

Initial Market Assessment - Country Scoping Note: Ghana¹

Executive summary

Donors could assist in clarifying the role, building the capacity, and potentially helping to secure funding of key disaster risk management organizations in Ghana. The Government of Ghana established the National Disaster Management Organization (NADMO) in 1996. However, since then it has had difficulties in securing sufficient funding (amounting considerable debt) and achieving its objectives. Assistance could be provided to clarify the role that such funds will play and what the role of private insurance would be in order to avoid public funds crowding out the development of a domestic private insurance market. Capacity building exercises could also be conducted as well as potentially funding specific projects undertaken by NADMO.

Engagement in Ghana to develop private sector property catastrophe risk and agriculture insurance should be seen as a medium term engagement. Banking penetration is low, as is insurance and micro-insurance penetration, even when compared to regional countries. That said, Ghana has seen rapid growth in the micro-insurance market with the number of people covered doubling in the last 3 years. The insurance industry, while competitive, has struggled in recent years with profitability, indicating there could be need for insurance capacity building and improved governance. Reinsurance capacity is somewhat limited and there is the issue of whether the key economic peril, flood in Accra, is insurable due to poor urban planning and lack of data. Thus development of catastrophe insurance in Ghana shall most probably involve a multi-year multi stakeholder engagement, looking to build local insurance and reinsurance capacity along with engaging with other key experts such as urban planners.

There may be however opportunities for targeted investments in the northern part of the country more prone to drought, aimed at increasing disaster resilience among vulnerable population using market-mediated solutions. Links could be explored between social welfare programs and market-mediated insurance solutions. For example, the government plans to expand the coverage of the Livelihood Empowerment Against Poverty Program (LEAP) by over ten-fold in the next three years. These mechanisms could scale up programs against post flood events or drought events in the north. Donors could support the integration of market-mediated insurance solutions within the social welfare programs. Using local insurance capacity to bear some of the risk and develop the insurance products could also be investigated. Such mechanisms delivered through social welfare programs would create a critical mass of policyholders, which could spur the development of commercial agriculture insurance.

¹This scoping note is part of a series of seven country scoping notes produced by WB/GFDRR and DFID, with inputs and feedback from the expert-level group (including representatives of Allianz, DFID, European Commission, GIZ, ILO, Munich Re, SECO, Swiss Re, USAID, WB, and Willis Re). This scoping note aims to inform the Political Champions Group (PCG) on potential opportunities to promote stronger partnerships between the public sector and the private sector to increase disaster resilience of vulnerable populations using market-mediated insurance solutions. The team has made every attempt to verify the contents presented, but the information should be interpreted with due consideration to its limitations resulting from the fact that indirect sources have been used where primary sources were not available. Contact: Olivier Mahul, omahul@worldbank.org.

1. Background

1.1 Country's exposure to natural disasters

Ghana's main exposure to natural disasters is to flooding and epidemics. Flood is a regular problem in some parts of the country. Ghana is also vulnerable to earthquakes and the Greater Accra area is seismically more dangerous than elsewhere. High winds occur but do not reach hurricane force. Tornadoes and tidal waves occur from time to time. The cost of the Accra flooding in 2011 is estimated to have reached US\$20 million, although much of it was insured. Ghana has also experienced wildfire disasters and epidemics.

In 1983 Ghana experienced a drought which affected 12.5 million people. Ghana has experienced 29 disasters over the 30 years from 1980 to 2010². Of the 29 disasters, 14 were epidemics, 13 were floods and there were one each of drought and wildfire. The figures for economic damage of US\$33.5 million is based on estimate from just 2 of the disasters and therefore will underestimate the total cost of disasters in this period.

Ghana's HFA WDI Disaster Risk Reduction progress score is 3.25 (out of 5); its Disaster Risk Index is 3 out of 7 (7 being the highest mortality class). Ghana's World Risk Index score is 9.35%, ranked 46th in the world.

1.2 Economic, financial and fiscal impact of natural disasters

Reported economic damage from the biggest natural disasters over the last 30 years totals in excess of US\$33.5 million, although this excludes unaccounted costs due to inadequate information and much unreported rural damage. In October 2011 torrential rain led to flooding in Accra killing nine people. As Accra's main industrial areas were affected insured losses were estimated to be US\$20 million. The total economic cost would be significantly higher than this.

Floods have become a recurrent phenomenon in Ghana. In 2007, floods affected more than 300,000 people in the country, resulting in loss of life, infrastructure, livelihoods, and food security. The 2007 floods were believed to have required more than US\$25 million for emergency response, and to have resulted in more than US\$130 million worth of direct damage although Munich Re estimated the damage to be US\$40 million³. In Accra, total value of assets is estimated at US\$6 million and damage resulting from flood is expected to increase from US\$2 million to US\$4 million per annum. Recent floods in Accra have been linked to a lack of proper urban sewerage planning than any increase in the level or severity of rainfall.

1.3 Government's general engagement in Disaster Risk Management

Ghana established a National Disaster Management Organisation (NADMO) in 1996⁴. Its mission is to manage disasters by co-ordinating government and non-government agency resources and to improve the living standards of communities, including their resilience to disasters⁵.

²Data from Preventionweb <http://www.preventionweb.net/english/countries/statistics/?cid=67> accessed 16 August 2013

³<http://www.undp-gha.org/design/docs/2012%20AWP%20DRR%20draft%20-%20Sustainable%20Development.pdf>

⁴www.NADMO.gov.gh

⁵<http://www.undp-gha.org/design/docs/2012%20AWP%20DRR%20draft%20-%20Sustainable%20Development.pdf>

It has recently established a plan to implement the Hyogo Framework for Action by 2015 through multiple initiatives, emphasising the need to shift from a disaster response strategy to investing in disaster risk reduction programs⁶. Through its Medium Term National Development Policy Framework (2010-2013), Ghana has identified its main challenges relating to climate change. These include lack of awareness, high dependency on natural resources, poor infrastructure and limited financial capacity. The Government has committed to various actions including establishing early warning systems, improving land management, improving access to healthcare and managing water resources more effectively.

In its 2010-2013 National Development Plan the Government committed to introduce an insurance scheme to protect farmers against natural disasters such as drought and floods on a pilot basis. The Economic Community of West African States (ECOWAS) also provides supports.

2. Government's public financial management of natural disasters

2.1 Budget instruments

The extent of NADMO's role and responsibilities hasn't been completely defined. Although NADMO has a financial budget, this hasn't been disclosed. NADMO has raised that it has difficulty in securing payment of funds from Government and that the allocated budget is insufficient to meet the cost of both disaster prevention and response to disasters.

The establishment of a disaster risk management fund has been announced. The President of Ghana said in a speech in July 2013 that a National Disaster Risk Management Fund would be established. However, no details are currently available. The President also stated that local government should establish their own funds to deal with disasters and only call on central funds in extreme cases.

2.2 Market-based solutions

We were unable to find any market-based solutions used by the Government to manage their exposure to natural disasters.

The African Risk Capacity (ARC) has begun initial engagement in Ghana. ARC intends to be a continent-wide risk pool that aims to provide market-based (parametric) drought risk insurance for governments. Discussions are at initial stages in Ghana. This initiative should be integrated in a comprehensive national disaster risk financing and insurance strategy to provide the government with (i) immediate funding post disaster through a three-tiered risk financing: domestic reserves for low risk layers, contingent credit for medium risk layers and catastrophe risk transfer solutions for top risk layers, and (ii) transparent and effective post-disaster budget execution processes.

3. Ex ante public interventions from government and donors

3.1 Safety net programs against natural disasters, including credit guarantee schemes and subsidy programs

Funding for disaster management is via NADMO, which is currently required to fund both emergency response to disasters and implementation of the disaster risk reduction plan. NADMO claims it has difficulty securing timely funding from the Government and currently has debts of US\$90million run up over 18 months. NADMO has urged the Government to establish a separate National Disaster Fund to enable the country to respond more effectively to disasters. This is included in a bill which is currently

⁶http://www.preventionweb.net/english/hyogo/gar/2011/en/bgdocs/hfa/15600_gha_NationalIHFProgress_2009-11.pdf

before Parliament. The scope for NADMO has also yet to be established. For example, NADMO has requested powers to deal with institutions and individuals who deliberately cause disasters in Ghana. NADMO has called for a budget of 5% total Government spending but the actual allocation has not been disclosed.

Ghana has an established social security system although this mainly covers employed workers in the formal sector. As at the end of 2011 there were around 2.3 million members (not all active) of which 0.1 million were in receipt of a pension. Although there is limited linkage of benefits under the social security scheme with the impact of natural disasters, there are already examples of hybrid crop insurance schemes which integrate with social benefits. In the event of injury or loss of life some benefits may be paid.

The 2010 National Development Plan included a special pension scheme for farmers and the provision of special financial packages to make agriculture more attractive, especially to the youth.

The GoG is looking to increase the number of households who receive social welfare payments through the Livelihood Empowerment Against Poverty Program (LEAP). The LEAP is a social cash transfer program which provides cash and health insurance to extremely poor households across Ghana to alleviate short-term poverty and encourage long term human capital development. It is targeted at the 18% most vulnerable households in Ghana. Currently there is a three year plan to increase the number of families who receive social cash payments from 70,000 to 1,000,000.

The Ministry of Food and Agriculture has provided fertiliser and seed subsidy programmes since 2009 in order to ensure food security and to improve the living standards of Ghanaians.

3.2 Public investment in market infrastructure for disaster risk insurance (data, models, subsidies, delivery channels, education campaigns)

This comes under the NADMO. NADMO's responsibilities include public education and awareness creation and developing early warning systems. No mention of modelling.

4. Post disaster public interventions from government and donors

4.1 Ex post bailouts (e.g. credit) (including respective roles of government and donors)

Between 2001-2010, Ghana has received over US\$12billion of aid.The biggest contributors have been IDA and UK at US\$3.5 billion and US\$1.5billion respectively. Agriculture has received around US\$1billion of such aid, the USA being the biggest contributor⁷.

The cost of disasters will be funded in the first instance by NADMO. Additional government funding might also be required and Ghana is also accustomed to the availability of foreign aid.

In 2010 there was US\$25.1 million direct emergency funding for disaster relief in Ghana of which US\$5.4million came from the Ghana government and US\$19.7million from sources external to Ghana, primarily the World Bank and the International Fund for Agricultural Development (IFAD).⁸

4.2 Ad hoc social transfers (including respective roles of government and donors)

We were not able to identify any specific examples of these.

5. Potential donor overlap

⁷http://www.oecd.org/dac/aft/Ghana_Case_Study.pdf

⁸<http://www.jamba.org.za/index.php/jamba/article/viewFile/75/190>

Many donors and international implementing agencies currently provide support to Ghana. Ghana's aid architecture is currently operating under Ghana's Shared Growth and Development Agenda. Most Bilateral and Multilateral partner are organized in Sector Working Groups reflecting the Governments Development Priorities and the development partners' own division of labour with "lead" and "active participation" roles. Other donor activities include:

- German Development Cooperation via GIZ is involved in numerous projects in Ghana:
 - Apart from generally supporting the development of the insurance sector in Ghana via micro-insurance, it is currently assisting the National Commission of Insurance in developing the insurance sector including the introduction of a new insurance law.
 - GIZ also supports the Ghana Agricultural Insurance Programme to develop agricultural insurance product, such as index-based insurance against drought in the north.
 - The African Cashew initiative covers several African countries, including Ghana.
 - GIZ has been very active over the past few years, but as far as we understand they are due to complete their mission in the next year or so. GIZ has agreed with the government to focus its work on decentralization, agriculture and sustainable economic development
 - It supports the Kofi Annan International Peacekeeping Training Centre, the Ghanaian public finance system and legal sector reform.
- Millennium Change Corp, an American agency which is committed to stimulating economic growth in developing countries, has invested more than US\$500million in Ghana since 2006. The money has been used to train 65,000 farmers, build storage facilities and improve roads.
- USAID have continued involvement with several projects in northern Ghana. Toronto Centre and Care have also made significant contributions.
- IPA is supporting several agriculture projects in northern Ghana⁹, including crop insurance through GAIP for small scale farmers and encouraging investment in agricultural aids such as fertilizer, hybrid seeds and labor.
- The World Bank has an ongoing project with GoG on social protection, and is working with GoG to assist them in reaching their targets to increase outreach of the LEAP program.

6. State of domestic non-life insurance market

In November 2011, there were 24 non-life companies and 2 reinsurance companies licensed to operate in the market. The market is believed to be saturated. Approval of any new non-life insurance licences by the National Insurance Commission (NIC) will be subject to companies meeting the necessary capital requirements. The market leading insurer is 40% state owned and a 100% state-owned reinsurer has a dominant market position.

The State Insurance Corporation (SIC) has been renamed SIC Insurance Company Ltd. In late 2007 the company was listed on the Ghana stock exchange and now only 40% of the company remains in government hands. It is the market leader with 24% of the market in 2009. Enterprise Insurance is the second largest with 11% market share.

Brokers form a large part of the distribution market for commercial business. Most private motor and travel business is sold directly or via a company agent. Bank based insurance has recently become popular with five banks entering into partnerships with insurers by 2009. NIC encourages distribution of micro-insurance through several channels, including mobile phones, postal, Farmers Association, Susu collectors, micro-finance companies and rural bank branches. For example, in September 2012, the South African based insurer Sanlam and Africa's second largest telecommunications service provider

⁹<http://www.poverty-action.org/project-evaluations>

BhartyAirtel announced their cooperation. Sanlam is planning to sell micro-insurance products via BhartyAirtel's telecom networks. The main focus will be on life and health insurance products.

ProMiGH promotes and raises awareness of micro-insurance schemes in Ghana. Domestic participants from across the industry include GIA, intermediaries and technical service providers. International partners include GIZ, World Bank, Toronto Centre, IAA, IAIS, IIPACC, GAIP and MicroInsurance Centre. Areas of cooperation include regulation, technical capability, research & development and insurance awareness.

The insurance industry is undeveloped in the use of risk management strategies.

6.1 Reinsurance

The reinsurance market is small. Ghana has two locally licensed reinsurance companies, Ghana Re (the state reinsurance company) and Mainstream Re (established in 1995). Munich Re has established a local contact office in Accra, although no business is written directly as it is not locally incorporated.

All reinsurance treaties must be approved by NIC, including assessment of whether capacity exists to reinsure locally.

At least 5% of outwards treaties must be placed with Africa Re. Members of the West African Insurance Companies Association (WAICA) pool also generally place at least 5% of their treaties with the pool. Increasing efforts are being made to expand into wider African markets, especially by Ghana Re.

Ghana Re retrocedes business to the London market and regional reinsurers. In 2011, 22% of gross written premiums were reinsured internationally.

Catastrophe cover is available for some property and construction treaties.

6.2 Property risk insurance

Penetration of property catastrophe risk insurance in Ghana is low and is limited by low penetration for non-life insurance more generally. At an estimated 0.6% of GDP, Ghana non-life insurance penetration is extremely low. Although this is less than the African average (1.12% of GDP) there has been significant recent growth and the low claim ratios might attract commercial interest. There are no statistics on the percentage of population who have property insurance, however it is understood that to date this has been very small in Ghana and the potential pool of business has been very limited. Traditionally the policyholders have been a small number of the more affluent middle-class Ghanaians and expatriates¹⁰. It is expected that the growth in Ghana's economy will drive an increased number of private householders to seek insurance cover, which is usually required for any loans.

The non-life insurance market has been struggling in recent years, which has led to an underwriting loss in 2009. Premium collection is a continuing problem. Apart from policyholder financial issues, payment terms have been becoming increasingly flexible as insurers try to retain their market share in the face of serious competition. In 2009, 49% of gross premiums were uncollected but this is now believed to have improved since introduction of Premium Credit Guidelines by NIC in 2010. Expense Ratios have subsequently increased, averaging 43% in 2009 with the highest being 103%, which has impacted profitability, causing an underwriting loss of 6% in 2009.

Basic cover includes fire, limited explosion and lightning. A comprehensive range of other perils can be added for additional premiums e.g. hurricane, cyclone, flood, riot, accidental damage.

¹⁰Axcoreport (2012).

Insurance companies are trying to encourage attention to risk management through surveys, for example raising deficiencies in fire protection, from which precautions remain low but are increasing. Larger risks such as mining companies and hotels have better protection systems.

6.3 Agriculture insurance

Most Ghanaian people work in agriculture, where insurance penetration is low. Agriculture comprises about 30% of the nation's GDP, with most insurance being for crops stored in sheds and in transit and farm buildings & equipment.

The National Insurance Commission is determined to deepen the insurance penetration in Ghana through the development of agricultural insurance and micro-insurance. This agenda is being pursued with technical assistance from GIZ and research & testing analysis from IPA and USAID. It is intended that micro-insurance will cater for the vast majority of Ghanaians who operate in the informal agricultural sector and therefore fall outside the scope of conventional insurance.

The Ghana Agricultural Insurance Program (GAIP) was launched in 2011 to bring agricultural insurance to small Ghanaian farmers, with assistance from GIZ. Products include drought index insurance for maize & soya and an indemnity based multi-peril crop insurance (MPCI) scheme which was piloted in the northern part of Ghana and is now nationwide. It is also piloting Area Yield Index Insurance (AYII) in Upper West Region, where payouts are based on yield shortfalls relative to the average district yield. Yield data is collected by the Statistics Research and Information Directorate and is planned to run for 3 years and be extended to southern regions. GAIP has established a technical management unit (TMU) within the Ghana Insurers Association (GIA) which does the underwriting of this business on its behalf, assisted by Swiss Re. 18 non-life insurers and Ghanaian life participate in this scheme. Insurance products for rubber have already been introduced and it is hoped that these will be extended to cover other crops such as cocoa in other parts of the country and also livestock. Insurance of farmers is a landmark for the country and it is the hope of the National Insurance Commission that the Ghana Agricultural Insurance Programme will grow and expand in the future.

An extensive feasibility study for crop insurance was produced in 2010¹¹. The following projects have been identified as contributing recent support to agriculture.

- ADB and National Investment Bank provide significant financial support to the agricultural market.
- GIZ has worked closely with NIC between 2009-13 to promote micro-insurance initiatives, including crop insurance solutions.
- GAIP has produced a crop weather index insurance scheme for northern Ghana, which has been distributed by IPA.
- MicroEnsure, a specialist micro-finance intermediary, intends to pilot micro-insurance products for crops.

The 2010 National Development Plan stated that the development and provision of agricultural insurance products by the insurance subsector will be strongly supported and promoted to reduce the risks along the value chain. There will be a special pension scheme for farmers and the provision of special financial packages will be developed to make agriculture more attractive, especially to the youth.

¹¹ <http://seguros.riesgoycambioclimatico.org/DocInteres/eng/Ghana-Crop-Insurance.pdf>

6.4 Legal and regulatory environment

Insurance in Ghana is currently governed by the Insurance Act 2006. The NIC is currently developing a revised insurance act.

The NIC launched new Micro-insurance regulations in February 2013. The NIC worked with GIZ to develop new regulations under which insurance companies can now create, market and sell new types of micro-insurance products on a provisional basis as long as the provider conducts a four-week performance study of the product for approval by the NIC. The regulatory framework will not dictate premium rates, but claims are required to be paid to clients within 10 days of submission. In addition, the terms and exclusions of the micro-insurance products must be presented in “simple” terms.

Insurers’ reinsurance arrangements are approved by the National Insurance Commission (NIC), and that all insurers and reinsurers utilise local capacity for any insurance business originating from the local market before recourse to any overseas reinsurance markets.

Very poor loss ratios in the early 1990s led to fixed pricing tariffs which remain in force today. NIC and the Ghana Insurers Association coordinate this, including increasing prices for motor insurance by 30% in 2010. In practice, many companies undercut these tariffs although NIC is taking steps to address this.

The NIC has been designing a risk-based solvency regulatory model for the Ghanaian insurance industry in linewith international insurance sector best practices which would include allowance for catastrophe risks. This was due to be implemented in 2012 but is still awaiting approval from parliament. Currently there is no requirement for insurers’ capital requirements to make specific allowance for catastrophe risks.

6.5 Demand for insurance

In spite of the positive growth, insurance penetration in the country is still very low¹². A survey which commissioned by the Government of Ghana on the financial sector concluded that excluding those with the national health insurance, only 5% of the population have an insurance product.

Insurance against the hazards of collapse, fire, earthquake, storm and flood is compulsory in respect of all commercial buildings.

Insurance penetration (both life and non-life) which is defined as the contribution of total insurance premiums to GDP is around 1%. This can be compared to South Africa 14.8%, Namibia 7.3%, Kenya 2.8%, Nigeria 0.6% and Malaysia 4.8% (Source: Swiss Re Sigma Report). A household level micro-insurance demand study was conducted by the German Institute of Global and Area Studies in 2008/9. It sampled 1030 urban and rural households, over 60% being involved in the agricultural sector, seeking to establish what type of insurance is most important to households. The results of the study have been subject to some criticism so are presented here with some caveats, however it found that of those who had no insurance, 77% specified illness as the most important risk. For those with micro health and life insurance, the most important risk was property damage due to fire and theft.

7. Opportunities

- **Work with the Government to establish a national integrated DRFI Strategy.** This strategy would incorporate the development of the disaster risk insurance market (including agricultural insurance) and well as the development of a comprehensive sovereign DRFI plan. The sovereign

¹²National Insurance Commission’s 2011 annual report

DRFI plan will give the Government immediate access to funding and transparent and effective budget execution processes post shock events, enhancing the proposed work of the ARC. The plan could incorporate, enhance and clarify the role of NADMO, and ensure coordination with the private sector which it can look to leverage.

- **Make investments aimed at increasing disaster resilience among vulnerable population using market-mediated solutions.** Through a technical assistance program with GoG to develop and execute market-mediated mechanisms to scale up social safety net programs post disaster events, the resilience of vulnerable households to disasters can be improved. Initial focus could be placed on the LEAP program, where the government has ambitious targets for expansion. Frameworks for such mechanisms could be established through donor technical assistance programs, which could also assist GoG in the execution. Two priority actions are highlighted for action by donors: (i) the technical assistance program would have to build local insurance company capacity, to enable it to cope with the additional high risk perils, which is especially important given poor past underwriting performances, and; (ii) leverage work already underway in Ghana (through key donor partners such as GIZ) to support key investments in the risk market infrastructure for the development of agriculture insurance markets (for example investments in the data market infrastructure, capacity building the TMU...etc.). These interventions would achieve a critical mass of policyholders through the social welfare program. This critical mass would support further key investments in the risk market infrastructure, which can be leveraged by private sector insurance companies to further expansion of agriculture insurance into rural locations.
- **Establish a Technical Support Unit, in partnership with private (domestic and international) (re)insurers to develop domestic disaster risk insurance market infrastructure.** Initial tasks could include collection and management of risk data, technical support on insurance production (product design, underwriting, pricing, etc.), work with the National Insurance Commission on the implementation of the requirements of the new insurance law, and consumer awareness.
- **Leverage the considerable work already carried out by key donor partners such as GIZ in association with Government agencies.** This includes developing opportunities in the agriculture market, supported by a wider data infrastructure to improve targeting of benefits and reduce prices. There may also be learning points which are applicable to other countries.

List of acronyms

ADB	African Development Bank
GAIP	Ghana Agricultural Insurance Program
GoG	Government of Ghana
GIZ	Deutsche Gesellschaft für internationale Zusammenarbeit
HFA	Hyogo Framework for Action
IAA	Internal Audit Agency
IAIS	International Association of Insurance Supervisors
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IIPACC	Innovative Insurance Products for the Adaption to Climate Change
IPA	Innovation for Poverty Action
LEAP	Livelihood Empowerment Against Poverty Program
NADMO	National Disaster Management Organisation
NIC	National Insurance Commission
SIC	State Insurance Corporation
WAICA	West African Insurance Companies Association
WDI	World Development Indicator