



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: **16 November 2017**

Supporting responsible MSME insurance

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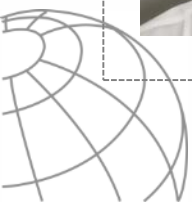


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1. What are MSMEs and why are they important?
2. What risks do MSMEs face?
3. What kind of insurance cover do MSMEs need?
4. Characteristics of MSME insurance
5. Considerations for supervisors
6. First conclusions
7. Questions to the audience





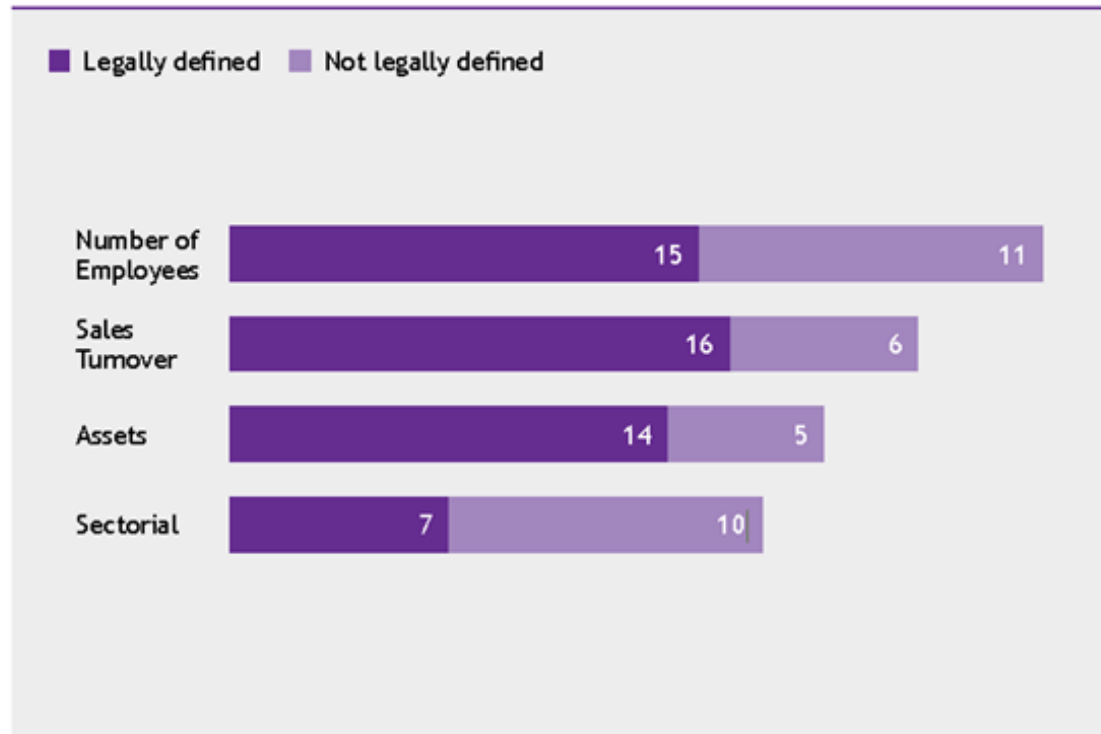
1.1 What are MSMEs ?

In a participatory effort with national policymakers, AFI researched MSME definitions in 28 jurisdictions:

- 60 % of these countries have **legally defined** their MSMEs
- Criteria used: Most rely on **sales turnover and number of employees**

Source; Alliance for Financial Inclusion (AFI); Survey Report: Defining Micro, Small and Medium Enterprises (MSMEs) in the AFI network, March 2017

FIGURE 2: TOP CRITERIA USED TO DEFINE MSMEs BY REGION



Source: AFI





1.2 What are MSMEs ?

Micro, Small and Medium Enterprises appear in a great variety of forms:

- **Micro** enterprises 1 – 9 employees
- **Small** enterprises usually have between 10 and 50 employees
- **Medium** enterprises are generally formal and relatively sophisticated businesses with 50 - 100 employees (a third of 132 countries define “medium” up to 250 employees, IFC)

They reflect a **wide array of business types**, from trade, to production and services.

Informal businesses outnumber the formal ones many times over (e.g. India 1.6 million registered MSMEs, 26 million unregistered)

Source: IFC 2010, MSMEs around the world





1.3. Why are MSMEs important?

For economic growth and employment:

- Formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies (World Bank)
- Much higher share when when informal SMEs are included (an estimated 80% of enterprises are informal (IFC)
- In low-income countries 90% of formal jobs are created by SMEs (ILO)
- When microenterprises are included and self-employed – 95 % of employment comes from MSMES

For insurance market development:

- **MSMEs aggregate large parts** of the population as owners, employees and even, as micro businesses (large part of microinsurance is credit life, many of which goes to informal microenterprises having microloans)
- MSMEs provide the potential **to reach many people** and make insurance markets more inclusive





2.1 Why are MSMEs more vulnerable?

MSMEs are comparatively vulnerable

- Short average business lifespan and high risk appetite
- Facing personal risks of owners, employees, and business risks
- Lack of access to appropriate financial services, i.e. approximately 70% of all MSMEs in emerging countries do not have access to formal credit
- High exposure to threats and disasters
- Low familiarity with financial services including insurance



2.2 Why is resilience important for MSMEs?

1. Promoting MSMEs resilience leads to the achievement of key sustainable development goals, this should be a public policy priority

1 NO POVERTY



2 ZERO HUNGER



8 DECENT WORK AND ECONOMIC GROWTH



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



2. Insurance is a piece of the puzzle that could support MSMEs resilience

→ MSMEs resilience is key to boost sustainable development



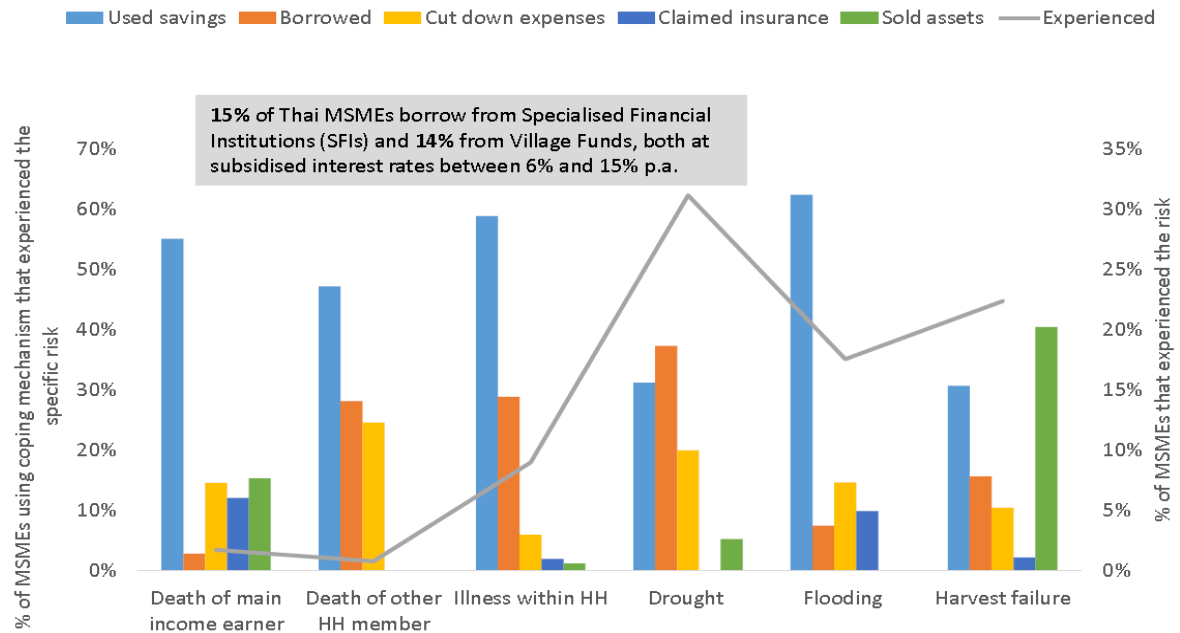
2.3 How do MSMEs cope with shocks?

However, MSMEs are hardly using insurance to cope with shocks!

The role of insurance to enable MSME growth initiatives:
The example of Thailand



In the absence of insurance, MSMEs are using other measures for coping with shocks, **Such as savings, borrowing or selling assets**



3.1 Types of risks MSMEs are facing

Hazard risks	Insurance is particularly relevant
Financial risks	Insurance has a role alongside other interventions, e.g. financial management training
Operational risks	Other interventions are more appropriate, e.g. training programmes and policy and regulatory efforts
Strategic risks	

Source: (ILO, 2016) Merry: *Insurance For Small Businesses* (ILO paper No 43) ([link](#))



3.2 Types of risks MSME are facing (ILO study)

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

Source: (ILO, 2016) Merry: Insurance For Small Businesses (ILO paper No 43) ([link](#))



4. Characteristics of MSME insurance offerings

Which insurance products will MSMEs demand?

- **Asset insurance** for their stock, buildings and machinery: fire, natural disasters, theft –
- **Group insurance** for their employees: accident, hospitalisation
- **Personal insurance** as owners

Note that the kind of demand varies greatly depending on the type of business

Which features should these products have?

- SUAVE (“Simple, Understood, Accessible, Valuable and Efficient”, see quality criteria for good microinsurance, Microinsurance Centre 2012)





5.1 Considerations for supervisors – proportionate approaches

(1) Need for proportionate approaches:

Making sure that MSMEs benefit of proportionate approaches that are aiming to ensure access to insurance

Some challenges:

- **Traditional insurance regulations are not apt to MSME characteristics:** Some insurance regulations do not distinguish between large enterprises and MSMEs when defining large risks
- **Inclusive insurance regulations insufficient:** Some regulations on inclusive insurance (microinsurance or mass insurance) and their definitions refer to a specific target market excluding MSMEs





5.2 Considerations for supervisors – proportionate approaches

Some proposed solutions:

- MSME insurance should benefit from many of the same considerations as **individual microinsurance** (sales at scale, consumer protection, etc.) therefore they should be excluded of definitions of large risks and included in inclusive insurance regulations.
- **Specific particularities of MSMEs** should be considered when drafting regulations and supervising:
 - ✓ Allow specific distribution channels and transactional platforms that are trusted and accessible by MSMEs (input suppliers, financial institutions, agent networks)
 - ✓ Allow innovative business models





5.3 Considerations for supervisors – products

(2) Ensure that products that are innovative and provide real value are effectively offered to MSMEs

Some challenges:

- Product registration processes could be time consuming when products are innovative, such situation could deter the industry to engage in innovative product design.
- Are indicators considered to measure the performance of microinsurance products considering the particularities of MSMEs?

Some proposed solutions:

- Product registration processes for innovative products targeting MSMEs could be more flexible.
- When setting up the indicators of performance, include relevant indicators for MSME products





5.4 Considerations for supervisors

(3) Consumer protection frameworks should protect MSMEs effectively:

Some challenges:

- **Traditional insurance products** for business are often subject to a lower standard of consumer protection on the assumption that both parties are sufficiently sophisticated.
- **Microinsurance products** generally have higher consumer protection standards that would also be important for MSMEs, however, regulatory arbitrage
- MSMEs owners and their employees lack insurance experience and education, and hence, have consumer vulnerabilities and need effective/ same level of protection.





5.5 Considerations for supervisors

(3) Consumer protection frameworks should also protect MSMEs :

Some proposed solutions:

- Ensuring complaints mechanisms are effective and accessible
- Setting timeframes for claims settlements
- Insurance education measures for MSMEs provided as public good
- Monitoring client value (quantitative performance data)





Early takeaways for supervisors – to be discussed in the Consultation Call:

- Ensure MSMEs are specifically considered in inclusive insurance framework & definition
- Ensure consumer protection safeguards MSMEs
- Allow for flexible product design & broad risk coverage
- Allow for innovative distribution
- Focus on proportionate approaches to encourage the industry
- Encourage industry to address MSME needs and show supportiveness in principle
- ...





7. Discussion questions

- a. In which way is your jurisdiction considering MSMEs?
- b. Do policymakers recognize the potential of MSMEs, and if yes, has this translated into insurance market development initiatives yet?
- c. Have any aggregators in your market proven to be good for insuring MSMEs?
- d. Do informal businesses in your market have access to insurance? Is this problematic? Can anything be done to improve the situation?





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Thank you!

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**Save the date for the
next Consultation Call on 18 January!**





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Sources and further reading

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<http://cenfri.org/documents/11%20IMC/Understanding%20the%20opportunity%20for%20MSME%20insurance.pdf>





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Case study: Regulation of MSMEs in Ghana

Country expert

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Ghana





Overview of MSMEs in Ghana

The number of employees and amount of fixed assets a firm has determines if it an MSME or not.

Some Facts about MSMEs in Ghana:

- There are over 4,400 MSMEs in Ghana
- 70% of all industrial establishments are MSMEs
- 92% of all businesses are MSMEs
- MSMEs contribute an estimated 70% towards Ghana's GDP
- Employs more than 60% of the labour force with majority in the rural areas.

Notable Challenges faced by MSMEs in Ghana are:

- Access to finance
- Access to markets
- Access to Technology
- Infrastructural bottlenecks





How insurance can solve some of the challenges

- Reduces risks by smoothening returns of MSME
- A tool for managing risks associated with uneven and irregular income which characterizes micro and small and some medium scale enterprises
- Mitigating the impact of unforeseen eventualities by serving as “shock absorbers”.
- Helps break the cycle of poverty and gives some level of peace of mind to the micro-insured.
- Increases insurance penetration rate by providing tailor- made insurance products that specifically targets and meets the need of MSMEs for an added value at an affordable rate, etc.
- Insurance companies, can use their expertise to educate the MSMEs on:
 - efficient use of current technology to enhance their business operations.
 - sections of the market they can target through various target market practices.





Some Specific Insurance Products

Fire Policy

- Fire insurance covers damage or loss to a property because of fire. It is a specific form of insurance in addition to homeowner's or property insurance, and it covers the cost of replacement and repair or reconstruction above what the property insurance policy covers.

Consequential Loss Policy

- A consequential loss is the amount of loss incurred as a result of being unable to use business property or equipment. If the property/equipment is damaged through a natural disaster or accident, only certain types of insurance can cover the owner for lost business income.
- Insurance policies of this nature are designed to compensate for consequential losses regardless of the presence of physical damage to the facilities or equipment owned and operated as part of the business.

Employer's Liability Policy

- A product for employers that protects them from major financial loss if a worker experiences a job-related injury or illness that workers compensation doesn't cover.
- Employer's liability insurance can be packaged with workers compensation insurance to further protect companies against the costs associated with workplace injuries, illnesses and deaths that aren't covered under workers compensation.



Some Specific Approved Insurance Products

Fidelity Guarantee Policy

- Fidelity Guarantee insurance is an insurance policy designed to indemnify the Insured (the employer) for the loss of money or property sustained as a direct result of acts of fraud, theft or dishonesty by an employee in the course of employment.

Auto Insurance

- This is an insurance against damage or loss from an accident or theft of a vehicle

Burglary Insurance Policy

- This is insurance against loss or damage resulting from or following the unlawful breaking and entering of designated premises or places of safekeeping.
- Burglary insurance, then, will cover property damage as well as financial losses arising from:
- The theft of property from within the household premises or within the automobile
- The entry of an intruder by force



Overview of Regulation of Insurance sold to MSMEs

- There are no specific regulations for MSMEs in Ghana
- Most of the firms in Ghana are MSMEs. Thus products sold by the insurers to corporate firms are primarily to MSMEs.
- There is a question of whether additional products can be designed specifically to the need of MSMEs
- The question is what can be done by the regulator to facilitate this market?





Potential Regulatory Concerns (1/2)

- Improvement in the general governance of insurance companies
- Lack of mechanism for collecting credible and reliable data (both quantitative and qualitative data).
- Premium payment patterns may not be not adjusted to the economic cycle of MSMEs especially when it is contrary to regulatory requirement on the maintenance of validity of coverage.
- The possibility and viability of the development of a special fund to financially support the broad spectrum of risk characteristically faced by MSMEs which are commercially uninsurable and thereby enhancing the value of insurance.
- Limited resources for the regulator to conduct “shadow window shopping” to ascertain at first hand whether or not abuses are being perpetuated by industry providers of microinsurance products.
- Weak internal controls coupled with unqualified/ semi-qualified persons manning the affairs of these MSMEs can be very detrimental to the very essence of regulation in the industry.





Potential Regulatory Concerns (2/2)

- Inadequate feedback from the “micro-insured” as a result of weak or non-existing reporting systems/mechanisms instituted by regulators.
- Some MSMEs inherently face a wide spectrum of risks, many of which are commercially uninsurable.
- For instance, terrorism, floods in flood-prone zones, property in landslide-exposed areas, or pandemics, riots, strikes, energy blackouts, or any external force-majeure that can limit business.
- Insurance therefore cannot cover some of the risks MSMEs face.
- A firm may remain vulnerable to shock and end up facing severe risk, even after purchasing insurance, because of these uninsurable risks in insurance policies and credibility of insurance would suffer.





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