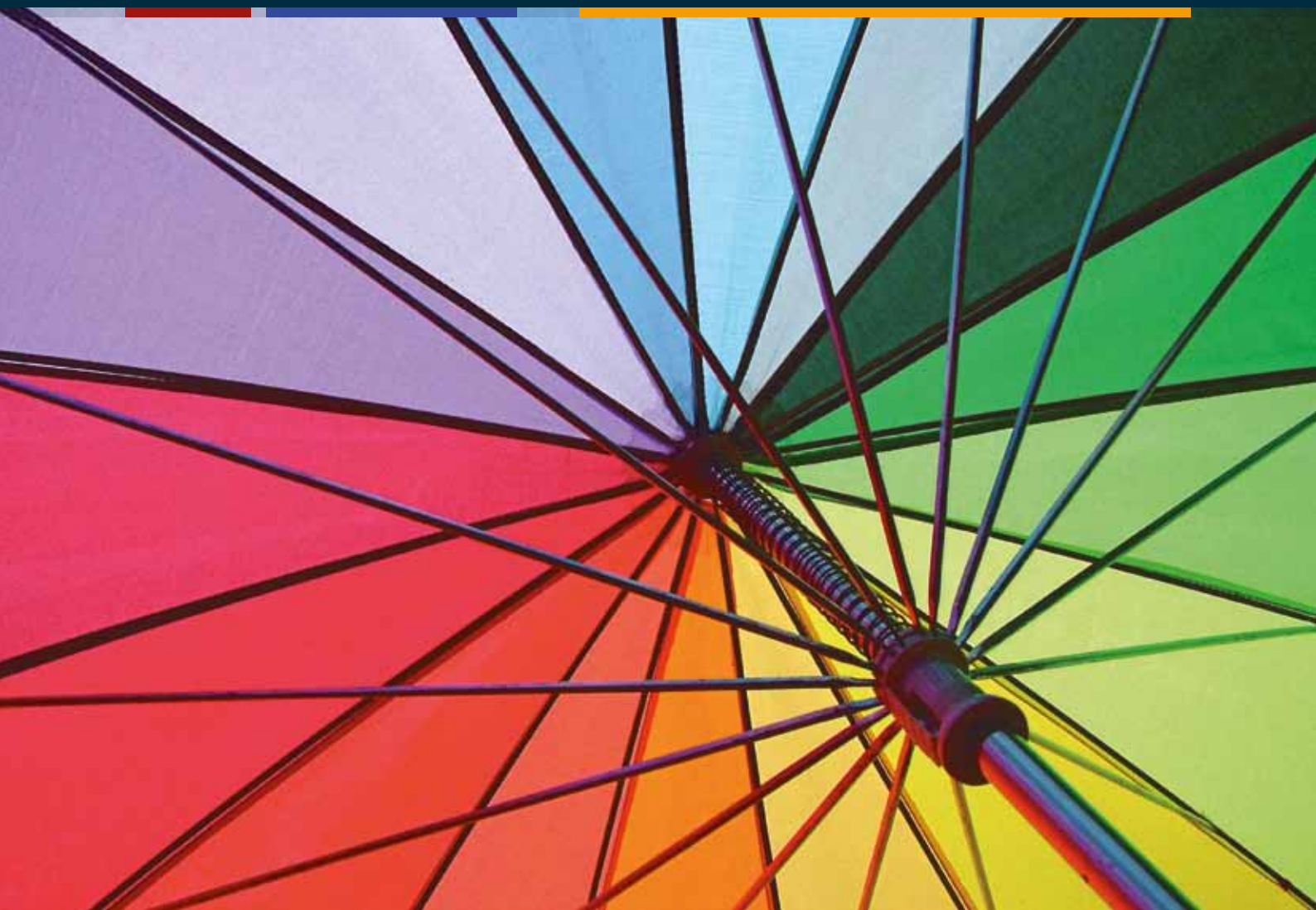


BRIEFING NOTE

THE LANDSCAPE OF MICROINSURANCE IN AFRICA 2012



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INTRODUCTION¹

Microinsurance across the globe enjoys growing interest from a variety of stakeholders, and related activities have multiplied in recent years. This study aims at providing an overview of the status and dynamics of the industry in Africa. Thus far, three large-scale landscape studies have been conducted on the state of microinsurance: the Landscape of Microinsurance in the World's 100 Poorest Countries (Roth, et al, 2007), the Landscape of Microinsurance in Africa (Matul, et al, 2010), and the Landscape of Microinsurance in Latin America and the Caribbean (McCord, et al, 2012). The present study published by Making Finance Work for Africa and the Munich Re Foundation aims at updating and expanding on the 2010 Africa landscape study. For the first time, this study will include an analysis of the dynamics of microinsurance in Africa. The study was supported by the African Development Bank, ILO's Microinsurance Innovation Facility and the Microinsurance Network.

DEFINING MICROINSURANCE

Despite widely recognized differences between microinsurance and traditional insurance, there is no single definition of microinsurance. This makes quantifying microinsurance a rather challenging endeavor. Not only are there various definitions, but there is also a broad range of formal and informal organizations offering microinsurance, organizations which often do not segregate or specifically monitor their microinsurance data. For the purposes of this study, a product is generally defined as "microinsurance" if it is modest in premium and coverage and meets the following four criteria:

- **Target population:** The product targets the lower-income segment of the population, those who so far have been excluded from mainstream insurance offerings.
- **Business line:** Microinsurance can be found in all business lines, including life, accident and disability, health, property and agriculture (crop and livestock).
- **Sales:** Microinsurance may be supplied by various stakeholders and through a variety of channel types.
- **Affordability:** The premium amount is commensurate with the income level of the low-income sector.

As this definition excludes products that other studies, governments, or organizations may market as, or consider to be microinsurance, the numbers reported in this study may differ from the numbers of other reports. This is particularly important when considering property microinsurance, most notably agriculture, which frequently includes heavy government involvement or insurance products that are mainly used by the middle-income population, although the products may be financially accessible to the low-income population.

Data was collected over a four-month period beginning in June 2012 using an extensive questionnaire as the primary tool. Information was requested on general company structure and results, descriptions and figures of microinsurance products offered, and qualitative data regarding perceptions of the current market. The research team specifically targeted risk carriers of microinsurance products but also solicited delivery channels in cases where risk carriers refused participation or when the channel was the risk carrier.

BOX 1 By number (see footnote 3, p. 2):

- 51 countries evaluated
- 39 countries with MI
- 214 respondents
- 511 providers
- 598 total products

The study identified:

- 4.4% of Africans covered
- 44.4 million lives / properties covered
 - 33.9 million life
 - 8.8 million credit life
 - 2.4 million health
 - 2.0 million accident
 - 0.8 million property
 - 0.2 million agriculture

¹ The authors and publishers greatly appreciate all of the organizations, aggregators, and others that provided their data and comments.

It should be noted that there were several data collection challenges. All data collected was voluntarily submitted through the goodwill of insurers, delivery channels, aggregators, regulators, donors, and other organizations involved with microinsurance. A few organizations refused to participate due to confidentiality concerns or other reasons. Within organizations willing to participate, the requested data may not have always been available, since segregation of microinsurance data is not common among insurers, and even when data is segregated, organizations do not always track their business in the same way.

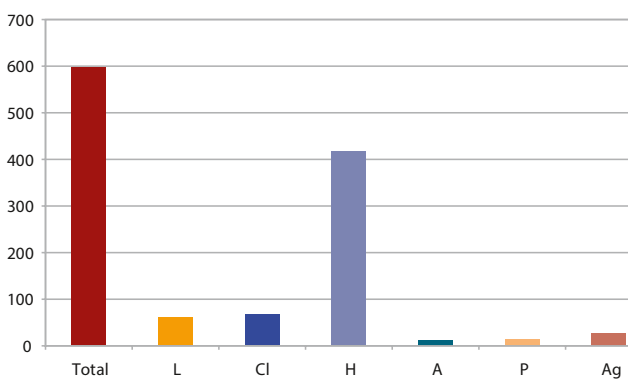
SOME KEY FINDINGS

214 organizations responded to the survey providing data for 511² providers offering microinsurance in 39 countries. This includes seven countries in which microinsurance had not been previously identified. A total of 598 microinsurance products were identified covering a total of 44.4 million³ lives and properties at the end of 2011. More than 60% of this coverage comes from South Africa, where 27.2 million lives and properties are insured. Including South Africa, nine countries have microinsurance coverage reaching more than one million lives and properties each. These nine countries alone account for over 90% of the coverage in Africa. *Box 1* (above) shows the key figures identified in the study.

Although life products cover more lives than all other products combined, most of the products reported were health products (*Figure 1*) due to the large number of mutuals and community-based organizations primarily in West Africa. The striking difference in coverage and number of products highlights that although there are many organizations that offer community-based health cover, their individual volumes are very low.

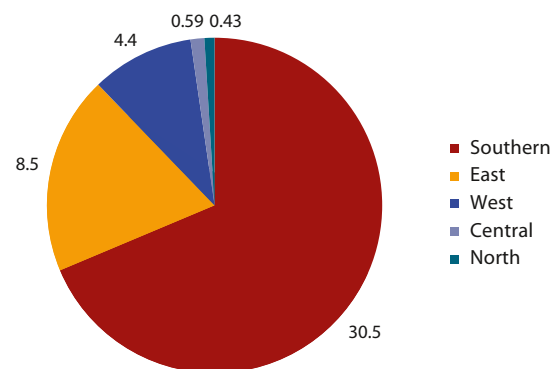
Geographically⁴, Southern and East Africa dominate in terms of coverage volumes, as shown in *Figure 2*. West Africa is on the rise, largely due to growth reported in Ghana and Nigeria. In Central and North Africa, the microinsurance sector remains rather limited.

Figure 1: Number of different products by risk type



Products: L: Life CL: Credit life H: Health A: Accident P: Property Ag: Agriculture

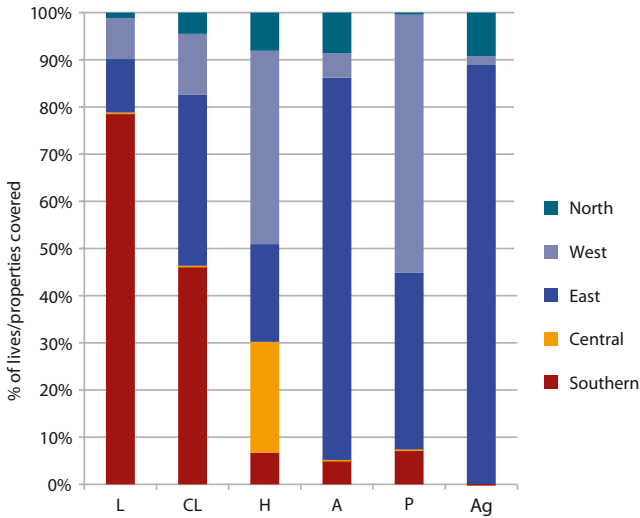
Figure 2: Lives/properties covered by region (in million)



Despite the overwhelming microinsurance coverage in Southern Africa (primarily South Africa), considerable regional differences remain in product outreach. *Figure 3* indicates that Southern Africa contains the majority of the lives covered by life and life and a large portion of credit life products. This is because of strong cultural promotion of funeral insurance in that region. West Africa has the greatest number of people covered by health products primarily because of the strong donor promotion of group ownership of insurance through community-based health insurance programs in Francophone Africa. The majority of agriculture coverage is found in East Africa, which also has most of the accident coverage, due to one large insurer.

2 Three respondents were aggregators in Comoros, Mali and Senegal representing 39, 76, and 237 community-based groups respectively.
 3 Note that the volume of coverage by product type adds up to more than the total covered lives reflecting that many products are offered as riders and add-ons to a primary microinsurance product.
 4 The African sub-regions used for this brief are those outlined by the African Development Bank (<http://www.afdb.org/en/countries/>).

Figure 3: Breakdown of total lives/properties covered by main risk type in the five African regions



Products: L: Life CL: Credit life H: Health A: Accident P: Property Ag: Agriculture

Figure 4: Number of lives/properties covered by region in 2008 and 2011 (including secondary)

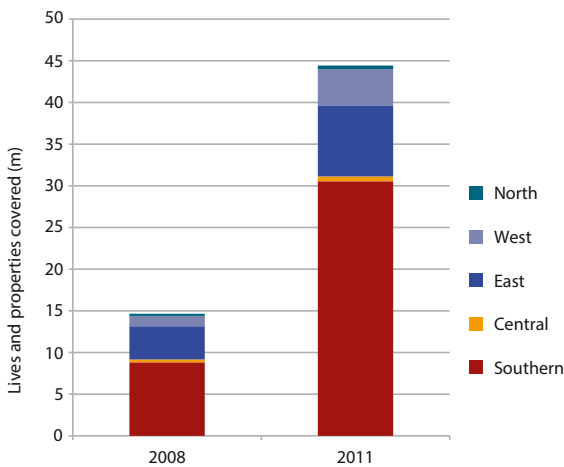
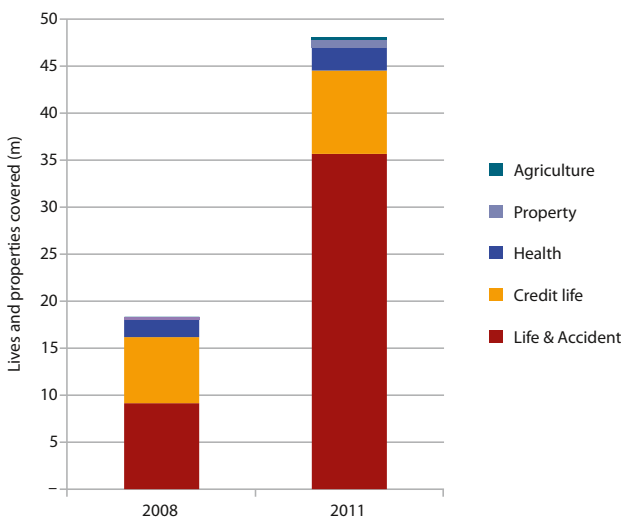


Figure 5: Number of lives/properties covered by product in 2008 and 2011 (including secondary)



Growth

Microinsurance coverage in Africa has grown tremendously over the past few years, as can be seen from *Figure 4*. The prior Africa Landscape study with data from 2008 identified a total of 14.7 million lives and properties covered by microinsurance in 32 countries. The current study identified 44.4 million lives and properties covered in 39 countries, a growth of over 200% between 2008 and 2011. Although microinsurance coverage has dramatically increased, the market described in 2008 has not significantly changed in some respects. The market remains dominated by life coverage, and Southern and East Africa still contain the greatest number of lives and properties covered.

Life coverage is ever more dominant in 2011 than in 2008, and is the main driver of overall growth in Africa. The move away from credit life products as the main drivers of growth indicates that the African microinsurance industry has begun to move further along an evolutionary path towards more complex products. However, as seen in *Figure 5*, the lack of expansion of health and other products suggests continued constraints.

Examining growth from a regional and product perspective paints a more detailed picture of the microinsurance growth in Africa. *Figure 6*, displaying the growth in number of lives/properties covered per product in the sub-regions, shows that the regions which experienced the greatest growth in life and accident products are those with less coverage overall, North and West Africa. In addition, East Africa has experienced considerable growth in agriculture coverage, and both West and Central Africa have experienced significant growth in property coverage. In contrast, only modest growth was seen in credit life and health coverage across all regions, with the exception of North Africa which exhibited considerable growth in health coverage. Declines in health cover were identified in Southern and East Africa. Declines in agriculture coverage were experienced in Central and Southern Africa while Central Africa also experienced a decline in credit life and a slight decline in life and accident coverage.

Figure 6: Growth of lives/properties covered by product type from 2008 to 2011

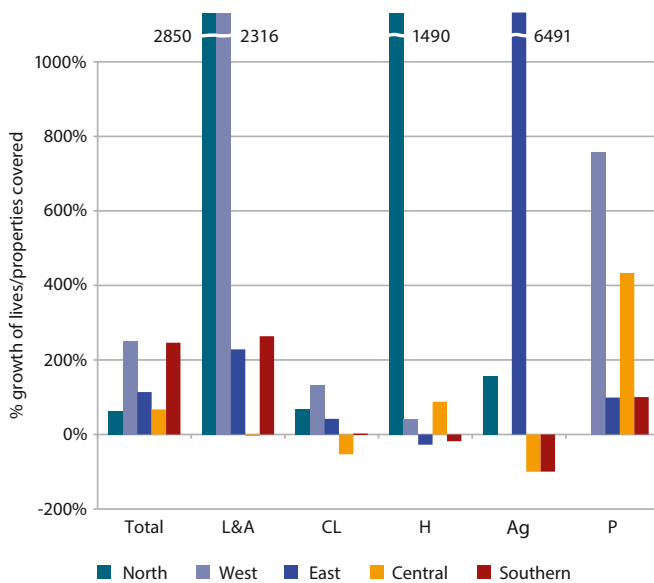
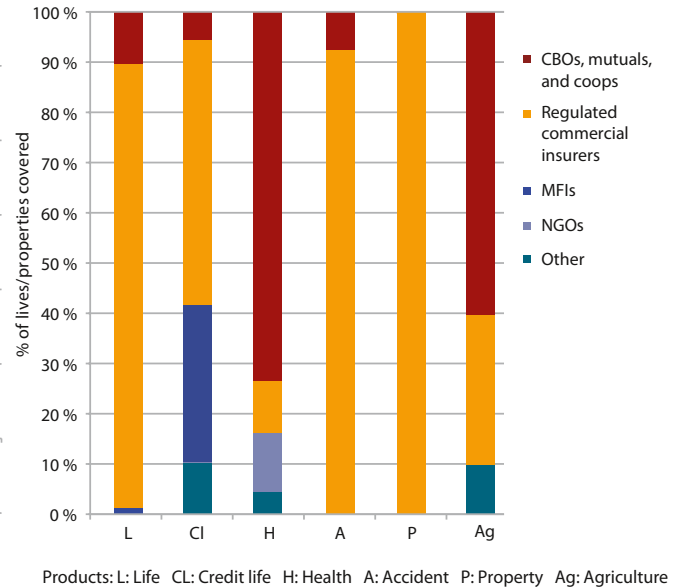


Figure 7: Percentage of lives/properties covered by product and provider type



MICROINSURANCE PROVIDERS

Within Africa, the research team identified 511 organizations offering microinsurance. These microinsurance providers include more than 12 different types of organization from commercial insurers to mutuals and hospitals, to NGOs and MFIs taking on insurance risk themselves. The majority of organizations identified (77%) were community-based with relatively few covered lives and properties per group. The second most common type of microinsurance providers were regulated commercial insurers, making up 13% of the organizations identified as taking microinsurance risk.

Despite the large number of community-based insurers providing microinsurance, they only cover about 9% of the total lives and properties covered in all of Africa. Regulated commercial insurers provide cover for over 78% of lives and properties covered in the region. This striking difference illustrates a key point: Massive microinsurance growth and expansion will not come from the small scale local organizations but will require the commercial insurance industry and professional mutual insurers. Among the different providers, only these insurers, and in South Africa funeral parlours, generate large outreach. This has critical implications for the scale, profitability, and sustainability of microinsurance.

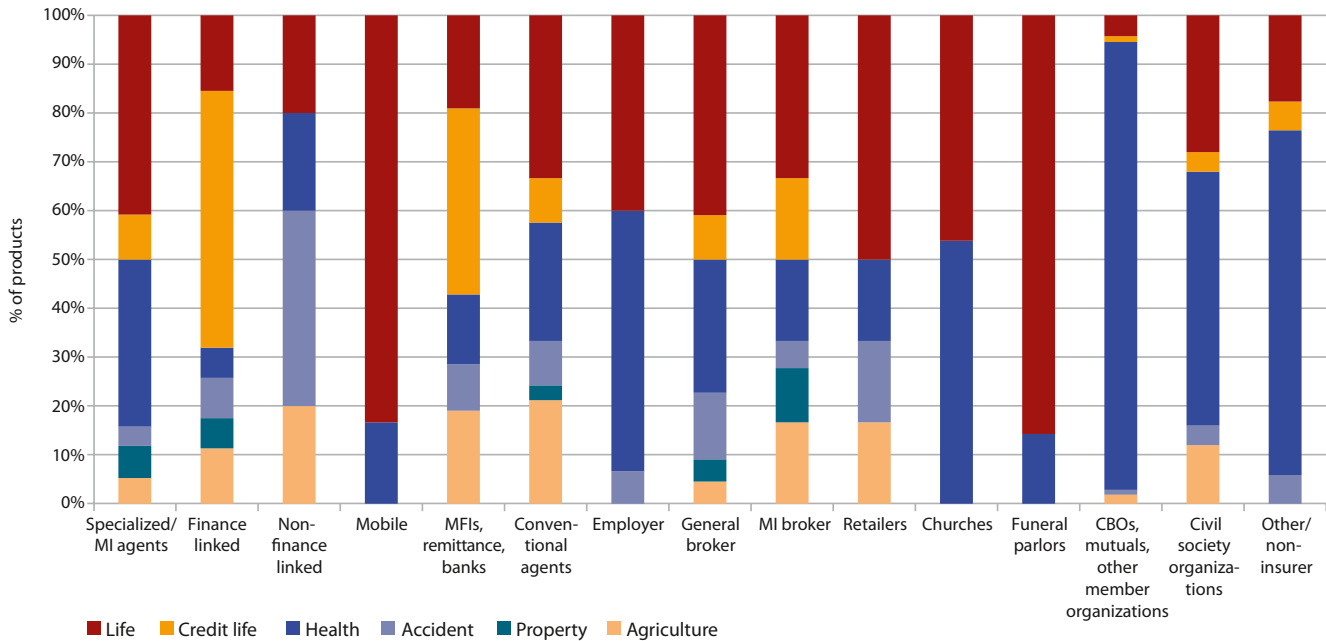
However, smaller organizations undeniably play an important role in the market, often bringing microinsurance to places where other insurers might not go. In evaluating the percentage of lives and properties covered by each organization type, again commercial insurers are found to cover the majority of the lives and properties for most risk types with the exceptions of health and agriculture (*see Figure 7*). More than 70% of lives covered by health microinsurance are insured by mutuals, cooperatives, and community-based organizations. This dramatic absence of commercial insurers from health coverage reflects a general reluctance to enter this market because of real and perceived risks, as well as government provision of health care in several African countries. For the most part, these community-based and mutual groups venture into health products as a response to their members' needs. The majority of properties covered by agriculture products, nearly 60%, are insured by cooperatives. Although most prevalent in East Africa, overall agriculture microinsurance has remained limited. As with health, much of this can be attributed to real and perceived financial risks insurers face.

DELIVERY CHANNELS

In 2008, African mutuals (including community-based organizations) were the most common delivery channel for microinsurance, followed by MFIs. Providers were using a variety of delivery channels in 2008 and have continued to expand

that range over the past few years. Mutuals, CBOs, and other member groups, however, remain the largest distribution channel and are still followed by MFIs and other financial institutions. Notably, the use of specialized and specific microinsurance agents has increased since 2008, and insurers are beginning to link their products, typically life, to more passive delivery channels, much like credit life. One passive channel that has shown tremendous power is mobile service providers. Nine countries in Africa contain more than one million lives and properties insured: Ethiopia, Ghana, Kenya, Namibia, Nigeria, South Africa, Tanzania, Uganda and Zimbabwe. In Ghana, Namibia, Tanzania and Zimbabwe, this achievement is at least partly the result of embedding a simple life cover into airtime purchase of mobile phones.

Figure 8: Products by delivery channel



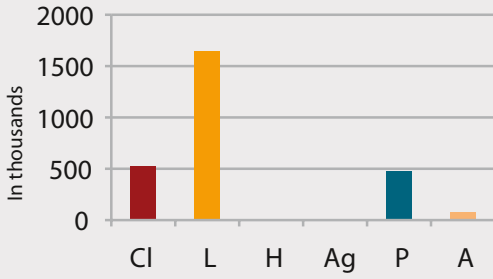
Not all delivery channels offer the same types of products, and some are better-suited than others at offering products that cover a particular risk. *Figure 8* indicates the types of products distributed by each channel. These channels are not necessarily mutually exclusive as for example, MFIs and finance linked channels may contain similar components. Life and health products are offered by every channel to varying degrees. Credit life is, as expected, mainly distributed through MFIs and embedded into finance products. Accident products are the most common product embedded in non-finance linked products, which is likely due to relative simplicity and low cost of accident coverage. Property products are largely distributed through brokers or agents, which may indicate that given the experimental nature of property products, providers purposely select delivery channels with the most developed capacity. Agriculture products are similar to property products in the involvement of brokers, but they have expanded much more to distribution channels known for wide outreach, such as retailers and embedding in non-finance linked products. This is likely an effort to reach the rural areas, where financial institutions are not easily accessible.

MARKET PERCEPTIONS AND REGULATIONS

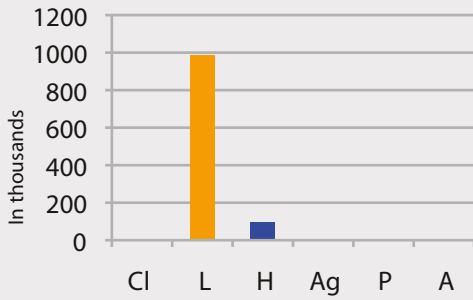
The youth of the microinsurance industry in Africa and the rest of the world generates great excitement about the high potential for growth, but it also generates great uncertainty in how microinsurance should be approached by various stakeholders. For this study, survey respondents reported information on their perception of the microinsurance market as well as their view of the regulatory environment in their country. The responses very much fit the perception of excitement mixed with apprehension.

Figure 9 (see p. 8) shows that across all countries, organizations were confident that they would experience growth; 71% of organizations agreed that the market would grow 10% in the coming year. However, when asked if the market

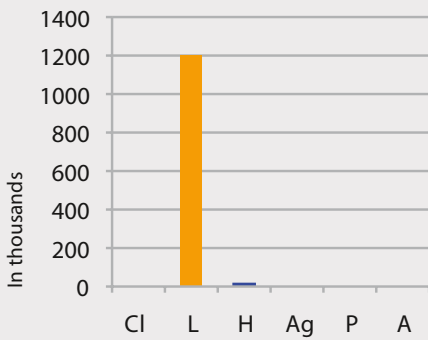
Ghana



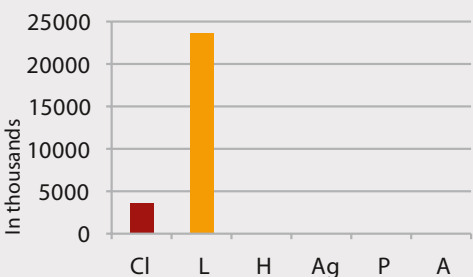
Nigeria



Namibia

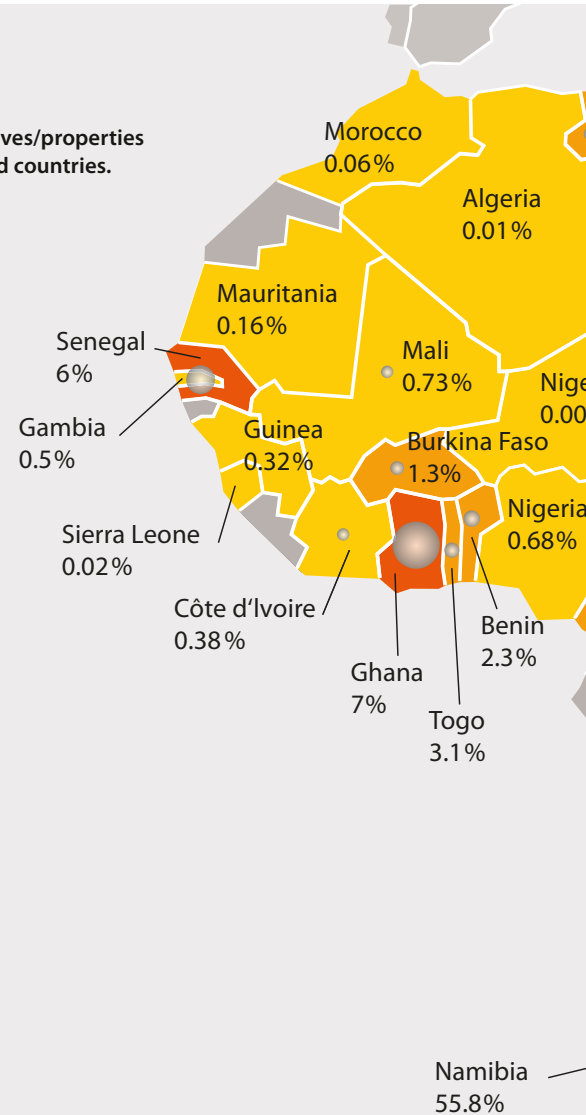


South Africa

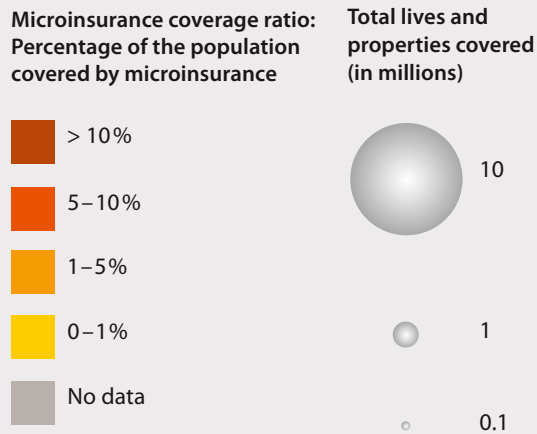


The diagrams show the number of lives/properties covered by product type for selected countries.

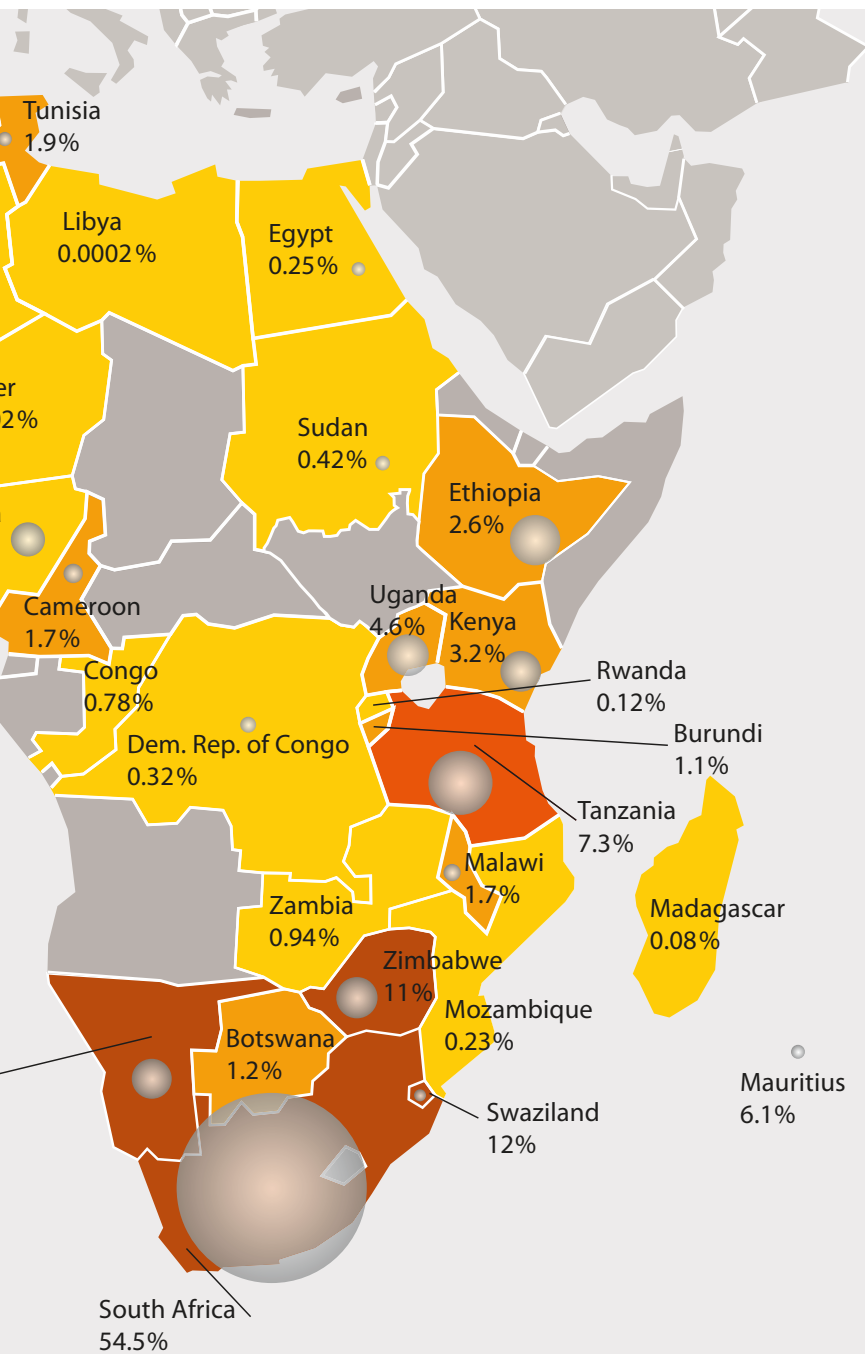
Products:
 CI: Credit life
 L: Life
 H: Health
 Ag: Agriculture
 A: Accident
 P: Property



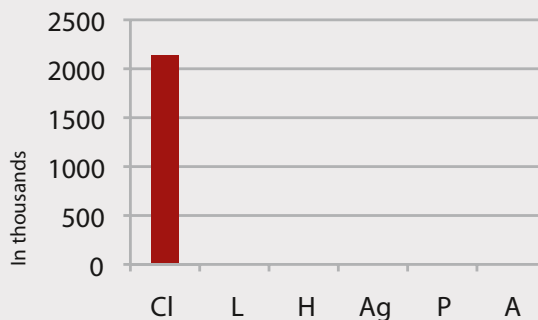
The centerfold map on pages 6 and 7 displays the microinsurance coverage ratio of each country, indicated as the total number of insured people as a percentage of the total population, and the absolute number of lives or properties insured. The darker colors indicate a higher coverage ratio, while the size of the grey circle within the country represents the absolute number of lives and properties covered.



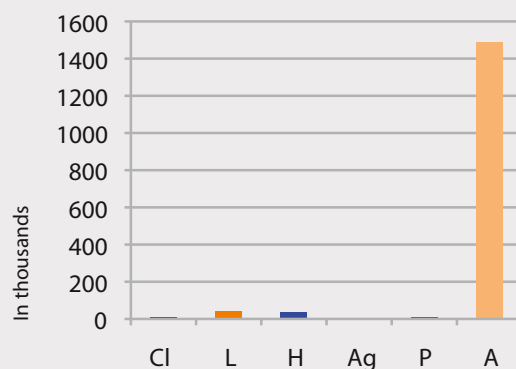
Microinsurance coverage in Africa



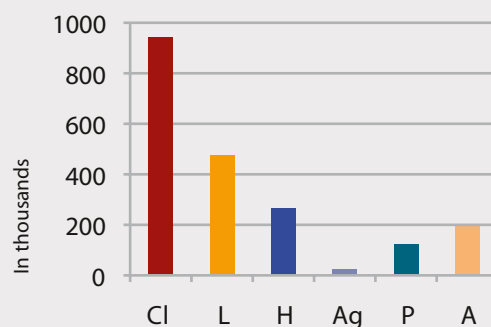
Ethiopia



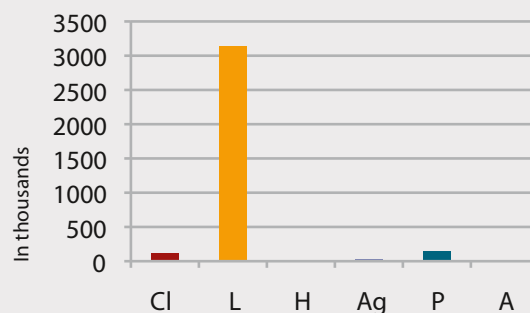
Uganda



Kenya



Tanzania



Zimbabwe

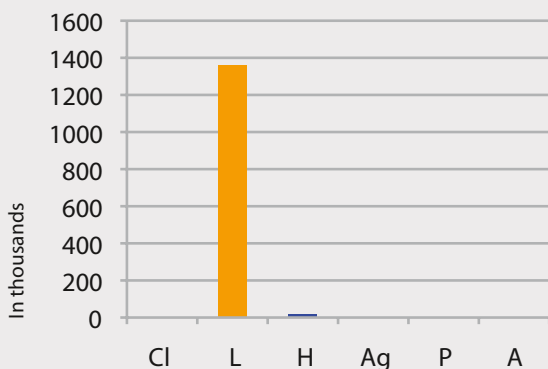
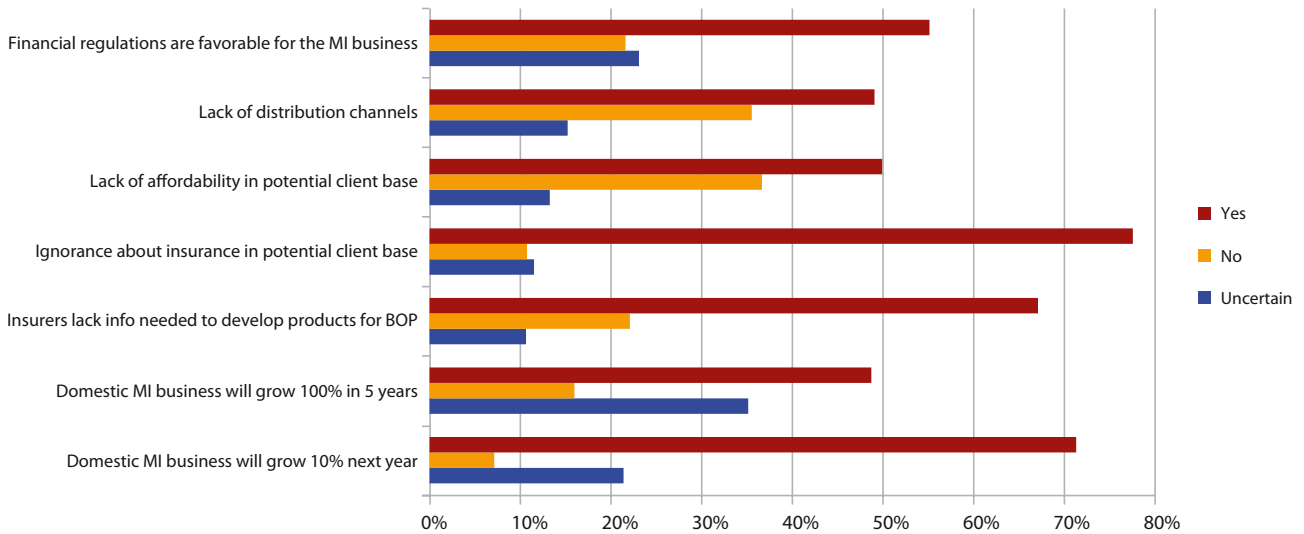


Figure 9: Market perceptions as percentage of respondents



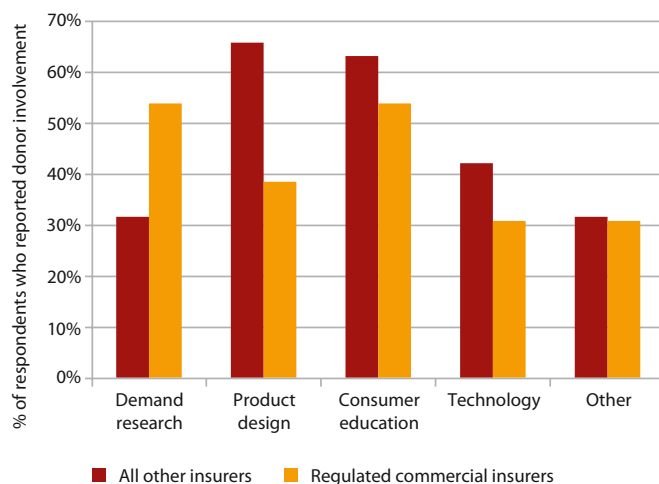
would grow 100% in the coming 5 years, organizations were less confident; 49% said yes, 16% said no, and 35% were uncertain. Responses to some of the other survey questions shed some light upon why there is uncertainty. 67% of organizations agreed that there was a lack of knowledge about insurance needs of the low-income population, and an overwhelming 78% of organizations felt that potential low-income clients were uninformed about insurance. Additionally, the majority of organizations indicated a lack of affordability and a lack of distribution channels for microinsurance. It is paramount to organizations' future to establish which products to develop or how to structure products to meet clients' needs and reach the low-income population.

As Africa is unique in its diversity of microinsurance providers, there is another major source of uncertainty about the future of microinsurance: regulation. While there is a range of microinsurance regulations across the region, the majority of countries have not introduced any microinsurance specific regulation. Even so, more than 50% of survey respondents noted that regulations are favorable for their expansion. Although several survey respondents reported a lack of regulation or lack of clear regulation as a hindrance to their microinsurance, this will soon change with new regulations already introduced or under development in several countries, including CIMA Region Countries, Ethiopia, Ghana, Kenya, and South Africa. However several organizations reported being hindered by regulation imposing intermediary requirements or limiting the amount of money which can be transferred via mobile phone. As Africa's microinsurance industry contains a wide variety of providers as well as delivery channels, regulators may be challenged to construct regulation that is structured yet lenient enough to meet all providers' and delivery channels' needs.

DONOR INVOLVEMENT

A total of 51 institutions from 17 countries report some donor involvement on the insurer level. Of the 51 organizations receiving donor support, 27 only offer health microinsurance. The strong involvement in health is not surprising given the pressing need for better solutions and the notorious challenges in this area, coupled with the strong historical push from some donors for community-based groups. However, there are significant differences in how donors are involved with regulated commercial insurers and other microinsurance providers (see Figure 10). While regulated commercial insurers are more likely to

Figure 10: Areas of donor involvement as percentage of respondents who reported donor involvement



receive donor support for demand research, all other insurers are significantly more likely to receive support for product design and technology needs. Given the concerns about clients' knowledge of insurance cited in the previous section, it is encouraging to see donor involvement in consumer education among all provider types.

FINANCIAL PERFORMANCE

In 2011, the total life insurance industry in Africa generated a premium volume of USD 46 billion⁵. Reported premium generated in life microinsurance (including credit life) amounts to roughly 1% of this total. For 70% of reported covered lives, survey participants reported premium and claims volumes. The aggregate loss ratio stands at about 44%. *Table 1* provides the breakdown by main business line. The loss ratio for health microinsurance stands at a high 103%, while that of credit life offers a rather low loss of 23%. The high loss ratio for health products reflects the reality of community-based schemes, which typically have little to no explicit administrative costs. Loss ratios for property and agriculture should be interpreted cautiously as they will vary significantly over time. The figures for personal accident come from a few products only and are therefore not necessarily representative.

Table 1: Aggregate loss ratios by product across Africa

Product type	Number of lives insured in m (only if both premiums and claims provided)	2011 Premiums in m USD (only if both premiums and claims were provided)	2011 Loss ratio
Accident	0.13	0.58	40%
Credit life	2.50	16.67	22.7%
Life	26.92	444.05	43.8%
Health	0.67	8.19	102.6%
Agriculture	0.15	4.07	24.6%
Property	0.32	1.74	68.6%
Total	30.69	475.31	44.0%

CONCLUSIONS

Microinsurance is not clearly defined, and in most countries there is no requirement yet to report these products separately. As a consequence, no insurance regulator was in a position to provide detailed data on microinsurance.

The identified microinsurance activities in Africa are testimony to stunning growth in life coverage, as well as innovation in agriculture and property microinsurance in some regions. However, the study also points towards an unfortunate stagnation in health microinsurance throughout the continent and more generally little sector development in Central and North Africa. Also, the extraordinary growth in life insurance in some countries should not mask the fact that over 650 million Africans live in countries where the microinsurance industry is either absent or has an outreach rate below 1% of total population.

Life insurance products embedded in savings accounts or bundled into mobile phone subscriptions have helped to propel the industry in terms of covered lives in the last two years. Especially the use of mobile network operators as distribution partners has recently become en vogue. This development may hold great potential, but also significant risks. One such scheme has collapsed this year (Zimbabwe, not yet reflected in the numbers for this study), wiping out insurance coverage for 1.2 million people, which amounts to about 10% of the total population. The sheer scale of such schemes raises a set of new questions, including from a consumer education, protection and regulatory perspective, as well as issues related to client value.

Over the past years, some microinsurance programmes received significant publicity, while others prosper with little attention from outsiders. However, while the collected data do not allow for sophisticated client value analysis, the reported loss ratios seem to offer ample room for improved products if the microinsurance industry is truly to serve the low-income population sustainably.

5 Swiss Re (2012): World Insurance in 2011; Sigma No 3/2012.

See interactive map at:

www.mfw4a.org and www.microinsurancelandscape.org

The detailed Landscape of Microinsurance in Africa 2012 report is available at links above.

These two tools will bring the landscape study to life and will provide national level details to help readers maximize the value of the study.