

KNOWLEDGE NOTES

GLOBAL INDEX INSURANCE FACILITY

Supporting effective regulation and supervision
of index-insurance in Francophone Africa

HIGHLIGHTS

- The development of sustainable **index-insurance** markets requires **enabling legal and regulatory environments**
- The adoption of the “**CIMA Book VII**” on **April 5th 2012** was a **major milestone** allowing and regulating the development of microinsurance and **index-insurance** for 15 countries in the Inter-African Conference on the Insurance Market or CIMA region
- In addition to this regional regulatory change, the **Global Index-insurance Facility (GIIF)** has supported **national insurance supervision agencies** with this transition. In particular, GIIF has assisted the Senegalese Insurance Supervision Agency with the development of supervisory and customer protection tools for index-insurance
- This regulatory change has allowed the development of **index-insurance pilots in Benin, Burkina Faso, Mali and Senegal**
- Today, the CIMA region has a population of **more than 145 million people, 58% of them living under \$2 dollars a day and most of them depending on agriculture** for their livelihoods (contributing to an average of 30% of GDP)

WHAT IS CIMA BOOK 7 AND WHY WAS IT ADOPTED?

The CIMA region is an integrated organization of the insurance industry in 15 Francophone African states¹. It was created in 1992 as a way to ensure effective supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders in the region.

In 2011, the CIMA General Secretary was mandated by the Council of Ministers (see Box 1) to report on how insurance codes in member states could be amended to promote access to insurance by the poor. At the time, the regional insurance legislation or “CIMA code” contained six books regulating the insurance sector in Francophone Africa, but did not include microinsurance and index-insurance. Before undertaking the desired reforms, CIMA requested some assistance to conduct a diagnostic study of the microinsurance sector in its member countries and examine best practices in countries with similar socio-economic parameters and with more effective microinsurance mechanisms. A GIIF-funded study identified key regulatory obstacles to the development of microinsurance and index-insurance and provided recommendations to CIMA.



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1. Benin, Burkina Faso, Cameroon, Central African Republic, Congo, Côte-d'Ivoire, Gabon, Guinea Bissau, Equatorial Guinea, Mali, Niger, Senegal, Chad, Comoros and Togo

In April 2012, the CIMA Book VII (See Box 2) was adopted by the CIMA Council of Ministers and the law entered into force in July 2012. This Book regulated microinsurance and allowed the development of index-insurance.

1. Who does what as regards to insurance regulation and supervision in Francophone Africa?



What did GIIF support?

In addition to funding the regional study that served as a basis to the regional regulatory change, GIIF provided technical assistance to national insurance supervision agencies in order to help them with this new legislation (See Box 3). In Senegal for instance, several supervisory tools for index-insurance have been set up, such as requirements for insurers applying for an index-insurance agreement (See Box 4), or guidelines for “product notes” to be handed-out to customers when selling index-insurance (See Box 5). A key concern for insurance supervision agencies has been to strengthen their capacity to manage this potentially increasing workload stemming from index-insurance supervision. Several tools have now been set up to facilitate the index-insurance licensing processes. For instance, the Senegalese Insurance Supervision Agency has managed to reduce the administrative workload associated with index-insurance licensing with “documentation checklists” that insurance companies must check before sending their application.

2. What does the CIMA Book VII contain?

CIMA Book VII mainly defines microinsurance and allows the development of index insurance

- Main statements regarding microinsurance and index insurance are as follows:
 - Microinsurance aims at protecting lower-income people against specific risks in exchange for the payment of premiums. It is characterized by low premiums or capital insured, simple covers, as well as simple enrollment and claims settlement processes
 - Microinsurance contracts must be written in simple language and translated into local languages if necessary
 - Microinsurance can be bought by a group or by an institution on behalf of its members
 - Microinsurance against agriculture risks can take the form of index insurance
 - Index insurance can also cover non-agricultural risks
 - National Insurance Supervision Agencies are in charge of index insurance supervision
 - The Book VII also defines financial requirements for insurers applying for a microinsurance license

3. What are GIF regulatory and supervisory achievements in the CIMA region?

	GIF Achievements	Impact
Regional level	<ul style="list-style-type: none"> ▪ Analysis of regulatory constraints to microinsurance development leading to key recommendations to CIMA 	<ul style="list-style-type: none"> ▪ CIMA Book VII adopted in 2012 allowing the development of index insurance
National level	<ul style="list-style-type: none"> ▪ Capacity-building to national insurance supervision agencies: <ul style="list-style-type: none"> ✓ to set-up index insurance supervision tools ✓ to ensure customer protection 	<ul style="list-style-type: none"> ▪ Effective supervision of index insurance projects at national level

4. What type of tools were set-up to ensure effective supervision of index-insurance?

Information to be provided by insurers when applying for an index insurance product agreement – Example from Senegal

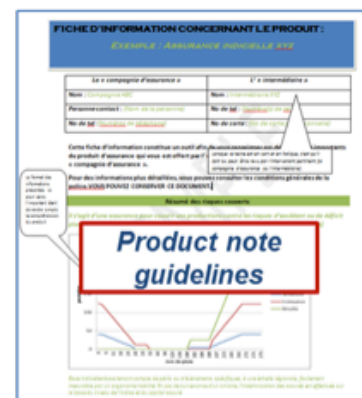
- In these "Application guidelines" (see illustration), the insurance supervision agency defines the type of information to be provided:
 - ✓ **Data and data sources** used to design the index
 - ✓ **Cross checking** of data provided by local stakeholders with national and international data sources (Government, WFP)
 - ✓ **Methodology** used to calculate payouts
 - ✓ **List of consultations** (local stakeholders, agriculture experts) that have led to the design of the product
 - ✓ Estimation of product **basis risk** (quantitative or qualitative)
 - ✓ Estimation of **potential delays** with insurance payouts



5. What type of index-insurance customer protection tools were set-up?

Information to be disclosed by insurers – Example from Senegal

- In this "product note guidelines", the insurance supervision agency defines the type of information to be provided to index-insurance customers:
 - ✓ **General information** on how index insurance works
 - ✓ **Product coverage limits and exclusions** (to be indicated in capital letters)
 - ✓ **Process for claims settlements and phone number** of a "mediator" in case of question regarding claims payments
 - ✓ Table with **historical payouts** that would have been made with this product in the past 30 years



Conclusion

- **Adequate regulation can help the development of safe and stable insurance markets** for the benefit and protection of the poor
- **The CIMA Book VII was a major milestone in Francophone Africa** that allowed the development of microinsurance and index-insurance
- **Beyond regulation**, GIFF has also supported national level efforts for effective supervision of index-insurance
- **More work** remains to be done to ensure that index-insurance products sold have strong customer value and low basis risk

Further information

« Etude sur la microassurance dans la zone CIMA », Desjardins Developpement International, Juin 2011

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