

# The 1st Regional Insurance Brokers Congress “RIBC”

Semiramis Intercontinental- Cairo – Egypt

18 - 19 May, 2015

## The Role of Insurance Brokers in the Microinsurance: Opportunities and Challenges

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## Table of Contents

- ☐ About FSI
- ☐ Financial Inclusion & its Importance
- ☐ Microfinance: Beyond Microcredit
- ☐ EFSA New Microfinance Law
- ☐ Overview of The Egyptian Microinsurance Market: Regulation, Products and Channels
- ☐ Opportunities & Challenges to Microinsurance in Egypt
- ☐ Coping with challenges
- ☐ Recommendations

# About Financial Services Institute (FSI)



*Building Skills for Best Practices*

[www.fsi.gov.eg](http://www.fsi.gov.eg)

## About FSI

- **Financial Services Institute (FSI)** is the training arm of the non-banking Financial regulator – Egyptian Financial Supervisory Authority (EFSA).
- FSI was established in July **2010** according to law No.10/2009 regulating the non-banking financial markets and instruments by the presidential decree number 260/2010 promulgating the status of the institute.
- FSI provides **capacity building** and **accredited training** to license and advance the skills of the market players in the **six non-banking financial services markets**; namely insurance, capital market, mortgage, leasing, factoring and microfinance.
- FSI raises the public **awareness** and introducing the International **best practices** through research in the field of the non-banking financial services.

# FSI Insurance Brokers Training Program

- Financial Services Institute (FSI) paid special attention to the training of insurance brokers as follows:
- Since its establishment FSI trained **more than 7 thousands insurance brokers and 42 brokerage companies**, which represent the current registered number in EFSA records as per 2013/2014 statistics.
- There are **3 training levels** for brokers, aiming to enhance the basic regulatory issues (Decree 23/2013) needed for the new insurance brokers (**Level 1**) and to develop the skills of current brokers for license renewal, in the area of risk management, reinsurance, Takaful and marketing of insurance services(**Level 2**).
- FSI signed a cooperation protocol with the **Chartered Insurance Institute (CII)** to improve standards of knowledge and behavior and, in turn, levels of professionalism for insurance staff of the industry including brokers for specialization ex: Microinsurance (**Level 3**).

# FSI Insurance Brokers Exams

- According to law no. 10/1981 and its executive regulation all insurance brokers should attend the FSI insurance brokers training program and get an **accredited certificate** from FSI.
- Successful brokers should apply to pass a **written** exam of EFSA for licensing purposes.
- According to EFSA Chairman Decree no. 1009/2013, intermediaries are entitled to have an **oral** exam in the following cases :
  - ✓ Holders of PhD / Master's degree in insurance.
  - ✓ Ones who have previously served a function in one of the senior management level of insurance companies before practicing brokerage profession.
  - ✓ Ones who go beyond practical experience in the field of insurance brokerage for 15 years.

# **Financial Inclusion & EFSA New Microfinance Law: Beyond Microcredit**

## Financial inclusion & its importance

- **Financial inclusion** means that all households and businesses regardless of income level have **access** and can effectively use appropriate financial services they need to improve their lives. Such services must be provided responsibly and **sustainably**.
- Policy makers have long realized that the potential for **economic growth** and poverty alleviation through the development of a more **inclusive** financial services sector.
- Historically, Egypt has been one of the most active countries in the arena of Microfinance but the microfinance market has been solely relying on **commercial banks** and NGOs.
- Egypt still suffers from a **low penetration** rate especially in rural areas. Also, there is a sizable **financing gap** as witnessed in the demand from microcredit borrowers far exceeds the supply.



## Microfinance Market in Egypt

- IFC recent study shows that Microfinance still reaches less than **20%** of its potential market among the world as nearly **3 Billion** people in GEMs have little or no access to formal financial services.
- Statistics shows that Egypt still suffers from a **low** penetration rate of MSMEs (approx. **8%**) and a financing gap of almost **EGP 200 Billion**.
- There are approximately **450-500 NGOs** offering microcredit of with a loan portfolio that exceeds **EGP 1.5 Billion**.
- The US-based nonprofit Microfinance Information Exchange (MIX) between 2005 and 2012 served **1 million** active borrowers with an aggregate microcredit portfolio of almost **USD 266 Million**.

## Microfinance: Beyond Microcredit

- **Microfinance** “is the provision of financial services to the poor and low-income people”. Those segments require Microfinance programs that are tailored to their needs and include streamlined, **efficient**, **simple** borrower procedures alternative approaches to collateral, as well as reliable, and convenient financial services.
- The term “Microfinance” evolved to encompass **complimentary products** and services designed for small business activities that fit the needs of the poor individuals not only credit, and to generate income, build assets, and manage risks.
- This raises the question of why there should be a microfinance and microinsurance law to facilitate financial inclusion and go **beyond microcredit!**

Microfinance



Microcredit

## EFSA New Microfinance Law

- The Egyptian Financial Supervisory Authority (EFSA) has increasingly embraced **financial inclusion** as one of its policy objectives. Under the new microfinance law, Microfinance could be provided by non-governmental organizations (**NGOs**) and newly established Microfinance institutions (**MFIs**).
- EFSA's new microfinance law was passed **November 2014** and focuses solely on economic value added activities for productive, services and trading not consumption purposes with credit exposure cap of EGP 100,000 per client .
- The law allows the following types financial products and services as follows:
  1. **Agriculture** المجالات الزراعية والأنشطة المرتبطة بها
  2. **Industrial** المجالات الانتاجية والصناعية والحرفية
  3. **Services** المجالات الخدمية
  4. **Trade** المجالات التجارية

# **Overview of the Egyptian Insurance and Microinsurance Markets**

## Insurance penetration in Egypt

- While the insurance industry is growing fast it is still small:
  - Life around 0.5% of GDP
  - Non-Life around 0.5% of GDP
- World Average Insurance penetration at US\$ 2000 GDP/capita is 2% or twice the Egyptian insurance penetration.
- With a GDP/capita of Pounds 10,000 the average expenditure per person should be 2% or EGP 200 per year.

***How many insurance products are available in Egypt for EGP 20 a month?***

## Microinsurance Market in Egypt

	30/6/2011	30/6/2012	30/6/2013	30/6/2014
Total premiums (Million EGP)	42.0	40.0	27.6	24.00
Total claims (Million EGP)	4.8	3.2	25.0	11.3
Number of policies (thousands)	24	16	12	11 (compared to approx. 4 M in Philippines)
Claims rate %	11	8	29	45

Source: Egyptian Financial Supervisory Authority (2011-2014)

## What is Microinsurance?

- Microinsurance allow risk-pooling products that are designed to be appropriate for the low-income market in relation to **cost, terms, coverage, and delivery mechanisms.**
- Microinsurance usually involve **low, frequent and irregular premiums.**
- A Microinsurance product is unique and must **meet the needs and requirements of low income and poor segments** by being :

**Simple, Understood , Accessible, Valuable, Efficient “S.U.A.V.E”** ★

## Importance of Microinsurance

- MFIs are not allowed to accept deposits and microfinance segments are with no savings, so there should be an alternative to encourage savings.
- A new Micro insurance law may play a crucial role in the future to **reduce risks**, eliminate poverty and create **sustainability** among the poor low income microfinance segments by encouraging savings; through low premium contributions collected on a periodic basis **(Peru & India)**.
- This could also help Microfinance Institutions (MFIs) to reduce their credit risk through collaborations with micro insurance companies **Partner Agent Model (PAM)**.



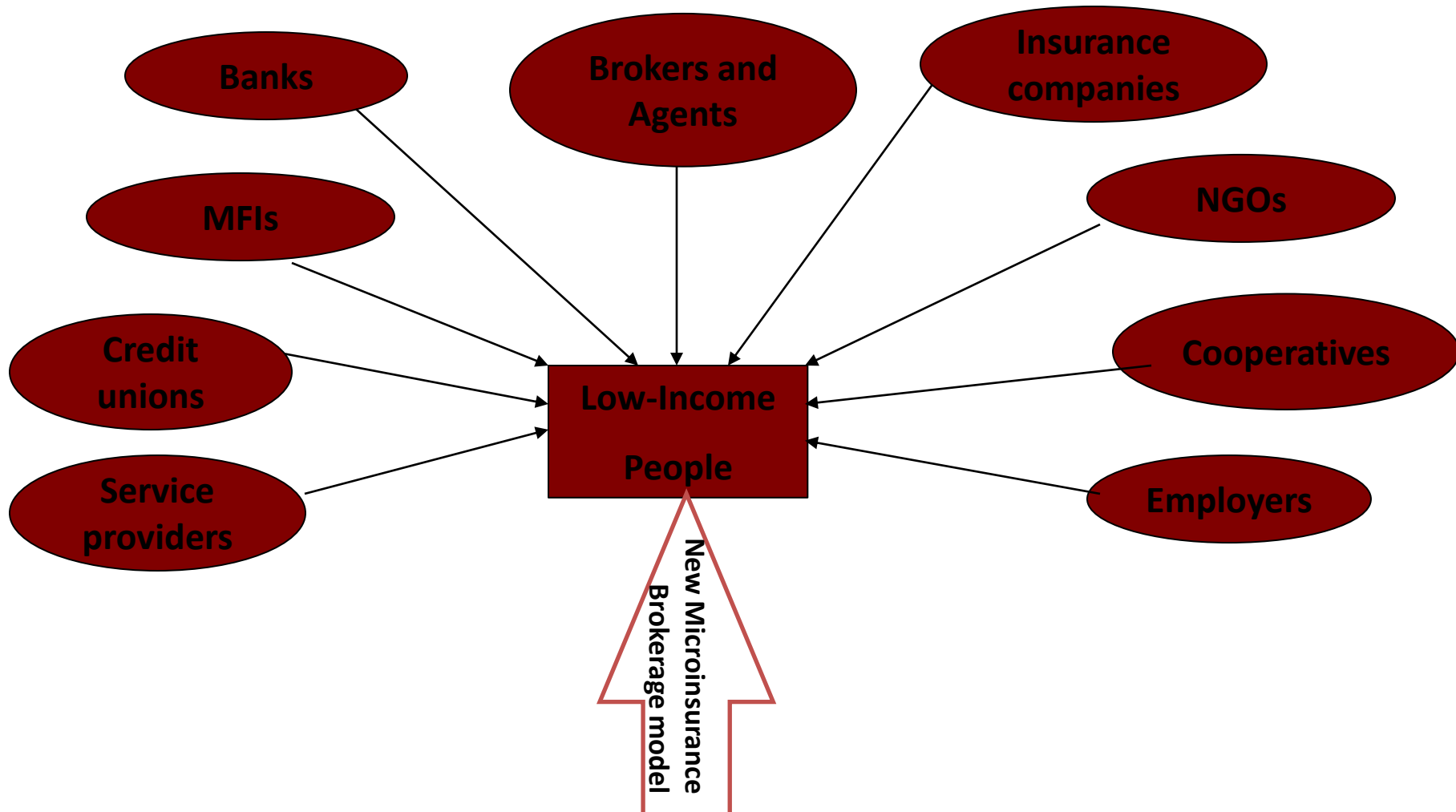
## Importance of Microinsurance

- Helps the clients to initiate **small savings** (small premium contributions).
- Helps the client repays the loan in case of disability or **property damage**.
- Protects the poor – more vulnerable – from **different risks**.
- Protects the client's family in case of death/disability from **loss of breadwinner/debt**.
- Protects the MFIs in case of **death /disability of the client**.

## Microinsurance Activities in Egypt

- There are **31** insurance companies operating in the Egyptian insurance market. While some of their products are affordable for micro-enterprises and micro-consumers, – the products are **neither designed nor marketed to meet the needs of the micro sector**.
- Some microfinance programs, like the National Bank for Development (NBD), offer life insurance to their clients (MOUs with insurance companies in the market) to cover part of the amount lent in case of default due to death.
- However, insurance packages are mostly embedded with credit packages to reduce MFIs' risk of default, **not offered as a stand-alone product**
- Given the low premiums and wide distribution necessary, microinsurance has tended **not be a priority** investment choice for larger insurance players.

## Delivery Channels in Egypt



## Types of Microinsurance Products in Egypt

Degree of Difficulty

- Credit life
- Term life/Personal accident
- Savings life
- Fire & Theft insurance
- Health insurance
- Motor insurance
- Livestock

Degree of Success

***7 Microinsurance products in Egypt versus 89 in the Philippines !***

# **Role of Insurance Brokers in Microinsurance : Opportunities & Challenges**

## Opportunities: New Microinsurance Law

- Higher **outreach**, and wider **scale** to compensate for lower margins.
- Microsegments are often willing to **pay more** for convenient and quick access to well-designed financial services.
- Targeting specific needs of microfinance segments “**niche**” markets especially in remote and rural areas (“**Differentiation strategy**”).
- Diversifying the range of financial products offered beyond simple lending to include other **non-banking services ( ex: microinsurance)**.
- Attract a new pool of **investors** ex: new specialized Brokerage firms.
- However, the market is huge with the potential that Brokers, insurers and reinsurers unite in an attempt to **add scale** and **reduce distribution costs** of microinsurance.

## Opportunities: Innovation in Microinsurance

❑ **Innovations are usually needed to overcome barriers to access to insurance markets as follows:**

- Recently, various insurers and intermediaries have started to design **innovative products and delivery models** that fit the requirements of low-income populations rather than simply present miniaturized versions of conventional products.
- Innovations may include new or **different providers of insurance protection, distribution and servicing approaches, or technology.**
- Innovations can include changes to **product features, services delivered, channels and vehicles for delivering the products and services, and the product provider (the insurer).**

## Challenges to Microinsurance

- ❑ Insurers have tended not to consider low-income segments attractive due to various reasons:
  - **Low premium** (means less commissions to brokers!)
  - Traditional **remuneration structures** provide incentives to focus on larger premium products (**KPIs** is scale not mark up brokers!).
  - **Premium calculation** is more complicated due to limited available data.
  - Lack of **microinsurance infrastructure** (Statistics, IT, support services).
  - **Premium collection** as the **distribution network** did not find doing business with the low-income segments.
  - Promoting **consumer education** and raising **awareness** to an insurance culture among low-income people (capacity building and Training).



## Challenges: Building Microinsurance Infrastructure

- ❑ **Most networks, associations, training providers, reinsurers, researchers and IT supporters are ill-equipped in terms of offering microinsurance support services as follows:**
  - **Public goods** (data, transparency, code of conduct, awareness campaigns)
  - **Curricula and TOT for training and coaching** is not existent (product development, marketing, administration)
  - **Technology** solutions are not developed
  - **Demand studies** are lacking, including the know-how to implement them

# Coping with Microinsurance Challenges

## Regulatory steps: Coping with microinsurance challenges

- ❑ Insurance supervisors should be the key driver to push and coordinate the microinsurance agenda in the jurisdiction as follows:
  - The regulatory framework should allow a wider variety of **innovative delivery channels** and the **flexibility to respond** to new innovations.
  - The regulatory framework should reduce **minimum capital required** and ensure that the **cost of regulation and supervision be minimized**, and at the same time high quality services.
  - The regulatory framework should contribute to **motivate formal insurers and brokers** to serve low-income population.
  - The regulatory framework should contribute to motivate **informal insurers** to legally provide microinsurance services.

## Regulatory steps: Coping with microinsurance challenges

- ❑ The proposed **amendments of the insurance law no .10/1981** include an article relating to micro-insurance;
- EFSA had **delegations** (The Philippines, Peru, etc...) to determine the best practices in microinsurance.
- EFSA initiated a dialogue through engaging with a **stakeholder committee** that includes all institutions related to microinsurance to discuss its articles in the law.
- This committee must have a role together with the **FSI** regarding spreading of microinsurance **awareness via media and specific training courses.**

## Regulations Best Practices



**Peru**

**Commercialization of microinsurance can be undertaken by direct sale to the insured, through the intermediation of insurance brokers or through the signing of commercialization contracts**



**India**

**Micro-insurance products may be distributed to the micro-insurance agents or licensed brokers**



**Philippines**

**According to law micro-insurance products may be distributed through insurance companies, NGOs, micro-insurance agents or licensed brokers**

## Microinsurance Case study : The Philippines

- It was observed that there are articles related to **reduction of capital** of the companies engaged in microinsurance than the normal amount.
- The law allows for insurance brokers who deal in microinsurance not to deal in any other insurance branch as a **specialization** and this must be after obtaining the **training** course and pass the necessary tests.
- The microinsurance contract is tiny different from the rest of insurance contracts, it is recommended to be **simple, and easy to understand**.
- For the settlement of claims, the law of the Philippines facilitates these procedures providing that this settlement is within **10 working days**.
- In the Philippines all stakeholders in the insurance, telecommunications, systems of electronic payment, mail, and all the relevant authorities, develop a national strategy through **Stakeholder committees**.

## Recommendations

- ❑ **Expansion of microinsurance involves multiple initiatives from various stakeholder such as the following:**
  - ❑ Initiating a national dialogue among all stakeholders and developing a national agenda to promote learning processes and dialogue among relevant sectoral stakeholders (**Stakeholder committees**) ;
  - ❑ Promoting consumer **education and raising awareness** to an insurance culture among low-income people.
  - ❑ **Curricula and TOT for training for Brokers and coaching** (product development, marketing, administration).
  - ❑ Developing requisite microinsurance **infrastructure (IT/statistical data)** and promoting its implementation and leveraging on networks and facilities of other businesses for the sake of economy and speed.

## Recommendations

- ❑ Enacting clear laws and regulations in accordance with International **best practices (“SUAVE”)** and that encourage insurance coverage for low-income segments (**minimum capital requirements**).
- ❑ Creating synergistic effects in which Brokers, NGOs on the one hand and insurers and reinsurers unite in an attempt to **add scale and reduce distribution costs** of microinsurance.
- ❑ Creating an enabling environment which motivates financial service providers, **protects the interests of clients** and ensures they can access insurance products and door-step services that are affordable.
- ❑ Harnessing innovation as insurers and intermediaries design of suitable and **innovative products and delivery models, technology solutions** that fit the requirements of low-income populations rather than simply present miniaturized versions of conventional products.



# Thank You

## Contact Details

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