

# THE LANDSCAPE OF MICROINSURANCE IN AFRICA 2012



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## Abbreviations

A	Accidental death and disability insurance
Ag	Agriculture insurance
BOP	Bottom of pyramid
CAR	Central African Republic
CBHI	Community-based health insurance
CBO	Community-based organization
CIDR	Centre International de Développement et de Recherche (International Centre for Development and Research)
CIMA	Conférence Interafricaine des Marchés d'Assurances (Inter-African Conference on Insurance Markets)
CL	Credit life insurance
Coops	Cooperatives
DR	Democratic Republic
DRC	Democratic Republic of Congo
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
Gov't	Government
H	Health insurance
IAIS	International Association of Insurance Supervisors
ILO	International Labour Office
L	Life insurance
LR	Loss ratio
MFI	Microfinance institution
m	Million
MNO	Mobile network operator
NGO	Non-governmental organization
P	Property insurance
PPP	Purchasing power parity
Regs	Regulations
Soc Sec	Social security
TPA	Third-party administrator
US\$	United States Dollars

## Executive Summary

Microinsurance in Africa is a nascent and complex industry involving many stakeholders and operating in a variety of environments. The early stage of its development and its complexity make it difficult to get an overview of what is happening in Africa with microinsurance without a focused and persistent approach. This landscape study aims to describe the current state of, and recent trends in, microinsurance in Africa, to identify gaps in access to and the supply of microinsurance, and to identify key bottlenecks to sustainable expansion of the sector. Its ultimate goal is to help industry stakeholders – insurers, delivery channels, policy makers, regulators, donors and others – identify areas for improvements that will eventually lead to better products and services for low-income clients.

### BOX 1: Key numbers <sup>2</sup>

- 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 or properties
  - 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

**Key findings:** The African microinsurance sector has recently experienced tremendous growth, with the number of identified people and properties covered by microinsurance growing by over 200% in the three years from 2008 to 2011. As of the end of 2011, microinsurance was accessed by 4.4% of all Africans, covering 44.4 million lives and properties. A total of 214 respondents from 39 countries where microinsurance was identified provided data for 511 providers<sup>1</sup> and 598 products (see Box 1<sup>2</sup>). Microinsurance coverage is very concentrated. More than 60% of the total coverage identified comes from South Africa, where 27.2 million lives and properties were identified as insured. Another eight countries each cover more than one million lives and account for an additional 30% of total coverage in Africa.

**Regions<sup>3</sup>:** Regionally, Southern Africa still dominates the microinsurance sector, with East and West Africa on the rise. In North and Central Africa, the microinsurance momentum has been very limited. West Africa has experienced the highest growth rate since 2008<sup>4</sup>, growing 251% to cover 4.4 million, followed by Southern

(246% covering 30.5 million) and East Africa (114% covering 8.5 million). Growth in Central (67% covering 0.6 million) and North Africa (64% covering 0.4 million) was minimal, even from a very low level of microinsurance provision in 2008.

**Products:** Life microinsurance products dominate the market, reaching 33.9 million Africans in 2011, while credit life was identified as covering 8.8 million (Box 1). Life coverage has increased its dominance over all other product types even more than in 2008, composing 76% of the total microinsurance market in 2011 compared to just 62% in 2008. Credit life products are also still expanding, though at a much slower pace. Despite some significant initiatives, health microinsurance coverage has stagnated over the same period, covering just 2.4 million people and comprising 5.5% of the total market, down from 13% in 2008. Though still in a nascent stage, property and agriculture products have experienced important innovations. These products covered 0.8 and 0.2 million properties, respectively, in 2011, reflecting strong growth from an extremely modest base in 2008.

1 Three respondents were aggregators in Comoros, Mali and Senegal representing 39, 76, and 237 community-based groups respectively.

2 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.

3 The African sub-regions used for this brief are those outlined by the African Development Bank (<http://www.afdb.org/en/countries/>).

4 2008 data were taken from the prior African landscape study: Matul, Michal, Michael J. McCord, Caroline Phily, and Job Harms. "The Landscape of Microinsurance in Africa". Geneva: ILO Microinsurance Innovation Facility, 2010.



**Providers and distribution channels:** By numbers, community-based organizations are the predominant form of microinsurance risk carriers (77%), though they account for a relatively low 9% of all covered lives and properties identified. The second most common type of microinsurance providers are regulated commercial insurers, making up 13% of the organizations identified as taking on microinsurance risk yet accounting for 78% of all covered lives and properties. This striking difference indicates that massive microinsurance growth and expansion will not come from the small-scale, local organizations but requires the commercial insurance industry.

For delivering microinsurance to the end clients, member groups, including mutuals and CBOs, remain the largest channel, logically delivering their own products to their members. MFIs and other financial institutions remain prominent. Notably, the use of specialized and specific microinsurance agents has increased since 2008. Also, an increasing number of insurers are linking their products, typically life insurance, to more passive delivery channels. One passive channel that has shown tremendous power is mobile service providers.

**Financial performance:** For 70% of reported covered lives, survey participants provided premium and claims volumes. The premiums generated in life microinsurance (including credit life) for 2011 amount to roughly 1% of all life insurance premiums in Africa. The aggregate loss ratio stands at about 44%, clearly dominated by the life figures, at just under 44%. The loss ratio for health microinsurance stands at a high 103%, while that of credit life is a rather low 23%. The high loss ratio for health products reflects the reality of community-based schemes, which typically have little to no explicit administrative costs.

**Donors and investors:** At least US\$ 26.2 million in donor funding has been provided, or committed, to the enhancement of microinsurance in 17 countries over the past five years. Over half of these funds were concentrated in five countries. Funds were used for a mix of both public goods, such as demand research and consumer education, and private goods, such as individual product design and technology upgrades. The study also identified US\$ 25 million in commitments of private investor funding. Investments at these levels offer significant potential to move domestic markets and provide a catalyzing effect on the region given time.

**Regulatory frameworks:** Sixteen countries have already adopted some form of microinsurance-specific legal framework, while another nine are working on developing appropriate frameworks for their situations. These 25 countries account for 94% of the total lives and properties covered in Africa. It is clear that regulation did not push microinsurance in Africa; rather, it appears that a legal framework begins to be considered once a critical mass of coverage is evident. It is less clear whether the lack of regulation has hindered growth and expansion of microinsurance in the region, but the lack of a regulatory framework does seem to create uncertainty among insurers throughout Africa, which more recently appears to be retarding expansion and innovation.

**Conclusions:** The identified activities in Africa are testimony to major growth in microinsurance coverage in recent years, reaching 4.4% of all Africans as of the end of 2011. However, 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 a coverage rate below 1% of total population. Also, growth has been overwhelmingly concentrated on life products. Life cover is important, but there is a great need to evolve beyond basic life products. To make microinsurance work for Africa, microinsurance needs to be expanded massively across the continent, not just in terms of volumes but also in terms of innovative products that offer both real value to clients and a business case for insurers. The results of this study point to much potential for dramatically expanding microinsurance in Africa. Some key insights:

- New distribution channels, such as life insurance products embedded into savings accounts and bundled into mobile phone subscriptions, have helped to expand the industry in terms of covered lives in the last two years. These types of developments hold great potential to dramatically increase coverage, but also raise questions from the perspectives of consumer education, protection, and regulation.
- While life coverage has increased substantially and is the driver of microinsurance in Africa, there are opportunities for the growth of other products as well. Innovations in agriculture and property microinsurance are receiving increased attention, and efforts are under way to scale them up. Despite stagnation in the health sector, demand remains strong for this product, and opportunities exist to support and/or integrate existing community-based schemes.
- 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 effectively.
- Although steps are currently being taken to develop legal frameworks specific to microinsurance in many African countries, it appears that there is still much room for growth in this area. Once more countries settle their legal frameworks for microinsurance, the impact of regulations should become more evident, and governments and industry players can work together to make sure that all issues are considered and that industry voices are being heard. Clarity in the microinsurance legal framework is an important component to insurers' having the confidence to invest in the paradigm shift needed for microinsurance success. Legal ambiguity is now holding back innovative expansion.
- Microinsurance providers were confident about the past and future short-term growth of the sector but expressed concern regarding consumer knowledge, their own knowledge of the low-income population's needs, and product affordability. Work to address these issues is increasing in Africa. Unique market education efforts are being made in countries like Kenya, and insurers in several countries are themselves also working to improve products, processes and services to make sure that clients are getting value from the products they offer.

The maturation of the microinsurance "industry" is evolutionary. Good examples are seen by others. They get copied, sometimes improved. Slowly but surely the industry progresses, more people are covered, better products are offered, and clients, insurers, distribution channels and others benefit. Continued and expanded inputs from donors, governments and others should help to accelerate the rate of microinsurance expansion – in terms of volumes, products and value. The information, analysis and suggestions in this study should further help to facilitate more effective and efficient interventions. The stage is set. The tools are available. The time for dramatic expansion of microinsurance in Africa is now.

## 1. BACKGROUND AND MOTIVATION FOR THE PROJECT

Over the past decade, microinsurance has made great progress and has gained recognition among the development community for the benefits it can provide low-income populations as well as among the insurance industry for its ability to access a previously untapped market. New markets are being explored, and new products and operational strategies are being introduced. In addition, a number of countries have started developing a regulatory framework to enable the development of innovative microinsurance solutions while assuring the protection of their consumers. However, microinsurance is still a nascent and complex industry involving many stakeholders and operating in a variety of environments. The early stage of its development and its complexity make it difficult to get an overview of what is happening in Africa with microinsurance. What are good practices? Where is microinsurance growing and why? Is it being held back? If so, what are the obstacles that hinder the expansion of microinsurance? As an industry appears more relevant, an understanding of its status across the region becomes more important.

Addressing these questions is challenging because there is simply a lack of industry-wide data. What we know about microinsurance has come from country or company case studies. While these works can be informative on an entity level, they generate little information about the microinsurance industry as a whole. Thus it is difficult to identify gaps in products or coverage, or to identify trends such as whether countries with specific microinsurance regulation provide more or better microinsurance. Previously, there have only been three regional industry-wide landscape studies:

- *The Landscape of Microinsurance in the World's 100 Poorest Countries* (Roth, McCord, and Liber, 2007)
- *The Landscape of Microinsurance in Africa* (Matul, McCord, Phily, and Harms, 2010)
- *The Landscape of Microinsurance in Latin America and the Caribbean* (McCord, Tatin-Jaleran, and Ingram, brief in 2012, full paper is forthcoming)

This study is the fourth regional landscape study. For this study, as in the previous studies, researchers compiled data on microinsurance providers, products and distribution channels, together with general insurance quantitative data and market trends. The study also includes a high-level overview of regulatory development, and regional data integrated throughout. Thus, the study addresses the needs of various stakeholders.

The specific objectives of this landscape study are threefold:

- (I) Describe the general state of and recent trends in microinsurance in Africa;
- (II) Identify gaps in access to and supply of microinsurance; and
- (III) Identify key bottlenecks to dramatically expanding a viable and sustainable microinsurance sector in Africa.

These objectives aim at updating and expanding the 2010 Africa landscape study. Additionally, for the first time, the study will include an analysis of the dynamics of microinsurance in Africa. As more and more stakeholders see the potential that microinsurance holds for both business and development, the importance of a detailed and updated overview of the status quo of microinsurance activities is significant. This work is intended to benefit a wide variety of stakeholders:

- **Insurers** will begin to understand how their results fit into the broader realm of microinsurance and where good practices may be found. If we start to generate this information on a reliable basis, insurers will have benchmarks to compare against and hopefully improve their products and multiply their successes.
- **Delivery channels** need to see what is out there in different, though similar, countries. They also need to have an understanding of the trends in microinsurance so that they can better identify which capacities they may need to build and what they should expect from their insurer partners.

- | **Policy makers and regulators** can develop an understanding of how stakeholders are affected when there is or is not specific microinsurance regulation in place, as well as the areas in which regulation can most help or hinder microinsurance.
- | **Donors** need to have a better understanding of the current activities in microinsurance so that they can more effectively focus their interventions. It is important for donors to be focused on areas where their activities will have the greatest impact. Ideally, substantive identified gaps will become areas of particular focus.

There is no impetus for change if one does not know what is happening in the markets. This landscape study is aimed at helping all parties identify areas for improvements that will eventually lead to better products and services for low-income clients.

## 2. METHODOLOGY

### a. Microinsurance Definition

Despite the general consensus that there is a distinction between microinsurance and traditional insurance, a single, agreed-upon definition of microinsurance is still lacking.<sup>5</sup> Multiple definitions of microinsurance exist, and this makes collecting data on microinsurance products from providers a challenging endeavor. In addition, microinsurance is offered by a wide range of formal and informal providers, some of which lack data segregation and product-specific monitoring, have different performance standards, and lack technical capacity, all adding to the challenge of data collection. The definition of microinsurance used in this study takes these considerations into account. This study adopts the following definition:

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 low-income segment of the population, those who have so far 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.

The study team did not look at programs where government is the risk carrier or where products receive more than minimal government subsidies. The complete definition as applied can be found in *Appendix 1*. As this definition excludes/includes some products that other studies, governments or organizations may or may not consider to be microinsurance, the numbers reported in this study may differ from the numbers reported elsewhere. This is particularly important when considering health, property and agriculture products. As government programs are not considered in this study, social programs for health coverage, such as those in Ghana and Rwanda, are not included in the data below. Also, property and agriculture products are often heavily subsidized and would thus not be included in this study.

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<sup>5</sup> Ingram, Molly and Michael J. McCord. “A Discussion Paper – Defining ‘Microinsurance’: Thoughts for a journey towards a common understanding”. Appleton: MicroInsurance Centre, 2011.

## b. Methods

Over a four-month period beginning in June 2012, a team of seven researchers contacted hundreds of organizations in 51 African countries. Due to the highly specific and in-depth nature of the information that was being solicited, a special emphasis was placed on contacting risk carriers of microinsurance products. Delivery channels were contacted where risk carriers refused participation or where the channel was the risk carrier itself. All information was submitted on a voluntary basis and is confidential at the institutional level.

The primary mode of data collection for this study was an extensive, three-part questionnaire adapted from those used in the previous landscape studies.<sup>6</sup> This was done intentionally to ensure that data collected in this study would be comparable over multiple years and that trends might be revealed. The questionnaire was distributed to all potential microinsurance providers. In general, the questionnaire sought to collect

- general company information such as the nature of the organization, licensure of the organization and the gross premium income for 2009, 2010, and 2011;
- participants' general perceptions about the microinsurance market in their particular countries; and
- detailed microinsurance product information from 2010 and 2011 for each product offered as of 31 December 2011.

Because of the complex nature of many microinsurance products, survey participants were asked to indicate one main cover for each product, and all secondary covers that may be linked to the primary cover. For example, an enhanced credit life product (CL), which includes some accidental death benefits (A) as well as a property cover for fire (P), would fall under credit life as main cover, but also count under accident and property for secondary covers. Thus, this policy would be counted once for each of the three product types (CL, A, and P), but only once as a covered life/property. This allows for both counting the total number of lives or properties covered by any product and counting the number of people or properties covered against a specific hazard, while minimizing the potential for multiple counting.

In addition to distributing the questionnaires electronically to all potential participants, the research team conducted phone interviews to follow up with all solicited organizations. These phone interviews served as an opportunity for the researchers to explain and clarify the questionnaire for participants, ensure confidentiality, prompt for submission of completed questionnaires or clarify responses. In some cases, they also allowed the researchers to gain supplemental information about microinsurance in a particular country or organization. Questionnaires were provided and interviews conducted in English, French, or Portuguese, as appropriate.

The secondary mode of data collection on microinsurance products and providers as well as on donors, regulation, and overall country context was internet research and literature review. A variety of sources in English, French, and Portuguese were consulted, including published and unpublished documents as well as academic, journalistic, corporate, and consultant reports. If they were within the time bounds of the study (2009 – 2011), these resources were used to address any gaps that existed after contacting the insurer, delivery channel and/or regulator.

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<sup>6</sup> Although these prior studies were published in 2007 (Roth, et al.) and 2010 (Matul, et al.), and this current study in 2013, their data sets come from data for the years 2005, 2008, and 2011, respectively. When referring to data from these studies in this paper, the authors have chosen to use the more accurate data years rather than the publishing years.

### c. Methodological Considerations

When reading this study, one must take into consideration a few key factors. Most notably, all information presented in this study was submitted *voluntarily* by all participants. The research team made every effort to identify as many microinsurance providers as possible and to obtain microinsurance product information from all contacted microinsurance providers. However, despite the promise of confidentiality, a number of organizations opted out of participation in the study. This reluctance to provide data was most prominent in Kenya, a vibrant and competitive microinsurance market. Although other efforts were implemented to gather at least the core data – from secondary sources, delivery channels, reports and others – it was not always possible to ensure correct and comprehensive data, and thus some microinsurers are not included.

For instances in which both the insurer and the delivery channel submitted questionnaires, product information was kept only from the insurer so as to avoid double counting of lives and properties covered by the product. However, the general and internal organization information as well as the market perceptions were retained for both organizations.

There were some situations in which, despite the organization's willingness to provide data, the requested information was simply not available. It must be considered that not all organizations include a segregation of microinsurance data in their insurance accounting. Even when data are segregated, organizations do not always track their business in the same way.<sup>7</sup> The researchers attempted to clarify figures with the participating organizations to the greatest extent possible. Data that remained questionable were discarded.

The final consideration for this study is the variation in the definition of microinsurance as explained above. Although the study clearly outlined (and included in the questionnaire) the criteria for a microinsurance product and also a model for counting policies and lives covered, it is likely that this definition did not exactly correspond with that used by an insuring entity or the government in a jurisdiction.

For all these reasons it is important to recognize that the data presented in this study represent those *identified* as being covered by microinsurance as opposed to an *absolute* number of lives and properties covered by microinsurance.

## 3. CHARACTERISTICS OF MICROINSURANCE IN AFRICA

Microinsurance in Africa has multiple faces, and the industry is shaped by a variety of stakeholders: regulators, commercial insurance companies, intermediaries and delivery channels such as MFIs, banks, mobile phone operators, retail shops, community-based organizations, mutuals, faith-based groups and many more. Depending on which stakeholder group is dominant in a given country, the microinsurance market will look different.

This section reviews the results of the study in terms of microinsurance coverage, product types available, insurers and delivery channels that provide microinsurance and activities of donors, regulators and reinsurers.

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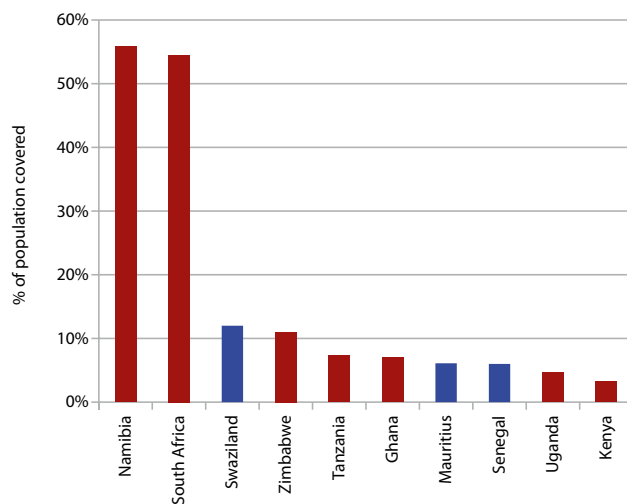
<sup>7</sup> Koven, Richard and Michael J. McCord. "MILK Discussion Note #3: Counting Lives Covered: Getting it Right". Appleton: MicroInsurance Centre, 2012.

## a. Coverage

In order to assess the landscape of microinsurance in Africa, organizations in 51 countries were initially solicited for information on their microinsurance products. Microinsurance was identified in 39 of these countries (see *Appendix 2* for a map and a full list of countries). This is a considerable number of countries and includes seven in which microinsurance had not been previously identified: The Gambia, Libya, Mauritius, Mozambique, Sierra Leone, Sudan, and Swaziland. Seychelles was the only country found in this study that reported microinsurance in 2008 but reported no microinsurance in 2011. This difference may be due to the variations in definition used by the different landscape studies or simply to programs that are no longer in existence.

Microinsurance is often characterized as a fast-growing, up-and-coming industry. The findings of this landscape study largely support that notion. This study identified 44.4 million lives and properties covered in 39 countries. While 44.4 million lives and properties covered is impressive, they are not equally distributed over the continent. Currently, South Africa alone covers more than 60% of all lives and properties covered in Africa. South Africa combined with the eight other countries that have more than one million lives and properties covered accounts for more than 90% of all lives and properties covered in Africa.

**Figure 1: Ten countries with highest coverage ratios (red bars indicate countries with over 1 million lives/properties covered)**



*Figure 1* indicates the ten countries with the highest coverage ratios (defined here as the percentage of the country's total population covered by microinsurance). Even when comparing coverage ratios as opposed to the absolute number of lives or properties covered, there is clearly an uneven distribution of microinsurance coverage: seven of the ten countries with the greatest percentage of their population covered are countries with more than one million lives and properties insured. This indicates that there is something significantly different happening in these countries, as their outreach is not due solely to large populations.

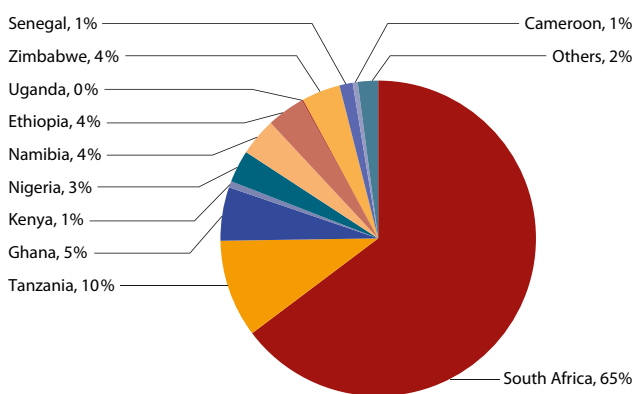


## b. Growth

Of the 39 countries<sup>8</sup> reporting data for 2011, 31 also reported data to the previous landscape of microinsurance in Africa study<sup>9</sup>. These 31 countries reported covering 14.6 million lives and properties in 2008. Over the intervening three years, coverage in microinsurance in Africa grew over 200%. Microinsurance coverage in 2005 was reported for 19 of the current countries<sup>10</sup> in the “Landscape of Microinsurance in the World’s 100 Poorest Countries”<sup>11</sup> totaling 3.5 million lives and properties (though this study did not include South Africa, as it fell outside the 100 poorest countries). Over the past six years, these 19 countries have also grown nearly 200%, now covering ten million lives and properties.

Despite this high rate of growth for Africa overall, not all countries have experienced the effects equally. In absolute terms, nearly all growth in the region over the past three years, a little more than 95%, has come from the countries with more than one million lives and properties covered, particularly South Africa and Tanzania (see *Figure 2*). Of the countries with data from 2005 (not South Africa), Tanzania, Ghana, and Nigeria contributed the most to the overall growth of the region. From 2008 to 2011, these three countries still make considerable contributions, but they are overshadowed by South Africa’s growth.

**Figure 2: Contributions to overall growth from 2008 to 2011**



Ideally, over time other countries will catch up with these countries with relatively high volumes of insureds; however, over the past three years the gap between large outreach countries and low outreach countries has grown, although much of that is due to South Africa. In contrast to the cases of dramatic growth, both *Figure 2* and *Table 1* indicate that microinsurance markets in some countries were stagnant or shrank. This offers an important lesson: although microinsurance has great potential, it is significantly affected by its environment. Massive relative growth generally reflects a very low starting point, as in Nigeria, which had virtually no microinsurance in 2005, or entry of a significant provider or delivery channel,

such as the mobile phone networks that provide microinsurance in Ghana. In the case of Tanzania, its growth benefited from both situations. *Table 1* provides details of growth by country for the periods between the three studies.

In stark contrast to the high-growth countries where significant levels of microinsurance can now be found, the figures reported from Uganda point towards stagnation. Though there were clearly some changes within that market over the six-year period, the overall number of insureds remained almost the same.

8 See Appendix 2. The 31 countries included in the previous and current study are Algeria, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Comoros, Congo DR, Congo, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Kenya, Madagascar, Malawi, Mali, Mauritania, Morocco, Namibia, Niger, Nigeria, Senegal, South Africa, Tanzania, Togo, Tunisia, Uganda, Zambia, and Zimbabwe. (The 32nd country included in the 2008 study was Seychelles.)

9 Matul, Michal, Michael J. McCord, Caroline Phily, and Job Harms. “The Landscape of Microinsurance in Africa”. Geneva: ILO Microinsurance Innovation Facility, 2010.

10 See Appendix 2. The 19 countries included in Roth, McCord, and Liber, 2007 and in the current study are Benin, Burkina Faso, Cameroon, Comoros, Congo DR, Congo, Ghana, Guinea, Madagascar, Malawi, Mali, Mauritania, Nigeria, Rwanda, Senegal, Tanzania, Togo, Uganda, and Zambia. (The 20th country included in the 2005 study was Gabon.)

11 Roth, Jim, Michael J. McCord, and Dominic Liber. “The Landscape of Microinsurance in the World’s 100 Poorest Countries”. Appleton: Micro-Insurance Centre, 2007.



Table 1: Microinsurance growth rates in countries included in either or both of the previous landscape studies

Country	Growth in covered lives and properties					
	2005 to 2008		2008 to 2011		2005 to 2011	
	Total	Compound annual growth rate	Total	Compound annual growth rate	Total	Compound annual growth rate
Algeria	—	—	36 %	11 %	—	—
Benin	109 %	28 %	18 %	6 %	146 %	16 %
Botswana	—	—	48 %	14 %	—	—
Burkina Faso	296 %	58 %	53 %	15 %	507 %	35 %
Burundi	—	—	274 %	55 %	—	—
Cameroon	40 %	12 %	86 %	23 %	160 %	17 %
Comoros	150 %	36 %	116 %	29 %	440 %	32 %
Congo, DR	-51 %	-21 %	39 %	12 %	-32 %	-6 %
Congo, R	92 %	24 %	50 %	14 %	188 %	19 %
Côte d'Ivoire	—	—	143 %	34 %	—	—
Egypt	—	—	43 %	13 %	—	—
Ethiopia	—	—	114 %	29 %	—	—
Gabon	—	—	—	—	-100 %	-100 %
Ghana	-17 %	-6 %	1694 %	162 %	1393 %	57 %
Guinea	868 %	113 %	-76 %	-38 %	129 %	15 %
Kenya	—	—	17 %	5 %	-	-
Madagascar	—	—	763 %	105 %	1742 %	63 %
Malawi	67 %	19 %	34 %	10 %	123 %	14 %
Mali	75 %	20 %	-15 %	-5 %	48 %	7 %
Mauritania	287 %	57 %	-56 %	-21 %	87 %	11 %
Morocco	—	—	134 %	33 %	—	—
Namibia	—	—	798 %	108 %	—	—
Niger	—	—	-89 %	-53 %	—	—
Nigeria	3826 %	240 %	909 %	116 %	39525 %	171 %
Rwanda	—	—	—	—	-95 %	-40 %
Senegal	-44 %	-17 %	115 %	29 %	21 %	3 %
Seychelles	—	—	-100 %	-100 %	—	—
South Africa	—	—	231 %	49 %	—	—
Tanzania	5484 %	282 %	879 %	114 %	54540 %	186 %
Togo	414 %	73 %	126 %	31 %	1064 %	51 %
Tunisia	—	—	106 %	27 %	—	—
Uganda	-7 %	-3 %	2 %	1 %	-6 %	-1 %
Zambia	-42 %	-17 %	225 %	48 %	89 %	11 %
Zimbabwe	—	—	554 %	87 %	—	—

Figure 3: Number of lives/properties covered by region in 2008

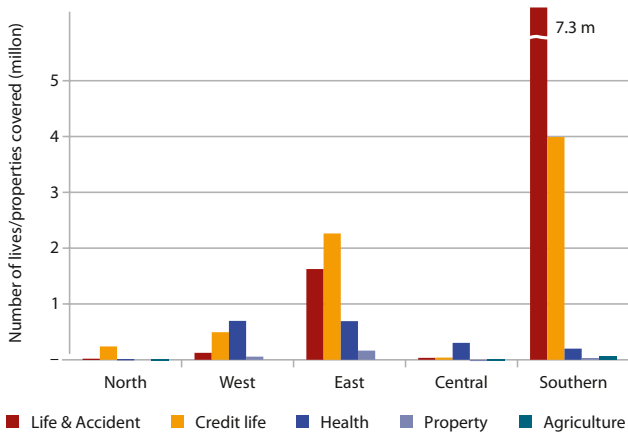
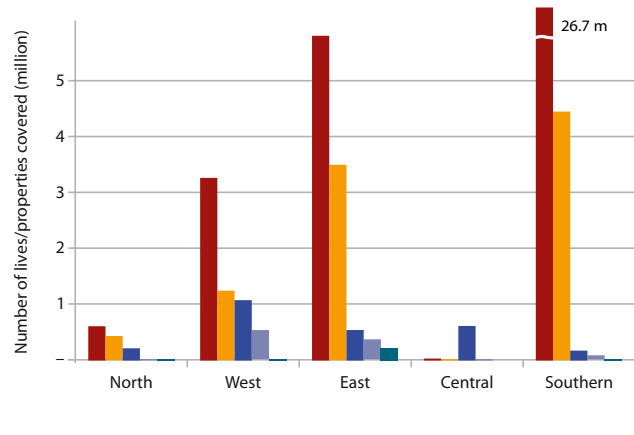


Figure 4: Number of lives/properties covered by region in 2011



On a regional level, all areas of Africa have experienced some growth, although Southern Africa has experienced the greatest growth, primarily due to South Africa. Figures 3 and 4 show the number of lives and properties covered by region and by product in 2008 and 2011, respectively. Separating the volumes into different product types helps to highlight the growth of particular products. Life and accident covers are combined in the figures because they were combined in the 2008 study. East and West Africa experienced growth in both life and credit life between 2008 and 2011. While life covers were almost non-existent in West Africa in 2008, they now dominate in this region. In 2008, there were few commercial insurers in microinsurance in West Africa. The entry of several commercial insurers into the microinsurance space, plus the addition of new distribution channels such as telecoms, dramatically altered the microinsurance landscape in the intervening years.

Southern Africa also had high growth in life coverage, but credit life stagnated over the period. In 2008, there was little to no agricultural coverage identified in any region, and the 2011 comparison shows that the growth

Figure 5: Total number of lives/properties covered by microinsurance in Africa 2011

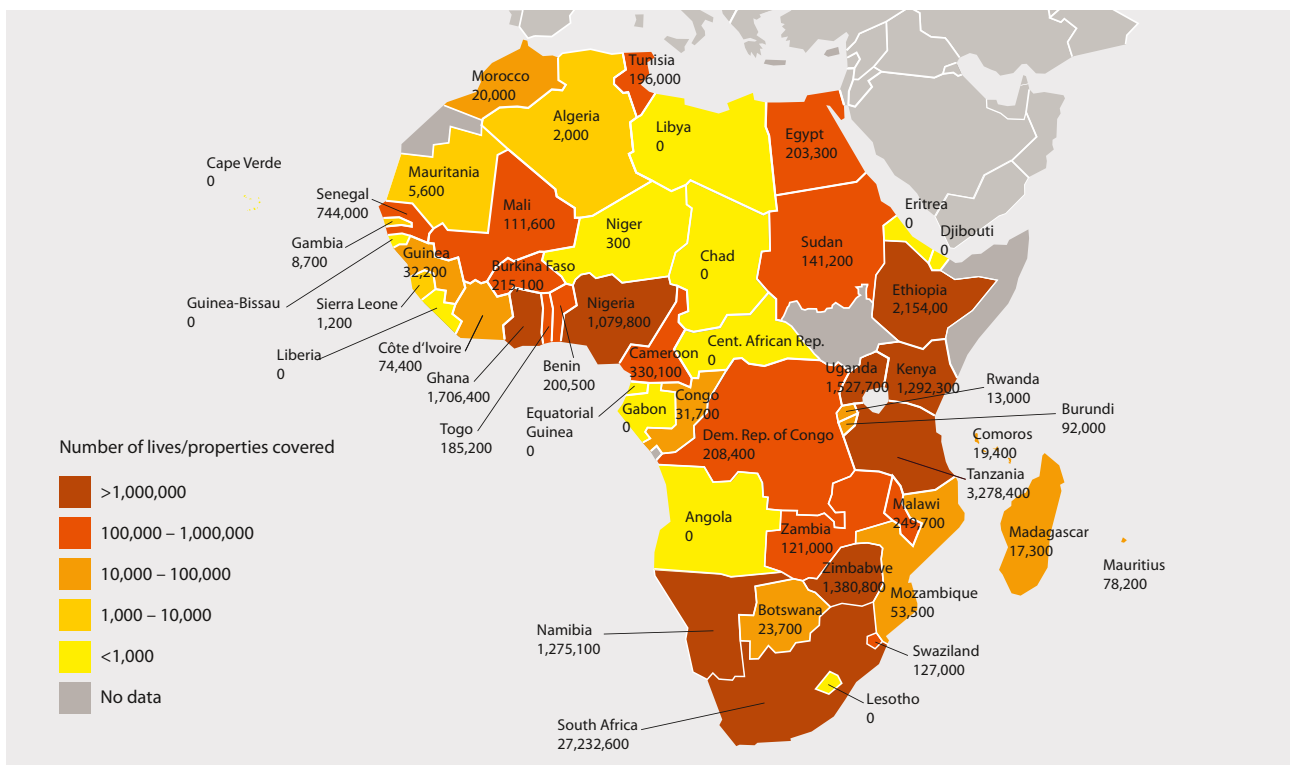
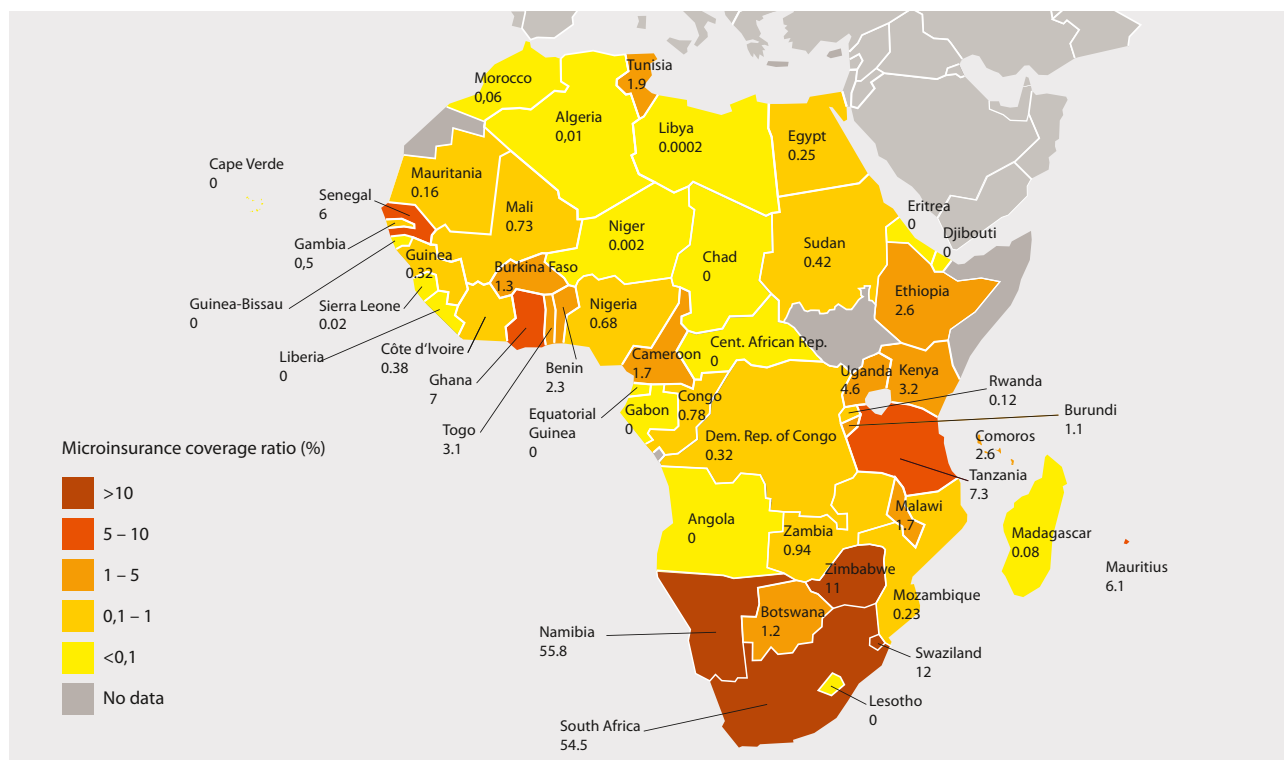


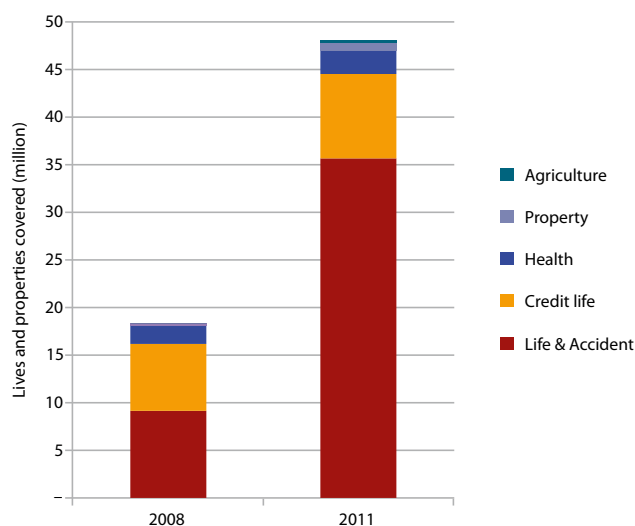
Figure 6: Percentage of total population covered by microinsurance in 2011



in these products, though still paltry, was concentrated in East Africa. Health coverage grew significantly in North Africa (though from a tiny base), experienced moderate growth in West and Central Africa, and shrank in the East and Southern regions.

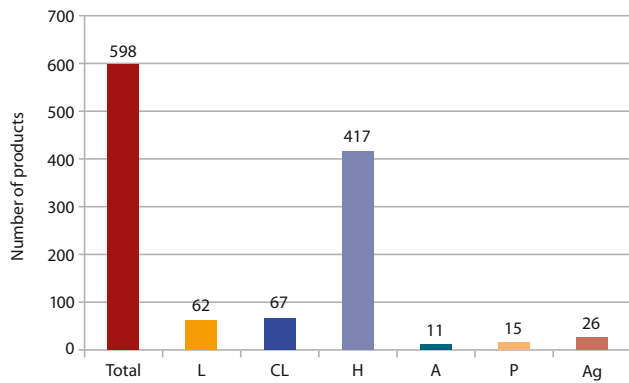
Total microinsurance coverage is shown on the map in *Figure 5*. The level of identified microinsurance coverage is indicated by the color of the country and specific coverage noted by number. *Figure 6* similarly displays the percentage of the total population that is covered by microinsurance.

Figure 7: Number of lives/properties covered in 2008 and 2011 by product (including secondary covers)



Although many view credit life as the driver of microinsurance, over the past several years, credit life has only experienced moderate growth, as *Figure 7* shows. Health coverage has also seen moderate levels of growth due to the limited outreach of community-based health mutuals. Despite the great need in the region for agricultural microinsurance, this cover has not grown significantly from 2008 to 2011. The growth in property coverage is promising; however, in absolute terms property coverage remains very small. The clear driver of growth in Africa is life products. Life products can provide a good starting point for microinsurance. However, in Africa, the market appears not to be significantly moving beyond basic life products. Although this slow move into other life and non-life products may be due to insurer uncertainty, there are a number of factors that likely inhibit growth of other products.

**Figure 8: Number of products identified by risk type**

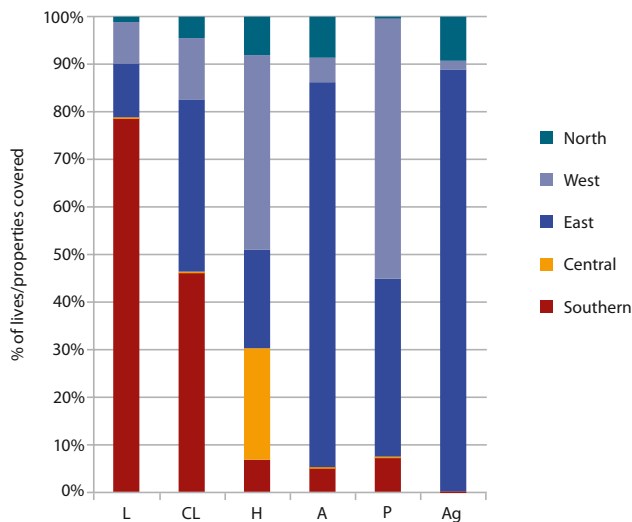


Products: L: Life CL: Credit life H: Health A: Accident P: Property Ag: Agriculture

**Table 2: Total lives and properties covered under primary and secondary covers**

Product type	Covered lives or properties (in million)	
	Primary covers	Primary and secondary covers
Accident	1.61	2.09
Credit life	8.69	8.86
Life	31.71	33.94
Health	1.90	2.43
Agriculture	0.24	0.24
Property	0.28	0.87
<b>Total</b>	<b>44.43</b>	

**Figure 9: Breakdown of total lives and properties covered by main risk type in the five African regions (including secondary covers)**



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

These include

- better profit prospects with life covers compared to others;
- the complexity of delivering health microinsurance where healthcare infrastructure is poor and the density of population low;
- the complexity of designing property and agriculture products and processes;
- government provision of services such as healthcare or agriculture insurance in several countries, limiting the demand for other insurance providers; and
- limited insurer capacity in many countries, making it challenging to offer even life microinsurance.

### c. Products

Figure 8 shows the total 598 identified individual microinsurance products broken down by main cover. It is noteworthy that almost 70% of all reported products fall under health. This is mainly due to the large number of health mutuals with relatively few policyholders, predominantly in Francophone Africa.

Table 2 shows the total number of lives and properties covered under primary covers, and under both primary and secondary covers. Secondary covers include add-ons and riders so, as the table indicates, more lives and properties are covered by primary and secondary covers than by only primary covers. A total count of lives and properties covered is only given for lives and properties covered by primary covers, because including secondary covers would lead to double-counting. Additionally, the quality and value of secondary covers varies greatly by virtue of their status as add-ons.

It is striking how dominant life microinsurance is compared to other cover types. Credit life is often considered an entry product into the microinsurance space. However, it does not look like the sector has followed a clear evolutionary path from credit life towards more complex products, as hypothesized in the 2008 study. Health and agricultural insurance, both generally known to be highly relevant to large proportions of the low-income population, are still clearly underdeveloped. In terms of secondary covers, it should be noted that they are offered for all product types (but not necessarily all products). However, for some product types secondary covers are more significant. For life, credit life, and agriculture prod-

ucts, secondary covers only account for a minimal percentage of lives and properties covered. Of all lives covered for health and accident, more than 20% are covered as secondary covers with other primary products. These other primary products mostly include credit life products, which account for over 11% of lives covered by health products and nearly 20% of lives covered by accident products. For nearly 70% of all properties insured under property products, that cover comes as a secondary cover of other primary products. Secondary covers under credit life policies account for 60% of the lives covered by property microinsurance.

An analysis of covers reported from the five African regions reveals significant differences among geographies, as seen in *Figure 9*. For the cover types Agriculture and Property, it should be kept in mind that absolute figures as well as numbers of products are relatively modest, and hence the statistical basis is limited. Further, a large proportion of all accident covers originate from one single provider in East Africa. The underlying product provides several covers but has been filed under personal accident.

For life microinsurance, the dominance of Southern Africa is striking: almost 80% of all covered lives are located in that region. South Africa alone accounts for about 75% of all African life microinsurance clients. This is primarily due to cultural traditions and the widespread use of funeral insurance, which existed informally in South Africa long before the advent of microinsurance as a global movement.

The African health microinsurance market has the largest outreach in West and Central Africa, where community-based health mutuals abound. Over the last 20 years or so, Francophone countries have especially concentrated on this approach to increasing access to health financing. The availability of property microinsurance is almost entirely limited to West and East Africa, with some reported from Southern Africa, and the vast majority of agricultural microinsurance is located in East Africa.

### **I. Life Products**

At the end of 2011, 31.7 million people, or over 70% of all African microinsurance clients were covered by some sort of life product (*see Table 2, page 10*). Adding 8.7 million people covered by credit life, the number of covered lives rises to 40.4 million. In 2011, the African life insurance industry generated a premium volume of US\$ 46bn.<sup>12</sup> Premiums generated in life microinsurance from the study amount to about 1% of this total.

Regionally, Southern Africa accounts for over 75% (or 30.5 million) of all covered lives within that region. South Africa is home to 23.7 million lives covered through funeral insurance, equaling almost 60% of all life microinsurance clients in Africa (*see Figure 10 on the next page*). Given a total population in South Africa of 50 million, the number of covered lives looks extremely high. However, the identified number of policies is in line with findings published by FinScope<sup>13</sup>, though our data do not support any decline in funeral insurance as reported there. Excluding South Africa, which is, due to its tradition of funeral insurance, a somewhat anomalous case when it comes to life insurance, the number of covered lives has also grown significantly in East and West Africa over the last three years.

Life insurance is by far the major microinsurance product in Africa. *Figure 11* shows a break-down of life microinsurance in Africa by its several sub-categories. Funeral microinsurance is the clear driver of life microinsurance; however, if the 23.7 million policies from South Africa are removed, this leaves 5.6 million lives covered by funeral microinsurance on the continent. With 7.6 million lives covered by credit life, this shows the power that credit life still has throughout the rest of Africa. Over time, the importance of credit life will remain, but it is expected that it will play a diminishing relative role, due to the expansion of other products.

12 Fan, Irina, Thomas Seiler, and Daniel Staib. "World Insurance in 2011: Non-life ready for take-off". Zurich: Swiss Reinsurance Company Limited Economic Research and Consulting, 2012.

13 "Survey Highlights: FinScope South Africa 2011". Marshalltown: FinMark Trust, 2011.

Figure 10: Lives covered by life products (excluding credit life)

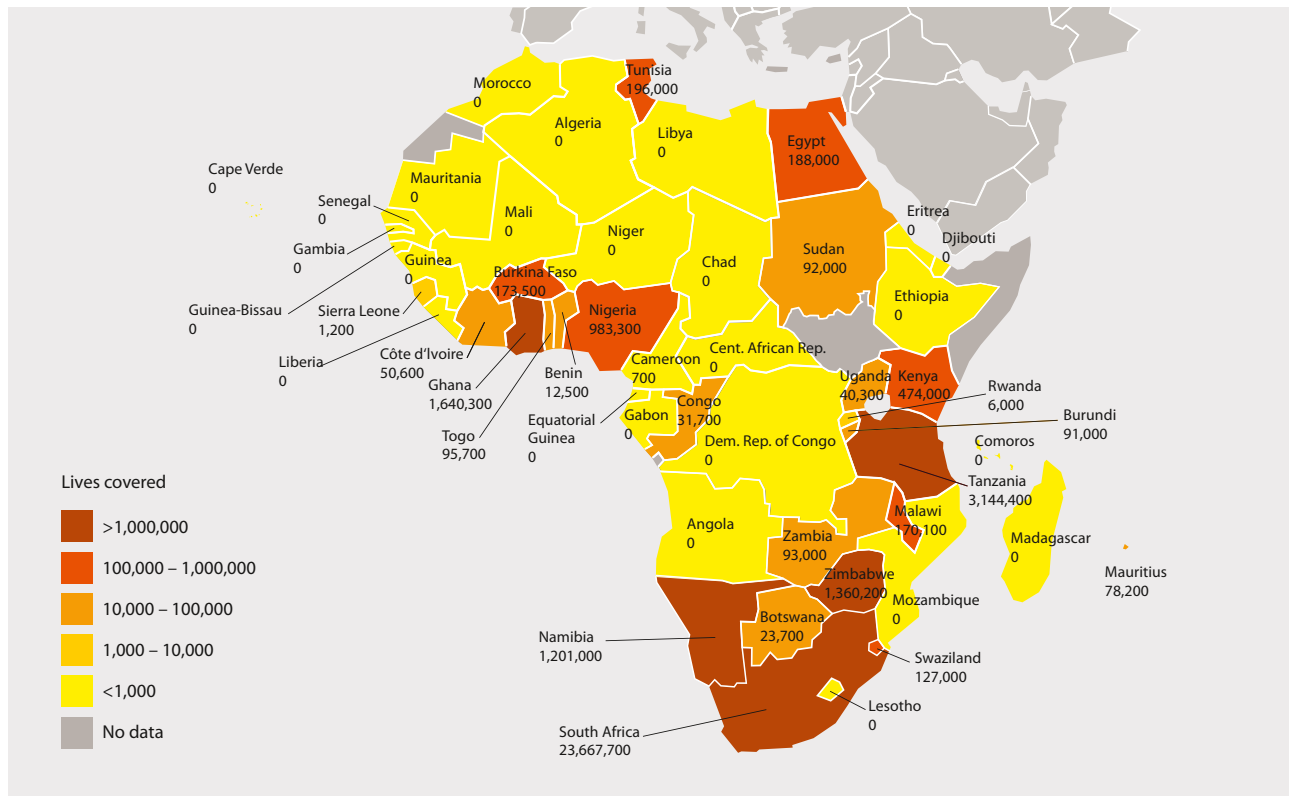
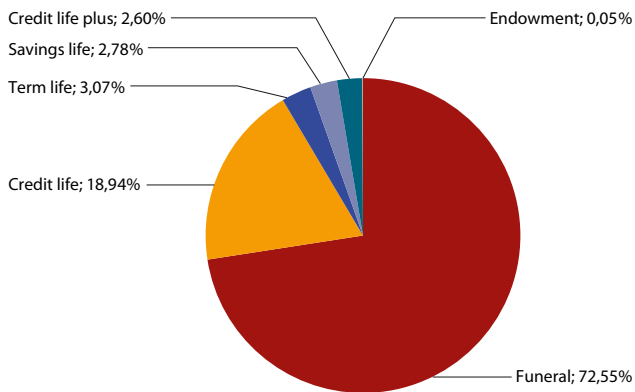


Figure 11: Breakdown of reported sub-covers for life micro-insurance (excluding secondary covers)



Funeral insurance is, as discussed, the most popular form of life microinsurance, followed far behind by basic credit life. Only one out of eight credit life customers benefits from insurance cover that protects more than the outstanding loan balance (credit life plus). Term life and savings life products cover together roughly one million lives in Africa.

Credit life also shows relatively modest growth rates over the last three years. Outside South Africa, however, credit life remains the product that reaches most people. The landscape study identified 7.6 million credit life policies in 2011, which is 30% more than the total number of microcredit clients in Africa reported by Mix Market<sup>14</sup> (5.8 million). This points towards limited growth potential for basic credit life products, though there is ample room to extend services through additional covers.

The distinction between funeral and term life insurance is somewhat artificial and reflects more the way in which the product is marketed. Also, some products that are linked to savings accounts are labeled as funeral and hence show up under that category. Other types of life cover are far less common. No single private scheme offering micro-pensions was identified in the study even though information on these was specifically requested.

14 [www.mixmarket.org](http://www.mixmarket.org). Data that are available from the MIX Market are voluntarily reported and may not include all MFIs in the region.

An important development is embedding life insurance into services other than credit: for example, savings and airtime usage. Both approaches have greatly contributed to the expansion of the African microinsurance market. A total of four million lives are covered through microinsurance tied to savings products, out of which 2.9 million are classified as funeral insurance, and the rest simply term life.<sup>15</sup> There should be ample room for expansion: according to Mix Market, there were at least 18.8 million micro-depositors in Africa in 2011.

Life microinsurance linked to airtime usage has attracted significant interest over the last two years. The first such scheme included in this survey started in 2010 in Zimbabwe. At the end of 2011, similar products were also found in Ghana, Namibia and Tanzania. Some of these products are designed as loyalty programs, intended to incentivize clients to stay longer with the same mobile phone provider and/or to use its services more frequently. Such schemes have helped to reach relatively large numbers of customers within a short time-frame: 3.1 million lives were covered in this way as of the end of 2011. Given the recent nature of this approach, it is difficult to evaluate its sustainability. The scheme in Zimbabwe was ended in 2012 over a fall-out between the involved technical partners.<sup>16</sup> This left 1.2 million people without cover and likely facilitated a return to negative impressions of insurance throughout the market.

So far, little evidence has been produced that would confirm the economic rationale for this sort of loyalty program. Only time will tell whether “free” insurance programs can effectively pave the way towards customers actively paying for microinsurance offered through mobile network operators (MNOs). In fact, life microinsurance linked to mobile phone services reached about 3.1 million clients with reported average premiums of about US\$ 0.70 per policy per year for these small coverage policies.

## II. Health Products

Health microinsurance is commonly considered one of the most challenging products but, at the same time, the one highest in demand among potential customers. Overall, the landscape study identified 417 individual health microinsurance products in Africa, which is by far the largest number per product category. These 417 products (see *Figure 8 on page 10*) reach a total of about two million people. Including products that offer limited health cover as a secondary protection to their primary cover, the total number of covered lives rises to 2.4 million. *Figure 12 (on the next page)* provides a mapping of health microinsurance across Africa.

The research team suspects that more people might benefit from health microinsurance protection, most notably in some Francophone countries such as Côte d’Ivoire and Niger, as well as in Kenya.<sup>17</sup> From a regional perspective it is striking that Southern Africa hosts hardly any health microinsurance. The study did not attempt to cover government-run schemes, which may partly explain the glaring gaps in some countries.

An analysis of health microinsurance schemes reveals that over 60% of all covered lives benefit from comprehensive health insurance,<sup>18</sup> all of which are located in Francophone Africa (see *Figure 12 and 13 on the next page*). This achievement is the result of the prevalence of community-based schemes in these countries. The second most widespread cover is hospitalization, which accounts for almost one quarter of all covered lives. Primary health, dread disease and hospital cash are relatively rare covers. No dental insurance was reported.

In Africa, health microinsurance is dominated by community-based schemes, mutuals and NGOs (see *Figure 14*). Many of these organizations are small in outreach, although they have been around for many years. The majority (65%) of health insurance schemes cover less than 10,000 lives each, and a mere five schemes reach

15 Health and agricultural insurance products are also linked to 0.2 million savings products.

16 See [www.techzim.co.zw/2012/02/with-truscto-agreement-expired-econet-kills-ecolife/](http://www.techzim.co.zw/2012/02/with-truscto-agreement-expired-econet-kills-ecolife/)

17 The data limitations in these countries are due to a lack of response or refusal to provide data.

18 “Comprehensive” health insurance covers both primary care and hospitalization.



Figure 12: Geographic distribution of lives covered by health microinsurance

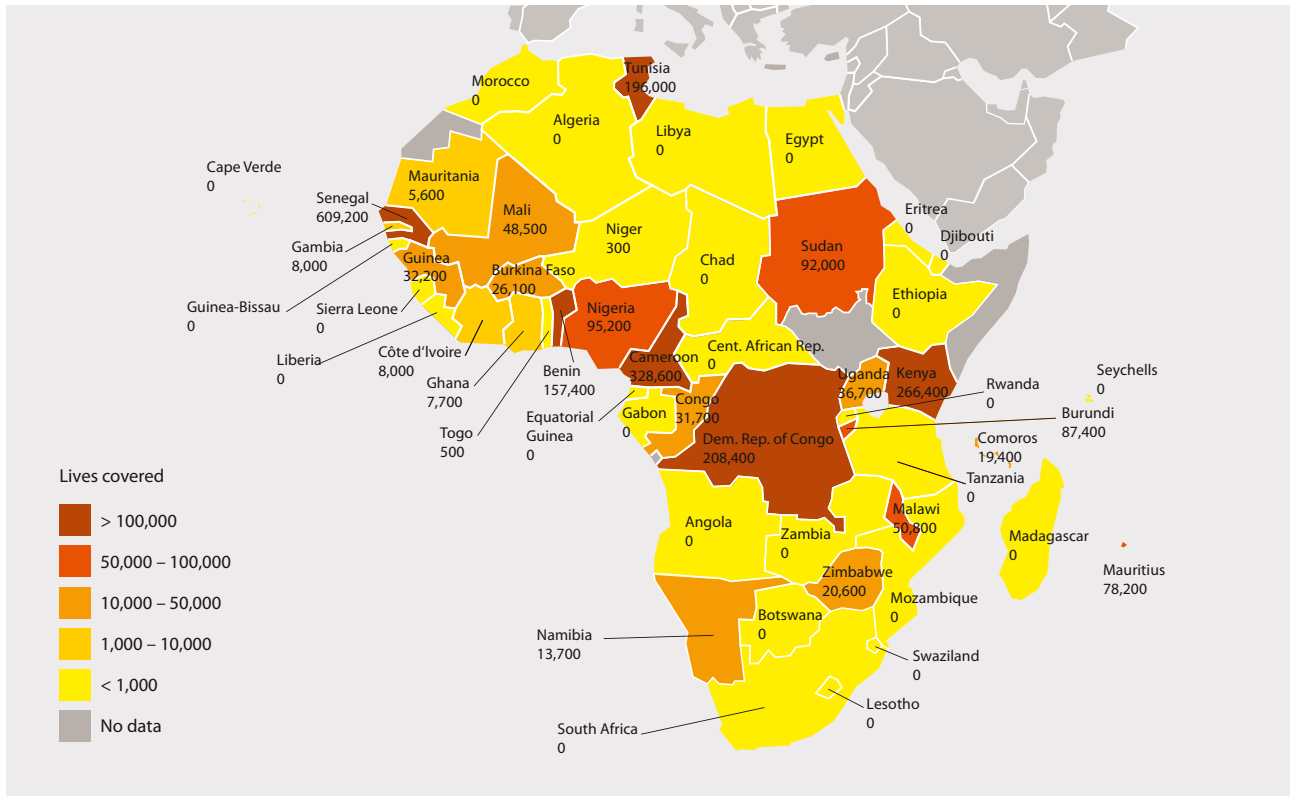
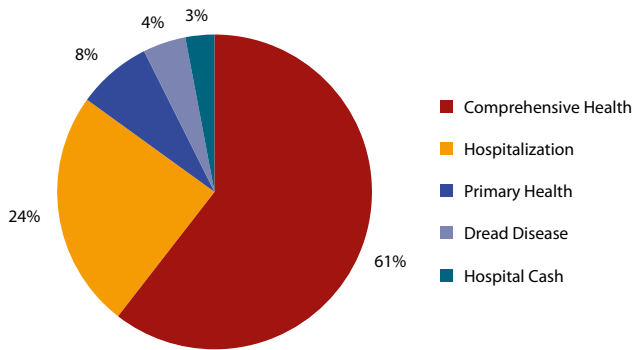


Figure 13: Breakdown of reported sub-covers for health microinsurance

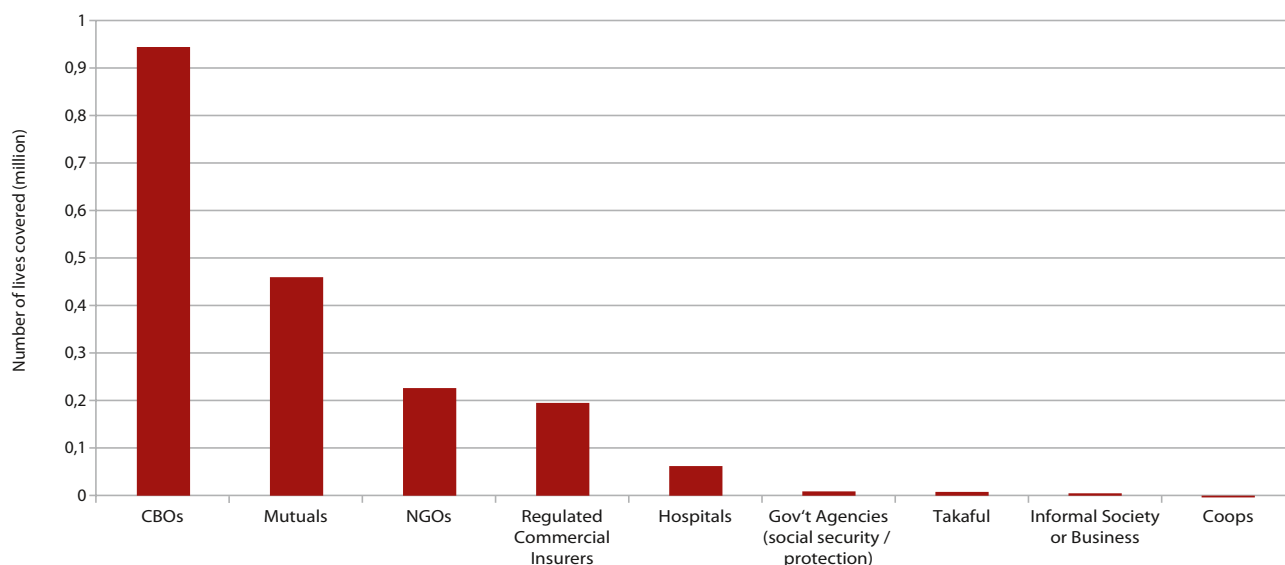


more than 50,000 lives. One reason for the small size of schemes is explicit government policies. In some countries, such as Mali, the approach of “one health mutual per village” is extensively promoted. However, multiple small schemes without some higher-level federation are detrimental in many ways, not least because of the limited size of the individual risk pools and the difficulties in attracting and remunerating skilled staff.

Commercial insurers cover less than 10% of all those insured for health. This striking absence of commercial insurers in health microinsurance may be due to the complex and riskier nature of health insurance, combined with limited prospects to make profits.



Figure 14: Lives covered by health microinsurance by provider type



Overall, the collected information suggests stagnation in the African health microinsurance sector. However, this should not mask the fact that some developments are under way. Examples are:

- Some countries, such as Ghana and Nigeria, are moving towards a strengthened national health insurance scheme, integrating existing health mutuals.
- Important international NGOs, such as PharmAccess and Centre International de Développement et de Recherche (CIDR), are committed to expanding their support to African health microinsurance schemes.
- Senegal has stepped up efforts to better support existing health mutuals through a common platform and has experienced greater involvement of the private sector.

The extent to which commercial insurance companies will become active in this product category remains to be seen. Given the current state of the health infrastructure in most countries, efforts by governments to provide healthcare for low-income populations, and the obvious financial challenges, it is unlikely that they will rush into this field in the near future.

### III. Accidental Death and Disability Products

Microinsurance products providing cover against accidents as their main cover are not yet very common in Africa. A total of 2.1 million people are covered through eleven products in eight countries. Over 90% of all covered lives are found in one single country: Uganda. *Figure 15* on the next page provides a map of accident covers in Africa.

The vast majority (92%) of all lives covered by accident microinsurance benefit from comprehensive cover, while 8% are covered against permanent disability only.

Products providing cover against accidents during work or travel and against temporary disability together account for less than 5,000 covered lives. Only one new accident cover was identified as being introduced in the last three years. This comes as a bit of a surprise as accidents are a major concern for many potential customers. Additionally, personal accident policies are generally in the realm of non-life insurers and these policies seem an easy entry point for insurers that cannot offer life products. Indeed, accident policies are often added on as secondary cover to life and other policies because of their low cost and limited use. Thus, the value to clients may also be limited with such products.

Figure 15: Geographic distribution of lives covered by accident microinsurance

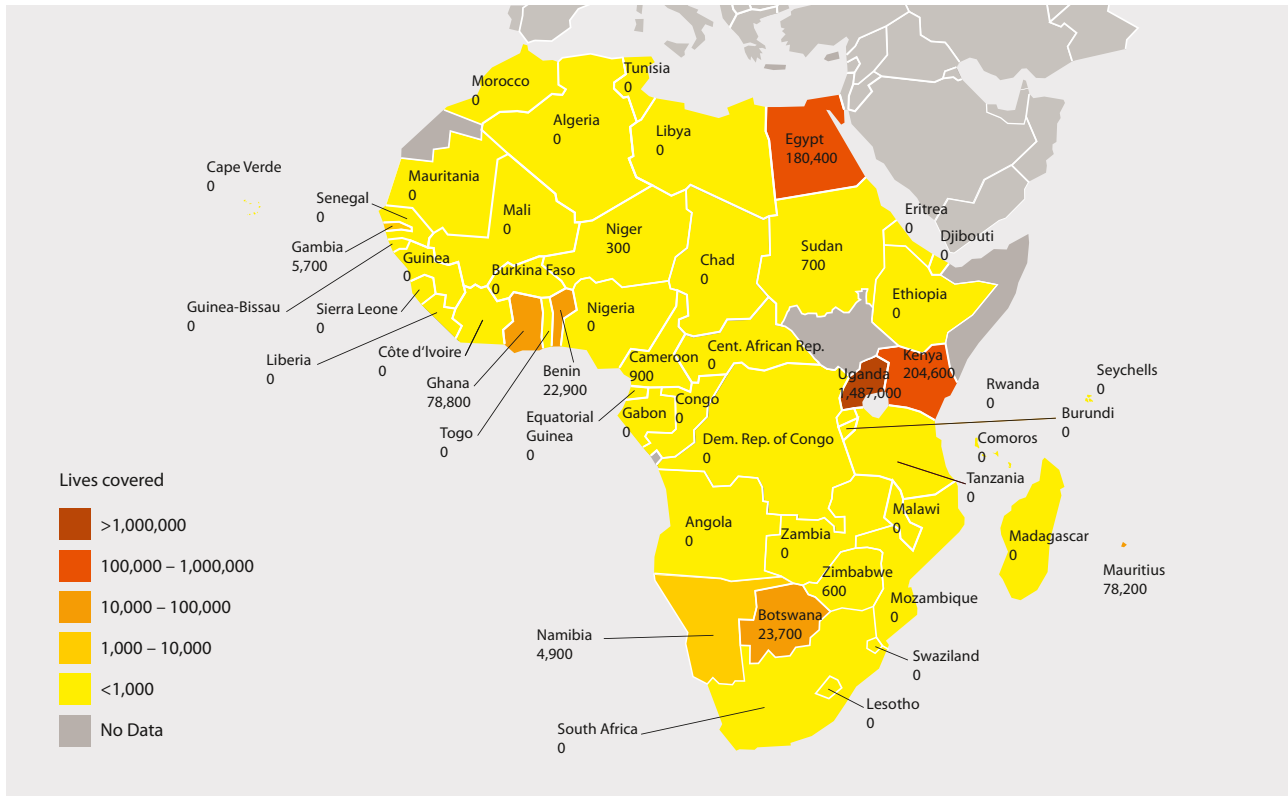
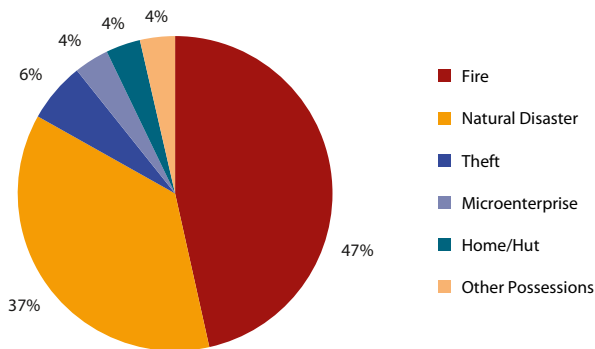


Figure 16: Breakdown of reported sub-covers for property microinsurance (including secondary sub-covers)



**IV. Property Products**

As a stand-alone policy, property microinsurance is not yet very common in Africa, numbering roughly 0.9 million primary and secondary policies. Property microinsurance policies predominantly cover fire and natural disaster (see Figure 16). Taking into account secondary covers found in enhanced credit life products, natural disasters show up as one of the main hazards being covered.

Regarding geographic distribution, East and West Africa are the regions where most property microinsurance is found, with Kenya, Tanzania and Ghana home to the bulk of these products. It is likely that

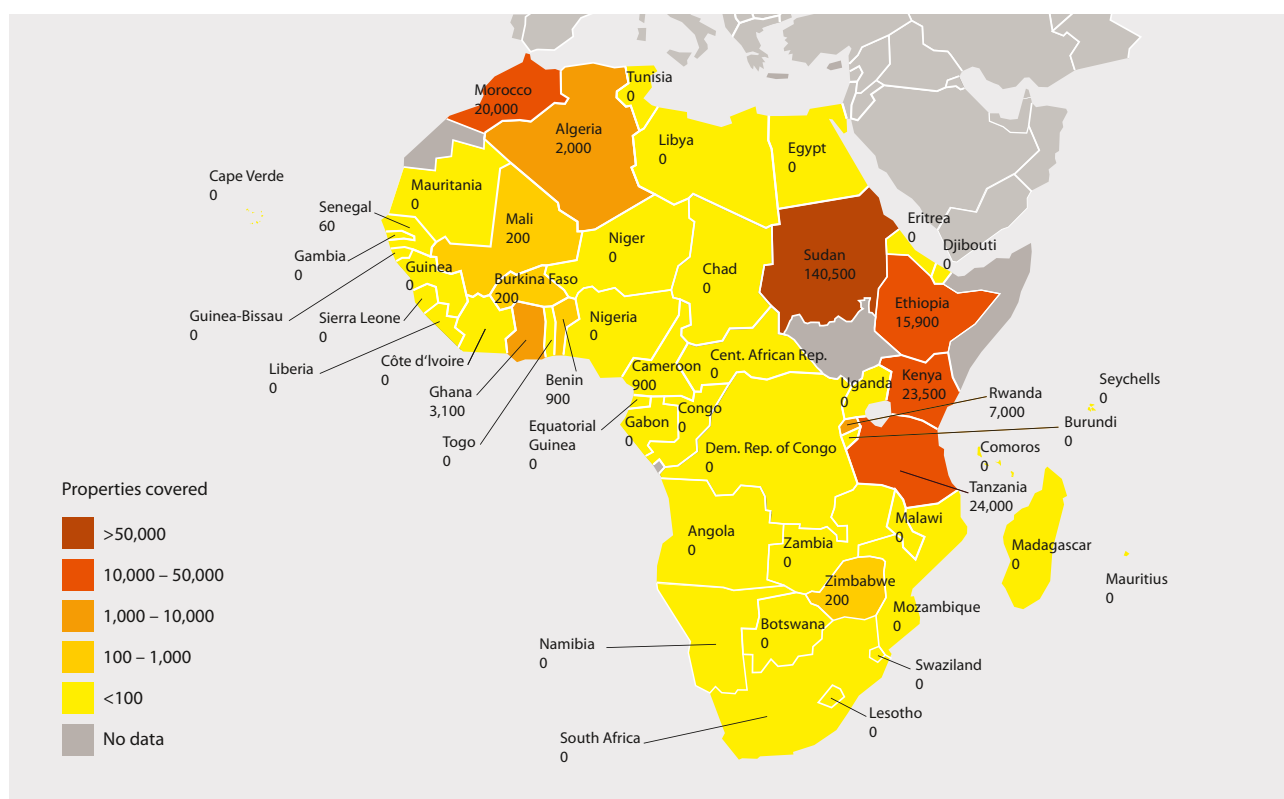
property microinsurance continues to be hindered, as it seems to be across the globe, by issues of controls. The potential for moral hazard, and especially for fraud, can be particularly high with the types of assets that are typically owned by low-income people.

**V. Agricultural Products**

The 2010 landscape study (based on 2008 data) on microinsurance in Africa<sup>19</sup> identified fewer than 80,000 farmers benefiting from agricultural (crop and livestock) microinsurance at the end of 2008. By December 2011, the latest available figures suggested that African smallholders had reason to be cautiously optimistic.

19 Matul, Michal, Michael J. McCord, Caroline Phily, and Job Harms. "The Landscape of Microinsurance in Africa". Geneva: ILO Microinsurance Innovation Facility, 2010

Figure 17: Geographic distribution of farmers benefiting from agricultural microinsurance



The number of agricultural policies has tripled, and such policies now reach almost 240,000 farmers in 14 countries (*Figure 17*). This is still small, but important nonetheless. The number of identified products stands at 30, resulting in a low 8,000 policies on average per product. This reflects the significant number of parametric products that are still at a pilot stage or are about to move towards up-scaling.

Given the tremendous efforts over the past several years in promoting parametric approaches to crop and livestock insurance, the relative prevalence of reported covers offers some surprise: indemnity-based crop and livestock insurance still accounts for almost 70% of all policies. Various weather index products make up almost the entire balance, with a small percentage area yield cover.

Agricultural microinsurance is still very much a frontier market. Only about 10% of all reported schemes have a launch date prior to 2010. In consequence, it is difficult to assess their viability or ascribe clear trends. However, three developments are noteworthy:

- Agricultural microinsurance has attracted increased attention, and multiple efforts are under way to promote and scale-up such approaches;
- Some parametric projects are poised to expand significantly over the next couple years; and
- Indemnity-based schemes are still being newly introduced.

#### d. Policy Characteristics

The total number of lives covered by individual and group policies is close to even, though when comparing the different product types, variances become apparent. For example, with life products, 52% of all life products identified cover only of individuals, and these products are responsible for 52% of all people covered by life microinsurance. This again is driven by funeral insurance in South Africa. For group life policies, 24% of the products cover groups, yet these represent 45% of all people covered by life microinsurance. The majority of accident and property products are group products, and similar to life products, these group policies cover significantly more lives and properties than individual policies. Of all lives and properties covered by accident and property products, 99% are covered by group policies. Agriculture products are unique in that they cover the most properties through products that can be either individual or group policies.

Product characteristics, how products are delivered, to whom they are sold, and how they are packaged all have an impact on uptake. *Table 3* illustrates the percentage of products which cover groups, individuals, or both, and also the percentage of insured lives or properties these products cover. For example, 44% of the accident products identified were sold as individual policies while less than 1% of lives are covered by these individual accident products. This shows that, although almost half of accident products are sold as individual policies, most of the lives covered by accident products are covered through group policies (99%). This reflects the ease with which accident cover is added to group policies of other product types as an incentive for the group, while the greater risk individual policies may more often stand alone or be attached to products that experience less volume. With health, because it may be more difficult to link health products to group policies, more people are covered by individually sold products. This may be an important consideration when looking at *Table 5* (page 19) with its high claims ratio for health insurance.

**Table 3: Product characteristics by risk type**

		Total	Life	Credit life	Accident	Health	Property	Agriculture
Individual	Products	37 %	52 %	40 %	44 %	32 %	25 %	10 %
	Lives or properties	49 %	52 %	47 %	<1 %	61 %	<1 %	10 %
Group	Products	34 %	24 %	38 %	56 %	30 %	67 %	38 %
	Lives or properties	46 %	45 %	43 %	99 %	14 %	99 %	20 %
Both	Products	29 %	24 %	22 %	0 %	38 %	8 %	52 %
	Lives or properties	5 %	3 %	10 %	0 %	25 %	0 %	70 %

#### e. Premium Levels, Affordability, and Loss Ratios

With regard to premium levels, very few products are comparable, as countries, sums insured and cover features often differ substantially. For 186 of the products summarized in this study, respondents provided full information on premiums and lives covered. For 147 of these 186 products, respondents also provided information on claims. *Table 4* summarizes the affordability of microinsurance products by type of product.

Table 4: Affordability of microinsurance in Africa (in million)

	Number of lives insured in m (only if written premium data were provided)	Number of products (only if written premium data were provided)	Annual Premiums PPP US\$		
			Min	Max	Weighted average
Health	0.95	47	0.4	92.6	6.6
Life	32.44	101	"Free"	82.3	11.3
Property	0.17	13	0.4	116.0	5.3
Agriculture	0.21	18	0.2	31.6	12.8
Accident	1.61	7	0.3	13.9	0.6
<b>Total</b>	<b>35.38</b>	<b>186</b>			

Overall product prices seem to be relatively low, though the economies of the countries in the study are clearly very different, and aggregation itself may hide some issues. Also, the information gathered does not provide details on the level of benefits or the value for money. However, the low average premium on health likely reflects its predominance among mutual and community-based groups, while the higher average cost for life insurance likely reflects its base in commercial insurance. However, both average premiums and loss ratios (for the record, where both premiums and claims have been submitted) show that some product types experience rather low loss ratios<sup>20</sup>, as seen in *Table 5*.

Table 5: Aggregate loss ratios by product across Africa

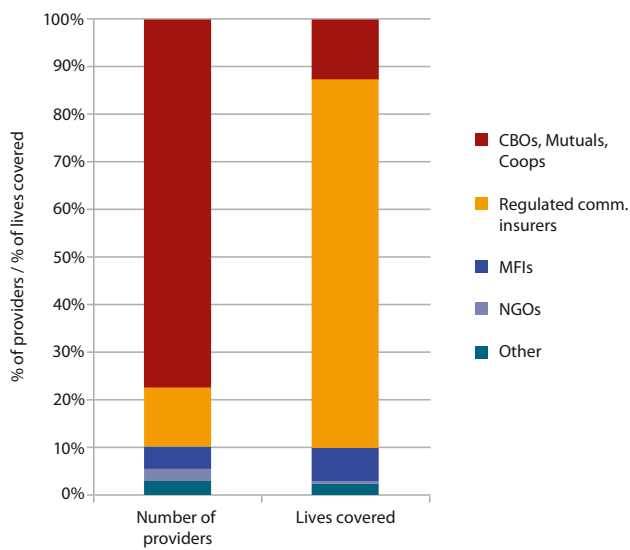
Product type	Number of lives insured in m (only if both premiums and claims provided)	2011 premiums in US\$ m (only if both premiums and claims were provided)	2011 loss ratios
Accident	0.13	0.58	40.0%
Credit life	2.50	16.67	22.7%
Life	26.92	444.05	43.8%
Health	0.67	8.19	102.6%
Agriculture	0.15	4.07	24.6%
Property	0.32	1.74	68.6%
<b>Total</b>	<b>30.69</b>	<b>475.31</b>	<b>Average 44.0%</b>

The personal accident, life and credit life products identified have loss ratios over the past couple of years which indicate that better client value could be offered through lower expenses or lower profit margins. As loss ratios for property and agriculture products are more volatile, a loss ratio averaged over several years would be needed to draw conclusions about these products' client value.

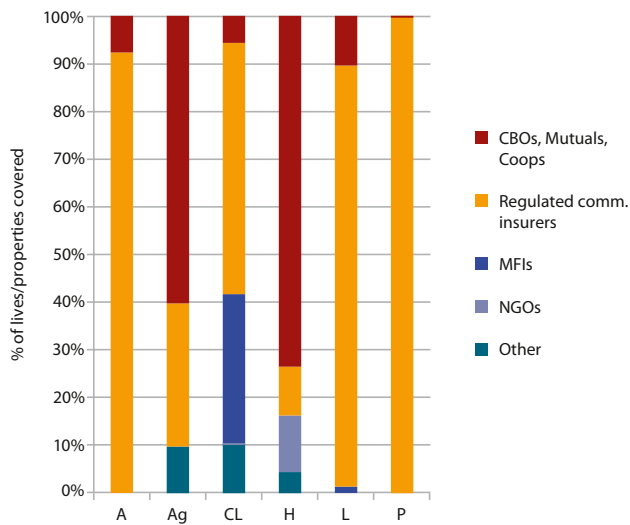
The relatively high health loss ratio reflects community-based health microinsurance, which typically has little to no administrative cost and allows for an almost 100% claims ratio, as well as the reality that almost all of the health microinsurance programs identified are still small or relatively new and have difficulties generating enough premium to cover claims.

<sup>20</sup> Loss ratios here are calculated on a cash basis as insurers were asked to provide the claims and premiums paid and received during 2009, 2010, and 2011. Few provided data for 2009 or 2010. Loss ratios are commonly calculated from earned premiums and known claims (not just those that have been settled and paid).

**Figure 18: Providers by organization type and lives/properties covered by organization**



**Figure 19: Percentage of lives/properties covered by product and provider type**



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

South Africa funeral parlors, generate large outreach. This has critical implications for the scale, profitability, and sustainability of microinsurance.

However, the 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, shown in *Figure 19*, commercial insurers are again found to cover the majority of the lives and properties for most product types with the exceptions of health and agriculture. Around 70% of lives covered by health microinsurance are insured by mutuals, cooperatives, and community-based

Readers should note that *Tables 4* and *5* on the previous page are not provided as suggestions of appropriate loss ratios or targets for premium setting. The very nature of aggregating such data from numerous economies, product and market maturities, and potentially significantly different coverage and product components limits the value of this information for such uses. These are provided more in an effort to advance the discussion about such information and get readers to consider their ramifications.

## f. Microinsurance Providers

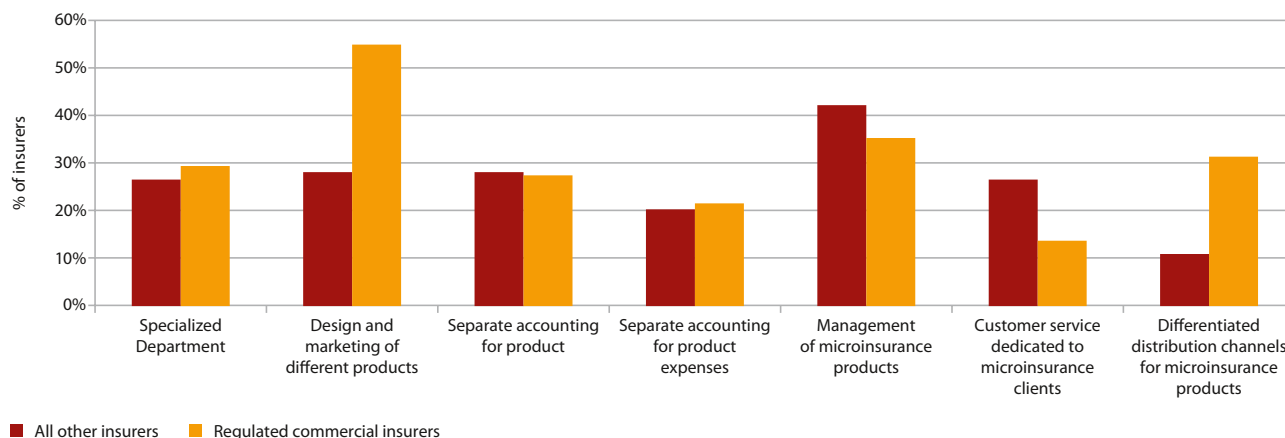
Within Africa, the research team identified 511 organizations offering microinsurance. These microinsurance providers include more than 12 different types of organizations, from commercial insurers to mutuals and hospitals, to NGOs and MFIs taking on insurance risk themselves (*see Figure 18*). The majority of organizations identified (77%) were community-based, with relatively few lives and properties covered. The second most common type of microinsurance providers were regulated commercial insurers<sup>21</sup>, 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 12% of the total lives and properties insured in all of Africa. Regulated commercial insurers provide cover for 78% of lives and properties covered in the region. This striking difference illustrates a key point also noted in the 2005 landscape<sup>22</sup>: massive microinsurance growth and expansion will not come from the small-scale local organizations, but requires the commercial insurance industry. Among the different providers identified, only commercial insurers, and in

21 For this study, organizations were classified as “regulated commercial insurers” if they marked this option as the nature of their organization in the “General Company Info” section of the participant questionnaire.

22 Roth, et al., 2007

Figure 20: Insurers who reported microinsurance adaptations



organizations. The dramatic absence of health covers by commercial insurers reflects a general reluctance to enter this market because of real and perceived risks, as well as government provision of healthcare in several African countries. For the most part, it is community-based and mutual groups that will venture into health-care covers as a response to their membership.

The majority of properties covered by agricultural products, nearly 60%, are insured by cooperatives. Throughout Africa, limited agricultural cover reflects some of the core constraints in African insurance, including limited markets, weak ability to pay and insufficient reinsurer interest, as well as crowding out by governments.

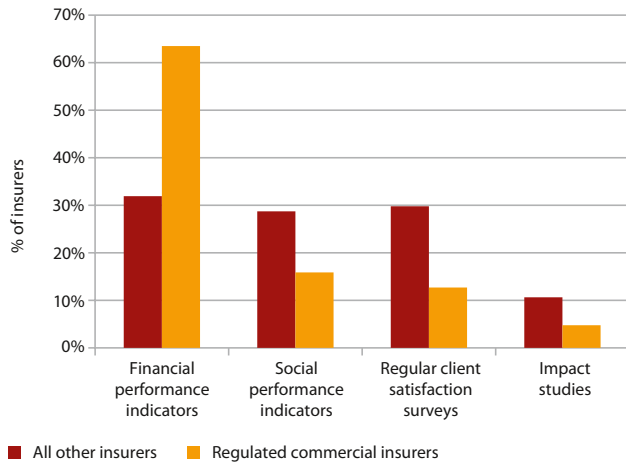
Although commercial insurers have a much greater outreach, they are not significantly more or less dedicated to microinsurance. Of the regulated commercial insurers, 75% reported that they have in some way developed a particular microinsurance infrastructure or adapted their operations. Of the providers that are not regulated commercial insurers, 73% reported that they had adapted in some way to facilitate microinsurance. However, the way the different providers modified their approach does differ dramatically in some cases.

As Figure 20 shows, 28% of all providers have specialized departments, 28% of all providers have separate accounting for microinsurance, and 21% of all providers have separate expense accounting. Commercial and non-commercial insurers<sup>23</sup> make these adaptations to the same extent. Modifications that are much more common among commercial insurers include designing and marketing products differently and using different distribution channels. These large differences are likely due to the fact that the non-commercial providers work almost exclusively with low-income populations and therefore have less need to differentiate their product design or distribution.

Adapting operations by creating dedicated management and customer services is more prevalent among non-commercial providers. Some of this may again be due to non-commercial providers' exclusive focus on low-income populations.

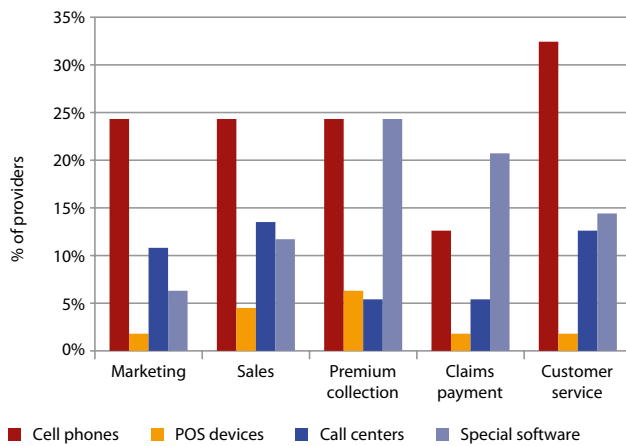
23 "Non-commercial insurers" are represented as "All other insurers" in Figures 20 and 21. This classification includes all other microinsurance providers that did not mark "regulated commercial insurer" as the nature of their organization on the participant questionnaire.

**Figure 21: Percentage of insurers that measure success/impact of their microinsurance products (for those who responded)**



While a perhaps surprising number of organizations make specific adaptations for microinsurance (74%), an even greater volume report monitoring microinsurance performance: 92% of all organizations report monitoring performance; 90% of non-commercial providers and 94% of commercial insurers. However, just as non-commercial providers and commercial insurers specialize in different ways, they also monitor performance differently. Over 60% of the commercial insurers who responded report using some financial performance indicators. Only 32% of non-commercial providers reported using financial performance indicators. Conversely, as *Figure 21* highlights, non-commercial insurers use client-oriented performance measures to a much greater degree than commercial insurers.

**Figure 22: Percentage of providers using technology for their processes**



Despite the differences in the mission of non-commercial providers and commercial insurers, financial and social performance measures are equally important. While non-commercial providers may not be concerned about profitability, they should be concerned about sustainability. If these types of providers monitor financial performance, they may have a better potential to make the decisions that will help them operate successfully in the long term. For commercial insurers, social performance is just as important as financial performance because products that are responsive to the clients' needs will generate the greatest demand and voluntary up-take. As markets become more competitive, clients will choose companies that have a strong customer service culture and offer valuable products.

In terms of processes, providers still largely rely on paper forms, although the industry is moving towards greater use of technology. More commercial than non-commercial providers use technology, but among all providers the use of cell phones and specialized software is significant. *Figure 22* shows that cell phones are used by over 20% of providers for all processes except claims payment. In many countries this is a challenge due to regulations restricting how monetary transactions may occur. Call centers are also an important tool for some providers; however, call centers are a large investment so it is not surprising that fewer providers use them.

## g. Market Perceptions

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 uncertainty regarding how microinsurance should be approached by various stakeholders. For this study, survey respondents reported information on their perceptions of the microinsurance market and their views of the regulatory environment in their country. The responses received are very much in keeping with the attitude of excitement and apprehension that characterizes the microinsurance industry.



Microinsurance providers were confident about the past and future short-term growth of microinsurance. As *Figure 23* shows, a little over half of the respondents (53%) agreed that their domestic microinsurance business had “grown considerably” in the preceding five years. In projecting market potential over the next year, 71% of respondents estimated that their microinsurance business would grow 10% or more, suggesting optimism about microinsurance expansion and the improvement of markets and delivery. However, providers were less confident about the future long-term growth of microinsurance. When asked to speculate about growth in the next five years, respondents who were confident that growth would exceed 100% dropped to only 49%, and the proportion of uncertain respondents rose to 35%. This reduced optimism about long-term growth is likely related to the concerns highlighted by survey respondents, such as their lack of knowledge of low-income populations’ needs, knowledge about insurance within the target population, and product affordability.

As seen in *Figure 23*, insurers show considerable concern about the market. Some 50% consider that their products are not affordable for the market. They seem to see the target market as simply unable to pay the cost of microinsurance. Leading companies in the region have been improving products to ensure they respond better to market needs, as well as improving processes and expanding distribution. All these improvements should help improve affordability in the longer term. Almost 80% of microinsurance providers felt that potential clients lacked knowledge of microinsurance. Their concern appears to be that this will greatly limit demand for products, thus hindering growth. Financial education is one way to develop a culture of insurance, but clients’ willingness to purchase insurance and their trust of insurers may benefit more by insurers improving their service quality, especially with regard to their efficiency in handling claims, than from financial education.

Finally, over two-thirds of the respondents noted that insurers themselves lack the knowledge they need for successful microinsurance development, delivery and servicing. Insurers recognize that they must view insurance in a different way in order to develop products that meet the needs of the poor. However, providers’ responses to this survey indicate that they do not feel they have the tools necessary to make this shift. Organizations have developed and continue to develop research studies and good practices – lessons that should offer providers some help in making this shift. However, more work is needed to transform this information into tools that insurers, and others, will use to enhance their ability to make microinsurance successful in their institutions.

**Figure 23: Market perceptions as percentage of respondents**

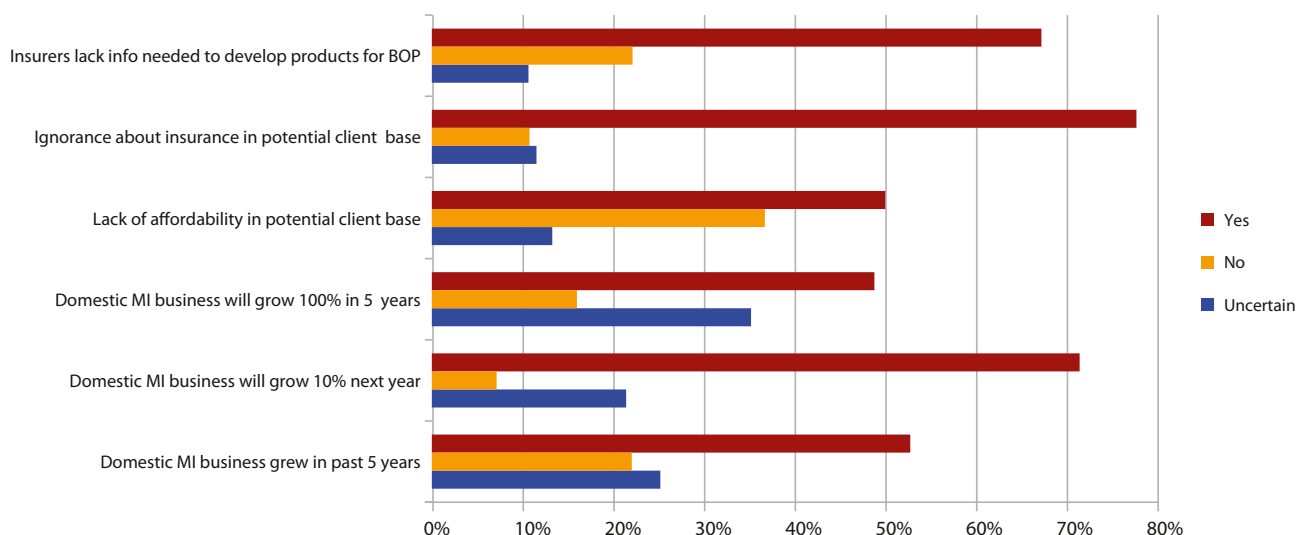
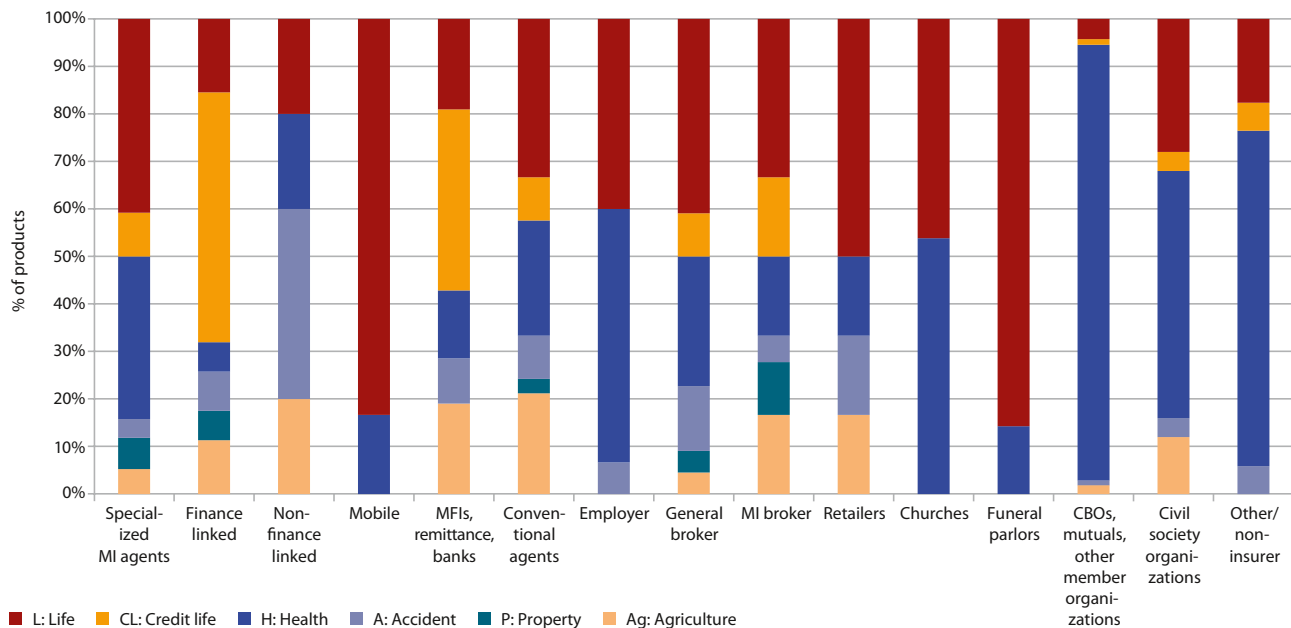


Figure 24: Products by type and delivery channel



## h. Reinsurance

In general, information about the importance of reinsurance for the African microinsurance sector is limited. Of the 598 total products identified in this study, only about 35 products are covered by any particular reinsurance. These reinsured products represent less than 10% of all covered lives, but over 30% of all reported gross premiums. This is probably because companies are buying reinsurance protection for relatively expensive and/or more complex microinsurance products.

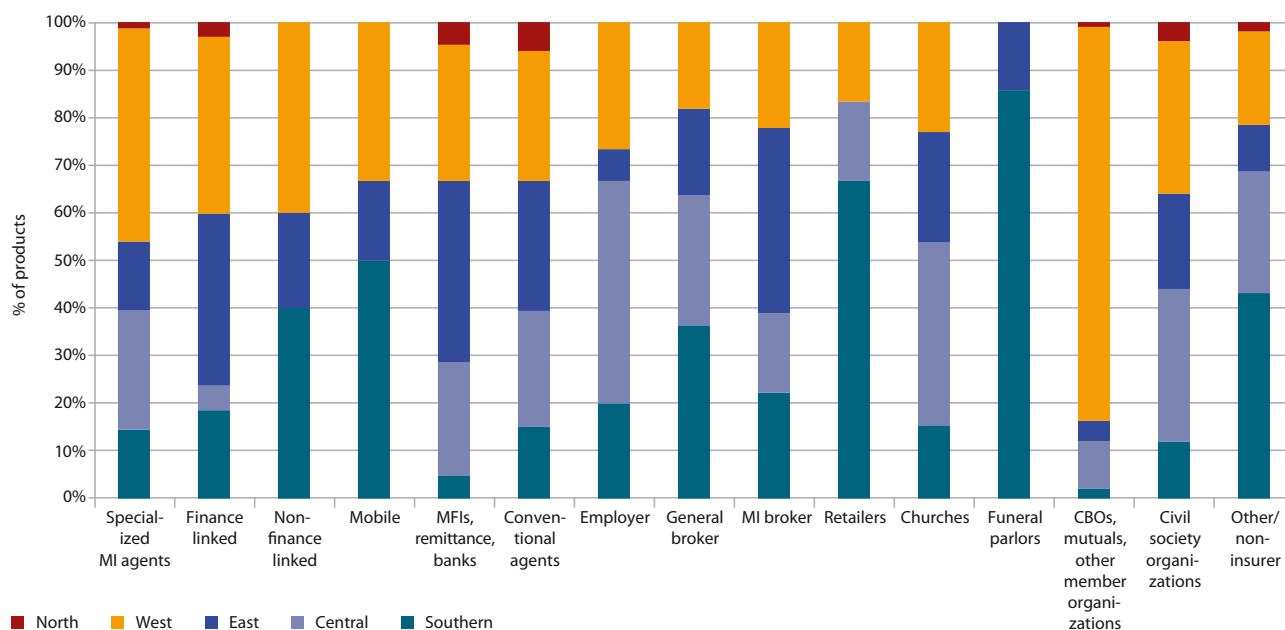
As more complex products such as health, property (particularly catastrophe), and index-based agricultural are offered by more insurers, the involvement of reinsurers is likely to increase. Currently, most products yield limited insurer liability because of the rather low sums assured and the relatively low loss ratios for the products that are offered. As the situation changes, reinsurers will take on a more significant role. This role is likely to be not simply in the area of risk absorption, but also in guiding and improving the development of products and services offered by microinsurers. With an understanding of this market, reinsurers have much to bring to, and potentially gain from, massive expansion of microinsurance in Africa.

## i. Delivery Channels

In 2008, African mutuals (including community-based organizations) were the most common delivery channel for microinsurance, followed closely by MFIs. Since then, microinsurance providers have expanded the range of channels, though member based groups including mutuals and CBOs remain the largest distribution channel by number. This is a result of the numerous mutuals and CBOs in West Africa acting as both delivery channels to their members and the risk takers. The use of specialized microinsurance agents (those selected and trained for marketing to only the low-income market) is also significant, along with the distribution through financial products such as loans and savings.

Microinsurance product sales are also more often automatically linked with the purchase of other products such as mobile phone minutes or bus tickets. The number of countries in which more than one million people are covered by microinsurance rose from three in 2008 (Uganda, South Africa, and Ethiopia) to nine in 2011 (2008 countries plus Ghana, Kenya, Namibia, Nigeria, Tanzania, and Zimbabwe). In Ghana, Namibia, Tanzania and Zimbabwe, this achievement is at least partly the result of embedding a simple life cover into airtime

Figure 25: Products by region and delivery channel



purchase of mobile phones. This clearly shows the power of these delivery channels in getting limited micro-insurance products to the broad population. However, while such embedded products are becoming an important driver for growth, they do not always translate into value for policyholders. For products that are embedded, education is key to ensuring that clients are actually aware that they are insured, understand the product, and know how to submit claims.

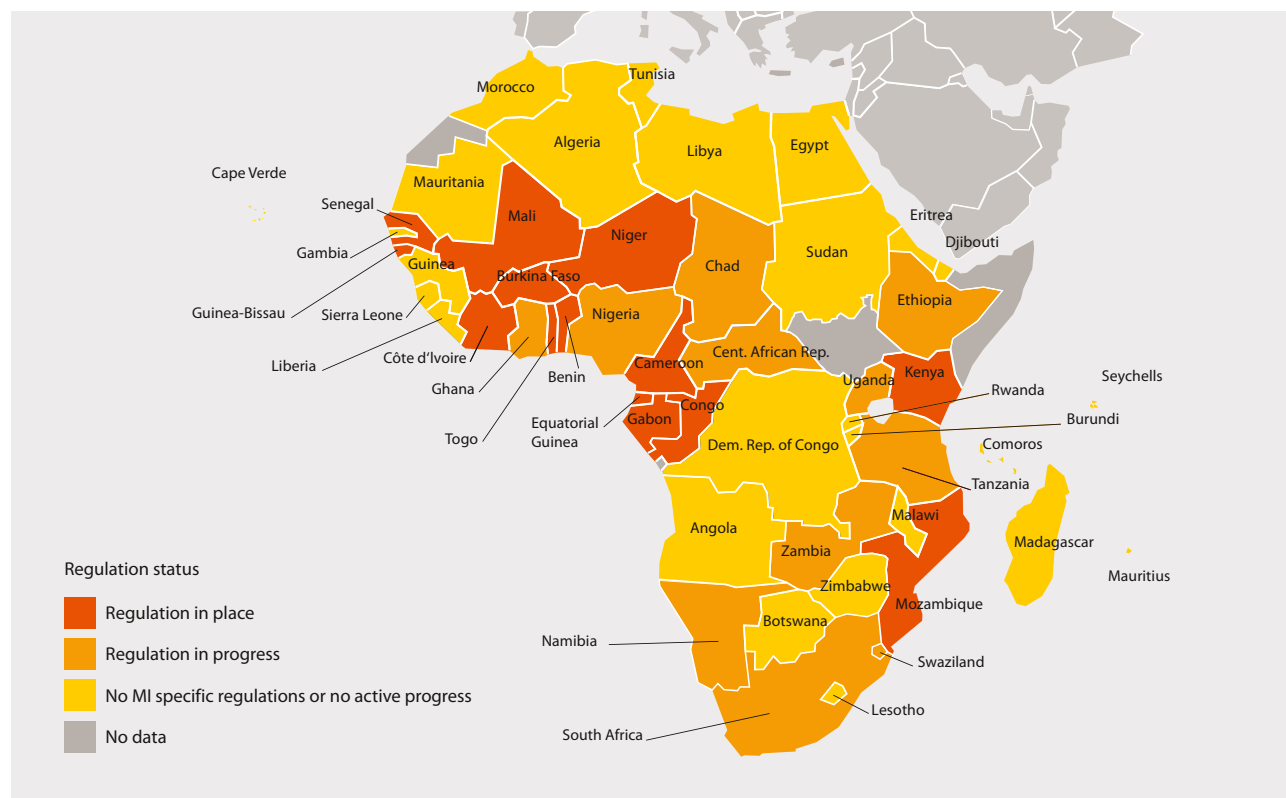
Not all delivery channels offer the same types of products, and some are better-suited than others to offering products that cover a particular risk. *Figure 24* indicates the types of products distributed by each channel. These channels are not necessarily mutually exclusive as for example, MFIs and 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 products embedded in non-finance-linked products, which is probably due to the 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 the delivery channels with the most developed capacity. Agriculture products are similar to property products with regard to the involvement of brokers, but they have expanded much more into 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.

On a regional level, as shown in *Figure 25*, the Southern, West, and East regions of Africa offer microinsurance through a diverse array of delivery channels. Unsurprisingly funeral parlors are most predominant in Southern Africa, and CBOs, mutuals, and other member-based groups are most prevalent in West Africa. Microinsurance in North Africa continues to be very limited, and the few delivery channels used there are consistent with this low level of activity. In North Africa, the focus has been on MFIs and banks, conventional agents, and finance-linked products, which are standard, nascent, market-delivery channels.

## j. Regulatory Frameworks

In some countries globally, such as India, microinsurance has been propelled by a legal framework promoting and guiding its implementation and outreach. In Africa, microinsurance has grown without the benefit, or

Figure 26: Geographic display of regulation status for countries studied in 2011



challenges, of a legal framework – which may comprise an act or a law, regulation, or other secondary instrument – that addresses the peculiarities of microinsurance. Recently, there has been much more activity in the region, focused on developing a legal framework from which microinsurance might expand further. Factors contributing to this activity include domestic recognition of the importance of microinsurance as well as significant pressure and external inputs from the International Association of Insurance Supervisors (IAIS), the Access to Insurance Initiative, the Microinsurance Network’s Working Group on Regulation, Supervision, and Policy, and others, due to the high levels of informality found in countries such as South Africa. *Figure 26* provides a map that represents the general legal status for microinsurance in the countries in this study.

The study looked at microinsurance activities in 51 countries. Of those, 16 countries have already adopted some form of microinsurance legislation, including 14 that are part of the Inter-African Conference on Insurance Markets (CIMA) Zone, which recently adopted specific and separate microinsurance rules for its member countries. These rules are likely to be implemented in a phased approach throughout the Zone, and their impact will likely not be felt for another year or more. The other two countries, Kenya and Mozambique, have addressed microinsurance regulation in specific ways within their insurance legal frameworks.<sup>24</sup> Additionally, one of the reasons for Ethiopia’s expansion in microinsurance has been the granting of the legal ability for MFIs to take on and manage insurance risk of products for their clients.

Uganda has taken an evolutionary approach to the development of a microinsurance legal framework. It currently addresses microinsurance at a very high level in insurance law and will soon be working on the details of regulation to specify what the law allows. This includes an effort to address issues such as the creation of a legal structure for microinsurance health mutuals. African regulatory efforts have shown that the process of

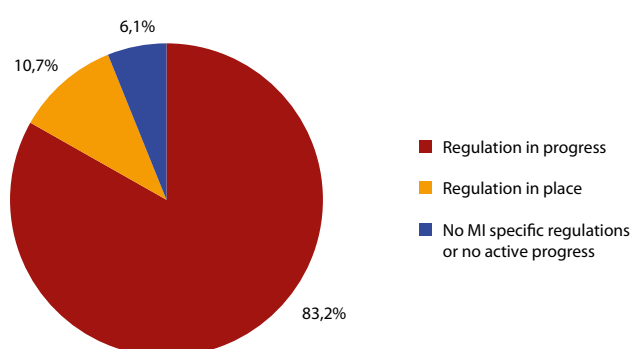
<sup>24</sup> A legal framework may include microinsurance issues in primary or secondary regulation, i.e. laws, directives, circulars, codes, and other legal instruments.

developing the components of an effective microinsurance legal framework often takes significant time and effort and is completed through several steps, including sector assessment, industry dialog and regulatory capacity building.

In total, nine countries are working on developing their microinsurance legal frameworks. Ghana is on the verge of gaining approval of its new Insurance Act (inclusive of specific provisions for microinsurance), and the Commissioner is introducing Market Conduct Rules covering key microinsurance issues in advance of the Act's approval. Like Ghana, Nigeria has drafted microinsurance guidelines, and the new insurance bill is currently in parliament. Although the bill does not specifically address microinsurance, it includes, for example, provisions for risk-based regulation and supervision that would also impact microinsurance. Other countries, like South Africa and Tanzania, are at various positions along the path to a microinsurance-inclusive legal framework.

There are many reasons why the other 26 countries in this study are not yet working on a legal framework for microinsurance. For most of them, the issue of microinsurance remains below the level of concern. For others, their existing regulatory framework and/or supervisory practices are considered sufficient for microinsurance. For example, in some countries, the current framework allows formal or informal waivers relating to agents, or shows a flexible attitude to spur industry innovation. Others recognize the need to develop a legal framework for microinsurance but simply have not yet started the process.

**Figure 27: Percentage of identified insureds by status of country microinsurance legal framework**



More than 83% of lives or properties identified as being covered by microinsurance are in countries that are currently developing a microinsurance legal framework (see Figure 27). While South Africa accounts for 61% of that coverage, the rest is made up of the more populous countries that tend to have marginally higher coverage of microinsurance. The coverage ratio for these “in-process” countries is 9.4% (3.1% if South Africa is excluded) while that for countries with existing regulations is 1.6%, and those countries with nothing in place at this point cover a mere 0.7% of their population. Because microinsurance has been so recently integrated into the regulatory framework of those that do have existing regulations, there

is little to say about the impact of those regulations. Those countries currently in the process of developing regulations appear to have reached some undefined critical mass of microinsurance activity that leads regulators to a need for action in a way that those regulators in countries with less microinsurance activity have not experienced.

Although the group with no microinsurance legislation represents half of the countries in the study, they only account for 6% of all covered lives and properties, and in aggregate have a 0.7% coverage ratio. It is clear that regulation did not push microinsurance in Africa, however the conclusion that the lack of regulation has hindered the growth and expansion of microinsurance in the region is much less clear. Once the “in-process” countries settle their legal frameworks for microinsurance, the impact of regulation should become more evident.

Some respondents provided comments about insurance regulations either hindering or promoting the expansion of microinsurance. Many respondents from all regions reported feeling hindered by either the lack of a clear microinsurance framework or the complete non-existence of microinsurance regulation in their country. For example, one respondent from Egypt wrote that in his country there were “no regulations for microinsurance ... policymakers are neither very interested nor understanding”. Another, from Cameroon, cited the “absence of clear legislation for mutual health” as a hindrance to microinsurance expansion. These are just two examples amongst several of the lack of a regulatory framework creating uncertainty among insurers throughout Africa. This uncertainty is leading to more conservative decision-making and a waiting period as insurers try to gain clarity on the road ahead.

A few respondents did report government encouragement of microinsurance as a promotion to the industry in their country. For example, one respondent from Nigeria wrote that there is a “distinct policy framework for health insurance, and by extension health microinsurance”. A respondent in another country commented on the promotional benefits of microinsurance legal clarity by saying: “The new regulation allows microfinance to offer microinsurance products”. Although steps are currently being taken to develop regulations specific to microinsurance in many African countries, it appears that there is still much room for development in this area.

To help mitigate some of these concerns, governments should be working with the industry – insurers, intermediaries, reinsurers, and third-party administrators (TPAs) – to make sure that all issues are considered and that industry voices are being heard. This may have a positive impact on reducing the anxiety of microinsurers in the development phase. Guidance on this process is provided by the IAIS document: “Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets”<sup>25</sup>. This paper provides orientation to regulators, supervisors and insurers on issues such as formalization and transition periods and the registration of pilot products. The Access to Insurance Initiative (A2II), on behalf of the IAIS, is planning to develop a training curriculum supporting the implementation of this paper, which should help supervisors to define and develop an appropriate regulatory approach for their jurisdiction.

Adding to microinsurer anxiety are the increasing efforts to strengthen consumer protection. Although consumer protection is critical for the long-term success of microinsurance, much of microinsurance has been built on removing many of the protections that upper market insureds “enjoy”, which include complicated policy documents, licensed agents, many exclusions, and complicated claims processes. These have mostly been eliminated in microinsurance to facilitate simpler products with more appropriately risk-based design, and to facilitate distribution to the low-income market, while at the same time reducing costs. Some of the microinsurer anxiety relates to anticipation of being required to return to costly and inefficient means of consumer protection. Regulators, supervisors and policymakers will need to address these issues very carefully and with a keen understanding of the impact of their actions, so as not to hinder industry innovation with their efforts.

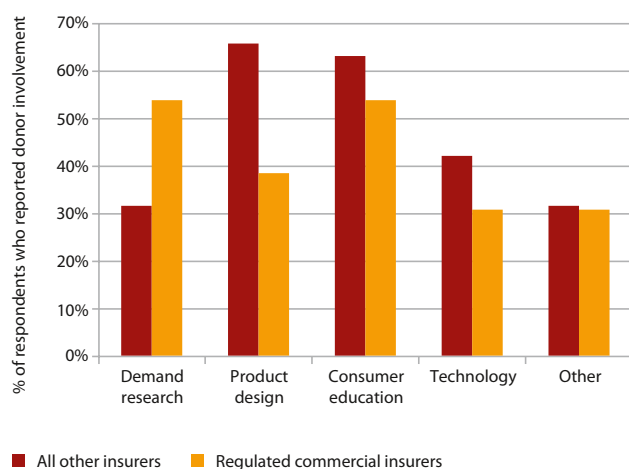
## **k. Donors**

Of the 39 countries identified with microinsurance, 17 were seen to have benefitted from some intervention in 51 institutions provided by at least one of 60 different donor organizations. These organizations include multi- and bi-lateral donors, foundations, international and domestic supporters, local governments, and others. At least USD 26.2 million has been provided, or committed, to the enhancement of microinsurance in those countries over the past five years. Of the 51 organizations receiving donor support, 27 of these only offer health microinsurance. The strong involvement in health is not surprising given the pressing need for

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<sup>25</sup> IAIS-Microinsurance Network joint working group and A2II, 2012.

**Figure 28: Areas of donor involvement as percentage of respondents who reported donor involvement**



better solutions and the notorious challenges in this area, coupled with the strong historical push from some donors for community-based groups.

The funds have been provided as grants for research, operations and development, and have funded activities from demand research, product design and consumer education to satisfaction studies, back-office technology improvements and mobile phone linkages. *Figure 28* provides details of how donor funds were allocated by regulated commercial insurers and other insurers.

Generally, demand research and consumer education funded by donors represent public goods available

to all insurers in a market. Private goods, such as individual product design and technology upgrades, typically benefit individual institutions for the improvement or development of their products or systems. A mix of public and private goods funding is important in most countries in Africa, as there tends to be a significant need for general market building and for specific interventions to assist insurers in implementing the general lessons. One without the other is likely to lead to limited improvements.

Of all grant funding identified, 53% of that which was committed to Africa went to the five countries shown in *Table 6*. These countries represent almost three-quarters of all covered lives identified in the region, including South Africa with 61% of all coverage identified. However, attributing the volumes of covered lives and properties to the grant funding is not realistic, as growth in each of these countries is related to numerous factors. Additionally, the varied timing of the grants and specific application of the funds is a significant factor in results. It is also clear from other studies that there is a substantial lag between most infusions of funds into microinsurance and any significant results.

**Table 6: Top five recipient countries of microinsurance aid**

	Grants (US\$ millions)	% of total grants	# Covered (millions)	Coverage ratio
Kenya	6.3	24%	1.3	3.2%
Ghana	3.0	12%	1.7	7.0%
South Africa	1.8	7%	27.2	54.5%
Rwanda	1.6	6%	< 0.1	0.1%
Ethiopia	1.3	5%	2.2	2.6%
<b>Totals</b>	<b>14.0</b>	<b>53%</b>	<b>32.4</b>	

In addition to the funding to these five countries, at least another US\$ 7.7 million (29% of total grants) was provided for regional activities that impact microinsurance activities in several countries. These funds were primarily for research activities. This leaves a mere US\$ 4.5 million (17%) of all funding identified providing direct benefits to the remaining 12 recipient countries. Thus, most interventions were very small. Beyond the top five countries, only two (Benin and Tanzania) were identified as having received more than US\$ 1 million (though just barely), and several received less than US\$ 50,000.



## I. Investors

At least US\$ 25 million<sup>26</sup> has been committed by LeapFrog Investments as investment funds linked to expectations of commercial returns. LeapFrog notes that its involvement goes beyond simply investment in insurance companies and includes, among other things, substantial technical assistance in support of its investments. Investments of these volumes have significant potential to move domestic markets and provide a catalyzing effect on the region. These investments are still relatively new, and results in the coming years will uncover the real impact.

## 4. TRENDS IN MICROINSURANCE DEVELOPMENT

The microinsurance sector in Africa is as diverse as the continent itself: in some countries microinsurance providers have moved far ahead and achieved impressive outreach numbers, while on the other end of the spectrum there are countries in which potential providers have only started looking at the low-income segment. Across all product categories, the identified number of covered lives has tripled over the last three years, and now almost 4.4% of the African population is covered by microinsurance. For microinsurance, Africa is a very dynamic market with ample room still for expansion.

### a. Outreach, Providers, and Product Diversity

Microinsurance in Southern, East and West Africa has grown significantly, while microinsurance in Central and North Africa still has to gain real traction. Without any doubt, the African microinsurance sector has experienced a tremendous boost from increased outreach in life microinsurance products. Regrettably, health microinsurance has not developed significantly over the last few years, while outreach in crop and livestock microinsurance products is growing from a very small start. Credit life products are no longer a strong driver of increased outreach, yet the product remains important across the region. With only one out of eight policies covering more than the outstanding loan, the potential for offering more comprehensive products through credit life is still significant.

From a customer and market stability perspective, high outreach numbers alone are not sufficient. Arguably, in a healthy and stable microinsurance market, several providers offer a good variety of high-value products and reach a significant number of customers. Based on these three indicators (outreach, number of providers, and product variety), *Figure 29*<sup>27</sup> displays the current state of market development for the top 15 countries with the highest microinsurance coverage ratios (the top ten are noted in *Figure 1*).

Looking at the African microinsurance markets from this perspective reveals that the most balanced product/provider mixes are currently found in Kenya and Ghana. These two countries are ranked sixth and tenth on outreach, respectively. The balanced number of products and providers should enable the microinsurance sector in these countries to thrive and to provide customers with products they truly value. In other words, some essential preconditions for healthy market developments are present.

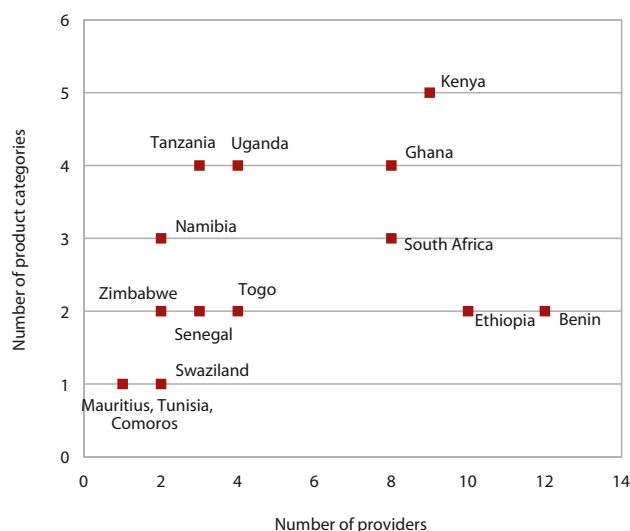
The country ranked first in terms of microinsurance coverage ratio, Namibia, has relatively limited product/provider diversity, thus limiting potential expansion. Tunisia's citizens may still have to exercise patience until

26 This amount relates to published commitments of equity investments to three insurance organizations in Ghana (Express), East Africa (Apollo Group), and South Africa (AllLife). The investor notes that they are "the world's first and largest investor in companies that insure underserved people in Africa and Asia". <http://microfinanceafrica.net/tag/leapfrog-investments/>; <http://www.prnewswire.com/news-releases/leapfrog-invests-6m-in-alllife-innovative-african-hiv-and-diabetes-insurer-78292717.html>; and <http://www.ventures-africa.com/2012/04/leapfrog-invests-usd5-5-million-in-express-life-insurance/>.

27 In this figure, "product categories" refer to life, credit life, health, accident, property and agriculture.



**Figure 29<sup>27</sup>: Number of key product categories on offer against the number of providers in the top 15 markets**



they can choose among several products from a variety of providers, as the Tunisian market currently has just one product type from one provider, as is the case in Mauritius and Comoros. However, the prospects for market development look much better in the countries ranked 13th and 14th on the outreach scale: Ethiopia and Benin. These two countries are home to a much higher number of providers, which could translate into increased outreach and higher product diversity. Compared to these countries, a higher product diversity offered through a rather limited number of providers is found in Tanzania and Uganda, ranked fifth and ninth in terms of current outreach.

## b. Observed Key Trends

Looking back at the first comprehensive African landscape study based on data from 2008, a number of things have evolved significantly since then. Key trends observed over the last three years include:

### Outreach, growth and products

- Total outreach across all regions and product categories has tripled over the last three years: 44.4 million, or 4.4%, of all Africans are now protected by microinsurance. Yet, if South Africa is excluded, coverage reaches a mere 1.7%.
- South Africa remains the dominant market, accounting for over 60% of all covered lives or properties.
- West Africa has experienced the highest growth rate since 2008, primarily because of its low volumes in 2008, followed by Southern and East Africa. Growth in Central and North Africa was only half that observed in West Africa.
- The expansion of life microinsurance was the main driver behind the impressive growth of the African microinsurance market.
- Crop and/or livestock microinsurance is now offered in at least 14 countries.
- Outreach in health microinsurance has stagnated in general over the last three years.
- Individual and group products cover almost equal numbers of lives.
- Life (excluding credit life) and health products are mainly sold on a voluntary basis.

### Provider and delivery partners

- Community-based schemes make up 70% of all microinsurance providers but less than 9% of total lives or properties covered.
- Only 14% of all microinsurance providers are regulated commercial insurance companies, but they cover 78% of all lives or properties insured.
- Regulated commercial insurers are not more likely to have a specialized microinsurance department than other provider types.
- Commercial insurers tend to focus more on financial performance, while other providers focus more on client satisfaction and social performance.

### c. Classification by National Stage of Microinsurance Evolution

The differences in microinsurance outreach, recent growth and product diversity across the African continent are significant. Yet, linking these differences back to objective measures at the national level, such as macroeconomic indicators, the human development index, Gini factor or regulatory environment, yielded no statistically significant insights into the causes of these differences. In other words, it was not possible to statistically explain recent growth in microinsurance through such variables. Yet, for stakeholders interested in stimulating and promoting microinsurance, some guidance on which countries may benefit most from which types of interventions is important to better target more efficient interventions. This lack of a statistically valid link to macroeconomic factors was also found in the 2005 study. There it was concluded that the key factors driving microinsurance at that point were individual microinsurance champions. Although microinsurance expansion in Africa is certainly beyond individuals at this point, it is still early to confidently link growth with any particular macroeconomic factors.

While identifying particular macroeconomic indicators or combinations of indicators would have been desirable to facilitate decision-making, they are also more difficult to change. If individuals and companies are the key to developing the microinsurance sector, there are more immediate ways of motivating and supporting stakeholders than addressing broader challenges such as increasing the literacy rate.

In the absence of simple, objective indicators regarding drivers behind the dynamics of national microinsurance markets, the research team defined a set of subjective, observable criteria, which allow for a classification system. The system was developed on the basis of observable characteristics of the state of evolution in each of the countries reviewed. These characteristics include among others: potential market size; microinsurance activity including current state, recent growth, and the variety of actors and products; the state of the legal framework; and plans for the near future. These factors and others were weighed against qualitative considerations including the authors' experience and knowledge generated during the data-gathering phase. Subsequently, each country was classified into one of the following five categories:

- 1. Highflyers:** Those markets which have a robust, thriving microinsurance sector. Typical characteristics would be a massive outreach, several product categories on offer through a good number of providers for a number of years, as well as an effective market infrastructure that allows participants to continually improve and expand service quality.
- 2. Aspirants:** Countries in this category have microinsurance markets that look poised for significant growth in the immediate future. Common traits include a diverse provider group with solid experience in microinsurance, an enabling environment and relatively large populations, leading to a significant untapped market potential.
- 3. Hidden talents:** These are microinsurance markets which have most of the required fundamentals for expansion, but growth has been limited thus far. Typically, there is already some experience with microinsurance but very few commercial insurance companies, and risk pools are fragmented where community-based schemes are present. Also, the diversity of microinsurance products available is very restricted.
- 4. Fledglings:** These microinsurance markets are in a nascent stage only. Experience with microinsurance is limited, and significant sector development is unlikely to happen without external stimuli. Yet, the size of the population provides potential for the development of a diverse market.
- 5. Embryonic:** Countries in this category are unlikely to see the development of a thriving microinsurance sector in the short to medium term. There is no or very limited experience with microinsurance, the population is relatively small and there is no enabling infrastructure. Some countries in this category are post-conflict or plagued with unrest.

Figure 30: Geographic display of country microinsurance development stages

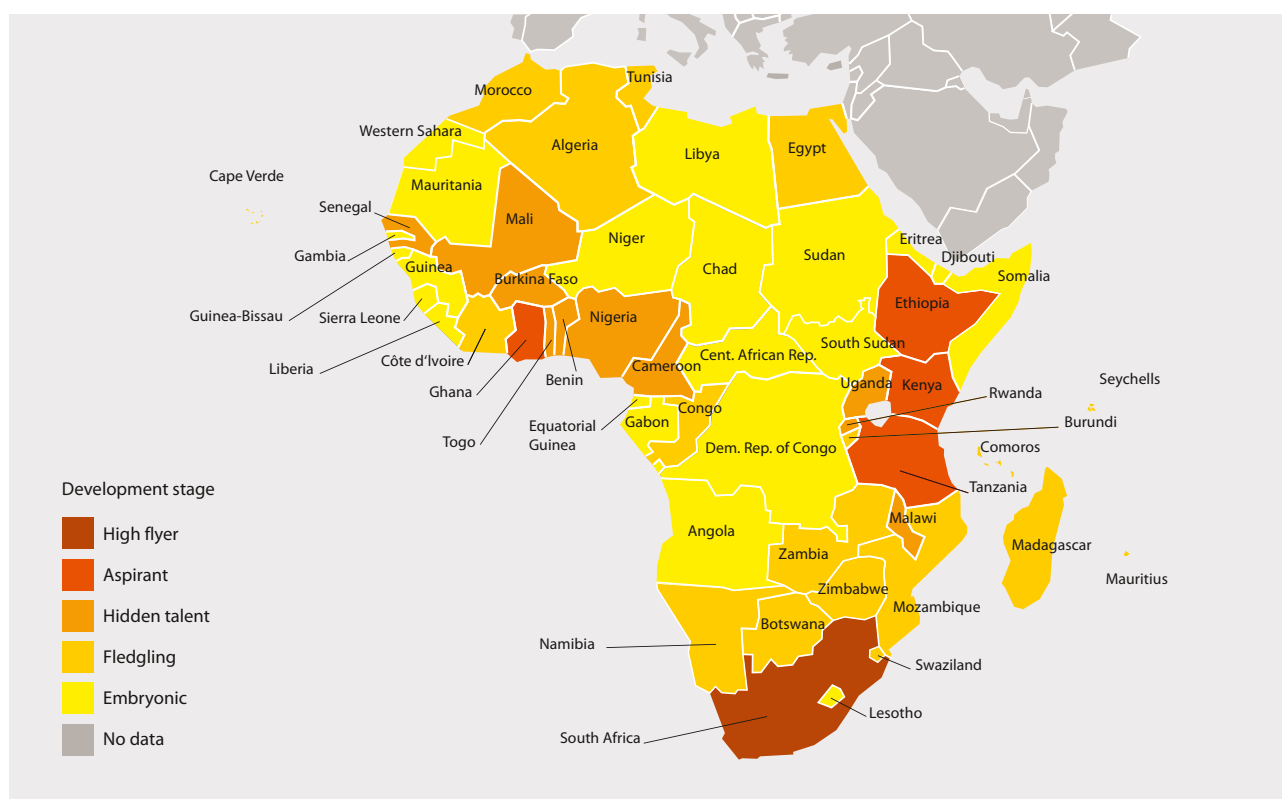


Figure 30 provides a geographic display of the allocation of countries within the five categories (also see Appendix 4 for a table that presents this information). The assignments are subjective and based on observations made during the landscape study. The allocations reflect the level of microinsurance development coupled with estimated short-term potential based on the authors' understanding of the evolution of microinsurance in other countries and regions.

While these categories reflect an overall appreciation of a given microinsurance market, this does not mean that there cannot be any individual project in a country that would contradict the categorization. Egypt, for example, has an underdeveloped microinsurance sector by many measures, but at the same time is home to a few innovative and dynamic providers.

## 5. GAPS AND RECOMMENDATIONS

The motivation for grouping microinsurance markets in different development categories was to identify general gaps by group which may hinder a swift, sustainable expansion. Each group of national microinsurance markets has its own set of opportunities and shortcomings. In addition, there are overarching topics, such as regulation and policy coordination, consumer protection and solid support from actuaries and industry associations, which should be considered, too. However, the importance of these overarching topics to the development of microinsurance is again likely to vary according to the discussed market groupings.

Figure 31 (on the next page) gives an overview of key gaps identified within the various market groups. The base of the table includes key inputs and reflects the evolutionary stages in which these inputs are more critical. For example, the lack of a national microinsurance champion is a very significant gap for the Embryonic stage. Without a champion, microinsurance is unlikely to emerge. The champion is still important, though less so,

in the Fledgling phase, and even less so in the Hidden Talent phase. Because, as a country moves from Embryo to Highflyer, microinsurance is more and more a part of the financial landscape and any one person becomes less important to expansion. Likewise, as the markets become more mature, product diversity and consumer protection become more important.

This high-level analysis should allow stakeholders to identify which activities are most likely to promote sustainable microinsurance market development, depending on the classification into which a given market falls. It should also allow stakeholders to identify which objectives can best be reached in which country group. In general, these would be as follows:

- Starting sector development initiatives and laying the foundation for market driven evolution is most appropriate in those countries where almost everything has to be created: Fledglings and maybe some of the Embryos.
- For those interested in fostering business skills, innovating with technology, or creating awareness among the wider public, the two groups of Aspirants and Hidden Talents are the countries to focus on. Here, such support services are most likely to translate into increased outreach and services offering better client value.
- As markets develop, the need for consumer protection will also become more important. Those stakeholders that want to focus on this topic will most likely have the highest impact with supporting measures in the Highflyer and Aspirant countries.

To achieve the goal of massively expanding microinsurance throughout Africa, countries at either end of the spectrum, i.e. the Highflyers and the Embryos, are unlikely candidates for successful interventions in microinsurance. The Highflyers have, by definition, reached a state where evolution should take place without external intervention. On the other hand, countries with embryonic microinsurance markets most likely have far more pressing issues to sort out before turning their attention to microinsurance. For these countries, movement to the Fledgling level will take efforts from individuals in those countries that push insurers and/or delivery channels to begin offering microinsurance. This is historically how microinsurance developed in much of Africa.

Figure 31: Typical gaps identified for each market group

Highflyer	Aspirant	Hidden Talent	Fledgling	Embryonic
Product diversity	MI analysis KPIs, costing	Back office IT	Back office IT	Foundational skills
	Front office IT	Collaboration among CBHI		
	Distribution channels	Commercial players	Capacity product/process development	
	Local capacity	Local capacity		
	Perceived value	Perceived value		

<b>Supportive meso-level organizations: actuaries, insurance association etc.</b>	
Product diversity Consumer protection	National champions
Regulation and policy coordination	

Three groups seem most suitable for active interventions: the Fledglings, the Hidden Talents and the Aspirants. The most diverse range of potential support activities is, not surprisingly, indicated for the middle groups: the Aspirants and Hidden Talents. A sensible intervention approach for each of the different group might be:

- In **Fledgling** countries, create awareness and generate interest through sector-wide stakeholder workshops with the regulator, the insurance industry, potential delivery channels, cooperatives, support organizations and others. If during such workshops individuals can be identified who have the interest, the will and the potential to champion microinsurance, then they should be assisted to move to the next stage. Working with these individuals and their companies to provide them with the required knowledge and skills can contribute to successful first experiences with microinsurance.

One of the observed pitfalls with donor driven projects in such contexts has been the inability or unwillingness to hold off with further interventions if there is not both real need and demand from the receiving party. If the partners do not get actively involved and invest time and resources into such projects, chances are high that any external intervention will be ineffective or, in the worst case, tarnish prospects for future developments. Successful microinsurance requires internal initiative. External parties can help light the match, but the internal parties must fan the fire. Motivation can be promoted and developed, but it must clearly exist.

- For **Hidden Talent** countries, interventions will have to be more adapted to local circumstances, as there are already some activities going on. Yet again, care should be taken not to rush and push activities without serious commitment from the counterparts. Working on the policy and regulatory level may also become more important in these countries. Meso-level support organizations and associations may play a pivotal role and hence receive increased attention. For example, interventions can be directed towards the development of actuarial capacity, local training institutions, and market education efforts.

In fact, the Hidden Talent countries may be the ideal place to build up local or regional training capacity, including e-learning courses, so that a supportive environment is ready for the next phase in the evolution of microinsurance markets. Though e-learning may be arguably higher in demand in Aspirant countries, programs can help even the Fledglings to obtain basic microinsurance information and lessons in an efficient way. Such efforts should start early enough to be ready to respond to demand once the sector is really taking off.

Another important aspect in the African context is the potential federation of small, independent health mutuals in some Francophone countries. Strong, cost-effective support from one or several meso-level organizations should allow them to become more professional and potentially financially sustainable. This is critical in order to secure people's access to health financing services.

- For the **Aspirant** group, the focus of external interventions should increasingly shift from outreach to customer value, as the market participants should be able to increase outreach on their own. However, they may need support in finding solutions to provide better value for money, be it through more complex products or better service quality.

At this development stage, exploring additional ways to reach out to the wider public will also become increasingly important, as most of the "obvious" delivery partners may already be actively involved in microinsurance. Targeted training events combined with e-learning modules could yield good results in a cost-effective manner, especially if local training capacity has already been built up. Promoting a variety of distribution mechanisms and appropriate technologies is also important for this group as it makes the jump to massive outreach with valuable products and services.

An important consideration is building up microinsurance-specific capacity not only at the providers' and delivery partners' levels, but also with supporting institutions, such as local training institutes, associations and consulting companies. This allows microinsurance knowledge to be firmly anchored in the market, reducing the need for international consultants. Distance and e-learning modules could play a pivotal role in making basic knowledge accessible to a wider audience. Such courses could also be very useful to verify the degree of motivation of participants, making it a requirement for accessing targeted, one-to-one support on specific projects, and thus making these interventions more efficient.

Finally, an appropriate regulatory environment is more and more becoming a critical factor for insurers in microinsurance. Efforts to remove legal ambiguity for insurers will produce important and positive results if regulators approach this in a collaborative manner, with a clear understanding of the microinsurance environment in their country, and with a keen sensitivity to balancing consumer protection with simple and efficient microinsurance.

## 6. CONCLUSIONS

This study is based on data provided by 214 respondents from 39 countries, reporting on 598 products. About 4.4% of the population in Africa was identified as being covered by microinsurance. When we take South Africa out of the equation, the coverage ratio falls to about 1.7% for the rest of the continent. The level of microinsurance activity in Africa reflects significant growth in life coverage. Life cover is important, but there is a great need to evolve beyond basic life products. To make microinsurance work for Africa, microinsurance needs to be expanded massively across the continent, not just in terms of volumes of people and properties covered but also in terms of innovative products that offer both real value to clients and a business case for insurers and distribution channels.

The study notes that not only has health cover not significantly expanded from prior landscape studies, but there has been an unfortunate stagnation in this type of coverage throughout much of the continent. In general there has been little sector development in Central and North Africa, regardless of product. The robust growth of life microinsurance 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 a coverage rate below 1% of total population.

Life insurance products embedded into savings accounts and bundled into mobile phone subscriptions have helped to expand the industry in terms of covered lives in the last two years. The recent use of mobile network operators as distribution partners has been especially powerful in driving volumes on the continent, rapidly adding millions of insured. This development may hold great potential, but also presents significant risks.

The sheer scale of such mass market schemes raises a set of new questions from the perspectives of consumer education, protection and regulation<sup>28</sup>. The search for more efficient distribution of microinsurance will continue to push the bounds in these areas. It is likely that MFIs, for example, will play a smaller and smaller relative role in microinsurance as other distribution channels continue to become more important means for getting products to clients efficiently. A key issue with broader distribution alternatives will be the costs that these channels will demand. As distribution channels realize their importance in microinsurance expansion, those that can amass really large numbers will start to leverage the opportunity they represent, as is starting to happen in Latin America.

<sup>28</sup> Leach, Jeremy. In "Promoting Microinsurance in Ghana: Microinsurance as a Means of Insurance Sector Development". Accra: National Insurance Commission and GIZ, 2012.

Much of microinsurance history in Africa thus far has been in figuring out the basics of developing, delivering, and servicing microinsurance products. In many countries, the basics have been addressed with life products, and now there should be movement towards a broader product line. This is unlikely to occur without a demand from the market and the distribution channels that are looking for ways to improve their product mix. Insurers clearly noted several concerns they have about the continued expansion of microinsurance. These include the need for clients to understand insurance better and for insurers to understand the market better. They are concerned about a stable legal framework for microinsurance that includes, among other issues, clarity about distribution.

The work to address capacity, market knowledge and perception, stable legal frameworks and other fundamental issues is moving forward in Africa. Significant efforts are being made to improve the legal frameworks for microinsurance, such as in Tanzania, where an A2II diagnostic was recently concluded and should lead to regulatory action to clarify the “rules” for microinsurance in Tanzania. Comprehensive efforts are being made to boost capacity of insurers and delivery channels in several countries, such as Ghana, where GIZ has a major program to not only bring in consultants to improve insurer capacity, but to build the long-term capacity of the meso-level actors that are so important to microinsurance but are so often neglected, like the actuaries association and the Ghana Insurance College. Market education efforts are growing, such as in Kenya, where soap operas, talk shows and other methods are used to help people understand microinsurance. Insurers in several countries are themselves also working to improve products, processes and services to make sure that clients are getting value from the products they offer.

The maturation of the microinsurance “industry” is evolutionary. Good examples are seen by others. They get copied, sometimes improved. Slowly, the industry progresses, more people are covered, better products are offered, and clients, insurers, distribution channels and others all benefit. There are bumps in the road, and sometimes evolution goes astray, but it can be returned to a more appropriate path. Continued and expanded inputs from donors, governments and others should help to accelerate the rate of microinsurance expansion – in numbers, products and value. The information, analysis and suggestions in this study should further help to facilitate more effective and efficient interventions. The stage is set. The tools are available. The time for dramatic expansion of microinsurance in Africa is now.



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## Appendices

### Appendix 1: Microinsurance Definition for Africa Landscape Study

The microinsurance products and/or programs that qualified for inclusion in this study were selected on the basis of the following definition:

Microinsurance must correspond to insurance products that are modest in terms of both coverage and premium levels. For this study, “microinsurance” is defined by the following characteristics:

- Must have been developed intentionally to serve low-income people (insurance that is not just purchased by low-income people but products that are especially made for low-income people);
- Government must not be the risk carrier (not social security programs);
- Must be part of a product offering that is working towards profitability or at least sustainability; and
- Must reflect no, or at most minimal, government subsidies.

#### **Additionally, we applied the following criteria for microinsurance products:**

- *Target population:* The schemes must target the lower-income segment of the population in a given country, those who so far have been excluded from mainstream insurance offerings. Income levels of this target population vary by country based on the national income distribution specificities and may spread from below-poverty-line population to the lower-middle class.
- *Business line:* Microinsurance can be found in all business lines, including life, accident and disability, health, property, and agriculture (crop and livestock). Products are not necessarily labeled as microinsurance by the local regulator but must remain simple and accessible to the local, low-income population.
- *Sales:* Microinsurance may be supplied by various stakeholders and through a variety of channel types. Risk carriers, such as informal cooperatives, insurance mutuals and commercial insurers, may or may not be registered with the national regulator. On the other hand, distribution channels for microinsurance products may be supermarkets or corner shops, microfinance institutions, or even new technology-enabled channels such as cell phone companies, among others. These stakeholders should aim at sustainable schemes, and the schemes considered for this study should not be implemented by governments.
- *Affordability:* The premium amount is commensurate with the income level of the low-income sector in each country. To ensure this, during the data analysis process, a set of premium limits was established by country and line of business. It was decided that premiums for life products should not exceed 2% of GDP per capita, for health should not exceed 4% of GDP per capita, and for property should not exceed 1% of GDP per capita (see the table page 40) for premium caps by product type in the national currency of each country). Also, the products should only receive limited subsidies to qualify as microinsurance for this study.

The table (page 40) provides a list of the annual premium caps by product type in the country’s local currency. The percentages for life, health, and property were determined based on a review of products in several countries in the region and around the globe. The percentages used were determined to be effective approximations of the upper range of microinsurance products.<sup>29</sup> These caps were applied during the cleaning process, when it became clear that a quantitative approach was necessary in confirming the status of products as “microinsurance”. Few products were removed because of this application as they had significantly higher premium rates, calling into question their status as “microinsurance”.

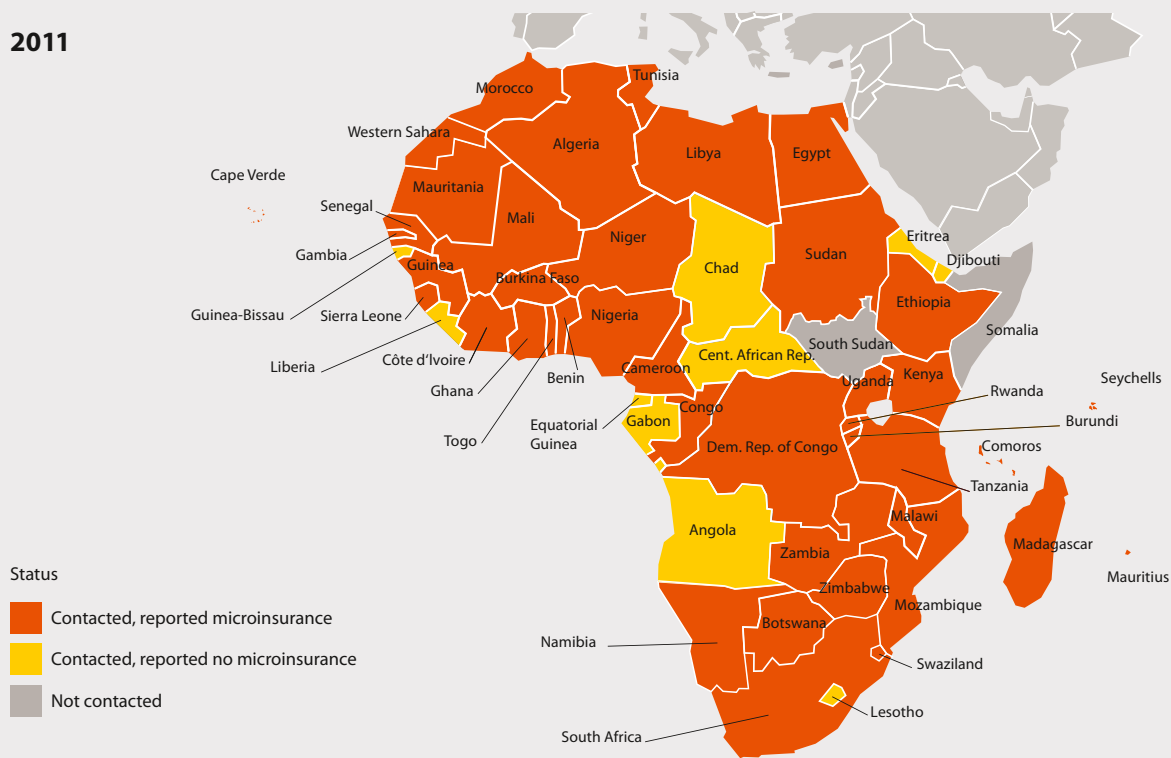
<sup>29</sup> The sources for this information were World Bank Indicators and Oanda.com “Historic Exchange Rates” for Zimbabwe.

<b>Maximum premium based on GDP per capita limits from MI definition (annual, in national currency)</b>				
<b>Country</b>	<b>GDP per capita in national currency</b>	<b>Life (2%)</b>	<b>Health (4%)</b>	<b>Property (1%)</b>
Algeria	339,779	6,796	13,591	3,398
Benin	371,226	7,425	14,849	3,712
Botswana	50,343	1,007	2,014	503
Burkina Faso	265,284	5,306	10,611	2,653
Burundi	236,471	4,729	9,459	2,365
Cameroon	568,117	11,362	22,725	5,681
Comoros	273,494	5,470	10,940	2,735
Congo, Dem. Rep.	180,517	3,610	7,221	1,805
Congo, Rep.	1,471,062	29,421	58,842	14,711
Cote d'Ivoire	571,642	11,433	22,866	5,716
Egypt, Arab Rep.	15,111	302	604	151
Ethiopia	5,159	103	206	52
Gambia, The	13,061	261	522	131
Ghana	1,854	37	74	19
Guinea	2,587,466	51,749	103,499	25,875
Kenya	62,945	1,259	2,518	629
Libya	12,945	259	518	129
Madagascar	879,885	17,598	35,195	8,799
Malawi	51,047	1,021	2,042	510
Mali	298,127	5,963	11,925	2,981
Mauritania	288,172	5,763	11,527	2,882
Mauritius	233,798	4,676	9,352	2,338
Morocco	23,483	470	939	235
Mozambique	13,935	279	557	139
Namibia	38,915	778	1,557	389
Niger	177,174	3,543	7,087	1,772
Nigeria	192,139	3,843	7,686	1,921
Rwanda	308,875	6,178	12,355	3,089
Senegal	512,082	10,242	20,483	5,121
Sierra Leone	1,291,689	25,834	51,668	12,917
South Africa	53,140	1,063	2,126	531
Sudan	3,277	66	131	33
Swaziland	25,561	511	1,022	256
Tanzania	738,195	14,764	29,528	7,382
Togo	259,104	5,182	10,364	2,591
Tunisia	5,878	118	235	59
Uganda	1,108,265	22,165	44,331	11,083
Zambia	6,009,032	120,181	240,361	60,090
Zimbabwe	222,359	4,447	8,894	2,224

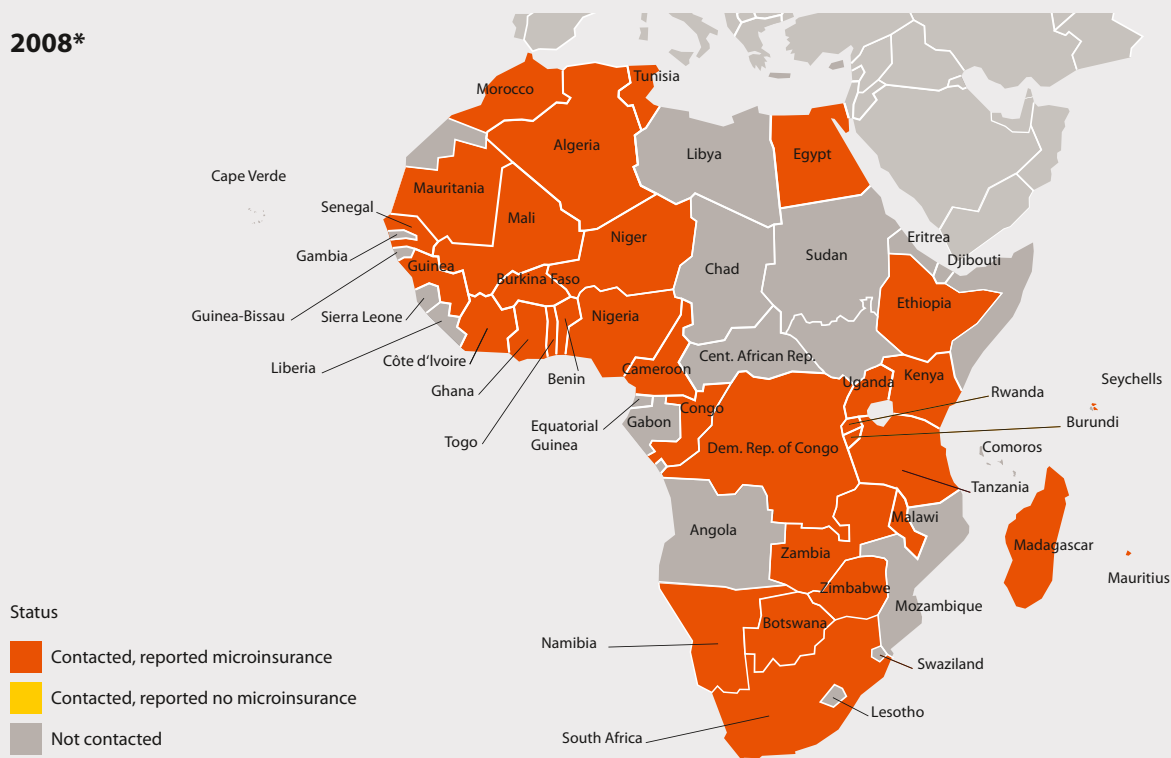
## Appendix 2: Countries Studied

African countries studied in the current and previous landscape studies:

2011

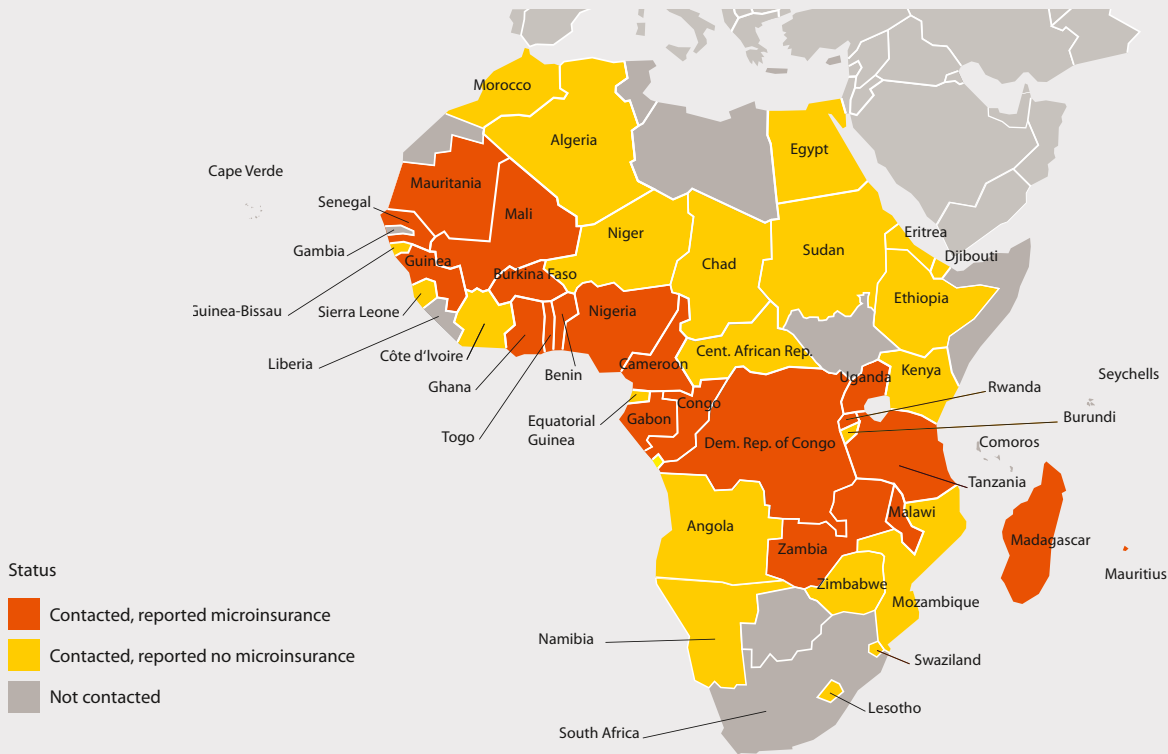


2008\*



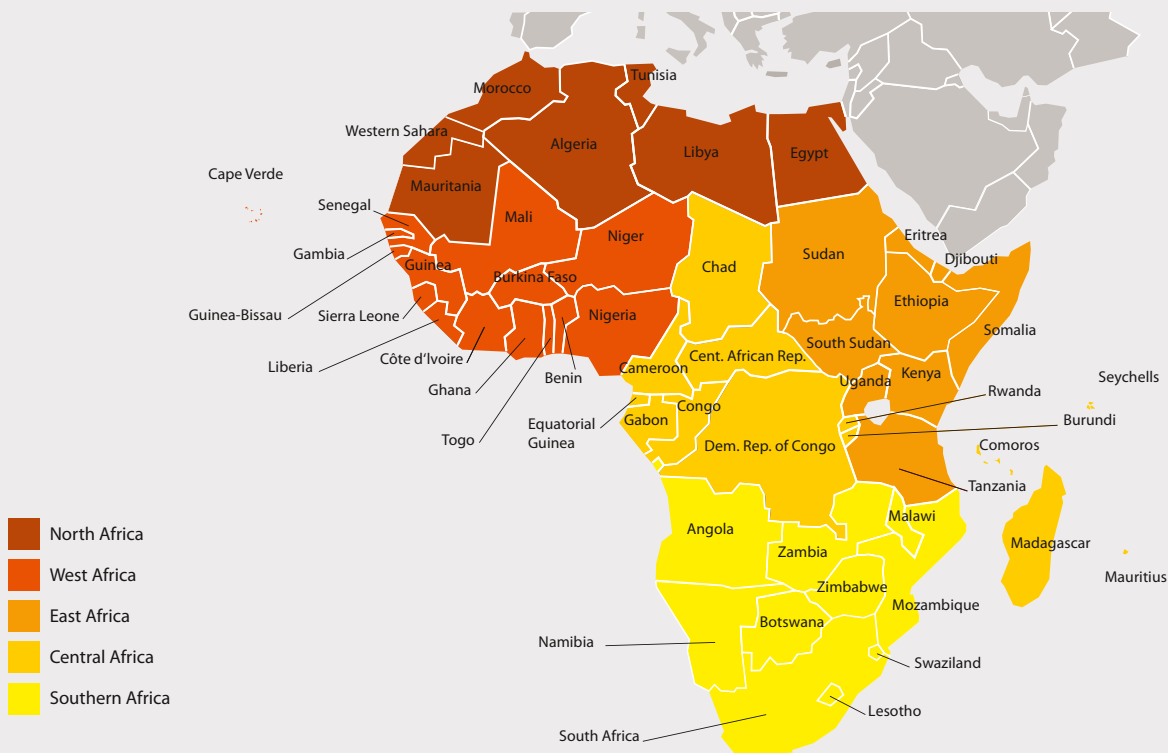
\*For the 2008 study, information on contacted countries that reported no microinsurance is not available.

2005



Appendix 3: Regional Allocations

The African Development Bank's regional definitions<sup>30</sup> were used for this study.



30 [www.afdb.org/en/countries/](http://www.afdb.org/en/countries/)

#### Appendix 4: Table of National Microinsurance Markets Grouped by Development Stages

Highflyer	Aspirant	Hidden Talent	Fledgling	Embryonic
South Africa	Ethiopia	Benin	Algeria	CAR
	Ghana	Burkina Faso	Botswana	Chad
	Kenya	Cameroon	Burundi	Comoros
	Tanzania	Malawi	Congo, R	Congo, DR
		Mali	Côte d'Ivoire	Djibouti
		Nigeria	Egypt	Eritrea
		Rwanda	Madagascar	Gabon
		Senegal	Morocco	Gambia, the
		Togo	Mozambique	Guinea
		Uganda	Namibia	Guinea Bissau
			Swaziland	Lesotho
			Tunisia	Libya
			Zambia	Mauritania
			Zimbabwe	Mauritius
				Niger
				Seychelles
				Sierra Leone
				South Sudan
				Sudan

**See interactive map at:**

[www.mfw4a.org](http://www.mfw4a.org) and [www.microinsurancelandscape.org](http://www.microinsurancelandscape.org)

The Landscape of Microinsurance in Africa 2012 report and the interactive map bring the landscape study to life and provide national level details to help readers maximize the value of the study.