NATIONAL INSURANCE COMMISSION

Regulatory Reforms: Challenges, Successes and Lessons Learnt

19TH AIRDC CONFERENCE
BERJAYA BEAU VALLON BAY
SEYCHELLES

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Outline

- Regulatory objectives
- Challenges faced by insurance markets of developing countries
- Finding effective and sustainable solutions
- Some regulatory reforms in Ghana
- Challenges
- Lessons Learnt

Regulatory Objectives

- Traditionally, there are two main regulatory objectives;
  - Ensuring the safety, soundness and stability of the financial system **(Prudential regulation)**
  - Ensuring the protection and fair treatment of the consumer in the market place **(Market conduct regulation)**
- A third objective is however gaining importance and prominence in developing countries: **Market development** or **Financial inclusion**

Problems faced by insurance markets in developing countries

- Weak governance and internal controls
- Inadequate capitalisation
- Lack of proper risk management culture
- Poor record keeping
- High management expenses
- Unwholesome market practices

Finding Effective solutions

- Policemen approach may be very expensive
- Risk based approaches have proven to be more effective and sustainable
- The NIC in Ghana has recently embarked on a number of reforms to find effective solutions to the problems in pursuit of all three regulatory objectives.

Some Regulatory Reforms in Ghana

- Prudential Regulation
  - Risk Based Supervision
  - Corporate Governance
  - Risk Management
  - Risk Based Solvency
  - Actuarial Capacity Development
- Market Conduct Regulation
  - No Premium, No Cover
  - Claims management regulations
- Market Development
  - Microinsurance

Risk Based Supervision

- Risk Based Supervision (RBS) requires supervisors to review the manner in which insurers are identifying and controlling risks.

- It requires supervisors to assess the risk profile of a company and to respond with the supervisor's own interventions in line with the assessment.

- This allows supervisors to allocate resources to the companies with the highest risk and areas within a company that is high risk.

- The NIC has designed and is currently implementing an RBS model with technical support from the Toronto Centre.

Corporate Governance & Risk Management

- The NIC has also taken steps to improve the governance and risk management practices of insurance companies.

- The objective is to ensure that directors of insurance companies clearly know and understand their duties and responsibilities, have the requisite skill and expertise to fulfill such responsibilities and are held ultimately responsible for the actions and inactions of the companies.

Corporate Governance

- The NIC has issued a “Governance and Risk Management Framework” for insurance companies.

- The framework requires insurance companies to;
  - establish and maintain a governance framework
  - separate operational management from oversight functions
  - establish and maintain strategies, policies, processes and controls to cover such areas as underwriting, reinsurance, investment, risk management, internal controls and remuneration.

Risk Management

- The "Governance and Risk Management" framework makes the board of directors responsible for
  - establishing and maintaining clearly defined Risk Management strategies and policies that deal with the entire spectrum of risks faced by the company
  - setting and monitoring the risk appetite of the company
  - establishing and maintaining Risk Management procedures and controls.

Risk Based Solvency framework

- The NIC has also designed, discussed with the industry, and will be implementing a risk sensitive solvency framework by 1st January, 2016.

- The framework requires insurance companies to;
  - meet new minimum capital requirements,
  - meet a Risk Based Capital Adequacy ratio requirement,
  - use prescribed methods to calculate their technical provisions, and
  - submit annual Financial Condition Reports to the NIC

Actuarial Capacity Development

- In order to build the requisite capacity to implement the risk management and solvency frameworks, the NIC has also taken steps to develop local actuarial capacity.
- A committee made up of all relevant stakeholders has come up with an Actuarial Capacity Strategy.
- The main objective is to have an in-house actuarial unit or department in each insurance company, manned by adequately qualified personnel

“No Premium, No Cover”

- Until 2014, Premium debtors were the biggest assets on the books of non-life companies in Ghana.

- This impacted negatively on the liquidity of the insurance companies which in turn negatively affected their ability to pay claims adequately and promptly.

- The NIC therefore issued the “No Premium, No Cover” directive to require premiums to be upfront.

Claims Management Regulations

- Subsequent to the implementation of the No Premium, No Cover directive, Claims management regulations were issued to require claims to be paid within stipulated timeframes.

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Access to insurance - Microinsurance

- In a bid to improve access to insurance for the low income segment and the informal sector, the NIC in collaboration with GIZ has taken steps to promote microinsurance.

- The ***Microinsurance Market Conduct Rules*** were issued in early 2013 to guide the development and sale of microinsurance products in Ghana.

Microinsurance 2

- The 2014 microinsurance landscape survey indicated that we have 13 insurance companies selling 29 microinsurance products which currently cover about 7.5 million lives.

- This can be compared to the situation in 2011 (before the implementation of our microinsurance regime) where we had 11 companies offering 16 products which covered just about 1.7 million lives and properties.

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Challenges

- Weaknesses in the legal framework
- Availability of skilled, competent and experienced professionals like auditors and actuaries
- Inadequate resources
- Cost implications for the small companies
- See *"Problems faced by insurance companies in developing markets"*

Lessons Learnt

- Stakeholder consultation is key.
- Build capacity
- Have a plan and follow it
- Seek help
- Provide guidance
- Adapt, don’t reinvent the wheel

The end

Thank you for your attention