The impact of COVID-19 on the Rwandan insurance sector

September 2020

FOCUS NOTE

Context

The COVID-19 pandemic has affected and disrupted the operations of industries around the globe as containment and mitigation measures have restricted the movement of people, goods and services.

Rwanda was the first African country to implement a national lockdown to curb the spread of COVID-19. Lockdown measures included the closure and suspension of domestic travel, schools and places of workshop, the ban of public gatherings and restrictions on non-essential services. As the insurance sector was not initially considered an essential service, insurers' operations, which to a large extent require physical interactions, were affected.

The COVID-19 pandemic, therefore, has had impacts on insurers' ability to launch new products, conclude sales, collect premiums, service customer and process and pay claims. At the same time, the pandemic is impacting insurers' balance sheets as investment returns are negatively affected by the ensuing economic crisis triggered by COVID-19. More broadly, impacts on the economy may affect insurance demand and premium income.

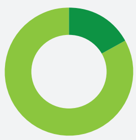
FUNDAMENTALS

of the insurance sector in Rwanda prior to COVID-19

INSURANCE UPTAKE

Adults with insurance:

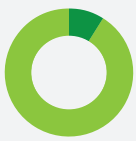
2020



17%

1.2M

2016



9%

507,000

Source: FinScope, 2020

3 Life insurers

9 Non-life insurers

1 Micro-insurer

EXPENSE AND CLAIMS RATIO

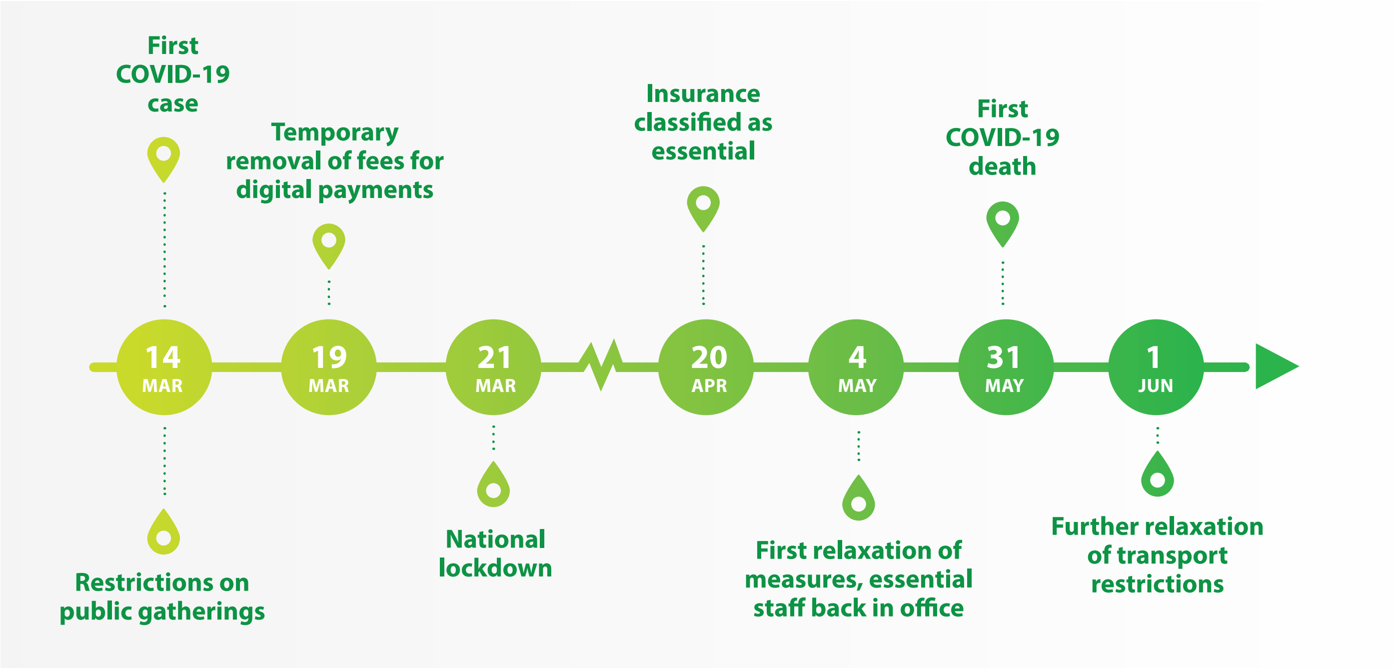
	Claims ratio	Expense ratio
Life	88%	37%
Non-life	55%	42%

ASSET ALLOCATIONS

	Private life	Private non-life	Private medical
Deposits in banks	18%	31%	46%
Government securities	41%	16%	17%
Properties	27%	13%	5%
Equities	7%	8%	15%
Receivables	3%	14%	13%
Properties and equipment	2%	2%	4%
Other	2%	16%	0%

Source: BNR 2019

Figure 1: Timeline COVID-19 response in Rwanda



Source: Rwandan government announcements and Worldometer (2020)

The pandemic has certainly highlighted weaknesses in the sector and brings with it certain challenges. However, the pandemic also provides opportunities for the insurance sector and regulator to drive insurance market development.

This focus note highlights the findings from stakeholder interviews and a rapid industry survey rolled out by Access to Finance Rwanda (AFR), in partnership with Cenfri and the Rwanda Insurers Association (ASSAR), to understand the extent to which Rwanda's insurance sector has been affected by COVID-19 and identify the key challenges and opportunities arising from the crisis.

ABOUT THE STUDY

Objective: The objective of the study is to inform insurers, brokers, regulators and development partners on how to support the insurance sector and ensure its continued development amidst the COVID-19 pandemic.

Methodology and response. The study draws on two primary data sources gathered from May-July 2020:

- Semi-structured qualitative interviews with one life insurer, three non-life insurers, one microinsurer, the broker's association, the insurer's association, one mobile network operator (MNO) and the National Bank of Rwanda (BNR), the insurance regulator
- Two quantitative surveys rolled out via SurveyMonkey, one targeting the insurance sector and the other targeting the brokerage sector. All 12 private insurers (three life and nine non-life) completed the survey and 14 brokers completed the survey.

This focus note presents the key findings from the interviews and insurer survey. Detailed survey findings are available from AFR upon request.

Key findings

Impact of COVID-19 on insurers

COVID-19 inclusions and exclusions

- No existing health and life insurance products have explicit pandemic (virus and unknown bacteria) exclusions, which means that COVID-19-related risks are covered by these policies
- However, all business interruption policies explicitly exclude pandemics, resulting in COVID-19 related risks not being covered by these policies

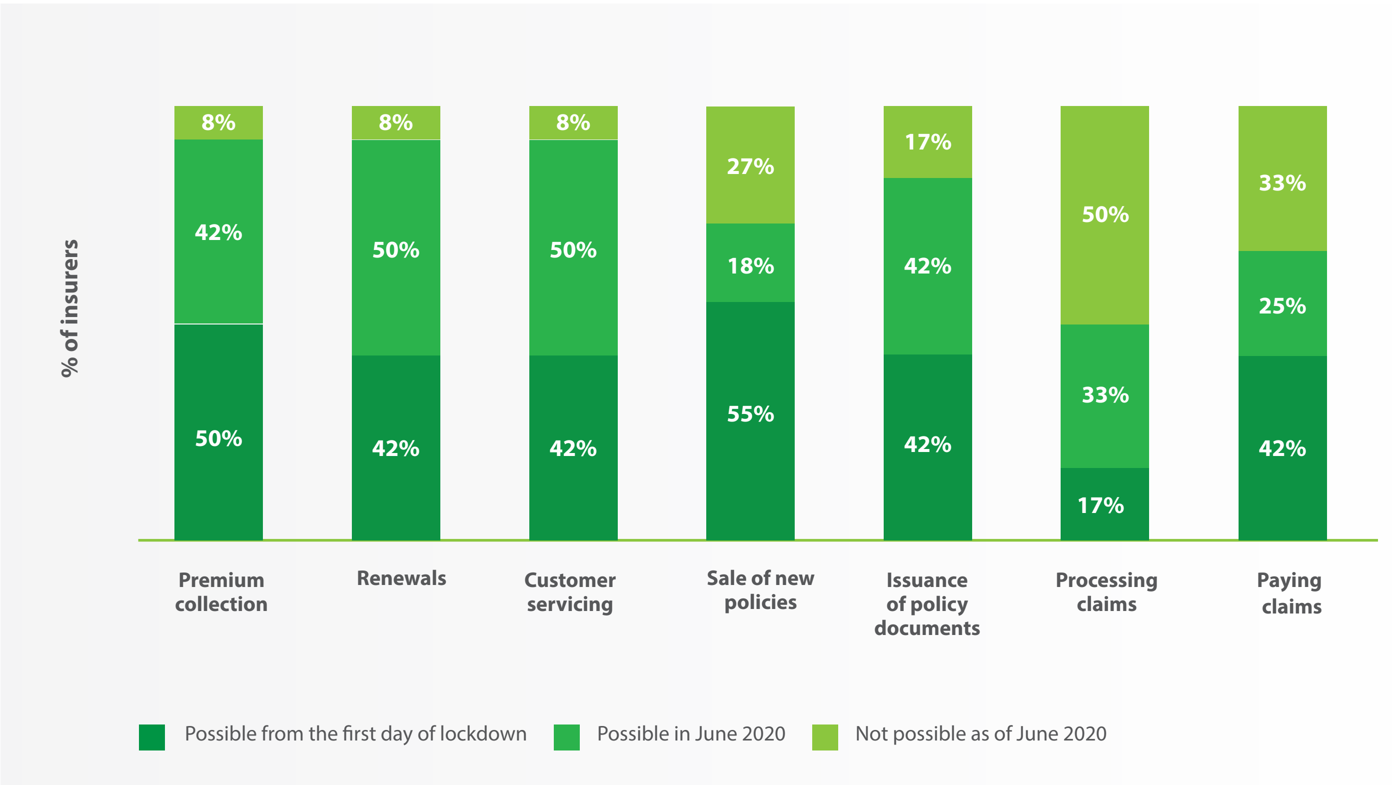
IMPLICATIONS OF THE FINDINGS

The insurance sector is exposed to health and life -related risks arising from the pandemic, but this risk has so far been limited by the fact that the number of people infected and deaths are low, peaking at just over 2,000 active cases at the start of number and only 27 deaths at the time of drafting in September 2020 (Worldometer, 2020). Additionally, government funded treatment centres have limited insurers' exposure. On the other hand, COVID-19 has resulted in health risks being front of mind for many consumers increasing the demand for life and health insurance.

Remote work and digitalisation

Insurers' faced difficulties with working remotely during lockdown. 41% of insurer and 43% of brokers said they had difficulty working remotely. Insurers were unable to conduct aspects of the insurance product cycle remotely at the start of the lockdown and a substantial proportion were still struggling to process and pay claims remotely at the time of the survey.

Figure 2: Working from home during lockdown



N=12

Source: AFR & Cenfri (2020)

COVID-19 has resulted in significant digitalisation of the insurance sector. More than half of surveyed insurers indicated that the impact of COVID-19 on their operations would have been lower if they had better digitalised internal systems to begin with. This was in part due to the sector's reliance on traditional in-person distribution. In response, 55% of insurers and 79% of brokers surveyed indicated that they are investing in their ICT systems as a result of COVID-19 and many highlighted that they would continue to do aspects of the insurance product cycle digitally following COVID-19.

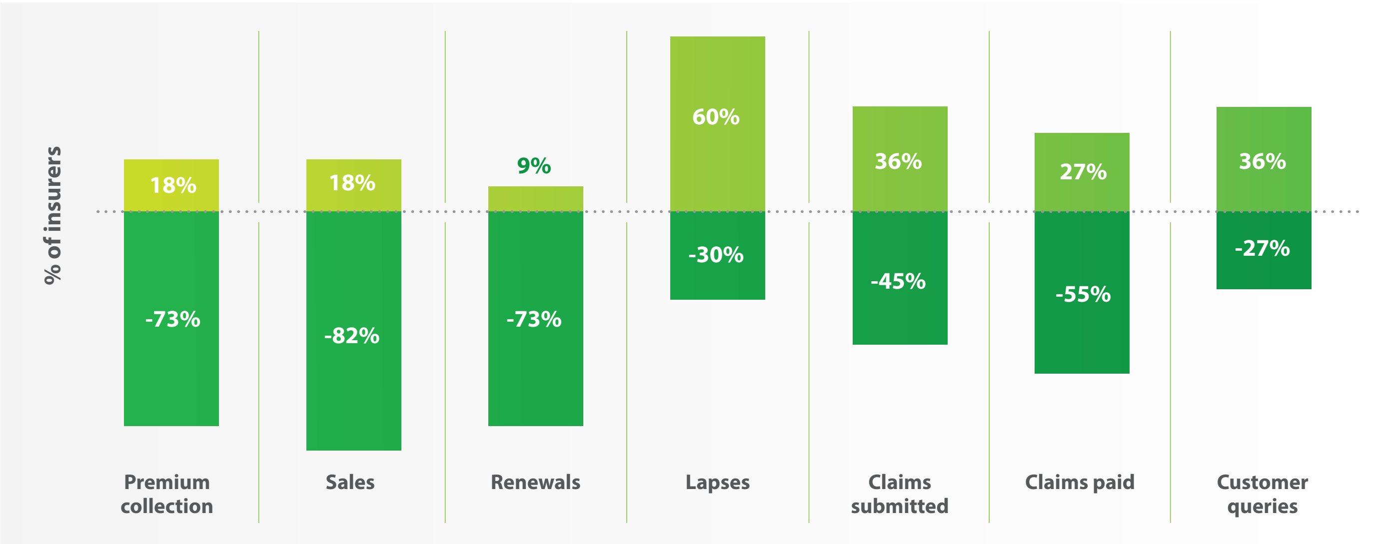
IMPLICATIONS OF THE FINDINGS

Insurance operations prior to COVID-19 were not digital in nature, but many insurers are investing in digitalisation efforts as a result of the pandemic. The inability of insurers to pay claims during lockdown could have a detrimental impact on the reputation of insurance in Rwanda, should backlogs not be addressed promptly.

Impact on business operations

COVID-19 has had a negative effect on insurers' operations. Insurers' inability to seamlessly conduct aspects of the insurance product cycle while remote has had a negative impact on their operations. Decreased sales and premiums collected, coupled with an increase in lapses are bound to have negative impacts on insurers' overall balance sheets.

Figure 3: COVID-19 impact along the insurance product cycle



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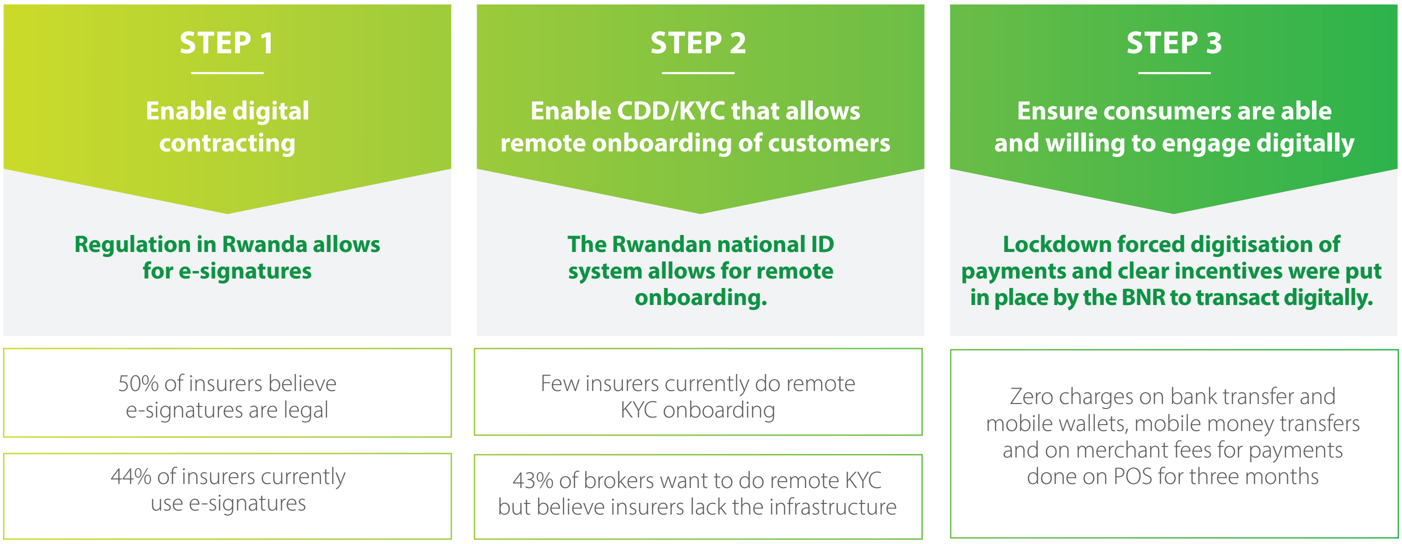
Source: AFR & Cenfri (2020)

Sales have decreased due to digital sales being underutilised. Remote Know-Your-Customer (KYC) and Customer Due Diligence (CDD) and the use of e-signatures hold potential to drive sales, thereby compensating for reductions in in-person sales, but regulatory uncertainty and insurers' internal infrastructure constraints limit this. 50% of insurers currently believe that e-signatures in Rwanda are illegal despite regulation allowing for this, and few insurers make use of the Rwandan national ID system for remote onboarding of customers.

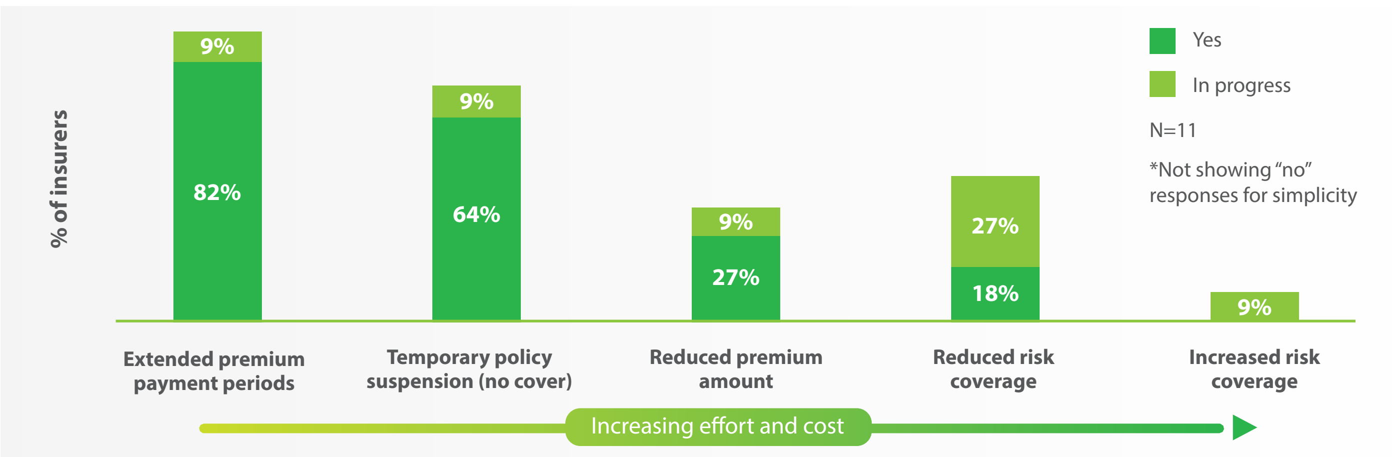
Figure 4: Requirements for remote sales



Source: Cenfri (2020)

Further income implications due to premium relief measures. 91% of insurers reported that they had made changes to their products at the time of being surveyed: 82% extended premium payment periods and 64% of insurers were allowing customers to temporarily suspend policies. However, these changes are being made on a case-by-case basis on the request of clients, rather than as blanket relief measures.

Figure 5: Changes insurers have made to products and services following COVID-19



Extended premium payment periods, the majority (82%) of insurers reported providing clients a longer period to pay their premiums. This has been made possible by BNR relaxing the cash and carry requirements that otherwise dictate that all premiums need to be collected before clients can receive insurance cover.

Suspending cover, which 64% of insurers implemented and 9% are in progress of implementing, entails stopping premium collection while also removing the insurance cover. Clients face no penalties when recommencing with their insurance.

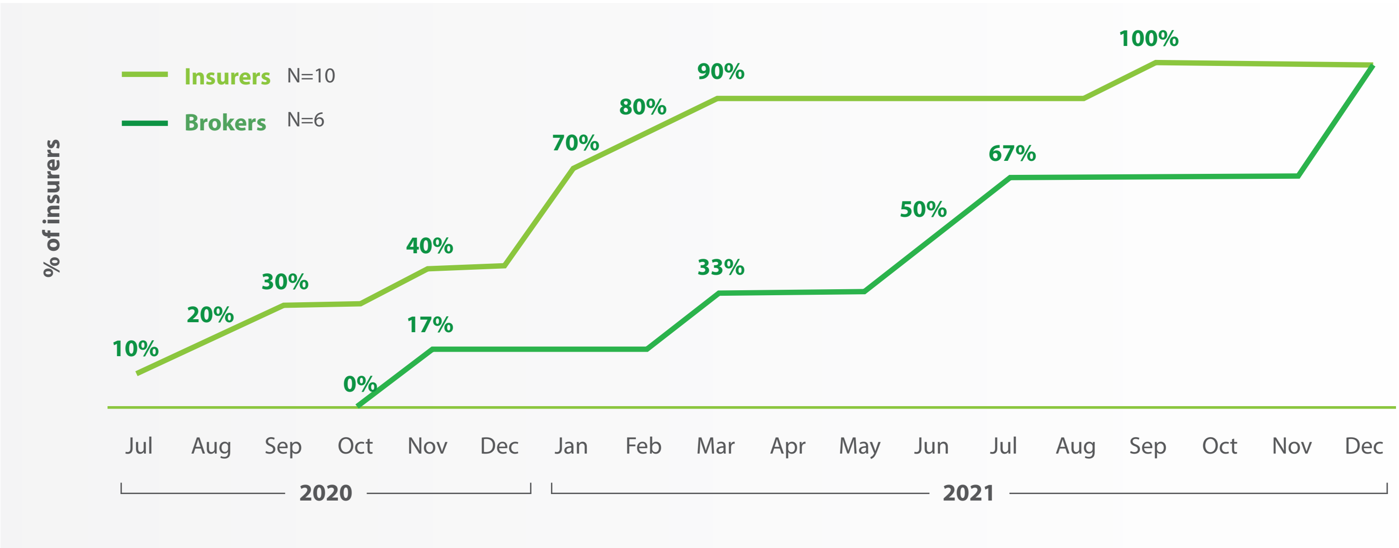
Reductions in premiums and coverage. Nearly a third (27%) of insurers are providing reduced premiums. Of the three insurers that have reduced premium amounts, one had also decreased risk coverage and one was in the progress of reducing risk coverage. The fact that not all premium deductions are linked to reductions in premium cover suggest some reductions may be unsustainable.

Increased risk coverage. Only one insurer indicated that they are in the process of increasing risk coverage. During the interviews, insurers mentioned that they are exploring opportunities to expand cover to cover pandemics. However, global reinsurance contracts exclude war, civil war, nuclear risk and pandemics due to the global nature of them making them too expensive to cover.

Source: AFR & Cenfri (2020)

Insurers are optimistic about premium recovery. 70% of insurers expect premium income to recover by 2021, but brokers are less optimistic. The economic crisis and ensuing widespread reduction in the income of clients, however, makes the recovery time uncertain and likely longer than insurers are expecting. The graph below indicates cumulatively, which month insurers and brokers expected premium income to recover. The earliest an insurer expected premium recovery was July 2020 and the earliest for a broker was November 2020. All insurers expected recovery by September 2021 and all brokers by November 2021.

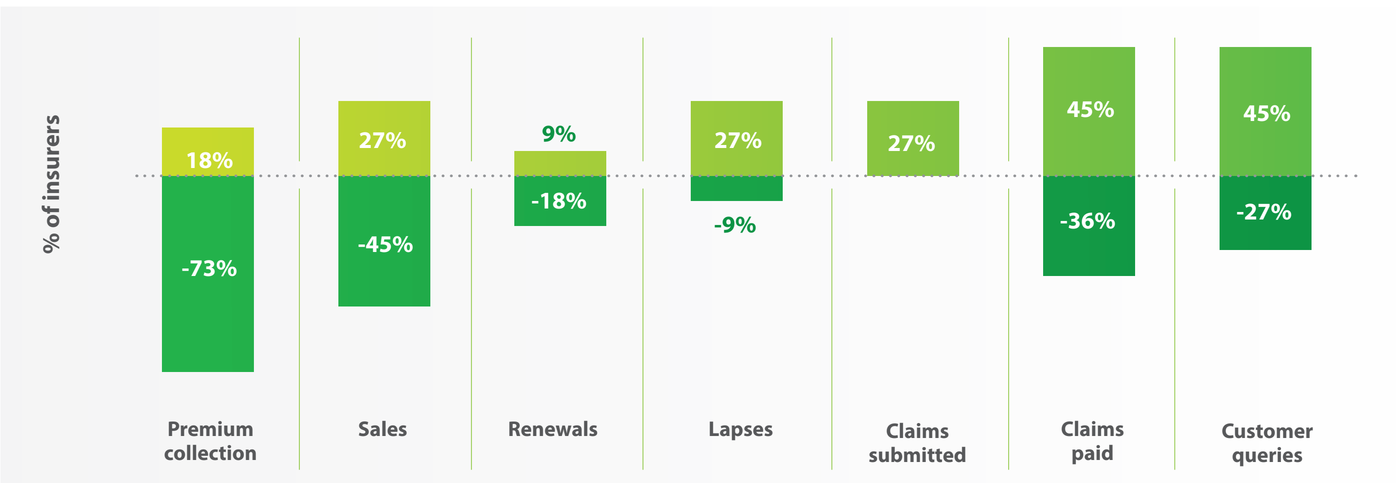
Figure 6: When insurers and brokers expect premium income to recover



Source: AFR & Cenfri (2020)

Operational expenses on the rise. 73% of insurers surveyed indicated that they have decreased their revenue targets for the year, largely driven by reductions in sales and renewals and an increase in lapses. At the same time, operational expenses and marketing expense are increasing. Decreases in revenue and increases in costs are likely to have negative impacts on insurers' liquidity.

Figure 7: Impact on insurers' operations



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Source: survey on insurers' and brokers' experience with COVID-19 (June 2020)

Insurers' investment income decreasing. More than half of insurers' assets are government securities (19%) and deposits at banks (39%). Both of these face lower returns as the government lowered interest rates from 5% to 4.5% in April. If the global macroeconomic slowdown continues, there may be further reductions in interest rates, which would further decrease the value of insurers' assets:

70%	45%	33%
of insurers are most concerned about their property investments	of insurers are concerned about their term deposits at banks	of insurers are concerned about their equity investments

IMPLICATIONS OF THE FINDINGS

Insurers' operations have been disrupted by lockdown and containment measures; sales and premiums collected have decreased, while lapses and customer enquiries have increased. Insurers will need to invest in creating infrastructure to enable digital sales and remote onboarding, and regulatory certainty is needed on the legality thereof.

The impact of COVID-19 on insurers' operations may be more significant than insurers initially predicted. Dwindling premium income, rising operational expenses and decreases in investment income will place pressure on insurers' balance sheets.

This could have systemic implications if unchecked: though average industry solvency was sound pre-COVID at 174% in June 2019 (BNR, 2019), some insurers were already not profitable (BNR, 2019). Thus, it is imperative for the BNR to consistently monitor the performance of insurers.

Impact of COVID-19 on the regulator and its interactions with the market

Impact on BNR

COVID-19 has had limited impact on BNR's activities. Though the insurance industry was not considered an essential service at the beginning of lockdown, the BNR continued to operate as it also regulates the banking sector, which was classified as an essential service. The only restriction the BNR noted on their activities was not being able to physically undertake on-site inspections.

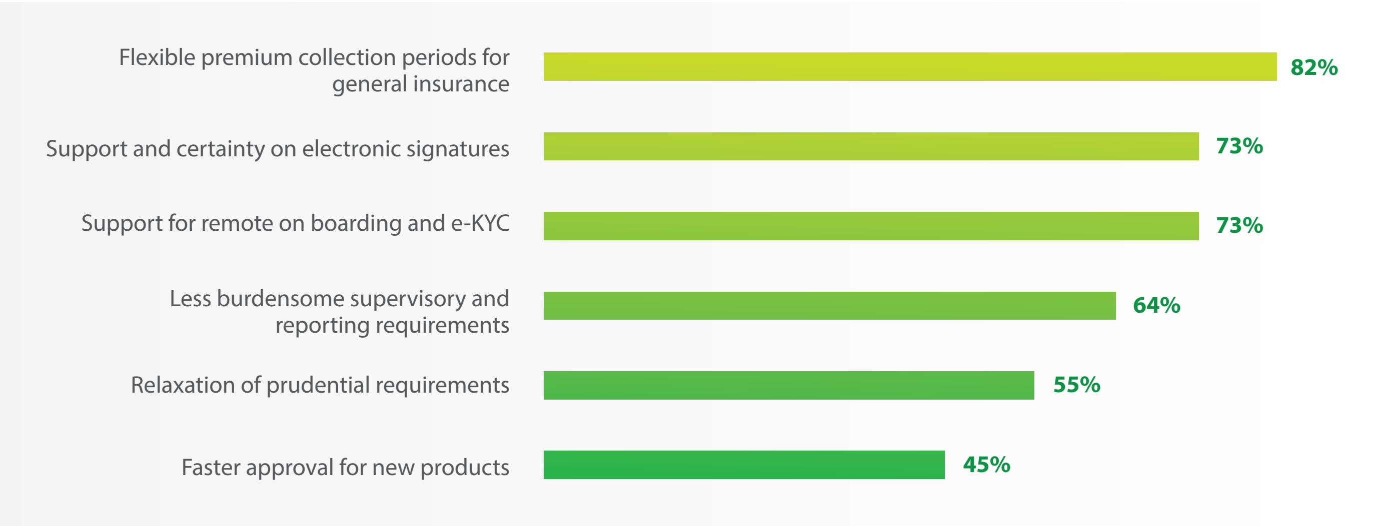
BNR-industry interplay

BNR engaged with the insurer's association. The insurance association held weekly meetings and issued letters to the BNR outlining challenges they faced and requests for support. On request, the BNR worked with policymakers to enable skeleton staff of insurers to return to the office during the lockdown to ensure that all operations could run smoothly. The BNR issued a letter, via email, outlining their response to COVID-19 and the relief measures put in place.

BNR provided a range of regulatory relief to insurers. The BNR allowed later submission of annual reports in recognition of the disruption that insurers faced from COVID-19 and the related lockdown. The regulator also relaxed cash and carry requirements which dictate that insurance premiums need to be fully paid before insurers can provide cover. The BNR allowed insurers to collect premiums in instalments over the course of 60 days even if contracts are annual and typically require upfront premium payment. Additionally, insurers are allowed to temporarily include premiums from products sold on credit in their solvency calculations. The BRN is actively monitoring the credit risk this creates.

Insurers believe a range of regulatory responses will support their businesses. The diagram below indicates the range of measures – other than that already extended by the BNR – that insurers believe would support their businesses. Interestingly, the top three requests by insurers are already possible within regulation, which indicates that clarity on regulation is required.

Figure 8: Regulatory responses that insurers believe would support their businesses



N=11

Source: AFR & Cenfri (2020)

BNR increased monitoring of vulnerabilities in the market. Dividend payments have been restricted to ensure that insurers maintain liquidity and solvency. BNR's monitoring of credit risk is critical to their prudential oversight, but dependant on their ability to get accurate information on the situation on the ground. The regulator stated that insurers facing solvency issues would be addressed on a case by case basis.

IMPLICATIONS OF THE FINDINGS

The BNR is balancing providing regulatory relief with maintaining prudential oversight. It will be important for the BNR to monitor the performance of insurers, particularly due to relaxed cash and carry restrictions.

There is also a clear opportunity to support the industry by providing clarity on the regulation surrounding: (1) contract terms and premium collection requirements for non-life insurance; (2) e-signatures and; (3) remote onboarding and the use of the Rwandan national ID system.

Conclusions and recommendations

Based on the stakeholder interviews and broader survey results, suggested priorities for insurers and regulators are outlined below. These priorities aim to support the insurance sector's continued development amidst the COVID-19 pandemic.

Insurers' priorities

SHORT-TERM

Ensure any claims processing and backlogs are dealt with. Delayed claims experiences undermine trust in the sector and the belief in the value of insurance as a concept.

Support and upskill agents as front line of insurers' switch to digital. Most insurance distribution is still completed through agents making them key to distribution strategies. During lockdown many agents were unable to make sales. Agents are the front line of insurers' brands and are critical to include in insurers' digitisation journey.

Leverage customers' interest in health and life insurance to expand insurance reach. The global pandemic has clearly made health and life risks front of mind for most customers.

Invest in understanding insurers' true financial position. Most insurers' balance sheets have deteriorated significantly, However, valuations are highly uncertain due to the markets being illiquid. Insurers need to ensure strategic decisions are based on their true financial position, not an outdated "book value".

MEDIUM-TERM

Develop understanding of customers and digital needs. Understanding customers is a continuous process as needs change over time; it requires consistent engagement with customers.

Utilise momentum around digitisation to create appropriate internal systems to unlock remote sales. Three under-utilised digital opportunities are:

- Using e-signatures for the digital completion of contracts
- Conducting remote KYC onboarding and CDD by linking to Rwanda's national identity system to verify individual's identities
- Utilising internet banking and online payment, particularly with automatic deductions

Collaborate with insurtechs to digitalise backend processes. Digitalising backend processes can result in clear efficiency gains and insurtechs are well positioned to help insurers with this. This also aligns with what most insurers expect to digitise post COVID-19.

Expand beyond traditional distribution channels. Partnering with digital aggregators, like platforms, which bring together large numbers of individuals and are trusted by customers, presents a clear opportunity to expand the reach of insurance.

LONG-TERM

Stimulate the economy with investments once stabilised. Most insurers' investments are currently short-term with limited longer-term investments. Investing in longer-term assets will help contribute to develop Rwanda's capital market.

Play a greater role in risk management. Investing in risk management skills and integrating risk management practices into insurance solutions will help reduce the negative impacts of risk events.

Regulatory priorities

SHORT-TERM

Proactively identify and monitor most vulnerable insurers on an ongoing basis. As some insurers were making underwriting losses prior to COVID-19, some may be at risk of becoming insolvent. It will be important for the BNR to proactively monitor weak insurers to ensure reputation and trust in the sector is not eroded.

Encourage and enable innovation. The BNR has a crucial role to play in enabling and encouraging innovation through proactive, clear communication and signalling to both the technology and insurance community. It can also enhance innovation by improving its own internal processes, such as facilitating quicker product approval.

Provide clarity on e-signatures and remote onboarding. Although e-signatures and remote KYC and CDD onboarding are legal in Rwanda, awareness thereof seems to be low. Ensuring that all insurers are aware of this and the use of the Rwandan national ID database can facilitate greater usage of these digital processes at relatively low effort by the regulator.

Provide clarity on the flexible premium collection terms for non-life insurers. There is a perception in the market that non-life insurers are required to collect annual premiums paid upfront in full. However, there are no regulatory restrictions on insurers developing contracts that have monthly payments. It is imperative for the BNR to provide clarity to the industry on the legality of flexible premium collection and short-term contracts.

MEDIUM-TERM

Monitor credit risk and shift back to cash and carry as soon as possible. The sale of insurance on credit has previously eroded the sector fundamentals and a recurrence of this would be detrimental to the sector.

Ensure avenues for market entry allowing innovators to disrupt the sector. The BNR can encourage healthy competition by creating additional pathways to operate. The newly introduced microinsurance license is one such avenue, as is a cell-captive license, which has been pioneered in South Africa.

Utilise regtech and suptech to enhance efficiency of BNR. As the sector digitises, the regulator can benefit through the utilisation of regulatory technology (regtech) and supervisory technology (suptech)[1], to enhance the efficiency of their reporting and supervision processes.

LONG-TERM

Coordinate with insurers to explore alternative avenues for large risks like pandemics. Alternative solutions are needed to insure large and more systemic risks like pandemics and climate change driven disasters.

[1] The Toronto Centre (2017) and Financial Stability Institute (2018) provide a detailed background on regtech and suptech.

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For more information

Access to Finance Rwanda
KG 5 Avenue, House No.13 Kacyiru
P.O BOX 1599 Kigali - Rwanda
www.afr.rw