

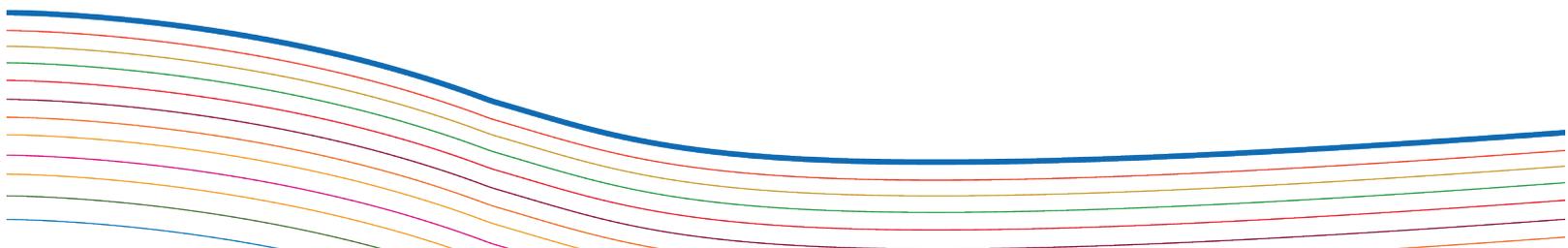


UNDP Insurance
and Risk Finance
Facility



Inclusive insurance and risk financing in Ghana

Snapshot and way forward 2022



Why this report ?

This report summarizes the key findings of an inclusive insurance and risk finance country diagnostic carried out by UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Ghana. The objective of this summary report is to present a high-level overview of the following information:

- 1** **Key risks**, especially climate risks, that Ghana faces
- 2** The current state of **inclusive insurance**
- 3** The current state of **risk finance**
- 4** **Recommendations to advance** inclusive insurance, risk finance and overall development in Ghana

This summary is intended to serve as a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and key stakeholders, including insurance sector actors, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.

Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

Contact IRFF for questions:
If you wish to discuss the findings and recommendations of this report, reach out to:

irff@undp.org

Key messages



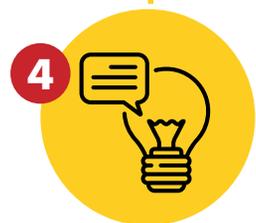
Risks: Floods, drought, fall armyworm, fires, auto accidents.



Inclusive insurance: An estimated **9 million** people are covered by microinsurance. Products primarily cover life, funeral and hospitalization risks.



Risk finance: No known sovereign risk transfer solutions are in place in Ghana, though a pilot test was carried out in collaboration with the African Risk Capacity (ARC) Group during 2021. During disasters, the government deploys *ad hoc* social assistance interventions with limited resources. Projected unfunded costs of hazards are significant for Ghana, at **US\$3 billion to US\$4 billion** between 2021 and 2024, on top of projected fiscal deficits in the national budget.



Key recommendations include: Facilitating better coordination among stakeholders, supporting the adoption of sovereign risk transfer solutions, and working to improve data collection, consumer education, actuarial skills and rural distribution channels.

Ghana's development and risk profile

Key macroeconomic and development indicators

In the next 30 years,

Ghana's population (31 million in 2020) is expected to **double**.

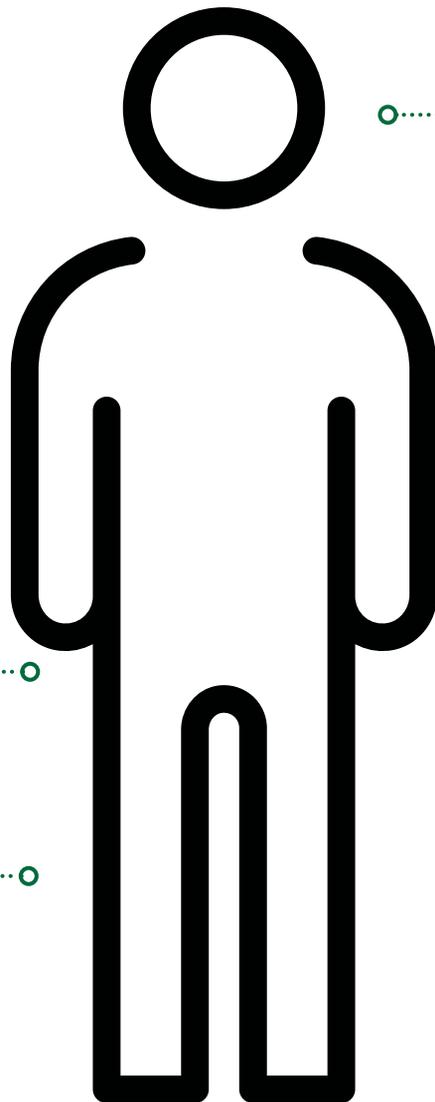
\$

42%

the population has **no access to financial services**.

13.3%

of people lived at the **poverty** level of less than \$1.90 per day¹ in 2016.



>80%

of Ghana's workforce is in the **informal sector**,² with **30 percent** in **agriculture**.³



56.7%

of the population is **urban**.⁴

Key risks and hazards

Fire⁵

Direct cost of fires: 40 million Ghanaian cedis (GHS) annually to fire fighting.

No future projections available.



Flood⁶

Flood affects the country's densely populated coastal region.

GHS 600 million (\$98.6 million),⁷ with **45,000 people** affected.

Over **50,000 people** could experience flood losses in the future. The amount of GDP affected by flood annually could increase tenfold.

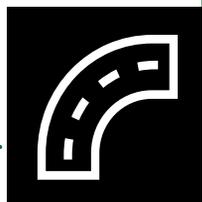


Auto

Road accidents

Loss of **1.6 percent of GDP** annually (GHS 1 billion, or \$165 million).⁸

No future projections available.



Drought and climate risk⁹

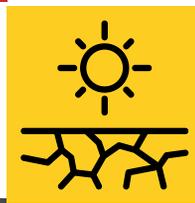
Drought poses risks to livestock and crops.

295,000 livestock units affected (**13 percent** of the country's total).

Agricultural crop losses are dominated by five crops: cassava, maize, plantain, taro, and yam.

Affected livestock may increase to 899,000 livestock units (**39 percent** of total).

Most projected physical losses will come from four crops: cassava, maize, taro, and yam. Highest relative losses will be related to maize at **4 percent** of the average annual crop production.



Fall armyworm (FAW)¹⁰

FAW increases production costs as well as labour and technology needs.

Up to **GHS 2.5 billion (\$411 million)** loss in maize output.

No future projections available.

Inclusive insurance¹¹: Status

9 million people were **covered by microinsurance** as of 2020, primarily for life and health risks.¹²

Context

Insurance coverage (percentage of total population covered by insurance over the total population) is at **30 percent¹³** and is trending upward.



Microinsurance coverage **reaches customers in most of Ghana's regions**, though it is concentrated in urban areas.¹⁴

Enabling environment¹⁵

Highlights from the enabling environment for inclusive insurance in Ghana

Stakeholders

Government and regulatory bodies that support inclusive insurance growth

The National Insurance Commission (NIC) regulates the insurance industry and is part of the Financial Stability Council (FSC). The [National Health Insurance Act \(NHIA\)](#) regulates health insurance in Ghana. NIC is working with the National Pensions Regulatory Authority (NPRA) to develop financially inclusive annuities.¹⁶



NIC's Strategic Plan¹⁷

NIC's most recent four-year Strategic Plan (2018–2021)¹⁸ focused on the goal of increasing insurance penetration from 2 percent to 10 percent of GDP by 2021. (As of 2019, penetration stood at approximately 3 percent, including health insurance and pensions.¹⁹)

Regulations

Insurance Act

The Insurance Act, 2021 (Act 1061)²⁰ emphasizes the “proportionality principle”²¹ as it relates to financial inclusion. The new Act also makes provision for a new category called an “innovative insurance licence”, which uses a regulatory sandbox-type²² system.



Inclusive insurance regulations

Ghana's inclusive insurance regulatory enabling environment is relatively advanced, with NIC having established:

- [Microinsurance Market Conduct Rules](#) in 2013
- [Mobile Insurance Market Conduct Rules](#) in 2017.

However, few insurers have leveraged these opportunities, pointing to a need for broader efforts aimed at increasing market understanding – including providing clear value to policyholders, which has not always been the case historically – and enhancing access to distribution (not just mobile).

Minimum capital requirement increase

NIC mandated a minimum capital requirement increase from GHS 15 million to GHS 50 million (\$2.5 million to \$8.2 million) by 31 December 2021. The significant increase will likely slow the growth of microinsurance, as insurer management struggles to acquire additional capital and some insurance companies merge or even dissolve.²³ This insurance market restructuring could reduce or improve inclusive insurance over time, depending on whether the insurers that remain are those serious about inclusive insurance. In the past, changes in ownership of an insurer have led to the elimination of the prior owners' inclusive insurance programmes.

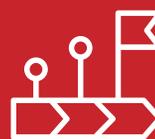
International Financial Reporting Standard 17 (IFRS 17)

IFRS 17, the International Accounting Standards Board's new structure to update and coordinate global accounting standards, represents a major overhaul of accounting for insurance contracts and of insurance business in general. Implementation is mandated by 2023, and NIC has set a roadmap to achieve this.²⁴ Compliance will require significant efforts and focus from insurers and could divert resources from and complicate inclusive insurance efforts. There is a risk that reclassification of accounting rules for insurance could be interpreted in such a way as to hinder insurers' approaches to inclusive insurance.

Policies / Plans

National Financial Inclusion & Development Strategy

The Ministry of Finance and Economic Planning (MOFEP) launched the *National Financial Inclusion and Development Strategy* (2018–2023) to increase inclusion to 58 percent by 2023.²⁵



Digital Financial Services Policy

This policy sets out a vision aimed at ensuring (among other things) that all Ghanaians will have access to a broad range of quality and affordable financial services that meet their needs, including insurance. It establishes a roadmap with six action pillars.²⁶

Cash-Lite Roadmap

This roadmap includes steps to build an inclusive digital payments ecosystem.²⁷

Supply-side snapshot

Insurance (traditional and micro) coverage: Fast facts

21%

growth in gross written premiums (GWP) (NIC) in 2019.

Total insurance premiums concentrated in **Greater Accra**.

15%

of the working population contribute to Social Security and National Insurance Trust.²⁹



\$41 million

of Microinsurance GWPs were estimated in 2020, accounting for approximately **7.2 percent** of total industry premiums.²⁸

Distribution

Mobile network operators (MNOs) are key distribution channels and their partner technical service providers are important intermediaries. Ghana has the highest mobile penetration in West Africa (55 percent mobile adoption rate in 2019).³⁰ Institutional agents (such as microfinance institutions, non-governmental organizations and MNOs) and their staffs play a major role in microinsurance distribution to end customers. Individual agents and brokers are not significant distribution channels for microinsurance. Due to the COVID-19 pandemic, most insurance companies have increased their digital marketing by building their own digital platforms to reach key consumer segments.³¹

Insurance products: Fast facts

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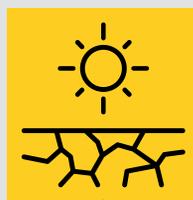
of which insurance providers, 13 offered microinsurance in 2015.³²



Insurance for non-life risks, such as fire, theft, and property damage, has consistently increased among formal sector clients.³³



The Drought Index Insurance (DII) offered by the Ghana Agricultural Insurance Pool is the only disaster risk or catastrophic insurance product identified, but it is unaffordable for smallholder farmers, and so is accessed by only a fraction of commercial farmers.³⁴

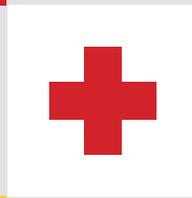


>65

microinsurance products were on the market in 2019.³⁵



Life, funeral and hospitalization microinsurance products are prevalent in the market.³⁶ From the public sector, the National Health Insurance Scheme (NHIS) is a popular programme in the low-income market.



Demand-side snapshot

Demand assessment

In a two-month study period in 2015, approximately **40 percent of the adult population** experienced at least one of the following risks: crop damage, flood, drought, lay-off from work, business failure, death of a family member or close relative, or missing work due to sickness.



Many people still rely on borrowings from family and friends to cope with unexpected expenses, with 42.5 percent of adults not able to deal effectively with an unexpected shock or risk event.³⁷ Microinsurance customers in Ghana are typically low-income, informal sector workers with basic education.³⁸ Demand barriers include the low perceived value of insurance, lack of trust in or negative experiences with insurers, and supply not aligning with needs.³⁹

Sector initiatives

The sector's demand-side strategy focuses on public education to improve awareness and trust, alongside efforts to track public awareness and confidence.⁴⁰ The Insurance Awareness Coordinators Group (IACG) works to improve insurance awareness, confidence and trust. The Insurance Confidence Index and Insurance Awareness Index conducted in 2019–2020 revealed a correlation between insurance education and market growth.⁴¹ However, the IACG lacks funding and a clear plan for sustainability.



Sovereign disaster risk financing⁴²: Status



Disaster risk assessments⁴³

The National Disaster Management Organization (NADMO) leads Ghana's disaster risk assessment under the Ministry of the Interior.

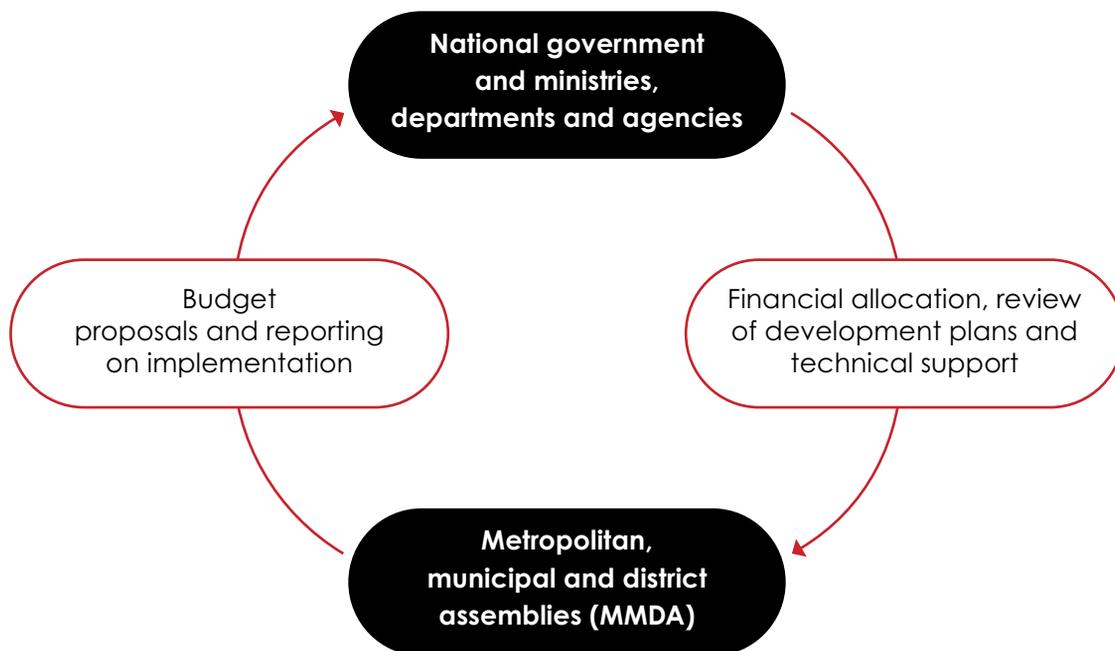
The World Bank's Agricultural Risk Management Team (ARMT) assessment indicated that risks have a relatively low impact on agricultural output and growth. However, production and price risks cause significant income volatility for low-income rural households.⁴⁴

Existing legal frameworks and policies

	Climate change adaptation (CCA)	Disaster risk management (DRM)
Legislation and national frameworks	National Climate Change Policy (NCCP) and Master Plan (2015–2020)	National Disaster Management Plan (published 2010)
Lead institutions	Ministry of Environment, Science, Technology and Innovation (MESTI), with support from the Environmental Protection Agency (EPA)	NADMO
National action plan	National Climate Change Adaptation Strategy (adopted in 2012)	National Drought Management Plan (Nov 2019)
International frameworks	Ghana signed the Sendai Framework for Disaster Risk Reduction in 2015 but has yet to implement its action plan.	

Existing institutional frameworks

Institutional structure for disaster risk management (DRM) and climate change adaptation (CCA):



- NADMO mainly engages in ex post facto interventions and lacks the budget and capacity to coordinate with other state agencies or partners to prevent or assess natural disasters.
- The decentralized governance system gives local authorities responsibility for implementing CCA and DRM.
- The National Development Planning Commission (NDPC) and the Ministry of Local Government, Decentralisation and Rural Development (MLGRD) support local authorities to formulate development plans, with a focus on CCA.
- To complement NADMO and EPA efforts, climate units were added to the Ministry of Food and Agriculture (MOFA), the Ministry of Finance and Economic Planning (MOFEP) and the parastatal Energy Commission.
- The District Assemblies Performance Assessment Tool (DPAT) evaluates MMDA performance in order to grant performance-based access to the District Assemblies Common Fund (DACF).

Existing disaster risk finance mechanisms and instruments



No sovereign risk transfer solutions are currently in place in Ghana has chosen not to insure its drought risk with the African Risk Capacity insurance facility, but it has participated in a pilot programme related to flood risk.⁴⁵

NADMO has a limited budget allocated by the Ministry of Interior. During disasters, the government deploys ad hoc social assistance interventions with limited resources and also solicits donor funding.

District governments receive annual financial resources from the central government via the District Assemblies Common Fund and are required to set aside a percentage of the funds for emergency response (percentage varies).

The African Risk Capacity Insurance Company Limited (ARC, Ltd.) provides parametric weather insurance coverage by pooling the drought and flood risks of African countries, aiming to help them more efficiently and effectively manage the costs of infrequent severe droughts and floods.⁴⁶



In the long term, **Ghana will need close to GHS 65 billion (\$10.7 billion) to manage disasters alone in 2040.**⁴⁷

Funding gap analysis

General fiscal deficits between 2021 and 2024 are estimated to be GHS 27 billion to GHS 41 billion (\$5 billion to \$7 billion). During the same period, estimates suggest the cost of unfunded hazards will rise from GHS 21 billion to GHS 26 billion (\$3 billion to \$4 billion).

Way forward for inclusive insurance and risk financing

Developing successful inclusive insurance and risk finance requires three components:

1

a better understanding of the market

2

a supportive enabling environment

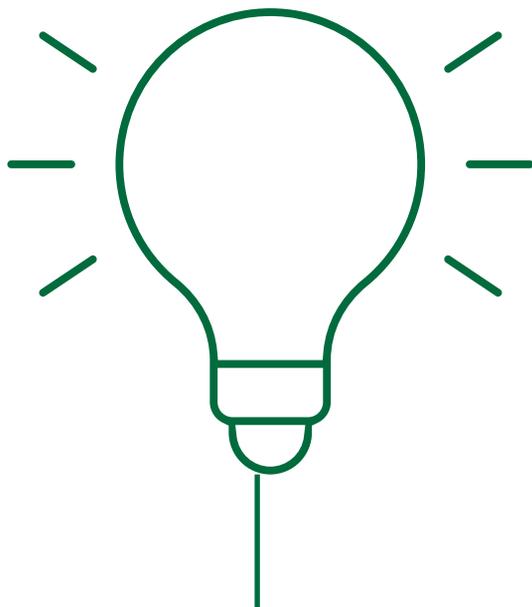
3

a stronger offer from suppliers that develop better access for individuals, institutions and government.

The following recommendations are based on these three criteria and on four priorities for action under the Sendai Framework.

Sendai Framework

Ghana's four priorities under the Sendai Framework, addressed within the recommendations below, are:



1

Understanding disaster risk

2

Strengthening disaster risk governance to manage disaster risk

3

Investing in disaster risk reduction for resilience

4

Enhancing disaster preparedness for effective responses and to "Build Back Better" in recovery, rehabilitation and reconstruction

1

Understanding the market for inclusive insurance and risk financing

The existence of demand for inclusive insurance products and for risk financing tools for government

1.1

Almost 9 million Ghanaians were covered by microinsurance in 2020, but range and value of coverage remain limited.⁴⁸

Support insurers to develop more client-centric products.

- Expand prior demand work and understand potential clients' risks and coping mechanisms. This could be done through support of the Ghana Insurers Association.
- Improve actuarial data for proportional pricing and enhancing the actuarial profession, which could be assisted by the Actuarial Society of Ghana.
- Develop with NIC an insurer / NIC system to simplify formal reporting, monitoring, analysis and decision-making for inclusive insurance.

1.3

Credible data for inclusive insurance, as well as for risk financing, is lacking.

Develop effective and efficient data and information relevant to the insurance industry.

- Support the Ghana Insurers Association to improve methods of data collection from low-, middle- and high-income individuals and micro-, small- and medium-sized enterprises.
- Improve historical and projection data on climate change impacts and make it available to insurers and others.
- Enhance the actuarial profession in Ghana to support the effective use of data.

1.2

Ghana for more than 10 years has tried to educate people on insurance. However, the impact has been unclear and financing has been challenging.

Enhance and expand insurance education so people know what valuable insurance is.

- Strengthen the Insurance Awareness Coordinators Group (IACG) and provide a structure that ensures consistent funding beyond period allocations by donor and government.
- Develop a scorecard for insurance products to make it easier for Ghanaians to understand products of value and push insurers to improve these scores and make insurance products client-centric.

1.4

Some areas of Ghana are chronically impacted by shocks, such as flooding in Accra and Kumasi.

Enhance support for adaptation and risk reduction efforts.

- Support the Government of Ghana to develop a progressive chronic risk map throughout the country to identify and score current and expected levels of risk. The risk map and scoring should allow for development of a rational strategy.
- Use this strategy to inform approaches to adaptation considering severity and frequency of shocks, as well as impact on populations and costs of adaptation.
- Leverage the efforts of NADMO's participatory assessment of flood-related disaster prevention and development of an adapted coping system in Ghana (PARADeS) to provide important inputs for these efforts.

2

Enabling environment for inclusive insurance and risk financing

The need for legal, regulatory, policy and macro-level frameworks to support the development of inclusive insurance and risk financing

Regulatory and policy framework for inclusive insurance

2.1

The regulatory context is narrow and dispersed (siloed).

Develop a system that ensures effective coordination among key regulatory agencies.

- Set up an inter-agency task force led by the Vice President's Office to ensure seamlessness between regulators and policymakers.

2.2

Coordination between the various stakeholders is limited.

Facilitate better coordination among key stakeholders.

- Establish a coordination group of stakeholders, led by NIC and including government agencies, non-governmental organization representatives, donors and the private sector, to draft a roadmap for expanding inclusive finance and monitoring its progress and implementation.

Disaster risk assessments and fiscal impact

2.5

NADMO is not aligned with the various frameworks on CCA⁴⁹ and DRM⁵⁰ and is extremely underfunded.

Provide better support for NADMO to take a leading role on DRF.

- Develop a capacity-building plan for NADMO to lead the DRF and DRM initiatives.
- Develop and fund an effective budget structure that leverages various sources for preparation and recovery (such as the National Disaster Fund), as well as reserves.

2.4

The National Disaster Fund set up in 2010 has yet to be operationalized.

Develop a framework for multi-source financing for the National Disaster Fund.

- Identify and assess a variety of funding sources.

2.3

Risk financing roles are transferred to local governments.

Review the roles and structures for DRM and build local DRM capacity.

- Support the integration of risk financing and inclusive insurance capacity-building into national and local development frameworks.

3

Supply and distribution of inclusive insurance and risk financing tools

The existence of inclusive insurance and risk financing products and tools, along with providers to offer them.

Inclusive insurance supply and distribution

3.1

Many life and health microinsurance products exist in Ghana, but there is a lack of agricultural and disaster risk products.

Enhance the infrastructure for supply and distribution of valuable insurance products for smallholder farmers, with a focus on client centricity.

- Conduct a study with an academic institution that identifies the potential range of distribution channels for rural areas and their ability to distribute inclusive insurance.

Existing de-risking financing mechanisms and instruments

3.2

Sovereign risk transfer solutions are unavailable and there is a lack of substantial disaster risk transfer tools with international insurance, reinsurance or capital markets.⁵¹

Support next steps to adopting sovereign risk transfer solutions.

- Conduct a study with an academic institution on sovereign disaster risk transfer options for Ghana.
- Provide NADMO with technical assistance from experts.
- Guide NADMO and the government through the relevant agencies to establish and implement Adaptive Social Protection (ASP).

Endnotes

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- 42 Risk finance for this diagnostic primarily refers to sovereign disaster risk. As such, it can be defined as financing mechanisms governments have put in place or use before or after an event to respond to disaster-related financial contingencies.
- 43 The disaster risk assessment process includes identifying hazards and reviewing the technical features of threats regarding location, intensity, frequency and probability. The assessment also factors in the analysis of exposure and vulnerability, including the physical, social, health, environmental and economic dimensions, and evaluation of coping capability of the country against possible risk scenarios. See UNDRR, "Understanding Disaster Risk", Preventionweb. Available at <https://www.preventionweb.net/understanding-disaster-risk/component-risk/disaster-risk>.
- 44 Vikas Choudhary, Garry Christenson, Stephen D'Alessandro and Henri Jossierand, "Ghana Agricultural Sector Risk Assessment", *Agricultural Global Practice Note 11* (Washington, D.C., World Bank, 2016). Available at <https://documents.worldbank.org/curated/en/412431468198000868/pdf/104127-BRI-Ghana-agricultural-risk-assessment-PUBLIC.pdf>.
- 45 Steve Evans, "African Risk Capacity expanding into flood risk in 2021", *Artemis*, 11 September 2020. Available at <https://www.artemis.bm/news/african-risk-capacity-expanding-into-flood-risk-in-2021/>.
- 46 African Risk Capacity, "Risk Pools". Available at <https://www.arc.int/risk-pools>. ARC Ltd. also offers parametric tropical cyclone coverage, but it is only available in the Southwest Indian Ocean region.

- 47 Projections indicate that the country needs roughly GHS 60 billion annually to manage hazards and other contingencies. See Jerry Chati Tasantab, Jason von Meding, Kim Maund and Thayaparan Gajendran, "Ghana must move from coping with floods, to adapting for them", *The Conversation*, 28 October 2018. Available at <https://theconversation.com/ghana-must-move-from-coping-with-floods-to-adapting-for-them-104493>. For information on fiscal data, see Ghana, Ministry of Finance and Economic Planning, "Fiscal Data". Available at <https://mofep.gov.gh/fiscal-data>.
- 48 Microinsurance Network, *Inclusive Insurance in Ghana: Country Briefing Note*.
- 49 Discussions during stakeholder workshops held as part of Country Diagnostic process, virtual, 19 March 2021; Accra, 30 March, 9 April and 22 September 2021.
- 50 Discussion during workshops and stakeholder engagements held as part of Country Diagnostic process. See also OECD, "Approaches in Ghana to increased coherence in climate change adaptation and disaster risk reduction", in *Common Ground Between the Paris Agreement and the Sendai Framework: Climate Change Adaptation and Disaster Risk Reduction* (Paris, 2020). Available at <https://www.oecd-ilibrary.org/sites/1cad720f-en/index.html?itemId=/content/component/1cad720f-en>.
- 51 As identified by the Country Diagnostic.



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