BRIEFING NOTE 1

Microinsurance Innovation Facility

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International Labour Organization

# THE LANDSCAPE OF MICROINSURANCE IN AFRICA

Michal Matul, Michael J. McCord, Caroline Phily, and Job Harms

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## 1. Counting the microinsured in Africa

In various forms microinsurance has been available to some low-income people in Africa for a number of years. Cooperative Insurers have serviced a market that spans the income ranges since the 1970s. In the 1980s, community-based health insurance schemes, especially in West Africa, followed the Bamako Initiative. In the mid-1990s, commercial insurers began to enter the market offering specialized microinsurance products. Informal microinsurance has been available for decades in a range of forms, from "tontines" in West Africa or "friend in need" groups in East Africa to burial societies in South Africa. Over the last ten years insurance has developed into a widely recognized financial intervention to help Africa's low-income populations to manage their financial risks.

To facilitate broader, high-quality expansion it is helpful to develop a quantitative knowledge of the landscape of microinsurance in Africa. This note presents key findings of a study conducted in 2009 by the International Labour Organization's (ILO's) Microinsurance Innovation Facility and the MicroInsurance Centre in collaboration with the African Insurance Organization, the Fédération des Sociétés d'Assurances de Droit National Africaines (FANAF), the ILO's STEP Programme and the Concertation – an association of health mutual stakeholders in Africa.

Based on 2008 year-end data, this study expands and updates previous work to provide a detailed picture of microinsurance in Africa.[1] It defines microinsurance as "an insurance product accessible either by price or delivery channel to people earning less than approximately USD 2 per day". This study does not encompass historical or emerging national social security schemes, which may be an important source of financial risk management for low-income people, especially for health. These linkages along with many other aspects of microinsurance provision are discussed in the full report available on the Facility's website, which also includes all the acknowledgements and relevant citations.

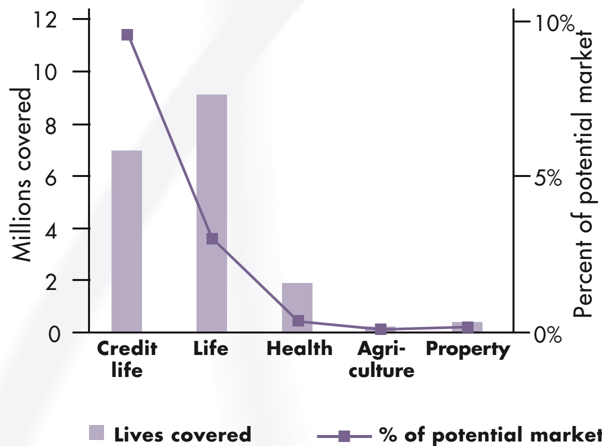
The Facility and its partners littered the continent with requests for information in a two-phase process over three months in mid-2009. The first phase included a request for basic data through an on-line survey tool – 262 risks carriers, delivery channels, and support organizations responded. Those that covered more than 5,000 lives were asked to provide more extensive information through a phone interview. After a major cleaning effort, the resulting dataset includes 176 respondents for the short survey reporting on 544 schemes and 51 organizations reporting in detail on 74 microinsurance products. Although there are likely some microinsurance schemes that have not provided information, the resulting data was compared to other partial studies and no major gaps were identified except for Mali (which should have more health mutual schemes) and Nigeria (with more activities in life insurance than reflected in our data).

## 2. So how many are covered by microinsurance?

The study identified 14.7 million people, or about 2.6% of the population living under USD 2 per day, in 32 countries covered by microinsurance products in Africa. Of these, South Africa alone, where funeral insurance is pervasive throughout even the poorest areas, represents 8.2 million, or almost 56% of the total. Also, of the total 14.7 million, 10.3 million are covered by products other than credit life. The total microinsurance premiums received in 2008 amount to about USD 257 million, out of which 88% was collected by regulated insurers.

[1] Several efforts have been made to quantify microinsurance and its components in parts of Africa. The MicroInsurance Centre's 2007 "Landscape of Microinsurance in the World's 100 Poorest Countries" has thus far been the most extensive. Based on 2005 data this study identified that just over 0.3%, or 3.5 million low-income people in Africa were accessing microinsurance in eighteen countries out of forty-one that were considered for the study (South Africa was not included in the study).

**Figure 1: Outreach and penetration rate by product**



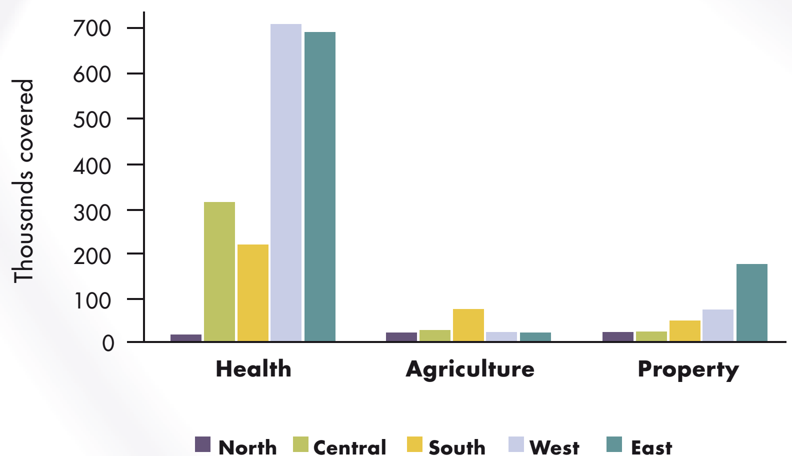

It is clear that Africa remains dominated by life insurance products as seen in Figure 1. Of their potential markets, credit life covers close to 9.5%, and other life products cover about 3.2%.[2] Health products, those which are often cited as the most in need, only cover about 0.3% of the low-income population, with property and agriculture covering significantly fewer in numbers, but about 0.2% and 0.1% respectively of their potential markets.[3] It is clear that there is still great potential for microinsurance expansion and growth in Africa.[4] One finds a range of available products in some countries, such as Kenya, Namibia, Senegal and Cameroon, while other settings are dominated by one specific product line.

The map on pages 4-5 shows that Southern and Eastern Africa dominate the microinsurance landscape with 8.8 million and 4 million lives covered, respectively. This leaves only 1.9 million covered in Central, North, and West Africa. This can be explained partly due to the strength of life microinsurance in South Africa, as well as the engagement of commercial insurers in microinsurance in the East and South.

However, it is also clear that except for North Africa, the regions are more similar in their offering of health microinsurance, as illustrated in Figure 2, which looks specifically at the non-life products. The strength in health in Senegal, Benin, Mali, Cameroon and Guinea is directly related to health mutuals, while in Kenya and Uganda it is driven by a mix of community-based schemes and commercial providers. Prior landscape studies showed a significant void of microinsurance in the North. This clear gap continues to be reflected in the results of this study, which might be explained by better social security systems that can reduce the need for microinsurance and thus limit the demand for its development and expansion.

Microinsurance is on the rise. A comparison to the 2005 landscaping study indicates that the number of lives covered almost doubled in three years. The growth seems to be more substantial in recent years. The survey data allows us to compare outreach in 2008 and 2007 showing that half of the schemes were growing at a rate higher than 30% per year.

**Figure 2: Outreach of non-life products by sub-region**




## 3. Who is doing the insuring?

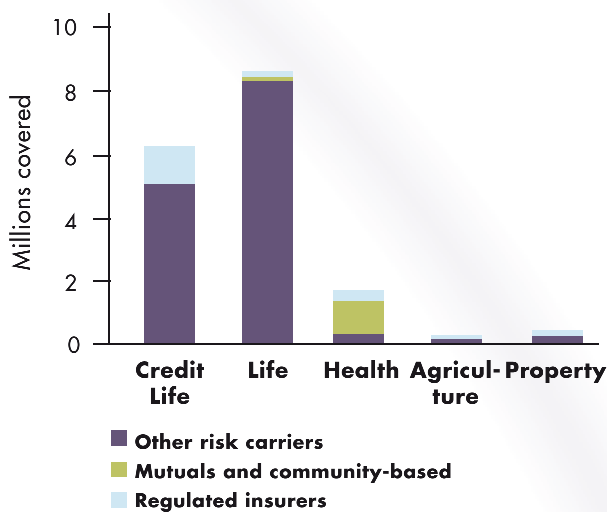
"Insurers" are defined here as institutions that manage insurance risk. These include:

- Regulated insurers, which include commercial insurers and cooperative or mutual insurance companies that are regulated by the insurance regulations
- Health mutuals and community-based microinsurance programs
- Microfinance institutions (MFIs), non-governmental organizations (NGOs), hospitals and others that manage their own unregulated insurance programs.

[2] Penetration rate = current outreach divided by total market size calculated as follows for specific risk areas:
Credit life = share of poor households (below USD 2) having credit needs (assuming 50%); Life = share of poor population (below USD 2) aged 15-64; Health = poor population (below USD 2); Agriculture = share of poor households (below USD 2) living in rural areas; Property = poor households (below USD 2).
[3] Health mutual schemes for formal sector are not classified as microinsurance if the cover is mandatory (no option to opt-out). Moreover, this analysis does not include the few emerging national health insurance schemes that build on community-based health insurance schemes and also cover the informal sector. In Ghana, District Wide Mutual Health Insurance Schemes claim to cover 3.2 million informal sector beneficiaries, while a similar arrangement covers 2.1 million people in Rwanda. Additionally, social security systems in South Africa, Tunisia, Libya, Egypt and to a certain extent Algeria provide some protection against health and disability risks for poorer populations as well.
[4] Note that the number of people covered by product does not match the total number covered due to microinsurance programs offering multiple products to the same clients.

The lives covered by product and insurer type are provided in Figure 3. It is clear that regulated insurers dominate the life landscape other than about 1.5 million receiving credit life insurance primarily from their MFI. Health mutuals have been important focusing almost entirely on health care financing, though the total volume of health insurance remains limited with 1.2 million covered by health mutuals, and 0.8 million covered by regulated insurers and other risk carriers.

**Figure 3: Outreach by product type and insurer type**

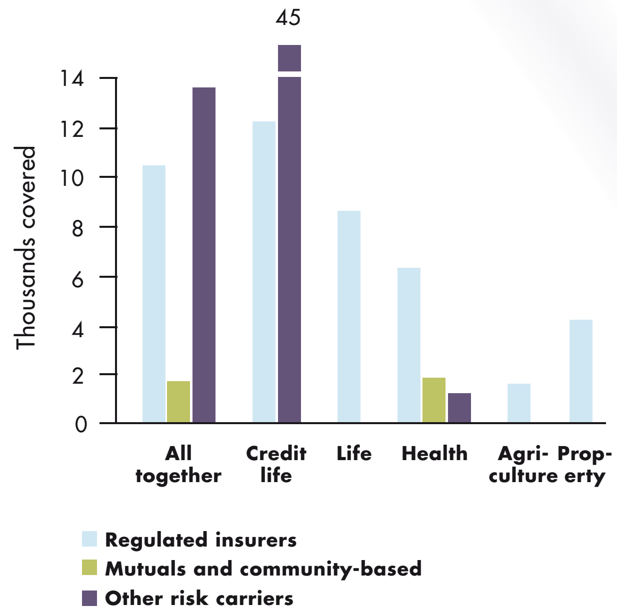



The significant difference in volumes by product and insurer type are not strongly linked to the maturity of schemes. Half of them have been in existence for less than 5 years and there are no significant differences in maturity by risk carrier type and sub-region. The difference is more likely related to the relative ease of delivering life and especially credit life microinsurance and the particular focus of the different insurer types. There also appears to be a high turnover of schemes, typical for a young industry. Microinsurance is not just experiencing growth, expansion, and new entrants across the continent. In an effort to follow up on specific risk carriers that were identified in earlier studies, there were many that could not be located, and are presumed closed.

Generally, as observed in Figure 4, which presents median values of the number of insured per scheme, regulated insurers manage large volumes of insured in both life and health, less so with agriculture and property. This might suggest that in a business where high volumes are critical, regulated insurers may have an advantage due to their ability to generate more insureds per institution. This seems to be the case with health insurance where risk pools of regulated insurers are significantly larger than those of mutual organizations.

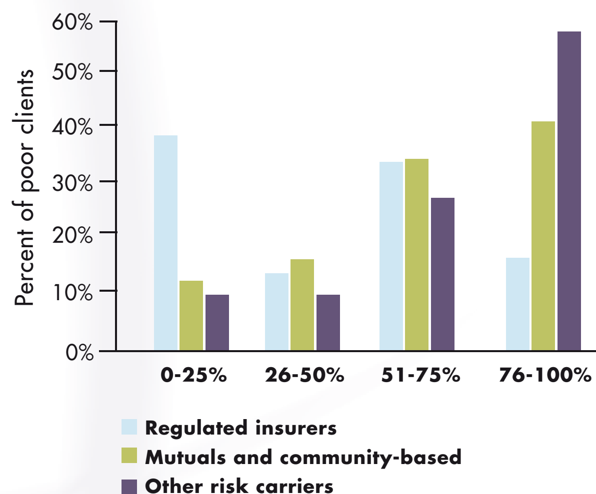
Interestingly, some large MFIs take advantage of their size and carry the risk themselves, therefore lowering the administrative costs.

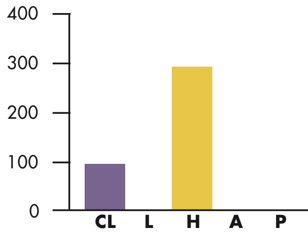
**Figure 4: Median values of number of insured per scheme by insurer type**

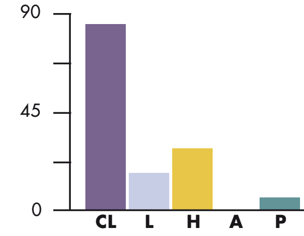


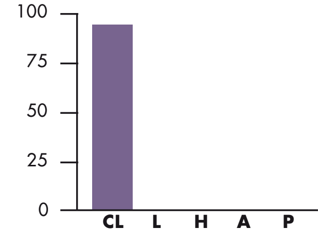

While microinsurance is geared to serve the needs of the bankable poor and those who are not poor but vulnerable to poverty, it is useful to use the percentage of poor clients (below USD 2 per day) as a proxy indicator to depict market segments served by different institutional types. As indicated in Figure 5, health mutuals and other risk carriers (such as MFIs and NGOs) focus on markets that tend to be more predominantly poor. Indeed of the other risk carriers identified, 70% of them have a client/member base that was composed mostly of poor people.

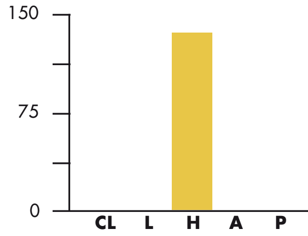
**Figure 5: Depth of outreach by insurer type**

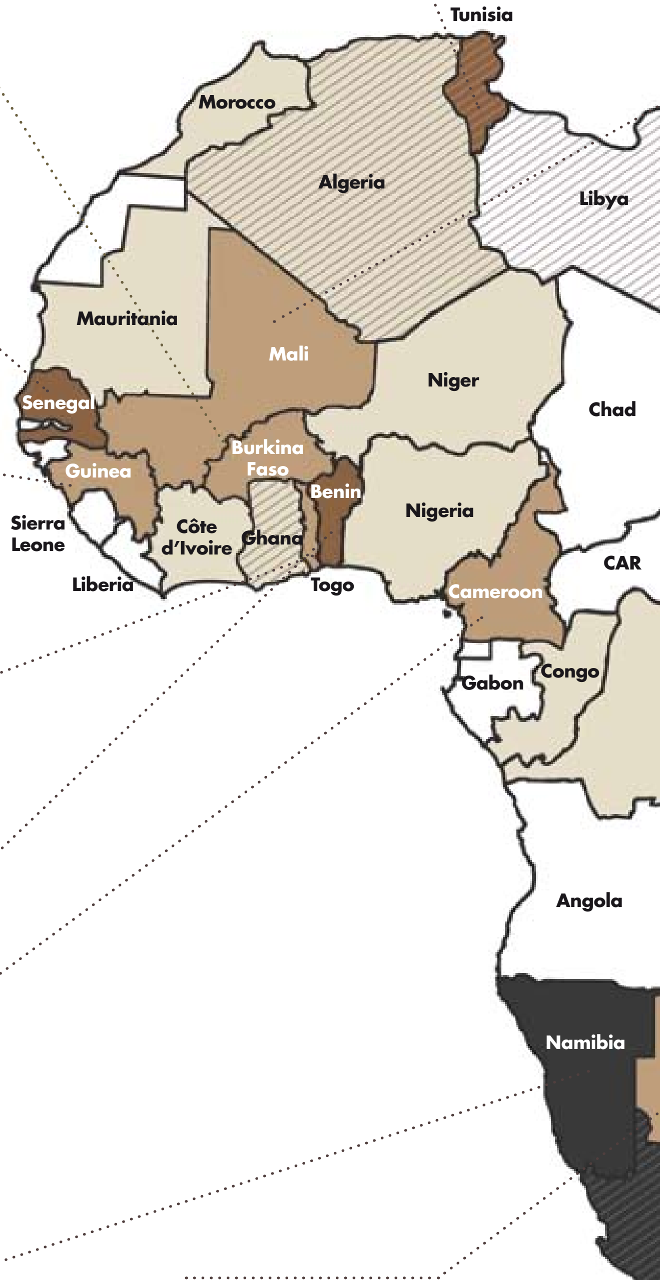


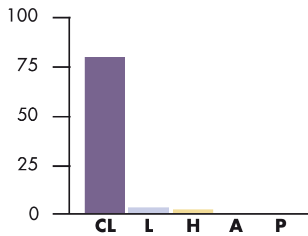


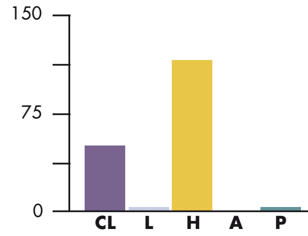



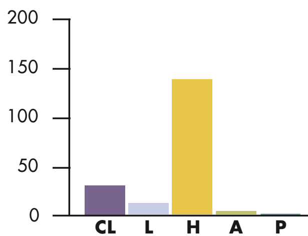



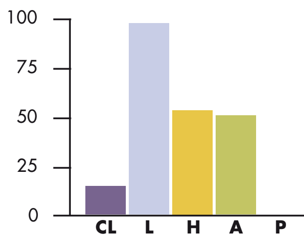



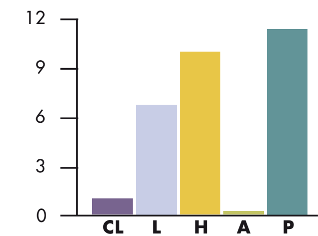



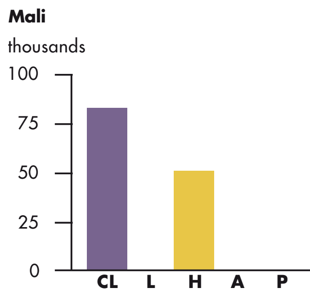



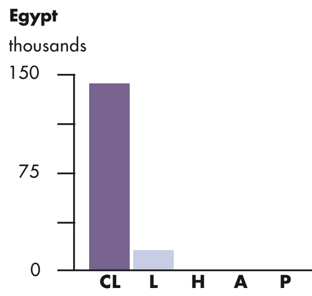



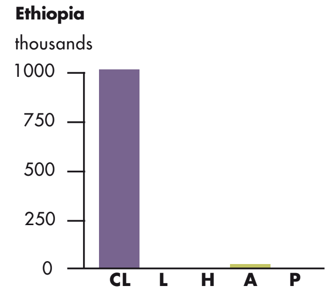



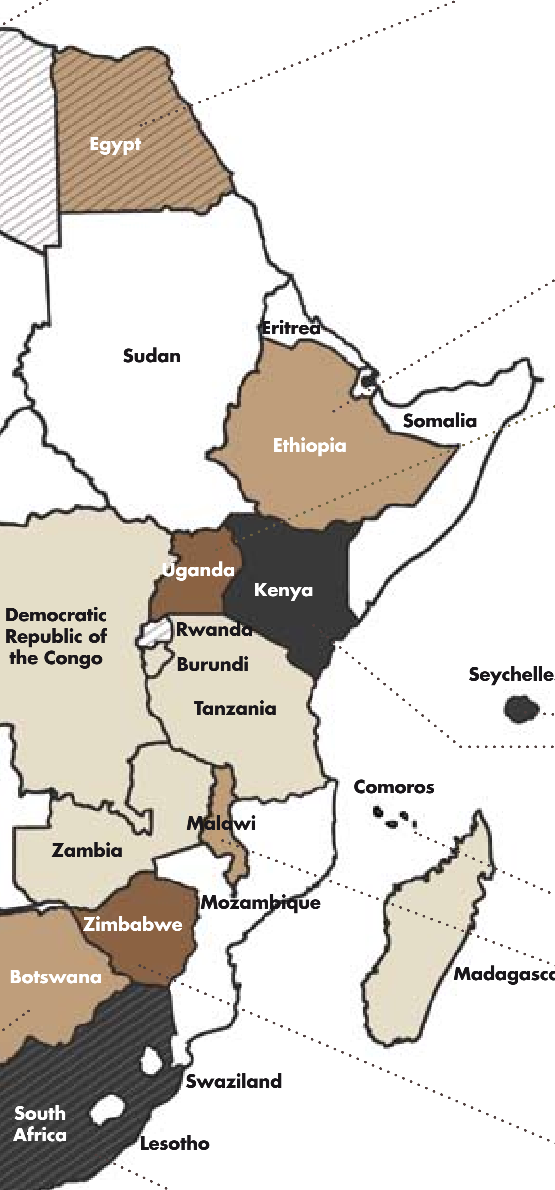



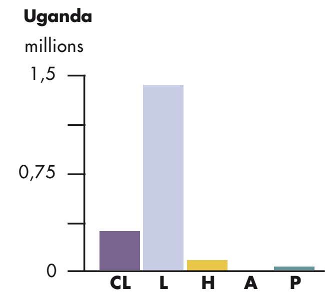

**% of poor people with microinsurance**

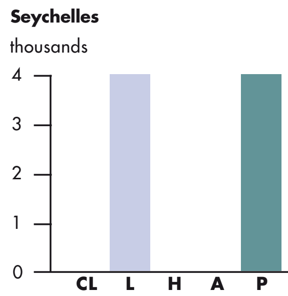


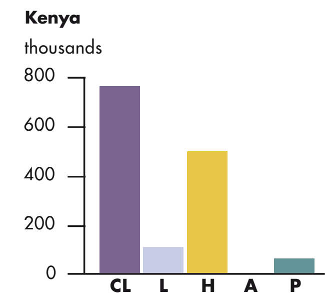



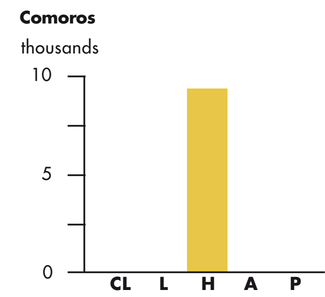



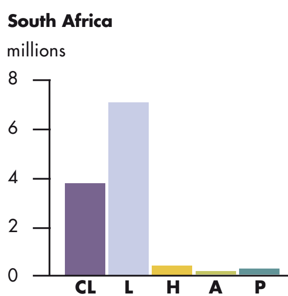



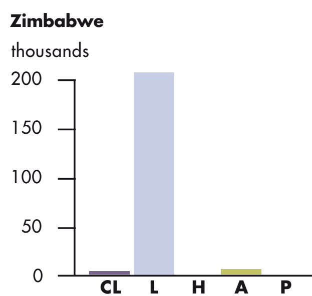



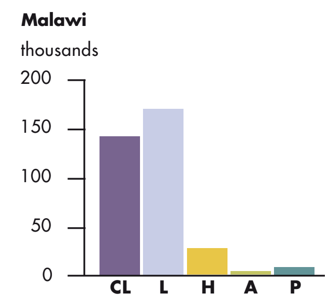




**Number of lives covered by product type**

This finding suggests that it is important to support the development of various models if the intention is to expand microinsurance across the low-income market. Some institutional types may be better at focusing on poorer target groups while others might be more effective in the slightly less poor markets.

## 4. Do people get more than just credit life?

African microinsurers offer a wide variety of microinsurance products. Though life insurance is clearly predominant, efforts to provide other products are an important response to market demands, and create demonstrations from which other insurers can learn. This may eventually translate into a greater variety of mass sales of these other products.

A total of 9.1 million people were identified as having life cover. Funeral and personal accident insurance, both covering about 6.2 million, are the predominant life policies. Personal accident is a common inexpensive add-on by insurers, and the relatively high funeral cover numbers are related to cultural issues in South Africa. Indeed, Swiss Re (Sigma3 2009) reports South Africa as having the third highest life insurance penetration in the world. Even if the data for South Africa includes pensions and savings, which is not so in most countries, the South African case shows that cultural factors play an important role in microinsurance market development.

Term life policies (4.8 million) are relatively easy to manage and inexpensive and are thus popularly offered in many African countries. Endowment policies (0.8 million) are less available as their longer term nature requires greater complexity in management, and greater risk for the policyholder. However, low-income people tend to have a combination of an illiquidity preference and long term financial goals which should generate interest in such products. In practice, insurers commonly experience a high lapse rate with such products as low-income policyholders find it difficult to maintain long-term regular premium payments.

The specific microinsurance product that touches the most people in Africa – 7 million – is credit life insurance, which is commonly a required purchase with microcredit and other borrowing. It is indeed the simplest product to offer, it is easy to require borrowers to purchase it, and it can be very profitable, especially since borrowers are often not aware that they have purchased insurance with their loan. Anecdotally, those insured with simple credit life cover suggest that the product is not for them, but rather for the lender. Insurers are recognizing this issue and at least 25% of those covered by credit life enjoy an expanded product with additional benefits that accrue to their surviving family.

Health products cover at least 1.9 million people, out of which 1.3 million enjoy comprehensive packages covering both in-patient and out-patient treatments, which are mostly delivered by health mutuals and a few specialized commercial players.

In the agriculture insurance category, the study found less than 80,000 covered between livestock, crop and various agriculture related index products. On a continent with such a need for agriculture risk management, this tiny result dramatizes the need to find better tools for farmers. Recent developments in index microinsurance products offer the potential of a major breakthrough for agriculture. However, it is important to remember that these products are still being tested and generally have limited uptake. There remains a debate about the real potential for index cover in microinsurance.

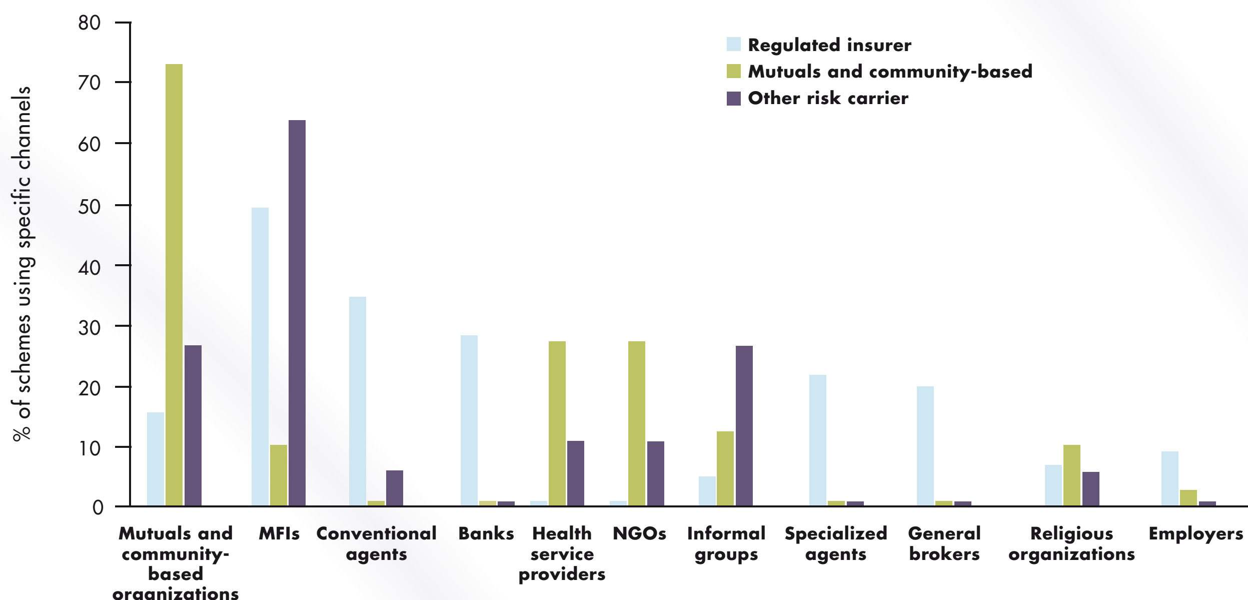
Less than 0.3 million were found to access non-agriculture related property insurance. Business property cover stands out in this group, but still with only 140,000 policyholders.

The dramatic preference of regulated insurers to offer life products may also suggest a reluctance to intervene in health and other microinsurance products. The clear lack of health cover, even when health care is typically noted as the highest risk management priority for low-income families, is likely a factor of several issues that will have to be addressed if this gap is to be bridged:

- Lack of risk data for this market to effectively set premiums
- High premiums for health compared to other risk management products
- Limitations on health care provision and quality
- Regulatory issues

If microinsurance is to prove effective as a risk management strategy for low-income households in Africa, risk carriers will need to better reflect the demands of the market in their product offerings, while still ensuring viability.

**Figure 6: Delivery channels used by insurer type**




## 5. Getting microinsurance into the households of the poor

Arguably the greatest challenge for microinsurance is getting the products efficiently and effectively to the clients, and providing good quality service. Insurers in Africa use a variety of delivery channels in an effort to address these challenges as shown in Figure 6. Community-based organizations, mutuals and MFIs appear as the most significant delivery channels. Some regulated insurers in Africa still use conventional ways to get products to the market, which is changing slowly in South Africa and Kenya where there are more experiments with alternative channels such as retailers or mobile phone providers.

This high reliance on MFIs is likely to be a limiting factor for the massive expansion of microinsurance. Currently the MIX Market (www.mixmarket.org) reports only 7.3 million microfinance borrowers in Africa, though a substantial number of microfinance activities are not reported to the MIX. Yet the potential microinsurance market for Africa should be in excess of 70 million persons for credit life and 500 million for health. Massification of microinsurance will require improved penetration through MFIs, as well as a strong effort to expand through other, maybe as yet untested, delivery channels.

## 6. Why doesn't every poor person buy microinsurance?

In the study, respondents were asked several questions to help assess their perceptions of the microinsurance markets in which they were active. The need for growth and expansion in microinsurance tends to be a given. Thus, respondents were asked about their expectations of microinsurance growth in their countries. Over 70% of respondents agreed somewhat or completely that their market would grow by 5% over the next year. The longer term outlook, growth of 100% over the next five years, showed greater uncertainly with only 38% agreeing somewhat or completely. This may partly reflect the recognition of limited delivery channels as suggested above. Respondents suggested that expansion is most significantly hindered by:

- On the demand side: potential clients' lack of understanding about insurance (80%) and limited ability of potential clients to pay premiums (72%)
- On the supply side: a lack of information technology for microinsurance (78%), administrative costs being too high (71%), and a lack of qualified microinsurance personnel (73%).

Looking at the issues through the lenses of program maturity and institutional type, some generalizations appear. Health mutuals suggest that their difficulties arise substantially from a lack of technology (many are not computerized), management and staff capacity (often selected from the local area without expertise), member capacity to pay premiums, and access to reinsurance (since they are not legal insurers). Commercial insurers suggest that their issues center on

reducing administrative costs through technology, as well as skepticism about market demand. Finally, in more mature markets, risk carriers see a predominant need for consumer education to help facilitate sales and general market understanding.

## 7. Millions served?

Microinsurance is growing and expanding throughout Africa. Over fourteen million low-income people in Africa were covered by microinsurance at the end of 2008. Excluding South Africa (8.2 million), which was not counted in the 2007 Landscape Study, leaves 6.4 million in 2008. This reflects more than an 80% increase over the 3.5 million identified in 2005. This is substantial growth by any standard.

Even with such growth, there are clearly significant gaps. Substantial parts of the continent remain almost barren of microinsurance. Health, agriculture and property covers, all significantly in need by the low-income market, are evident as a mere fraction of life insurance coverage. Those that are providing health products have difficulty reaching large volumes. Credit life, a low-value product for the low-income market, dominates the landscape.

Massive growth of microinsurance will require effort and innovation to:

- Reduce administrative costs for all parties,
- Educate low-income populations so they understand the value of insurance,
- Build capacity among stakeholders to develop, sell and manage better products,
- Expand and enhance the effectiveness of a broad array of delivery channels and risk carriers.

Housed at the International Labour Organization's Social Finance Programme, the **Microinsurance Innovation Facility** seeks to increase the availability of quality insurance for the developing world's low-income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation.
See more at www.ilo.org/microinsurance

Since its start in 2000, the **MicroInsurance Centre** has focused on dramatically expanding access to quality microinsurance by low-income people across the developing world. Through a combination of technical assistance in product development, research, and advocacy, the MicroInsurance Centre continues to strive towards the goal of billions of people accessing valued microinsurance products offered by successful insurers.
See more at www.microinsurancecentre.org

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microinsurance@ilo.org
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