

# Impact of COVID-19 on the Ghanaian insurance sector

October 2020



# COVID-19 Context

## Timeline of government lockdown and restrictions

16 MAR

Government began to put containment measures and social distancing restrictions in place

30 MAR

Partial lockdown declared in Greater Accra Metropolitan Area and the Greater Kumasi Metropolitan Area

23 APR

Partial lockdown lifted, but restrictions remained (IMF, 2020)

5 JUN

Government began its first stage of easing certain restrictions

16 AUG

Working to reopen Ghana's borders by 1 September with mandatory quarantine and other protocols in place (Mwangi, 2020)

14 SEP

45,434 confirmed total cases of COVID-19, representing 0.15% of the total population. Only 286 deaths have been reported (Worldometer, 2020)

# Impact of COVID-19 on the insurance sector

## Impact on operations

- According to The Imposition of Restriction Act, 2020 (Act 1012), insurance is not considered to be an essential service.
- Shifted staff to remote work where possible and implemented social distancing measures for those still in-office.
- Offices in Accra and Kumasi closed during the lockdown and services were provided remotely.

## Challenges to remote work

- Ensuring staff had access to computers and internet at home.
- Changes to operations had to be made swiftly.

## Impact on insurance value chain

|  |   |
|--|---|
|  <h3>Sales and servicing</h3> <p><b>Issue:</b> Social distancing led to no in-person interaction with customers, which disrupted agent/broker-driven sales especially.</p> <p><b>Response:</b> Increased use of digital means to communicate with customers and complete sales.</p> |  <h3>Premium collection</h3> <p><b>Issue:</b> Policyholders unable to pay full premiums.</p> <p><b>Response:</b> Some entities allow partial payment for equivalent partial cover.</p> |
|  <h3>Lapses/renewals</h3> <p><b>Issue:</b> Policies lapsing as policyholders are unable to pay.</p> <p><b>Response:</b> Plan to re-acquire policyholders after the pandemic.</p>  |  <h3>Claims</h3> <p><b>Issue:</b> Providers uncertain about what the long-term impact will be.</p>   |

Source: Stakeholder interviews



## Government lockdown and restrictions

**Containment measures included:** banning large public gatherings of more than 25 people, closing schools and universities and compulsory self-quarantine for residents returning from countries with more than 200 confirmed cases (IMF, 2020).

**Lockdown measures:** banned movement in the two areas, except for essential services and residents buying food, water and medicine (AHK Ghana, 2020).

## Reputational risk to the insurance market

COVID-19 can potentially harm the reputation of insurance if insurers are viewed as profiting off of the pandemic, as taking advantage of customers and as not covering COVID-19 when policyholders need protection the most.

In an effort to mitigate this risk, insurers are using the crisis as an opportunity to improve their reputation.



COVID-19 is not only covered under many life and health insurance products, but some entities have explicitly added benefits covering COVID-19 to their products.



The insurance industry has made a total donation of USD190,000 to the government's COVID-19 Trust Fund and various entities donated essential hygiene items to a range of sectors.



Insurers are raising awareness of insurance and creating positive associations with the industry by, for example:

- Offering a special life insurance package for healthcare workers with April and May having free cover for frontline workers (Enterprise Group Limited).
- Launching a COVID-19 awareness campaign on TV stations and radio (Hollard Ghana).

## Impact of COVID-19 on financial positions

Outline of investment assets: Pre-COVID-19



### Breakdown of investment assets in Ghanaian non-life insurance market



### Breakdown of investment assets in Ghanaian life insurance market



Source: NIC Annual Report 2019

## Operational expenses prior to COVID-19



Expense ratio (life)

66%



Combined ratio (non-life)

142%



Claims ratio (non-life)

42%

## Underwriting results:



Life

120M  
GHS



Non-life

263M  
GHS

Source: (NIC, 2020)

## Outline of insurers' performance: Pre-COVID-19

The high reliance on investment income is threatened by the weak investment environment, creating major financial risk for many insurers.

### Government of Ghana and Bank of Ghana securities:

- Increased risk of investing in government debt, as flagged by the IMF rating of Ghana's debt sustainability (IMF, 2020).
- The government of Ghana asked investors to accept a 200 bps reduction on short term instruments to assist the government in closing the fiscal gap, by decreasing the amount the government is spending on interest expenses (World Bank, 2020). This reduction will affect returns from these securities in the medium-term.

### Term deposits:

Returns on term deposits are likely to decrease in the medium-term, as the policy rate has been lowered (Beyers, et al., 2020).

### Land and building held as an investment:

The real estate market has been negatively affected by the decrease in tourism and increased defaults on rent. The cut in the policy rate will reduce monthly payments, although the extent to which this will benefit the market is unclear (Beyers, et al., 2020) (World Bank, 2020).

## Impact of COVID-19 on the regulator



### IMPACT 1:

Containment measures affected the NIC's day-to-day operations and on-site inspection thrown out of gear.

#### Response:

- During lockdown, the NIC closed its offices in Accra and Kumasi and had skeletal staff in its other offices.
- Post-lockdown, the NIC implemented social distancing in all its offices.
- Switched to digital means for internal communication.



### IMPACT 2:

Heightened uncertainty and lack of clarity in the industry

#### Response:

- Communicating with industry via emails.
- Shared additional recommendations for containment measures on top of those issued by the government.



### IMPACT 3:

Pressure on industry to adapt to COVID-19

#### Response:

- Regulatory relief through extending reporting deadlines to give providers space to adapt.
- Additional focus on business continuity plans.
- Regulator supports industry covering COVID-19-related claims.

# Challenges and opportunities

## The regulator (NIC)

### Challenges:

- Operations, such as on-site inspections, have had to be put on hold or adapted due to social distancing and containment measures. Engagements with industry have had to take place over digital means.
- Concerns over the prudential well-being of the industry due the impact of COVID-19 on providers' balance sheets.
- The growth of the insurance sector has been dampened by the lockdown.

### Opportunities:

- To enhance the efficiency of the regulator's processes and embrace new ways of working and engaging with industry.
- To boost market development and enable market innovation.
- To identify and reduce barriers to the digitalisation of providers' processes.

## Insurers

### Challenges:

- Remote work and social distancing have constrained the operations of providers, given that they cannot work or engage with customers as usual.
- The swift change to remote work has placed pressure on the digitalisation capabilities of providers.
- Premium income has been decreasing and numerous policies have been lapsing as policyholders face financial instability. Investment income has also been affected due to the impact of COVID-19 on providers' investment assets. As a result, providers' balance sheets are at risk, especially given that, before COVID-19, providers were reporting underwriting losses and unsustainable operational expenses.

### Opportunities:

- To incentivise consumers to transact digitally.
- To install more efficient operational measures through digitalisation.
- To find new ways to sell insurance/obtain customers and increase insurance take-up, for example by further embracing tele-sales.
- To increase interest in bundled telemedicine products.
- To innovate products and service offerings.
- To test and improve on providers' business continuity plans.

# Annexure

## Economic impact

- GDP growth estimate for 2020 has changed from 6.8% to 2.6% (Deloitte, 2020).
- The IMF has allocated \$1 billion to address urgent fiscal needs in Ghana.
- Ghana's risk of debt distress is high (IMF, 2020).
- Inflation increased in May 2020 from 10.6% to 11.3%, above the target range of 8% (Reuters, 2020).

## Sectors most heavily affected

Below sourced from the Ministry of Finance's 2020 Mid-Year Review, unless otherwise specified.

- The agriculture sector has been impacted by disruptions to global supply chains and the government's containment measures (Deloitte, 2020). Prices of agricultural imports have increased, while the price of agricultural exports have declined. Freight costs have also increased by more than 100%.
- The tourism industry has been particularly affected, with 25% of accommodation facilities being shut down, more than 2,300 job losses and the projected revenue loss being GH¢4.8 million.
- The energy sector's operations have been delayed, with projects valued at an estimated USD 324 million being stalled.
- The transport sector has seen a reduction in revenue, for example Metro-Mass Transport's monthly revenue has declined from GH¢5.5 million to GH¢2.1 million.
- COVID-19 has disrupted the recovery of the banking sector and the growth of profit-after-tax has declined from 44.1% in May 2019 to 5.4% in May 2020.

## Policy responses to COVID-19

- The Monetary Policy Committee has cut the policy rate by 150 basis points to 14.5%.
- The Monetary Policy Committee has a new bond purchasing program to ensure emergency government financing (IMF, 2020).

## Pre-COVID-19

### Overview of insurance sector

The National Insurance Commission (NIC) regulates the insurance industry<sup>1</sup> in Ghana.



Source: (NIC, 2020) (Thom, et al., 2018)

\* The self-reported insurance take-up is 65% with the addition of health insurance.

\*\* The NIC's 2018 Annual Report specifies that with the inclusion of pensions and health insurance, the penetration rate is around 3%.

|                 | Number of insurers | Gross written premiums (GHS billion) | % GWP  |
|-----------------|--------------------|--------------------------------------|--------|
| <b>Industry</b> | 53                 | 2.9                                  | --     |
| <b>Life</b>     | 24                 | 1.3                                  | 45,03% |
| <b>Non-life</b> | 29                 | 1.6                                  | 54,97% |

Source: (NIC, 2020)

### Distribution channels

|                                    | Percentage contribution to annual premium income |
|------------------------------------|--|
| <b>Life</b>                        |  |
| <b>Individual/tied agents</b>      | 64%  |
| <b>Direct business</b>             | 14%  |
| <b>Insurance brokers</b>           | 6%   |
| <b>Bancassurance</b>               | 11%  |
| <b>Telecommunication companies</b> | 1%   |
| <b>Corporate agents</b>            | 1%   |
| <b>Others</b>                      | 3%   |
| <b>Non-life</b>                    |  |
| <b>Brokers</b>                     | 40%  |
| <b>Individual/tied agents</b>      | 30%  |
| <b>Direct business</b>             | 23%  |
| <b>Other corporate agents</b>      | 3%   |
| <b>Bancassurance</b>               | 2%   |
| <b>Others</b>                      | 2%   |

Source: (NIC, 2020) (Thom, et al., 2018)

<sup>1</sup> Health insurance is regulated separately, by the National Health Insurance Authority (NHIA).

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