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# Inclusive Insurance Focus Note Series

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Microinsurance  
Landscape 2015



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## About >



The results of the Microinsurance Landscape Survey for Tanzania are presented in this focus note. It is the first in a series that will be jointly published by the FSDT and the Technical Working Group. Each will provide updates and insights emerging from developments in the microinsurance industry in Tanzania.

# Key Highlights >



## Products

The microinsurance market in Tanzania mainly offers life, hospital, and simple funeral insurance cover. Other products include personal accident, credit life and crop insurance.



## Coverage

Microinsurance covers 4.5 million people which is only 18% of the adult population. In 2015 this coverage was provided by 6 active insurance companies.



## Distribution

As in other growing microinsurance markets around the world, Mobile Network Operators (MNOs) are driving the increase in scale and coverage in Tanzania. They currently account for 50% of the market while banks contribute 36%. Microfinance institutions, SACCOs and tied agents are responsible for the remaining 24%.



## Business Case

Not all market players have embraced the microinsurance business case. In 2014, there were only 7 insurers. A year later it had dropped to 6. The survey confirms that some insurers are still sceptical about viability of the business. Ironically, some microinsurance products on the market are actually doing well and are showing signs of profitability.



## Geographical Spread

Uptake of microinsurance is still concentrated in urban areas. Coverage in rural areas is mainly through credit life, while agricultural risk is virtually untapped. In 2015 the only coverage for smallholder farmers was through crop insurance covering just over 1,000 farmers.



## Client Value

The claims ratios for the products are demonstrating good value for clients. For instance, the claims ratios for funeral policies (embedded and standalone) range from 24%-48%. For standalone credit life of the figure is 94%.



# Introduction >

In 2015, the Microinsurance Landscape Survey conducted by the FSDT and the Technical Working Group showed that microinsurance products are covering 4.5 million people, 18% of the adult population. This cover is provided by 6 active insurance companies, one fewer than in 2014. The total gross written premiums (GWP) for all microinsurance products was USD 5.7 million, only 2% of the total GWP for the whole industry.

Evidently the microinsurance sector represents a very small proportion of the whole in Tanzania. However, it is growing steadily as more and more insurers realize the business opportunities presented by more inclusive insurance products.

While the business case for microinsurance has not been embraced by all market players, some insurers are taking the lead in testing new innovations in product design and distribution.

Insurers have learned lessons and gained insights from their experience and are now developing more tailored insurance products. Brokers focusing

exclusively on microinsurance are driving penetration in the low-income market segments. Tanzania is a pioneer in enabling a regulatory environment and is among the first countries in Africa to issue microinsurance guidelines. These will be undergoing revision soon.

The Tanzania Insurance Regulatory Authority (TIRA) has been very supportive of microinsurance market development initiatives and is represented in the multi-stakeholder Technical Working Group (TWG) that has been spearheading the implementation of the microinsurance development process in Tanzania. The Commissioner of Insurance at the TIRA chairs the Steering committee on microinsurance which provides overall monitoring and guidance to all initiatives aimed at developing an inclusive insurance market in Tanzania.

Based on the outcomes of the Microinsurance Landscape Survey and views expressed throughout the market, the following points are of key importance for the industry's stakeholders:



## Market Players

- Invest in understanding the risk management needs of Tanzania's low-income consumers. A number of products have failed owing to inadequate investment in market research. Although some microinsurance products have been successfully introduced into markets elsewhere, it does not mean they will be similarly successful in Tanzania. The context varies, and insurers should focus on targeted market segments. Market players need to avoid boardroom products or the cut and paste approach at all costs.
- Seek to develop win-win strategic distribution partnerships. Global trends in the microinsurance market show that alternative distribution channels are critical for viability. There are still a number of untapped channels in Tanzania.
- Leverage market development support from initiatives like the Bima Challenge Fund (BCF). The BCF provides a great opportunity for market players to innovate in product design and distribution in their search for viable business models.
- Strengthen organizational structures and human resources to drive microinsurance. Currently microinsurance is a small proportion of most insurers' portfolios, with no dedicated teams or focal points. Elsewhere, there is evidence that addressing the opportunities presented by microinsurance requires particular concentration within an organization.
- Develop company strategies on microinsurance business. Some of the insurers are struggling to enter the microinsurance market because they have not invested in developing coherent company strategies aligned to their vision, mission and goals. More importantly, developing an internal company strategy or business plan encourages market players to conduct research, and understand potential and distribution opportunities better. A few companies have, however noted that their shareholders do not mind which investments they make; the bottom line is profit.
- Innovate in consumer education. The traditional approach is to separate consumer education from marketing. In a market with a minimal insurance culture, levels of understanding and appreciation of insurance are low. Stakeholders must innovate by integrating consumer education into their marketing and customer care facilities and tools.
- Improve data management systems for microinsurance. Ideally, microinsurance performance should be captured and analysed separately. Insurers need to capture all the key performance indicators accurately, including but not limited to gross written premiums, number of policyholders, lives covered, commissions, administration costs, claims volumes and claims ratios.
- Leverage the National Insurance Education Strategy (NIES). Market players can, through relevant associations such as the Association of Tanzanian Insurers (ATI) and Tanzania Insurance Brokers Association (TIBA), consider participating in the design and implementation of consumer education initiatives.



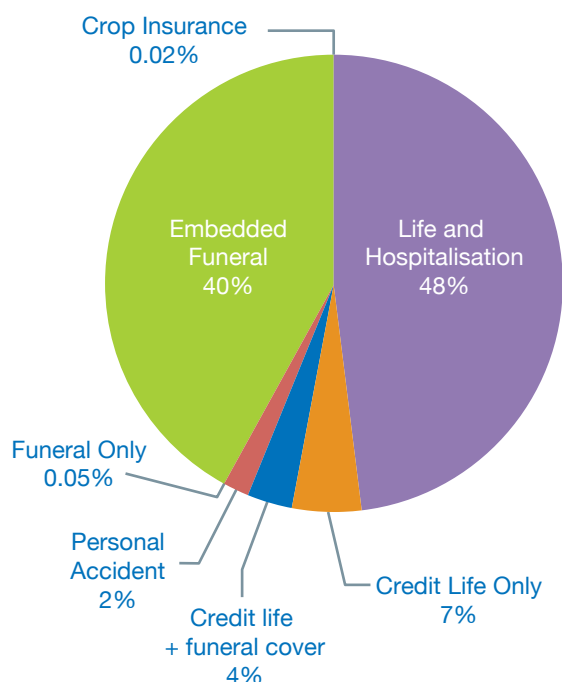
## Regulator

- Consolidate the microinsurance guidelines. In addition to the current support, the TIRA should consider accelerating the review process of the microinsurance guidelines and issue a comprehensive set of regulations. More investment is also required in communicating the guidelines and regulations. Continuous dialogue with those actively engaged in microinsurance provision will increase the prospects of establishing a coherent regulatory framework.
- Accelerate the development of supervision and reporting tools. A separate reporting template with specific key performance indicators is critical to track the performance of microinsurance products effectively.
- Develop strategic alliances for the implementation of the NIES. By design, successful implementation of the NIES requires involvement of various relevant stakeholders in both funding and implementation.
- The TIRA should be commended for the recent drive and emphasis on performance achieved through outreach and measuring client satisfaction. The growth of the microinsurance sector should certainly be measured by both scale and client value.
- The TIRA may wish to consider investing in orientating all its relevant professional staff on the microinsurance fundamentals.



# Microinsurance Coverage >

## Microinsurance Coverage by Product type



The microinsurance sector in Tanzania is gradually emerging. Although there are currently few active market players, the variety and types of risk coverage provided so far show that insurers are looking beyond simple credit life or life. In 2015, life combined with hospitalisation and embedded funeral cover had the greatest outreach. This was a change from 2014 when credit life and life were the most popular. The shift towards more valuable insurance such as life and hospitalisation is good for Tanzanians.

This distribution of product cover signals poor outreach of current offerings in rural areas. For instance, crop insurance has only 0.02% of coverage. It is a global trend that within the spectrum of microinsurance products, agriculture and health are among the more complex. However, a few insurers recognise the value of providing cover for the agricultural risks faced by smallholder farmers. They plan to innovate in both product design and distribution to make access to agriculture insurance products possible. Health microinsurance is also undeveloped. Some of the challenges highlighted by insurers include the quality of health care providers.

## Insurance Company by Type of Products

Sanlam



Jubilee



MO Assurance



Bumaco



MGen



AAR



### Key



Agriculture insurance



Hospital Cash



Personal Accident



Funeral Policy



Credit Life





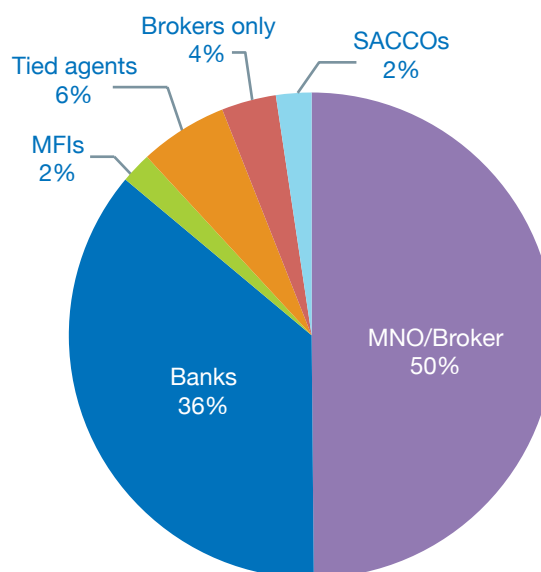
# Distribution >

Although the distribution space for microinsurance in Tanzania is evolving, it is slower than in other sectors such as banking and telecommunications. Current traction is driven by both distribution channels and insurers. Notably, distribution seems to be largely driven by brokers who specialise exclusively in microinsurance. One interesting outcome in 2015 is the rapid shift from an MFI dominated distribution space to MNOs. Since 2013, considerable investment has been made in business-case awareness through industry forums involving senior executives from insurance companies and capacity building training sessions for technical and professional staff. It seems logical to shift towards conducting business-case sessions for potential aggregators and distribution channels.

The planned regional business-case sessions by FSDT and the TWG are therefore a worthwhile investment. As in other growing microinsurance markets, Mobile Network Operators (MNOs) are driving scale and coverage in Tanzania. Scale through MNOs could have been much higher had a number of microinsurance products distributed through the MNOs not been discontinued. Some of the insurers that used the MNO channel are re-engineering business models.

The Africa Microinsurance Landscape 2015 report revealed that MNOs are among the key drivers of scale in Africa. Zambia and Ghana are among the countries that have experienced rapid growth in scale resulting from partnerships between insurers, brokers and MNOs.

Coverage by Distribution



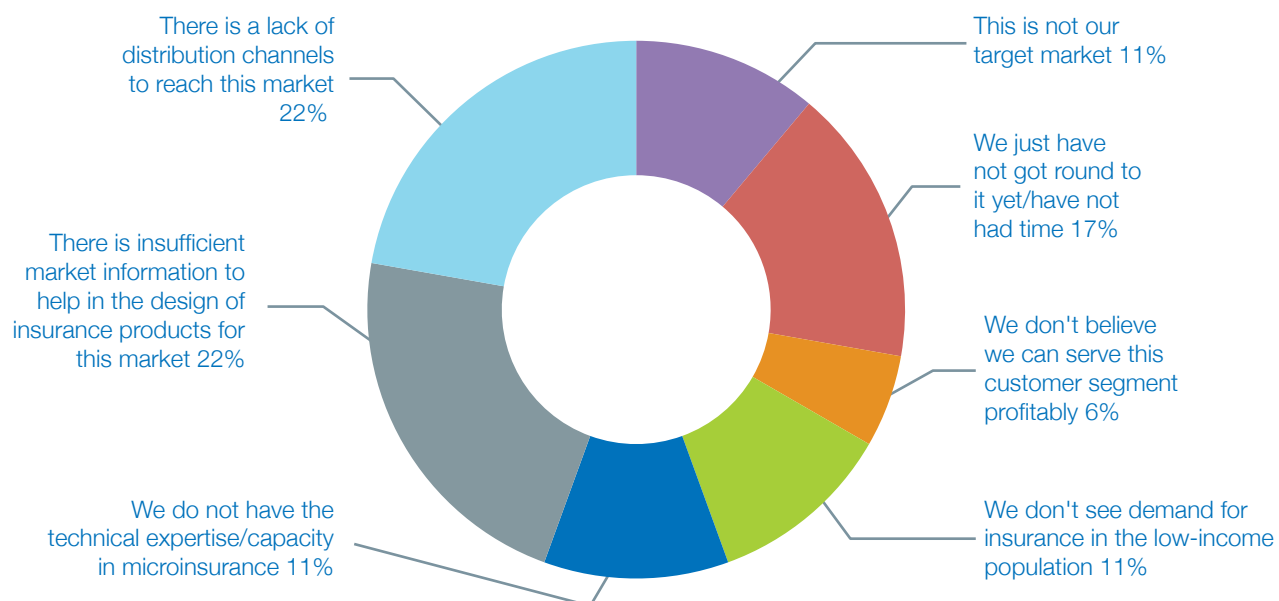


# Business Case >

Microinsurance is about low margins which require scale for viability. A number of insurance companies are still struggling to embrace the business case. Some senior executives indicated that their decision to enter the microinsurance market also depends on buy-in from their shareholders or business promoters.

Getting corporate buy-in is obviously harder for shareholders who have not yet embraced the business case or for shareholders who are inclined to a quick return on investment. Some remarks from senior executives who have not yet invested in microinsurance are indicated below:

## Market players' interest in microinsurance



Those who have actively engaged in the microinsurance market provided positive remarks on the viability of microinsurance. Interest in microinsurance among insurers remains high to medium. Some of reasons provided for non-engagement can be addressed through the various market development initiatives currently being spearheaded by the TWG with support from TIRA and FSDT. The current drivers of scale include product simplicity and innovations in distribution.

“We are working with insurance companies and all the products are exclusively targeted at the low-income market...we have over 250,000 customers covered monthly.” MILVIK

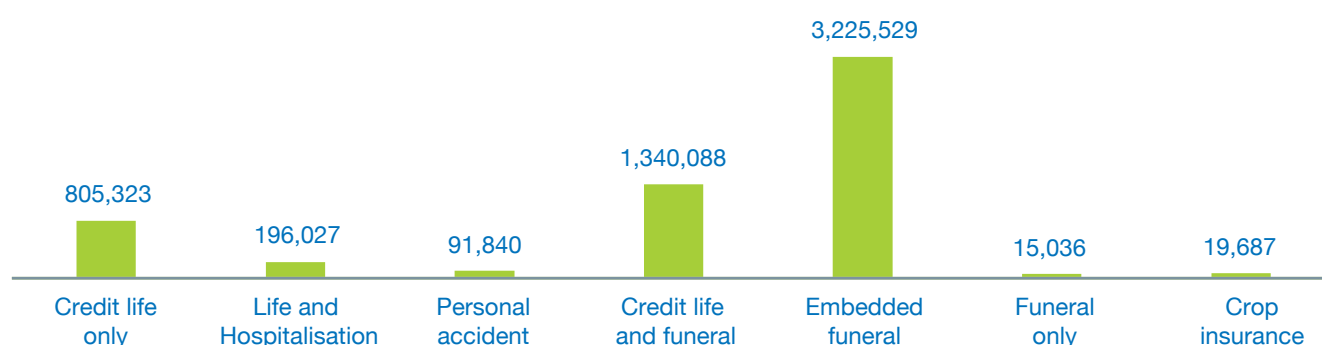
### Spotlight: MILVIK Reaching Low Income Tanzanians Through a Dedicated Call Centre

Through a dedicated call facility, some of MILVIK sales agents are able to sell over a hundred microinsurance policies a month (see Wall of Fame below). Notably the investments by MILVIK as a dedicated microinsurance broker are significantly contributing to scale. Most of the coverage provided by MNOs is through MILVIK partnership with MO Assurance and Tigo.



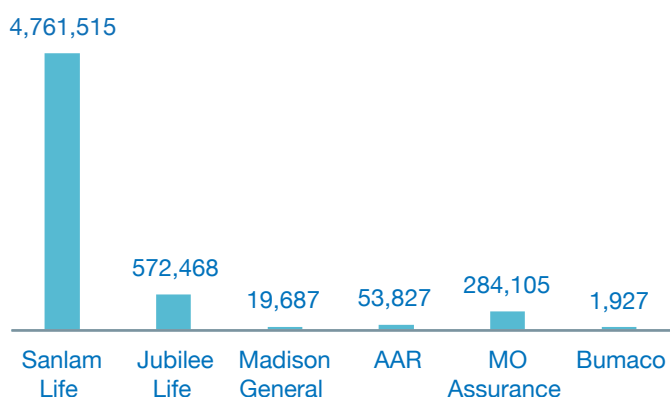
In terms of financial performance, embedded funeral policies distributed mainly through the banks have the highest GWP followed by bundled credit life with funeral. Funeral only and crop insurance contributed least to GWP.

#### Gross Written Premium (GWP) by type of microinsurance product (USD)

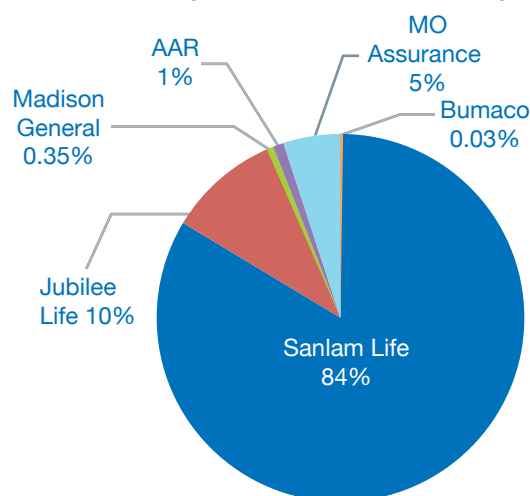


Sanlam Life dominates market share in terms of GWP and has a wider product portfolio. This is dominated by the leading products - bundled credit life with funeral and embedded funeral.

#### Gross Written Premium (GWP) By Company (USD)



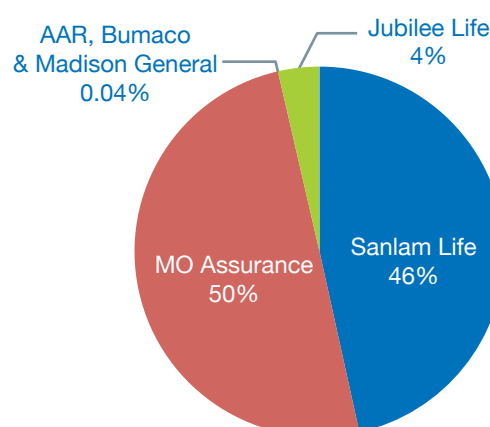
#### Market Share By Gross Written Premiums (GWP)



In terms of coverage, MO Assurance dominates, accounting for 50% of the total. They are followed by Sanlam Life at 46%, largely because MO Assurance is using Tigo, a Mobile Network Operator (MNO), to distribute its products.

Evidently, MNOs have proven to be the best channels for achieving scale in most of the markets. Therefore, the type of distribution channels and products determine the level of coverage.

#### Market Share By Coverage









# Client Value >

Client value is usually measured by the four dimensions of insurance: product, access, cost and experience<sup>1</sup>. One proxy measure of client value is claims ratio. The claims ratios for the four product types captured in the Microinsurance Landscape Survey show that the current offerings in microinsurance are demonstrating value to policyholders and are also within profitable range for insurers. Notably, the claims ratios for funeral only and embedded funeral policies were lower than those for credit life policies.

Provision of client value inevitably calls for greater investment by market players to achieve consumer-centric products. Many demand studies in Tanzania and elsewhere have revealed that low-income people use various coping mechanisms to mitigate the various risks. The value proposition of insurance is providing a better risk management solution. To achieve this, insurers inevitably have to invest in market research. Some microinsurance products have failed due to lack of investment in market research.

Financial Performance (Claims ratio for selected microinsurance products)

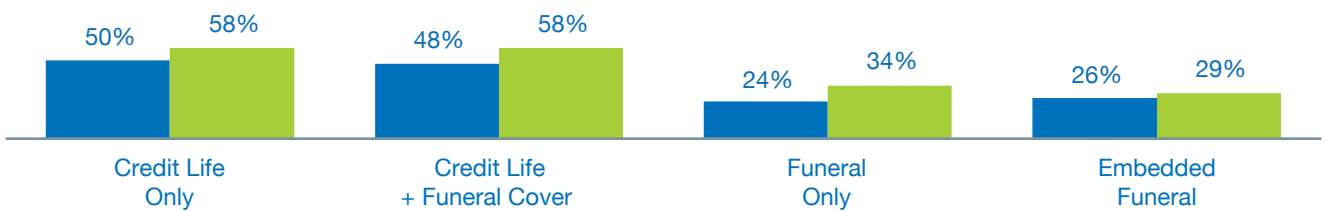


Figure 1: Claims ratios for selected microinsurance products in 2015

When asked about the key considerations for investing in microinsurance, it was rewarding to note that many insurers prioritised client value as the results below show.

Insurers were also keen to align microinsurance business with their company’s mission, vision and goals. Quick return on investment was given the least priority as many insurers acknowledge that microinsurance business requires a long-term perspective.

Prioritisation of Investment Considerations (1 being the most important and 5 the least important)



Figure 2: Investment considerations

<sup>1</sup> ILO developed PACE tool which stands for Product, Access, Cost and Experience and is used to measure value presented by insurance products.



# Industry Perspective >

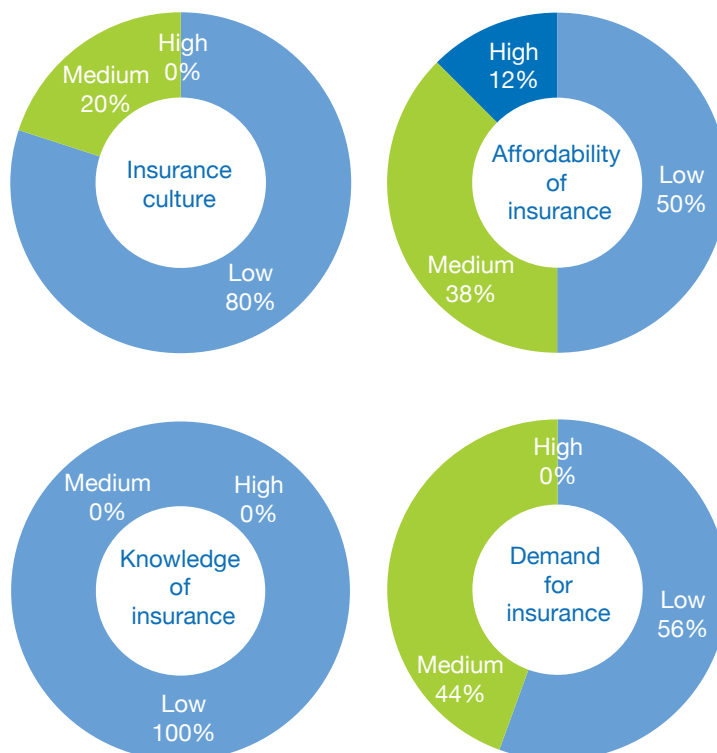
## On the demand

The industry perception of demand for insurance in Tanzania is that the culture is minimal. It believes that the majority of low-income Tanzanians are unlikely to afford insurance, that they do not understand insurance, and that the demand for insurance is therefore low.

*See results aside:*

The perception of low demand may be accurate. However, supply is a factor of demand. Many studies indicate a high demand for insurance and affordability is no longer a key access barrier. The mismatch is value propositions and knowledge of value and benefits of insurance. Insurers need to invest in offering better risk management solutions to the target market segments. More importantly, they need to demonstrate the functional value of insurance to people if they experience insured shocks. Addressing knowledge levels and improving the insurance culture should be long-term industry goals. Insurers should be encouraged to fund consumer education initiatives collectively in collaboration with the Association of Tanzania Insurers. There is also a great opportunity to work with TIRA through the NIES.

### Industry perspective on microinsurance demand factors



## On support functions

The market players rate support from the regulator very highly. However, availability of investment capital for microinsurance is still weak. Equally, availability of market and actuarial data is considered low.

Market players also feel ATI is not yet sufficiently strong. The results also show there are challenges identifying appropriate distribution channels.

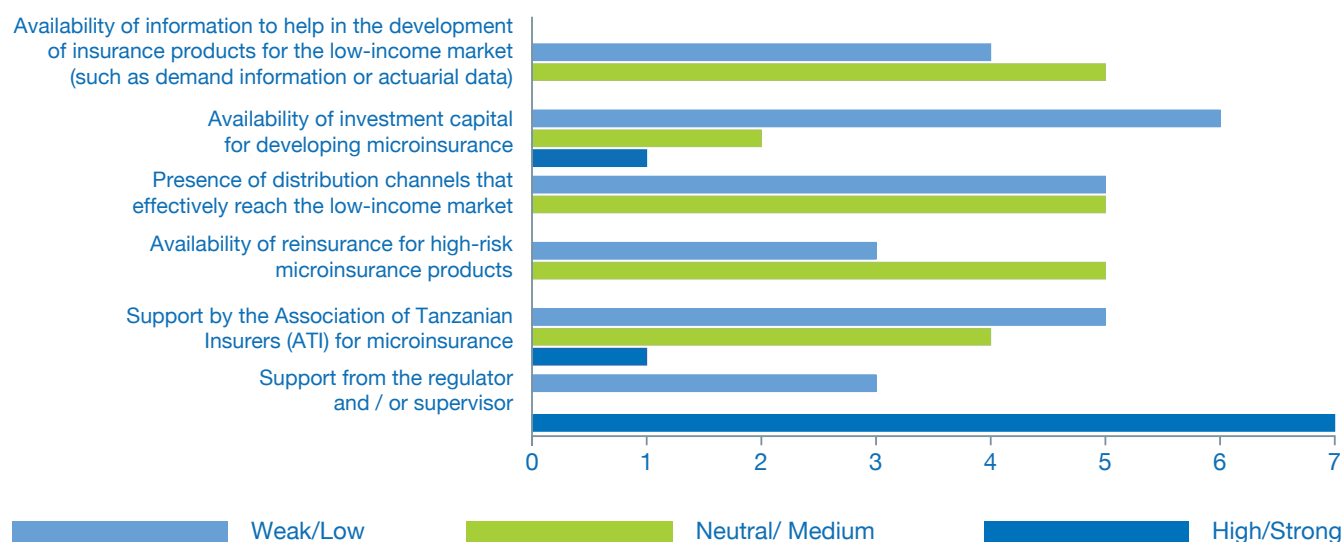


Figure 3: Industry perspectives on market support functions and systems









# Regulation >

The identified areas for enhancing the microinsurance regulatory environment for Tanzania include improving regulations, and introducing supervision and reporting systems for microinsurance business. The TIRA has demonstrated enormous support for inclusive insurance at many levels including active participation in the Technical Working Group. Furthermore, the TIRA continues to participate at various regional and international microinsurance learning and sharing forums.

Another critical area to be considered by the TIRA is reporting. The TIRA may wish to consider leading the setting up of key performance indicators for microinsurance and developing reporting templates for the market players. Such an investment would replace periodic landscape surveys designed to capture data that would otherwise be captured through a systematic industry reporting system.

#### Spotlight: Insurers' expectation from TIRA:

- Educate the public
- Build capacity of staff in product approvals
- Lobby government for tax incentives to insurers engaged in microinsurance
- Closely monitor the progress of microinsurance products

Source: Microinsurance Landscape Survey 2015

Enhanced microinsurance regulations should focus on all the dimensions of client value. In addition to simplicity, regulations should encourage innovation in product benefit design and distribution. Many of the current uncertainties highlighted by market players are about distribution. Notably some of this uncertainty is caused by lack of information by some players. This issue can be addressed through sensitisation workshops.

With all the policy developments in Tanzania, there is also a great opportunity to align various policy initiatives to create a favourable policy environment that will propel the development of an inclusive insurance market. When asked what can propel the development of the microinsurance sector, the market players prioritised regulatory environment.

#### Other factors include:

- Investments in consumer education and financial literacy
- Favourable regulatory environment
- Technical assistance in product development and distribution
- Market demand studies to enable insurers to understand the needs of low-income people better.
- Better distribution partnerships
- Capacity building of the insurers association and other key support organisations such as training institutions









## **Microinsurance Landscape 2015**

### Inclusive Insurance Focus Note Series

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