively. Despite the fact that the population is generally well educated, however, the 2011 FinScope Survey found that financial literacy standards were quite low. It singled out financial literacy as the second biggest barrier to financial inclusion after income.

4.2. Risk experience

There was general consensus that risks are a daily reality that can have a severe financial impact.

Living in the shadow of death – and caring for those left behind. Death, and consequently, funerals, were the most prominent risks identified. Most of the participants had in the recent past experienced a death in the family or community. Participants were particularly aware of the effect that AIDS is having on mortality. Not only is it an emotional time when a death has occurred, but the funeral has a very large financial impact on the household and extended family:

> *"Death is the most concerning as it comes at any time. Even when a person is healthy he could still die of some incident."* *(Male)*
>
> *"A funeral could cost between E15 000 and E20 000."* *(Female)*
>
> *"Death is the most expensive because you have to hire the mortuary, pay the transport to take the deceased there, buy a coffin etc. It will cost you no less than E5000 to E6000. The mortuary hire is too expensive and so are the coffins, called caskets. You cannot bury for less than E6000."* *(Male)*
>
> *"From the time of death the expenses begin. You have to buy groceries for the people who will be coming to mourn with you and the digging of the grave costs E400, you also have to announce on radio."* *(Male)*

It is interesting to note the range in funeral costs mentioned. It would seem that what is regarded as the "minimum cost" of the funeral may relate to a person's economic situation and the value they would place on a luxury funeral versus just a basic funeral.

At the community level, the pressure of helping out those in need was mentioned. The most prominent example given was the fact that, should children be orphaned due to e.g. AIDS, somebody in the extended family or community would have to take them in:

> *"If I die now, who will take care of my kids? Let us say I have 10 kids. Everyone in the family will take 1 child and you find that all these people already have financial burdens. And lately we are dying a lot."* *(Female)*

Death is not the only calamity that may strike. Death was followed by loss of employment as a result of accidents, as well as illness and retrenchment, all of which were regarded as very real risks. The following quotes illustrate:

> *"Accidents, if you are the breadwinner and you are involved in an accident, it becomes a disaster."* *(Female)*
>
> *"Accidents could lead to you being paralysed and that would be the end because you would not be able to work anymore."* *(Female)*

Various risks lead to lost earnings. The quotes above highlight the risk of lost earnings, should you be unable to work or trade. This was also emphasised for health risks. Illness not only has direct cost implications, but it will prevent the person from working or trading, thereby implying additional opportunity cost in terms of lost earnings:

> *"I don't agree that a funeral takes a lot of money, I think sickness is more expensive. If I run around hospitals and I have to rent transport, that will be more costly, even the pills will be more expensive, I think sickness takes a lot of money because we go around trying to find help for the sick person.* *(Female)*
>
> *"With sickness you have to take the person to doctors and buy expensive medication."* *(Male)*
>
> *"(Being sick)….. could be a big problem as I have to go and buy stock, come back count the stock and also sell in the shop. Another problem that comes up is that the money that I was supposed to use for stock will go to medical expenses."* *(Male)*

Participants agreed that losing your job, e.g. through retrenchment, is a traumatic experience undermining your ability to provide for your family. This is a dreaded situation, leading to loss of pride, hardship, a drop in lifestyle and desperation.

Loss of assets means you have to "start over". Some participants emphasized risks relating to their assets, e.g. fire or natural disaster or theft:

> *"We also have this problem of houses falling apart due to heavy rains."* *(Male)*
>
> *"They broke into my house and I was sleeping, I thought it was my husband. Then they took everything, money and cell phones, when I woke up he drew a knife, I asked him not to kill me. And that damages the brain."* *(Female)*

Asset risks were emphasised by those running small businesses, or who are informal traders. Should their stock be stolen, they will be in a particularly dire situation:

> *"Regarding housebreaking you can lose stock of about R10 000 and you have to start all over again."* *(Male)*

There was a general sense of loss of assets putting you back at square one, having to start over in your asset building process:

> *"You have to replace everything that you have been buying over the years, your clothes and everything."* *(Female)*

4.3. Coping with risks

How do people cope, should a risk with far-reaching financial implications strike them? Do they consider insurance to be an effective risk coping mechanism?

Three very common coping strategies emerging from focus group research internationally are savings ("saving for a rainy day"), credit ("borrowing to get out of the pickle") or relying on the extended family and community for support. Another commonly found coping mechanism is risk-pooling at the community level. Here the large number of burial societies found in South Africa is a good example. Swaziland, according to the insights gained from the market research, deviates slightly from this pattern:

Risks are "part of life". The researchers noted that respondents had a high level of tolerance for risk events and that their attitude towards catastrophe appears to be philosophical and fatalistic. In general they would accept difficulty as "part of life", that everything "happens for a reason" and just "get on" with coping to the best of their ability, even in severe circumstances. Nevertheless, they mentioned the following coping strategies:

The immediate family as first port of call. Assistance from immediate family members is an important way of dealing with unforeseen circumstances. Extended family members may also attend or will be approached for a loan. In case of a funeral there would be a meeting amongst relatives and each one who can afford it would make a contribution towards the funeral. In the past it was the custom that everybody who earned an income in the family would be summonsed to a meeting and each would be told how much to contribute:

> *"You are relying on the family."* *(Female)*
>
> *"The whole family, including extended family, come together and contribute towards the expenses."* *(Male)*
>
> *"If nobody in the family works they can sell a goat or any other animal to meet the fees."* *(Male)*

Community support cannot be taken for granted. The community, employers or friends are at times approached for a loan when disaster strikes. The local *Inkhundla* or Member of Parliament is also sometimes approached and may lend money. There is apparently even a practice whereby individuals can make a public appeal through the local broadcasters for assistance to bury a family member. This will be resorted to if the family is desperate and cannot afford to fund the funeral privately. People however did not regard any of these coping strategies as a silver bullet; sometimes no support would be forthcoming from any of these avenues.

A change in attitude towards individual rather than social coping. From the discussions it appears that the attitude of family and community has changed over the past ten years.

Previously it was the norm that people in the extended family or community would help each other in times of need. Lately, however, the community seems less concerned with the well-being of others in need and only the immediate family will assist. Sources apart from the family will only be approached if the family is really impoverished. There was therefore a culture of individual survival rather than community support:

> *"Things have changed drastically because the economy has changed and as such people don't want to help one another like before. Even the family is no longer agreeable as before."*
> *(Male)*
>
> *"The community only helps when you are very poor or old, then they can contribute. They normally assist with cars."* *(Male)*

In-kind rather than cash contributions from the community. The community help provided is often not monetary, but donations of food that would have been an expense for the family:

> *"It happens that if there is a funeral, someone will bring mealie meal and someone will bring the cabbages and so on."* *(Female)*

Formal savings regarded as a luxury that few can afford. Due to the severe poverty not many of the respondents reported that they had personal savings to fall back on in case of need. Only one business owner indicated that she kept a savings account specifically for unforeseen circumstances.

Absence of dedicated risk-pooling groups, but savings clubs (Inhlangano) fulfil an implicit risk-pooling role. A striking finding from the market research was that none of the respondents in the focus groups or the individual interviews were members of burial societies. Burial societies in other developing communities (for instance rural South Africa) usually stipulate that contributions are collected on a monthly basis from members and when there is a death in a family, a certain amount is paid out. This was not really found in the Swaziland market research. The FinScope findings confirm that inform burial societies, called *Masingcwabisane,* do exist, but are used by only a minority of people (5%).

Instead of burial societies, many of the respondents belonged to *Inhlangano*. They are savings clubs that are similar to what is known as "stokvels" in South Africa and as ROSCAs (rotating savings and credit associations) elsewhere, although *Inhlangano* operate a bit differently: in a rotating savings and credit associations each participant contributes e.g. monthly, and then each gets a turn to take the whole pot on a rotating basis. The way it operates in Swaziland is rather similar to informal SACCOs (savings and credit cooperatives) in that they accumulate and grow the pot through the year through contributions and interest on loans, then share the proceeds at the end of the year:

> *"We call each other as a group of people that work together and we decide that we will contribute E100 per month. We lend the money out and it comes back with interest. And at the end of the year, you share that money and maybe you buy food with it."* *(Female)*

It was emphasised that only people with a regular income will tend to join an *Inhlangano* and that it is a vehicle mostly used by females. These structures have different purposes and internal rules, depending on the members, but generally money is collected on a monthly basis, a chairperson, secretary and treasurer is elected, the money is kept in a bank account and records of contributions and loans are kept.

Interestingly, the *Inhlangano* system, though not an explicit risk-pooling vehicle, sometimes fulfils an implicit risk-pooling role in that members will borrow from it (with interest) in times of need. The other members of the *Inhlangano* may also extend a helping hand, serving as a type of social support network:

> *"Money can be borrowed in case of need, such as when a child is sick or you don't have food in the house, or you want to start a business. However you can only borrow up to an amount you've invested to ensure that you don't misuse other peoples' money or disappear with it. However, when you repay it you must pay back with 20% interest."* *(Male)*
>
> *"We look at how close she is to the dead person and we also help her with cooking." (Female)*
>
> *"If I am sick they take care of my kids and they come and clean my house, they come and help me to bath."* *(Female)*

In one instance, it was also suggested that some *TInhlangano* in the city may operate more explicitly like a burial society, with a fixed payout in case of a funeral:

> *"The Inhlangano in town has fixed amounts; if you lose your husband you get a certain amount and if you see that the funeral will cost you more than what you have been given then you can borrow."* *(Female)*

A pound of flesh for the shylock. Micro-lenders or informal "loan sharks" operate in town and provide loans in times of emergencies. The latter is referred to as "shylocks". Participants tended to be knowledgeable regarding the functions of "shylocks" or micro lenders. These practitioners provide money at high interest and require surety that the lender will pay the loan back. This may include a car, fridge, television set or furniture. They do also request documents like bank statements, identity documents and a signature confirming an agreement:

> *"Your ID book and your bank card, they keep it for you, until you pay them."* *(Female)*

Though respondents indicated that the micro lenders tend to take a hard-line approach, they tended to understand the reasoning behind the approach and see them as providing a service in response to a need in the community:

> *"People are very dishonest so if you (the micro lender) have everything of theirs it is better."* *(Female)*

Practices in coping with funerals differ between rural and urban areas. An elaborate funeral was seen as more of an urban phenomenon among the middle and upper classes. In rural areas, in contrast, it is common practice not to use formal funeral directors. The family will just make a coffin themselves and will bury the relative the next day without the need for a mortuary. This may be indicative of the generally lower levels of income in rural areas.

Funerals are not important at all costs. This concept of "making a plan" is not always limited to rural areas. If the family cannot afford to pay for a coffin they take alternative steps, including making the coffin themselves. This was not perceived as a matter to be embarrassed about, but rather a practical solution for those who are unable to pay for a funeral:

"The family will come up with an alternative plan for instance buying wood to make their own coffin to bury."
(Male)

This is in striking contrast to neighbouring South Africa, where an expensive funeral is highly valued, culturally.

Mixed feelings about insurance as coping strategy. Funeral insurance or life insurance was also often referred to as a coping strategy, but it was emphasized that this was only for those who can afford it:

"It becomes a lot easier if the deceased had subscribed to Dups Funeral Cover, because the expenses lessen. If not then you will have to go and borrow money from outside." (Male)

Below we consider the understanding and perceptions of insurance that were raised in the focus groups and interviews in more detail.

4.4. What role can insurance play?

Generally quite a good understanding of insurance. Respondents were generally aware of insurance and tended to have a fair knowledge of what it entails and how it could come to the assistance of the person in times of need. This level of understanding is perhaps not unexpected, given the market researchers' general impression of the respondents being fairly well educated:

"Insurance is saving money in case something happens. You can even insure your life. If you are retrenched at work, they can give you a certain amount, or if you pass away, your kids can get money." (Female)

"(It is) a fund where you pay premiums, and it depends whether it is yearly or monthly and that money helps you in times of need. So you are insuring for the future." (Female)

Funeral insurance best known, most used. People tended to know about insurance from the media and, in the case of funeral insurance, word of mouth. Interestingly, some participants referred to South African infomercials on pay-TV[27] and were therefore familiar with types and brands of insurance that are not even found in Swaziland. More than one respondent mentioned the name of a prominent corporate broker, thinking that it is the insurer, whereas others referred to funeral homes who act as brokers or agencies of an insurer as the insurer.

About half of the respondents who attended the group sessions had some form of funeral insurance or, in a few instances, life insurance through an employer. The others mostly considered themselves too poor to take on regular premium payments. It is therefore fair to say that the knowledge witnessed extended to "knowing about" rather than first-hand experience for insurance types other than funeral insurance or life insurance.

Those with funeral insurance had a very good grasp on what it entails and even understood the waiting period:

[27] Note that even those who do not have satellite TV at home have access to it at public places.

> *"You join it and you pay monthly and stipulate that after 6 or 12 months you are covered. If your relative passes on, you can get money for the funeral and they tell you a person of this age get so much."* (Female)
>
> *"They say from 0 to 5 (years of age), they give you E4000 and adults up to 45 years they give you E10 000. Maybe from 50 to 70, you get E5000 to E10 000. From 60 upwards, the money decreases."* (Female)
>
> *"It varies depending on the amount and on whether you are alone or with your whole family. So what they normally do is to pay for the mortuary, the coffin and the transportation to the cemetery. In addition they buy groceries for the funeral.* (Male)

Though funeral cover with other companies was also mentioned, several of the respondents contributed to funeral policies held with Dups (note that Dups was widely regarded as an insurer, though in fact its book is underwritten). Dups was by far the most well known and popular as far as funeral cover is concerned and was called the "people's insurer". They are at the same time funeral undertakers and are able to provide in the needs concerning the funeral, should there be a death. This link to the service was emphasised by respondents as important.

Credit life surprisingly well understood. Some knew about credit life insurance in the retail space and had a good understanding of how it works, as the following quotes (all by females) indicate:

> *"Sometimes they do it with furniture shops and with banks"*
>
> *"If I have taken furniture and I lose my job or I die, they pay off that furniture debt."*
>
> *"When you buy on hire- purchase they insure everything from the shop. The shop pays the premium on your behalf.*
>
> *"I had one but I have paid off the debt. It covers while you are paying the debt but once it is paid off, it is cancelled."*

This understanding is not always watertight. The third respondent above, for example, was under the impression that the shop pays the credit life insurance on her behalf, whereas actually it will be added to the loan amount. It could however be that she was referring merely to the fact that she does not need to make a separate insurance payment, but that the shop deducts it automatically.

Affordability raised as main barrier. Many respondents found insurance attractive in principle rather than in practice. This was due to their economic realities and lack of regular consistent income. Affordability of regular premiums was stressed as the most important reason for not having insurance (all respondents below were female):

> *"It is not that we don't want to join, I don't earn enough to pay insurance."*
>
> *"We don't earn enough we live from hand to mouth."*
>
> *"Our sources are limited. I pay water, electricity, food and I don't have enough money."*

Real or perceived expense barrier? There tended to be a perception that insurance was too expensive, but when probed as to the costs involved there was little evidence that the respondents were aware of the real premium amounts or what would be covered under which circumstances.

Negative perceptions prevail. Since many of the respondents have never been directly exposed to insurance, misconceptions and negative perceptions also prevailed amongst many. In general the perception was that insurance was for people with money or for big businesses, and that the insurance industry was not aimed at low income people or small informal businesses, especially where asset insurance is concerned.

Negative perceptions also stemmed from bad experiences with insurance among some of the respondents or people that they know. In the group discussions a few negative experiences with insurance were mentioned. In the individual interviews more detailed negative experiences were recorded. Negative perceptions related to:

- *Cancellation of policies due to non-payment of premiums*. It was felt that the realities of poor people with an unstable income are not considered by insurers. Two females described the situation as follows:

> *"Yes, if maybe I have been paying for many years and now I am sick and can't pay for one month and I pass away, when I am dead my family can't get anything, they say I have not been paying."*
>
> *"If I had been paying the premiums for five years and I find that after the five years I lose my job and can no longer pay, it will be cancelled and I will lose out all the money that I had been paying for 5 years."*

- *Mistrust*. Mistrust of insurance companies was evident. There was a fear that you may be cheated and that your money would be misappropriated by the insurance company or possibly by an intermediary. Some alleged that while insurers may pretend that they care, they're just in the business of making money. Some mentioned not understanding all clauses and this causes mistrust:

> *"Well, I was approached by insurance agents and they sold me insurance for my business with a premium at E500 a month. However when the statement came it showed that it is a life policy. So I still don't understand. I must go and enquire." (Male)*
>
> *"When you commit suicide and you don't get paid, so what happens to the money of those people that have not been paid out?" (Female)*

It would appear that size does matter. Respondents generally trusted Dups on the funeral front. They and also had trust in SRIC as large and long-standing insurer, but tended to mistrust small, new insurers:

> *"Swazi Royal Insurance is the umbrella body. So if it is under the Royal Swazi add the umbrella. Because the smaller ones, they open and they go bankrupt so we are scared of them."*

However, it would appear that even here misconceptions were at the order of the day. One respondent thought that Swazi Royal was just for government employees and big businesses:

> *"Swazi Royal is the biggest one and they deal with government employees and people with big businesses"*

- *Non-payment of claims*. It would appear that some respondents have been defrauded by "insurance companies" that were not registered. Several instances were also recounted of people who had insurance, yet were unable to lodge a successful claim. This undermined trust in the insurance industry, particularly since money was a scarce commodity and non-payment of benefits lead to feeling that they have wasted their money. Many of the repudiated claims referred to may have been on valid grounds. Yet people's perception is that it was unfair and that damages the reputation of insurers in the community.
- *Money in the water if no claim*. Some of the respondents felt that they could not see any specific yield on their investment and therefore insurance was not seen as value for money:

> *"You are paying for a long time and do not get anything back, you keep making these payments."* *(Female)*

Overcoming the trust barrier. The discussion above has shown the importance of perceptions in driving people's usage behaviour, even if reality is different to perceptions. For instance, according to FinScope (2011) 27% of the uninsured population in Swaziland believe that "insurance tricks you out of your money". Therefore, to achieve insurance penetration among the low-income market, insurers would need to build understanding of exactly how the policy works and what would be required for a valid claim to be paid out to manage expectations and avoid negative perceptions. This is best done through the sales process. Furthermore, particular attention should be paid to settling claims as quickly and efficiently as possible.

When asked what would make insurance more attractive to them (apart from affordability, which was highlighted as core), the respondents emphasised:

1. *More information*. Several of the respondents, both in groups and as individuals, indicated that they had a lack of information about insurance and that they wished to be educated. They mentioned that they would like this information to come directly from the insurance company and not via a broker or representative. There is a perception that these "sales people" do not have their best interests at heart.
2. *Reasonable premiums*. Insurance would only be attractive to this group of people if the premiums are very low and, if possible, not a fixed amount per month. One respondent remarked:

   > *"If only it was E30, I would be able to organise it even when I'm not working. E50 is too much." (Male)*

3. *Need for grace periods.* Respondents found it difficult to understand why insurers do not have ways of assisting individuals through some special arrangement in times when payment is impossible. Some indicated that they did not have a regular monthly income, making it difficult to adhere to a monthly premium.
4. *Comprehensive benefits*. There was a sense that benefits should completely cover the costs related to the event or problem to avoid further worry or stress. For instance in case of death and a funeral the benefits must cover all the related expenses such as the coffin and food. They did not indicate whether they preferred the benefit in cash or in kind.

5. *No medical examination*. The concept of undergoing a medical examination before qualifying for a policy did not appeal to respondents. They were particularly averse to undergo an HIV/AIDS test.

6. *Some cash-back reward*. The idea of a cash-back benefit was appealing to respondents. For these low income individuals, the perception that the insurance policy is also a form of saving is important.

7. *Provision for extended family needs*. Though this was not mentioned repeatedly, some male respondents felt that insurance in its current form does not cater for the needs of an African man who is responsible for an extended family.

8. *Waiting periods*. The waiting period before the policy becomes valid was an unattractive element of insurance. It was felt that long periods of paying a monthly premium and not being covered was not viable for those with a low income. It is however interesting that the respondents in the first instance understood that there was a waiting period and what it entailed. One even suggested that a waiting period is necessary, but should be only three months.

9. *Insurance tailored to the needs of the low-income market*. Respondents argued that insurance companies did not understand the particular needs of poor people and that the products should be customized specifically to these needs.

10. *Transparency and aversion to commissions*. Transparency was seen as essential to make insurance more attractive for the target market. It need not be a large company, but it has to be credible. In addition they do not want brokers, since there is a belief that they pay for the brokers. The perception was that the company must pay their own employees to sell insurance, while the premiums of the individual should go towards his/her own benefit.

5. Policy, regulation and supervision

5.1. Introduction

The core objective of this study is to inform the RIRF in its engagement with microinsurance going forward. The first key question is: is there scope for microinsurance to play a role in managing the risks faced by the low-income market so as to help with the important task of poverty alleviation (or poverty *prevention* in the case of slightly more middle-income individuals). The above sections sought to answer that question and the prognosis will be given in Section 6.

If there is indeed a market opportunity, the second key question is: how can the regulatory framework be adapted to facilitate the development of the microinsurance market? Are regulatory changes in the first instance necessary?

This section gives an overview of the regulatory framework of relevance to insurance in Swaziland. This forms the information base or building blocks for the regulatory[28] recommendations to follow in Section 6.4.

[28] Note, the word "regulatory" is used in its broad meaning throughout this report, encompassing policy, regulation and supervision. Generic references to "regulation" should be interpreted as referring to the full body of legislation and subordinate legislation (which will include regulations as specific instrument).

Policy, regulatory and supervisory context

Financial inclusion commitment. The Ministry of Finance is responsible for financial sector policy making and implementation in Swaziland. In this role, the Ministry presides over the operations of the Central Bank (which currently supervises banks and some non-banks) and the Registrar of Insurance and Retirement Funds (which, as the name suggests, is responsible for insurance, pension and provident fund supervision).

Swaziland is yet to conduct a Financial Sector Assessment Programme (FSAP)[29] which forms the basis of a Financial Sector Development Plan (FSDP). Over and above the broad financial sector objectives and regulatory reform agenda, an FSDP will usually contain a strategy on financial inclusion that sets the tone and objectives of the government in as far as financial inclusion is concerned. In the absence of such a policy document, the RIRF draws its drive for inclusion from the Poverty Reduction Action Plan (PRAP) which emphasises the need to enhance savings as a poverty reduction mechanism. There is also a broader commitment to financial inclusion from the Minister of Finance which trickles down to the relevant financial sector supervisory entities. As testament to the implicit commitment to financial inclusion, the Ministry has since set up a Microfinance Unit to drive its Rural Enterprise Development Programme.

Formation of a new umbrella non-bank regulator. As part of its broader financial sector policy, the Ministry of Finance in 2010 introduced the Financial Services Regulatory Authority Bill to Parliament in an effort to streamline financial sector supervision. The Bill was assented to in 2010 thus creating the Financial Services Regulatory Authority (FSRA). FSRA will supervise the activities of all non-bank financial institutions such as capital markets, insurance companies, pension funds and cooperatives. The government intends to operationalize FSRA in 2012[30]., implying that RIRF will become a department under FSRA. The expectation is that the RIRF will continue its operations in a business as-usual manner after the transition (Nxumalo, 2012). If anything, RIRF is expected to gain from its assimilation into FSRA as FSRA plans to set-up a separate Research and Policy Unit as well as a modern Information Technology (IT) unit. Though market development is not among the official objectives of the new Financial Services Regulatory Authority (as set out in S.4 of the FSRA Act – see Section 5.3.4), a consultation with the newly-appointed FSRA CEO in February 2012 indicated that development and financial inclusion will explicitly be taken into account.

Aside from the setting up of FSRA, there is no expectation of broad financial sector policy shifts from the Ministry of Finance in the short to medium term. As has been mentioned earlier, the Ministry is currently involved in managing the on-going fiscal crisis with government's Fiscal Adjustment Roadmap (FAR) expected to run up to 2015[31].

Reasonably well staffed regulator. RIRF's 2011 annual report mentions that the entity does not have any major staffing problems. It has a current total staff complement of 26, having grown staff levels 53% over the previous year. Notably, RIRF hired four analysts in the licensing and inspections unit and three additional lawyers in the legal, policy and

[29] The Financial Sector Assessment Programme (FSAP) is a comprehensive in-depth analysis of a country's financial sector. It is usually conducted by the International Monetary Fund and the World Bank.
[30] See the 2012 Budget Speech by the Minister of Finance, available here:
http://www.gov.sz/images/stories/finance/budget%20and%20monetary%20affairs/2012%20budget%20speech.pdf
[31] See Swaziland Fiscal Adjustment Roadmap, available at
http://www.gov.sz/images/stories/finance/budget%20and%20monetary%20affairs/FISCAL%20ADJUSTMENT%20ROADMAP2%20AUGUST%2023%202010.pdf

intervention unit between 2010 and 2011[32]. However, like the entire industry, RIRF does not have a single actuary on its list of staff. RIRF staff is well versed in conducting onsite inspections and follow an onside inspection manual as well as a "traffic light" system for identifying different levels of risk.

Our assessment is that the RIRF is well able to discharge its duties of supervising the industry. Further, our assessment is that RIRF staff appreciate the nature of the trade-offs that exist between ensuring a stable and healthy insurance sector on the one hand, and encouraging innovations that are likely to impact positively on financial inclusion. Following on from the diagnostic process, RIRF is looking to appoint a microinsurance liaison person to work with the industry and is looking to host a quarterly microinsurance forum where all stakeholders will be invited to discuss and share challenges, developments and opportunities in the industry.

However, there is always room for capacity building. One area of particular need relates to offsite monitoring, namely more effective electronic capturing and analysis filed returns. Building of technical skills regarding solvency and other aspects were also identified as a need.

Roles and powers

As mentioned above, there are three key regulatory role players with a bearing on the insurance market:

1. *Ministry of Finance*. The Ministry of Finance is the official financial sector policymaker. It sets the tone/policy direction that trickles down into all financial sector specific regulation. The Minister signs off on legislation and has the power to make regulations (S.118 of the Insurance Act) in consultation with the Registrar.

2. *Financial Services Regulatory Authority (FSRA) Act 2010.* The single biggest regulatory milestone is the creation of the Financial Services Regulatory Authority (henceforth referred to as "FSRA" or "the Authority") as the new umbrella regulator for all institutions providing financial services outside of the banking sector. The Authority was formally established with the publication in the Swaziland Gazette on 12 March 2010 of the Financial Services Regulatory Authority Act, with the FSRA board appointed in December of the same year.

   The creation of FSRA seeks to harmonise regulation in the financial sector, create a level playing field and bring entities that have hitherto operated without much or any financial supervision, such as SACCOs and medical aids, into the financial sector regulatory fold. FSRA will therefore play a very important role as umbrella authority for the financial sector. Its role will be to fulfil all supervisory and oversight functions relating to financial service provision (S.5 of the FSRA Act). It will have the power to formulate policy and make rules for the implementation of the Act, issue guidelines and codes of good practice for conduct of business, issue directives and set up technical committees. It also has the power to "revoke any license issued under any financial services law" (S.6 of the FSRA Act). The Authority is responsible for the administration of

[32] See the 2011 Annual Report available here: http://www.rirf.co.sz/images/stories/docs/RIRF%20Annual%20Report%202011%20-%20Final%20to%20Print%20-%202011%2012%2014.pdf

all financial services laws (S.29) and has the power to licence and make rules for all authorised financial service providers. It has the power to issue codes, guidelines, policies and practice notes under the Act or any other financial services law (S.33). Furthermore it may prescribe offences and administrative penalties (S.105.1).

3. *Registrar of Insurance and Retirement Funds (RIRF)*. The RIRF is the supervisory authority for the insurance and retirement funds sectors in Swaziland. As such, it is tasked with developing guidance to industry and supervising compliance with all aspects of insurance and retirement funds regulation. Specifically, the Insurance Act and regulations give the Registrar the power to issue directives (in consultation with the Board) to arrange procedural matters for the registration of brokers and agents and also specifying valuation assumptions (for liabilities) and prudent investment guidelines. The Registrar may furthermore issue circulars as instruments of notification. Regulation 14(3) empowers the Registrar to issue directives of a stronger nature than those specified in section 118(2) of the Act, of which at least the following are of particular relevance to microinsurance:

   - Guidelines for soliciting insurance business;
   - Commission payable by insurers to intermediaries;
   - Registration requirements for insurers, brokers and agents;
   - Market conduct standards and requirements;
   - Good governance standards and practices.

   Under the Insurance Act, RIRF has the authority to investigate possible violations of the Act (S.31.1), may subpoena and can levy a fine or prison sentence up to E20,000/1 year (S.31.4, 31.6). The 2010 proposed amendments to the Act insert detailed powers of inspection for the registrar (S.32) and, if concerns arise, may take criminal proceedings or impose conditions on continued licensing of the entity (S.34). Responsibilities of the RIRF will be taken over by the FSRA Act 2010 once it is operational.

Depending on how microinsurance is introduced into the regulatory framework, powers to issue specific regulations and/or Directives in this regard need to be considered.

Structure of the regulatory analysis

Scope. Though there are a number of pieces of legislation and subordinate legislation that may be of relevance to insurance (including, for example, the Employment Act of 1980), we focus on the following aspects in the regulatory analysis, as they are most likely to have implications for microinsurance in Swaziland:

Insurance-specific regulation:	• Insurance Act 2005 and proposed amendments to the Insurance Act
	• Subordinate legislation and guidance to the Insurance Act 2005:
	    • The Insurance Regulations of 2008
	    • The Insurance Directives of 2008
	    • Licensing Policy and Procedures
	    • Brokers Code of Conduct

Other regulation of relevance to insurance:	• The Money Laundering (Prevention) Act, 2001 (Act No. 12 of 2001) and new bill of 2010 ◦ Anti-Money Laundering Guideline issued by RIRF to Insurers and Intermediaries, March 2010 (revised March 2011) • Financial Services Regulatory Authority Act 2010 • The Money Lending and Credit Financing Act 1991 • Cooperative Societies Act, 2003 • Cooperative Societies Regulations 2005

Table 11. Swaziland insurance regulatory scheme
Source: Consultations and desktop research

The analysis below will be structured as follows:

- Firstly, we will consider the core aspects of insurance regulation of relevance to microinsurance (Section 5.2), distinguishing between institutional and corporate governance regulation (Section 5.2.1), product-relevant regulation (Section 5.2.2), prudential regulation (Section 5.2.3), intermediation regulation (Section 5.2.4) and consumer protection-specific aspects of regulation (Section 5.2.5).
- This will be followed by an overview of each of the areas of regulation outside of the insurance sphere highlighted in Table 11 (Section 5.3 and its subsections). This part of the analysis will specifically focus on those aspects of each Act that are likely to have some bearing on microinsurance.

Main conclusions

The main conclusions regarding the implications for microinsurance of the regulatory analysis to follow are:

- *Well crafted legislation, but some areas of uncertainty*. The Insurance Act, Regulations and Directives are relatively modern instruments and well crafted. Nevertheless, there are a few areas where there are gaps or uncertainties. These relate to the demarcation between long-term and short-term insurance, most notably the treatment of short-term life policies, as well as to the treatment of health insurance (accident and health policies are included under both long-term and short-term, but the business of a medical scheme is excluded from the ambit of the Act).
- *Prudential requirements thus far not a barrier to entry*. Thus far, minimum paid-up share capital of E2 million has not proven to be a barrier to entry and quite a number of new licenses have been granted recently relative to the size of the market (with three out of nine insurers entering in 2009 alone).The existence of a second tier for assistance business insurers (for which minimum paid-up share capital is set at E400,000) was not used until the first assistance business insurer registered in May 2011. Under the proposed new dispensation where paid-up share capital will increase to E12 million, the fact that there is already a second tier for assistance business is likely to become significant. It could form the precedent or basis for the creation of a risk-based microinsurance second tier of insurers.
- *Intermediation requirements do not yet accommodate the realities of microinsurance distribution*. The current intermediation space is limited to brokers and agents. Though

the agent category is defined very broadly, there is nevertheless need for explicit accommodation of so-called third party client "aggregators" (e.g. retailers, cooperatives, associations, funeral parlours, etc) to act as distribution channel. There is also no space for administration or underwriting management services by third parties currently. This would be important to consider in the microinsurance environment.

- *Local investment requirements emphasised as constraint by industry*. As a rule, industry members were positive about the current regulatory framework and did not highlight any particular regulatory challenges during the consultations. The one exception was the 30% local investment requirement, which was emphasised as the single biggest regulatory constraint to market growth.
- *No clear framework for health insurance*. Health insurance is the insurance product with the lowest reach currently. Yet the demand-side research reveals that health microinsurance has the scope to become the most highly demanded product in the low-income market. Thus far, there has been no consistent framework for the regulation of health insurance, with one long-term, one short-term and at least two unregulated entities operating in the space.
- *Important task for new regulatory authority*. The newly created Financial Services Regulatory Authority will face an important task in integrating non-bank financial sector regulation. In the insurance sphere, it can play a vital role in incorporating regulation of SACCOs and medical aids to create a level playing field for insurance underwriting and distribution purposes. The challenge will be for FSRA to build capacity and capitalise on the opportunity its creation presents.
- *Opportunity for reform*. Apart from the opportunities associated with the formation of FSRA, the fact that the Insurance Act is currently under review provides a key opportunity for the incorporation of microinsurance into the regulatory framework.
- *The existence of an already defined assistance business space provides a "hook" for broader incorporation of microinsurance*. Swaziland is one of the few countries in the world that already has regulatory provision for a second tier of insurance providers, namely assistance business insurers. The existence of the space can form the platform for the incorporation of microinsurance more broadly, especially given the proposed raised capital requirements for 'full' insurers.

These conclusions will form the basis for the regulatory recommendations in Section 6.4.

5.2. Key aspects of insurance regulatory framework

This section considers relevant aspects of the Insurance Act of 2005 and its subordinate regulations and guidance, as well as the proposed Insurance Act amendments. All section references below refer to the Insurance Act of 2005, unless otherwise stated.

5.2.1. Institutional & corporate governance

Only public companies permitted to underwrite insurance. Only public companies registered under the Company Act 2009 can apply for registration as insurers (S.7(1)). Mutuals and cooperatives can only gain access to insurance underwriting by setting up a company (as anticipated by S.7(5)(c).

The activities of a medical scheme, friendly society and agricultural cooperative are excluded from the definition of insurance businesses. This is discussed in more detail in Section 5.2.2. If the microinsurance arena is opened up to non-corporate entities, this exclusion would have to be revisited.

Each insurer to determine its own corporate governance strategy. Under the licensing Policy and Procedures, prospective insurers must submit a corporate governance strategy as part of their license application. Though no specific corporate governance requirements are laid down, the assessment of the business plan (appendix L of the Policy and Procedures) will confirm that the corporate governance strategy covers the following broad aspects:

- the creation of monitoring systems of checks and balances within the company and ongoing monitoring in that regard;
- compliance with legal and regulatory obligations;
- Identification and management of risks that are a threat to the company's continued existence; and
- the development of practices which make and keep the company accountable to the broader society in which it operates.

Box 8. Key institutional considerations for microinsurance

Who may be a microinsurer? A key regulatory consideration for microinsurance, internationally, is whether or not to allow member-based organisations such as cooperatives to register as microinsurers and, if so, under what conditions. The IAIS and Microinsurance Network Joint Working Group on Microinsurance's "Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets" (henceforth referred to the MCCO Issues Paper) gives guidance in this regard:

International guidance. The Issues Paper recognises that MCCOs can play an important role in extending insurance access so as to contribute to economic wellbeing through risk management at a community level. The role of MCCOs can be complementary to insurers, e.g. in serving as distribution channel, as collectors of premiums or even playing a role in claims assessments and payments. The MCCO can also be a group policyholder with an insurance company. In all of these instances it will have an important role in introducing members to the concept of insurance and educating consumers, a role for which it is well suited given the level of trust members typically have in MCCOs. The paper furthermore recognises that MCCOs may sometimes carry the risk themselves, as a community-based means of risk pooling. It then considers each of the Insurance Core Principles (ICPs) to consider what they imply for the regulation of MCCOs as insurance providers.

The conclusion is that MCCOs could be allowed alongside companies to act as insurance underwriters. This may warrant special, probably lighter, regulatory and supervisory treatment in some cases, but large MCCOs should face the same obligations as widely held shareholder companies.

South African example. This is more or less in line with the proposed treatment of cooperatives under the soon to be released microinsurance policy statement in South Africa[33]. The proposed position is to open the microinsurance space to member-based organisations subject to the requirement that they must institutionally be registered under the Cooperatives Act. As providers of insurance, they will

[33] Note that the publication of the Microinsurance Policy Statement in South Africa is still pending. These observations therefore do not yet reflect the final position.

then have to abide by all the requirements of the insurance regulatory framework in the same way as other microinsurers. Furthermore, it was recognised that the principle of mutuality/member governance will not be enough in itself to protect consumers, especially as organisations become bigger. Therefore the proposal is for certain minimum transparency and corporate governance requirements to be built into the microinsurance regulatory framework that all microinsurers will have to adhere to, regardless of institutional form.

5.2.2. Product-relevant regulation

A number of aspects of the insurance regulatory framework relate to the nature of products to be provided. While many of these aspects will also be prudential or market conduct-related, we include them here for their relevance at the product level. Below, we consider how five product-related topics are allowed for in the insurance regulatory framework.

What is regarded as insurance?

The Insurance Act contains material exemptions relating to the definition of insurance that have a bearing on microinsurance. These are contained in the definitions section (S. 2(1)), and specifically the definition of "insurance business". Insurance business is defined to exclude, amongst others, the activities of friendly societies, agricultural cooperatives and medical schemes. A friendly society is defined to mean "any association of individuals with no share capital (therefore excluding companies) established for the purpose of rendering aid to its members or to their dependents and which does not any time –

a. Employ or remunerate any person for the purpose of inducing other persons to become members of such association or for collecting contributions or subscriptions from members;
b. Pay a lump sum benefit including bonuses exceeding E10 000; or
c. Pay an annuity inclusive of bonuses exceeding E1 200 a year."

Using standard legal principles of interpretation, the use of the word "or" at the end of (b) above would suggest paragraphs (a), (b) and (c) must be read as alternatives and not as cumulative requirements. That would mean that all mutual-type institutions that do not seek to recruit members (and which therefore have a very strong common bond) irrespective of the value of the benefits provided by them, would be considered friendly societies and excluded from the operation of the Act –by virtue of (a) above. However, this concern will be addressed in the proposed amendments to the Insurance Act. "Insurance business" will be defined to exclude only "non-insurance" friendly societies, agricultural cooperatives and medical schemes.

The other important definition in relation to what is insurance is that of "policy benefit". The latter is defined as meaning "a lump sum or an annuity payable on a certain contingency". The implication of this definition is that policies promising benefits *in kind* (for example a funeral service rather than a cash payout) would not be considered insurance. If this is not the intention of the Act, the wording should be rephrased to remove any scope for misinterpretation.

Definition of short-term and long-term insurance

- The Insurance Act, 2005 defines *short-term insurance* in terms of a range of business classes (engineering policy, transportation policy, motor policy guarantee policy, liability policy, accident and health policy, property policy, workman's compensation policy and miscellaneous policy).
- On the *long-term* side, the Act simply defines "Long term insurance business" as life business including assistance business.

Envisaged reforms explicitly make room for short-term life policies. In the proposed Insurance Act amendments, the definitions of long-term and short-term are revised as follows:

- *Long-term insurance* is defined as any life business, including assistance business. Life business is in turn defined as a payment on (i) death, (ii) an annuity as well as (iii) endowments.
- *Short-term insurance* is defined as an insurance contract in terms of which the period of the insurance does not exceed 12 months.

There is need for greater clarity in these definitions: on the one hand there is a *life versus non-life* element to the demarcation between licences (in that long-term is defined as *life*), while on the other hand there is a *contract duration* element (in that short-term is not defined in terms of classes of non-life insurance any longer, but rather in terms of the duration of the contract term. This would mean that short-term life insurance could be underwritten under a short-term license (as is already the case, albeit on a rider basis) even if the *life* element is core to the definition of long-term.

Health insurance

The activities of a *medical scheme* are also currently excluded from the definition of "insurance business", implying that medical schemes are currently unregulated. The term "medical scheme" is not defined by the Act.

Health insurance is included in the ambit of the Act through the definition of the policy class "accident and health policy". It is explicitly included under the definition of short-term insurance in the Act itself as well as in Schedule 1 of the Regulations, plus is one of the classes listed under long-term insurance in Schedule 2 of the Regulations. The upshot is that health insurance may be provided under either a long-term or a short-term licence (the only two registered health insurers are indeed long-term and short-term, respectively).

There is no specific definition of what would constitute health insurance. A "health event" is merely included as one of the aspects that can be covered under an accident and health policy (see the demarcation discussion below), "provided that the term of the contract together with any renewal or extensions of the contract shall not exceed 12 months in aggregate".

The proposed amendments in the new Insurance Bill of 2011 remove the accident and health policy definition out of the Act and contain no mention of the word "health" or "medical scheme" other than to state that the business of a "non-insurance" medical scheme is excluded from the definition of insurance business. The FSRA Act (see the discussion in Section 5.3.4) will incorporate medical aid schemes and will establish regulations in this regard. FSRA will therefore be the only body empowered to regulate medical aid schemes. As non-insurance medical schemes will be defined outside of the definition of insurance business, it is however not clear what a "non-insurance" medical scheme would be and whether they will fall under the ambit of FSRA.

What is assistance business?

Assistance business is defined in the Act as a life policy of which the value of the benefits and the amount of the premium for an annuity is regulated in the Regulations. Regulation 3(6) states that Schedule 2 of the Regulations will determine the classes of business for long term insurance. Paragraph 7 of Schedule 2 then defines an assistance policy as limited to E50,000 but only payable on a death event. Nothing is mentioned about the annuity option and a 'funeral policy' is also included. Funeral policies are also separately defined in Schedule 2 as a class of long term business, namely 'as benefits under funeral policies'.

We believe there is a need for tightening and integrating the definitions into one central microinsurance definition that will incorporate assistance business. The proposed Insurance amendments do not yet contain any definition of microinsurance, but the inclusion of assistance business provides a precedent on which to build a broader microinsurance definition.

Box 9. Microinsurance definition: international examples and considerations

At the simplest level, microinsurance refers to insurance products that are accessible to and/or used by low-income households. A formal definition of microinsurance in regulation is only necessary if it will serve a specific purpose, for example if it should be used as basis for tailoring the regulatory requirements for microinsurance in order to e.g. create a second tier of insurers or to relax intermediation requirements. It may well be that no special dispensation is required – depending on the country context and market realities. As it is difficult to enforce a definition linked to the income of the target audience, the generally accepted approach to defining microinsurance in regulation is to use product parameters to simplify the product, reduce the risk associated with it and generally target it to the lower end of the market.

To turn the conceptual definition into a practical one wide enough to facilitate the development of a dynamic microinsurance market, the definition of microinsurance should simultaneously achieve two goals:

- It should reflect the features of products demanded by the low-income market; and
- It should generate sufficiently low prudential risk so that microinsurance products can safely be provided by a wide range of microinsurers and be straightforward to distribute. Combined, these factors will merit simplified regulatory requirements.

To do so, most countries that have defined microinsurance have used product parameters such as benefit or premium limits, term limits, simplification or local language requirements or even age limits as basis for the definition. Appendix 2 contains an overview of international examples.

Carving out a regulatory space for microinsurance. After having defined microinsurance, the question then is how to introduce microinsurance into the regulatory framework. Because microinsurance allows elements of life and non-life to be part of the same policy, it may be necessary to introduce a new class in both the long term and short term business classes in countries where there is a demarcation between insurers. The scope and limitations under which such a microinsurance policy must operate must be the same for both long and short term insurance. Consequently, attention must also be given to defining the solvency parameters and reporting requirements for life and non-life insurers for this business class, so as to create a level playing field.

Demarcation: who can underwrite what?

Under the insurance Act of 2005, a company can either write short-term or long-term insurance, not both. For historical reasons, SRIC has been granted an exception to this demarcation rule and is hence the only composite insurer. Section 68 gives the discretion to the Registrar to authorise the "classes of insurance business" which the insurer can carry on. Section 68(3) provides that "an insurer may not carry on those classes of insurance business that the Registrar has specified by publication in the Gazette as prohibited." This would suggest a power given to the Registrar to determine demarcation.

Box 10. Microinsurance demarcation considerations

Demarcation challenges for microinsurance internationally. Demarcation between long-term insurance, short-term insurance and health insurance is normally one of the key reasons for establishing microinsurance as a separate class of business within the regulatory framework. The argument is that a microinsurance product category that is defined to include either a sum assured payable on a death event only and/or a sum assured payable on a non-life event and with a renewable contract term of 12 months or less, could be a composite product category provided by either long-term or short-term insurers. Therefore the most radical aspect of microinsurance regulation may be that it relaxes otherwise strict demarcation requirements. The largest attraction of this provision is for short-term/general insurers who want to provide funeral, credit life or other simple life policies.

Microinsurance-relevant products may be provided across the demarcation divide in current Act. In Swaziland, strict demarcation seems to be less of an issue. Under the current Act, an accident and health policy, which is included under both the short-term and long-term definitions, is defined as a policy for a disability, health or death event, "provided that the term of the contract shall not exceed 12 months". Under this provision, short-term insurers are allowed to write short-term life business as a rider. More than one short-term insurer therefore currently provides or plans to provide funeral cover and credit life insurance.

Demarcation uncertainty introduced by proposed amendments. Under the proposed amendments, as described above, the definition of short-term insurance will explicitly relate to the term of the contract rather than to whether life events are included. As the definition of long-term is directly linked to life, however, long-term insurers will still be precluded from providing asset-related policies. We believe that the regulatory framework will benefit from a tightening of the definitions of long-term insurance and short-term insurance, as well as of health insurance and where it fits with regard to the others.

5.2.3. Prudential regulation

Licensing & operational requirements

The RIRF has issued detailed licensing policies and procedures as guidance to insurers on how applications for an insurance license will be handled, on what criteria they will be assessed and what documents should be submitted as part of the licence application. Here we highlight only material aspects of relevance to the microinsurance regulatory analysis.

Business plan requirements. As part of the licensing application, each prospective insurer should submit a business plan that indicates the proposed underwriting policy, the reinsurance arrangements, the basis for premium rates and the company's investment strategy, proof of paid up share capital and the intended corporate governance strategy (see the discussion on corporate governance guidelines above) and the business risk management strategy.

Repatriation. Insurers who wrote policy contracts in Swaziland on or before the commencement of the Act should include proof of repatriation or a repatriation plan of the policy book and related assets. The policies and procedures state clearly that the central administration of policies, contracts and underwriting as well as full management operations should be situated in Swaziland. The proposed amendments contained in the proposed amendments to the Insurance Act states that an insurer registered in terms of the Act shall have sufficient resources to service policyholders and administer insurance premiums from its principal office in Swaziland. Yet it incorporates an exception for products that are not available in Swaziland, in which case the Registrar may permit an intermediary upon application to place business outside of Swaziland.

Auditing requirements. Section 53.1 holds that every insurer (and now also broker and corporate agent – according to the proposed revisions) must appoint an auditor to be approved by the Registrar. At application stage, all insurers must submit their chosen auditor for approval as part of their business plan, along with audited financial statements for the last year where applicable.

Actuarial requirements. Only long-term insurers are required to appoint an actuary – section 48(1). Short term insurers need not appoint an actuary. The terms of all long-term policies must be certified by an actuary – section 73(1). The Insurance Regulations 2008 specify that every long term insurer shall, at least once a year, undergo an actuarial valuation and submit the report, which must be in accordance with the standards of the Actuarial Association of South Africa, to the Registrar.

In Appendix B of the Policy and Procedures for licensing, it states that *all* insurers (i.e. including short-term) must as part of their business plan application submit an application for approval of a valuator. The business plan should also be accompanied by a certificate by an actuary that the intended business plan is financially sound.

A valuator is defined in the Act as an actuary, which in turn is defined as a fellow of a recognised institute, faculty, society or chapter of actuaries approved by the Registrar.

Box 11. The importance of actuarial principles – and the potential role of an actuarial technician

The actuarial profession plays a core role in the insurance industry. Microinsurance is no exception. Certification by an actuary of the financial position of an insurer, especially a life insurer, is normally required to ensure that sufficient assets are held to cover the capital requirement and policy liabilities, allowing for different stresses. This, in turn, impacts on pricing and the level of reinsurance.

The appointment of a qualified valuator and conducting an annual valuation can however be quite expensive, even prohibitively so for small entities. Where reserving is done on a simple formula basis, as is most often the case for microinsurance, an alternative approach to actuarial valuations may be called for. One option, applied for example in Brazil, is to develop a 'template' in which different norms/premium tariffs are spelled out, based on actuarial principles. A 'file and use' approach can then be followed whereby insurers should submit all premium tariffs with the regulator. The regulator could object (depending on the results of the insurer for instance). If no objection is made within a certain time frame, the insurer may proceed. Results can then be monitored on a quarterly basis through returns. This would remove the need for a regular actuarial valuation.

Reporting requirements. The Insurance Regulations 2008 lay down detailed requirements for the submission of audited annual and unaudited quarterly financial statements to the registrar and provide standard templates for such submissions.

Under the Insurance Directives (RDI 8 and 9), as well as S. 69 of the proposed amendments to the Insurance Act, brokers shall submit unaudited quarterly and audited annual returns to the Registrar. Under S.71 of the proposed amendments, corporate agents must submit audited financial statements and unaudited quarterly and annual returns.

Box 12. The importance of reporting in the context of microinsurance regulation

Reporting requirements are important to ensure that insurers on an ongoing basis maintain the skills needed to manage the risk implied by the provision of microinsurance and to enable the regulator to monitor trends in the industry for the sake of soundness and consumer protection.

Should microinsurance be introduced as a separate class of policies, it is advisable that insurers be required to report separately on microinsurance and that reporting is detailed enough to enable the Registrar to track key ratios relating to profitability (expense ratio, claims ratio and net income ratio), industry growth and financial prudence (solvency, liquidity) for microinsurance across all players.

Appendix L – Assessment of Financial Statements/Business Plan of the RIRF Licensing Policy and Procedures already include the following ratios under the heading "What to look for when assessing financial statements":

- Expense ratio to determine the trend in company's expenses;
- Solvency ratio to determine compliance with stipulated minimums;
- Liquidity ratios to determine whether the company would have enough resources available to meet liabilities when the fall due; and
- Claims ratio and profitability ratios, to determine the trend in claims logged and paid as well as to determine the reason for profitability or not of the company.

This list is very thorough and could be extended to a microinsurance class of policies. Yet current data reporting conventions are not yet sufficient to enable comparable, reliable ratios to be calculated across insurers and tracked over time. This suggests the need to develop and rigorously apply a standard reporting template.

Local ownership and investment requirements. The Act requires minimum local ownership of insurers of 25% (S. 7(5)). More importantly, the Regulations require minimum local assets of 30% (Schedule 3). Though local investment requirements were in place since the enactment of the 2005 Insurance Act, they have only been strictly enforced since 1 November 2009 (following the publication of Circular 2/2009 on Local Investment Criteria, which set the above date as deadline for compliance). During the consultations, industry flagged the local investment requirements as the single biggest regulatory concern. As no look-through principle is applied, the argument goes, the requirement is largely defeated: insurers invest their assets in cash in local banks, who then invest most of the money in South Africa or elsewhere in either case.

Minimum upfront paid-up share capital

Low share capital requirements being increased. The current minimum capital requirement (in the form of paid up share capital) is low by international standards – amounting to E2 million (S.7.2 of the Act). Minimum capital therefore does not currently constitute an inhibition to smaller insurers registering. However, the introduction of higher paid-up share capital is a key area of reform in the proposed amendments to the Insurance Act.

An existing second tier. Under the current dispensation, there is a concession for firms providing assistance policies only (Safrican was the first firm to obtain such a license in May of 2011). They must have a share capital of not less than E400 000 (S.7.3 of the Act).

Capital, reserving and valuation of assets and liabilities

Annex 3 sets out the components of the insurance balance sheet for statutory reporting purposes, namely the valuation of assets and liabilities, including the capital adequacy requirement (CAR) and formulas for reserving as specified in sections 83 and 92 of the amendments to the Act (for long-term and short-term insurers respectively), read with Directives RDI 6 and RDI 7.

The capital adequacy requirements for Swazi insurers as specified in the proposed amendments to the Insurance Act are in line with best-practice elsewhere. In layman's terms, the regulatory framework requires insurers to meet three capital-related requirements:

1. They must have a minimum paid up share capital of E12 million (as proposed in the amendments, up from the current E2 million in the Act) before they can start operating.
2. Once they start operating, they must set aside assets to cover their liabilities plus other specified margins.
3. In addition, they must hold a CAR. CAR will initially be covered by the paid-up share capital, but as the business grows this will no longer be sufficient and they will have to set aside additional assets as CAR – calculated according to the specifications in the amendments to the Insurance Act.

In total, they must therefore hold enough admissible assets to cover CAR, policyholder and other liabilities. Setting aside these assets is called "reserving".

Box 13. Capital considerations for microinsurance

The fact that the Act already allows for a second tier of insurer in the form of an assistance business insurer with lower paid-up share capital requirements is a notable feature of the Swaziland insurance regulatory framework. This provides a precedent that can be broadened to microinsurance at large.

International precedents. Microinsurance products are low-risk products by nature of the parameters imposed through the definition. There are two main drivers of the low risk characteristic:

- *The benefit limit*. An insurer that has a large number of small policies faces lower risk than an insurer having only a few very large policies on its books.
- *The term of the contract*. Under a whole life policy, the insurer does not have the option to cancel the policy, should its risk experience change. The fact that the insurer is locked into the risk means that more reserves need to be kept to provide for unforeseen circumstances. As microinsurance is defined to entail short-term (renewable) contracts, the risk is significantly reduced.

On this reasoning, a number of countries have started to move towards the creation of a second tier in capital requirements, based on lower upfront minimum capital requirement and a simple reserving formula, for microinsurance. Examples include South Africa, where upfront minimum capital of R3 million is proposed for microinsurance, the Philippines, where microinsurance Mutual Benefit Associations meeting certain requirements are subject to significantly lower capital requirements, and Brazil, where the possibility of a dedicated solvency ratio is one of the current considerations for the creation of a microinsurance space.

Way forward for Swaziland. We believe that the current capital and reserving regime as set out above is appropriate and sound. In a "downscaling" scenario where existing insurers do microinsurance as one of their business classes, nothing will change, capital-wise, and the actuaries will deal with the reserving requirements for microinsurance as with other business classes, both long term and short term. However, should there also be an "upgrading" scenario where smaller, dedicated microinsurers wish to register, capital adequacy requirements may need to be revisited.

5.2.4. Intermediation regulation

Who may intermediate insurance?

Brokers and agents as "traditional" intermediaries. The Insurance Act 2005 contains quite a broad definition of "insurance agent" as somebody who is neither a broker nor an employee of an insurer, underwriter or broker and "who undertakes the selling or servicing of any kind of insurance business on behalf of such an insurance company, underwriter or insurance broker" (s.2(1)). An insurance broker is a person other than an agent who is not an employee of an insurer and who negotiates insurance business including reinsurance on behalf of any other person as his principal business.

Section 14 then proceeds to distinguish between how brokers and agents are authorised. While brokers must be licensed, the requirement for agents is less onerous, entailing a form of registration[34]. Under the Licensing Policy and Procedures for agents, a corporate agent is allowed to have agency agreements with different insurers for different classes of insurance.

Entry requirements for brokers. Under the Licensing Policy and Procedures, a **broker** must as part of its licence application:

[34] Note that this will change under the proposed new Bill: Section 15(2) of the Bill requires Agents to be licensed in terms of the Act.

- Prove that it is registered in Swaziland as a business (memorandum and articles of association, certificate of incorporation)
- State the education qualification and insurance industry experience of the chairman, other directors and principal representative and attest to their reputation and character and the professional and work conduct of the broker.
- Furthermore, a risk management strategy and corporate governance strategy is required, as well as proof of a trust account in which premiums will be kept.
- Cede to the Registrar a guarantee of at least 20% of expected premium with a minimum of E50,000, as well as proof of professional indemnity insurance of E2m.
- Submit audited financial statements
- Submit financial projections for three years
- Declare that it has not entered into a preferential agreement with any insurer.

Entry requirements for agents. Section 19 of the 2005 Act outlines the registration process and requirements for agents. The Registrar must lay down minimum qualifications (but none have been stipulated so far – see below). The most onerous requirement is that the Registrar must approve the standard form agency agreement – section 19(3).

The Licensing Policy and Procedures of 2008 (revised January 2010) give further guidance on registration requirements. **Individual agents** must submit:

- Their CV, educational qualification and work experience
- A statement of character and police clearance
- A copy of their agreement with an insurer

The requirements for **corporate agents** and main representatives are much the same as those for brokers, with the following exceptions:

- They must include the agency agreement with an insurer
- They must apply for the approval of an auditor
- State any other business in which the agent has an interest
- Submit policies and procedures to ensure separation of collected premiums from other corporate funds
- Indicate the agreed period in which premiums are to be transferred to the principal

They are not required to have a corporate governance or risk management strategy, or to submit financial projections.

Ongoing conduct requirements. Only brokers are subject to a Code of Conduct issued as a Directive (RDI14) by RIRF. It is stated in fairly high-level terms to require competency, integrity and professionalism of brokers without stating any specific education or experience requirements. Brokers are furthermore required to disclose their fees/interest to customers and to treat customer information as confidential. Any potential conflict of interest should be disclosed to clients and a broker is not allowed to unfairly criticise any product.

Serving the client’s needs. The Code of Conduct also makes some stipulations regarding the sales process. Specifically:

"A broker will apply knowledge and skill to provide a client with those products and services which will best fulfil that client's particular needs, with specific reference to:

a) the client's financial circumstances;
b) the client's existing coverage;
c) the client's ability to afford the product or service concerned; and
d) the client's objectives in relation to the insurance service required.

Should any product or service be marketed to a client, the advantages as well as limitations of the relevant product or service must be explained to the client, so that the client can make an informed decision regarding the product or service. The client's needs must be determined by means of a thorough analysis of the client's relevant affairs."

Where advice is concerned, the requirement is that:

Recommendations to clients should be complete, open and clear. A broker should indicate in detail the facts and assumptions upon which recommendations are based. A broker should study the risk in sufficient detail to provide the client with adequate information with which to make an informed decision.

Current intermediation requirements: in summary. Outside of the code of conduct applicable to brokers, intermediation regulation is therefore currently largely licensing process-driven. There are no detailed requirements regarding educational levels or experience and no stipulations on the actual sales process, information to be disclosed or what advice should entail for agents. Furthermore, there is no provision for distribution by entities other than brokers or agents, though the definition of an agent is broad enough to encompass direct sales (but still not by insurance company employees) as well as, potentially, distribution by a range of aggregators. More certainty in this regard will be needed to facilitate the development of microinsurance.

Insurance intermediaries – proposed new provisions

Intermediary as new umbrella term. The proposed amendments to the Insurance Act inserts the definition of an *insurance intermediary* into the Act. It is simply defined as a natural or juristic person who engages in insurance mediation and includes an insurance agent, corporate insurance agent or an insurance broker. Normally, a broker is defined as representing the client, and an agent as representing an insurer. By covering the insurer, broker and buyer, the definition of an intermediary as included in the proposed amendments therefore encompasses both the traditional broker and agent.

Part III refers to the registration of insurance intermediaries, stating that no person may act as insurance broker or agent without being licensed in terms of the Act. The licensing requirements are broadly in line with what is required in the 2005 Insurance Act, but the transitional arrangements have now been removed.

One agent, one insurer, no premium collection. A couple of limitations are placed specifically on **individual agents**, most notably:

- They must be a Swazi citizen
- They may only act as an agent for one insurer or broker
- They may not collect premiums on behalf of an insurer or broker

For **corporate insurance agents**:

- The flexibility to act as agent for more than one insurer (one per type of business) is removed; they may only act as agent for the insurer or broker mentioned in their certificate of registration.
- Furthermore, a registered bank or building society is the only type of corporate agent that may collect premiums on behalf of an insurer.

Directors and officers are personally liable (S. 52.1) for violations of the Act that occurred as a result of their negligence, act or omission and can face imprisonment or a fine.

Paying over premiums to the insurer. According to Section 68 of the proposed amendments to the Insurance Act, brokers and corporate agents who do collect premiums on behalf of an insurer must remit premiums to the insurer within 14 days of receipt, before which such premiums must be deposited in a separate trust account. Any premium paid to a broker or corporate agent shall be deemed to have been paid to the insurer.

Underwriting managers, administrators and alternative distribution space

No space beyond brokers and agents. The current framework for intermediation regulation is built largely around brokers and agents (corporate or individual). From the consultations it is clear that there is a need for a coherent intermediation framework that also explicitly allows for direct distribution (with incentivised insurance "employees" acting as sales agents in call centres or otherwise), as well as for distribution through aggregators (including cooperatives, retailers, market associations, etc). This will be considered in more depth in the recommendations in Section 6.4.

Agent space not suitable for aggregators. Aggregators can also not easily fit within the agency space, as an agent may only act on behalf of one insurer (therefore an aggregator could for example not sell life and asset insurance unless it is an agent of SRIC as only composite insurer – this may create an unlevel playing field) and may not collect premiums. Collecting cash premiums on a regular basis from those outside of the formal payroll deduction or bank debit order space is one of the main distribution challenges for insurers in the microinsurance sphere. Therefore the collection of premiums through the client or membership structure of an existing organisation (aggregator) with existing payment mechanisms is one of the main drawing cards for insurers.

No explicit allowance for administrative functions beyond sales. There is furthermore no specific allowance or requirements for administration in the current regulatory framework. In microinsurance, there may be a particular role for professional third party administrators or underwriting managers that do not squarely fit into the description of a broker. At face value, the Act seems to exclude the operation of underwriting managers. Section 9(1) of the Act precludes an insurer from entering into an agreement with another person whereby that person is allowed "to operate as an insurer by virtue of the insurer's license". This can be read as a prohibition against underwriting management agents, for instance, who may commit the insurer to a premium and policy.

Underwriting managers or administrators could potentially play an important role in the Swaziland microinsurance market as they provide a "midway" alternative for groups (e.g. a funeral home chain or a SACCO) to a pure underwriting arrangement on the one hand, where they may feel that they do not have enough autonomy to impact on product design or share in profits, or to the compliance burden of becoming an insurer in their own right on the other hand, which will in most instances not be the core business of the organisation.

Commission caps

Section 70 of the Act provides for the regulation of commission caps. In the Regulations the Minister further delegated this power to the Registrar. Different commission scales apply for long-term and short-term business.

For **long-term business**:

Type	Commission
Recurring premium individual life business	3% x term of policy x monthly premium, subject to a maximum of 75% of the annual premium in the first year, plus renewable commission of 30% of the first year's commission.
Single premium individual life business	1. 1.5% of the single premium for the purchase of an annuity (no commission payable if the annuity is purchased from a retirement fund) 2. 7.5% for term assurance 3. 2.5% for all other single premium policies
Group life business	7.5% of the first E90,000 of the annualised premium, 5% of the next E70,000, 3% of the next E160,000, 2% of the next E660,000 and 1% on the balance greater than E1m
Any other life business	12.5% of annual premiums

Table 12. Long-term insurance commission scales

Source: Swaziland Insurance Regulations, 2008

It is not clear where assistance business would be classified – under *any other life business* or under *group life business*.

For **short-term business**, the following standard commissions apply:

- 12.5% of premium for motor policies
- 5% of premium for workman's compensation policies
- 20% of premiums for any other short-term policies

Commission regulation being reconsidered. Indications from the consultations are that some insurers do not fully abide by these commission regulations, instead applying South African commission scales. One of the areas of reform will be to put in place a consistent scale of commissions (in terms of level and structure) that ensures a level playing field and also specifically deals with composite policies.

Box 14. Microinsurance commissions: regulatory considerations

Internationally, a relaxation of commission requirements is one of the core aspects of microinsurance regulation. The argument is that low-premium policies can only viably be sold at commissions that may look high in percentage of premium terms, but are still low in absolute terms.

Given the generally low premiums in the microinsurance market, the microinsurance bottom line looks different to that of other insurance products and distribution expenses tend to be higher relative to the premium[35]. For example: 5% of a R200 premium will amount to E10 in intermediary income, but the equivalent commission on an E20 policy will only be E1. It may not be viable for an intermediary to sell E20 premium policies at 5% commission, as they are unlikely to reach the volume required for viability under such a scenario. For this reason, uncapping of commissions in the microinsurance space may need to be considered. If an insurer is for example allowed to pay 25% commission, it will render E5 in intermediary income.

In South Africa, assistance business is currently the only line with uncapped commissions and the proposal is to extend this to microinsurance. The argument goes that competition should serve to keep commission levels in check. In India, microinsurance is similarly subject to higher caps than other product lines.

5.2.5. Consumer protection-specific regulation

The prudential, product and intermediation regulation set out above all aim to protect consumers. In addition to the general requirements, there are also a few aspects of the regulatory framework of specific relevance to consumer protection:

Conduct of business in respect of credit life regulated. The Act is in a number of ways very progressive when it comes to consumer protection. One of the relevant provisions is section 50 which relates to credit life insurance. The credit client who is required to enter into an insurance policy must be given the option of either ceding an existing policy or entering into a new policy. He also has the right to choose the insurer and intermediary with whom he shall conclude the contract (section 50(1)(b)). Strong penalties can be imposed for contravening these provisions (s.50(4)).

Powerful provisions for complaints on paper, but not yet implemented. The complaints procedures set out from section 90 onwards are quite powerful. This part of the Act creates a type of ombudsman (called the Adjudicator) with powers to make rulings that have the same binding power as court rulings. This follows an initial right to complain to the relevant “insurer, broker or agent” – section 90(1). If the complainant is not satisfied with the response to this initial complaint, he or she can go to the Adjudicator. Regulation 17 deals with the complaints handling procedure. According to the RIRF, the adjudicator is only now being set up.

Under the FSRA Act and the proposed amendments to the Insurance Act, a new body, called the Financial Services Ombudsman, will be set up. Section 75 of the FSRA Act sets out the mandate and manner of operation of such an Ombudsman.

Rules to be issued for policyholder protection. The Registrar has the power to issue policyholder protection rules (S. 81 of the proposed amendments to the Insurance Act; S.72

[35] This implies that margins are thin and/or that claims ratios tend to be somewhat lower than for some other types of insurance

of the current Insurance Act 2005), which will include proposing policy wording on information that should be disclosed and whether certain provisions affecting the rights of consumers should be included or excluded. The actual binding regulation must be made by the board of the Financial Sector Regulatory Authority by publication in the Gazette. This opens the option for simplified wording being required for microinsurance. Thus far, no such rules have been issued as they are still awaiting gazetting by the Ministry of Finance.

Grace period for delayed payments. The Insurance Act is very microinsurance-friendly in respect of delayed premium payments, providing for grace periods for long-term insurance in Section 113. The insurer must retain the policy, with full cover, for one month if no payment is received, but can deduct the premium from any claim incurred. If premiums were continuously paid, further grace requirements apply. For assistance business policies, the grace period is increased to three months if premiums were paid for at least three years. This could be extended to microinsurance. If short term insurers register for microinsurance as a separate class, then grace periods should also be attended to in this environment.

5.3. Key aspects of other regulation of relevance to microinsurance

5.3.1. Money Lending and Credit Financing Act 1991

Regulatory home for microlenders. The Money Lending and Credit Financing Act of 1991 was, until the commencement of the FSRA Act, the regulatory framework applicable to microlenders in Swaziland. They obtained a trading licence under the Act from the Ministry of Finance, but were not supervised in practice. Those who wished to register as credit institutions, however, resorted under the supervision of the Central Bank and submitted returns to the Central Bank (Central Bank meeting communication, 2011).

Price caps and other measures aim to protect borrowers. The Money Lending and Credit Financing Act is a very short piece of legislation aimed at protecting borrowers and regulating usury fees. It starts off by defining the terms "borrower", "lenders", "credit transaction", "money-lending transaction" and "interest" in very encompassing terms. It then proceeds to set the maximum *annual* interest rates that can be charged in respect of money-lending or credit transactions, as follows:

- 10% above the repo rate for money-lending or credit transaction amounts below E500
- 8% above the repo rate for amounts larger than E500

The Money Lending and Credit Financing Act furthermore obligates all lenders to clearly disclose interest and other charges to the borrower and to deliver or send by post the credit agreement to the borrower within 14 days of the conclusion of the money lending or credit transaction. It states, Section 6.1, that any agreement in connection with a credit or money lending transaction not done in conformity with the Act will be null and void and that the lender will have no legal recourse against the borrower.

Caps circumvented in practice? These annual interest rate ceilings are low by international standards. There is however no specific cap on the finance charges applicable. This gives money lenders the opportunity to implicitly increase the interest rate by for example loading admin charges. Indications are, however, that competition keeps interest rates largely in check, with the larger players charging annual interest rates of between 30 and 40%, all in.

Regulation of credit providers to move to FSRA. Under the FSRA Act all credit providers will be regarded as financial service providers and will need to adhere to the requirements of the FSRA Act.

5.3.2. Anti-money laundering legislation

The Money Laundering and Financing of Terrorism (Prevention) Bill was gazetted in July 2009 to update and expand the Money Laundering (Prevention) Act of 2001 to bring measures in Swaziland in line with international standards. The 2009 Bill's main aim is to criminalise money laundering and suppress the financing of terrorism (Part II), to require verification of customer identity, record keeping and reporting of suspicious transactions by all accountable institutions (Parts III and IV), and to establish a financial intelligence unit (Part V) and to provide for the forfeiture of ill-gotten property (Part VII).

In the interest of brevity no full account of the regulatory framework pertaining to anti-money laundering and combating the financing of terrorism (AML/CFT) is provided here. Rather, we focus on the relevant requirements applicable to insurers and intermediaries as accountable institutions (as defined under Schedule 1 of the 2001 Act and in Section 2(m) of the 2009 Bill) and the likely implications for access to insurance. For this, the main source is Guideline 0-2 for Insurers and Intermediaries regarding Anti-money laundering and Combating the Financing of Terrorism, issued by the office of the Registrar of Insurance and Retirement Funds in 2010 (revised March 2011). The Guideline seeks to align AML/CFT practices with regard to the insurance sector in Swaziland with the IAIS Insurance Core Principle in this regard, as well as the Financial Action Task Force (FATF) Recommendations – the international standards for AML/CFT.

Detailed obligations on insurers as accountable institutions. Insurers and intermediaries are subject to the following requirements under the Guideline:

1. *Developing and implementing an AML/CFT compliance programme* (this is the responsibility of senior management, with oversight of the board)
2. *Appointing an Anti-Money Laundering officer* as part of senior management
3. *Conducting Customer Due Diligence (CDD)* measures upon entering into a relationship with a customer. This means that all new insurance policies sold will be subject to CDD requirements. The main CDD requirements are:
    - In order to assess the background of customers and build customer *profiles*, insurers and intermediaries are required to *collect relevant information*, for example type and background of the customer or beneficial owner, income and details of sources of funds, geographical base, frequency and scale of activities, whether or not payment will be made to third parties, size and pattern of transactions.
    - Insurers must monitor, on an ongoing basis, their business relationship with customers and check for deviations in transaction behaviour from the profile of the customer.
    - Based on the above, all suspicious transactions should be reported to the Swaziland Financial Intelligence Unit (SFIU) located at the Central Bank of Swaziland. Insurers and intermediaries should have "adequate processes and

systems for detecting and identifying suspicious transactions and internal processes for evaluating whether a matter should be referred to the SFIU".

- Furthermore, insurers and intermediaries are required to *identify* each customer who applies to them, *record* information relating to their identify (name, occupation, name of employer or nature of self-employment, specimen signature, residential address, telephone number, nationality, date of birth and identity card) and to *verify* the identity of the prospective customer using "reliable and independent sources". Where a beneficial owner[36] exists, insurers and intermediaries must furthermore identify and verify the identity of such beneficial owners as well.
- Where there is no face to face contact in originating a business relationship, additional measures should be implemented, e.g. phoning the customer at a verifiable contact number, phoning the employer, confirmation of salary details through bank statements, or confirming address through an exchange of correspondence.
- Insurers and intermediaries should put in place enhanced CDD measures for politically exposed persons (PEPs).

CDD requirements overly onerous for microinsurance. These requirements ask quite detailed information to be obtained from customers before a policy can be issued. In fact, at first read the question is whether these measures are at all feasible and implementable in the insurance sphere – and whether they are justified given the typically low AML/CFT risk in insurance (see Box 15 below). It may be that many prospective clients in the microinsurance space simply do not have all the information required of them as part of the CDD process, and/or that the transaction costs all the identity verification, record-keeping profiling and monitoring requirements (and the systems and procedure requirements that go with it) placed on insurance may undermine the viability of low-premium products on the market.

Determining "low risk". The Guideline does allow for instances of simplified due diligence, namely "in cases where [insurers and intermediaries] are satisfied that the risk of money laundering or terrorist financing is lower". However, it is not clear that there is any practical way of using this discretion. Insurers and intermediaries are required to "assess the risks of money laundering or terrorist financing, having regard to the circumstances *of each case*, before applying the lesser or reduced CDD measures when identifying and verifying the identity of a customer" (emphasis added). Therefore this decision would need to be made on a case by case basis, rather than for certain categories of products or customers. This is a mammoth task that front-end staff dealing with new customers will not be equipped to perform. Indeed, research commissioned by FinMark Trust (Symington & De Koker, 2011) suggest that, when faced with discretion in the absence of clear regulatory guidance on what such discretion should entail, companies will tend to apply the most conservative or stringent compliance response. This will be especially true in situations, such as these, where lesser-skilled front line staff may make judgment errors that will hold the company, and key individuals personally, liable.

[36] FATF defines a beneficial owner as "the natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement." (http://www.fatf-gafi.org/glossary/0,3414,en_32250379_32236930_35433764_1_1_1_1,00.html#34276864)

Theoretical vs. practical barrier. From the consultations the impression is that anti-money laundering requirements are not yet strictly enforced in practice. The SFIU is only now being set up. AML/CFT requirements therefore do not pose a barrier in practice yet, especially in the insurance sector. However, some consultations pointed out that, in the absence of a clearly stipulated deadline for KYC compliance and uniform enforcement, an unlevel playing field is created between those that comply (especially those who are subsidiaries of international companies and therefore follow head-office protocol of compliance) versus those that do not yet comply. Once enforced, the lack of specific guidelines on implementing a risk-based approach may become a serious barrier to insurance market development.

Given emerging international guidance in this regard (see Box 15 below), the RIRF would be justified in providing guidelines that allow less strict CDD requirements for microinsurance, or to engage with the Ministry of Finance to formalise this into a legislative dispensation.

Box 15. Can a lower AML/CFT burden be justified for microinsurance?

The purpose of AML/CFT regulation is in the first instance to mitigate risk of ML/CT by identifying and profiling clients and monitoring for suspicious transactions. In the insurance sphere, it is only insurance products that insure valuable assets (where fraud can be committed) and those with an investment or endowment component that typically attract ML/CT risk. It is unlikely that small value policies where the trigger for pay-out is death or health, for example, will be used by money launderers. This makes microinsurance low risk for AML/CFT purposes.

According to the FATF principles, a risk-based approach can be applied whereby certain low-risk services or providers (which, arguably, will include microinsurance) may be treated differently based on their low-risk characteristics. In June 2011, FATF published a guidance paper on the interplay between AML/CFT and financial inclusion that provides valuable guidance in this regard. The paper can be downloaded from: http://www.fatf-gafi.org/dataoecd/62/26/48300917.pdf

The principle of proportionality is also entrenched in the IAIS Insurance Core Principles. The IAIS, through the IAIS-MIN Joint Working Group on Microinsurance, is currently developing an Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets. One of the aspects to be covered is the application to microinsurance of ICP22 on Anti-money Laundering and Combating the Financing of Terrorism. This will build on the stance already taken in the IAIS-MIN JWGMI *Issues Paper in the Regulation and Supervision of Microinsurance* published in 2007.

A full overview of international precedents for lower KYC requirements for microinsurance as well as of emerging best-practice in the FATF and IAIS space, respectively, is set out in Annex 1.

5.3.3. Cooperative Societies Act 2003

The regulation of cooperatives in Swaziland dates back to 1931, when the first Cooperatives Proclamation was introduced. At this time the cooperative sector was limited to a handful of agricultural cooperatives. The Department for Cooperative Development and the Registrar of Cooperatives were created in 1963. The Cooperative Societies Proclamation was introduced in 1964 and evolved to the Cooperative Societies Act, 5 of 2003, published in Vol.41, No.923 of the Swaziland Government Gazette. It contains comprehensive legislation on the registration of cooperatives and related matters. The Cooperative Societies Regulations, 185 of 2005, were published in the Government Gazette in December 2009. It specifies requirements around the formation and registration of cooperatives, sets out their rights and duties, as well as the rights and liabilities of members. Amongst others, it contains stipulations on the management of societies and account audits, as well as the property and funds of a cooperative (ILO, 2009).

Below, a brief overview is provided of the provisions of the Act of most relevance to the current report:

Licensing requirements. A society must have at least seven members to register as a primary cooperative. As part of the registration process, applicants must submit (S.3) a list of office-bearers, their names, qualifications and addresses, as well as the proposed by-laws of the society and, should they seek "full registration", a feasibility report, budget plan and expected cash-flow chart. Once registered, a cooperative becomes a body corporate with the ability to hold property and enter into a contract. From an institutional point of view, a cooperative could therefore be a potential candidate for a microinsurer.

Role of by-laws. By-laws play an important role in the functioning of a cooperative. All by-laws must be in accordance with the Act (S.14). They set out the purpose and operations of the cooperative and the conditions of membership, including the common bond (if any) and the paid-up share capital to be paid. The by-laws are binding for the cooperative itself as well as all members (S.15). By-laws may only be amended by two third majority at a specially convened general member meeting and all amendments must be filed with the Cooperative Societies Commissioner (S.16).

Cooperatives are allowed to make payroll deductions from members (S.31).

Management and governance. In line with cooperative principles, internationally, cooperatives in Swaziland are governed through annual and other general meetings where members vote and make resolutions. Furthermore, the Act allows for both management and governance functions by elected committees:

- *Management*: each cooperative must elect a Management Committee (the size and composition of which is determined by its by-laws) as administrative and management organ of the cooperative (S.48). Members serve a term of office of two years. The Management Committee must include a chairperson, vice-chairperson, treasurer and secretary, the duties of which are set out in the Act (S.53-57). The Management Committee is bound by the by-laws of the cooperative and may appoint a manager and employees. The names of all officers of a cooperative must be filed with the Commissioner, which maintains a register of officers (S.20). Amongst others, the Management Committee is responsible for the accounts of the cooperative and must submit a work plan and budget to the AGM for approval. Further sub-committees may be formed to assist the Management Committee, in accordance with the by-laws.
- *Governance*: the law recognises the need for supervision/governance independent of the executive function. Hence it also mandates the election of a Supervisory Committee that is accountable directly to the AGM, as internal control organ (S.62). It must ensure that the affairs of the cooperative are conducted in accordance with the by-laws and resolutions adopted at general meetings and must supervise the operations of the Management Committee and employees, including checking the accounts.

External control measures. In addition to the internal control exercised by the Supervisory Committee, the act also allows for independent external control. Cooperatives with more than a specified amount of assets must undergo an annual external audit of accounts by a practising member of the Swaziland Institute of Accountants. The Commissioner must approve the appointment of an auditor. Along with the auditor's report, the cooperative must also submit an annual report to the Commissioner (S.71). The Commissioner or a person authorised by an apex organisation has powers of inspection of the books of a cooperative at any time (S.72).

Types of cooperatives. The Act allows for primary cooperatives, i.e. a society of individual members, as well as apex (secondary) organisations as a network of primary cooperatives (S.40). In an apex organisation each member may have a maximum of three votes. S.40(6) states that: "[for] the purposes of this Act any cooperative having at least 51% of all registered primary cooperatives of that type as its members shall be deemed to be an apex organisation and an apex organisation may have a primary cooperative as its member". The purpose of an apex organisation (S.41) is to facilitate the operation of member cooperatives. This will include providing, organising and supervising central services, including access to financial services. Specifically mentioned is the ability to act as a central financing facility by mobilising savings of members and providing loans to members as well as, S. 41(g): "to provide insurance services to its members subject to any law which may regulate such insurance activities".

Cooperatives may either be cooperative societies, in which case the word "cooperative" must appear as part of its name, or may be a cooperative with limited liability of members (in which case the abbreviation "Ltd" must appear at the end of its name). Cooperatives may issue shares to members, but are not obliged to do so (S.18).

Implications for microinsurance? The reason for providing an overview of cooperative regulation is that, internationally, mutuals and cooperatives are often used as a channel for distribution of insurance to members or, in some cases, can also play a role directly as risk carriers (e.g. where a cooperative insurer is formed) – see box Box 8 in Section 5.2.1, page 55, where the institutional options for microinsurance were discussed. The question is whether cooperatives could be a feasible microinsurance partner in Swaziland and, if so, in what capacity (as distributor or as underwriter). Indications from the consultations are that some cooperatives may be providing informal risk-pooling (in the form of a funeral scheme) internally, but that this is on a limited scale. Others, most notably SACCOs have underwriting arrangements with an insurer to provide a funeral group scheme to their members.

On paper, the prospects for cooperative distribution look good. The provisions of the Act as set out above are thorough and, if sufficiently complied with, will ensure sound and well managed cooperatives. The SACCO sector alone is estimated to cover close to 50,000 members. This would make them an ideal distribution or aggregation channel.

It may also mean that it will be advisable for RIRF to open up the institutional space for insurers beyond public companies to cooperatives, with some additional or standard corporate governance requirements entrenched in insurance regulation to ensure that all abide by the same rules.

The fact that apex or secondary cooperatives are allowed and already provide or facilitate financial services for members is significant from a microinsurance point of view. Distribution-wise, it may be feasible to work through a cooperative apex body, as this will create more scale than forging partnership with individual small cooperatives. Furthermore, should a cooperative want to become an insurer in its own right, the secondary cooperative may be a good way of aggregating up individual cooperatives into a viable risk pool.

Though this could not be verified, indications from the consultations are, however, that the governance and financial management requirements for cooperatives are not uniformly enforced. Furthermore, as mentioned above, some SACCOs engage in informal risk carrying by running for example funeral schemes, while others formally act as agents for insurance companies and yet others simply are group policy holders. There is therefore a need for uniform regulation of SACCOs and their interaction with the insurance market from a financial services regulation point of view. The proposed incorporation of SACCOs under the the FSRA Act (see the discussion in Section 5.3.4 below) will go a long way in doing so.

Furthermore, the position of agricultural cooperatives providing insurance services to members needs to be reconsidered. Currently, the Insurance Act excludes risk pooling by agricultural cooperatives from the definition of insurance. In a situation where cooperatives are formally included as distribution channels and even potentially as microinsurers, this would need to be amended in order to create a level playing field.

5.3.4. Financial Services Regulatory Authority Act 2010

Purpose. The enactment of the FSRA Act in 2010 is a significant development in the Swaziland insurance and broader financial sector. It was created to integrate the regulation of all non-bank financial services providers, as defined in the Act, under one umbrella regulator. Previously, non-bank financial sector regulation was fragmented, with for example SACCOs being regulated under the Ministry of Agriculture, collective investment schemes under the Central Bank, stock brokers under the Securities Act, insurers and intermediaries under the Insurance Act and by RIRF, and medical aid schemes not being regulated at all. FSRA will remove the fragmentation and sets the basis for the levelling of the playing field across different types of providers according to a consistent set of rules. The opportunity is however also the challenge: FSRA is only now being set up and will have its task cut out over the next few years to reach its intended purpose.

Below, we provide an overview of the elements of the FSRA Act that are most material to the current analysis:

Institutions covered. No person is allowed to provide financial services as defined unless authorised under the Act (S.35). The Schedules of the Act define (i) which laws are considered financial services laws and (ii) which entities are considered financial services providers and are hence under the ambit of the act. The laws classified as financial services laws (Schedule 1) are:

- The Hire Purchase Act, 1969
- The Insurance Act, 2005
- The Lotteries Act, 1963
- The Money Lending and Credit Financing Act, 1991
- The Pawnbroking Act, 1894
- The Retirement Funds Act, 2005
- The Securities Act, 2010

- The Building Societies Act, 1962

Twenty one types of non-bank financial service providers are defined in Schedule 2. These include collective investment schemes, provident and retirement funds, the securities exchange, investment advisors, fund administrators, insurers, brokers and agents. Importantly, SACCOs, medical aid schemes and medical aid scheme providers are also classified as non-bank financial service providers and therefore brought under the ambit of the FSRA Act. Specific rules and regulations would need to be laid down regarding their operation.

Provisions. Under the Act, the Authority must set licensing requirements, including on solvency, capital, business plans and other requirements. It has the following powers:

- The Authority may prescribe specific rules for regulating the market practice of financial service providers (S.49) in line with the requirements for honesty and integrity of all financial service providers in Part VII.
- The Authority may make rules to require financial services providers to appoint an auditor or actuary (S.52) if they are not already under an obligation to do so under another financial services law. An authorised financial services provider must have a compliance officer (S.51).
- The Authority may make rules to require reporting (S.54). It may conduct onsite inspections (S.62) and has the power to enter and search (S.64). It is granted administrative penalties (S.68) and may remove officers (S.70).
- Part VII gives the Authority the power to appoint an Ombudsman of Financial Services and make rules for his operation.
- The Minister has the power to make regulations under the Act (S.89) after consultation with the Authority.

Relationship with other Acts. Part XIV sets out the relationship between the FSRA Act and other acts. It states that the Cooperative Societies Act, 2003 shall not apply in relation to a SACCO and that the Authority shall perform the functions of the Registrar under the Building Societies Act of 1962. It states that the RIRF Board shall cease to exist and repeals the part of the Insurance Act allowing for an insurance adjudicator.

6. Conclusion – scope for microinsurance development

The preceding sections provided an overview of the context, supply-side, demand-side and regulatory framework for insurance in Swaziland. What conclusions can be drawn from the emerging picture? This section synthesises conclusions on four fronts:

- The salient features of the current market and regulatory framework
- The key drivers of market development that emerge from the analysis;
- The opportunities for microinsurance development going forward; and
- The regulatory imperatives stemming from this

6.1. Salient features

Market

Stable, healthy industry. A lack of accurate/adequate reported data constrained the performance analysis and the fact that most insurers do not as yet publish annual reports for their Swaziland subsidiaries compounded the challenge. From what data is available, however, the market seems stable and profitable, with relatively high claims ratios indicative of value to clients and not just to shareholders. Recent fluctuations in profitability stem largely from fluctuations in investment returns in light of the global financial crisis.

Recent new entry. There are a relatively large number of insurers given the small absolute size of the market and small population. On the back of the 2005/6 liberalisation, the market grew from one registered insurer to ten in the span of four years. Three out of the nine insurers entered in 2009 alone and a further insurer entered in 2011. This is significant activity in such a small market. SRIC remains the largest, most widely known player, but its incumbent position has over recent years been challenged by new entry. Of late, new entrants strive to establish new product and distribution niches. In some cases they are reported to be following aggressive pricing strategies.

Relatively high usage, but large unserved needs. If the imperfect triangulation from bits of information gathered through the consultations is anything to go by, penetration in terms of the number of people with some kind of insurance could be between 11% and 18% of adults. This would represent roughly between one third and just more than half of the formally employed market. This level of usage is relatively high compared to some other countries (a large economy like Nigeria, for example, has less than 1% usage). Yet the majority of the population remain unserved and having just for example a credit life policy does not yet mean that all a person's risk management needs are met. This indicates substantial untapped opportunities.

Relatively well-educated low-income market. The general impression gained from the market research was that the low-income market is well-informed and engaged, with a fairly good understanding of insurance.

Perceptions drive insurance usage behaviour. Yet there were mixed feelings about insurance. While it was regarded as a nice to have, payment of regular premiums was considered to be problematic given the participants' economic situation. Focus group and interview respondents were also quick to point out bad experiences with insurance and were quick to distrust insurers. Many of the rejected claims referred to may have been on entirely valid grounds, yet they did not understand it as such and hence perceived insurance as not being fair. They were not willing to settle for that. Perceptions spread through the community by word of mouth. This creates an imperative for clear client communication at sales and claims stage, for consumer education on insurance more broadly, as well as for product design to be aligned with the on-the-ground needs and realities of the target market.

Funeral insurance, credit life the most prevalent. The product landscape overview showed that funeral insurance (mutating into micro-life) and credit life insurance, in some cases with riders such as funeral, are the most widespread "microinsurance-relevant" products in Swaziland. The upshot is that many of those with insurance will just have a funeral policy or credit life linked to a loan. The demand-side research suggests that most life and asset risks remain uncovered. Even funeral and credit life does not reach the majority of the population yet. The relative popularity and well-known nature of these two types of cover places them in a good position to become "anchor risks" around which other types of cover can be bundled. They are the entry into the low-income market, so to speak.

Health risks still largely uncovered. One particularly unserved need is health. While primary healthcare through the clinic network is relatively widespread, the focus group research shows that people nevertheless go out of pocket in times of illness. Apart from direct medical expenses, there will be transport costs and lost earnings. Yet health insurance reach is extremely low. As health insurance also involves third party service providers besides the client and the insurer, it may be more complex to "crack the code". The opportunities are however likely worth the effort and new entrants are already establishing the managed care model in an effort to contain costs and enhance efficiency.

Broker power. The strong position of the broker profession in Swaziland is a key feature of the market. Brokers are in many regards the face of the insurance industry and new insurers may find it difficult to make significant inroads into the market without the support of a corporate broker – unless they break with tradition and pursue agent-based or alternative distribution channels. At the same time, given their strong position, brokers may have a particularly important role to play in facilitating distribution at scale.

Increasing use of agents. Despite the broker power, a few insurers are starting to explore tied agent models whereby individual agents will sell the products of one insurer in the community. In addition, a few entities (e.g. credit providers) act as corporate agents. The corporate agent space, and in one or two instances the broker space, is in this way currently used as home for aggregator distribution. Apart from this, alternative distribution is still limited.

Regulation

New regulator and legislation. The Insurance Act and the Registrar's office are still fairly new. The Act commenced in 2005 and the RIRF was established subsequently. In such a scenario, set-up is the first priority and certain elements, such as the enforcement of AML/CFT requirements and issuing of policyholder protection rules, have not yet been implemented. An insurance adjudicator have only just recently been set up. In some ways, the fact that not all the details of the regulatory framework are implemented yet has created flexibility that has fostered market development; in other ways it may have implied that enforcement and supervision is not yet consistent in all regards and across all players.

Accommodating regulator, open-door policy. The consultations indicated a good relationship between the market and the RIRF, with market participants feeling that they can approach the Registrar with proposals or difficulties. Though this is very positive, experience elsewhere[37] has shown that the risk of such a situation is that it may inadvertently lead to "ad hoc" regulation where a concession may be made for one player, but not all, thereby creating an unlevel playing field.

[37] Most notably Zambia, see Hougaard et al (2009).

Insurance regulation "moving house". The formation of FSRA is a significant event. Amongst others, it will: level the playing field by incorporating SACCOs and medical schemes as non-bank financial institutions; will set up an ombudsman to enhance consumer recourse and protection; and integrate and build regulatory capacity in one authority. At the same time, the risk is that there may be a period of inertia as FSRA finds its feet. It may face capacity constraints initially and has a mammoth task in effectively regulating all entities. It will be important to take cognisance of this challenge.

6.2. Drivers of market development

The Swaziland insurance market "defies gravity", in a sense. Swaziland is a very small market, characterised by recent liberalisation, a new regulator and high poverty rates. Yet in a number of measures it is far ahead what would have been expected given its socio-economic and demographic conditions: it outstrips much larger African economies in insurance penetration and has a broad-reaching financial sector infrastructure. It also has quite a broad product suite for such a small market.

What have been the undercurrents shaping the evolution of the market? This section provides a brief overview of main factors that drive the opportunities in the Swaziland insurance sector, as well as the challenges that will need to be addressed to realise these opportunities. Three key drivers, each with a number of contributing factors, have been identified:

1. **The size of the market defines the opportunity**. This may sound obvious, but the small size of the Swaziland market, population-wise, as well as the close proximity implied by the small geographical area is a key driver of development in a number of ways.

2. **The close link to South Africa**. The fact that all insurers are foreign-owned, notably from South Africa, lies behind a number of market dynamics and part-determines the regulatory imperatives going forward.

3. **An increasingly individual society**. The fact that community provision can no longer be counted on and that an elaborate funeral is not so highly valued, culturally, combine to have implications for the microinsurance product suite, and hence regulation, going forward.

Below, each is unpacked in turn.

1. The size of the market defines the opportunity

Small, poor population sets a limit to market growth. "You can only grow so much in a country the size of Swaziland." The reality is that the country has a small and poor population. This does not mean that there are no opportunities for microinsurance, but it shapes the market dynamics and strategic objectives. It also implies that the imperative for insurers to position themselves as "first movers" to capture the unserved market opportunity becomes all the more pronounced.

Relatively dense population softens distribution challenges. There are two sides to the "small country" coin. The Context discussion (Section 2.1) showed that population density is relatively high by African standards. Though urbanisation is low, many people live in the vicinity of the big urban centres. Even rural areas are not "that rural" in Swaziland. Compared to other countries where the population is more spread out geographically, this puts Swaziland in a favourable position for microinsurance distribution. People may simply be easier to reach.

Broad-reaching financial sector is both a potential distribution channel and a premium collection mechanism. The broad reach of the financial sector compared to some other developing countries enhances this driver. A surprisingly large proportion of the Swaziland population do indeed seem to have bank accounts that can be leveraged for debit order collection. The ATM and POS infrastructure is also relatively well spread out and "within reach" given the small geographic distances. The m-payments[38] space provides another important payment system opportunity for premium collection, even if more medium to longer-term. Nevertheless, a number of consultations highlighted the importance of walk-in clients paying cash premiums. Beyond the reach of the financial sector, there is scope for premium collection through aggregators.

Capitalising on alternative distribution opportunities. In addition to the role played by brokers and agents, alternative distribution will be key to penetrating the low-income market. Lining up aggregators will be part of the competitive edge going forward. Some insurers are starting to position themselves in this regard, while others still follow a wait and see approach. With the exception of credit life through SACCOs and some funeral group schemes, alternative distribution channels remain untapped. Going forward, the fact that there are quite a few existing networks or "touch points" already active among the population may become a distribution driver of microinsurance development.

2. The close link to South Africa

Nine out of ten insurers have South African shareholding. Swaziland is not only a small country, it is a small country with close links to South Africa. This does not imply that the fate of the Swaziland industry is purely in the hands of South Africa – it is and will remain its own market. Yet the fact that many of the insurers are South African does drive the uniqueness of the Swaziland market and microinsurance development going forward on a number of fronts:

- *Historical context drives current picture*. Every market is the product of its history. The snapshot picture of the market provided in this report should be viewed through the dynamic lens of how it has evolved: the traditionally dominant role played by SRIC, the continuing operations of some South African insurers in-country before liberalisation and the surge in entry post-2005. All of these shape the current dynamics in the market and will continue to do so going forward. Post liberalisation, foreign insurers were faced by the choice of either setting up a subsidiary or winding down their existing books. The fact that Swaziland is within the Common Monetary Area and close to South Africa has made it easy to choose the former. Swaziland can in many respects be regarded as a low-risk testing ground for international expansion, rather than a large strategic market opportunity being pursued independently.

[38] M-payments or m-transactions are terms used to refer to financial transactions (such as remittances and payments) made using a mobile phone without visiting a financial institution. These terms are included in the broader term "mobile financial services" which is a term used to describe any financial service that is provided using a mobile phone (see http://www.microfinancegateway.org/gm/document-1.9.48603/AFI_Policynote_%20Mobile%20Financial%20Service_EN.pdf)

- *Head-office policies*. Foreign-owned insurers, despite a level of autonomy at the country level, take their cue from mother company policy. Where this is the case, there will be drivers outside of Swaziland (e.g. strategic choices, investment decisions, product priorities or profitability trends at head office level) that will part-determine the direction that the Swaziland insurance market will take with regard to microinsurance. At the same time, the country manager is responsible to head-office to demonstrate the ongoing value of the investment in Swaziland vis-à-vis operations in other countries. This creates drive in the market.
- *Positive externalities: diverse product suite, innovation*. With foreign subsidiaries comes all the innovation and product experience of the group elsewhere. This has contributed to the broad range of products already on the market in Swaziland and can be an incubator of further innovation in Swaziland that can in turn be applied in other areas of the group.
- *Primary loyalty to own rather than social objectives*. The social objectives of the host country do not take first place on the agenda of foreign insurers. Their primary agenda, and rightly so, is branching out profitably into a new country. They cannot be expected to pursue microinsurance on altruistic grounds. A scenario like the Financial Sector Charter in South Africa would therefore not pass muster in Swaziland, where the majority of the insurers are foreign. Especially given the small size of the market and the "historical" reasons for setting up a subsidiary in Swaziland (as discussed above), insurers may simply withdraw if faced with social demands that do not make business sense for them. This does not imply that foreign insurers do not care for or invest in the communities in which they operate. Realistically speaking, the scenario is however different than had most insurers been domestic and the priorities for going down-market will be driven by other goals.
- *Microinsurance as battlefield of the future*. The insurance market seems to have a "split personality" with regard to microinsurance. On the one hand there is a sense of complacence among insurers and they tend to follow a wait and see approach before committing to the concept of microinsurance or to new ways of thinking about distribution. On the other hand, the escalating competition at the top end of the market, driven by new entry, means that the realisation is increasingly taking root that it will be necessary to go down-market in order to remain competitive. A number of insurers are starting to recognise that breaking into the informal sector and mass market may be the only viable way to build their market share going forward – rather than increasingly fighting over the slices of the same higher-income market pie. Microinsurance is therefore likely to be very important, strategically, going forward.

  There is also a foreign-local dimension to this phenomenon, though it is by no means the only determinant. Counter to what one would expect from the experience of erstwhile state monopolies in other countries, SRIC, is the insurer that reaches most group schemes. From international experience we know that smaller players who serve their own client base at the community level also tend to have a specific microinsurance-relevant focus. Select Management Services has already obtained an insurance licence in setting up Orchard. One or two further players are considering moving into this space. Dups, though an insurance agency, turned out to be the most well-known "insurer" amongst respondents in the market research. Therefore, while the foreign insurers have in the first instance focused on the higher end of the market and gaining market share there, smaller players are seeing the mass market as their primary way of gaining competitiveness.

- *Fiscal crisis puts other priorities on hold*. The fiscal crisis has been the most notable feature of the Swaziland landscape for the past few months. This is not necessarily a long-term driver of the market, but may over the short to medium term cause many to enter "holding" mode where other priorities are concerned: this applies to government, but possibly also to industry, which may over the short-term follow a wait and see approach before making large investments in a new business area such as microinsurance. This holds true for the entire market, but arguably even more so for foreign insurers whose whole fate does not rest in Swaziland.

3. An increasingly individual society

Culture overshadowed by economic realities as driver of uptake. Culture is not such a big driver of demand for funeral insurance as in neighbouring South Africa. A striking finding from the market research was that people are resigned to the need to "start over" or "make do" when disaster strikes. In the case of death in the family this implies that, if the family members cannot afford an elaborate funeral, they will simply make a plan, including making the coffin itself if needs be. This was not regarded as an embarrassment, socially. Instead, the single biggest driver of insurance usage behaviour emerging from the research is the prevailing economic situation, the level and regularity of people's income.

The community is no longer the primary safety net. Another striking finding is that community support, often the first port of call in the case of a risk event happening in other countries, has dwindled in Swaziland. Outside of the immediate family, contributions from other can simply not be taken for granted. This tendency towards individual provision may become a driver of insurance demand. When other coping strategies are not enough, insurance has value to add.

Product design implications. Together with the fact that expensive funerals do not have such a strong appeal, the "individualisation" of the market has at least three implications for microinsurance product design going forward:

- *Funeral insurance, while it can still be positioned as an anchor risk, is not the be all and end all of microinsurance*. The market is likely to value a package of cover or features that can also provide ancillary value around the funeral. Funeral insurance should not in the first instance be marketed based on how fancy the funeral is, but on the fact that it is a way to avoid a financial shock and provide for the family.
- *Micro-life insurance, rather than pure funeral insurance, will have appeal*. Life insurance can be pitched at people's sense of having to safeguard their family when they pass away – something that in some other societies the community could be expected to take care of. In the same vein, health insurance or even some kind of asset insurance may have appeal.
- *A comprehensive microinsurance space*. At the regulatory level, the need for a broader product suite creates an imperative to broaden the microinsurance space beyond pure assistance business and to allow for composite products that may bundle in life and non-life components to provide a package of benefits for families who can no longer rely on their community.

To the above three key drivers we add a fourth. Though perhaps not as pervasive as the others across the market, it drives one particular area of opportunity:

4. Credit providers as driving force

Credit providers increasingly interested in the opportunities for diversification. The consultations with banks and other credit providers indicated that the need for diversification by growing non-interest income means that credit providers are increasingly interested in cross-selling insurance. At the same time, some players want more autonomy in shaping the product offering to their clients and sharing in the profits of insurance than a pure underwriting relationship can provide. These trends in the credit sector can become one of the driving forces that will shape insurance market development going forward.

Over-extended payroll market may be the sting in the tail. The flipside of the credit driver is that indications are that the payroll market is already "over-subscribed" in terms of credit. Therefore insurers compete not just with other insurers but also with credit providers in terms of payroll deductions. Within the insurance industry this creates an imperative for insurers to look beyond the formally employed market to break into the large informal market. In this way, saturation of the payroll market may become a driver of microinsurance development going forward.

6.3. Microinsurance opportunities

Microinsurance as insurance for the mass market. As established in Section 3.2.1 the microinsurance target market would be the largest part of the population in Swaziland. Rather than considering a specific income cut-off, it makes more sense to regard microinsurance as all insurance that aims to reach beyond the currently served market and into the informal sector. Given the relatively low income levels in the economy, this broad view of the target market will still mean a low-premium environment for microinsurance that will require new and different ways of thinking about product design and distribution.

How big is the opportunity? The following diagram indicates the likely scope of the microinsurance target population:

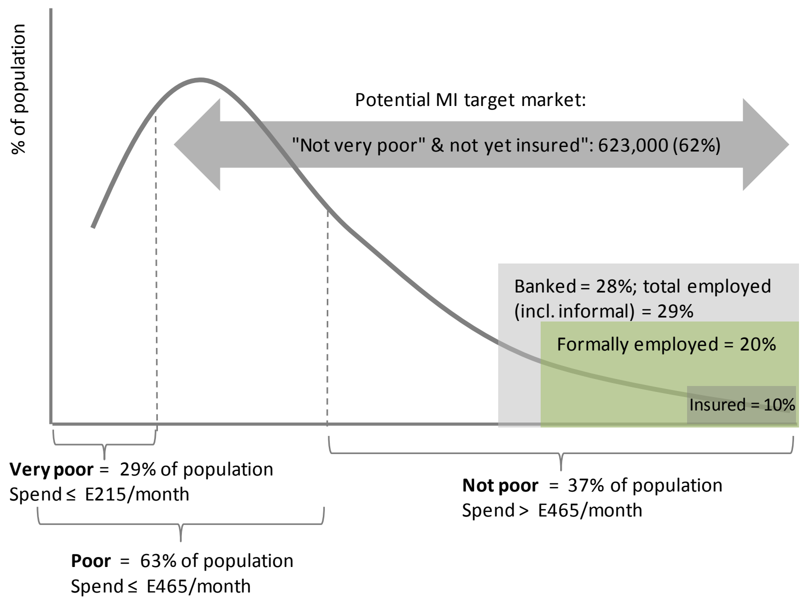

Figure 13. The potential microinsurance target market

Source: authors' representation based on data from: 2007 Swaziland Population and Housing Census; 2007 Swaziland Household Income and Expenditure Survey; Swaziland FinScope 2011

Note that the graph depicts percentages of the *total population*, rather than of the *adult* population as is the convention used in the rest of the report. The reason for this is that poverty figures are stated in terms of the total population.

The graph shows a typical income distribution. If we consider the very poor to be unable to afford microinsurance premiums, the total potential microinsurance market would comprise 71% of the population or 723,000 people. Subtracting those approximately 100,000 that already have insurance, this renders a remaining unserved opportunity of 623,000 potential people to be covered (62% of the population[39]).

Realistic expectations. It is important to note that a microinsurance market does not just develop overnight. It may be that the market takes time to warm to the concept. The market will also not jump over the unserved higher to middle income market to the most basic microinsurance products. Rather, markets evolve gradually over time, starting from the current client base and gradually expanding down-market. In certain instances, this gradual evolution can be leapfrogged by tapping into specific aggregator opportunities down-market.

Unpacking the opportunities. This target market contains a number of specific pockets of opportunity. Figure 14 attempts to provide a summary, a peg in the sand so to speak, of the

likely opportunities as highlighted in Section 3.3:

[39] If the population is taken as roughly 1 million.

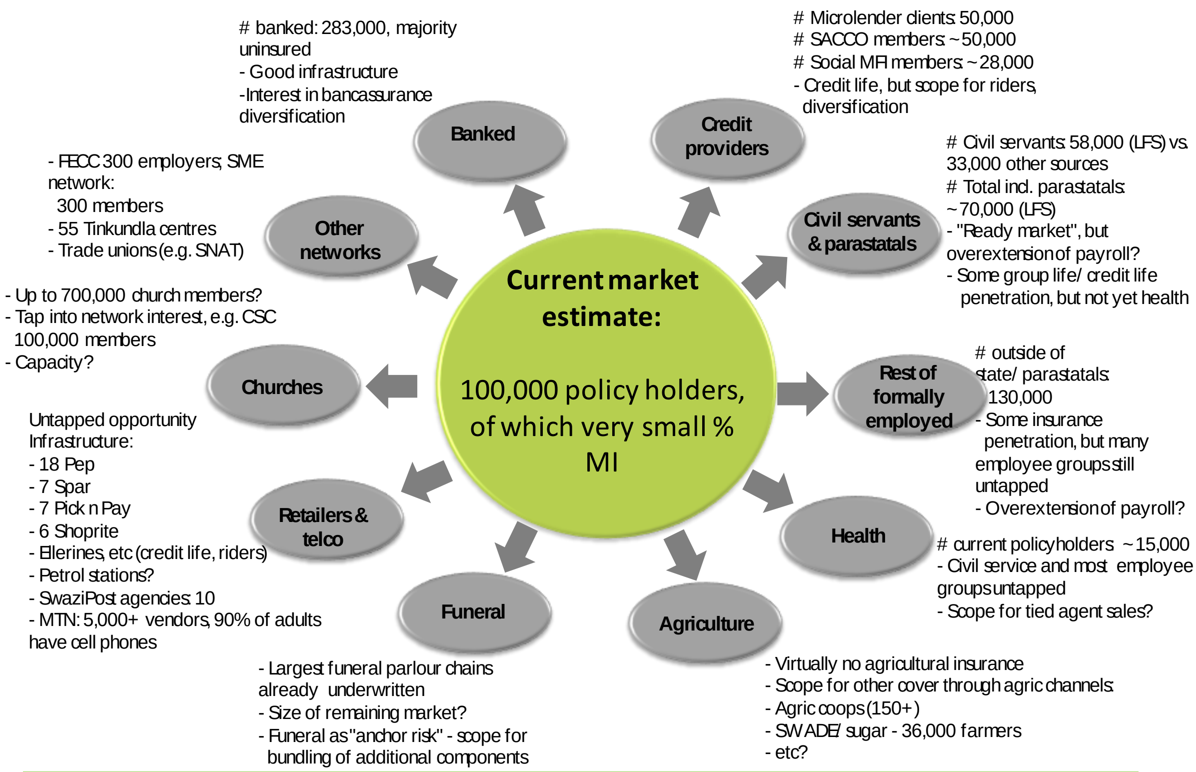

Figure 14. Summary of microinsurance opportunities

Source: authors' representation based on various triangulated data sources

Note that there will be overlaps between the different groups of people or products highlighted.

The diagram summarises ten potential opportunities:

- *Employer-based distribution (**state & civil services**, and **rest of formally employed** market)*. The most immediate opportunity would be those who are formally employed (most if not all of whom are likely to have a bank account), yet do not have insurance. If we were to assume that the full insured population is also formally employed, it leaves in the order of 100,000 or more formally employed without insurance. Those 70,000 employed in the civil service and parastatals who do not yet have insurance will be the "pick of the crop". This market can be reached through their employers, providing a group scheme opportunity. Premium collection can be done via payroll deduction. Yet the overextension of payroll deductions may be the fly in the ointment of this opportunity.
- *Credit provider-based opportunity*. Another first-order opportunity that reaches broader than just the formally employed market is those that have a **bank account** but do not yet have insurance. A detailed analysis of the 2011 Swaziland FinScope Survey shows that 30% of those with a bank account do not have insurance of any type (De Vos, 2012). This translates into an opportunity of 84,000 people. Our research revealed a great potential for bancassurance. Swaziland has a relatively high rate of bank penetration and banks are interested in income diversification through the bancassurance channel, starting with credit life but potentially also adding other risks and selling insurance to non-credit clients. Debit orders are a viable way of premium collection.

Banks are not the only **credit providers**. The recent rise in access to consumer credit also presents opportunities for credit life and other cover sold through microlenders. The SACCO market represents a further opportunity, as do a few social MFIs. In total, assuming no overlap, there may be up to 130,000 credit clients in this opportunity. All credit providers already collect regular instalments from clients, providing a transaction platform for premium collection. In the case of credit providers, credit life insurance will be the anchor risk onto which other types of cover (riders) can be bundled. Down the line, it may also be a channel for sales of standalone voluntary insurance products, most notably funeral.

- *Alternative distribution*. The above two opportunities represent the "low-hanging fruit". Those who do not have a bank account and are not employed will be more difficult to reach and to collect regular premiums from. Reaching them would either require active door to door sales by brokers or agents, or some form of alternative distribution through aggregators. The diagram captures three possible alternative distribution channels:
    - ***Church networks.*** As discussed, there may be up to 700,000 church members in Swaziland, with a number of larger church networks or affiliations. Church groups may be interested in microinsurance as an income diversification opportunity. For example: the Council of Swaziland Churches (CSC) alone has 100,000 members.
    - ***Retailers and telecommunications companies.*** Partnerships with retailers, the post office and telecommunications companies have been pursued with success elsewhere. There are quite a number of outlets as highlighted in Figure 14. Innovative thinking would be required in setting up and making such partnerships work effectively. One particular opportunity could be through M-payments, as this will also provide a transaction platform for premium collection. Given the fact that the m-payment platform has only just been launched in Swaziland, it may take some time for this channel to be adopted.
    - ***Other networks.*** There is likely to be a host of further aggregator opportunities. Highlighting just a few: the opportunities for leveraging the 55 Tinkhundla centres throughout the country could be investigated; the SME network has 300 members, each with a few employees; the Federation of Employers and Chamber of Commerce is a strong organisation that can provide a link to the majority of formal sector employers; another way of reaching employees may be through trade unions.
- ***Funeral** as anchor, but not only risk*. From a product perspective, the diagram highlights three opportunities. The first is funeral insurance. Along with credit life, it is the most pervasive microinsurance product at present and certainly the most well known. As argued in the market drivers discussion, it is likely to remain an anchor risk, but it is important for other benefits are added and that the marketing pitch focuses on provision for the family rather than just a fancy funeral. There is still much scope for innovation in terms of the bundles or packages of benefits provided to consumers as well as in making benefits more tangible to consumers. A number of funeral parlours are as yet untapped as distribution channels.
- ***Health** underserved*. The fact that the health insurance market remains largely untapped provides a big opportunity for innovation in designing and delivering a package of core health benefits tailored to the low-income market. The civil service is the most immediate unserved opportunity for health distribution, followed by other employee

groups. Outside of group business, there is also scope for direct tied agent sales of health insurance.

- ***Agriculture** as distribution channel rather than viable microinsurance product*. There is virtually no agricultural insurance in Swaziland outside of the commercial farming sector. The most important opportunity to investigate will be distribution of other types of insurance (such as funeral, credit life or health) to farmers through agricultural networks or aggregators. Examples include agricultural cooperatives (taking care to identify those that would have the capacity to serve as aggregators) or SWADE (Swaziland Water and Agriculture Development Enterprise).
- *Asset and savings products longer-term priorities*. The diagram does not indicate any asset or contractual savings products. There is some scope for simple sum-assured asset policies such as fire or flood insurance, though the demand for such products in the lower-income market may take time to grow. Other, more complex products such as micro pensions/endowments, agricultural insurance or indemnity asset insurance are likely to only become realistic over the longer term.

In summary: If companies approach product development innovatively and with commitment, it is possible that the current reach of the market can be more than doubled just by reaching deeper into the formally employed and banked market. Beyond that, a number of defined pockets of opportunity can be explored. Further research is required on the exact scope of the opportunities, the capacity and interest of the various aggregators to serve as distribution channels and the services or functions that they could feasibly fulfil in the value chain. Ultimately, the question is: which insurer(s) will position themselves first to capitalise on these opportunities?

Two stakeholder workshops held in June 2011 and February 2012 to discuss the research findings and way forward revealed a mutual appetite for distribution partnerships by both the insurance industry and various aggregators. The insurance industry realises that forming distribution partnerships might be the only way of gaining a foothold in the informal market. On the other hand, different aggregators view such a partnerships as one way of diversifying income sources.

However, it is important to note that the above distribution categories merely highlight opportunity. It may not be easy or quick to realise the microinsurance opportunity amongst these categories of individuals. There are many challenges to overcome. The main barriers to microinsurance market expansion at scale would be the current fiscal crisis and its effects, the low income levels of the population, misconceptions and/or negative perceptions in the demand-side, as well as persisting inertia among some players on the supply-side. Distribution will arguably be the biggest challenge. Throughout the evolution process, an enabling regulatory environment will play an important role. Section 6.4 will make a number of recommendations for how the regulatory framework can best enable or facilitate microinsurance market growth. A detailed set of regulatory recommendations will be delivered to RIRF in a separate, internal document.

Importance of microinsurance stakeholder forum in absence of industry association. Swaziland does not have an insurance industry association. Elsewhere, industry associations have been significant levers for industry-wide advocacy and capacity building, and provided an industry platform for inputs to legislative and policy reforms[40]. Further, an industry association is the best platform for carrying out joint initiatives such as consumer education initiatives. The 2011 Swaziland FinScope Survey singled out financial literacy as the second biggest barrier to financial inclusion after income, calling for a coordinated response across industry and the regulator. Industry associations can also be instrumental in helping to build trust in insurance through for example the development of minimum product standards for certain categories of products that guarantee a level of service delivery. Such an initiative has been embarked upon in South Africa by the long-term and short-term insurance associations (see Chamberlain et al, 2011).

In the absence of an industry association, a microinsurance stakeholder forum can fulfil many of these roles. In addition, it will play a core role in identifying an action plan to capitalise on the opportunities for microinsurance expansion highlighted in this report. Such an action plan can cover supply-side activities (e.g. capacity building or partnership brokering), demand-side activities (for example consumer education, but also making more effective use of demand-side insights for market segmentation and product development purposes), as well as regulatory activities (for example joint deliberation on the aspects of regulatory reform required to facilitate market development, as well as areas of supervisory capacity building needs). The idea for such a forum, chaired by RIRF and involving various industry and other stakeholders, was mooted at the two stakeholder engagement workshops conducted in June 2011 and February 2012 and widely supported.

Coordinating role for RIRF. It is also encouraging to note that the RIRF has taken on some of the above initiatives. For instance, the RIRF hosts an annual insurance industry open day that facilitates open interaction between customers, would-be customers, brokers, agents and insurance companies (Gamedze, 2011). The first such event was successfully held in May 2011 where an estimated 10,000 people attended. RIRF has furthermore embarked on regulatory reforms to incorporate microinsurance. On both fronts, the process will benefit from a broader stakeholder forum, under the leadership of RIRF, to identify and embark on strategic actions to develop the market.

6.4. Policy, regulatory and supervisory imperatives[41]

Regulation can play a particularly important role in unlocking these opportunities. In fact, the features of the market and the underlying drivers create a number of specific regulatory imperatives for microinsurance growth at scale:

Create a second tier for microinsurers

The regulatory framework as it currently stands does not pose high barriers to entry, especially where minimum paid-up share capital is concerned. This has facilitated the entry witnessed over the past few years and in this way has contributed to the current state of the market. Though the institutional space for an insurance licence is limited to public companies, this does not seem to have been a challenge thus far; no cooperative or mutuals have yet expressed interest in obtaining an insurance licence. In contrast to some other

[40] For instance Bester et al (2010) highlight the role that CNSEG, Brazil's insurance industry association, is performing in pushing for pro-growth reforms in Brazil's insurance industry. The same association plays an important role in coordinating consumer education initiatives for microinsurance.
[41] Note that detailed regulatory recommendations are contained in a separate document submitted to the RIRF. The purpose of this section is to provide a high level overview of the imperatives arising from the market picture as a means of conclusion.

countries, regulatory demarcation between short-term and long-term insurance is not a big barrier in Swaziland. Short-term and long-term insurers are both allowed to write accident and health policies, under which health insurance resorts. Furthermore, short-term insurers may underwrite short-term life policies as complementary to their main business.

Why, then, consider a regulatory space for microinsurance?

The flipside of the fact that so much of the dynamics derive from the presence of foreign insurers is that there is a particularly important role in the microinsurance market for local insurers, especially those who grow organically, from the bottom up, to serve an existing client base. They are particularly committed to the Swaziland market and the mass market may be the only part of the market where they feel confident that they can still develop a stronghold. They will start small and grow. A “second tier”[42] insurance licence limited to microinsurance products may therefore be particularly suited to them. The fact that the regulatory reforms currently underway will significantly increase the minimum paid-up share capital will increase the barriers to entry and will make such a second tier attractive.

At the same time, it is important to allow larger, established insurers to also expand into this space from the “top down”. This could be done by allowing traditional long-term or short-term insurers to provide microinsurance as a newly defined class of policies under their existing licence. Indeed, provision of microinsurance by existing insurers is likely to be the biggest driver of microinsurance expansion going forward. Indications from the consultations are that there are at present only one or two potential candidates for dedicated microinsurers.

The assistance business environment already creates a second tier space for candidate microinsurers, as well as the basis for a microinsurance class of policies for existing insurers. It creates the ideal platform or “hook” on which to build the microinsurance regulatory space. But why go beyond assistance business?

Define microinsurance across the demarcation divide

The demand-side drivers as discussed above imply that a broader product bouquet than just funeral insurance will be required to break open the microinsurance market. This calls for the assistance business space to be broadened to microinsurance.

This product suite may need to cut across the current long-term-short-term demarcation divide. Though there is already some degree of demarcation flexibility, this may be a double-edged sword, as it may lead to uncertainty or an unlevel playing field in the marketplace. Some players provide funeral or credit life as only product offering under a short-term license; others think that it may only be a rider. Microinsurance provides the opportunity to define a low-risk product category based on certain parameters that can entail products of a composite nature and to which regulatory requirements can be tailored. In so doing, it will clarify any inconsistencies or uncertainties.

[42] By second tier we mean a limited-licence insurer that can only write microinsurance as defined and according to the various provisions for microinsurance to be incorporated in the regulatory framework, but that at in turn benefit from regulation (prudential and market conduct) tailored to that specific class of policies.

This crossing of the demarcation divide is made possible by the fact that microinsurance should be defined based on certain product parameters (e.g. a short contract term, the fact that all benefits should be provided on a sum assured basis, the fact that all policies should adhere to a certain benefit level). This will ensure that all products share a similar risk characteristic.

The creation of a single microinsurance product class that can be provided either by full insurers or by dedicated microinsurers furthermore provides an opportunity to create a level playing field. We propose that this playing field also be extended beyond just public companies. All entities, regardless of institutional form, should operate by the same rules if they provide the same type of products.

Open up the intermediation space

On the intermediation front, likewise, a clear space can be created that caters for a variety of existing and new (alternative) distribution channels, based on the same rules of the game.

The opportunities posed by the relative geographic proximity and the existence of a number of potential aggregators create a regulatory imperative to accommodate and nurture distribution opportunities.

The fact that regulation currently limits the intermediation space to brokers and agents may have contributed to the limited movement, so far, in terms of alternative distribution. Group schemes and corporate agents are accommodated, but a clearer space for aggregators and alternative distributors, as well as for administrative and underwriting management functions is called for, as is a rethink of fit and proper requirements to allow for a broader range of intermediaries. A specific imperative would be to allow premium collection beyond just brokers and banks and building societies as corporate agents.

Equally important will be to reconsider the proposed provision that one corporate agent may only act on behalf of one insurer[43].

Seek synergies with emerging international best-practice

A number of countries, including South Africa, have started to develop microinsurance regulatory frameworks. Based on country experience thus far, there is also a growing body of emerging international best-practice linked to the International Association of Insurance Supervisors (IAIS) and Microinsurance Network Joint Working Group on Microinsurance (see Annex 4). Swaziland should by no means let its regulatory agenda be dictated by that of South Africa or elsewhere. Nevertheless, given the close link of the industry to South Africa through foreign ownership, the fact that South Africa is moving towards a similarly defined microinsurance space may enhance the effect of the proposed microinsurance regulatory framework for Swaziland. Should head office decide to pursue microinsurance in one country, the fact that a similar space exists in another will be attractive and may lead to a spill over in innovation in the lower-income end of the market from one country to another.

[43] This will be particularly relevant, should not dedicated regulatory space for microinsurance be created, as agents will then be limited to selling either long-term or short-term insurance. However, should the office of the RIRF decide to define microinsurance as a separate class of policies that crosses the demarcation divide, this restriction becomes less pronounced.

In devising its regulatory response to microinsurance, Swaziland should therefore consider learning from elsewhere as summarised in Annexes 2 and 4.

Other regulatory elements

Local investment requirements may reinforce industry inertia. One regulatory element that we flag without necessarily making a recommendation in that regard is the 30% local investment requirement. The local investment requirements were the single biggest regulatory challenge highlighted in the consultations. It was claimed that it may disincentivise insurance sector investment and growth. The fact that no look-through principle is applied means that the local investment requirement also does not serve its intended purpose. At the same time, local investment requirements often serve an important political goal.

Reconsider AML/CFT KYC requirements for microinsurance. Section 5.3.2 argued the case for special treatment for microinsurance in terms of anti-money laundering requirements based on the low risk of money laundering that the product category implies. This is a regulatory change that will be simple to bring about and implement, but which can have far reaching benefits for financial inclusion. The respective FATF and IAIS/Microinsurance Joint Working Group papers[44] discussed in Annex 1 will provide international guidance that can be applied in Swaziland. In the mean time, RIRF and FSRA will be well advised to critically consider the potential impact of AML/CFT requirements on access to insurance and to start to identify possible risk-based exemptions or reductions in AML/CFT requirements for insurance.

Create consistent space for health insurance. Health insurance is currently provided by one long-term and one short-term insurer. The largest medical scheme is not regulated at all. As recognised in the formation of FSRA, a consistent space is needed for health insurance where all players will be regulated on a level playing field and where the insurance part is managed according to insurance principles. Incorporating a health component in the microinsurance space may be a first-order opportunity for doing so.

Importance of reporting. Monitoring market trends, including key ratios of profitability, growth and financial soundness, is very important to ensure that the regulator keeps abreast of market developments and can ensure that the regulatory framework remains relevant and appropriate. The current reporting system does not yet generate accurate, comparable data on which to assess industry trends. Building capacity in that regard is therefore a core recommendation.

[44] The FATF Guidance Paper was published at the end of June 2011. The IAIS/MIN Joint Working Group Application Paper is still forthcoming. Publication is expected October 2012.

Annex 1: International evidence and emerging guidelines for access-friendly implementation of AML/CFT requirements

International research (Bester et al, 2008, drawing on the experience of five developing countries) has shown that anti-money laundering requirements may affect people's ability to open accounts or purchase financial services, as well as the relative incentives for using formal and informal channels. This happens when individuals do not have the necessary documentation to comply with CDD requirements, or find it onerous to fill out the forms and provide all the necessary information. For financial institutions, anti-money laundering requirements may increase the transaction cost of bringing a new customer on board and undermine the relative incentive to service low-value products and, by implication, low-income customers. There are three main ways in which anti-money laundering regulations are relevant to financial inclusion:

- Through the imposition of so-called KYC (know your customer) or CDD (customer due diligence) requirements.
- Through the requirement of customer profiling and monitoring of suspicious transactions.
- Through record-keeping and reporting requirements

Observed mitigating responses. The study found that, despite different starting points, the implementation of AML/CFT controls in the five countries studied (Mexico, Kenya, South Africa, Pakistan and Indonesia) appears to follow a similar development path. A country would set out to comply with the FATF standards by promulgating a law and regulations which are typically based on international templates rather than domestic circumstances (**phase 1**). As the financial supervisor and financial institutions seek to implement these controls, they would come up against capacity constraints and obstacles which either exclude or discourage clients from using formal financial services, or which tend to make it difficult for financial institutions to serve certain categories of clients (**phase 2**). In **phase 3** regulators respond to these pressures by applying two types of adjustments: (1) existing controls are re-calibrated on a risk-sensitive basis, and/or (2) sequencing the implementation of controls across sectors, transactions or entities based on the available resource envelope.

The mitigating responses observed include:

- Requiring limited verification for low-value transactions or for products which limit transaction values to specified thresholds (where attempted transactions exceed these thresholds, full verification is required before further transactions can be processed);
- Allowing in specific cases verification of client information against third party databases accessed independently by the financial institution (this can also facilitate non-face-to-face client acquisition in mobile banking business models);
- Compensating for simplified verification procedures (where national identification infrastructure is deficient) with more extensive client profiling to support monitoring of activity to identify deviations from the profile supplied;
- Reduced or streamlined record-keeping requirements to reduce costs, e.g. permitting records to be kept electronically;
- Allowing longer timelines for overall compliance, for example client re-identification if financial institutions are able to identify and prioritise high-risk client categories.

These are all in line with the flexibility allowed for a risk-based approach under the FATF recommendations and special recommendations.

In the insurance sphere, this has for example entailed:

- In **Colombia**, the norms on anti-money laundering (External Circular 7, 1996, Chapter XI, First Title) exempt insurance related to social security, personal accident insurance, insurance whose beneficiaries are government entities, insurance of legal cases, health and funeral insurance from compliance with CDD requirements. Thus, non life and property microinsurance products are under the money laundering requirements.
- In the **Philippines**, the Insurance Commission through Circular Letter No. 15-2007 which was issued on August 7, 2007, requires less stringent and minimal requirements for KYC in the case of low value insurance products and contracts. Insurers are allowed to conduct direct marketing (telemarketing, selling of insurance products via SMS, mail and publication by print, radio or television) without face-to-face contact with the client for policies with premiums below a certain minimum defined amount. Likewise, individuals subscribing to group policies need not be individually submit KYC requirements. Rather the group, e.g. the employer, can submit a certified list of individual members covered under the policy and shall be responsible for verifying customer identification and keeping records. Where the group representative is an employer that does payroll deductions for the insurance, the employment relationship is regarded as establishing the identity of the customer and his/her legitimate source of income. The insurer is not required to duplicate verification efforts in complying with the CDD requirements where identity was already verified for underwriting purposes. Lastly, under bancassurance arrangements or other instances when insurance is sold to existing financial services customers that have already been subjected to CDD, no additional CDD needs to be conducted for insurance purposes.

Emerging international guidance

Internationally, the implications of AML/CFT for financial inclusion are increasingly acknowledged, with explicit recognition that the FATF recommendations allow for a proportional or risk-based response to supervision. International guidance in this regard is now being developed on two fronts: the FATF itself, and the IAIS:

1. FATF Guidance Paper on Financial Inclusion

In June 2010, the Financial Action Task Force, under the presidency of Mexico, agreed to have the issue of financial inclusion on its agenda and committed to examine potential challenges posed by AML/CFT requirements to achieving financial inclusion. In consultation with a wide number of groups and in close cooperation with the G-20, it developed a Guidance Paper on AML/CFT and Financial Inclusion that was published at the end of June 2011. The paper does *not* seek to lower the FATF standards as set out in the Forty Recommendations and the Nine Special Recommendations. Rather, it provides guidance for the access-friendly implementation thereof in line with the flexibility provided in the standards with regard to money laundering and terrorist financing risk.

The paper acknowledges that financial inclusion is a multi-faceted challenges of which AML/CFT requirements are an important, though by no means the only aspect. Though “solving the AML/CFT issue is not a magic wand towards fully inclusive financial sectors, [it] would be a milestone towards building an enabling framework. At the same time, one cannot ignore the fact that financial exclusion is a ML/FT risk and that financial inclusion can contribute to a more effective AML/CFT regime” (FATF, 2001:15).

The report goes on to state that (FATF, 2011: 16):

> “Financial inclusion and an effective AML/CFT regime can and should be complementary national policy objectives with mutually supportive policy goals. Accordingly, international AML/CFT Standards have flexibility, enabling jurisdictions to craft effective and appropriate controls taking into account the relevance of expanding access to financial services as well as the diverse levels and types of risks posed by different products and supply channels. The challenge is finding the right level of protection for a particular financial environment..”

It recognises that AML/CFT requirements are potentially at odds with financial inclusion objectives for two reasons:

- the target population often do not possess the formal documentation usually considered under AML/CFT requirements
- some of the AML/CFT obligations increase the cost of doing business, which is transferred onto the customers – who are very sensitive to costs.

The Guidance Paper is not binding in any way, but explains how the principle of proportionality could play out and provides examples of how other jurisdictions have approached matters. It stresses that any exemption or differentiated treatment should be based on an appropriate risk assessment. This can be done at a product level (e.g. below certain limits as would be the case in microinsurance) or at the institutional level.

The only type of insurance providers and intermediaries included in the definition of “financial institutions” that are accountable institutions under the FATF recommendations are those doing “underwriting and placement of life insurance and other investment related insurance”. No mention is made of asset insurance and it would seem that the definition places particular emphasis on investment-related insurance. Based on this definition, it would be reasonable to argue that microinsurance, if defined as risk-only, low-premium, low-benefit products, would pose low ML/FT risk and will warrant special treatment.

Based on a reading of the Guidance Paper it will however be difficult to justify a blanket exemption for microinsurance unless this is based on a specific and acceptable risk assessment that finds microinsurance to be low-risk for AML/CFT purposes across the board. Rather, it may be feasible to consider simplified customer due diligence (CDD) requirements for microinsurance products/transactions below the limits set in regulation. This could include accepting alternative forms of identification or address verification as well as electronic recording and storage of information:

- The paper does not make any specific judgments regarding microinsurance, but does recognise that life insurance with limited annual premiums pose low ML/FT risk in certain circumstances, and that lower customer due diligence (CDD) measures may be applied to such products. As examples, life insurance products with an annual premium of no more than USD or EURO 1,000 or a single premium of no more than USD or EURO 2,500 are listed.

- The paper (see pp.25-37) does not give outright guidance on what levels countries can employ and how differentiated the CDD requirements may be, but list examples of what other countries have done that is seemingly acceptable from a FATF point of view. The paper emphasises that, despite more lenient CDD requirements, record keeping and monitoring will still be required. This may however be done electronically (p.39).

2. Forthcoming IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets

The IAIS insurance core principles make provision for anti-money laundering in ICP22[45]: Anti-Money Laundering and Combating the Financing of Terrorism. The principle states:

> *"The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism".*

In the microinsurance sphere, the 2007 IAIS/CGAP Working Group on Microinsurance Issues Paper in the Regulation and Supervision of Microinsurance recognised that the possibility for money laundering in microinsurance is remote. The main reasons why micro-insurance presents low money laundering or financing of terrorism risk are that:

- Microinsurance tends to entail low-premium, low-benefit policies with frequent rather than once-off premiums. There is therefore a mismatch between microinsurance and the "transaction needs" of money launderers.
- The types of risks normally included in microinsurance are not typically targeted for money laundering. The highest risk insurance products are investment-based products or high-value non-life insurance where insurance fraud could be committed to launder funds. A policy that only pays out upon death presents limited money laundering or terrorist financing risk.

As financial service microinsurance is, however, subjected to a country's anti-money laundering regime. If this is done without recognition of its potential low-risk profile, this may increase transaction costs and may create barriers to the take-up of insurance. In particular, obtaining CDD documents such as proof of identity or address from prospective clients may pose a real barrier.

The IAIS is now in the process of developing an Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets. The paper, which is being developed by the IAIS-Microinsurance Network Joint Working Group on Microinsurance, is still in the drafting phases and has not yet been released for formal IAIS consultation. Once published, it will elaborate on how insurance supervisors as responsible authorities for AML/CFT in the insurance sphere can apply ICP22 in the context of microinsurance. This guidance is likely to be in line with the risk-based approach allowed for under the FATF Recommendations,

[45] ICP22 refers to the numbering of the new ICPs currently being finalised by the IAIS. Previously, AML/CFT was dealt with in ICP28.

including the scope for simplified CDD requirements as well as allowing electronic record-keeping.

Annex 2: Examples of international responses to microinsurance policy, regulation and supervision

Globally, only a few countries have published or started to implement microinsurance regulatory frameworks. Some have comprehensive frameworks in place whereas others have more specific rules targeted at certain operations. The following table summarises key aspects of the microinsurance regulatory regimes in India, Philippines, Peru, Mexico, Chinese Taipei, China and Mozambique[46]:

	India	Philippines	Peru	Mexico	Taiwan/Chinese Taipei	People's Republic of China	Mozambique
Relevant regula-tion	Insurance Regulatory and Development Authority (IRDA) MI Regulations, 2005	Insurance Commission Microinsurance circular 2006, regime updated in circular 1-2010	Superintendence of Banking, Insurance & Pension Fund Management (SBS) Resolution 215-2007	National Commission of Insurance and Bonds (CNSF) Circular S-8.1 & Circular S-2.1	Financial Supervisory Commission: Directions for insurance enterprises engaging in micro-insurance business, 2009	China Insurance Regulatory Commission (CIRC) Rule on Supervising China Rural Microinsurance on Life & Personal Accident, 2009	Decree-Law 1/2010: Chapter VI: Microinsurance, in operation since April 2011
MI product features	• Life and non-life policies aimed at the low-income market, subject to certain product parameters. • All policy documents must be simple & available in vernacular language.	• Life, non-life or health products meeting certain parameters (see below). • Product must clearly set out details, be easy to understand, with simple documentation requirements. Premium collection must coincide with cash flow/not be onerous to target market	• Any insurance that provides protection for the low-income market and meets certain criteria (see below). • For individual policies: a simplified policy • For group coverage: certificates or summary policies • No deductibles & exclusions • 30 day grace	• Insurance for the low-income market. Contracts must be clear, precise and simple • Certain mandatory, simplified consumer protection clauses to be included in the contract • Simple premium payment mechanisms • Limited exclusions • 30 days grace	• MI defined as products that offer basic coverage against specific risk, provided by insurance enterprises for the economically disadvantaged (defined in terms of income, indigenous people status, certain professions, e.g. fishermen, social assistance recipients, disabled persons, etc). • All products to be submitted to supervisor for review, to describe the criteria for the target market, specific practices planned for collective insurance, preventive measures against adverse selection and moral hazard, payment scheme for premiums. • Plain language required, with written summary of most important clauses, to be explained to applicant.	• Rural MI refers to life insurance products focusing on the low-income population in rural areas, with "low premium, appropriate coverage, understandable policy and simple underwriting and claims procedure". Simple wording and service hotline number and address for insurer must be stated. • Rules are targeted specifically at certain "pilot provinces (districts)" for MI pilot projects. • May apply group underwriting for households living in close proximity or for members of same organisation. • Aspirant rural MI providing insurers to submit	• MI is "reduced and medium scope" insurance aimed at low-income market, provided in exchange for premiums proportionate to probability and cost of risk involved. • Low-income is defined as income per capita below national min wage and/or those that reside in rural parts with high levels of poverty. • Life and/or non-life policies can be MI. • All MI products to be filed with the regulator

46 Disclaimer: information in the table reflects the list of countries and the latest regulatory developments that the authors were aware of at the time of writing, namely mid-2011. The list is not necessarily complete and the need for brevity implies that not all details of the frameworks are summarised here. "MI" denotes microinsurance.

	India	Philippines	Peru	Mexico	Taiwan/Chinese Taipei	People's Republic of China	Mozambique
			period • Claims to be paid within 10 days.	period		"experimental plan" to CIRC indicating product and marketing plan, experimental locations, etc, for authorisation.	(no express authorisation required) • Specifics of the definition, including specific types of products qualifying as MI, to be determined.
Max. premium	No maximum premium, but only country to set age of entry limits: • Life: >18, <60 • Non-life: n/a (exception personal accident: >5, <17)	5% daily minimum wage of non-agric workers in metro Manila	• 2007 Resolution: A monthly premium of up to ~USD 3,3 • *Monetary def. removed by 2009 res*.	For asset insurance a monthly premium of up to 1.5 times the daily minimum salary (~USD 7)	None, provided that estimated additional expense ratio shall not exceed 15% of total premium. Where group insurance, may set different premiums for individuals in the group based on individual risk exposure, or a fixed rate or tiered rates based on average risk for the group.	"Low price" – no specific limit set, but valuation interest rate of the reserve should not exceed 3.5%	Specific parameters to be defined by regulatory authority.
Benefit limits	• <u>Non-life</u>: max. $740; min. $123 (exception family health & accident: $247) • <u>Life</u>: max. $1230 (exception endowment & health: $740) ; $123 min. (family health & accident: $247)	500% daily minimum wage of non-agric workers in metro Manila	• 2007 Resolution: Up to ~USD 3,300 • *Monetary def. removed by 2009 res*.	For personal insurance an amount up to 400% (group insurance 300% per member) the annual minimum salary, amounting to ~USD 6,840 (groups USD 5,130);	Aggregate insured amount for individual insured micro life and micro injury, respectively: <NT$300,000 (~USD 10,000)	Sum assured range: RMB10,000 to 50,000 (~USD 1,560-USD 7,810)	Specific parameters to be defined by regulatory authority.
Term limits	• Non-life: 1 year • Life: >5, <15 years (exception health insurance: >1, <7)	n/a	n/a	One year renewable, except where linked to credit	Only one-year term policies allowed	Term range: 1 to 5 years	Specific parameters to be defined by regulatory authority.
Demar-cation between different types of insurance	Composite life & non-life MI products allowed, but separate insurers must underwrite the risk.	Any kind of insurance with premiums and guaranteed benefits (life, non-life, health, or bundled)	Applies to any type of insurance	Applies to life, personal accident, asset and health.	Conventional life and injury insurance only, only one insured peril per product, no living benefit or survival benefits allowed. MI may be offered as personal, collective or group insurance, but	• Life only, including personal accident death and disability. • MI must be underwritten independently, may not be a prerequisite for the purchase of other products.	• Same insurer may provide life and non-life MI provided that they maintain separate management and accounting structures.

	India	Philippines	Peru	Mexico	Taiwan/Chinese Taipei	People's Republic of China	Mozambique
					collective insurance can only be provided through an "acting insured unit" that has a certain defined relationship with the individual applicants, e.g. cooperative, employer, lending institutions, religious group, etc (i.e. there must be a common bond).		• Existing insurers may register for MI, or dedicated MI insurers may be formed. • Dedicated microinsurers may be limited companies or mutual societies.
Market conduct aspects	• Distribution through qualifying *MI agents*, must be non-profit, e.g. NGOs • Commission cap of 10-20%, depending on premium payment • method. This is higher than the 60% (over 5 years) for full • insurers. • Reduced training requirements for MI agents, set in terms of number of hours training	• MI Agent or Broker category created in 2010 circular (initially no concessions in 2006 circular). • MFIs and cooperatives may act as agents. • MI agents/brokers subject to lower training and capital requirements.	Insurer-agent model, with MFIs, cooperatives and other groups as agents.	Range of intermediaries expanded beyond brokers and agents.	• Planned marketing channel to be indicated in MI product plan submitted to regulator for review. • MI distributors must meet standard insurance agent and broker requirements, but "MI products offered by insurance enterprises should waive physical examination in principle"	• MI sales may be tied to existing transactions of MFIs or agricultural product retailers to minimise management costs and expenses. • Cooperatives may act as distribution channels and may conduct some of the post-sale service to simplify claims procedures and accelerate claims settlement. • Rural organisations or institutions including village committee, women's federations, health centres, etc may act as distribution channels, all authorised by insurance company. Insurer to provide min. 30 hours training on basic concept of insurance, supervision requirements, selling, customer service and claims handling of MI, with qualification certificates issued by insurance bureaus. • Distribution through technological innovation (ATMs, POS, mobile) encouraged.	• MI may be intermediated by registered brokers and agents, as well as by some other special intermediaries not required to be licensed, including banks, MFIs, NGOs and telcos/cell phone operators • Special intermediaries are limited to one life and one non-life, or one composite MI provider per intermediary • Microinsurers/insurers are responsible to train special intermediaries so that they're competent to intermediate MI. • The services that they can provide should be stated in the contract with the insurer (can include marketing, premium collection, record keeping of clients)

	India	Philippines	Peru	Mexico	Taiwan/Chinese Taipei	People's Republic of China	Mozambique
Institu-tional/ pruden-tial aspects	No prudential tier for MI.	• All insurers, cooperatives or Mutual Benefit Associations (MBA) licensed with Insurance Commission may provide MI. • Reduced capital requirements (to be phased up over time) only apply to registered MBA with more than 5,000 members and that provide exclusively MI	No concessions	No concessions	• Reserving as per normal insurance rules, but with some exceptions for group coverage. • Qualifying firms targeting economically disadvantaged groups receive certain "incentive measures" including priority in review of applications for product approval, public recognition, but no prudential concessions. • "An insurance enterprise should properly manage the risk associated with the business or acquire reinsurance". • Separate statistical data and reporting is required for MI business.	*No capital requirement concessions*. Permission required from CIRC to operate rural micro life business, with following conditions: • Headquarters must stress rural life insurance • Must have presence in the rural areas to ensure sales and service, with well capacitated branch office in • Independent accounting system for MI • Detailed "experimental plan" to be submitted to CIRC. Insurers encouraged to establish rural mutual insurance organisations. Independent statistical platform and reporting required for MI.	• Min. capital requirement for MI is 10 million MZM (~USD 380,000), compared to 15m MZM for non-life insurers offering only one line, 33m for insurers offering two non-life lines, 66m for life insurers, 100m MZM for composite insurers. • Minimum capital for mutual societies registering as microinsurers is 3 million MZM (~USD 113,000), rising to 10 million, should they want to sell insurance to non-members • Half of the minimum capital must be put up in cash upfront, with the rest to be accumulated no later than 180 days after the microinsurer was formed. • Formula-based reserving requirements stipulated in the Act.

Table 13. Microinsurance definitions and regimes in selected countries[47]

Sources: IAIS/MIN JWGMI, 2008; SBS, 2007; GTZ, 2008; Aguilera Verduzco, 2007; Taiwan Directions for Insurance Enterprises Engaging in Micro-Insurance Business, 2009.7; CIRC "The Rule on Supervising China Rural Micro Insurance on Life & Personal Accident Insurance"; Mozambique Decreto-Lei nr.1/2010, de 31 de Dezembro

[47] Monetary values based on spot exchange rates at the time of writing. Actual dollar values are therefore subject to change. The one exception is India, where the dollar values are as quoted in the 2008 India diagnostic conducted by M-Cril.

In addition to those countries that already have microinsurance regulation in place, a number of countries have started to consider the topic or to devise a microinsurance regulatory framework. Below, we highlight four countries that have published proposals for microinsurance regulation:

	Brazil	**Cambodia**	**Ghana**	**South Africa**
Relevant documents/ draft legislation	MI Bill submitted to Congress in 2009[48]	Ministry of Economy and Finance (MEF) Draft Sub-Decree on Microinsurance 2008	MI provisions to be inserted in 2011 Draft Insurance Act, Code and Regulations currently under consultation. Act delegates responsibility for MI between Regulation and Code. Details still to be determined.	Comprehensive microinsurance Policy Document published in July 2011, to form basis for drafting of separate MI Act.
Product features & general provisions	The draft Bill proposes a generic definition aligned with international definitions – specific parameters to be set in subordinate legislation, including need for simplicity, targeting of MI market and product parameters.	• Micro property insurance and micro life and personal insurance to the low-income market. "Life and personal" is defined to include health coverage. • Microinsurer is an insurer that provides only MI to low-income population, "usually for small limit and at low cost" (no specific limits set). • MI must operate under generally accepted insurance practices (ICPs). • Microinsurers and member-based "community based implementers" (CBIs) may obtain licence to operate MI. • Policy documents must clearly indicate a range of aspects "in an understandable manner", with contact details and summary info to be communicated to policyholder at sales stage in the language of the insured. • All products to be registered with MEF – detailed requirements to be included in regulation. • Further product details to be defined.	• MI contracts must be simple, clearly written and contain few if any exclusions. Products must be targeted at low-income market, appropriate to their needs and affordable to them. • File and use system proposed: no specific definition prescribed; rather, insurers to determine whether product meets MI criteria, then file with the regulator and use unless objections. • Claims must be dealt with within a certain number of days.	Detailed definition (see limits below), including various simplicity & disclosure requirements, including need for a recourse channel, provisions around flexibility, waiting periods, etc
Max. premium	Detailed product parameters still	To be defined in a schedule	No specific quantitative criteria.	n/a

[48] Note that, though the draft bill has been submitted to Congress, its progress has been halted and it has not been enacted for more than two years. For this reason, Brazil is included under countries with proposed regulation. The Brazilian supervisory authority for private insurance, SUSEP, has plans to devise subordinate legislation to incorporate many of the proposals of the bill. Final proposals are expected before the end of 2011. **Note**: since this report was drafted and first published by RIRF, a Microinsurance Resolution was issued by the Council of Private Insurance (CNSP, the official regulator) in Brazil, building on the provisions originally contained in the Bill of 2009. SUSEP is now developing the circulars that will provide further details to the regulatory framework.

	Brazil	Cambodia	Ghana	South Africa
Benefit limits	to be defined.	Max per person per policy: KR20 million (~USD 5,000)	Rather, the rationale is for insurers to designate policies as MI policies and then to file them with the regulator.	Current: • USD2,250[49] funeral • USD940 friendly societies Recommended: • USD6,250 all MI except asset insurance, for which it will be USD12,500
Term limits		Max 1 year		Maximum 12 months
Demarcation	• The draft Bill proposes the creation of specialised microinsurance firms who will sell microinsurance only. Alternatively, existing insurers can create separate MI divisions.	An MI contract may include death benefits, medical benefits or property damage.	Short-term versus long-term demarcation, but a short-term insurer may sell life policies, provided that the term does not exceed 12 months, that the insurer reserves the right not to renew, and no savings component included.	Life/non-life demarcation removed for MI
Market conduct aspects	• The draft Bill proposes the creation of a new category of MI brokers with lower entry requirements, as well as a new category of intermediary known as MI correspondents. • They may collect premiums and promote acts required for the marketing and administration of microinsurance. • Specific licensing (including training) and sales requirements to be determined.	• MI may be sold directly by microinsurers or CBIs, or through MI agents or brokers. • All insurance agents and brokers must apply to the Ministry to be authorised to sell MI products. • Microinsurers and CBIs must train their staff to have "adequate knowledge of the risks and benefits". • No specific training or sales requirements set in draft decree.	• Licensed MI products may be sold by licensed banks and non-bank financial institutions. • Banks and non-deposit-taking MFIs may intermediate MI without need for licensing.	• Uncapped commissions for MI, paid on as % of premium rather than upfront. • Reduced training/qualification for those selling only MI, details to be determined.

[49] ZAR18,000 at ruling exchange rates, September 2011. Amount for friendly societies: ZAR7,500. Proposed amount for microinsurance: ZAR50,000, with some property insurance at ZAR100,000.

	Brazil	Cambodia	Ghana	South Africa
Institu-tional/ prudential aspects	To be finalised.	**For microinsurers**: • Must have initial paid-up capital of KR1,200 million and must establish a minimum guarantee fund (regulation to stipulate requirements) of no less than one third of the required min. capital. All microinsurers must also set up "actuarially assessed reserves". May invest only in deposits and govt securities redeemable in cash within three days. • Actuarial assessment is required every 3 years. **For CBIs**: • Subject to initial funding as per requirements of the institutional regulator (e.g. Ministry of Health or Ministry of Agriculture). CBIs must also establish a minimum guarantee fund of no less than 2 months premium income to be used in the case of catastrophic events. Financial and statistical reports to be submitted to Ministry. Regulations to be issued to specify reporting requirements for each type of MI.	• Only licensed insurers may provide MI. • Risk rating for MI may be done on a community rather than individual basis.	Public and private companies as well as cooperatives may become micro-insurers

Table 14. Draft proposals for countries in process of developing microinsuranc regulation

Source: Ghana draft regulation, 2011; South African National Treasury Microinsurance Policy Document, 2011; Brazil Draft Bill, 2009, as summarised in Cenfri (2010)

Below, we discuss the microinsurance regulatory framework in a few of the example countries in more detail, namely India, the Philippines, South Africa, Peru and Mexico:

India

India has made no concessions in terms of capital or operational requirements for entities wishing to offer micro-insurance. However, it represents one of the clearest examples of where regulatory requirements around intermediation have been relaxed for microinsurance products.

In order to promote the penetration of insurance products within the low-income market, India in 2002 implemented a quota system for rural and social sector[50] reach. The quotas are phased up over time (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008) and require that:

- 5% of all life insurers' policies must be from rural areas in year 1, phasing up to 16% in year 5.
- For non-life insurers, 2% of total gross premiums underwritten must be from rural areas in year one, phasing up to 5% in year 5.
- In the social sectors, each insurer has to maintain at least 5,000 policies in year 1 rising to 20,000 in year 5, for both life and general insurance.

Recognising the distribution challenges this posed for insurers, who are being forced to enter rural, under-serviced markets, microinsurance products were defined in regulation and were subjected to streamlined distribution rules.

Microinsurance regulations, 2005. These regulations embody the Indian Insurance Regulatory and Development Authority (IRDA)'s commitment to extending the reach of the insurance sector. They create a specific category of microinsurance agents to distribute microinsurance products on behalf of registered insurers. As the table indicated, microinsurance products are defined to comprise both life and general insurance products. The definition is set according to minimum and maximum benefits, the minimum/maximum term of the insurance policy and minimum/maximum age of entry, as well as certain simplicity requirements. As set out in the table above, the specifications vary according to the type of cover provided (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

All sales of microinsurance products will count towards insurers' rural and social sector obligations (though rural and social insurance do not necessarily constitute microinsurance). Providers of such products do not receive any prudential or institutional concessions. The demarcation requirement between life and non-life insurance is relaxed for microinsurance in that the regulations allow for the bundling of life and non-life elements in one single product, provided that a life and non-life insurer must respectively underwrite the life and non-life risks underlying the product (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

Microinsurance agent category. Microinsurance agents must enter into a "deed of agreement" with one life and/or one non-life insurer. Only non-profit organisations (such as self-help groups, NGOs or MFIs) may register as microinsurance agents. For-profit entities such as rural banks and for-profit MFIs remain excluded. A microinsurance agent cannot distribute any product other than a microinsurance product (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

[50] Defined as "unorganised workers, (and) economically vulnerable or backward classes in urban and rural areas".

Concessions for microinsurance agents. While all types of intermediaries may distribute microinsurance, only microinsurance agents are granted certain concessions in doing so. Once registered as a microinsurance agent, lower training requirements apply (25 rather than 50 hours of mandatory training and no requirement for an examination). Microinsurance agents may levy higher commissions than the rest of the industry (where upfront structuring of commissions is however allowed). Nevertheless, the general market sentiment is that commissions are still too low to make microinsurance sales viable (IAIS/MIN JWGMI, 2008, based on M-Cril, 2008).

Philippines

The Philippines opened the institutional and prudential space for the provision of insurance beyond traditional insurance companies to also include community-based entities. An important characteristic of prudential and institutional regulation in the Philippines is that it allows for a tiered minimum capital regime. As early as 1974 a second tier of microinsurance providers which traditionally focus on the lower-income market was introduced by regulation. So-called Mutual Benefit Associations or MBAs are allowed to offer insurance products to their members under a reduced regulatory burden and with lower capital requirements. More recently, the tiering regime was extended to include the following tiers (IAIS/MIN JWGMI, 2008, based on Rimansi, 2008):

- *Commercial insurance*. Under Circular 2-2006, minimum capital requirements were raised to $24m (Php 1bn) for new life and non-life insurers and double that for composite insurers. This is up sharply from the $1.2m previously required of commercial insurers.
- *Cooperatives*. The Insurance Commission has the discretion to reduce this requirement by up to half for cooperatives, but thus far no cooperatives have applied for registration under this condition, as specific guidelines for the implementation of this provision of the cooperative code have not yet been formulated.
- *Existing MBAs*. Existing MBAs must hold capital of $305,000 (Php12.5m), a very sharp increase from the minimal capital requirement previously in place (Php10,000).
- *New MBAs*. This increase is even more pronounced for new MBAs. They must now hold capital of about $3m (Php125m).
- *Microinsurance MBAs*. Microinsurance MBAs (see below) must hold capital of $122,000 (Php5m) that must be phased up over time to the level of existing MBAs. It is the only category for which such graduation is allowed.

Microinsurance definition. In line with government's financial inclusion objective, the Insurance Commission in 2006 issued Memorandum Circular No. 9-2006 to encourage the provision of microinsurance. It defines microinsurance as insurance (life and non-life) aimed at mitigating the risks of the poor and disadvantaged. It is defined in terms of a maximum premium (of about $25.5 per month) and maximum benefits (of approximately $4000) for life insurance only (no benefit caps apply to non-life microinsurance policies that are included in the microinsurance category). It also stipulates that policies must clearly set out all relevant details, must be easy to understand and must have simple documentation requirements. Premium collection must coincide with the cash flow of/not be onerous to the target market.

Institutional space. Although any registered insurer can offer microinsurance products, the regulatory concessions created in the circular applied only to microinsurance MBAs. An MBA can be recognised as microinsurance MBA if it only provides microinsurance and has more than 5,000 member-clients.

Concessions. As described above, microinsurance MBAs are allowed to hold reduced minimum capital vis-à-vis new MBAs (the same as existing MBAs). If they are unable to comply with this, an even lower amount is allowed, but they must increase their capital at a rate of 5% of gross premium collections per year until they reach the required minimum capital. Furthermore, the Circular required the establishment of a set of performance standards, tailored to the capacity and activities of microinsurance MBAs, to evaluate, amongst others, their solvency, governance and risk management (IAIS/MIN JWGMI, 2008, based on Rimansi, 2008).

Recent revisions to framework: broadening the scope. Learning from earlier experience, the Insurance Commission in collaboration with other regulatory authorities and private sector entities adopted a Regulatory Framework for Microinsurance at the end of January 2010. It specifies the details for the establishment of an appropriate policy and regulatory environment to facilitate increased private sector participation in microinsurance product and service delivery. Three new microinsurance Circulars have been issued under this framework to date:

- **Memorandum Circular No. 1-2010**, issued by the Insurance Commission, lowers the premium cap for microinsurance and allows all licensed insurance firms, cooperatives and MBAs to sell microinsurance products, which may consist of life, nonlife and/or health bundled together. It also creates a category of microinsurance agents subject to a special training program and qualifying exam. Furthermore, it allowed for the creation of microinsurance performance standards by the Insurance Commission.
- **Joint Memorandum Circular No. 01-2010**, issued jointly by the Insurance Commission, Securities and Exchange Commission and Cooperative Development Authority, coordinates efforts across agencies to ensure that all microinsurance activities are fulfilled by entities licensed to do so.
- **Circular 5-2011** was issued by the Insurance Commission on 31 January 2011. It promulgated a set of microinsurance performance standards and benchmarks on which all microinsurance entities are required to report on an annual basis[51].

South Africa

The example of South Africa is of particular relevance to Swaziland, given the close proximity between the two countries.

Long process to arrive at microinsurance regulatory framework. Concerns about potential consumer abuse in the low-income market, combined with government's commitment to remove regulatory barriers to market development, prompted the National Treasury (the policy-making body for the financial sector) to reconsider the insurance regulatory framework in South Africa. The aim is to create a microinsurance regulatory space to: (i) bring down regulatory unit costs in order to facilitate outreach into the lower income market by formal insurers and (ii) provide formalisation and graduation options for the currently large informal

[51] For more details on the performance standards, see: http://www.insurance.gov.ph/htm/..%5C_@dmin%5Cupload%5Creports%5CCL%2005%20-%202011.pdf

market. The chosen route for creating such a dedicated microinsurance framework has been to tailor regulation to the risk associated with microinsurance provision.

Elements of the framework. First proposals for such a microinsurance regulatory framework were contained in a Discussion Paper released by National Treasury for public comment during 2008. These proposals were widely debated through public consultations and submissions, before being finalised and refined into Policy Document, published in July 2011, which is to form the basis for regulation. The proposed **definition** to limit market conduct and prudential risk is:

- **Benefits capped** as follows: a maximum benefit of R50,000 per insured life per insurer in the case of all insurance related to a death event; at R100,000 per *person, per insurer, per contract period for all insurance on assets only; and R50 000 per insured life, per insurer for all other risk events*
- **Contract term** of less than 12 months, but with contracts being renewable without the imposition of new waiting periods.
- Cover is limited to **risk only** (no long-term contractual savings)
- Simple terms and conditions, as well as a number of further product parameters relating to e.g. the imposition of waiting periods, the provision of grace periods for non-payment of premiums, actuarial certification of premiums, policies to be underwritten on a sum assured or first loss basis, etc[52].

The proposed **regulatory regime** applicable to microinsurance is:

- *Demarcation*. Both life and non-life underwriting is allowed by a single entity. This relaxes the strict demarcation between life and non-life insurance for microinsurance purposes, in recognition of the fact that microinsurance is written on a short-term risk basis, whether life or non-life in nature

- *Institutional space and corporate governance*. In contrast to the conventional insurance regime, where only registered public companies may provide insurance, the institutional space for microinsurance is opened up to private companies and cooperatives. All entities will be subject to a cross-cutting set of corporate governance requirements.

- *Prudential requirements for dedicated microinsurers*. Microinsurers will be limited to providing only the microinsurance products as defined. A file and use product approval system is proposed. Microinsurers will be subject to a minimum capital adequacy requirement of R3m. An absolute minimum of R1.5m will apply, to be phased up over a maximum of three years to the R3m level. This is significantly lower than the current minimum upfront capital requirements of R10m for life and R5m for non-life insurers. Reserving will be done on a simplified standard model similar to that currently applicable to the non-life insurance industry. No statutory actuarial valuation will be required, but there must be actuarial sign-off on premiums.

- While the details of the regime are still to be determined, it will also entail reduced organisational capability requirements, as well as restricted investments (once again more or less in line with that required of non-life/short-term insurers). These figures were

[52] See the complete policy document at: http://www.treasury.gov.za/publications/other/MicroinsuranceRegulatoryFramework/Policy%20Document%20Micro%20Insurance.pdf for more detail

arrived at through actuarial modelling, but need to be refined further to ensure that they will ensure acceptable levels of risk to the system.

- *Market conduct requirements for microinsurance products*. A similar intermediation regulation regime is proposed to that currently in place for funeral insurance intermediaries, namely:

    - Uncapped commissions, payable on an "as and when" basis (i.e. no upfront structuring)
    - Reduced minimum skills level in favour of training requirements
    - No advice required (but the provision of advice and active face to face sales will be incentivised through the uncapped commissions)
    - Simplified and clear language disclosure requirements

Dedicated microinsurers as well as conventional insurers providing microinsurance will be required to report statistical information on their microinsurance portfolio to the regulator to enable effective monitoring.

Microinsurance regulation as part of a broader process. In parallel to the implementation of the microinsurance regulatory framework, an improved consumer protection, recourse and enforcement regime will be created, with compliance support provided to funeral homes to formalise their insurance business.

Peru

In Peru, the target market for microinsurance is the 8.9m low-income people who do not live in abject poverty but are nevertheless poor. Of these, the regulator estimates the potential microinsurance client base at 1.1 million people, comprised of MFI clients, people that use money transfer agencies, cooperative members, and members of associations and social groups. It is therefore quite a narrow definition of the microinsurance market (SBS, 2007).

Outline of the framework. Microinsurance regulations were first passed in March 2007 through SBS[53] Resolution 215-2007. It covers **life** and **asset** insurance, but not medical insurance apart from telephonic medical consultations and a second medical opinion. It is focused on an insurer-agent model where retailers, MFIs, financial institutions, savings and credit cooperatives, money transfer operators, social organisations or others act as collective distribution channel (as opposed to the traditional insurer-broker channel). The agent has the official mandate to act as mediator between the insurer and the clients and can make claims payments on behalf of the insurer. The main features of the regime are (SBS, 2007)[54]:

- Cover must be provided by an authorised insurer.
- The regime distinguishes between group and individual policies.
- The ratio between maximum premium and maximum cover is 1000 (maximum premium of USD3.3, maximum cover of USD3,300).
- It requires microinsurance firms to "focus on simplicity", but without setting detailed guidelines for what simplicity needs to entail, apart from the fact that, for individual

[53] The Peruvian Superintendence of Banking, Insurance and Private Pension Funds Administrators
[54] http://www.sbs.gob.pe/portalSBS/Seguros/MIC2007_P1_Presentation_Gomez.pdf

policies a simplified policy is required and for group coverage, certificates or summary policies. This would seem to be in line with the proposal versus tickets distinction in Brazil.

- Furthermore, no deductibles are allowed and no exclusion of policy holders or special conditions may be built into insurance contracts.
- There is a thirty day grace period for late premiums, after which cover automatically ceases.
- Claims should be paid within 10 days of submission of the necessary documentation.
- Claims may be paid through the agent or directly to the policy holder.
- Policy holders can submit complaints to the agent (e.g. on late payment of claims), which must then be addressed by the insurer within 15 days.
- While the insurer is responsible for underwriting and claims payment and in the final instance remains liable for any misguided information provided by the agent to the client, there is an obligation on the staff or members of the agent (MFI, cooperative, etc) to inform the client about microinsurance related to other financial operations as well as the benefits and costs in general.
- Detailed record-keeping and reporting requirements apply:
    - Insurers must keep a register of all policies, certificates and simplified policies and agents and sales clerks should keep records of all the documents.
    - Before launching a product, details of such product should be sent to the SBS and microinsurance policies should then be registered with them (it does not state whether this works on a pre-approval or a file and use basis). Upon registration, general information on the policy is uploaded on the SBS website.
    - Policy holders who only have certificates (summary policies) should nevertheless have access to the full policy document on request.
    - Microinsurers are required to report detailed statistical information to the SBS.

Concessions. The only concession that our desktop review revealed in response to these stipulations is the opening up of the distribution channel beyond the traditional insurer-agent model.

Revised regulations to take on board lessons. By the end of 2007 only two MFIs had signed up for microinsurance products, totalling 6,300 clients (only 0.5% of the target client base). This was regarded as problematic by the SBS, highlighting the need for microinsurance products to be “better designed according to basic necessities of low-income households”. Coverage should target the most basic risks and products should be as simple as possible as a first step, evolving into more complex products over time (SBS, 2008). Some aspects of the requirements, such as that there must be no limits on contract terms and no prior-condition exclusions or individual risk assessment, also proved challenging. The limits set in the definition were also identified as unrealistic and had to be revised (Wiedmaier, 2009[55]). The need for further market research and awareness creation among the target audience was emphasised (SBS, 2008).

[55] Presentation by Martina Wiedmaier, GTZ, at the policy seminar as part of the annual Munich Re conference, held in Dakar, Senegal from 3-5 November 2009.

New microinsurance regulations. At the end of October 2009, a new microinsurance resolution (Resolution 14283-2009[56]) was passed to improve the framework. Microinsurance is simply defined as "insurance that provides protection for the low-income population" provided as group or individual policies by authorised insurance companies. The main change introduced is the fact that the monetary limits were removed as part of the definition of microinsurance. Furthermore, the requirement that "no prior checks may be made in relation to persons or insurable property", that is, that there may be no individual risk rating, was relaxed to say that such checks may be included "if necessary", but must then be in accordance "with the cover afforded by microinsurance." The same holds for the requirement that there may be no restrictions.

More detailed specifications were also included on what a simplified policy document for microinsurance should entail. It should be a simple document that contains:

- the insurer's name and address;
- the name, identity number, date of birth and address of the insured;
- details of what is covered and what is excluded;
- the procedure for claiming;
- the deadline for payment of the claim;
- the complaints procedure; and that
- states the right of the policy holder to request a full policy document, to be delivered by to them by the intermediary within 15 days of the request being made.

Mexico

In Mexico, 20% of the population live on less than $2/day and 45% if the employed population earn less than two minimum salaries per month. This, in the eyes of the insurance regulator, the CNSF, makes microinsurance particularly relevant, as this part of the population does not have access to conventional insurance (Aguilera, 2007). Microinsurance expansion will therefore serve both a social goal (risk mitigation for the poor) and a financial goal (increasing insurance market penetration).

A number of further specifications apply (as summarised in GTZ, 2008; Aguilera Verduzco, 2007):

- Microinsurance should have a contract term of one year, automatically renewable, unless it is linked to credit, in which case the insurance covers the term of the loan.
- Contracts must be clear, easy to understand and simple (simplicity is not defined further)
- The premium payment structure should be simplified and take account of the target market's irregular income flows. Premiums may be paid in cash, deducted from a bank account, or deducted from interest earned on bank accounts.
- The sums insured must be small, with clearly defined benefits.
- Claims should be paid within five working days and can be paid through a variety of channels, including the banking system, microfinance networks, commercial networks, through utility companies, or distribution networks of traditional intermediaries.

[56] Note that we have used a web-based translation of the microinsurance resolution and may therefore miss some of the details of the framework.

- Exclusions can only be set in general and should not relate to the individual's risk profile
- There is a compulsory grace period of 30 days for late premiums
- The receipt of a premium signifies that the contract has been activated
- The unabbreviated policy document (as registered with the CNSF) should be made available to policy holders on request in the case of a simplified microinsurance policy document.

Intermediation concessions. Microinsurance products meeting the above specifications may (unlike other insurance products, who may only be sold by authorised agents or brokers), be distributed by non-traditional marketing channels with low transaction costs (CNSF S-2.1[57], as summarised in GTZ, 2008, Aguilera Verduzco, 2007):

- Insurance brokers and agents
- Financial intermediaries
- Other legal persons whose representatives meet the requirements of brokers or agents
- Other legal and natural persons who participated in capacity building programmes offered by the government

No prudential concessions or second tier. As is the case in Peru and India, reserve and capital requirements do not differ from those established for traditional insurance products. Microinsurance is provided by the same companies that are selling the other type of insurance products and is subject to the same prudential rules as all insurance products (GTZ, 2008). From the above, it is not clear that insurers will have the incentive to register their products as microinsurance products. The definition prescriptions are quite strict and it is only on the intermediation side that there is some relaxation of requirements. It is not clear to what extent this relaxation addresses a real barrier in the industry.

[57] http://www.svs.cl/sitio/publicaciones/doc/Seminario_%20Assal/Presentacion_Manuel_Aguilera.pps#815,2,Microseguros: experiencia regulatoria en México

Annex 3: Components of capital requirements

There are normally three types of valuations of assets and liabilities done by insurance companies, namely:

i. valuation for published financial accounts based on generally accepted accounting principles;
ii. valuation for statutory report purposes as prescribed by the insurance registrar and prepared within certain actuarial guidelines; and
iii. valuation for calculation of insurer's tax liability.

Though most of the values herein are the same, there are some differences. We will now deal with the statutory report, as this is the one determining financial soundness from the regulator's point of view. The balance sheet of an insurer can in its most basic form be illustrated as follows (size of boxes approximate relative sizes of assets and liabilities):

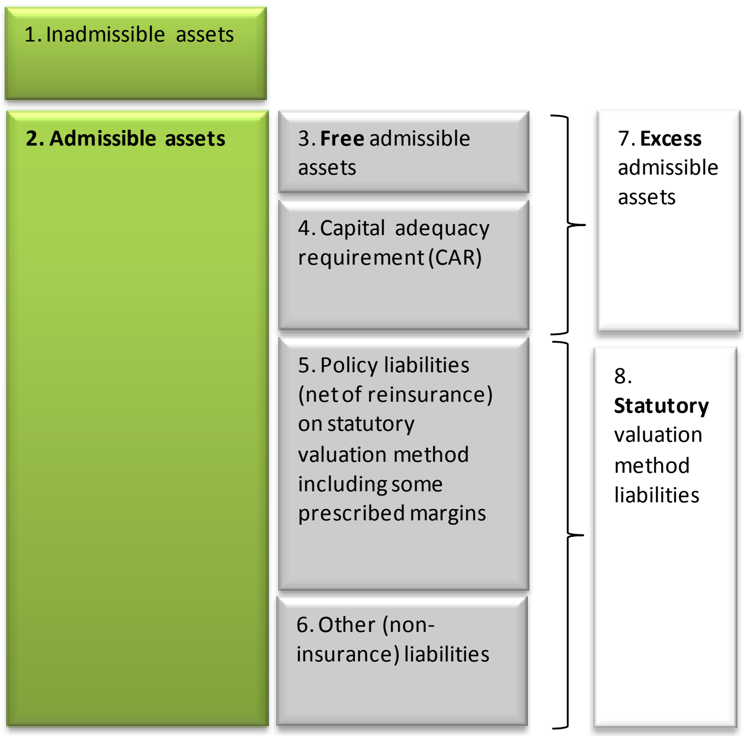

Figure 15. Diagrammatic representation of the insurance balance sheet for statutory reporting purposes

Source: authors' representation

Some observations:

- There are always some inadmissible assets which the registrar feels might have zero value or are prescribed as having no value for statutory purposes, like premiums outstanding for more than 90 days for instance.
- To be financially sound, admissible assets (2) must be larger than the sum of (4), (5) and (6).

- The difference between free assets (3) and excess assets (7) is that, in a winding up situation, all assets more than those necessary to cover statutory and other liabilities would be ‘excess’ assets, and thus available for distribution to shareholders. In an ongoing situation (i.e. not a wind-down situation), part of the excess assets cannot be distributed (for instance in the form of dividends). Those are the assets needed to cover the CAR. The rest of the assets, the ‘free’ assets, are available for distribution.
- Capital adequacy requirement (CAR) normally includes the minimum paid-up capital (e.g. the E12m in this case) and CAR is represented by paid-up capital and non-distributable reserves. It represents the amount that the insurer must hold over and above the amount needed to cover policyholder and other liabilities. The ‘equity’ or shareholders funds in the balance sheet should be (3) and (4).
- The CAR cover mentioned by long term insurers in their annual reports is (7) divided by (4) and should be greater than 1.
- In valuing the liabilities (refer to (5) in the diagram), compulsory margins should be added to best estimate assumptions with regard to mortality, morbidity, expenses and inflation for instance. The Bill deals with this in section 83(1)(c) for long-term and as the contingency reserve (10% of net premiums) in RDI7 sec 2 and 3 for short-term insurers.
- In addition, a CAR (refer (4) in diagram) must be calculated to protect the insurer (and the interests of policyholders) against larger experience shocks. It takes care of larger fluctuations in asset values, winding up scenarios, lapses, surrenders and again mortality, morbidity, AIDS and expenses for instance. The Bill specifies these for long term in section 83 (1) (b) and for short term insurers in 92 (1)(b) read with the Directives RDI 6 and RDI 7.4 (represented by the 15% of net premium reserve for short term insurers).

Annex 4: Emerging international best-practice in the regulation and supervision of microinsurance

Microinsurance has over the past decade become a topic of note in the international development sphere and a number of countries have moved towards microinsurance regulation and supervision. Annex 2 provides an overview of a selection of countries' experience in this regard. At the same time, much work has been done globally to better understand the challenges facing regulators and supervisors in thinking about microinsurance. This has rendered at least three documents of direct relevance to the Swaziland case, with a fourth currently being developed. They are:

- IAIS-CGAP Joint Working Group on Microinsurance (JWGMI) Issues Paper of 2007 on the regulation and supervision of microinsurance
- IAIS-CGAP JWGMI paper of 2008 titled: "Making insurance markets work for the poor: microinsurance policy, regulation and supervision"
- IAIS-MIN JWGMI of 2010 Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets
- The forthcoming IAIS-MIN JWGMI Application Paper on Regulation and supervision supporting inclusive financial markets

The MCCO Issues Paper was already discussed in Box 8, Section 5.2.1 (page 56) and will not be repeated here. The Application Paper is still in draft form and therefore will also not be covered explicitly, though it entrenches the positions put forth in the other three papers.

Below, we therefore give an overview just of the first two documents. At the end of each discussion, we give an assessment of the implications for Swaziland and how the proposed approach as outlined in this document measures up against it.

Note that none of the documents explicitly advises that a microinsurance regulatory framework should be developed. Microinsurance can also be facilitated just at the policy stance level or through general measures aimed at developing the insurance market, without explicit "microinsurance" provisions. It will depend on the country context.

Issues in the regulation and supervision of microinsurance

The 2007 IAIS-CGAP Joint Working Group on Microinsurance (JWGMI) Issues Paper on the regulation and supervision of microinsurance[58] is the source of the conceptual definition of microinsurance that is now broadly accepted, internationally, namely:

Box 16. IAIS/CGAP JWGMI Issues Paper definition of microinsurance

"Microinsurance is insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. The microinsurance activity itself should therefore fall within the purview of the relevant domestic

[58] Available at: www.iaisweb.org

insurance regulator/ supervisor or any other competent body under the national laws of any jurisdiction.

<u>Explanatory note:</u> *Microinsurance therefore does not include government social welfare as this is not funded by premiums relating to the risk, and benefits are not paid out of a pool of funds that is managed based on insurance and risk principles. For the same reason, it does not include emergency assistance provided by governments in, for example, natural disasters, floods/fires in low-income townships, etc. However, as risk manager of last resort, the State may determine that there is a need to sponsor access to microinsurance for the most underprivileged through redistributive practices. There are cases where the State plays a stronger role in fully funding schemes, but these would only be considered microinsurance if they are run according to insurance principles* "

In this context, the Issues Paper recognises that microinsurance is aimed towards low-income households that are not typically be covered by other insurance and that the provision of coverage to persons working in the informal economy that do not have access to formal insurance nor social protection benefits provided by employers directly, or by the government through employers will be of particular interest. Similarly, low-income workers in the formal sector may also demand microinsurance services.

The paper stresses that microinsurance is neutral in terms of the size of the risk carrier and also does not refer to any particular type of risk, but can cover a variety of potential risk events. Microinsurance risk carriers could include small community-based schemes, mutuals, cooperatives, or joint stock companies. They may be for-profit or not-for-profit. Not all microinsurers are necessarily regulated by the insurance law. Depending in the legal set-up of a particular jurisdiction, some fall under other laws and authorities such as the cooperatives or health authorities; others may be unregulated at present.

The Issues Paper took the first step to officially acknowledge the fact that microinsurance, though part of the overall insurance market and based on insurance practices, requires new thinking in product design and distribution. It is not just business as usual. Hence it also requires a fresh approach to regulation and supervision. The paper notes that biases and barriers are not always obvious to the regulatory bodies due to long-standing unexamined practices. It aimed to identify issues and challenges in developing an enabling regulatory framework for promoting microinsurance in line with the IAIS Insurance Core Principles (ICPs).

The Issues Paper aims at outlining salient features of microinsurance in general, and of its regulation and supervision as an input for high-level expert discussion among regulators, supervisors and other stakeholders involved in the provision of insurance services for lower-income segments. It does not provide recommendations of any kind for the supervisors to follow. It recognises that the ICPs are the foundation of all insurance supervision, including microinsurance. Even though microinsurance has different features in many regards, a change in ICPs is not foreseen. It is rather the *criteria on how the ICPs are interpreted* with specific reference to microinsurance that may be subject to certain adjustments. It noted that it will be important to develop principles, standards and guidelines which assist in identifying the entities that need to be regulated and providing the rationale to the supervisor to justify any differentiation between the insurers regulated by the insurance laws, the ones regulated by other laws or the entirely unregulated ones. The Application paper currently being drafted will fulfil this purpose.

The main issues raised can be summarised as follows[59]:

- *The need for an enabling environment*. Increasingly, supervisors and other microinsurance promoters (such as insurers, governments, donors, consumer lobbies) in many of these jurisdictions realise that a more conducive and enabling regulatory environment is required for the development of microinsurance. These initiatives are aimed at adapting laws and regulations which support the evolution of more inclusive insurance systems by encouraging existing insurers to serve low-income segments or by allowing microinsurers to evolve and integrate with the formal insurance sector.
- *Strategic elements to address*. Insurance supervisors can embrace certain strategic elements in their policies and actions, and thereby foster an environment that makes microinsurance sustainable and feasible in an integrated manner. Such a strategic approach can combine, *inter alia*, the following aspects:

  a) Developing a microinsurance policy stance and promoting its implementation;
  b) Facilitating the availability of key information/ statistical data on microinsurance business;
  c) Promoting learning processes and dialogue among relevant sectoral stakeholders;
  d) Enacting clear laws and regulations in accordance with internationally accepted standards that encourage insurance coverage for low-income households and its compliance, while limiting regulatory arbitrage,
  e) Contributing to the policy dialogue with government so that social insurance schemes are working in conjunction with microinsurance;
  f) Developing clear policies to enhance access to financial services which can be used as a basis for discussion with legislators, and also between government departments and supervisors;
  g) Limiting moral hazard and fraud by promoting awareness, and putting in place controls and incentive systems; and
  h) Promoting consumer education and raising awareness to instil an insurance culture among low-income households.

  The reader is referred to the Issues Paper directly for an ICP-by-ICP overview of issues raised.

- *The specific approach adopted will be country-specific*. It is left to individual emerging market jurisdictions to develop rules and regulations related to regulation and supervision of microinsurance after keeping in mind their specific requirements. It is at the discretion of the supervisor whether to develop a dedicated treatment of microinsurance providers, or whether they should be subject to the standard laws and regulations applicable to insurers in the jurisdictions.

How do the recommendations for Swaziland measure up? The definition parameters and general approach adopted in the recommendations to RIRF are broadly in line with the Issues Paper and will assist the RIRF as IAIS member to stay in line with international best-practice. We recommend that, once the Application Paper is published, a more specific ICP-by-ICP check be conducted to ensure that the regulatory approach adopted for microinsurance is in line with the guidance provided.

[59] Note that much of the phrasing in this discussion is quoted directly from the Issues Paper.

Emerging guidelines for microinsurance policy, regulation and supervision

In 2008, the IAIS and CGAP Joint Working Group on Microinsurance (since renamed the IAIS-Microinsurance Network Joint Working Group) set out to chart the experiences of five countries across the globe in microinsurance so as to draw out lessons for microinsurance policy, regulation and supervision of broad international application. This resulted in five country studies (for Colombia, India, Philippines, South Africa and Uganda) as well as a cross-country synthesis report[60]. The report identified ten emerging guidelines for microinsurance policy, regulation and supervision:

Box 17. Emerging international guidelines for microinsurance policy, regulation and supervision[61]

Policy guidelines

Guideline 1: Take active steps to develop a microinsurance market. Most microinsurance markets develop by extending insurance to client groups not currently served by formal insurers. Low-premium products are often regarded as unprofitable by insurers. At the same time, low-income clients may have limited knowledge of insurance, may have a high internal discount rate and often exhibit an inherent distrust of formal insurers. To overcome these challenges microinsurance markets have to be triggered or made. For this reason, it is important to confer a market development mandate on regulators over and above their normal supervisory mandate. This mandate requires an understanding of both the existing and potential market, and implies that regulators will consider both formal and informal providers and formalisation challenges. It also allows space for market experimentation while monitoring risk and responding with appropriate policy statements and regulatory adjustments.

Guideline 2: Adopt a policy on microinsurance as part of the broader goal of financial inclusion. Public policy expresses the intent of government. Explicit policy objectives on microinsurance market development provide market players with the necessary security and guidance to invest with confidence in market areas where the regulatory framework may still be uncertain or in the process of development, as is often the case with microinsurance. The policy must be aligned with other government policy objectives, appropriate to the circumstances of the country and preceded by broad-ranging consultations. It should be located within government's broader approach to financial inclusion. The policy should facilitate both outreach by registered insurers and formalisation of informal insurers.

Prudential guidelines

Guideline 3: Define a microinsurance product category. Microinsurance products require small premiums to be affordable to low-income clients. Profitable microinsurance operations therefore depend on least-cost underwriting and distribution. Achieving this may necessitate a reduced compliance burden (both prudential and market conduct) in jurisdictions with a high regulatory burden. Such a reduced compliance burden can, however, only be justified on the basis of reduced risk. This requires the regulatory definition of a microinsurance product category that entails systematically lower risk. This can be achieved through limits on benefit values, policy contract duration and the risk events covered, as well as the simplification of policy terms. The income level of the prospective policyholder is not considered a viable element of a microinsurance definition as the

[60] The country studies as well as subsequent country diagnostic studies can be downloaded at: http://www.access-to-insurance.org/useful-resources/library/country-diagnostics.html. The current study will be added to this list. In this way, Swaziland will contribute to the growing body of learning, internationally, on microinsurance policy, regulation and supervision.

[61] Source: IAIS-MIN JWGMI, 2008. Making insurance markets work for the poor: microinsurance policy, regulation and supervision. Synthesis document prepared by Bester, H. et al (2008) drawing on five country studies: Colombia, Philippines, India, South Africa and Uganda. Available at: http://www.access-to-insurance.org/fileadmin/data_storage/documents/internal_documents/Emerging%20Guidelines%20for%20microinsurance%20policy%2C%20regulation%20and%20supervision.pdf

verification of income is too expensive and often of suspect integrity.

Guideline 4: Tailor regulation to the risk character of the microinsurance product category. Once a product category has been defined to lower risk, prudential and market conduct requirements can be tailored accordingly to allow for lower-cost underwriting and distribution targeted at the low-income market (while maintaining sufficient standards to protect clients and maintain trust). Generally, this can either be done through exemptions from certain requirements, or by creating a reduced-burden (in terms of entry and other requirements) regulatory tier for microinsurance. The option implemented must be based on a detailed assessment of the local market and regulatory environment to ensure the development of risk-proportionate rules.

Guideline 5: Allow microinsurance underwriting by multiple entities. Member-based mutual-type institutions tend to fare better than traditional insurers in offering microinsurance in countries where this is part of the social life. Existing regulation, however, often makes it too onerous for these community-based mutuals to register as formal insurers, or may even explicitly exclude them. Allowing various institutional forms to register as microinsurance providers, should they meet the same regulatory and corporate governance requirements, levels the playing field

Guideline 6: Provide a path for formalisation. Unlicensed insurance providers usually emerge in response to real needs for risk mitigation within low-income communities, and serve a valuable social and economic function. Yet they may lead to consumer abuse and may fail due to inadequate risk management. Therefore formalisation is in the public interest. However, limited supervisory resources usually make this difficult to achieve. The best way forward is to define a clear evolution path whereby informal institutions can gradually and realistically meet the minimum regulatory requirements. Throughout the formalisation process, the supervisor must be careful not to overreach its capacity or make idle threats, thereby undermining its credibility.

Market conduct guidelines

Guideline 7: Create a flexible regime for the distribution of microinsurance. Low-cost, geographically accessible distribution through trusted channels is essential for successful microinsurance development. Increasingly new technologies are being employed in this quest, as well as alternative channels such as retailers, labour unions, church groups or public utilities. Not all of these intermediaries fit comfortably into the traditional broker/agent regulatory definitions. Substantial benefit can therefore be obtained by allowing these channels to grow and intermediate microinsurance. Appropriate measures to control market conduct risk need to be in place.

Guideline 8: Facilitate the active selling of microinsurance. Experience shows that voluntary microinsurance uptake is highest when it is actively sold, particularly with another product or service, such as loans or credit goods, future funeral services, mobile phones or other financial services such as banking services. One-on-one sales are, however, expensive and can easily push already thin-margin, low-premium microinsurance products into unprofitability. The imperative is therefore to avoid market conduct regulation that can make the individual sales process too costly. This is best done by standardising microinsurance products, simplifying terms and conditions, ensuring adequate disclosure, and by avoiding price controls on the intermediation process.

Supervision and enforcement

Guideline 9: Monitor market developments and respond with appropriate regulatory adjustments. While effective enforcement of regulation is needed, the microinsurance market at the same time needs the space for innovation. The supervisor's task is therefore a balancing act: to regulate and enforce in such a way as not to make conditions overly onerous on market players, while at the same time responding to abuse through careful market monitoring. For this purpose, it is important that minimum levels of information must be submitted to the supervisor. The reality of limited capacity may also mean that some areas of the market may remain completely unregulated. Directing capacity to high-risk areas while monitoring unregulated areas for changes in risk profile may, therefore, be the only option available within resource constraints.

Guideline 10: Use market capacity to support supervision in low-risk areas. In an environment of constrained supervisory capacity, supervisory approaches that draw on the capacity of market participants and other entities may enhance supervision. This may take several forms and should be designed around the specific conditions and entities in the market. For example, the supervision of certain market players (such as primary cooperatives) may be delegated to entities such as secondary/umbrella cooperatives providing services to primary cooperatives. The supervision of tied agents may also be delegated to insurers to ensure that agents are appropriately trained and behave in an appropriate manner.

How do the recommendations for Swaziland measure up? The recommendations outlined in in brief in this report and in more detail in the separate set of regulatory recommendations to RIRF speak to most of the ten guidelines. The only two guidelines that are not of direct relevance in the Swaziland context are guidelines 6 and 10: informal provision of insurance (Guideline 6) was not highlighted as a concern or a widespread phenomenon. Furthermore, the small size of the market implies that delegated supervision (Guideline 10) is unlikely to be required.

Annex 5: Meeting list

Organization	Person(s) met
Financial Services Regulatory Authority (FSRA)	Bongani Nxumalo (Chief Executive Officer)
Registrar of Insurance and Retirement Funds (RIRF)	Sandile Dlamini (Registrar) Thuli Nkwanyana (Manager Legal) Nina Dlamini (Manager Inspections) Sabelo Zwane (Legal Officer)
Dups Insurance Agency	Philip Desousa (Executive Chairman)
Liberty Life	Mark Gobie (Head of African Operations)
Central Bank of Swaziland	SL Simelane (General Manager Financial Regulation) M Dlamini (National Payments Head)
Old Mutual Swaziland	Duomo Mbethe (Chief Operating Officer)
Metropolitan Swaziland	Muzi Dlamini (Managing Director)
GetMed Swaziland	Montie Lloyd (Managing Director)
Alexander Forbes Insurance Brokers	Lucky Mahlalela (Managing Director)
Microfinance Unit	David Myeni (Programme Director)
Swaziland Building Society	J.V. Ndlangamandla (Managing Director)
Swaziland National Farmers' Union	Zanele Phiri (Manager)
Swaziland Association of Savings and Credit Cooperatives (SASCCOs)	Grace Dludlu (Head)
Swazi Development Finance Corporation (FINCORP)	Dumisani Msibi (Acting Managing Director) Bongani Simelane (Finance Manager)
Swaziland Royal Insurance Corporation (SRIC)	Siphiwe Hlatshwayo (Life Manager)
Swazi Bank	Stanley Matsebula (Managing Director)
Ministry of Finance	Khabonina Mabuza (Principal Secretary)
Nedbank	Fikile Mkosi (Managing Director)
African Alliance	Sthofeni Ginindza (Managing Director)
Orchard Insurance Group	Myrah Ndzabukelwako
First National Bank Swaziland	Ezekiel Nsibandze (Compliance Head)
Select Africa	Trudi Schwartz (Managing Director)
Swaziland Federation of Employers	Zodwa Mabuza (Chairperson)
Health Insurance Brokers	Simon Smith (Managing Director)
Lidwala Insurance	Tich Magore (General Manager)
Momentum Africa	Fatima Henwood (Operations Head)
Pepstores Swaziland	Piet Roussouw (Country Manager)
Small to Medium Enterprises Network	Lyndon Hermanson (Chairperson)
Council of Churches in Swaziland	Khangezile Dlamini (General Secretary)

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