INSURANCE PREMIUM FINANCING - AN INSURER'S PERSPECTIVE

The enactment of the Insurance Act 2017 introduced radical but necessary changes to the insurance practice. Among these changes, was the need to transact on a Cash and Carry basis when purchasing insurance. The insurance sector had over time created an unfortunate culture of credit so much that for the last five years, aggregate receivables were in excess of UGX 100BN. This was continuously precipitated by the lack of appreciation for risk occurrence hence delayed payment of premium by clients. This situation continuously put the insurance players at dire straits and hampered the growth of the sector vide its capital framework and regulatory structures thereof since a big chunk of the premium was always declared as a receivable in excessive periods and hence impeding on the liquidity and solvency ratios of the sector.

The advent of the provision in the Insurance Act 2017 required the purchase of insurance on cash upfront which was warmly received by the players. The provision of the Act in effect stated that all insurance premium payments either by cash or any other payment medium should be made upfront for any insurance contract or a proposed contract to be made. This provision allows in very exceptional circumstances where premiums can be paid in instalments. Whilst this is allowed it requires the individual player seek special dispensation from the regulation the IRA which must be cast in a binding premium payment warranty that must be strictly adhered to.

The cash and carry provision re-emphasizes the need to fulfil the tenets of a contractual relationship with respect to the premium payments, enshrined in best practice to ensure that when clients intend to enjoy insurance services, they are able to pay premium upfront. This guarantees best service to clients at claim time and most importantly the financial soundness of the respective insurance companies which is a regulatory hallmark. With the current economic events caused by the COVID-19 pandemic that has created a massive business downturn for entire economy, banks and other financial institutions have offered reprieves to borrowers and likewise the insurance companies through the Insurance Regulatory Authority (IRA), have also provided practice guidance on credit lifelines that will ensure that policy holders sustain their insurance covers while at the same time obtaining optional financing for their premiums.

This economic downturn with us further worsened by the already increased competition within the insurance industry and a stringent regulatory regime that requires regular solvency checks on the players. In light of these elements of force, the searching for opportunities to differentiate members amongst themselves in order to retain renewals while still growing their new business base is a must explore and IPF certainly provides a solution to a good extent. The eminence of risk is now more prominent amidst tightened economic spending and IPF offers reprieve to the insurer, the insured and the lender in this case the banker once agreed upon equitably.

The relevancy of IPF can never be skewed to Insurers alone but to Banks as well. This takes the form of personal and commercial insurance policies premium financing and at rates typically less than those of standard commercial rates for these banks and while at the same time allowing insureds and bank customers to use the asset of the insurance policy to collateralize for a loan. By using the insurance policy as collateral, premium financing allows insureds to leverage their assets for other business-critical needs. They pay for the insurance as they use it because payments are tailored to their needs, extended over for an agreed-upon period of time and payments spread over regular intervals. This further eases cash flow management, budgeting process and expense allocation.

To the users of IPF, spreading payments over an established period of time allows for better control of cash flow and frees up capital for other business-critical needs. This eliminates the requirement for a large up-front payment by the insureds which are more often a hindrance to continue with insurance. Multiple insurance policies can be attached to a single premium finance contract, allowing for a single payment plan to cover all insurance coverage. This provides a wider cover to clients without liquidating other assets. In such arrangements the relevancy of brokers is vital by delivering a ball pack insurance program to their clients that includes well negotiated and reasonable payment options to their insureds while still realizing full commissions as well.

The Uganda Insurers Association will continue to work with the Uganda Bankers Association to ensure that IPF arrangements are made priority and if not the preferred premium payment methodology. The IPF arrangement can be considered risk free since the insurance companies guarantee the repayment to the bank and the guarantee deed is a first recall document in the event of a default. This should always be the bankers' relief in these arrangements.