INSURANCE REGULATORY AUTHORITY OF UGANDA

Leveraging on Informal insurance platforms and Group dynamics to upscale Formal insurance in Uganda

"The Voices of the informal sector"

December, 2015

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Abstract

Many people in Uganda do not view insurance as a priority spending area, for its benefits are remotely percieved. The potential of informal insurance in Uganda is not well understood yet there are lessons to be learnt from pre-existing *(informal markets and community groups)*. This study shows that organised groups successfully work together and incorporate risk management into their relationships. The study also shows the percieved benefits form the basis for group formation and cohesion.

While the primary goals of organised groups are saving and investment, informal risk sharing is embedded for a social purpose to benefit members and earmarked family members. Our findings indicate that informal risk sharing cannot offer full protection because members arbitrarily come up with regular nominal contributions to support a given member(s) who may suffer loss. We note that even if members, through their groups help each other, they are not able to do so in the case of covariate shocks. This makes a case for formal insurance products tailored to the needs of these informal, largely low income groups.

Uganda has seen a continued expansion of credit activities and Group-Based schemes, allowing aligned incentives and cheap monitoring in a way that economises on information and transaction costs. People have long organised themselves to provide some forms of informal mutual support to each other. A key issue for any further insurance provision is how it should relate to safety nets, credit schemes and existing informal insurance schemes. In this study, this concern is central to our analysis.

The study establishes that there is clearly a huge potential for formal insurers to draw lessons from the existing informal platforms. Sustainable business in this special niche will require a complete change in the mindset and business models which in turn will yield results on the back of regulatory flexibility.

There are, however, a number of challenges to be surmounted for those that will break even in this niche. For instance, poor workers who dominate the informal settings have little surplus incomes that they can use to pay in form of premiums and are thinly scattered across the countryside and often difficult to reach. This is coupled with the fact that informal sector workers are very mobile. Additionally, both formal and financial literacy is very low, and distrust of formal insurance institutions very high, amongst the informal settings. Convincing informal sector workers to tie up their hard-earned scarce resources in a long-term life insurance policy for example will most likely be difficult.

The above structural limitations, taken together, point to the fact that transactions and administrative costs associated with penetrating this market will be relatively high, while economies of scale will be elusive. This therefore means that innovation into products tailored to these institutional panorama will be a key differentiator.

Introduction

As with many other Sub-Saharan African countries, the informal 'sector' in Uganda provides the vast majority of employment and forms the mainstay of a sizeable population. The sector also absorbs many of the youth in this era where unemployment has become very prevalent. The 2009/10 Ugandan National Household Budget Survey found out that 3.5 million Ugandans were engaged in informal 'sector' work with 13% of informal sector workers being paid employees and 23% being unpaid helpers.

According to the ILO, the social security schemes that are contributory and/or compulsory consist of social insurance for formal workers in the private sector known as the National Social Security Fund (NSSF) and the Public Service Pension Schemes (PSPS) that target all public servants. Other smaller schemes are present. Overall, social insurance schemes cover less than 10% of the working population. The current social security schemes in Uganda exclude employees from the informal sector. However, there have been plans to introduce a nationwide Social Health Insurance scheme (SHI), which would also cover informal sector workers.

In the current circumstances, many people have remained uncovered by any form of formal social protection. Yet, risk is a pervasive fact of life for most people, especially so in rural economies. They are exposed to a variety of significant risks to their wealth (however insignificant it could be) and life. A high and often extreme dependence on volatile labour markets or agricultural production, widespread poverty, and the limited access to formal insurance and credit, serve to create a particularly acute problem of consumption smoothing. It is not surprising, then, that formal insurance arrangements are supplanted by widespread informal arrangements. Such arrangements are not based on any formal contracts that can be upheld by a court of law but on the implicit promise of future benefits from continued participation and its attendant mirror image - the threat of isolation from the community as a whole in the event of noncompliance.

The insurance industry in Uganda has progressed but the penetration rate remains dismal (0.86% in 2014) even by regional average. Insurance companies have typically targeted the formal sector since a large part of it resides in urban areas and is easier and more economically feasible to penetrate. The informal sector on the other hand, which mainly resides in the rural areas and where employment is not based on any formal contract, has largely remained outside the ambit of the insurance companies' offerings. In the wake of very low penetration of the formal insurance, the magnitude of the unserved market should attract the attention of forward looking firms and all the other stakeholders.

According to the study by the International Labour Organization (2009) titled **"The informal economy in Africa - Promoting transition to formality: Challenges and strategies"**, as many as nine in ten rural and urban workers in Sub-Saharan Africa have informal jobs. This is especially the

Introduction Cont...

case for women and young people, who have no other choice than the informal economy for their survival and livelihood. The highest prevalence of informal employment is generally found in low-income countries (Uganda is a case in point). In all developing regions, self-employment constitutes a greater share of informal employment (outside of agriculture) than wage employment: specifically, self-employment represents 70% of informal employment in sub-Saharan Africa representing nearly one third of total non-agricultural employment worldwide and constituting as much as 53% of non-agricultural employment in sub-Saharan Africa.

The findings above corroborate the Uganda National Household Survey 2009/2010 which established that out of the estimated 6.2 million households covered by the survey, 1.2 million (21%) had an informal business. This included those households undertaking agriculture on a commercial basis where at least 50% of the produce was sold. Rural-Urban variations showed that the majority of the informal businesses were in the rural areas. The survey results also revealed that the majority of informal businesses were in the agricultural sector (27%) followed by trade and services (24%) while mining and quarrying (1%) as well as Fishing (1%) accounted for only two percent of the total number of businesses.

In the absence of formal mechanisms (or the presence of unattractive/unaffordable insurance options), the virtually “unserved” market have opted to manage risks through localised informal strategies. Informal strategies are largely characterised by arrangements between individuals or households, or groups as communities or villages. These are contrasted with formal strategies which are largely market-based activities and/or publicly provided mechanisms.

In most developing countries, it is the private, informal markets that the rural poor turn to for their financial needs, including risk management. How and why have these institutions succeeded in providing services to the poor when formal institutions have not? What are their basic limitations? The answers may indicate important directions that may inform policy, and product development.

FINSCOPE III survey (2013) shows clearly that be it formal or informal sector, informal insurance has gained prominence. The survey established that only 2% of the adult population (representing an estimated 349,000 adults) used formal insurance products compared to 43% (7.5 million persons) used informal insurance products in 2013. Use of informal insurance products and services was a rural phenomenon, more prevalent among middle aged adults, with a regional dimension. Preference for informal insurance products and services over formal ones was because: **informal insurance schemes are easier to join** (48%), **cannot afford formal insurance** (15%), **never heard about formal insurance** (11%), **never thought about formal insurance** (10%), and **don't know where to buy formal insurance** (17%).

Despite the compelling factors to informal insurance schemes, a number of factors were reported to constrain their extent of success: **dishonesty by members causing financial loss** (29%), **poor administration** (22%), **death occurring to members** (39%), **members not paying their contributions** (43%), **members pulling out** (40%) **and loss of money through theft or fraud from a committee member** (19%). The findings of the survey informed the current study that was aimed at identifying possible synergies that formal insurers can leverage on to extend formal covers to this latent market.

As with most countries, the operations of informal social protection schemes are not well understood. Therefore, the exact size of the informal insurance in Uganda is difficult to determine. However, it is reasonable to assume that there are tens of thousands of informal insurance arrangements that are grafted onto the respective activities and schemes. Given their magnitude, informal insurance should not be considered as temporary, marginal or peripheral to Uganda's insurance industry.

It is clear that informal insurance is a significant form of security and has many interdependencies with the formal economy. Nevertheless, from a Regulators perspective, greater formalisation which implies a rules-based business trading environment which offers greater protection for consumers and businesses, is desirable. Informal insurance evidently has the potential to be harnessed to further develop the insurance sector in Uganda.

1.2 Objectives of the Study

This study was motivated by the need to ascertain/determine:

I. The risks that affect the rural communities in Uganda and the risk mitigation strategies in place.

II. The barriers to uptake of formal insurance by rural communities in Uganda.

III. The operations of informal insurance schemes in different geographical regions of Uganda as well as factors underlying their success.

IV. Regulatory and operational shifts needed for integration of the informal segment.

1.3 Significance of the Study

The findings of this study will:

I. Provide important lessons pertaining to the synergies inherent in the informal market settings that formal insurers can leverage on to extend formal covers to this latent market.

II. Inform decisions on requisite regulatory adjustments that will foster market growth in this segment.

III. Provide lessons to those with interest in enhancing financial inclusion.

1.4 Limitations of the Study

The study and its findings should be contextualised bearing in mind the following:

I. Scope of study was constrained by the budget, though attempts were made to ensure that the sample is representative.

II. Some of the informal insurance schemes did not have adequate documentation to support their operations.

III. There is limited literature on the establishment and operation of informal insurance schemes, and therefore scoping could not be extensive.

Study Methods and Procedure

2.1 Study Methods

The study employed qualitative field research to unpick some of the dynamics of *informal insurance* as well as investigate the structure and operations of self-enforcing insurance networks.

A case-study approach was employed to study informal insurance in its various forms, ranging from member-based funeral groups to formal, for-profit companies not registered for the provision of insurance.

2.2 Scope of the Study

Geographically, this study was limited to six locations that were purposively selected to meet the needs of the study (Kampala, Luweero, Wakiso, Masaka, Mbarara, and Rukungiri). Attention was directed to organised groups (SACCOs, VSLA, Motorists Associations, and Community Based Organisations including women groups and farmers, as well as quasi insurance groups.

The study examined the 'potential to insure' against such risks among low income groups. We assessed informal risk-sharing arrangements in social groups that act as informal insurance. While many arrangements were found to be based on explicit reciprocity (reward and punishment), our focus was on pro-social solidarity transfers that require trust and altruism. Secondly, we considered the potential of formal insurance products for the poor, also called microinsurance for these informal groups.

The study sought to explore the conditions under which solidarity transfers occur and how they can be affected by the availability of formal insurance. The latter is also the reason for focusing on solidarity instead of reciprocity: While reciprocity based on rational self-interest should be easily restored after a change in economic incentives, the same is probably more difficult if pro-social motivations were crowded out.

2.3 Sampling methods

Due to the diversity of informal insurance, and the fact that no 'register' of these businesses is available, this qualitative research does not attempt to be representative of the different forms of informal insurance or different regions of Uganda, but rather of the perceived informal schemes characteristics.

In using qualitative methods, sampling was done in a non-random (purposive) manner in order to probe particular issues. The investigation employed a combination of different types of interviews (in depth, focus groups, key informants) on specific topics, and compilation of details of case studies in different contexts was done.

In this study, we sought to:

I. Identify the groups (including nature and size, governance structures, composition of members)

II. Examine the operations of group schemes (fees payable, membership etc)

III. Identify the risks affecting the groups

IV. Identify the risks covered , fees payable and benefits

2.4 Operational definitions

I. 'Informal insurance' – Insurance is informal in the sense that it is not formally regulated. It encompasses the various forms of social protection which are likely to have minimal or no interface with the state in terms of regulations and compliance. There are quasi-contracts under informal schemes which are largely self-enforcing, because often no authority exists to enforce such agreements in the first place. Therefore, individuals and sometimes, households often rely on other mechanisms to enforce the quasi-contracts to sustain participation in risk sharing agreements. Thus, the focus is on what the Economists refer to as the "the rational self-interest mechanism" to enforce informal contracts. For example, through repeated interaction and quid pro quo attitude ("I help you today because I expect you to help me tomorrow") contracts become self-enforcing.

II. Informal sector - The Informal sector covers all business activities, as specified in the International Standard Industrial Classification (ISIC Rev IV). These businesses are normally characterized by: absence of final accounts, having less than 5 employees, no fixed location, in most cases not registered and sometimes such businesses are operational for only 6 months or less.

Informal insurance is thus the social security provided to people outside the formal economy. Taxi drivers, food vendors, hair dressers, garbage collectors/recyclers, among others, constitute workers that rarely appear on payrolls and hence feed into a vast informal economy that generates. Their income flow is limited and is on a daily basis. In the absence of formal schemes targeting such groups, they have developed their own mechanisms to take care of the same.

Findings, Recommendations and Conclusions

3.1 Findings

In all the 6 sites studied, it was evident that, there is a continuing expansion of informal risk sharing mechanisms ranging from credit activities in the poorest settings to schemes that are largely group-based, allowing for alignment of incentives and cheap monitoring in a way that economises on information and transactions costs.

The use of informal risk-sharing arrangements is thus becoming widespread beyond the smallholders. There is a special category in the informal sector – the middle class, which is also actively engaged in informal insurance schemes. This segment that is at the heart of the income pyramid of the informal sector (the middle class) has not been appealed to by formal insurance. They have the disposable income to spend but suppliers have not made adequate value propositions to them. **We believe that if insurers are aiming for the next level of penetration, the middle class of the informal sector will be a key segment to target.** This is a segment with a growing number of people with purchasing power and presents a huge growth opportunity. Of course, companies will need to develop products that can address the heterogeneity of this class to claim leadership in this niche. It also suffices to note that interestingly, there is also an observed preference of the informal insurance arrangements to the formal even by some participants in the formalized sectors. An examination of the members of an informal scheme such as "Save for Health Uganda (SHU)" attests to the above interesting shift.

The informal mechanisms have quasi-contractual arrangements that are self-enforcing, because often no authority exists to enforce insurance agreements. Therefore, group members often rely on other mechanisms to enforce contracts and sustain participation in risk sharing agreements.

It was established that the dynamics behind the group formation and continued existence relate to:

I. Emotional responses through altruism (helping others makes one feel good), guilt/shame (the negative emotion emanating from one's failure to meet their obligations which may lead to disapproval of other members keeps scheme members committed), and self-fulfilment (positive emotion from succeeding to meet your obligation & conforming to group expectations).

II. Desire to establish long-term strategic interactions

Developing cost-effective insurance for low income earners for a variety of risks could be considered to be one of the most important challenges to formal insurers.

The common institutions found in most of the areas scoped include savings clubs, also known as Rotating Credit and Savings Associations (ROSCAs), Accumulating Savings and Credit Associations

(ASCAs) and Village Loans Associations (VLAs). Others are Burial groups/Associations, Farmers groups/Associations, among others. The commonest and simplest kind of group formation was where members agreed to come together once a week or, in some cases once a month, and deposit a certain amount of money, with the total collected amount given immediately to one member of the group. The fund thus "rotates," with the first person to receive the collected funds effectively taking a loan, and the last making a saving. In the absence of affordable credit facilities, these group financial services provide some relief, though there are no flexible instruments which can easily respond to an idiosyncratic shock facing one household, nor are they able to respond to a collective community-wide shock. Some groups allow for some borrowing from the Group account, but these face significant constraints inherent to informality in terms of trust and legal enforcement.

It was also established that Micro-Finance Institutions (MFIs), SACCOs and some SMEs have begun to take more interest in insurance and have started to provide insurance as part of their overall service delivery, covering their core clients against a certain set of risk. SACCOs and MFIs for instance have widely experimented loan protection insurance by building loan funds, and they are happy with the performance. Out of the 27 SACCOs studied for example, 19 had their in-house loan protection funds out of which, 6 had their funds blown by paying off the losses during the course of a given year.

From a survey of selected organised groups, it was noted that low income groups have mechanisms to deal with downside risks. Such people try to manage their exposure to risk by changing their activities and asset portfolios, for example by diversification or shifting into low risk activities. While diversification tends to be viewed very positively, these risk strategies come at a cost: to reduce overall risk exposure, gains from specialisation are likely to be forfeited.

It was noted that individuals, groups and communities indeed face considerable risks ranging from unemployment, to fire, theft, health and mortality. While it is well known that the poor also use relatively sophisticated mechanisms to cope with risk, such as activity diversification, mutual support networks and savings for precautionary purposes, risk appears to be only imperfectly handled with serious welfare consequences.

During the study, we identified the risks that cause most concern to the cohorts that have motivated them to develop the informal arrangements to hedge the risks. The major risks identified were illness (hospitalisation costs) being the most frequent concern, followed by death of the breadwinner. Other risks identified include loss of income, poor harvest, death of livestock, price fluctuations, disability, risk of loan, old age, food insecurity, illness, children's education of children, old age, poverty and isolation/lack of community support, more so, during periods of need.

We also sought to understand the characteristics of members of these informal insurance arrangements. It was established that majority of the members are from the informal sector which was noted to be very heterogeneous, ranging from casual individual workers (street hawkers, farmers, for example) to self employed (kiosk attendants, motorists) to workers in sizeable establishments (restaurants, shops, among others) as summarised in the table below:

Employment category	Comments

Own-account workers
• Self-employed
   • Independent contractors
   • Sub-contracted home workers
   • Out-workers
   • Owner-drivers
   • Casual employees
• Street vendors
• Transport (Taxi drivers, Boda-Boda cyclists)
• Clothes/ shoes – e.g. car tyre sandals
• Handcrafts – e.g. table cloths, brooms, baskets, mats.
• Services e.g. (hair dressing, car washing)
	• Disproportionately female
	• Self-employed workers are not associated with an employer and work at their own financial risk
	• Many are affiliated with a small enterprise or middle man organizing their activity.
	• A large percentage of self-employed work at least two jobs.

Owners and employees of micro-enterprise • Food processing – e.g. maize milling, baking bread • Metal fabrication – e.g. cooking utensils, doors, windows • Wood products – e.g. furniture • Quarries and garages	• Typically enjoy reasonable income • Main customers in urban areas are differentiated; main customers in rural areas are households. • Production of cheap local products and services for the local market
Employees • Wage labourers in micro-enterprises • Paid domestic workers	• Domestic workers are disproportionately female • Wage labourers have very basic skills and are paid on a piece rate basis • No standard pay for domestic workers, and sometimes irregular.

Findings, Recommendations and Conclusions Cont...

Other characteristics of informal groups/ Group schemes identified include:

I. Informal risk-sharing arrangements (community contributions made for funeral and sometimes, healthcare for the members).

II. For the ASLAs and ROSCAs, the major motivation to associate is access to low cost credit.

III. Other Groups are formed with a short-term aim of accessing inputs or funds or other benefits from Government's Programmes. Others are motivated to participate in activities of the group due to fear of being excluded by the associating members.

IV. Some Groups have clearly written sets of rules or regulations governing their operation akin to formal institutions.

V. The groups appear remarkably inclusive. Different demographic and socio-economic groups tend to be members of the same groups.

VI. Joint decision making on matters pertaining to apportionment of benefits as well as to handling other financial and group matters.

VII. Potential for scaling up developmental activities exists

3.2 Challenges Insurers have to surmount to sell insurance to the currently informal sector clients

As with any new initiative, there are challenges that must be overcome in order for insurers to succeed in penetrating this niche. Whereas it is clear that formal Insurance can serve to feel the existing gaps and address the current constraints, it does not certainly feature on the informal players' priority list of risk management strategies. There is reluctance amongst this potential insuring public to accept that formal insurance provides a superior alternative for risk management.

This should, nevertheless, not be construed to mean that demand for insurance amongst this group cannot be enlisted. What should be appreciated is that supplying something, which is both new and not trusted, requires substantial investment in public education to create awareness and impact on the perception about the product necessary. In some circumstances, existing risk management practices may work while in others, for example avoiding risk or maintaining high levels of savings (such as the case with most SACCOs visited), may hamper development.

The following section outlines the key challenges that need to be focused on:

3.2.1 Low disposable income

Majority of the informal sector players have little surpluses that they can pay in form of premiums, meaning that transaction costs and administrative costs will be relatively high, while economies of scale will be elusive. Convincing such a group to tie up their money in a long-term insurance policy for instance is likely to be difficult.

3.2.2 Accessibility

Informal-sector workers, sometimes thinly scattered across the countryside, are difficult to reach and administratively expensive to cover. The latter reflects high collection costs and the small size of contributions coupled with their relatively high mobility.

3.2.3 Education/awareness

One of the largest challenges Insurers will face is educating the masses as to what insurance is, how it works, and how they can benefit from it. For most of the groups we interfaced with, the idea of insurance is fundamentally not understood. Further, many are sceptical about paying premiums for an intangible product with future benefits that may never be claimed.

3.2.4 Trust

Along with education deficiency, trust is a large barrier when trying to sell insurance to low-income and poorly educated individuals. An instinctive response to the learning of insurance and being persuaded to purchase it is the risk that the insurer will not provide the coverage they are promising upfront. With micro-lending or micro-credit, the provider finances the loan and hopes the lender will pay the institution or individual back. However, in insurance, the policyholder pays the premium, and hopes that the insurer will finance the aftermath of the event if it occurs. For many groups, this sense of trust is not natural; and understanding and accepting its reasonableness requires a huge leap of faith. Insurance is either seen as a luxurious product or mistrusted with many wondering why they should pay money for something that they cannot see, touch or feel. Informal risk pooling has thrived on the back of trust that is built and concretised by the inherent social cohesion.

3.2.5 Moral Hazard

In an insurance scheme, be it for low-income clients or any other clients, the issue of moral hazard arises. Moral hazard can be defined as instances where people who are insured take undue risks or use more services than they normally would, because they are aware that in the event a disaster occurs, their insurance company will cover all costs incurred by the occurrence. The informal scheme studied (Save for Health Uganda – SHU) which run a micro-health insurance scheme lends itself to the same type of risk. Many times, members were said to utilize more health insurance services, such as medical visits to hospitals or medical procedures because they are aware that these costs would be covered by their insurer. Some of these visits could have ordinarily been avoided without insurance.

3.2.6 Adverse Selection

Related to the above, Insurers will have to deal with the problem of adverse selection. Here, those who are insured have a riskier profile than what the general population has, or what the average risk profile for individuals within the country or community should have. In the context of health insurance, many times individuals who are sickly come together and form a group to gain formalized health insurance. These individuals are unhealthier than the rest of the population, and unknowingly the insurance company can issue insurance to them. Though this was not established by the study, it is something that insurers cannot ignore.

3.2.7 Fraudulent Claims

Though not found out in this study, related studies have shown that probably one of the largest risks informal sector Insurers have is fraudulent claims. Be it health insurance, crop insurance, or livestock insurance, fraudulent claims are prevalent throughout these communities.

In conclusion, there needs to be a significant shift in mindset of the insurers from traditional customers to those in the informal set-up. Additionally, adoption of a futuristic approach and simplicity in product designs will be critical success drivers as formal Insurers look to penetrate into the informal insurance circle. It suffices to appreciate that these Individuals are different in cultural norms, educational awareness, financial needs, financial wants, quality assurance, and price sensitivity—all of which must be consulted when constructing products for them. How to deliver products and what to project as a company image are very important factors too, which is why many partnerships with already trusted local companies, NGOs, organized community groups, respected leadership/personalities, among others will be game changers in this field. In terms of outreach, insurers need to understand the complexity that is involved and how it deviates from traditional means. Critical to success is that **"the regulatory landscape should be able to provide the flexibility that will be required for this special niche".**

3.3 Key lessons

3.3.1 Typical models would include:

I. Partnerships between commercial insurers and SACCOs, ASCAs, VLAs, ROSCAs

II. Partnerships with Healthcare providers offering a package which includes both insurance and healthcare services

III. Tapping into Community-Based Organisations (CBOs) that pool risks and/or funds of members

IV. Tapping into MFIs that offer insurance to their clients and act as risk carriers themselves

V. Riding on the existing social networks/communal platforms

3.3.2 Regulatory adjustments required

Regulatory adjustments will be if insurers are to profitably tap into this market. These should impact on the following areas:

I. Delivery channels: Instead of requiring specialised, licensed agents, the regulator could accept the sale of simple products by unorthodox (cross-selling) institutional agents or individual agents with limited insurance expertise.

II. Bundled products: Regulator could recognise bundled policies even in the era of demerged businesses.

III. Premiums: The Regulator could recognise alternative calculation methodologies, and accept undifferentiated premiums or group pricing adapted to limited actuarial data, limited information on policyholders and different (or in some cases unknown) risk structures. Minimum premium rates could be exceptioned in this area.

IV. Policies: The Regulator could approve simple products and accept simple policies phrased in languages that are understandable to such consumers.

V. Claims handling: Regulators could recognise fast and cost-effective settlement mechanisms, which may include simpler documentation requirements and possibly even include claims handling by the distribution channel. There should be simple recourse possibilities for policyholders in case of disagreement. Looked at from a cost-benefit perspective, the regulation should neither lead to prohibitive compliance costs for insurance providers, nor add to the total costs of insurance for consumers.

VI. Incentivising informal insurers to formalise and grow in a sound way: Informal insurance schemes, often community-based and providing health benefits for their members or large burial societies acting outside any legal mandate should be motivated to formalise. Regulatory barriers and burdens, such as minimum capital requirements, can be adapted in order to encourage formalisation of informal schemes.

VII. Promotion of insurance take-up on the demand side: This strategy could take two forms: first, the introduction of economic incentives through mainly levy exemptions and secondly, public education and the promotion of insurance culture in low income markets. The strategy could include the building of trust through consumer protection.

3.3.3 Others

I. Credible long-term partnership: Insurers must successfully demonstrate to clients that they expect to be in business for a long time. This demonstration of stability is essential for marketing insurance products and maintaining clients.

II. Knowledge of the local economy is important; therefore, decision making should also be made at the local level. The ways in which informal agents successfully interlink financial transactions with transactions in the markets for land, produce, and labour provides yet another example of how insurance products can be tailored to clients' requirements. To do this requires intimate knowledge of the structure of the local economy as well as knowledge of existing institutional arrangements that can potentially be used to strengthen contract enforcement. Generally this is not possible within a top-down organizational framework. Frontline managers must be actively involved in adapting insurance products to local institutional arrangements.

III. Group-based transactions hold promise. The existence of ROSCAS and networks of friends and relatives indicate the possibility of using groups in formal insurance activities. If groups can be made responsible for some of the screening, monitoring, and enforcement functions, the risks would be reduced for formal "outsider" institutions. Furthermore, group insurance covers would be less costly to administer given the already existing institutional frameworks.

IV. Competition: On scaling up, formal insurance businesses could be undercut by informal insurance schemes that operate in the same sector, and who do not incur the same costs of complying with regulation. However, a normative understanding of informal insurance can initiate processes which can assist insurers to develop and market products in a manner that can reach these groups.

3.4 Recommendations/ Actionable points

i) Address low claims ratio and high expenses: providing client value is a pre-condition to developing products that will appeal to the market. This requires insurers to address the current low claims ratio and high expenses.

ii) Support initiatives: All stakeholders need to develop support and training initiatives focusing on research, training, product development and awareness.

iii) The key to penetrating this market is one word: simplicity. Because of the relatively small premiums and claims that are involved, transaction costs have to be low for both the insurers and the insured. This demands highly efficient products, policies and claims handling processes in order to avoid misunderstandings.

iv) The need for simplicity may rule out practices such as risk adjusted pricing. It may mean that insurers have to adapt their normal business practices and consider using unorthodox mechanisms for controlling moral hazard, adverse selection and fraud. For example, proxy underwriting, group policies, and waiting periods to mitigate adverse selection. The study has shown the risks that cause most concern to low income people. Risks to health (hospitalisation costs) are the priority concern, followed by death of the breadwinner. In other areas, loss of crops and livestock, as well as price fluctuations, is considered to be important risks. This therefore indicates a demand primarily for health insurance, life insurance and agricultural insurance. However, extrapolating from risk perception to demand for insurance products should be done with great care. Penetrating this low income market requires a thorough understanding of potential clients' needs, options, and resources for coping with risks; and an ability to respond to these needs with appropriate products.

v) Regulatory flexibility will be pivotal to the success of insurers that chose to penetrate this niche. For example instead of requiring specialized, licensed agents, exception could be given here where the sale of simple products by unconventional (cross-selling) institutional agents or individual agents with limited insurance expertise could be accepted by the Regulator.

vi) The Regulator should also be willing to approve simple products (some of which, written in local languages) that are easily understood by the target cohort. Such products should have very few or no exclusions.

vii) Insurers will have to adopt fast and cost-effective settlement mechanisms for this very sensitive market segment, which may include simpler documentation requirements and possibly even include claims handling by the distribution agents to reduce the bureaucracies and hence waiting time. Payments can be made through the existing mobile payment platforms.

viii) A policy induced intervention making it mandatory for all formal insurance providers to service the low-income and disadvantaged segments of society will induce formal insurance providers to introduce a range of products for the informal economy workers and their families. To this end, the Regulator should initiate discussions and steps towards adoption and enforcement of a compulsion strategy, to require local insurers to underwrite a given minimum level of insurance in this segment, as is the case in India. This way, insurers will be motivated to innovate into products with an appeal to the informal sector.

ix) Insurers that will succeed in this area will be those that will adopt a marketing strategy that clearly articulates the value proposition by recognizing the differing objectives of internal stakeholders. Care should be taken to understand the informal sector players' various needs, capabilities and constraints.

x) Frequent interactions, openness and effective communication with the informal groups are central in developing sustainable relationships through building the required trust.

CASE 1: CREDIT AND SAVINGS ASSOCIATIONS, AND COMMUNITY GROUP-BASED SCHEMES	
Characteristics	▪ Group cohesion ▪ Voluntary enrolment ▪ Savings and credit driven ▪ Solidarity in social occasions (for instance, a pre-determined amount is paid if a group member loses a loved one or dies).
Governance	▪ Some, especially SACCOs have well established governance structures. Most of them however have loose but highly respectable governance structures.
How the scheme works	▪ The working of the schemes vary from scheme to scheme. ▪ Some have structured risk management mechanisms in place e.g most SACCOs withhold 1 to 2% of the loan advanced as a loan protection fund/reserve. At the end of the year, the balance is treated as a profit to the shareholders. ▪ For others, loans are only advanced to groups in which case the expected cohesion of members in the group acts as security against default. ▪ For the loose Community Based Groups, mutual assistance is guaranteed for the group members either in kind or cash (during both good and bad times)
Mebership	▪ Some groups are as small as 10 members while others (SACCOs for instance) are as big as 25,000 members.
What if the fund runs out before the year ends	▪ None of the groups (moreso SACCOs) visited had ever run out of the reserve fund. Otherwise, the Board approval would be sought to make resources available to cover the gap.

CASE 2: SAVE FOR HEALTH UGANDA - LUWEERO	
Characteristics	▪ Solidarity. ▪ Community based social dynamics. ▪ Active participation. ▪ Voluntary enrolment. Through the Community Health Insurance Scheme enrolled families/people transfer the financial burden (health care bills resulting from disease to the scheme after the insured pays a premium for an agreed upon period).
Governance	SHU has a board of trustees and directors who carryout governance roles of the organisation.
Management	SHU manages the scheme which are contributed by members, divided into 3 funds: 1.Heath Insurance fund 70%. 2. Management Fund 25% (used to run management expenses). 3.Reserve fund 5%.
How the scheme works	▪ Enrolment into the scheme is by groups. ▪ Members within the scheme pay premium through the group. ▪ Groups then transfer the premiums and member its bio data to the scheme to the scheme. ▪ Scheme prepares health access identification cards for paid up group members. ▪ Members start accessing services from the health care facilities stated on their cards. ▪ 2 months before the end of the year the group submits an updated list of its members to the scheme. ▪ The scheme the group for the premiums to paid in the subsequent year. ▪ On the payment of the premium, the scheme prepares and issues new access and identification cards and the cycle continues.
Premium per beneficiary	100,000/= pa (entitles benefits to policyholder and two dependants). To add more dependants, the Policyholder pays 100,000 per additional dependant.

CASE 2: SAVE FOR HEALTH UGANDA - LUWEERO	
Limits	**Option 1** ▪ A limit on the amount on cost of care is 100,000/- per episode per member. ▪ Co-payment by a member of 5,000/=. Or **Option 2** ▪ Insurance cover between 30,000/= and 100,000/= maximum per episode per member. ▪ Co-payment by a member of 5,000/=. ▪ Micro-loan between 5,000/= and 30,000/=.
What the scheme covers	▪ Outpatient and in patient. ▪ Consultation. ▪ Lab investigation. ▪ Medicine /drugs. ▪ Maternity (consultation and anti-natal care, normal delivery, medicine/ drugs, lab investigations. ▪ Emergency surgery. ▪ Dental services: tooth extraction, filling & other emergency tooth care services. ▪ Eye care: All
Exclusions	▪ Self inflicted injuries. ▪ Referals to non contracted health facilities. ▪ Private rooms. ▪ Private consultations. ▪ Elective surgery. ▪ Heart surgery. ▪ Family planning. ▪ Amount of medical bills above 200,000/= per episode. ▪ Care from a facility not indicated on the card.

Findings, Recommendations and Conclusions Cont...

CASE 2: SAVE FOR HEALTH UGANDA - LUWEERO	
Other benefits besides health insurance	▪ Access to low interest loans from partner organisation (i..e SHU finance limited for scheme members only). Maximum loan amount is 100,000/=. The purpose of the loans is for: ➢ Emergency transport to hospital. ➢ Paying premiums/contributions to the scheme. ➢ Purchasing business assets. ➢ Financing agriculture. ➢ Paying school fees. ➢ Medical care after discharge from hospital. NB: Non-scheme members who wish to borrow from SHU become members mandatorily. ▪ Cash discounts of up to 10% given to SHU by hospitals, relating to every bill issued. ▪ Health education. ▪ Mobile clinics. ▪ Health insurance education. ▪ Income improvement support for households. ▪ Member becomes a part of a bigger network of CHI schemes.
Income and claims	▪ SHU received 1,733,218,876 for the year 2014. ▪ Claims of 202,087,670 were incurred. ▪ 48,491 medical insurance policies in 62 community health schemes sold in 2014.
What if the fund runs out before the year ends	▪ No reinsurance plan currently. ▪ Premium calculated is expected to be enough. ▪ A joint discussion can be taken among members in case the funds run out before the end of the year (not experienced). ▪ SHU has a collaboration contract with all contracted service providers.

CASE 3: KIIRA BODA BODA ASSOCIATION - WAKISO	
Characteristics	▪ Solidarity. ▪ Active participation. ▪ Mandatory enrolment of all boda boda riders. ▪ Structured code of conduct for the members.
Governance	▪ KBBA has a governance committee led by a Chairperson. ▪ Membership is from Bweyogerere, Kira and Namugongo division. ▪ All individual stages also have clear governance structures.
How the scheme works	▪ A fund to cater for risks such as accidents, sickness and death has been set up from the savings and registration fees recieved. • A limit of 100,000/- is lent to members in the event of death, sickness or accident. ▪ Interest is earned on borrowings.
Premium per beneficiary	▪ KBBA receives registration fees of 20,000/= from each Boda Boda rider. ▪ Identity Cards cost 12,000/= and expire after 3 years. The amount on renewal of I.D is 10,000/=. These payments become premiums. ▪ Members also save with KBBA additional funds but there is no limit on how much can be saved.
Limits	• A limit of 100,000/- is paid in the event of death of a member, sickness or accident.
What the scheme covers	▪ Death or sickness or accident of a member. ▪ Sickness/death of a spouce. ▪ Sickness/death of parents. ▪ Sickness/death of biological children.
Exclusions	▪ No exclusions.
Other benefits	▪ Access to low interest loans from KBBA. Maximum loan amount is 100,000/=.
Membership	▪ 6,038 members are registered, in 111 stages.
If the fund runs out before the year ends	▪ Discussions can be taken among members in case the funds run out before the end of the year for purposes of collecting additional contributions (not experienced).

Conclusions

The task of providing insurance services to the poor is not easy. Insurance for the poor should be designed to harness a community's particular strengths - its local resources, historical and cultural experiences, and occupational patterns - in order to reduce costs of screening participants, monitoring financial activity, and enforcing contractual obligations.

Priority should also be given to enabling households to address losses due to illness, poor (local) harvests, and temporary unemployment. . Insurance provision is a little-heralded innovation offered by microfinance programs, it is possible to offer limited life insurance and protection against other basic exigencies in a simple, low-cost manner.

Much more speculatively, it may be possible to improve on draw lessons from existing informal insurance arrangements for poor households by drawing lessons from SACCOs, informal insurance schemes and microfinance institutions etc.

There is a need to recognise that the potential for formal insurance exists. Some questions ought to be asked all the time:

- What types of insurance products and services could be sold to the poor?
- How can insurers tailor their products and services to the needs of those in the informal sector?
- What kinds of innovations in product design are called for and how can they be generated?
- How can formal insurers take advantage of existing governance structures, values and working methods?
- What is the role of the Insurance regulatory Authority in this process?