

**STATEMENT BY
DR. SALIM AHMED SALIM
CHAIRMAN – MWALIMU NYERERE FOUNDATION
AT THE 36TH AFRICAN INSURANCE ORGANISATION
CONFERENCE AND GENERAL ASSEMBLY
UBUNGO PLAZA – DAR ES SALAAM 25 MAY 2009**

**ROLE OF POLICY MAKERS IN ADDRESSING CHALLENGES OF
ACCESS TO INSURANCE SERVICES IN AFRICA**

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Mr. Chairman,
Honourable Ministers,
President of the African Insurance Organisation,
Distinguished Delegates,
Ladies and Gentlemen,

It is a great honour for me to be invited to this important conference and to be given an opportunity of addressing you. Once again, I would like to echo the welcome extended by our Prime Minister, and also to add that as Tanzanians we attach great importance to pan-African gatherings of this nature. Such meetings give us a sense of encouragement and satisfaction because they constitute important milestones in our collective quest to realize the ideals of African integration. Indeed, it is highly appreciated that you have travelled from different parts of our continent, and the world at large, to come and address a people-oriented subject relating to challenges of access to insurance services in Africa.

It is a happy and significant coincidence that you are starting your deliberations on this day 25 May – **AFRICA DAY**. When some parts of our continent were still under colonial and racist domination, AFRICA

DAY was observed in the continent as an occasion to promote unity and solidarity among our people and above all to strengthen the struggle for liberation. Now, in the aftermath of the end of colonialism and apartheid this day continues to be observed – celebrating the achievements made so far but more importantly reflecting on how best Africa can live up to challenges of unity and economic integration as we collectively confront the vagaries of poverty disease and underdevelopment against the backdrop of an increasingly interdependent and globalizing world.

I wish to pay tribute to the leadership of the African Insurance Organisation and to the organizers of this particular General Assembly. It has not passed my notice that this is the 36th time you are convening under the auspices of your organisation. For me, as a former Secretary General of our pre-eminent Continental body - the present African Union – it essentially means, that way back in the early 70s, your industry had already begun taking steps towards realizing the dream of our people - that is fostering cooperation, integration and unity among our countries. I urge you to sustain and consolidate that momentum.

Mr. Chairman

Distinguished Delegates

This meeting is taking place at a time when the world at large, and the African continent included, is passing through turbulent conditions. A global financial crisis has triggered an economic slow-down that is eroding the significant achievements gained in the last two decades.

Indeed, the situation is also compelling us to re-examine the fundamentals of development management at both the macro, industry, and even at the level of individual African citizens.

Of far-reaching significance, is the genesis of what has now turned out to be a global economic and probably even a social crisis. As we all know, it started as a financial crisis. But if we want to be more specific, it was a financial crisis whose origins were in the domain of managing access to financial instruments. The contagion effects of mismanaging a facility such as housing mortgage, within a complex system of financial linkages, has ended up creating a global havoc whose magnitude is unprecedented in the last 60 years.

The theme of your conference is therefore not simply an accompaniment to a mere annual general meeting. It is a strategic reflection that you are obliged to undertake as an industry, especially at this particular juncture of world development.

I have been asked me to share my reflections, on the specific issue of *'the role of policy makers in addressing challenges of access to insurance services in Africa'*. I will confine my remarks to applying the notion of policy makers to actors within government and its various regulatory bodies, as opposed to policy makers within the industry, such as boards of directors. Obviously, even within this confinement, there remains a wide scope of action and influence in terms conditioning the broad policy framework of national development, regulating and

motivating the functioning of the industry, and also broadening and deepening access to the services.

It is quite evident, the fact that you are devoting this 36th conference to addressing the challenge of access, indicates that all is not well. Unfortunately, that is indeed the case. I am informed that in our continent of more than 800 million people, less than 50 million have access to insurance services, and the majority of these are in corporations and are mainly urban dwellers. I have a hunch that even a majority of these urban dwellers are those who are compelled by law to acquire insurance, such as motor vehicle owners. Similarly according to Sigma Report by Swiss Re, in terms of the global insurance market in 2007, Africa had a pittance share of 1.3%. This compares with 41.4% (Europe), 32.8% (North America), 20.7% (Asia) 2.2% (Latin America) and 1.7% (Oceania). What these figures show is that the African continent is the smallest insurance player compared to other continents in the world. Definitely, if increased access not only provides direct benefits to individual users, but it also contributes to the overall economic growth, then the African insurance sector has not fully harnessed its potential.

The availability of insurance services is essential for the stability of the economy because, among other things, it makes actors within it accept aggravated risks. Insurance also plays an important role by enhancing internal cash flow and by creating large amount of assets placed on the capital market and thus contributing to economic growth. At a wider macro-economic scale, the insurance industry, when well managed,

helps in mobilizing savings; lowering the cost of capital; and in providing risk management and liquidity

At this broad scale, therefore, a major undertaking for our governments is to develop dynamic policy regimes and strategies which articulate the critical role of insurance in national development. More specifically, the modality of ensuring how the industry serves the needs of business units and private households in financial intermediation needs to be a critical component of the policy regimes. It will be interesting, in the course of your deliberations, to take stock of how many countries in our Continent have developed such policies, apart from enacting the insurance Act. This is a major gap, because insurance companies, together with mutual and pension funds, as well as banks, have a potential of being major players in national economic development. They have a broader scope beyond the trading and speculative notion of collecting premiums and underwriting claims with the expectation that a positive balance will accrue.

Poverty eradication is a major facet of almost all our national strategic programmes. For the past decade, all our countries have committed themselves to achieving the Millennium Development Goals. It needs no overstating that the most debilitating condition of poverty is not only income deficiency, but more severely, it is the failure to cope with vulnerability and uncertainty, as well as the inability to undertake risk. Calculations of per-capita incomes can be impressive. They can even reveal a positive trend in terms of ameliorating poverty. However, if such incomes are erratic and unpredictable, they do have a tendency of

impairing the ability of the poor to break out of the vicious circle of poverty.

The insurance industry can contribute to accelerating the achievement of Millennium Development Goals. By reducing vulnerability and uncertainty, the industry can devise packages that will allow a majority of African people gain access to basic services in a sustainable manner. Innovative arrangements both in general insurance and in long term assurance business have so far confirmed that it is possible to increase access to improving the wellbeing of our people using insurance facilities.

The key policy issue, in this regard, is that while Governments tend to focus on efforts to promote economic development as a strategy to achieve these targets, they have to recognize that gains can quickly be lost when vulnerable households experience a loss or crisis. It is therefore necessary to complement efforts to boost productivity with corresponding efforts to provide protection through insurance. Protection against risks is every citizen's right. Therefore, it is a responsibility of the state to use all possible means to deliver this public good and to create an environment in which equitable access to social protection is promoted.

The management of risk at the household as well as at the aggregate macro level is an important challenge which needs to be addressed at the policy level. When properly designed, the insurance system can reduce uncertainty and volatility relating to health, natural disaster,

crime, violence, accidents, and in some respects even pertaining to weather fluctuation. Similarly, at the firm level, purchase, possession and sale of goods, assets and services can be facilitated by the indemnification of the insurance. In this respect, the industry can enhance trade, transportation and even capital lending, all of which being the underlying factors for improving household welfare and thus achieving the MDGs.

The Millennium Development Goals established by the United Nations in 2000, provide more than 40 quantifiable indicators to assist the progress made toward global economic and social development by 2015. The MDGs as you are all aware, serve as a development framework helping to focus the attention of policy makers, donors and development practitioners on the most critical objectives. Certain MDGs would be more achievable if insurance was widely available among low income households. Insurance can help reduce the proportion of people who suffer from hunger and whose income is less than one dollar per day.

While Governments tend to focus on efforts to promote economic development as a strategy to achieve these targets, they have to recognize that gains can quickly be lost when vulnerable households experience a loss or crisis. It is necessary to complement efforts to boost productivity with corresponding efforts to provide protection through insurance.

There is also another dimension of poverty alleviation, which the insurance industry can contribute to, apart from the risk transfer

element. This involves what; you experts refer to be the saving substitution effects of the industry. It is true that other financial institutions, such as banks and capital markets do assist firms and households to build up savings. However, your industry reduces the dependence on precautionary savings by providing assured indemnification of possible losses. Life insurance has been performing this role very well.

Mr. Chairman

Distinguished Delegates

It is in investment operations, where the role of the insurance industry in contributing to economic growth and to improving the welfare of the African people can be substantially realized. The process of facilitating funds from being assets of the policyholder into the capital markets and other investment opportunities provides a powerful dynamic for general wealth creation and for poverty eradication. Increasing access to the benefits of this dynamic will provide the most powerful lever for improving the welfare of our people. It is this lever which expands the investment horizon; increases investment volume; deepens capital markets; and improves financial market efficiency. All these outcomes depend on increased premiums to be achieved, and the benefits to our national economies become meaningful if they accrue to the larger sections of the population.

All I am trying to suggest up to this point is that increasing access to insurance services has multiple benefits to the macro economy at large

and to improving the welfare of individual households. In both these two spheres, the policy makers have an important role to play. Definitely, apart from the policy formulation issue that needs to be addressed, the most urgent task is to facilitate access for the 95% of the population who are completely excluded from this service.

When we search for the reason underlying this situation, quite often the factors identified tend to be dominated mostly by structural and institutional distortions, many of which can be rectified if we are committed to the goal. A proposition such as - lack of a saving culture is really an anthropological premise which has really never had sound basis. Similarly, observations such as low consumer awareness, inappropriate products, or un-reliable distribution to allow for increased outreach are all acknowledgements of institutional and operational distortions which need to be corrected. I do hope that your conference will address the causes of the narrow scope of the insurance industry in the continent. We should not be satisfied by off-hand reasons such as the dominance of the informal sector in our societies precluding modern business transactions like insurance or that access is inhibited by low disposable income among our people.

I hasten to point out that increasingly, within the same population groups that are being excluded by big financial institutions, ingenious mechanisms are developing that are proving to be very sophisticated and effective in the area of micro-financing. It is therefore urgent and critical that policy makers, working with the industry, look for ways of extending outreach, particularly in providing access to low-income

earners both in rural and urban areas. The development of social protection schemes, various kinds of incentives, as well as regulatory mechanisms can be used to surmount some of the bottlenecks that are making insurance services in the continent to remain elitist products.

Another important role of government is the regulatory and supervisory function on the industry. As a financial institution, insurance exerts serious repercussions to the economy and society. The facts that it deals with many clients, involving large amounts of funds that are linked to other sectors, necessitate closer monitoring of its operations. The task is made even more critical because it is an industry that deals with risks of a short and long term nature. The regulatory and supervisory capacity of the government is therefore an important facet in ensuring that necessary steps are taken to provide for extended access of insurance.

In preparing for this address, I requested for a copy of the performance report of the Tanzania's Insurance Supervisory Department. Much as I am not an expert in the field, I was impressed by the measures that are being taken to improve the supervision of the industry.

It is through enhanced supervisory capacity, that the menace of corruption and fraud relating to the insurance sector can be reduced and ultimately eliminated, thus making insurance costs within affordable levels. By working towards cleaning the industry, its image will also improve. Delays in honouring claims, fraudulent practices, and in some cases insolvency due to mismanagement are features, though not very pervasive, have contributed to ruining the good image of this industry.

Indeed, government working with industry stakeholders can rectify this situation and increase positive awareness among the people on the potentials of insurance.

Research, information and capacity building are also some additional initiatives which the government can undertake to support this industry. It can support universities and research institutions to undertake analytical investigations that are relevant to the needs of the sector, and to develop models and frameworks that can help in overcoming some of the constraints to access. Similarly, facilitating linkages to donor and international funding could also assist either directly or indirectly in enabling insurance providers to reach out to the lower segment of the market.

Mr. Chairman

Ladies and Gentlemen

You are custodians of an important asset for the development of our continent and her people. It is an asset that has a lot of potential, much of it has not yet been fully deployed. The modernization of the productive capacities of Africa cannot be fully realized without a revitalization of the insurance industry. A major attribute of this is its popularization among the people in their various sectors.

While there is a lot which the industry on its own can do to expand its market share among financial institutions and to increase penetration, the role of government also remains important. Apart from paying attention to regulatory and supervisory processes, it is imperative that

governments in this Continent have to live up to what has been articulated in different words almost in all African countries, as the transformation of the insurance industry into a sound and competitive agent for national savings mobilization and development investment channelling. The sector has to be made into an effective catalyst for enhanced economic growth.

To achieve the aforementioned, a comprehensive national policy framework articulating the role of the sector in national development, with a corresponding strategy is an urgent imperative in each of our nations. Definitely, such strategies need to capitalize on the synergies of linkages and integration among our countries. And this is a role which an institution such as the African Insurance Organisation can backstop very effectively.

I thank you all.