Insurance that works:

*What drives insurance sector development in the Republic of Rwanda, and what are the opportunities ahead?*
PREAMBLE

Insurance is an important part of the financial sector. It supports broader economic and general well-being in developed economies, in a way that is so entrenched and accepted that it is not widely recognized. In less developed markets, insurance can remain nascent for many years and then pick up through a dynamic development phase and reach a more mature phase. As would be expected, many actors contribute to this development. This report is part of a larger effort to understand the key drivers of development in insurance sectors in a range of jurisdictions especially including the role of policy and project interventions.

The report preparation was led by Craig Thorburn (Lead Financial Sector Specialist) and Kumud Ghimire (Extended Term Consultant) in the Finance, Competitiveness, and Innovation (FCI) Global Practice at the World Bank. The team visited Kigali during the week of June 25, 2018 and again on July 11 & 12, 2019 where it met with the BNR, insurers and other stakeholders. The authors are grateful for the active engagement of all who were involved in the discussions and in support of the work, both during missions and separately. The missions benefitted greatly from logistical assistance from Brice Gakombe (Financial Sector Specialist) in Kigali. Special thanks go to Inna Remizova (Consultant) for additional research and analytical support.

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Insurance for Resilience and Inclusive Growth

The overall project aims to partner with countries to support the development of their insurance markets by investigating the experiences of several selected countries. It incorporates assessments of regulatory and supervisory settings against a range of international standards as well as against market circumstances to identify how these settings and contextual elements have contributed to growth and development. The analysis looks across the insurance supply chain as well as considering demand and outcome-based metrics.

The country studies are complimented by a parallel effort that includes (1) quantitative analyses of a range of wider cross-country data sets1, and (2) a review of observance of the IAIS Insurance Core Principles (ICPs) against developmental metrics with a view to identifying priority ICPs for development.

Overall learning is distilled from the deep-dive studies to present broader conclusions in a synthesis report.

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1 The quantitative analysis of a wider range of data sets as an initiative has been published as a set of short notes and a compilation by the World Bank.
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GLOSSARY

AFR  Access to Finance Rwanda
AYII  Area Yield Index Insurance
BNR  National Bank of Rwanda, the body responsible for insurance supervision in Rwanda
CBHI  Community-Based Health Insurance
CGAP  Consultative Group to Assist the Poor
CMA  Capital Markets Authority
DSIBs  Domestic Systemically Important Banks
IAIS  International Association of Insurance Supervisors
MFI  Microfinance Institutions
MMI  Military Medical Insurance
MSMEs  Micro, Small and Medium Enterprises
MTPL  Motor Third Party Liability Insurance
NBFIs  Non-Bank Financial Institutions
NVDI  Normalized Difference Vegetation Index
RSE  Rwanda Stock Exchange
RSSB  Rwandan Social Security Board
RWF  Rwandan Francs

Currency: All amounts are in local currency unless specified. At the time of preparing the report the exchange rate was 1 USD = 886 RWF
Executive Summary, Findings and Recommendations

Insurance sector development is not well understood. Many studies attribute developmental challenges to popular but unresearched beliefs. Long-standing and revered truths based on “conventional wisdom” may persist as stakeholders reinforce views despite a lack of factual evidence. “Rules of thumb” are accepted despite factual reality. Far too little is known about what makes insurance sectors develop. It is accepted by many that a more developed sector is good for many reasons, and often advocated for one of these many reasons or another.

This work is part of an initiative to seek to understand insurance market development better. The project also identifies new opportunities to move forward in Rwanda.

Summary of Findings

The Republic of Rwanda has undergone a rapid economic transformation in the last two decades: the country is pursuing an aggressive strategy to transform from a low-income agricultural economy to a knowledge-based, service-oriented economy. The growth in the economy is largely driven by economic and structural reform initiatives led by the government. Despite the positive macroeconomic environment, the insurance market in Rwanda is currently small. Insurance penetration is low, even compared to some of its regional peers, and the market is at an early stage of development.

The growth trajectory in the insurance market, despite the small size and relatively low penetration, is encouraging: the overall insurance sector grew at a CAGR of 13 percent between 2010 and 2017. Several critical aspects have contributed to the sector’s development –

- **The implementation of legal and regulatory reforms in the past 10 years has facilitated development.** The insurance regulatory framework went through modernization with the adoption of a new insurance law and supporting regulations in 2009. The supervisor has made substantial progress over the last 10 years in terms of implementing legal and regulatory reforms in the sector and moving towards a more risk-based approach in line with international norms.

- **Regulations allowing foreign ownership has specifically played a catalytic role in development.** In addition to injecting capital, foreign owners are adding positive value, skills and business administration practices.

- **The split of composites, which was required by the regulator, has been positive for the growth of the life insurance segment of the market.** Between 2014 and 2017, life
insurance grew at a CAGR of 17 percent while non-life insurance grew at a CAGR of 9 percent. The difference in the growth story can be attributed, to a certain extent, to the implementation of the requirement to separate composite insurers. This observation is in line with other economies: life insurance tends to perform better following the split especially if it were the case that this business had been given less management attention under the prior structure. Despite a high growth in the life insurance sub-sector, the overall volume remains small and several hurdles need to be addressed before life insurers can make a more meaningful contribution to the broader economy, especially through mobilization of their assets to provide long term financing for development.

- The government’s focus on Universal Health Coverage (UHC) has played an important role in creating nationwide awareness about the concept of insurance. The Community-Based Health Insurance (CBHI) should receive credit not only for the direct, intended benefits in terms of providing health coverage to citizens of all socioeconomic backgrounds through a decentralized model but also for the indirect benefits in terms of creating awareness around the concept of insurance – medical insurance in particular, but also an understanding of insurance in general – and aiding insurance market development.

Given that the growth rate of the sector (CAGR of 13 percent between 2010 and 2017) is on a very small base, it makes sense to understand the growth rate(s) in the context of growth potential of the sector in Rwanda rather than comparing the figure with other economies. The sector still has not adequately capitalized on huge opportunities and trends related to the demographic dynamics and economic transformation in Rwanda –

- There is high awareness of insurance throughout the country, including in rural areas, which is often not the case in other comparable countries.
- Mass markets are underserved and there is almost no competition to cater to these markets (mostly outside Kigali). Driving innovation to serve the currently uninsured population is an opportunity.
- Mobile phone penetration is high, which presents a unique opportunity to leverage mobile phone technologies for both distribution and premium collection.

Following an assessment of a long list of challenges – large and small – both during and after the diagnostic mission, we have focused the discussion mostly around the most significant challenges that need to be overcome to unlock the growth potential of the sector. Most of the major challenges, discussed below, are on the supply side of the market and some are on the demand side (particularly issues of trust and data gaps about the financially excluded segments). The regulatory and policy architecture in general seems to be conducive to growth
of the sector, and the process of moving towards a more risk-based supervisory approach is gradually increasing capacity.

The sector confronts several challenges, and these challenges are inextricably intertwined in that one challenge perpetuates and exacerbates another –

- **Excessive reliance on compulsion**: Most of the products sold are facilitated by regulations and government policies. Motor insurance (which is legally mandatory) represents one-third of the total premiums in the universe of Rwanda’s private insurers. Medical insurance represents over one-fourth of the total premiums.

- **Unhealthy competition between insurers to sell the small number of traditional products**: Insurers are battling each other, often engaging in irrational price-cutting and other behaviors, to sell the few traditional products to the same customer segment(s) – businesses and individuals in the formal sector.

- **Lack of innovation**: The diagnosis is that the root causes for lack of innovation include –
  - Limited resources for research & development (R&D) because of weak balance sheets against the backdrop of unhealthy competition;
  - Lack of quality data and market research (especially on the demand side of the market);
  - Inadequate technical skills;
  - Short-term thinking of insurance managers, and excessive focus on day-to-day operations as opposed to long-term business strategy.

- **Low trust in the insurance sector**: Despite having a high awareness of insurance, the trust in the sector is low. The low level of trust is a function of consumers’ prior bad experience – either in the form of insurers’ unwillingness to pay claims or in the form of miscommunication and misunderstanding of some new products that the industry was experimenting with in the past.

- **Limited investment instruments for insurance asset management**: Most of the insurers’ assets are in either bank deposits or high-yield government bonds. While there is a need to further develop insurance managers’ financial and investment skills – to enable new investment strategies for diversification as well as better asset-liability matching – inadequate investment instruments and vehicles is one of the constraining factors. Capital market solutions and other initiatives from the policymakers will increasingly be more important as the life insurance sector grows and seeks new opportunities to play an important role in investing their long-term assets.
Recommendations

The key recommendations for the development of the insurance sector in Rwanda are presented in the diagram below. Each of these recommendations are elaborated in the brief discussion following the diagram. For more detailed discussion and specific actions see page 87, “Moving Forward: Findings and Recommendations”.

Rwanda has some of the right conditions conducive to rapid transformation of the insurance sector. The recommendations have four areas of focus and have been developed with a view of capitalizing on opportunities. This approach contrasts with alternatives that would be more defensive and would discourage investing in innovation, professionalism and growth. There is, of course, some degree of overlap and interrelationship between the four areas of activity.

1. Developing technical skills to strengthen the sector: The proposed mechanism for a holistic capacity building approach is the Training of Trainers (ToT) strategy, where the
trainers selected will be from the local economy to ensure a degree of sustainability and good value for money. First, one of the following two options needs to be finalized for the selection of “trainers”: either the Insurance Industry Association along with a representation from the regulator or an independent training institute/outfit (e.g. via a dedicated curriculum devised and delivered through a university – such as has been devised in Kenya). Whichever option is pursued, the process of curriculum development can benefit through inputs from the College of Insurance in Kenya. The BNR should initiate discussions with the IRA Kenya on possible model for partnership with the existing training outfit in Nairobi.

Second, the curriculum needs to include training components along different steps of the value chain (technical skills such as product development and marketing) as well as skills in business strategy and financial investment. Additionally, there is a need for targeted training of agents at the grassroots level, especially in light of the new agent licensing policy.

2. **Fostering “blue ocean” innovation through targeted leadership:** There are two primary intervention areas to foster blue ocean strategy in the sector.
   i) **Policies to incentivize innovation** – The BNR needs to develop a comprehensive framework for assessing the factors linked to innovation, which would inform the decision on issuing license to new entrants. The upcoming licensing regime can be an effective policy tool to incentivize innovation. Other policy tools include financial incentives to players serving niche markets and innovation competitions.
   
   ii) **Two-pronged strategy for data and market research** – Data and market research needs to be public good in the short term. As the private insurers steps up to this role, interventions should provide access to data and research as an intermediate step. An “innovation committee” led by the BNR can work with industry representatives and partners to oversee the implementation of this strategy. Key areas are: **insurance demand in underserved markets** (study to identify risks, examination of current coping strategies and their efficacy, and insurance opportunities), **consumer communication through short cycle field testing and innovation** (developing real time field testing and re-testing on short cycles and improving consumer communication in select product lines), and **“simple insurance” product initiative** (developing simplified products and processes through technical assistance).

3. **Enhanced supervision of the sector:** There are three areas requiring more attention in terms of supervision.
i) **Consumer protection** – Technical assistance to support the new team, established by the BNR, in charge of consumer protection and complaints handling and market conduct is a priority. Substantial progress can be made by training and working closely with the new team at the BNR to design alternative dispute resolution mechanism that works will in the context of Rwanda, with clear guidance and standardized approach to mediate and ameliorate the problems faced by policyholders effectively, contributing to the fair treatment of consumers.

ii) **Board and corporate governance** – The BNR needs to pay special attention to the “principal-agent problem” stemming from leadership discontinuity of private insurers. A high turnover of CEOs and top executives has been detrimental to the companies. Moreover, corporate governance needs to be strengthened through better internal policies and procedures.

iii) **Risk based supervisory capacity** – There is a need to further develop supervisory skills, through a combination of participating in such training initiatives at the regional level and focused training designed for Rwanda. The supervisor needs to understand better the different dimensions of risk-based supervisory approach, from risk management processes in the insurers and regulatory reporting (to inform offsite monitoring) to best practices in onsite inspection.

4. **Architectural redesign of the regulator:** While we do not recommend a separate regulatory body (outside of the central bank) in the context of Rwanda, there appears to be a need to raise the profile of insurance and pensions within the BNR. One effective way is to redesign the regulatory and supervisory structure within the BNR by separating the Insurance Division and dedicating adequate resources (both financial and human resource) to this specific unit.
Role of Insurance in Economic Development and Growth

A developed insurance sector has multidimensional benefits to the overall economy. This preliminary section briefly builds on the growing literature focusing on the role of insurance as an effective development instrument, discussing the multiple mechanisms through which it simultaneously contributes to economic growth and poverty reduction. While the core focus of the four country diagnostic studies is the key drivers of insurance market development across jurisdictions – thinking about what makes insurance markets develop, – this preliminary section puts the series of studies (including the study of the Rwandan insurance market) in perspective by examining the question of why insurance markets should be developed.

Insurance contributes to economic growth and poverty reduction through two primary mechanisms: risk management – both at the macroeconomy/industry level and household level – and financial intermediation (Cenfri, 2017)\(^2\). At the macro/industry level, insurance plays a crucial role in risk management by protecting corporate assets, thereby supporting infrastructure investments and facilitating international trade – developing credit markets, and allowing governments to free up fiscal space and reduce the uncertainty of contingent liabilities by transferring some risks such as longevity, health and natural disasters to insurance (and capital) markets. This effect on national balance sheets increases the efficiency of public finances and can free up resources for other productive investments. At the household level, insurance helps manage risks, thereby reducing poverty, improving resilience and catalyzing entrepreneurial activity.

It is important for policymakers and regulators to think about insurance as an effective instrument for poverty reduction, specifically in countries where poverty reduction is one of the development priorities of government. Poor and low-income households are not only more exposed to greater risks, but are also less equipped to effectively deal with them. Given that they often do not have access to insurance products, they engage in a range of alternative and informal risk management mechanisms that can be inefficient and have high costs to society, particularly to the poor segments of the population. In the absence of access to insurance for the poor, Alderman and Paxton (1992) point at the “possibility of poverty traps arising due to the employment of expensive risk-reducing strategies by the very poor” through two primary mechanisms: i) ex-ante efforts to reduce risk exposure dampens accumulation, creating a sub-optimal equilibrium, and ii) ex post consequences of shock can throw people back into poverty trap (Lester, 2014). Insurance helps reduce or avoid poverty in the face of adversity, with paid insurance claims having a long-term benefit well beyond the immediate event, avoiding radical measures like selling income-generating assets or taking children out of school.

Insurance also assists property market and infrastructure development – which is important for both macroeconomic development and poverty alleviation. Housing plays a key socio-economic

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role and represents the main wealth of the poor in most developing countries. The UN estimates that the global population will reach 8.5 billion by 2030, with almost 60% of the population living in urban centers. An estimated 3 billion people will need new housing and basic urban infrastructure by 2030. Against the backdrop of rapid urbanization putting pressure on housing delivery systems, many urban poor will not be able to afford formal housing without proper insurance interventions along the housing value chain.

In addition to providing financial protection and catalyzing property market development, insurance helps increase sources of long-term finance in emerging markets and developing economies. The international development community acknowledges the increasing need for enhanced participation of institutional investors (insurance companies and pension funds), especially as long-term financier in strategic sectors. The Addis Ababa Action Agenda of the Third International Conference on Financing for Development, 2015, mentions development of long-term bond and insurance markets as one of the strategies to meet longer-term financing needs. As an institutional investor, insurance can make a meaningful contribution towards the development of a deepened, stable, resilient and diversified financial sector and better financial intermediation for development. In particular, life insurers are crucial to long-term finance given that the industry is looking to match long-term liabilities with long-term assets. It can also benefit from the relative illiquidity of their liabilities facilitating investment in less liquid and more bespoke assets because of their unique longer-term perspective. Furthermore, in addition to the role of an institutional investor, insurance as a risk transfer tool also plays a crucial role in mobilizing private investments with a high risk-return ratio (Cenfri, 2017).

Moreover, insurance offers the most effective risk management especially for events of low frequency but high severity. These events are increasing due to the impacts of climate change. Some argue that climate change will lead to a significant growth in the insurance function – largely through capital markets platforms – and that damages from climate change will be disproportionately concentrated in certain geographies including Africa (Lester, 2014).

The insurance concept and the insurance industry globally have developed to a stage of maturity able to react to new risks appropriately: a considerable number of insurance products and uses have been developed that can directly match a variety of policy objectives. The mapping of policy objectives related to eradicating extreme poverty and boosting shared prosperity to specific insurance products is presented in the table below:

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<table>
<thead>
<tr>
<th><strong>Policy Objective</strong></th>
<th><strong>Appropriate Insurance</strong></th>
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<tr>
<td>Prevent old age poverty</td>
<td>Life insurance, especially endowment and annuity policies</td>
</tr>
<tr>
<td>Enable protection of (productive) assets</td>
<td>Property / catastrophe insurance for households and enterprises</td>
</tr>
<tr>
<td>Facilitate access to credit to increase productivity</td>
<td>Property, crop, livestock and life/disability insurance</td>
</tr>
</tbody>
</table>
| Protect citizens and migrants (especially when vulnerable) | • Life, health and accident insurance,  
• Crop and livestock insurance,  
• Work injury compensation insurance,  
• Motor third party liability insurance,  
• Professional, environmental and product liability insurance |
| Increase road safety | Motor third party liability insurance |
| Increase workplace safety | Work injury compensation insurance |
| Improve citizens’ health | Health insurance |
| Strengthen business | • Inland marine insurance  
• Trade credit insurance  
• Fidelity bonds  
• Surety bonds |
| Reduce dependency on foreign capital for investments | Life insurance and annuities |
| Broaden and deepen capital markets | • Life insurance and annuities  
• Deposit insurance  
• Financial guarantee insurance  
• Bankers blanket bond insurance |
| Protect budgets of national and sub-national governments | • Sovereign risk transfer  
• PPP for health / life / crop / livestock (micro) insurance |

Even though there is a compelling evidence base for the development of the insurance sector – particularly because of the role it plays in accelerating growth, reducing poverty, reducing vulnerability against global shocks, and contributing to financial sector stability – the sector has lagged behind in its part of the financial sector development agenda across emerging markets and developing economies (EMDEs). Insurance coverage is stubbornly low where it is needed most, with around 80 percent of adults in EMDEs not having access to insurance and insurance penetration (gross premiums as a proportion of GDP) hovering at just over 1 percent. Rwanda is no exception: despite the sector achieving significant nominal growth in recent years, gross premiums in the insurance sector in Rwanda remains around 1.6 percent of GDP.

This report takes a broad view of the benefits of insurance and looks to investigate the presence or gains. It takes a broad view regarding causal linkages. It recognizes that interventions and
actions can have many areas where impacts can be seen and that these areas might appear somewhat unrelated to each other. It is somewhat agnostic to any particular categorization of results or absence of them, but rather looks to see where and how change has taken place in the market. At the same time, these categorizations have been used to motivate the investigation of performance.

The study seeks to investigate the influences that may have led to outperformance or underperformance. What led to outperformance? Did policy interventions cause a change? Were donor engagements a contributing factor? Were specifically initiated regulatory reforms influential? Or did they create limited or even negative conditions off-set by other naturally occurring beneficial circumstances? Would it have all happened despite these interventions? Where some factors are identified that played a role, can the lessons be country specific or replicable as lessons for others?

Market context is critical to understanding the insurance sector situation, its development, and the directions that should be taken. The study starts from the presumption that there is no single correct path to development. The IAIS recognizes this paradigm in the introduction to the ICPs, for example, noting that “supervisors need to tailor supervisory requirements and actions so that they are commensurate with the risks posed by individual insurers as well as the potential risks posed by insurers to the insurance sector of the financial system as a whole”. Further, “it is important to take into account the domestic context, industry structure and developmental phase of the financial system and overall macroeconomic conditions” and “there is no mandated method of implementation”. There is a critical need to base policy prescriptions in a well-founded understanding of local market contexts even though broad and general principles may be relevant. As a result, although data is examined and cross-country comparatives are useful, they are instructive but not conclusive.

The study examines a range of data sets to develop the analytical basis for the review, conclusions and recommendations. Insurance development is driven by a large range of factors, some of which can be better observed than others. Data is important but understanding what it means is also important. Benchmarking results, including cross country analysis and other research to understand the meaning of calculated values, is one element that is under-represented in industry analysis. Demand and potential demand for insurance are also considered considering the nature and level of risk being faced as the basis for the examination of insurance markets effectively assuming individuals and entities should and would take out insurance if they were offered it against these risks. Other dimensions examine perceptions of risk, insurance as a solution, and then other barriers to access that may limit the extent that a risk that can be insured coverts into a risk that is insured. In this section, we approach both a range of potential risks and their trends along with data about clients.

Through the report, elements of the regulatory and supervisory arrangements are addressed as they are relevant. For those that are not specifically raised in these sections, a further section covers the remaining review of regulatory arrangements as needed.

The diagnostic review has also been conducted through an extensive set of fact-finding stakeholder meetings to gather input, validate and supplement the data-based analysis.
The report seeks to bring forward proportionate policy responses. Market circumstances, complexity or otherwise in many dimensions, inclusion, etc. all advocate for proportionality and customized recommendations. Country and market specific solutions need to be elaborated for the time and circumstances to be most relevant. These conclusions and recommendations are summarized above and elaborated more fully in the final section of the report.

**Country Context and Risk**

This section sets the context for a detailed discussion on challenges and opportunities in the insurance market in Rwanda in the sections that follows. The section begins with the country context – including the macroeconomic situation, economic development strategy of the government, and political context – and then discusses the key demographic characteristics and trends, insurance usage and financial literacy.

Figure 1 shows the administrative map of Rwanda – a small, landlocked country in East Africa that is bordered with the Democratic Republic of Congo (DRC), Tanzania, Burundi, and Uganda. Rwanda acceded the EAC Treaty on in June 2007 and became a full member of the EAC in July 2007. Provinces all have population centers (including insurance distribution presence; refer Table 13 on page 71), and the capital is well connected to the rest of the country by a network of main roads.
Macroeconomic Context and Economic Development Strategy

*Rwanda has undergone an astounding transformation in the last two decades.* The country is pursuing an aggressive strategy to transform from a low-income agricultural economy to a knowledge-based, service-oriented economy. The key development goals and vision of the government are comprehensively defined in “Vision 2020,” and in “Vision 2050.”

*Real GDP grew at a remarkable rate of 7.8 percent in 2000-2017 (annual average growth), largely driven by economic and structural reform initiatives led by the government.* Rwandan
authorities have supported both external and fiscal sustainability and promoted the development of a vibrant private sector. The 6.1 percent economic expansion in 2017 was driven by strong growth in all three major sectors, illustrating the diversified nature of the country’s economic development. The pick-up in economic activity has continued into 2018. The economy grew by 10.6 percent in 2018 Q1, indicative of strong growth momentum. The World Bank Group projects the GDP growth to accelerate to 7.2 percent in 2018, 7.5 percent in 2019 and 7.8 percent in 2020 (WB, 2018a).

Although Rwanda’s annual average growth rate is the highest among peer EAC countries, its GDP per capita is one of the lowest (Figure 2). GDP per capita doubled in the last decade to 748 USD, however, it is below the average in the EAC region and peer countries (936 USD in Tanzania, 1508 USD in Kenya). Impressively, the poverty ratio reduced from 58.9 percent in 2000 to 39.1 percent in 2013. Improvements in social indicators, including gender equality, have followed a similar trajectory. On many of the social indicators, Rwanda is now closer to the average of lower-middle-income countries, well ahead of its low-income peers. As a result, it could be considered that insurance should now be poised like never before to achieve its potential to serve larger populations with suitable products and services.

Despite the positive macro environment, the insurance market in Rwanda is currently small. Insurance penetration is very low, and the market is at an early stage of development. Insurance penetration is still at 1.6 percent and is low even compared to some of its regional peers. Under Vision 2020, the government of Rwanda’s goal was to increase insurance penetration to 7 percent. When discussing the reasons for a low insurance penetration with stakeholders and conducting analysis the causes seem varied. The reasons – key barriers to insurance market development in Rwanda – will be discussed in detail throughout this report.
Figure 2: High Growth and Low Income (17-year Average Growth and GDP per Capita, 2017)

Source: World Development Indicators, The World Bank

Figure 3: Insurance Penetration vs GDP per Capita

Source: AXCO
Table 1: Key Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
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<tr>
<td>GDP growth (annual %)</td>
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<td>7.6</td>
<td>8.9</td>
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<tr>
<td>GDP (current US$, bn)</td>
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<td>5466</td>
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<td>6672</td>
<td>7597</td>
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<tr>
<td>GDP per capita (current US$)</td>
<td>563</td>
<td>707</td>
<td>712</td>
<td>711</td>
<td>748</td>
</tr>
<tr>
<td>Population (m)</td>
<td>10.2</td>
<td>11.3</td>
<td>11.6</td>
<td>11.9</td>
<td>12.2</td>
</tr>
<tr>
<td>Exchange rate (LCU per US$, average)</td>
<td>583.1</td>
<td>681.9</td>
<td>721.0</td>
<td>787.3</td>
<td>831.5</td>
</tr>
<tr>
<td>Current account balance (US$, bn)</td>
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<td>-0.9</td>
<td>-1.2</td>
<td>-1.3</td>
<td>-0.6</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>-7.4</td>
<td>-11.8</td>
<td>-14.5</td>
<td>-15.8</td>
<td>-6.9</td>
</tr>
<tr>
<td>FX reserves (year-end, US$, bn)</td>
<td>0.8</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Total reserves in months of imports</td>
<td>5.7</td>
<td>4.5</td>
<td>3.8</td>
<td>3.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Inflation, consumer prices (annual %)</td>
<td>2.3</td>
<td>1.8</td>
<td>2.5</td>
<td>5.7</td>
<td>4.8</td>
</tr>
</tbody>
</table>

**Source:** World Development Indicators, The World Bank, IMF

*Rwanda’s supportive business environment has stimulated private investment and attracted foreign interest.* As a result, Rwanda succeeded in attracting US 2.3 billion in net FDI during 2007-2017. Large-scale public investments, fueled by external aid, have sought to close infrastructure gaps, particularly in energy, telecommunications, and road transport. Rwanda is ranked 41 among 190 economies in the ease of doing business. Rwanda has the second-highest African ranking in this survey after Mauritius. The rank improved by 15 positions from 56 in 2016. Rwanda outperforms the medians on World Bank governance indicators, highlighting efforts to tackle corruption and improve government effectiveness. This underpins ongoing donor support. Rwanda reduced the time for a property transfer by introducing new online services. Rwanda strengthened minority investor protections by making it easier to sue directors, clarifying ownership and control structures and by requiring greater corporate transparency. Its’ ranking on the efficiency of the legal framework for settling disputes in the Global Competitiveness Report is 13 out of 137 countries in 2017-2018. Crucially, the institutions of governance have been significantly strengthened, earning the government a reputation for efficiency and probity (Ggombe and Newfarmer, 2017).

*Regular efforts have been made to develop the service sector and to stimulate investment in the industrial sector.* These efforts are bearing positive results, as the service sector has contributed more to the economy than the agricultural sector in recent years. The service sector (such as wholesale & retail trade, real estate activities, and education) is now the leading component of GDP. Its share was 51.2 percent in 2017, followed by the agricultural sector (31.3 percent) and the industrial sector (17.5 percent). The government’s ambitious infrastructure
investment program has stimulated industry, particularly construction, while the mining sector has also increased in prominence in recent years.

**The external sector continues to improve** (Table 1). The current account deficit narrowed sharply, from 15.8 percent of GDP in 2016 to 6.8 percent in 2017, supported by exchange rate adjustment. Goods exports increased sharply by 58 percent, with the trend continuing in 2018. Meanwhile import values declined slightly in 2017 but have risen in 2018 with increasing international fuel prices. The Rwandan Franc remains on a depreciatory path due to external imbalances. After dropping almost 10 percent in 2016, the franc depreciated 3.1 percent against the US dollar in 2017. Moreover, monthly movements have stabilized. This has allowed the BNR to accumulate official foreign exchange reserves. The country’s foreign reserves stood at US$1.03 billion in 2017 and reached 4.2 months of imports. The country still boasts a healthy external liquidity position (IMF, 2018).

**Rwanda continues to stimulate domestic demand by providing accommodative monetary policy.** However, monetary transmission via interest rates remains extremely weak due to structural excess liquidity and shallow financial and interbank markets. Rwanda’s policy rate as well as consumer price inflation are trending around multi-year lows. Inflation declined from 5.7 percent in 2016 to 4.8 percent in 2017.

**Monetary and credit conditions have stayed tight.** Monetization of the economy declined as the ratio of the money supply, (M3 to GDP), fell from 23.9 percent at the end of 2016 to 23.6 percent at the end of 2017. Credit available to the private sector held at about 19 percent of GDP in 2017. Lending rates averaged 17.2 percent, almost unchanged from 2016, but the average deposit rate declined from 7.9 percent in 2016 to 7.6 percent in 2017, slightly increasing interest rate spreads to 9.5 percent by December. In the first quarter of 2018 the spread has narrowed.

**Political Context**

Rwanda has achieved political stability since the genocide in 1994, and the internal political situation is set to remain stable in the near to medium-term future at the very least. President Paul Kagame was re-elected to a seven-year term in 2017, winning 98.8 percent votes in a high voter turnout.

The political leadership, under President Kagame and a largely technocratic cabinet, has created an enabling environment for economic progress through economic and institutional reforms and a strong implementation of policies and regulations. The stable political environment has attracted investors – both locally and globally – increasing investor and consumer confidence in the economy. Professionals working in both the public sector and the private sector express that
there is a strong implementation of government policies in general. The government has strategically capitalized on the tourism potential of the country and has been working on tourism promotion through simultaneously focusing on nation-branding and infrastructure development. The ongoing expansion of RwandAir – the national carrier – and the construction of Bugesera International Airport also demonstrate the political will to significantly develop the tourism industry. Private sector development remains one of the core development priorities of the government, and there have been ongoing initiatives to develop a vibrant and entrepreneurial private sector.

There exists a strong sense of civic duty among citizens in the country, which is instituted through both political institutions and processes as well as through sociocultural forces. The political narrative around the need for all citizens to march together to achieve socio-economic progress and prosperity has garnered an extremely high level of support across provincial boundaries within the country. There is a unique opportunity to build a sense of economic civic duty with regards to insurance uptake – and financial inclusion more generally – as a strategy to permeate the cultural fabric of the Rwandan society. This includes financial literacy and education on the importance of financial products such as insurance, perhaps as a starting point, but goes beyond that.

The government’s focus on social and economic inclusion as well as shared prosperity manifests itself though several realities. Women hold 61 percent of the seats in the parliament (lower house of the legislature) and is ranked the highest country in the world for women representation in the parliament (as of January 2017)\(^5\). The International Monetary Fund (IMF), in a country report on selected issues, states that “Rwanda’s advances in gender equality, emerged, in part, as a necessary component of the rebuilding and development strategy from the mid-1990s, with women taking on new roles as major actors in society and heads of households.” (IMF, 2017)

There is a robust political will and commitment to deliver essential basic services such as healthcare to citizens from all socioeconomic backgrounds.

Health Policy and Move Towards Universal Health Coverage

The government’s “Vision 2020” paper articulates the firm commitment to inclusive health policies: “health policies must be targeted at the poorest members of the population to improve access to healthcare, the quality of that healthcare and to reduce its cost.”

The government has made praiseworthy progress in its move towards Universal Health Coverage (UHC) through the decentralized, Community-Based Health Insurance (CBHI) model. The model

is unique to Rwanda, and there have been studies focusing on the drivers and the political context that have enabled the design and successful implementation of the CBHI model.

CBHI has not only provided basic health coverage to majority of the population of Rwanda – the innovative nature and success of the program has been widely cited as a model for inclusive healthcare delivery – but has also created nationwide awareness at the grassroots level about the concept of insurance, even in areas where the general financial literacy is low. CBHI should receive credit not only for the direct, intended benefits in terms of providing health coverage to citizens of all socioeconomic backgrounds through a decentralized community-centric model but also for the indirect benefits in terms of creating a mass awareness around the concept of insurance – medical insurance in particular, but also an understanding of insurance in general – and aiding insurance market development.

Demographic Characteristics and Trends

*Significant population increase and urbanization suggests huge potential for both life and non-life insurance products.*

Rwanda with a young, mostly rural population is one of the most densely populated countries in Africa (495 people living per square km), Table 2 (below). In 2017, the population was 12.2 million compared to 8 million in 2000, with the rate of population increase greater than that of the global average but like that of neighboring countries, Table 3. Currently, around 83% of Rwanda's population live in rural areas and more than 70% of the population still work in subsistence farming. The proportion of Rwanda’s population living in urban areas increased from 15.8 percent to 17.1 percent from 2001 to 2017, representing an average urbanization rate of 3.1 percent per annum. Urbanization and the movement of people from rural to urban areas will promote growth for insurers.

*The demographics are highly favorable: with 40 percent of the population below working age and a slowdown in population growth, a bulge in the working age population is projected to emerge soon.*

*Table 2: Demography Dynamics in Rwanda*

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</thead>
<tbody>
<tr>
<td>Population, total</td>
<td>9.4</td>
<td>9.7</td>
<td>10.0</td>
<td>10.2</td>
<td>10.5</td>
<td>10.8</td>
<td>11.1</td>
<td>11.3</td>
<td>11.6</td>
<td>11.9</td>
<td>12.2</td>
</tr>
<tr>
<td>Population growth (annual %)</td>
<td>2.6</td>
<td>2.7</td>
<td>2.7</td>
<td>2.7</td>
<td>2.6</td>
<td>2.6</td>
<td>2.5</td>
<td>2.5</td>
<td>2.4</td>
<td>2.4</td>
<td></td>
</tr>
</tbody>
</table>
Table 3: Population Dynamics

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Average annual population growth %</th>
<th>Dependency ratio</th>
<th>Crude death rate</th>
<th>Crude birth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions</td>
<td></td>
<td></td>
<td>Per 1,000 people</td>
<td>Per 1,000 people</td>
</tr>
<tr>
<td>2000-2017</td>
<td>6,121.70</td>
<td>7,530.40</td>
<td>1.2</td>
<td>40</td>
<td>13</td>
</tr>
<tr>
<td>Kenya</td>
<td>31.5</td>
<td>49.7</td>
<td>2.7</td>
<td>71</td>
<td>5</td>
</tr>
<tr>
<td>Rwanda</td>
<td>8</td>
<td>12.2</td>
<td>2.5</td>
<td>71</td>
<td>5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>34.2</td>
<td>57.3</td>
<td>3</td>
<td>86</td>
<td>6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>670.6</td>
<td>1,061.10</td>
<td>2.7</td>
<td>79</td>
<td>6</td>
</tr>
<tr>
<td>Low income</td>
<td>465.6</td>
<td>732.4</td>
<td>2.7</td>
<td>77</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: World Development Indicators, The World Bank

As can be seen in Figure 4 (below), Rwanda’s population is young, with about 40% of the population under age 14 and another 35% between ages 15 and 24. Only 3% of the population was in the 65 years and above category in 2017. The relatively small elderly population limits awareness of retirement-related life products such as pension, annuity and superannuation.
Life expectancy at birth, about 67 years, is below the world average but similar to the average for Africa.

Rwanda’s fertility rate declined sharply during the last decade as a result of the government’s commitment to family planning. Increases in educational attainment, particularly among girls, and exposure to social media also contributed to the reduction in the birth rate. The average number of births per woman decreased from a 5.5 in 2001 to 3.9 in 2016. Despite these significant strides in reducing fertility, Rwanda’s birth rate remains very high (30 births per 1,000 population in 2017) and will continue to for an extended period because of its large population entering reproductive age.

Figure 4: Age Distribution

A Demographic Dividend (DD) Rwanda study (UNFRA, 2017) showed that the age structure will continue to change given an estimated decline in birth rates to 2.3 births by 2050. It would propel the country to graduate to middle income status with per capita GDP of US$ 4,014 by 2035 and

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7 UNFRA (2017). Unlocking Rwanda’s potential to reap the demographic dividend.
to a high-income status with per capita GDP of US$ 12,555 by 2050. If Rwanda’s birth rate continues to decline, the age structure will change from the current one dominated by dependent children to one dominated initially by youth and then later by working age adults. This transformation in the age structure of the population can accelerate economic growth through a “demographic dividend” that can last between 20 to 50 years (Bloom, Canning, & Sevilla, 2003). The logic is that as the fertility rate and child dependency burdens decline and the population has a working age-bulge, the economy will enhance its overall productivity.

Poverty reduction policy coupled with a growing middle class has implications to insurance affordability and insurance uptake.

Rwanda’s global income ranking improved from the seventh poorest in 2000 to the 20th in 2015, on the back of Rwanda’s strong commitment to good governance, the principles of market economy and openness (WB, 2017)\(^8\). According to the ‘UNDP’s 2016 Human Development Report’, the country was ranked 159th out of 188 countries with an HDI value of 0.49. The country’s Gini coefficient (a measure of income disparity, with zero corresponding to complete equity and 100 corresponding to extreme inequity) was 50.4, according to the World Bank in 2013.

Vision 2050 (Rwanda’s new long-term development strategy) aims to place the country in upper middle-income status by 2035. Rwanda’s poverty reduction actions are broad; they include building rural and agricultural infrastructure, helping increase the incomes of impoverished population, and providing public services such as social security and health care, education services and employment opportunities for youth, while safeguarding the economic, social and cultural rights of those living in poverty. These measures have created conditions for the protection of other human rights\(^9\).

The adopted transformational 2030 Agenda for Sustainable Development that places people at the center is in line with Rwanda Vision 2020 and the new National Strategy for Transformation, which articulates key enablers that would drive social economic development. The overarching goal for the Social Transformation Pillar is to Develop Rwandans into a capable and skilled people with quality standards of living and a stable and secure society. This pillar has five broad objectives:

- Move towards a poverty-free Rwanda;
- Ensure a quality, healthy population;
- Develop a competitive and capable Rwandan population;
- Ensure quality of education for all, aiming at building a knowledge-based economy;

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\(^8\) Rwanda Economic update.

- Transition to modern Rwandan households in urban and rural areas.

Insurance Usage and Financial Literacy

**Rwanda is one of the rare countries in Sub-Saharan Africa which has rapidly expanded access to finance and increased financial literacy.** The Umurenge SACCO (U-SACCO) initiative, introduced by the government in 2009 to increase financial inclusion in the country, has had notable success. The initiative has brought 1.6 million new customers into the financial sector through the establishment of district-level SACCOs (one for every district in Rwanda). This initiative also is just one example of Rwanda’s ability to quickly align with and roll out initiatives when they have policy leadership. The government notes that because of this initiative, 90 percent of Rwandans are now within 5 kilometers of a financial access point.

The improvement in financial inclusion and literacy changed households’ saving behavior. The proportion of adult Rwandans owning an account increased from 32.8 percent in 2011 to 50 percent in 2017, ahead of Sub-Saharan Africa region (Figure 5). Of those accessing financial services, 36.7 percent are served formally by commercial banks and non-bank financial institutions. Saving semi-formally is a common method of saving especially in Sub-Saharan Africa. On average across the region, 25.3 percent of adults reported having saved in the past year using a savings club or a person outside the family, and in Rwanda, 46.1 percent reported having done so (Figure 6).
Figure 5: Adults Owning Accounts, (% age 15+)

Source: Global Findex Database, The World Bank
Mobile money ownership offers large opportunities for insurers. The latest developments signify that a growing number of the population is becoming easier to reach digitally. In 2017, mobile penetration was 72 per 100 people. In 2017, the number of mobile subscribers was 8.82 million compared to 7.75 million mobile subscribers in 2014. The number of internet users was 2.44 million in 2016 compared to 2.09 million in 2015. According to Finscope 2016 using mobile money has helped to reduce the share of adults who do not use any financial products or services, formal or informal—the “financially excluded” group—from 28 percent in 2012 to 11 percent in 2016. The shift was driven by access to formal nonbank financial products, mainly those offered by mobile money services. In 2016, in SSA Rwanda ranked second only to Mauritius in terms of financial inclusion.

The habit of paying bills using mobile money provides an opportunity for the government to drive uptake and usage of mobile money by digitizing collections (P2G). Insurance is one potentially powerful use case. According to the National Survey (CGAP, 2015) the majority of the population (71 percent) pays premiums, usually through the district level SACCOS10. The survey revealed

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nearly 85 percent of the population having some form of insurance: 83 percent because of medical insurance. Digitizing insurance and other P2G payment streams could have an impact on the uptake and usage of digital financial services with strong government backing and effective execution. The government has already started making strides in this area with their Rwanda Online initiative, which facilitates payments for various government services (i.e., passport application) via mobile money and internet. Digital payment infrastructure and mobile financial services is discussed in more detail under the Financial Sector Overview section of this report.

Insurance Uptake

According to FinScope 2016, the main barriers to uptake remain affordability (59 percent) and lack of awareness (37 percent).

Figure 7: Insurance Usage Trends

Source: FinScope
Financial Sector Overview

The insurance industry must be considered within the context of the country’s overall financial sector. As is expected, the banking industry dominates the financial sector in Rwanda. As of June 2017, there were 11 commercial banks, 4 microfinance banks, 1 cooperative bank, and 1 development bank constituting the industry.

**Banks:**

The net assets in the banking sector grew from USD 2.9 billion in December 2016 to USD 3.2 billion in December 2017, representing a 9.8 percent growth during the year\(^\text{11}\). Financial soundness indicators demonstrate appropriate liquidity and capital adequacy levels for the banking sector as a whole. Profitability of the banking sector has fluctuated in recent years. In 2017, the banking sector continued to be well-capitalized; since September 2016 it has had a Tier 1 capital adequacy ratio of about 20 percent against a minimum prudential requirement of 10 percent. At year-end, the ratio of liquid assets to total deposits was 43.7 percent against the 20 percent requirement. However, bank nonperforming loans (NPLs) were 7.6 percent in December 2017, unchanged from 2016, though the patterns by product varied. The mortgage sector, the main recipient of bank credit, saw its NPL ratio slip from 5 percent in 2016 to 4.5 percent by yearend 2017, and agriculture NPLs dropped from 22.7 to 10 percent. However, manufacturing, trade, and hotel NPLs went up. Provisions to NPL ratio was 46.7 percent. In 2017, the BNR adopted more prudential regulations to ensure the soundness and efficiency of Rwanda’s financial sector.

The National Bank of Rwanda (BNR) states that concentration of bank loans in three sectors – mortgage, trade, and hotel sectors – remains a risk to the overall financial system\(^\text{12}\). Mortgage accounted for 35.1 percent, trade accounted for 22.4 percent, and hotels accounted for about 9 percent of the overall loan portfolio of banks (as of June 2017). The BNR has adopted the Basel Committee framework for identifying and supervising the domestic systemically important banks (DSIBs) and has concluded that the DSIBs are “well capitalized, liquid and held relatively ample quality of assets, this limiting systemic risks that may disrupt the entire financial sector.”\(^\text{13}\)

\(^{11}\) Banking Sector Indicators, National Bank of Rwanda website  
\(^{13}\) Financial Stability Report 2016-2017, National Bank of Rwanda
Non-Bank Financial Institutions (NBFIs):

Both the microfinance sector and the non-bank financial institutions (NBFIs) sector have remained stable and above the prudential limits in recent years. The microfinance sector is still small but is growing in size and relevance for the economy. Microfinance institutions’ (MFIs) asset base is 6.3 percent of the total assets in the financial sector (as of June 2017).

NBFIs include both pension funds and insurance companies. NBFIs asset base represents 26.8 percent of the total financial sector assets, and around 14.5 percent of the country’s GDP. Pension funds are much larger compared to insurance companies: pension fund assets represent 9.3 percent of GDP while insurance assets represent 5.2 percent of GDP (as of June 2017)14

Given the focus and scope of this report, a detailed analysis of insurance companies is presented later throughout this report.

Capital Markets:

The capital markets are still nascent in Rwanda: The Rwanda Stock Exchange (RSE) was incorporated as a Share Company in 2005 with the mandate of carrying out stock market operations, and the company was officially launched under a new legislation in 2011. The RSE was never a mutual organization. The Government of Rwanda – the largest shareholder of the RSE – holds 20 percent equity stake in the RSE. Among the shareholders of the RSE are three insurance providers: Soras (1 percent equity), Sonarwa (1 percent equity) and RSSB (10 percent equity).

The capital market platform offers mostly equities and very limited debt instruments outside of government bonds. The Treasury bills & bonds offer high yield, and the yield curve – which is presented in a later section of this report (Figure 27) – is quite steep. The stock exchange has been showing good progress in terms growing and sophistication within a short time period. The capital markets in Rwanda, both at an operational level at the RSE and at a higher strategic level of the BNR, have undergone several catalytic changes in recent years. Regulations have recently been put in place for the fund management industry. New IT infrastructure has been mostly installed at the RSE, with an exception of linkage to the Central Depository System (CDS). Having realized that a lot of current investors in the Rwanda capital markets are regional or international, the RSE is leading a capital market infrastructure project to integrate the market with other East African countries (EACs). Furthermore, the RSE has been working with the BNR to develop the repo market and new investment vehicles such as the real estate development trust. Development of the real estate trust will not only make it easier for insurers to invest in the sector

while mitigating the concentration risk issue that several life insurers are currently facing\textsuperscript{15} – the trust will allow for diversification through pooling of several, uncorrelated or negatively correlated property & real estate assets – but will also democratize access to investment vehicles for the general population of Rwanda.

The executives of the RSE acknowledge that the development of the insurance and pension sectors will contribute to the growth of the capital markets, particularly for longer-term investments. The development of insurance & pension markets and the development of capital markets are, in fact, mutually reinforcing: vibrant capital markets contribute to the further development of the life insurance, annuity and pension markets and sophisticated insurance & pension markets will play a catalytic role in the development of the overall financial sector in general and further development of capital markets in particular.

Digital Payment Infrastructure and Mobile Financial Services:

In an age when technology and financial innovation are dramatically changing the character and behavior of financial systems, institutions and services, Rwanda demonstrates an appetite and willingness to catch up with modern technology and innovation. Further adoption of technology in the financial sector will both help the National Bank of Rwanda (BNR) with the mandate of financial inclusion, and will help the financial institutions achieve greater operational and cost efficiencies.

Mobile based-financial services have recently taken root in Rwanda. Consistent with rapid early adoption rates in other aspects, active mobile money holders rose from 3,333,349 in 2016 to 3,774,438 in the most recent year—more than 40 percent of total mobile phone subscribers and nearly 33 percent of Rwanda residents. Ten banks and one microfinance institution offer mobile banking services. By December 2017, 1,158,944 mobile banking users were registered—nearly 15 percent of mobile phone subscribers and nearly 10 percent of residents. Among mobile financial services currently available are cross border transactions, payments for government services, and micro savings (WB 2018 a).

The government is keen on linking mobile money operators and financial institutions to capture the financially excluded population. RSwitch, a national e-payment service is already connected to all banks in Rwanda, meaning that it will add a layer for the financial institutions and mobile money network operators to deal with each other. Rwanda will become the third country in the East African Community to roll out interoperability of mobile money after Kenya. A notable recent development has been the introduction of mobile banking products to complement mobile money products. In partnership with MTN, Commercial Bank of Africa introduced MoKash, a suite of mobile-based banking products offered to MTN Mobile Money customers,

\textsuperscript{15} Discussions with insurers highlighted that they are less aware of this opportunity to resolve high levels of asset concentration. Specific action is recommended to take this forward.
which offers both a deposit product (micro savings with up to 7 percent interest) and a loan product (microloans with a one-time fee of 9 percent levied for each loan).

Rwanda has a relatively modernized national payment system. Payment system infrastructure is undergoing a process of rapid modernization and the government is pushing towards becoming a “cashless economy.” The number of ATMs and POS terminals have increased in recent years. There have been a number of new initiatives in the mobile financial services space, including some experimentation in the insurance sector, which will be discussed further in a later section of this report (see “Box 2: Early Experience of Mobile Insurance in Rwanda” on page 75).

The main pillar of the Rwanda Integrated Payments Processing System (RIPPS) is the real-time gross settlement system for the country, which constitutes the main system for the settlement of interbank activities in the financial system. The ratio of electronic retail payments transactions to GDP has steadily increased from 0.3 percent in 2011 to 21.6 percent in 2016.

![Figure 8: Digital Payments in 2017 (% age 15+)](source: Global Findex Database, The World Bank)
Insurance Sector: An Introduction

The insurance sector in Rwanda is still small, relative to overall financial sector in the country and the insurance sector in other East African countries (EACs). The market size, in terms of gross written premiums (GWP), in 2017 stood at RWF 120 billion (USD 143 million). The total insurance penetration – GWP as a percentage of GDP – in 2017 stood at 1.6 percent, with private insurers representing 0.9 percent and public insurers representing 0.7 percent.

To put these figures in perspective, Table 4 (below) shows the comparative figures for total market size (2017 and 2016) and insurance penetration across 9 countries, including Rwanda, in Africa. The table includes 3 EACs (Kenya, Tanzania, Uganda), 2 mature middle-income African countries (Botswana and Namibia), 2 commodity middle-income African countries (Ghana and Nigeria) and 1 new middle-income African country (Senegal).

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<tbody>
<tr>
<td>Kenya</td>
<td>2.6</td>
<td>2,009 million</td>
<td>1,937 million</td>
</tr>
<tr>
<td>Tanzania</td>
<td>0.6</td>
<td>286 million</td>
<td>303 million</td>
</tr>
<tr>
<td>Uganda</td>
<td>0.8</td>
<td>202 million</td>
<td>186 million</td>
</tr>
<tr>
<td>Ghana</td>
<td>1.1</td>
<td>518 million</td>
<td>493 million</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.3</td>
<td>1,057 million</td>
<td>1,220 million</td>
</tr>
<tr>
<td>Botswana</td>
<td>2.6</td>
<td>482 million</td>
<td>408 million</td>
</tr>
<tr>
<td>Namibia</td>
<td>9.3</td>
<td>1,333 million</td>
<td>991 million</td>
</tr>
<tr>
<td>Senegal</td>
<td>1.7</td>
<td>279 million</td>
<td>236 million</td>
</tr>
<tr>
<td>Rwanda</td>
<td><strong>1.6</strong></td>
<td><strong>143 million</strong></td>
<td><strong>127 million</strong></td>
</tr>
</tbody>
</table>

Source: AXCO Global Statistics, National Bank of Rwanda

Rwanda’s insurance sector is comprised of 14 private insurers and 2 public insurers – Rwanda Social Security Board (RSSB) and Military Medical Insurance (MMI). Both the public insurers sell medical insurance schemes, and their written premiums represent almost half of the premiums in the overall insurance sector. RSSB is a public body that manages social security services and provides medical insurance scheme. In light of the Government of Rwanda’s “Vision 2020” paper and the move towards Universal Health Coverage (UHC), Mutuelles de Sante was providing coverage through the CBHI program. The CBHI program moved to RSSB recently. MMI offers a medical scheme for military personnel and their families. **While the analysis in this report draws**
on figures from RSSB and MMI while looking at the overall universe of the country’s insurance sector, the primary focus from the perspective of analyzing the barriers to insurance market development will be the sub-universe of private sector insurers in Rwanda.

![Insurance Penetration Trends](chart)

**Figure 9: Insurance Penetration Trends**

Although there has been some increase in insurance penetration in Rwanda, say compared to the figure in 2010, there is a huge room for increasing the penetration. 100 countries, out of 181 countries where data is available, have insurance penetration higher than that of Rwanda as of 2017 (Axco Global Statistics). South Africa – which ranks the highest in Africa – has a staggering insurance penetration figure of 11.8 percent. While comparing to EACs, Kenya has a much higher penetration – measured at 2.6 percent – while Tanzania and Uganda have lower penetration rates (0.6 percent and 0.8 percent, respectively) than Rwanda. While comparing to middle-income African countries, Namibia has a significantly higher penetration (9.3 percent). Further, Botswana and Senegal also have higher penetration rates (2.6 percent and 1.7 percent, respectively) than Rwanda.

Often, in economies where the insurance sector is small, there is a tendency for government authorities to not provide enough attention and resources to the sector because of the view
that the contribution of the sector to the overall economy will not be significant. It is important to keep in mind that such practice runs the risk of becoming a self-fulfilling prophecy. Creating an enabling environment for the insurance sector to thrive requires the regulator, the industry association, and other stakeholders deducing sufficient time and resources.

Insurance density in 2017 – measured as GWP per Capita – was around RWF 10,000 (USD 12). As can be seen in Figure 10 (below), insurance density is on an upward trajectory.

![Insurance Density Trends](image)

Source: National Bank of Rwanda, World Bank

There exist several binding market development constraints in Rwanda. Despite constraints, the insurance sector has been growing.

The composites in the private insurance sector were required to be split into two separate entities by the regulation No. 05/2009 on licensing and other requirements for carrying out insurance business (2009) – life insurance and general insurance – with an aim to increase efficiency and improve services. The compliance with this requirement was mostly completed in 2013. Since the composites split, there have been no greenfield companies in the life insurance

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16 https://www.newtimes.co.rw/section/read/106722
space: all 4 private life insurance companies were operating in the market prior to split of the composites.

There have been significant investments in domestic companies by foreign companies in recent years. While there has been a checkered history with regards to changes in shareholding structures – particularly the entry of foreign players in the market – most industry professionals share the view that foreign ownership generally has played a catalytic role in market development to a certain extent through mobilizing financial resources and further developing the human capital and infrastructure. In addition to injecting capital, foreign owners are adding value through skills and good practices: foreign-owned companies have been implementing new IT systems and infrastructure and also engaging in a number of capacity building practices, including sending employees for on-the-job training to other country offices. Against the backdrop of inadequate technical capacity across the board constraining the insurance market from achieving its growth potential, the initiatives from foreign-owned companies with businesses across countries appear to be adding positive value through knowledge transfer in product and other technical areas.

Most of the products sold in the non-life segment of the market are facilitated by regulations and government policies, and there is a major lack of innovation in the market: medical insurance and motor insurance (which is legally mandatory) combined represent almost four-fifths of the overall insurance premiums (including both private and public insurers). There exists an intense, and often unhealthy, competition between insurers to sell these limited products to the same customer segment(s) – businesses and individuals in the formal sector. Lack of innovation and inadequate technical capacity are among the major constraining factors for insurance market development. Driving innovation to serve the currently uninsured population in Rwanda is both a challenge and an opportunity.
Development, Performance and Competition in the Insurance Sector

This section analyzes the insurance industry and the competitive landscape in Rwanda, including the market size and structure, product offerings, competition, financial performance and risk management, and sales & distribution trends. While the primary research – and raw quantitative data collection – was mostly limited to the supply side of insurance, secondary research and qualitative information gathered during formal and informal interviews with industry professionals in Kigali have informed the understanding of the demand side. Lack of reliable and comprehensive data focusing on the demand side of the market represents a major constraint for the development of the overall insurance sector.

Premium Growth and Development

Recent Growth in the Overall Insurance Sector:

As can be seen in Figure 11 (below), overall gross written premiums net of cancelation (including both life and general insurance) grew from RWF 46 billion to RWF 120 billion between 2010 and 2017, representing a CAGR of 13 percent during the time period. As can be seen in Table 5 (below), the growth rate since 2010 has been higher than other countries in the EAC.

The premiums of the 2 public insurers combined – both of which sell medical insurance – represented over 45 percent of the overall insurance sector in Rwanda (as of December 2017).

Table 5: Comparisons of Premium Growth Rates

<table>
<thead>
<tr>
<th>Country (Time Period)</th>
<th>CAGR - Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya (2010 – 2017)</td>
<td>9%</td>
</tr>
<tr>
<td>Tanzania (2010 – 2016)</td>
<td>6%</td>
</tr>
<tr>
<td>Uganda (2010 – 2017)</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Rwanda (2010 – 2017)</strong></td>
<td><strong>13%</strong></td>
</tr>
</tbody>
</table>

*Source: AXCO Global Statistics, National Bank of Rwanda*
**Difference in Growth – Life and (Private) General Insurance – Following the Split of Composites:**

In the private sector, premium growth rates in life and general insurance have been very different following the split of composites. As can be seen in Figure 12 (below), life insurance premiums grew 87 percent in total between 2014 and 2017 – representing a CAGR of 17 percent – while general insurance premiums grew 42 percent – representing a CAGR of 9 percent – during the same time period. Part of the difference in the growth story can be attributed to the implementation of the requirement to separate composite insurers. Lessons from some other economies suggest that splitting composites into separate entities with separate management and resources can contribute to the growth in the life sub-sector, which may have been given less focus or attention under the composite structure.

Life insurance and non-life insurance have different strategies and skill-mix composition requirements. Furthermore, convincing potential customers and selling the products can take a much longer time, and consequently higher agent costs, in the case of life insurance. Having said that, some stakeholders recognize that life insurance products that are sold with loan products
also have an element of legal compulsion, suggesting that it is not only the general insurance side that have low sales costs aided by legal compulsion. However, experience of industry practitioners suggests that selling life insurance products typically requires a greater degree of salesmanship and more entrepreneurial approach from the management team and the entire workforce.

Further, general insurance in Rwanda continues to leverage the compulsory model by directing passive and reactive sales efforts through branch networks whereas life insurance, even when part of a group with a general insurance affiliate, is much more oriented toward developing an active selling agency force.

*Figure 12: Trends in Gross Written Premiums (Private Insurers Only) by class*

The splitting of the composites can have positive impact on life insurance if it were the case that the business had been historically ignored when bundled together and, thus, did not receive adequate financial resources or enough management attention. The company’s cultural environment tended to be one of the major determining factors on the level, if any, of positive impact that splitting has on the growth story of life insurance business. Of course, if the company had already managed the human resource structure and overall strategy to cater to the needs of life insurance – allowing for the right skill-mix composition and incentive structures – then the split may not have notable impact.
In the case of Rwanda, while the individual company performance post-splitting varies, the life insurance sub-sector in aggregate has grown faster following the split: the CAGR in life insurance premiums has been 8 percentage points higher than the same for non-life insurance premiums between 2014 and 2017. Insurance managers and other stakeholders in Kigali agree that the splitting has greatly benefitted the life sub-sector through multiple mechanisms: enhancement of operational efficiency, improvement in resource allocation, and improvement in risk management – ensuring the volatility or poor performance of one business does not affect the other.

While the growth in life insurance has been much faster in recent years, it is important to note that the sub-sector started with a much smaller base: life insurance premiums were only around one-sixth of general insurance premiums in 2014 and stand at around one-fifth of general insurance premiums in 2017.

**Competitive Landscape: Concentration and Competition**

As discussed earlier, the market is comprised of 2 public suppliers and 14 private suppliers of insurance products. Both the public insurers – RSSB and MMI – offer medical insurance. RSSB was established by Law No 45/2010 as the Social Security Board of Rwanda, and MMI was established by Law No 23/2005.

**Life Insurance – (Long-Term) Private Sector Companies:**

4 out of 14 private players offer life insurance products. Table 6 (below) lists all the life insurance companies currently operating in Rwanda, along with some background and history on licensing and shareholding structure(s).

*Table 6: Life Insurance Companies and their history*

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Background</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Soras Vie</td>
<td>Private - Licensed in 2010 (after separation of life and non-life business); <em>Same as Soras General</em></td>
</tr>
<tr>
<td>2 Prime Life Insurance</td>
<td>Private - Licensed in 2012; <em>Same as Prime (General) Insurance</em></td>
</tr>
<tr>
<td>3 Sonarwa Life Assurance Company</td>
<td>Private - Licensed in 2012 (after separation of life and non-life business); <em>Local</em></td>
</tr>
</tbody>
</table>
shareholders injected more capital after the majority IGI failed and acquired 100% stake

4  Saham Assurance Vie Rwanda  Private - Licensed in 2014 (after separation of life and non-life business); *Saham Finances SA increased its stake to 100% recently*

Source: National Bank of Rwanda

**General Insurance – (Short-Term) Private Sector Companies:**

10 out of 14 private players offer general insurance products. Table 7 (below) lists the private general insurers in Rwanda, along with brief discussion of background and history on licensing and shareholding structure(s).

*Table 7: Non-Life Insurance Companies and their history*

<table>
<thead>
<tr>
<th>Company Name</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Sonarwa General Insurance</td>
<td>Private - Licensed in 1975; <em>Local shareholders injected more capital after the majority IGI failed and acquired 85% stake</em></td>
</tr>
<tr>
<td>2  Soras Assurances Generales</td>
<td>Private - Licensed in 2010 (after separation of life and non-life business); <em>Owned by South African group Sanlam, which increased its stake to 99% recently</em></td>
</tr>
<tr>
<td>3  Saham Assurance Rwanda</td>
<td>Private - Licensed in 2001; <em>Saham Finances SA increased its stake to 100% recently</em></td>
</tr>
<tr>
<td>4  Prime Insurance</td>
<td>Private - Licensed in 1995; <em>Greenoaks Global Holdings (UK) ceded all its shares to local shareholders in 2017</em></td>
</tr>
<tr>
<td>5  Mauritius Union Assurance Rwanda Ltd</td>
<td>Private – Former registration/name being Phoenix of Rwanda Assurance Ltd (South African Company)</td>
</tr>
<tr>
<td>6  UAP Insurance Rwanda</td>
<td>Private - Licensed in 2013; <em>Kenyan Company</em></td>
</tr>
</tbody>
</table>
Mayfair Insurance Company is the most recent player in the market, which received license from the BNR in 2017.

**BNR’s Moratorium on the Issue of New Licenses:**

Given the competitive landscape of the market and the arrival of a number of new entrants – there is a perception that there is a relatively large number of players competing for the same pool of traditional products in a small market. BNR announced a moratorium on the issue of any new licenses. Discussions are underway to formulate a policy on new insurance licensing. Views in the sector vary regarding the moratorium and the options for the future, however most acknowledge that it is important that the new policy will be conducive to innovation rather than perpetuate the traditional way of doing business – which has often led to malpractices and unhealthy competition over the existing customer segment(s). Some industry professionals express the view that restriction on new entrants could potentially prevent innovation in the sector, and it is important for the regulator to reconcile the apparent tension between not issuing new license considering the competitive landscape where the players are competing for the same pool of products and the restriction on new license possibly limiting innovation going forward.

**Analysis of the Industry’s Competitive Structure – Herfindahl Index:**

It is difficult to assess the level of industry fragmentation or concentration based on the number of players in the market. Comparative studies and cross-country benchmarking based on insurer numbers has been found to be inconclusive. In contrast, the Herfindahl Index, one of the insurance market indicators, has been found to be more useful to understand the level of
competitive intensity. The Herfindahl Index is calculated as the sum of the square of the market shares of all insurance companies in the market. In theory, the ratios range from 0 (an infinite number of very small players) to 10,000 (a single monopoly).

The scores were calculated for the overall insurance market in Rwanda as well as for specific sections of the market. The scores below indicate that the market is considered generally competitive. As can be seen below, the score for the overall insurance market in Rwanda is 1,694 – which falls within the range that is typically interpreted as a relatively competitive market environment.

I. **Herfindahl Index in 2017 – Overall Insurance Market (Public and Private Insurers)**

<table>
<thead>
<tr>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,694</td>
</tr>
</tbody>
</table>

Merely interpreting the score for the overall market, however, may not suggest much – especially considering existing theories and empirical studies on the topic – given the differences in the nature of life insurance and non-life insurance. Presented below are Herfindahl scores for general insurance (including both public and private insurers), for general insurance focusing on only private insurers, and for life insurance focusing on only private insurers.

II. **Herfindahl Index in 2017 – General Insurance (Public and Private Insurers)**

<table>
<thead>
<tr>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,037</td>
</tr>
</tbody>
</table>

III. **Herfindahl Index in 2017 – General Insurance (Private Insurers)**

The score for general insurance (private insurers) in Rwanda is 1,410. Table 8 below lays out the scores for the general insurance markets in the EAC countries for comparison. As can be seen, Kenya, Tanzania, and Uganda all have general insurance markets that are more fragmented than the one in Rwanda, and some very significantly more so.

Table 8: Herfindahl Index - Country Comparisons - General Insurance

<table>
<thead>
<tr>
<th>Country</th>
<th>Herfindahl Index – General Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>481</td>
</tr>
<tr>
<td>Tanzania</td>
<td>678</td>
</tr>
<tr>
<td>Uganda</td>
<td>1,351</td>
</tr>
</tbody>
</table>
Figure 13 (below) graphically shows the market shares – the key input variable in Herfindahl score calculations – of the private general insurers in Rwanda. The names of the companies have been excluded for confidentiality.

Source: National Bank of Rwanda

IV. **Herfindahl Index in 2017 – Life Insurance (Private Insurers)**

The score for life insurance (private insurers) in Rwanda is 3,624. Table 9 (below) lays out the scores for the life insurance markets in the EAC countries for comparison. The scores are much lower in the case of Kenya and Uganda, demonstrating that those markets are a lot more fragmented compared to Rwanda.
Table 9: Herfindahl Index - Country Comparisons - Life Insurance

<table>
<thead>
<tr>
<th>Country</th>
<th>Herfindahl Index – Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>1,170</td>
</tr>
<tr>
<td>Tanzania</td>
<td>-</td>
</tr>
<tr>
<td>Uganda</td>
<td>1,857</td>
</tr>
<tr>
<td>Rwanda</td>
<td>3,624</td>
</tr>
</tbody>
</table>

Source: AXCO Global Statistics; National Bank of Rwanda

Figure 14 (below) graphically shows the market shares – key input variable in Herfindahl score calculations – of the private life insurers in Rwanda.

Interpretation of Rwanda’s Herfindahl Scores

There often exists a consensus in any market on whether the players operating in the market are “too many” or “too few.” The “right” number proposed, however, is usually not grounded on data or analysis but rather just “an intuitive guess or speculative approximation” (Thorburn, 2014). In a World Bank Knowledge Note, a “natural level” of Herfindahl scores for life insurance as well as for non-life insurance, based on a rigorous analysis is proposed. The natural level value proposed for life insurance is 2,380 and for non-life insurance is 1,327. The normal levels are different for life and non-life businesses because the level of post-merger challenges and the
capacity to secure economies of scale from amalgamation of portfolios are very different for life and non-life insurers. The economies of scale post-merger are typically more difficult for non-life insurance because a number of insurance policy types underwritten by the two entities before merger could have a high correlation and, consequently, there is a need for comprehensive risk assessment of the new overall insurance portfolio and employment of appropriate risk mitigation strategies. The post-merger situation is much easier in the case of life insurance and the economic benefits of merger are much more straightforward.

The scores for the insurance market in Rwanda (private sector) – 3,624 for life and 1,410 for non-life – suggest that the market is not as fragmented as widely described by the insurance industry stakeholders in Kigali while compared to what is considered normal across economies. The score on the life side, which is significantly higher than “normal” level, suggests that there could, indeed, be space for more players in the market – especially if the new players offer innovative products. Against the backdrop of intense unhealthy competition and limited innovation, one could argue the need for mergers & acquisitions (M&A) of existing players, especially from the perspectives of both increasing capital and cutting the current underwriting losses and strengthening the balance sheets to enable investment in research & development (R&D) – which is a prerequisite for understanding the needs of the currently uninsured citizens.

In addition, it is notable that the less competitive life sector has actually not attracted new entrants. Instead, the more competitive non-life sector has attracted new entrants largely copying the business model of existing incumbents. In fact, some of the non-life insurer new entrants who would have otherwise appeared to have been predisposed to life insurance have, instead, copied the non-life model ignoring their natural advantages to pursue a different model. This highlights the very limited technical skill base among managers and strategists in the sector and their limited exposure to broader insurance operating approaches. Fortunately, newly arrived new owners from outside the market, and new leadership, presents the opportunity for ideas that are new to the Rwandan market to be considered and adjusted for local application.

However, we do not recommend consolidation as a regulatory measure in the context of Rwanda’s market structure: the Herfindahl scores demonstrate that the problem lies not in the market’s structure but rather on the lack of innovation. In fact, the market could accommodate more insurers provided that they do things differently and reach different clients to the current insurers. The issue of innovation is discussed below in this section of the report.

Over time, the scores tend to converge to natural level: if there are too few players, new players enter the market – either competing over the same pool of products or offering innovative products for niche markets – and if there are too many players, there is often consolidation in order to achieve economies of scale and profit levels that are more sustainable.
Small Pool of Traditional Products and Unhealthy Competition:

The relevance of the figures is, of course, context specific and needs to be evaluated based on the realities reflected in qualitative information as well. Insurers in Rwanda are selling the same pool of traditional products to a small consumer base (relative to the country’s population), and there is an unhealthy level of competition to fight for market share as a result. Customers often move from one insurer to another, and insurers absorb high risks because most companies appear to view battling over the same customers as a mechanism for business growth. Lack of centralized data with customer risk profiles further aids the process of customers moving from insurer to insurer, with the customer’s prior history and behavior(s) not directly affecting the premiums for insurance policy.

Irrational price-cutting both in general as well as group life insurance in an attempt to grab market share from the competitors is a problem. Price-cutting is both a consequence and a cause of intense competition on very limited traditional products: the effect (price-cutting) becomes the cause, reproducing the initial cause (intense competition) in an even more intensified form. There is a practice of not collecting enough premiums to make claim payouts, which has resulted in underwriting losses throughout the industry. In Rwanda, this problem is further compounded by limited technical capacity to fully understand and manage the consequences of discounting. Financial performance of the industry is presented in detail in the next section of this report.
In the case of life insurance, all the players are focusing on the relatively small formally employed customer base. The kind of innovative strategy needed to target the informal sector appears to have been out of sight to both life insurers and general insurers.

**Future Growth and Blue Ocean Strategy:**

Future growth of the sector, on this analysis, is going to come from two possible areas: increasing penetration, possibly through introduction of new products, in the formal and commercial sector and venturing into the informal and unserved or underserved sector of the economy. This section focuses on the latter, given the immense growth potential in the informal and unserved sector in Rwanda.

The informal employment rate in Rwanda is 91 percent (as of 2017), representing a huge business potential for insurers. The current market is already saturated, and it is important for insurance executives and their boards to formulate new strategies and approaches to understand the needs of the people who are currently uninsured. Focusing on strategy – thinking about what could give them a sustained advantage over the competitors in the long term – and not exclusively on managing the day-to-day operations of the business would require an understanding that significant future growth will come from “mass markets”. Internalizing this understanding in the form of strategic budget allocations, targeted marketing and other business processes will be key going forward.

Blue Ocean Strategy – a term coined by W. Chan Kim and Renee Mauborgne of INSEAD Business School – is precisely the kind of strategic thinking needed in the insurance sector in Rwanda. Against the backdrop of insurers battling each other for the small customer segment (small “red ocean”) who are already insured, it is important for companies to create “blue ocean” – untapped new market spaces – for lasting success. Innovative product design catered to the needs of current non-consumers will then be a consequence of this kind of strategy. The core idea of blue ocean strategy is to make the competition irrelevant by targeting the non-consumers: developing an understanding of the problems faced by, and needs of non-consumers, designing solutions to address those problems and marketing the solutions on a large scale.

Some insurance managers argue for the need to make more non-life insurance products mandatory for customers – a view founded on the opinion that the government can support further development of the insurance market against the backdrop of the “red ocean” reality of the market. This would also be consistent with supporting and perpetuating a business model based on a preference for responsive selling on request and in the absence of proactive sales skills development.

Among the pool of products that are mandatory, there exist challenges related to enforcement. For instance, there is lack of clarity on the amount of coverage for fire insurance of public building.
Of course, the government has been supportive of the private sector: the Private Sector Development Strategy (PSDS) of the government has focused on reforms and incentive structures to facilitate the development of a vibrant and entrepreneurial private sector, which would in turn make a meaningful contribution to the country’s inclusive economic growth and development agenda.

Growing the insurance sector through legislating more compulsion in insurance products would not only mark a departure from the core spirit of the PSDS – developing an innovative, entrepreneurial and competitive private sector – but would also become an approach that would hurt the private insurance market over the long term, despite serving them in the short term because of two key reasons discussed below. However, it is important to recognize that the existing mandatory products in the market are intended to achieve social objectives, and the regulator needs to pay special attention to addressing the challenges related to the enforcement of the existing compulsion.

i) Adding more compulsory products would make the insurers more complacent and create an illusion that the current reality of unhealthy competition can be addressed through government support rather than their own actions, becoming antithetical to the notion of the need to innovate new products to achieve enduring financial performance over the long term.

ii) Compelling the underserved customers to buy products that were not designed for them in the first place can be counterproductive to development, creating a negative view of insurance as a primary experience for potential customers.

In order to address the problem of price wars and unhealthy competition, there needs to be incentive structures and capacity development initiatives in place to draw the attention of the insurance sector to blue ocean strategy. **With regards to enabling the blue ocean strategy and helping the private insurance sector unlock their true financial potential, there are five primary needs in the private insurance market in Rwanda.**

- First, there needs to be structured programs for education and training of insurance managers, executives and board members aimed at developing strategic business thinking.
- Second, insurers that have not done so will need to develop new capacities or strengthen the capacities they have, including technical skills (to develop and maintain products in a voluntary market) and operational skills (such as the ability to sell products rather than rely on mandated buyers).
- Third, company boards need to make appointments of executives with an approach of maintaining a fine balance between insurance experts (from within the industry) and business leaders from outside the insurance industry. While it is true that technical capacity constraints in general has constrained insurance sector growth and efforts need to be made to address this issue, it is also true that there is immense value in having non-
insurance business executives who are entrepreneurial in nature on the senior management team: one of the reasons for the insurance industry performing “business as usual” is because there is a lack of business perspectives and experiences from other vibrant industries within the country’s private sector.

- Fourth, company boards need to keep in mind the need for some degree of leadership continuity to enable the executives to employ strategic thinking for the business rather than focusing on day-to-day operations. A key factor driving short-termism in insurance sector in Rwanda is the common trend of leadership discontinuity – a high turnover of CEOs – across firms: because the CEOs and other executives are changed so frequently, the business leadership’s incentive structures are not aligned with the long-term interests of the shareholders.

- Finally, there is a role for the regulator to introduce regulations and policies that can enable innovation, leading to a rapid transformation of the sector.

BNR’s moratorium announcement on new license for insurers stems from the existing nature of competition which is not conducive to innovation: industry leaders concur with the observation that insurers are so busy competing in the “red ocean” that there is virtually no time and financial resources for investing in innovation and serving new customer segments. Serving new customer segments requires investing in market research & development to understand their unique risk management needs, designing innovative products that are simple and easy to understand, tailoring the communication message during sales & marketing efforts following new product design, and employing or partnering with the kind of personalities that understand – and can relate to – those who are currently non-consumers of insurance.

**BNR’s upcoming licensing regime can serve as one of the important drivers of innovation.** In terms of formulating a new licensing policy, it is imperative that BNR develop a framework for assessing these factors related to innovation, which would inform the decision on whether or not to issue the license to new potential entrants in the market based on the applying entity’s business proposal. This analysis would suggest that a new entrant strategy open to blue ocean entrants would be very positive. Also, acquisition and merger activity that brings skills and innovations through new owners should be welcome. Conversely, new entrant applications that replicate current business strategies already in the “red ocean” will be problematic of themselves and for the market.

**Product Supply**

As can be seen in Figure 16 (below), medical insurance and motor insurance combined represent 77 percent of the total GWP (as of 2017). Medical insurance, representing 60 percent of the total
GWP, is supported by the general nationwide awareness generated by the government’s push towards Universal Health Coverage (UHC).

Motor insurance, supported by government regulations through being a mandatory product for anyone owning a vehicle, represents a much larger slice of the overall pie compared to life insurance or other insurance products, for instance. Fire insurance on property is required by lenders while taking mortgage from banks, but retaining customers after the mortgage is difficult for insurance companies. The different categories of insurance and their share of the total GWP are graphically presented below.

Figure 16: Product Mix 2017

![Pie chart showing product mix in 2017](source)

Figure 17 (below) illustrates the product mix only for the private sector. While the percentage of gross written premiums on medical insurance is much lower in the case of the private sector (compared to the previous figure for the entire insurance universe) – given that the 2 public insurers have a significant volume in the medical insurance space – motor insurance and medical insurance combined still represent the majority of gross written premiums. Motor insurance – a mandatory product – constitutes 32 percent and medical insurance constitutes 26 percent of the private insurance sector’s total premiums.
Life Insurance – Product Portfolio and Volume:

There are 4 private companies selling life insurance products in the market. Figure 18 (below) shows a breakdown for gross written premiums by product type in the life insurance space in Rwanda. Ordinary Life\(^{17}\) product represents the largest portion of the overall volume in life insurance business: in 2017, the premiums for Ordinary Life was RWF 6,542 million (USD 7.8 million), premiums for Credit Life was USD 2.2 million, and premiums for Traditional Life\(^ {18}\) was USD 1.9 million.

\(^{17}\) Ordinary Life includes Group Life and Education products

\(^{18}\) Traditional Life includes Retirement, Individual Pension, Group Pension
Figure 18: Trends in life insurance product segments (2014-2017)

Source: National Bank of Rwanda

General Insurance – Product Portfolio and Volume:

There are 10 private insurers, RSSB – Medical Scheme, and Military Medical Insurance (MMI) selling general insurance products in the market. Figure 19 (below) shows a breakdown for gross written premiums by product type in the general insurance space for the products underwritten by the private insurers only.

Motor insurance represents the largest portion of the overall volume in general insurance business. Motor insurance premiums in 2017 stood at RWF 21 billion which is around USD 24 million. Medical insurance premiums for private insurers in 2017 was USD 20.6 million while property insurance premiums amounted to USD 7.1 million.
Compulsory Product – Motor Third Party Liability:

Among the mandatory products – Motor third party liability (MTPL), medical insurance, medical professional liability insurance, fire insurance for public buildings – MTPL volume is significant in the universe of private insurers. MTPL is an insurance product which pays claims for liabilities arising from damages that are caused by the insured to third party. The idea behind the need for this insurance coverage is that it delivers social outcomes relating to road safety.

The reality of motor insurance representing a significantly high portion of the overall insurance market demonstrates the limited drive in insurers to offer other products and create a demand for those products through appropriate sales & marketing efforts. It is important that the regulator pay attention to this situation to evaluate the costs of this in terms of product offerings and intense competition in the sector. Furthermore, the laws and regulations governing MTPL products need to be examined to ensure that it delivers the intended social outcomes without adding significant costs to the overall development of the insurance sector. The law relating to the compensation of injuries caused by motor vehicles is under review by the BNR in collaboration with other insurance market stakeholders.

Source: National Bank of Rwanda
The insurers’ excessive reliance on compulsion coupled with the fact that Rwanda has a relatively low ownership of motor vehicles on a national level presents a binding constraint in expanding insurance coverage on a country-wide level. To put things in perspective, only approximately 4 percent of the population owns any kind of motorized vehicle (FinScope, 2016).

**Limited Product Supply and Need for Innovation:**

This sub-section of the report provides a brief background on pensions and saving schemes, retirement products, and a discussion on product gaps and opportunities in the market. Furthermore, it also gives a brief overview on the challenges in innovative product design and supply.

**Pensions and Saving Schemes**

RSSB provides public pension schemes in Rwanda. A small number of insurers serve as administrators and investment managers for private pension schemes. These are essentially guaranteed savings products, with lump sum payment at retirement.

The insurers in Rwanda also sell retirement products – long-term savings with an element of guaranteed return bundled with life insurance – directly to individuals. These products appear to have created some degree of confusion, and dissatisfaction, among consumers: the dissatisfaction stems from a lack of understanding that these are combined with insurance and are not straight savings products.

A new pension law was passed that provided for a retirement income system, however there were some elements of the law that meant that the attraction of the system for long term saving was reduced\(^{19}\). Having said that, following a gap analysis progress has been made on the amendment process of the pension law. Furthermore, the government has also launched the Long-Term Saving Scheme (LTSS) to promote a culture of savings in Rwanda.

**Product Gaps: Opportunities and Challenges**

A framework for assessing product gaps in any given market should be ideally informed by a demand-side study. In the case of Rwanda, the lack of studies focused on the demand side makes it difficult to adequately identify the product gaps and opportunities. However, there are some key observations based on the available savings and risk related products in the economy.

There appear to be opportunities for the private insurers to meet the needs of retirement savings, among other related products. The design of specific products by insurers needs to be informed by a more detailed understanding of unique needs of the customers and needs to be

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\(^{19}\) In particular, withdrawals were permitted for the usual range of retirement related uses but also with a general exit clause at the discretion of the member unrelated to retirement or disability or other work-related purposes.
carried out in a more transparent fashion, employing caution and departing from some of the approaches in the past that have created confusion around the product features. Given that trust is a key element in insurance business, the importance of employing caution cannot be emphasized enough while capitalizing on opportunities and experimenting with products. It is imperative that insurers devise marketing strategies for new products with a clear communication message around the key product features, benefits and limitations to the policyholders. Bad experience with new products may alienate consumers from insurance altogether, resulting in the pursuit of other less effective means of risk management and constraining the overall insurance market development over time.

Equally, several risk related products are clearly under-represented in the Rwandan market including those relating to death, disability and agriculture. Again, a full demand investigation is warranted to validate the customer needs.

There are lessons to be learned from earlier experience – primarily on insurers’ communication – in the case of index insurance in Rwanda, which is discussed in the box below.

**Box 1: Challenges with Index Insurance in Rwanda**

There have been several experimentations with index insurance – weather-based index insurance being one of the types – around the globe, particularly with the aim of expanding insurance coverage whilst supporting more effective farming and better incomes for those involved in productive agriculture. The payouts in the case of index insurance are based on a previously determined index and a threshold trigger, and therefore have low transaction costs due to the absence of need for claims assessment in individual cases and the theoretically complete and practically partial reduction in moral hazard concerns.

Given inadequate experience in the field of index insurance, there often exists a high underwriting risk for insurers and Rwanda was no exception. In the case of one project, and after introducing index insurance products in the agriculture sector, insurers realized that the products had been inadequately priced to cover the claims and was therefore not profitable. While redefining the threshold (or index trigger) to match claims payouts more closely to the premiums paid – perhaps even necessary to make the initiative sustainable for a large consumer base – subsequent events caused a significant and systemic consumer challenge. It remains less than clear whether consumers were well informed of their reduced cover. On one interpretation, they responded in line with a total lack of understanding of any change. It is hard to avoid the conclusion that the revision in the threshold for index insurance products was not properly communicated to the farmers. There were cases when farmers were not aware of the change in index, and therefore were dissatisfied because they did not receive payments for events in which they believed they would receive compensation.
Instances such as these creates and perpetuates trust deficit in the insurance sector. As it was index-based insurance, the results were not solely individual – they were systemic. Therefore, there lies a responsibility on the part of insurance companies and intermediaries to practice effective disclosure to consumers, and a responsibility on the part of regulator to strengthen consumer protection frameworks and practices.

Challenges in Designing and Offering Innovative Products

Innovative products are extremely limited in Rwanda at this stage. There are a number of challenges for designing the right products. Most usefully for insurers, better products would also help reverse the poor financial performance of the sector.

• First, data is extremely limited in particular and in general. Lack of comprehensive and reliable data on the demand side of the market is one of the key constraints to innovative product design: without the data on what potential customers want, designing new products is simply shooting in the dark. Moreover, a lack of reliable mortality tables has historically limited the ability for innovative product design for life insurance. Insurers had been leveraging the mortality tables from other EACs, particularly from Kenya, for this purpose. Rwanda-specific mortality tables\(^{20}\) have been developed very recently in collaboration with Access to Finance Rwanda (AFR).

• Second, there is inadequate technical capacity across the board from product design to insurance asset management and almost everything in between: designing customer-centric products that are profitable requires technical skills specific to insurance as well as robust business and financial skills, and this is a major constraining factor for expanding product offerings and developing Rwanda’s insurance market in general. Lack of actuaries in the local market is a major challenge and, although all insurers are making increased use of actuaries outside Rwanda they would do well to get some level of internal capacity.

• Third, there is a need to develop an understanding that innovative products needed for growth would mostly have to be simplified rather than complex. One major misconception surrounding the notion of innovation is that innovative products are complex. There is a need to develop products that are easy to understand for the general population – perhaps, simple triggers for claim payouts. On the note of shifting towards simplicity – which would reduce one of the major barriers to serving poor segments of the population – the language used in insurance policy also needs to be kept in mind.

\(^{20}\) Some mortality tables were developed in Rwanda with good intentions but proved to miss the need. In response to concerns about inadequate data but to ensure the project was completed, data was sourced from the RSSB which, although sufficient to complete the table simultaneously eroded its usefulness for many insurance applications especially in the eyes of several in the industry.
Insurance policies primarily used to be in French language, but are increasingly getting written in English. There exists an inability to explain the products and features in a simple, local language, especially in rural areas. Language is also a barrier to insurance market development since the inability to explain features in local language leads to misinformation about insurance policies and, sometimes, a mismatch between what the insurers are selling and what the customers believe they will be buying.

Additionally, innovation is required not only in terms of product design but also in terms of business processes: product delivery, premium collection methods and premium payment schedule. Given that a lot of currently underserved, or unserved, customers receive their wages daily (as opposed to fortnightly or monthly), insurers need to redesign the premium payment schedule – especially for products catered to the customer segment(s) in question – to align the payment schedule with the income patterns.

Financial Performance and Risk Management

Private Insurers:

**Limited product supply is contributing to poor financial performance of the private insurance sector.** As can be seen in Figure 20 (below) with aggregate financial results of all private insurers in Rwanda, there has been an underwriting loss and a negative return on equity (ROE) in each of the years since 2011. ROE was negative 18 percent in 2014, negative 13 percent in 2015, negative 11 percent in 2016, and 6 percent in 2017. Further, the overall net income before tax of the private sector was also negative between 2014 and 2016 (inclusive).

The extremely poor performance needs to be understood in the context of insurers battling with each other over a small pool of traditional products (discussed earlier) and their inability to understand and respond to the technical risk that they were facing. The need for “blue ocean strategy” and technical skill improvements (also discussed earlier) cannot be stressed enough, and therefore the BNR needs to pay special attention to mechanisms through which blue ocean strategy and technical development can be enabled and embedded in insurers and potential incentive structures.
Figure 20: Profitability Trends for Private Insurers

Source: National Bank of Rwanda

Life Insurance – Financial Performance

A snapshot of the financial performance of life insurers in 2016 and 2017 is presented in Table 10 (below).

Table 10: Financial Performance of Private Life Insurers

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Ratio (%)</td>
<td>69%</td>
<td>70%</td>
</tr>
<tr>
<td>Expenses Ratio (%)</td>
<td>38%</td>
<td>58%</td>
</tr>
<tr>
<td>Combined Ratio (%)</td>
<td>108%</td>
<td>128%</td>
</tr>
<tr>
<td>Current Ratio (%)</td>
<td>370%</td>
<td>272%</td>
</tr>
<tr>
<td>Return on Equity – ROE (%) (Annualized)</td>
<td>11%</td>
<td>-5%</td>
</tr>
<tr>
<td>Return on Assets - ROA (%) (Annualized)</td>
<td>3%</td>
<td>-1%</td>
</tr>
<tr>
<td>Insurance Risk Ratio -GP/CAP (%)</td>
<td>81%</td>
<td>91%</td>
</tr>
<tr>
<td>Solvency Margin Ratio</td>
<td>251%</td>
<td>20%</td>
</tr>
<tr>
<td>Technical Provision / Total Capital</td>
<td>216%</td>
<td>244%</td>
</tr>
</tbody>
</table>
Further, Figure 21 (below) shows the profitability – Net Income Before Tax as % of GWP – for all the life insurers in 2017. The company names have been removed in the analysis for confidentiality.

**Figure 21: Net Income Before Tax as a Percentage of Gross Written Premium - Life Insurers**

![Net Income Before Tax as % of GWP - Life Insurers (2017)](chart)

**Source: National Bank of Rwanda**

### General Insurance – Financial Performance

A snapshot of the financial performance of private general insurers in 2016 and 2017 is presented in Table 11 (below). Both the Claims Ratio (64%) and the Combined Ratio (114%) are high compared to the general insurance industry in other countries and are at levels that are clearly unsustainable.

**Table 11: Financial Performance of Private General Insurers**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Claims Ratio (%)</strong></td>
<td>64%</td>
<td>66%</td>
</tr>
<tr>
<td><strong>Expenses Ratio (%)</strong></td>
<td>50%</td>
<td>61%</td>
</tr>
<tr>
<td><strong>Combined Ratio (%)</strong></td>
<td>114%</td>
<td>128%</td>
</tr>
<tr>
<td><strong>Current Ratio (%)</strong></td>
<td>98%</td>
<td>86%</td>
</tr>
<tr>
<td><strong>Return on Equity – ROE (%) (Annualized)</strong></td>
<td>4%</td>
<td>-13%</td>
</tr>
<tr>
<td><strong>Return on Assets - ROA (%) (Annualized)</strong></td>
<td>2%</td>
<td>-5%</td>
</tr>
<tr>
<td><strong>Insurance Risk Ratio -GP/CAP (%)</strong></td>
<td>147%</td>
<td>143%</td>
</tr>
</tbody>
</table>
Additionally, Figure 22 (below) shows the profitability – Net Underwriting Profit as % of GWP and Net Income Before Tax as % of GWP – for all the general insurers in 2017. The company names have been removed in the analysis for confidentiality, and the letters represent different companies. As can be seen, 8 (out of 10) companies experienced a net underwriting loss in the past year, some very substantial. Six companies that managed to have a positive net income have compensated for poor underwriting results with investment income.

**Figure 22: Profitability as a percentage of Gross Written Premium - General Insurance**

![Profitability by Company - General Insurers (2017)](image)

**Source:** National Bank of Rwanda

**Data Constraints for Further Analysis:**

Further analysis on profitability by specific products under both life insurance and general insurance was not possible because of data constraints: the data for each of the products is
limited to gross written premiums (which is presented under the Product Supply section of this report). The BNR is implementing a new regulatory reporting system (EDWH), which would capture this information going forward.

**Public Insurers:**

**RSSB Medical Scheme and MMI – Financial Performance**

In contrast, the 2 public insurers in the market remain profitable. As can be seen in Figure 23 (below), although the ROE has declined in recent years compared to the peak ROE in 2012 of 34 percent, there is a sharp contrast in the picture compared to the private insurers: ROE was 26 percent in 2013, 16 percent in 2014, 14 percent in both 2015 and 2016, and 15 percent in 2017.

![Figure 23: Profitability trends - Public Insurers](Source: National Bank of Rwanda)

*Products offered by the RSSB and MMI are complementary, rather than substitutes, to the products offered by private general insurers.*

This sharp contrast in the financial performance picture between the private sector and the public sector could raise questions about whether the public insurers are crowding out the
private sector. However, it is important to note that none of the stakeholders raised this as a concern during the team’s meetings in Kigali. Additionally, the medical insurance products offered by private companies are complementary – rather than substitutes – to the CBHI coverage being provided by RSSB (as of recently). While the CBHI product covers all Rwandans, the scope of coverage is relatively basic and a lot of customers of private insurers are buying medical insurance to expand the breadth of medical coverage beyond basic coverage.

Moreover, MMI’s niche nature of offerings – providing coverage to the military personnel and their family members – cannot be viewed as competing with general insurers that offer products to customers with all backgrounds and professional affiliations. The degree of reliance on the public insurance for medical coverage also varies with geography and/or socio-economic context.

Insurers’ Assets and Investments

Noteworthy Growth in Total Assets in the Overall Insurance Sector:

As can be seen in Figure 24 (below), there has been a noteworthy growth in total assets in the sector in recent years: private insurers’ asset base grew 147 percent between 2010 and 2017 and public insurers’ asset base grew 284 percent during the same time period. The total assets of the insurance sector (as of 2017) is around RWF 400 billion (USD 462 million). Despite the growth, the insurance sector is significantly smaller than the banking sector (which dominates the financial sector development agenda): assets of insurance are only around 15 percent of the assets in banking (as of 2017).
Growth in the Asset Base of the Private Sector:

Figure 25 (below) illustrates the assets of private insurers, with a breakdown into life insurance assets and general insurance assets. As of 2017, the asset base of private life insurers was slightly less than half of the asset base of private general insurers: total assets on the life side was RWF 48 billion and the assets on the general side was RWF 102 billion.
As can be seen in Figure 26 (below), 38 percent of the assets of private insurers are in the form of cash and bank deposits. Additionally, more than three-fifths of the total investments in securities (24 percent of total private insurance assets) are in treasury bonds & bills and IFC bonds.

**Split of Composites and Concentration Risk in the Life Insurers:**

Out of the 17 percent of the private insurers’ asset base that is invested in property, the concentration is much higher in life insurance compared to general insurance: the total investments in property for the 4 life insurers combined is around RWF 12 billion while the investments in property for the 10 general insurers combined is around RWF 12 billion.

This is the case because when the composites split, the companies put their lumpy assets in the life companies so now they have high concentration risk issues. While the regulations mandate that insurers have a maximum of 30 percent of their investments in real estate, some companies are not in compliance as of yet but are trying to divest their real estate assets to address the concentration risk issue.
Limited Investment Instruments and High-Yield Government Bonds:

As is illustrated in Figure 20 (above), while the private insurance industry has had underwriting losses in each of the last 7 years, the net income before tax has been positive in 4 out of the 7 years: investment income has driven positive net income despite the reality of negative underwriting profits. Given that there are limited investment vehicles and instruments in the market for the insurers to diversify their portfolio, coupled with the fact that Treasury bonds (T-bonds) & Treasury bills (T-bills) offer high yield and banks offer high interest on fixed deposits, most of the assets are invested in either bank deposits or government bonds and insurers are dependent on them for their profitability.

Figure 27 (below) shows the yield curve for repo, T-bills and T-bonds as of August 2018. As can be seen in the figure, the yield on 3-year government bonds is 12 percent. High-yield government bonds are generally crowding out other investment opportunities.
Distribution Trends

This section focuses on the sales and distribution phase of the insurance value chain in Rwanda. As can be seen in Table 12 (below), there are 610 intermediaries in the market – including insurance brokers, agents, and loss adjusters (as of December 2017). Table 13 (below) lays out the number of insurers’ branches for direct business by region, over time. As can be seen in the table, almost 40 percent of the insurers’ total branches are located in the city of Kigali alone (as of December 2017), representing the limitation on the insurers’ brick-and-mortar infrastructure for distribution of products outside the capital city, but does compare favorably to some other countries where the focus on distribution in the capital would be more extreme.

Unsuitable distribution – one of the key barriers to insurance market development across several jurisdictions – needs to be addressed in Rwanda. There has not been much progress in bancassurance, which holds the potential for both reduction in distribution costs and greater inclusion (particular on the life insurance sub-sector). Additionally, management teams need to pay more attention to the issue of distribution and upgrade their skills, and consequently upgrade the skills of their employees, through formulating better marketing and sales strategies and thinking operationally for the implementation of these strategies.
Out of the 16 licensed insurance brokers in Rwanda, 1 broker is an international company. Insurance agents have been increasing in recent years with the growth in the sector: the number of insurance agents increased from 192 in 2013 to 581 in 2017.

Regarding the reduction in the number of branches, the recent trend is also partially driven by insurers adopting the system of franchises to branches (branches that were owned by the company and managed by the company staff being set as franchises and managed by independent insurance agents paid on commission basis).
Change in Agent Licensing Policy:
The authority to provide agent licenses has recently been shifted from the BNR to insurers, with clearly defined compliance requirements and regular reporting requirements for the insurers to follow. Insurers in Kigali welcome this move, expressing that the new agent licensing procedures have created an enabling environment for private companies to pursue their own approach to distribution of products without bureaucratic approval requirements.

Rethinking Distribution Strategy at the Grassroots Level for Inclusive Insurance:
Since the new licensing requirements are somewhat broadly described, it is easy to find suitable candidates meeting the requirements across geographic regions in the country. One strategy for expanding reach for insurance products would be to find candidates from cooperatives (agriculture cooperatives and others) who could serve as agents. There exists a strong culture of cooperatives in Rwanda, so there exists potential to leverage the network of cooperatives as distribution channels to expand reach. This approach works well especially in economies where inadequate trust in insurance companies outside major cities is one of the key barriers to market development: the trust factor increases significantly when a fellow cooperative member or a community leader sells insurance products in the local community. This approach fits with the Rwandan insurers’ limited brick-and-mortar infrastructure outside of the capital city.

Kenya is a sterling example of a market where a robust network of insurance champions from among the local community leaders and influencers has been established directly as a result of intervention by the insurance supervisory authorities. One key initiative from the supervisory authority in this regard is the training of local agents through partnership with the College of Insurance in Nairobi. There exists a unique opportunity to work closely with the Insurance Regulatory Authority (IRA) to explore options for training of insurance agents – especially the agents at the grassroots level – to ensure adequate insurance product marketing & sales capacity of these individuals.

Constraints in Insurance Market Development – Intermediaries’ Views:
Intermediaries share a number of insights – ranging from the perception of end-customers to the behavior of insurers and possible role(s) for the regulator, BNR – related to constraints in insurance market development.

- Drawing from their experience – their proximity to end customers by default – intermediaries share that insurance is perceived as luxury, especially in geographies outside Kigali. While this point partially relates to the need for financial education in
general – convincing and teaching poor people to save is difficult and requires institutional support – it is also related specifically to the need to demonstrate the benefits of buying insurance policy.

- Some intermediaries mention that there exists a general lack of trust in the insurance sector stemming from bad prior experience where the insurers were unwilling to pay claims. Unwillingness to pay claims reduces trust in the overall insurance sector, and there appears to be a greater role for the regulator around consumer protection.

- Against the backdrop of insurers battling with each other and irrationally cutting prices to steal market share from competitors, intermediaries point at the existence of some malpractices and corruption in the sector: some insurers put aside the brokers and deal directly with the decision-making unit at the client company, either offering a “discount” or unlawfully providing financial incentives to facilitate the deal. Despite the regulator issuing a directive last year stating that commissions cannot be paid to any individual or entity other than licensed agents of brokers, some intermediaries feel that the implementation of the directive has not been satisfactory. In some sense, there appears to be an unhealthy competition – as opposed to collaboration – between insurers and brokers. This, again, relates back to the point on intense competition over the same pool of traditional products being one of the major problems in the market. Intermediaries are not only better positioned to understand customer needs because of their customer-facing role but also play a key role in marketing insurance products and, more broadly, in financial inclusion. Therefore, the current tension between insurers and intermediaries, the magnitude of which might be difficult to determine for outside experts or even the regulator, needs to be reconciled to facilitate a healthy and collaborative environment.

Reinsurance

There are no licensed domestic reinsurance companies in Rwanda. Most of the reinsurance is placed with international reinsurers and there are some reinsurance/coinsurance arrangements in place through domestic insurers. The outward placement of reinsurance is mostly with international players operating across borders, both with African entities – Africa Re, Kenya Re, GIC South Africa, to name a few – and multinational companies outside Africa. In 2017, around 15 percent of gross written premiums of the overall insurance industry were ceded to reinsurers & co-insurers.
The insurance regulations of Rwanda lay out the reinsurance requirements. As per the regulation No. 05/2009, any single risk which comprises more than 5 percent of the capital of the insurer must be reinsured. There are specific requirements for insurers in terms of risk management, including the need to submit the reinsurance strategy to the BNR. Given the portfolio of risks underwritten and the volume of insurance business in Rwanda and regulatory re, reinsurance is not a matter of much concern as of yet.

“InsurTech” and the Disruptive Promise

The global insurance industry is at the cusp of technological disruptions along the entire value chain. A variety of technologies and innovations – from mobile phone technology and Internet of Things (including telematics and wearable devices) to artificial intelligence (AI) and “big data” – hold immense disruptive promise for the insurance industry. Some of these technologies can dramatically reduce costs and expand insurance coverage while others can enhance trust in the insurance sector. Additionally, there are other technological interventions that enable insurance providers to better assess and price risks.

Some of the technologies that are feasible in advanced markets may not be feasible in the emerging markets and developing economies in the near future. The financial investments and the skill-mix composition requirements for technology adoption varies with the type of technology in question. Furthermore, some forms of technological disruptions around business model innovation that changes the way insurance business is conducted may not necessarily address the key barriers to inclusive insurance. Therefore, only mobile phone technology and its applications to sales & distribution and claims management process in the context of Rwandan insurance market are discussed in this report.

Special Product Focus – Mobile Insurance

There are a number of key trends that have created the enabling conditions to leverage mobile phones in distribution and claims management phases of the insurance value chain in Rwanda.

- The government’s push towards becoming a “cashless economy” combined with the nature of telecommunications industry – where there are only 2 players (MTN and Airtel) with a unique advantage of having large customer base – creates opportunities for driving innovation in distribution and achieving economies of scale.

- The landscape of mobile services has changed a lot recently. Mobile phone penetration in the country is high, at around 75 percent, and significantly high percentage of the population in rural areas own mobile phones: telecommunication service providers
estimate that around 40 percent of their transactions are rural. There are a number of disruptions brought by the telecommunications industry with the introduction of several new mobile financial services: deposit and withdrawal, bill payment (including payment of off-grid services), savings products, regional cross-border remittances and, as of recently, microinsurance. Although there is an issue of trust initially with mobile money across economies where it is first introduced, the initial barrier is starting to get overcome through the increasing acceptance of these new mobile financial services products.

- The number of insurers’ branches across regions has been decreasing, as can be seen in Table 13 (above).

Sales & Distribution: Leveraging mobile phone technology as a distribution channel to sell insurance would have two key benefits: ability to unlock scale – serving geographic segments that have currently not been reached by agents and brokers – and possible reduction in price for end-customers. Digitization is especially important in a market such as Rwanda: in markets with low income levels, lower price points are required to drive greater demand for insurance products and a lean structure of the entire value chain – particularly along the sales & distribution phase – is required to drive the costs down. Digitization would reduce distribution costs and given the highly competitive nature of the industry, lower cost structure is expected to translate to lower price for customers.

Claims Management: Mobile phones can be used along the different steps of the claims management phase – from first notification and data collection to loss assessment and claims settlement. While the application of mobile phone technology in the loss assessment stage may require smartphones – therefore this can be applied on a larger scale as the smartphone ownership rate increases in Rwanda – other steps such as first notification and payments can be completed through regular phones. In general, the use of mobile phone technology can reduce costs to both customers and insurers and also increase efficiency.

Of course, there are several challenges yet to be overcome before insurance policy can be sustainably distributed through mobile phones on a large scale and claims management process can be fully digitized. There are lessons to be learned from the early experience of mobile insurance in Rwanda, which is discussed in the box below.

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**Box 2: Early Experience of Mobile Insurance in Rwanda**

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Rwanda had, until recently, three Mobile Network Operators (MNOs) until a merger left two at the time of this report. Each of these has taken early steps into the world of mobile insurance.

One MNO sought to build on their mobile money platform adding insurance to the menu of items that they made available. They partnered with a local insurer to provide the product. Results were reported as disappointing on several fronts and the program was discontinued in favor of a savings and emergency loan program that has now grown substantially to a large loan portfolio.

It is not surprising to insurance professionals that an approach driven by menu availability of a product on a menu would be unsuccessful. The MNO reported that they looked for guidance on insurance matters from their partner and also from their related organizations elsewhere but without much success. As a result, they opted for the loan and savings approach. Interestingly also, the loan products do not have the usual microinsurance type insurance solutions and are now quite material in volume.

In contrast, the other MNO has only recently entered the space and has done so with the facilitation of the Access to Finance Rwanda efforts to bring together partners, ideas and a well-qualified consultant bringing expertise in the inclusive insurance and mobile insurance space. Interestingly, they have jumped to a hospital cash solution. This leverages the popularity of health coverage as an issue in Rwanda. However, it does raise the question about what they miss by going to a “stage 3” type solution immediately compared to other countries where M-Insurance has been introduced, whether as a learning experience, a client education experience or simply meeting a valid need. Also, hospital cash is not a straightforward product and delivery will be critical to success. That said, it is too early to tell what the experience of this product will be.

These two experiences point to key takeaways that may be more illustrative of broader conditions in the Rwandan market:

- Getting outside assistance helps to get solutions. Local knowledge is a constraint and has led to a lack of success just as well qualified external assistance has proved a catalyst for innovation;

- There are significant untapped opportunities even with small steps for the existing infrastructure, such as adding an enhanced credit life insurance option for lending clients;

- MNOs lack adequate knowledge on insurance and do not appear to be convinced by the profit potential from mass insurance: experimentation with selling insurance has, thus far, been more of a strategy for attracting and retaining customers to the mobile platform so that they can sell other mobile financial services products. There is a need for insurers to
work with the MNOs to figure out a viable revenue model for the MNOs to generate further interest in pursuing mobile insurance business on a larger scale;

- There is a possibility of misunderstanding of the roles between insurers and the MNOs, which could pose reputational and other risks. The MNOs’ potential reputational risk needs to be mitigated through a sense of ownership by insurers. In the event of customer dissatisfaction with either buying insurance products or making claims, insurance companies need to show a sense of ownership and accountability. Being the customer-facing entity, telecom providers are aware of the reputational risk arising through such event;

- Given that the marketing strategy ought to be very different in mobile distribution as opposed to face-to-face distribution, employing innovative thinking in terms of branding and marketing is key. Reflecting on the failed attempt at selling insurance products in the past, the entities express that an inability to design the right marketing campaign in general and a user-friendly menu of products on the mobile platform in particular also prevented the initiative from reaching scale;

- The interest thus far has been mostly limited to sales & distribution. Using mobile platforms for servicing including premium collection, or to support claims delivery, is not a matter of much discussion. More importantly, approaching mobile insurance as an alternative distribution channel only falls short of the potential that a functioning alliance with MNOs presents. Beyond of a diversification of distribution, this alliance can be viewed as a paradigm shift in conducting insurance business that allows – and for thorough success: requires – more comprehensive re-engineering of insurers’ products and processes. Ghana provides a good example: to overcome the reduced possibility to explain insurance technicalities to (prospective) customers under the low-touch m-insurance model, an insurance company redefined life insurance to always cover and benefit two people jointly: if one dies, the other gets the money. That way, explaining the difference between assured person and beneficiary became unnecessary. More technology-related innovation introduced by m-insurers elsewhere include the use of Interactive Voice Response systems to reactively address customer questions or proactively increase customers’ insurance literacy, or the activation of agriculture insurance policies by USSD which triggers the geolocation of the covered farm. Insurance-on-Demand is only a thought away.

Opportunities in the Agriculture Sector and Beyond
Room to scale up the agricultural insurance market

**Rwanda remains highly dependent on its agricultural sector in terms of contributions to GDP, employment and income generation for most of households.** The sector is the largest contributor to total employment in the country (more than 70 percent of 5.6 million total employment in 2014) and was the fourth largest contributor to nonfarm private sector jobs in the economy (contributing 7.4 percent of the estimated 351,000 jobs)\(^{21}\). Further, it contributed an estimated 35 percent to the decline in poverty over the past decade (World Bank 2017b).

**The agriculture sector has an estimated 3.65 million agricultural operators, and most cultivate extremely small plots of land.** Staple crops (bananas, roots and tubers) dominate Rwanda’s agricultural production in terms of volume and land use. These two groups of crops account for two-thirds of production volume, more than half (55 percent) of the land use and account for 35-40 percent of all Rwandan exports (Ajai N. et al. 2018). The sector is highly vulnerable to adverse weather conditions. The government is exploring insurance for agriculture and livestock against weather vagaries. Growth in agricultural activity is projected to average about 5–6 percent over the next two years. After an increase of over 20 percent in cultivated land under irrigation per year over the past four years, the agricultural sectoral strategic plan envisages a 110 percent increase in the next 6 years, which should continue to help improve resilience to weather conditions (IMF, 2018).

**Access to insurance services\(^{22}\) is substantially lower for the agricultural population than it is for the nonagricultural population** (Ajai N. et al., 2018). This suggests that many of those who have access to agricultural insurance are not aware that they have such access, indicating potential design and financial capability issues. Based on Finscope 2016 survey data, 63 percent of adults reported experiencing a crop failure or loss of livestock, the third highest incidence of risk reported (after health events and price increases), probably indicating an unmet demand for a well-designed agricultural insurance product. Thirty-five percent reported coping by reducing expenses, 9 percent by using their savings, 6 percent by taking loans, and 5 percent by selling assets.

**Exports from horticulture and agro-processing are projected to expand significantly** (specialty teas, flowers, increased share of washed coffee, processed infant food). The government is investing in domestic seed production and mapping input needs for individual farmers/cooperatives. More efficient use of seeds and fertilizers and increasing value chain

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\(^{21}\) Ajai N. et al. 2018

\(^{22}\) Not including the social health insurance through the Mutuelle de Santé program
integration, including cooperatives to facilitate linkages to markets and services, are underway to advance agricultural productivity. Livestock products, including dairy exports, are seeking to meet international packaging standards, already experiencing more advanced economy demand than can currently be met. Tea and coffee are among the major exports, and the economy has also recently benefitted from higher tea and coffee prices. Rwandan coffee has found niche markets in the U.S. and Europe, including a large retail chain in the U.S.

Expanding insurance opportunities in the informal sector

**Insurance model is not tailored to the needs of the lower incomes.** More than 90 percent of the informal sector does not have insurance to protect their trade against any form of risk (Mbonyinshuti, 2017). According to the United Nations Economic Commission for Africa report, the informal sector employment in Rwanda accounts for 73.4 percent of total employment outside agriculture sector, (77.9 percent of the total employment outside agriculture sector in Kenya, 59.2 percent in Uganda and 8.5 percent in Tanzania). The report indicates that three out of four people in Rwanda are employed in the informal sector, and percentage reaches to over 80 percent in case of women. Formal employment is 3.5 percent in Rwanda.

There exists room for more focused thinking in terms of devising strategies to expand insurance opportunities in agriculture sector in specific and the informal sector of the economy in general. As a starting point, we need to understand the risks faced by individuals and MSMEs, and these risks are often context-specific: the local culture, politics, history, environmental factors and source of livelihood intersect in complex ways to pose certain risks. The next step would be to understand the risk management needs, which could then inform the decisions on product design. As mentioned earlier in this report, limited data for the demand-side of the market is one of the primary constraints for expanding insurance coverage in the agricultural and informal sector.

Regulation and Supervision – How has it supported development?

The mandate for the insurance market regulation and supervision lies with the Non-Banking Financial Institutions (NBFI) department within the National Bank of Rwanda (BNR). This regulatory and supervisory role is established through the Central Bank Law (Republic of Rwanda 2007), with specific legislation governing the insurance sector. The mandate extends to both the public and private insurers, as well as the insurance intermediaries. Although significant progress has been made recently in terms of regulatory framework, there exists room for increasing the level of attention and support to the insurance sector.
While having a separate regulatory body for insurance as is the case in many economies with relatively more sophisticated insurance markets may not be necessary in the case of Rwanda – given the size and the depth of the overall financial sector as well as the market size for insurance market – it is crucial that the regulator dedicate more time and resources to the insurance sector. We have seen from examples from several economies that not giving adequate attention to the insurance sector, driven by the view that the contribution of this sector to the overall economy will be small, often becomes a self-fulfilling prophecy. In order to avoid this risk, architectural redesign of the regulator is necessary, which is explained in the recommendations section of this report.

The insurance regulatory framework in Rwanda went through modernization with the adoption of a new insurance law and supporting regulations in 2009. Insurance Regulation 5/2009 includes detailed regulations related to licensing requirements, fit and proper requirements, reinsurance, actuarial requirements, regulatory reporting requirements, solvency, risk management, and so on. Article 3 of the Regulation required segregation of life and non-life business and required that life and non-life insurers conduct business under separate licenses. As of early 2014, all insurers complied with this requirement. As discussed earlier in this report, the growth story in the life and non-life insurance following the composites split have been different: between 2014 and 2017, the CAGR in the life sub-sector was 17 percent while the CAGR in the non-life sub-sector was 9 percent. Lessons from some other economies suggest that splitting composites into separate entities can contribute to the growth in the life sub-sector, and the reality in Rwanda has been in line with observations elsewhere.

The supervisor has made substantial progress over the last 10 years in terms of implementing legal and regulatory reforms in the sector and moving towards a more risk-based approach in line with international norms. In 2012, the BNR adopted a risk-based approach to on-site inspection process. As the BNR gradually moves towards a full risk-based regime, work on the regulatory architecture is underway: risk-based capital adequacy regulation is in the pipeline. Some of the other regulations in pipeline include licensing regime for insurers and reinsurers, bancassurance regulation and microinsurance regulation. The development of the microinsurance regulation, with support from Access to Finance Rwanda (AFR), is expected to make a meaningful contribution to the development of inclusive insurance market in Rwanda. AFR expects that the “regulatory framework is likely to address some of the regulatory obstacles to the development of microinsurance such as product approvals, distribution, and micro insurer licensing.”

A Cenfri report identifies consumer protection of microinsurance clients as requiring a more proactive engagement from the regulator. “This includes specific regulatory

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requirements, for example grace periods, adequate scrutiny at the product approval phase, and monitoring key metrics that signal abuse, such as low claims ratios and lapse rates.”24

Regarding the licensing regime for insurers and reinsurers which is in pipeline, it is important to keep in mind that the licensing regulations should be conducive to promoting innovation rather than perpetuate the traditional way of doing business. As discussed earlier, the intense competition over a small pool of traditional products has led to malpractices and unhealthy competition. The new licensing regime, with the right incentive structures in place, can play an important role in terms of enabling innovation.

Additionally, the BNR, in collaboration with other insurance market stakeholders, is reviewing the law regarding the compensation of injuries caused by motor vehicles. Regarding consumer protection – law focused specifically around consumer protection for the financial sector is in progress, which would play a crucial role for the further development of the insurance market if designed properly. The nature of insurance business as a promise to indemnify or protect the policyholders in case of a loss necessitates the existence of high public trust in the sector, and a robust financial consumer protection law with adequate coverage of the insurance sector goes a long way in terms of enhancing public confidence and trust in the sector.

The regulations governing mergers and acquisitions (M&A) in the industry states that the framework aims to achieve the following: promote financial performance within the insurance industry, ensure the orderly transfer of the insurance business, and increase operational efficiency of the insurers. Regulations allow 100 percent equity ownership by foreign companies in the insurance industry in Rwanda, and there have been several acquisitions by foreign players: foreign groups own either 99 percent or 100 percent equity in a number of life insurers as well as non-life insurers (the details are presented earlier in the report under the competitive landscape section). The regulations allowing foreign ownership has played a catalytic role in the overall insurance market development. In addition to injecting capital, foreign owners are adding positive value, skills and practices through a number of initiatives ranging from implementation of new IT infrastructure to capacity building and on-job training to other country offices.

Development Projects and Interventions

There have been several development projects in the overall financial sector in Rwanda over the last decade, ranging from interventions in the payment system infrastructure and microfinance

to inclusive insurance market development. Multi-level leadership supported the adaptation and expansion of insurance initiatives in the country.

**Financial Sector Interventions**

The collaborative efforts of the government, investors, insurers, reinsurers, international organizations and donor agencies have moved insurance programs beyond the pilot phases. Donor institutions have helped to cover operational costs and premium subsidies. Partner institutions have helped facilitate the distribution of insurance products. The main beneficiaries of the projects are Rwanda's financial sector stakeholders including the National Bank of Rwanda (BNR), commercial banks, as well as NBFIs in the country. Moreover, the consumers of financial services have received the benefits with increased access to financial services.

*The Government of Rwanda presented the action plan to its development partners in 2007, seeking financial and technical assistance for implementation*\(^\text{25}\). As a result, several donors made commitments of financing or technical assistance more than USD 30 million:

- **World Bank**: The Competitiveness and Enterprise Development Project focused on microfinance, modernization of payment systems and non-bank financial institutions (NBFIs) and accounting/auditing (USD 6 million).
- **IMF**: Assigned a long-term resident advisor for NBFI supervision.
- **DFID**: Financed baseline supply and demand surveys (FinScope national household survey), and subsequent Financial Sector Deepening Trust Fund (GBP 15 million).
- **African Development Bank**: Competitiveness and Enterprise Development Project - Phase II (USD 7 million).
- **FIRST Initiative**: The FSDP in Rwanda (Phase I and II projects) with more than USD 1 million in contributions. It supported four key areas: (i) the payment system by setting up the Rwanda Integrated Payment Processing System including the ATS; (ii) the microfinance sector by strengthening the capacity of the Microfinance Association and selected MFIs; (iii) the NBFIs by preparing the financial and organization audits of insurance companies and by strengthening the capacity of the Central Bank to supervise NBFIs; (iv) the Auditing and Accounting standards by setting up the Institute of Certified Public Accountants and providing training to key stakeholders.
- **Successful implementation of more than 100 stand-alone elements of the FSDP action plan.**

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• Draft legislation for the regulation and supervision of collective investment schemes (CIS) was prepared and passed by the parliament.

Several initiatives were focused on institutional development and capacity building, developing legislative framework on compliance with the principles released by the Basel Committee, IOSCO and IAIS and the OECD recommendations. Growth in the insurance sector has been led by health insurance and in particular its crucial role in the government’s universal healthcare policy. Projects aimed at increasing financial inclusion and supportive key measures for strengthening financial consumer protection, financial literacy helped to build consumer trust in the financial sector\textsuperscript{26}.

Insurance Market Interventions

The World Bank


The project was envisaged to provide support to the legislations and regulations for the insurance sector and on building capacity of the National Insurance Commission (NIC). The Rwandan Parliament passed an Act in July 2007, which stated that the BNR became responsible for regulating NBFIs including insurers and reinsurers in Rwanda. The NIC ceased to function in its regulatory capacity. Some of the NIC staff were transferred to the BNR.

Main Outcomes: Revised insurance law and regulations for the insurance sector were enacted. Furthermore, there were key contributions made in the following areas: actuarial techniques for reserving, accounting and auditing standards, structure of the supervisory ladder that will guide the regulatory and supervisory process, reporting requirements and consistent approach to off-site analysis. Furthermore, the NIC staff were trained in data evaluation and usage for preparation of various statistical reports and off-site analysis.

Gaps/Opportunities: Given that the regulatory and supervisory responsibilities were transferred, the capacity building for the new insurance regulator, in fact, did not take place.

FIRST: Implementing Risk-Based On-Site Inspection for the Insurance Sector (2011-2012)

The project aimed to implement risk-based supervision in the on-site inspection of insurers by going through the step-by-step processes from pre-inspection planning to report writing; to enhance insurance supervisors' skills in evaluating risk management systems; to familiarize

\textsuperscript{26} World Bank provided Program on Consumer Protection and Financial Literacy to identify key measures for strengthening financial consumer protection in 2013.
insurance companies and other stakeholders on the risk-based supervision methodology to facilitate cooperation during the inspection process.

**Main Outcomes:** The TA provided under this project helped the BNR to assess the risks of insurers, control and mitigate those risks, and carry out on-site inspection in line with international best practices. Through close interactions with the industry, the project also built risk management awareness among the industry practitioners and increased familiarity with the new regulations. Moreover, training was delivered to the supervisor through a combination of theoretical approach and hands-on, practical approach, including actual on-site inspection of two insurance companies.

**Gaps/Opportunities:** There could be a need to expand the scope to include off-site monitoring as well and provide additional training for the supervisor to better understand off-site monitoring and on-site inspection as dynamic processes under the overall risk-based supervisory approach.

**The Syngenta Foundation for Sustainable Agriculture (SFSA)**

**Kilimo Salama Insurance Program (now ACRE Africa)**

As Rwandan farmers face increasingly erratic rainfall, an innovative program launched to offer 20,000 farmers in the Southern and Western provinces of Rwanda low-cost insurance to protect their loans for high-yielding seeds, fertilizers, and other farm inputs. The program, “Kilimo Salama”\(^ {27} \), which in Kiswahili means “safe farming,” was introduced in 2012 as a partnership between the Syngenta Foundation for Sustainable Agriculture, the Ministry of Agriculture and Animal Resources, One Acre Fund, SORAS Insurance in Rwanda, and Swiss Re Corporate Solutions.

In October 2012, over 20,000 farmers in the southern and western provinces became the first Rwandans to be covered under Kilimo Salama\(^ {28} \). The SFSA made this possible in partnership with an agricultural microfinance institution (MFI), the Rwandan insurer SORAS, and Swiss Re Corporate Solutions. In December 2012, some 1600 of the insured smallholders received the first payout in Rwanda. In 2013, the initiative insured 115,550 Rwandan farmers. In 2013, Kilimo Salama received approval from the insurance regulator in Rwanda to operate as an insurance agent in the country, allowing them to generate revenue from their role as a market maker between insurance companies and client aggregators.

**Gaps/Opportunities:** There exist numerous discrepancies between insurance claims and losses. Weather in Rwanda varies greatly in very small geographical areas. The satellite pixels localised not more than 10km x 10km, many times the insurance will not trigger a payout even though a

\(^{27}\) The Syngenta Foundation for Sustainable Agriculture (SFSA), based in Switzerland, initiated a project in 2009 called Kilimo Salama in Kenya.

\(^{28}\) https://www.syngentafoundation.org/agricultural-insurance-rwanda
number of farms within that pixel might have experienced drought or excess of precipitation. On the other hand, farmers receive an insurance payout during no weather losses. Clients are aware of these microclimate issues, with numerous focus groups citing the need for on-the-ground verification staff rather than just reliance on satellite models and meteorological stations.

International Finance Corporation (IFC)

Weather Index Insurance Program (2013)

In November 2010, the IFC’s Global Index Insurance Facility (GIIF) entered into an agreement with MicroEnsure providing a grant to incentivize MicroEnsure to design new and affordable index-based insurance products; develop an effective distribution network that expands outreach to low income farmers; and scale-up agricultural index insurance into a commercially viable and sustainable product.

MicroEnsure operates two main weather index insurance products in Rwanda:

- **Weather station-based product** that provides coverage against dry spells and excess rain. To insure against the effects of dry spells, cumulative rainfall is measured daily over a predetermined period (typically between 30 and 45 days). If the cumulative rainfall falls below a set threshold for the period, a payout is made. Payouts increase depending on the severity of the weather event, typically providing an additional percentage payout of the sum insured for every deficit millimeter of rainfall below the threshold. To insure against the effects of excess rainfall, rainfall is measured daily for the insured period. If the cumulative rainfall for a set period (typically three days) is below the pre-determined threshold, an increasing payout is made depending on the severity of the event. Weather station-based products measure rainfall at a single location, and farmers are eligible to be insured provided that farms are within a given radius of the weather station location.

- **Satellite-based product** that also provides coverage against dry spells and excess rain. Cumulative rainfall over several consecutive decades (typically three decades for dry spells and one decade for excess rainfall) is measured. If rainfall falls below or increases above the ‘normal’ for the same period, a payout is made. Payouts increase depending on the severity of the weather event, but typically provide an additional percentage payout of the sum insured for every deficit or additional percentage point of rainfall below or above the threshold. Satellite-based products estimate rainfall within a given area, which typically gives a better average than weather station-based products.

29 https://www.indexinsuranceforum.org/project/microensure-rwanda
Access to Finance Rwanda (AFR)

Access to Finance-Rwanda (AFR) has identified some of the constraints in the market and have started working with the private sector on addressing certain issues. Given that the companies operating in the sector mostly have weak balance sheets, they are not investing in demand-side research of the market. As a development partner, AFR’s work in the sector – specifically around market research to support inclusive insurance and around catalyzing innovation – is a sterling example of complementing the role of the private sector, particularly in areas where partial support is required for the private sector to step up to its role.

AFR seeks to improve the welfare of low-income people through improved access and usage of better risk management solutions including insurance and savings. According to the FinScope Survey 2016, only 8.5% of Rwandan adults have insurance and the uptake of insurance in Rwanda is skewed towards medical insurance mainly consumed by the salaried or formally employed. AFR supports the development of an inclusive insurance intervention framework.

Project 1: Enabling Digital Insurance Take-off

AFR is partnering with Inclusivity solutions (FinTech), Radiant Insurance Company and Mobile Network Operator Tigo to design and operate innovative insurance products to reach the unserved population. The project will leverage unique opportunities that Inclusivity Solutions can provide to educate and grow an insurance market through loyalty (free) insurance products, which will be offered based on mobile usage behavior. While creating this strong foundation, upsell (paid) products will also be offered to make the model commercially sustainable. The project team will explore bundling opportunities with other financial and non-financial services to deliver increased value to consumers and help drive uptake. With completion of the project in two years, the team expects to register 300,000 paid insurance policies.

Project 2: Promoting National Agriculture Insurance Scheme

The project will be enable farmers to acquire policies to safeguard their agriculture activities against various risks like natural disasters and diseases. It will be implemented in partnership with insurance companies. The objective of the scheme is to provide cover that will encourage banks to increase funding to the agriculture sector not raising interest rates. The agro-insurance scheme will help increase confidence among the banking industry to start financing secured farmers. Banks have been reluctant to extend credit to the agriculture sector on grounds as the sector is too risky and depends on nature to thrive. The livestock sub-sector is an important source of income and food for many households. It is estimated that more than 68 percent of Rwandan households are engaged in some form of livestock farming. The scheme will benefit

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30 https://www.newtimes.co.rw/section/read/223279
farmers working with cooperatives, associations and the various milk collection centres across the country.

The informal market represents an important growth opportunity for the industry as the high-end market is highly competitive and undercutting prices challenges profitability. The 2016 Microinsurance Landscape study conducted by AFR shows that agriculture insurance covers around 100,000 rural households, and credit life covers just over 50,000 low-income borrowers only. According to market assessments, clients seem to have positive insurance experience despite the low insurance penetration.

Moving Forward: Findings and Recommendations

The key findings of the current state through the country diagnostic study have informed the recommendations presented in this section. The recommendations to overcome the barriers to insurance market development in Rwanda can be grouped under the following categories: architectural redesign of the regulator, training of trainers (ToT) strategy, policies to incentivize innovation, enhanced supervision of the sector and institutionalization of consumer protection structures, improved board and corporate governance, and synergies between the development sector and the private sector.

1. Developing technical skills to strengthen the sector

One of the key bottlenecks to insurance market development is inadequate technical capacity across the board, from the private sector players to the regulator. There needs to be a holistic approach to address the issue of limited capacity on a market-wide level. Designing fragmented efforts at building capacity would not only be cost inefficient but could also be limited in scope. For instance, some efforts may focus on building technical skills that are specific to insurance, which is necessary but not sufficient: a holistic capacity building approach should entail a fine balance between developing technical skills specific to insurance and developing business strategy and financial skills. The key is to provide a combination of skills – from underwriting and risk management to financial investment and strategic thinking in terms of business growth – in a way that provides a good value for money and makes a sustainable impact.

ToT strategy would not only ensure good value for money but would also build capacity at the local level (in the local economy). The “trainers” need to be trained with a curriculum that is designed to not only develop technical insurance skills (for example, actuarial skills) but also skills in business strategy: against the backdrop of insurers battling with each other in the “red ocean” of a small pool of traditional products, the key to unlocking the financial potential of insurers is developing strategic thinking in terms of gaining a competitive edge through reaching the
currently unserved and underserved consumer segments. Furthermore, the trainers will also need to develop an understanding of the supervisory tools and best practices across insurance markets so that they can transfer the knowledge to the regulator. Additionally, as discussed earlier under the change in agent licensing policy in Rwanda, there is an opportunity to work closely with the IRA in Kenya for training of insurance agents at the grassroots level.

The trainers selected could be either the Insurance Industry Association (if there exists a will and demonstrated commitment to pursue this longer term) along with a representation from the regulator or an independent training institute/outfit (e.g. via a dedicated curriculum devised and delivered through a university – such as has been devised in Kenya). The exact form and nature of the trainers need to be finalized through a more detailed discussion with various stakeholders. At the very least, the trainers who will be trained should be from the local economy so that the knowledge remains in the local economy and will make a sustainable impact.

2. Enhanced supervision of the sector

Enhanced supervision from the regulator, leveraging the best practices in terms of supervisory frameworks and tools, is necessary. Industry players express dissatisfaction about existing malpractices in the industry, which is triggered by unhealthy competition. There is a need for the regulator to pay adequate attention to the possibility of such malpractices, since they could pose a fundamental challenge to market development.

Additionally, it is important to note that Rwanda has a unique combination of high consumer awareness but low trust in the insurance sector. The nature of insurance business as a promise to indemnify or protect the policyholders in case of a loss necessitates the existence of high public trust in the sector. The issue of trust typically stems from consumers’ prior bad experience with insurance companies. The regulator’s role is crucial in terms of strengthening consumer protection framework and institutionalizing consumer protection structures.

There are three key areas that require attention.

i) Institutionalizing consumer protection structures –

As of June 2018, the BNR has established a new team in charge of consumer protection and complaints handling and market conduct. Technical assistance to support the new team achieve its goals could go a long way in terms of developing capacity to achieve the goals and building sustainability into the BNR’s consumer protection and market conduct initiatives.

Fair treatment of policyholders is increasingly becoming important: ICP 19 – Conduct of Business by the International Association of Insurance Supervisors (IAIS) shows the increasing importance of fair treatment of consumers in supervisory standards in the insurance industry. Substantial progress can be made by training and working closely with the new team at the BNR to design alternative dispute resolution mechanism that works will in the context of
Rwanda, with clear guidance and standardized approach to mediate and ameliorate the problems faced by policyholders effectively, contributing to the fair treatment of consumers. An effective dispute resolution mechanism helps the insurers as well, through clearing misunderstanding and reducing fraudulent claims and costs.

ii) Improving board and corporate governance –

While company board and corporate governance are ingredients for success in the insurance sector in any economy, what is particularly unique to the Rwandan market is the fact that the decisions of the insurance companies’ board are often perpetuating the principal-agent problem through leadership discontinuity. There is a high turnover of CEOs and top executives, which often incentivizes the executives to make business decisions that are good for performance indicators in the short term but are detrimental to the company, its policyholders as its shareholders in the long term. Additionally, corporate governance needs to be strengthened in general through implementation of internal policies and procedures that are in line with international best practices and standards.

iii) Building supervisory skills specifically targeting consumer-oriented protection and risk based supervisory capacity –

The supervisor can benefit from actuarial skills training, both by participating in such training initiatives taking place at the regional level or from focused training designed for Rwanda. Additionally, a scholarship and mentoring program targeting CAA qualifications that can be accessed already in Kigali would send a strong signal for very limited cost. The industry could well be asked and should provide for such scholarships.

One specific area for building supervisory capacity is in offsite monitoring, particularly development of early warning indicators and thinking both qualitatively and quantitively about risks detected through the offsite monitoring process.

3. Fostering “Blue Ocean” innovation through targeted leadership

There is a significant need and opportunity through finding and fueling new innovations. This has already been evidenced as working in Rwanda through the work of the Access to Finance to Rwanda team in the area they are engaged in. Equally, it is clear that a lack of intervention has been a hinderance.

As a result, it is recommended to promote innovation including through:
i) Policies to incentivize innovation –

There is a need to formulate policies to incentivize innovation in the insurance sector, in line with the vision laid out in the Private Sector Development Strategy (PSDS) of the government. Although some have argued for the need for consolidation of the sector considering the private insurance sector that is not profitable because of fierce competition, applying policies and regulations for consolidation in the form of M&A is not necessary. Analysis of Herfindahl scores has demonstrated that the problem lies not in the industry structure (level of fragmentation or concentration) but rather in an insurance work-culture where innovation is absent for the most part.

The upcoming licensing regime of the BNR can be one of the mechanisms through which innovation can be incentivized. BNR needs to develop a comprehensive framework for assessing the factors related to innovation in the context of the Rwandan market, which would inform the decision on issuing license to new interested entrants in the market.

There could also be other mechanisms to achieve the objective of promoting innovation, perhaps in the form of financial incentives to players serving niche markets that are of strategic importance to the government’s development agenda or through innovation competitions and incentives.

ii) Two-pronged strategy for data and market research –

One of the constraints is lack of adequate data and understanding of the demand-side of the market. Innovative product design catered to the needs of the currently underserved, or unserved, segments of the population will not be possible without understanding the specific needs of the people. Now the challenge going forward is thinking about how to get the private sector to invest in market research & development on their own. There should be a strategy in place for both the short term and the medium term: while the insurance companies should invest in market research and data collection in the medium term, data and market research needs to be seen as public good in the short term. As the private sector steps up to the role, development sector interventions need to play a key role in terms of providing access to data and research as an intermediate step.

In the short term, it would be useful to select a targeted study to examine one or other of the following overseen by a BNR led “innovation committee” with industry and other representation:

- Insurance demand in underserved markets: Templates and examples of these studies are available so do not need to be reinvented. The study would identify needs, understand priorities that customers place on them, examine current coping strategies and their efficacy, and further investigate preferences for and attitudes to insurance as a solution
to replace or supplement requirements. It could also include testing willingness to pay for potential solutions and, therefore, scope market size solutions.

- Developing consumer communication through short cycle field testing and innovation: By picking up on and partnering with a number of volunteer existing players real time field testing and change and retesting on short cycles can be used to develop (in the case of Rwanda where it is not yet in place) and improve customer communication in key product lines of high volume and high retail touch.

- Bringing technology through “InsurTech” to the Rwandan context especially to advance digital financial services in the insurance space and to advance motor insurance effectiveness given the quality of the digital ecosystem already in place in Rwanda.

- Initiating a “simple insurance” product initiative where the sector works with a facilitation bringing technical assistance to create simplified products and processes best able to respond to the need to reach out to underserved customer groups.

Given the broad mandate of AFR, there might be a need for development programs with insurance sector-specific mandate to work closely with AFR to think creatively about getting the insurance companies in Kigali to invest in in-house market research & development and use data to make sound business decisions as a medium term plan and to work on making demand-side data available to insurers as a short term plan. Such a two-pronged strategy would help build a degree of sustainability into the initiatives and maximize impact to ensure an enduring impact of the initiatives on the ground.

4. **Considering the potential to raise the profile of insurance and pensions through adjusting supervisory architecture**

Some industry professionals support the idea of giving a greater profile to longer term savings and insurance by taking insurance and pensions out of the BNR to a separate agency as has been the case in other EAC countries. This would seem to be an argument that is not well supported with evidence beyond the EAC and so it is suggested that a more moderate but important escalation in the placement of the supervisory and policy work is justified. Having an independent supervisor would come with several challenges in an economy like Rwanda and would also add financial burden to an already struggling insurance sector in the form of levy, as opposed to the budget certainty that comes by being as part of the central bank.

One possible mechanism for the architectural redesign of the BNR would be separating the Insurance Division within the BNR and dedicating enough resources – both financial resources and human resource(s) – to this specific unit. There are a range of initiatives and interventions necessary in the insurance market, which cannot be achieved without a dedicated insurance unit that is both committed to the cause and has adequate capacity to transform strategy into implementation. It is recommended that the potential for an elevation of the role of insurance and pension supervision should be considered specifically through a defined policy advice effort.
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