

FOCUS NOTE :

Tanzania Access to Insurance Diagnostic

This focus note presents the highlights of the 2012 Tanzania Access to Insurance Diagnostic – a joint project between Tanzania Insurance Regulatory Authority (TIRA), Financial Sector Deepening Trust (FSDT) Tanzania and FinMark Trust, and applying the methodology of the Access to Insurance Initiative.

Microinsurance can be defined as insurance accessed by the low income market. In Tanzania, this is a very broad concept, as the bulk of the population is low-income and currently unserved by insurance.¹ Microinsurance is therefore about expanding the reach of the insurance sector beyond its current client base into the mass market. As such, it is a mainstream, not a marginal topic.

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¹ Microinsurance is run in accordance with generally accepted insurance practices (which should include the IAIS Insurance Core Principles). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. Source: IAIS and Microinsurance Network Joint Working Group on Microinsurance, 2007. Issues in the Regulation and Supervision of Microinsurance. Available at: www.iaisweb.org.

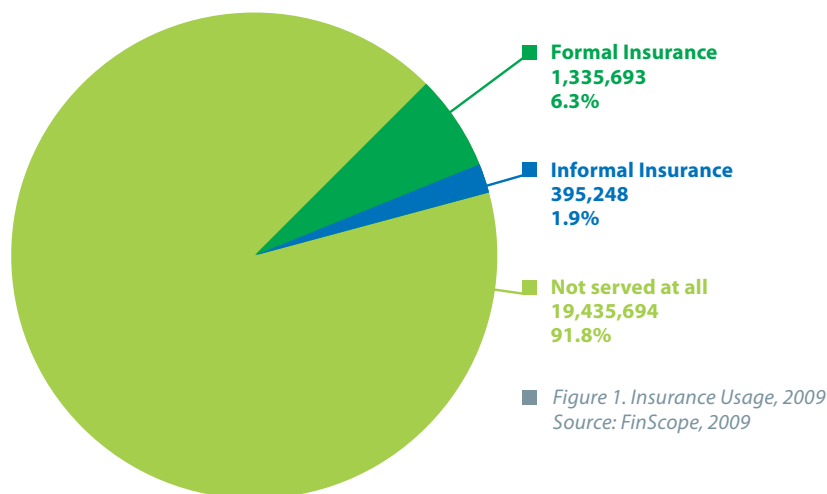


FAST FACTS

- GDP growth has averaged 7% per annum since the turn of the millennium.
- Nearly three quarters of Tanzanians live in rural areas and one in three live below the national basic needs poverty line Agriculture provides a livelihood to 80% of Tanzanians, most of them subsistence and smallholder farmers.
- Health insurance is the single most demanded insurance product among the poor and rural, yet most of them do not have access to feasible health insurance options.
- Despite the importance of agriculture to the Tanzanian society, agricultural insurance is very underdeveloped and weather index microinsurance pilots are only now starting to emerge.
- Premium growth in the insurance sector has consistently been above 20% for the past 5 years and the number of insurers has almost doubled since 2006. General insurance accounts for almost 90% of insurance premiums. This indicates an underdeveloped retail insurance market.
- There has been rapid growth in embedded insurance: credit life, funeral or personal accident cover embedded in credit, in a deposit account or provided for free to mobile network operator clients as loyalty benefit. Voluntary, paid-for insurance is rare outside the commercial and top-end retail market targeting the formally employed population.
- A new Insurance Act was implemented in 2009. It introduced demarcation between long-term and general insurers. TIRA now plans to introduce regulations that will focus largely on opening up the intermediation space for microinsurance.

WHERE ARE WE NOW

Low initial uptake: the FinScope 2009 survey reported that 6.3% of the adult population (1.3m) had formal insurance, while informal insurance usage was nearly 2%. Of these, the majority (5.6% of adults) had health insurance (public, community or private). Only 0.3% of adults had life insurance. General insurance uptake outside of health was equally low: only 0.7% of adults had car insurance and 0.6% any other type.



The diagnostic estimates that **4.6 million individuals or 19% of the adult population** have insurance in 2012. This growth has been largely on the back of growth in credit life, the recent phenomenon of embedding life insurance cover on deposit bank accounts, the rise of insurance through the mobile channel and continued growth in the reach of health insurance. In contrast to many other developing countries, the bulk of insurance clients in Tanzania are **microinsurance clients**.

Millions more now covered: the 2009 figures were already up dramatically from the previous survey year, 2006, when only 2.8% of adults had some kind of insurance – a growth rate of 127% over 3 years. Indications are that, since 2009, this trend has become even more pronounced:

Where does the limit to growth lie? Is the growth witnessed in recent years sustainable and does it speak to client needs? Having grown its client base dramatically, the insurance market in Tanzania is now at a tipping point where growth can either continue at scale or taper off:

Key drivers of market development:

What are the main drivers of growth?
How can they be used as strategic levers to steer the course of market development to secure the green rather than the red path?

The diagnostic identifies various context, market and regulatory elements that underlie the dramatic rise in uptake. They can be summarised as:

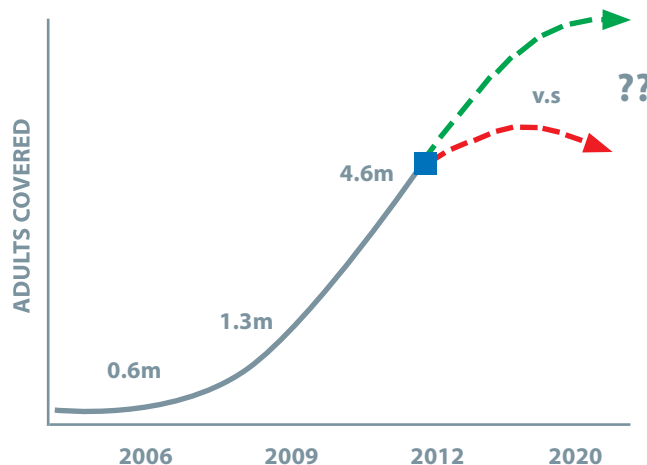


Figure 2. Uptake growth path and future scenarios

Supply-side drivers:

■ Distribution channels (notably brokers, banks and mobile network operators), rather than insurers, have been the main microinsurance “market makers” so far – in terms of product design as well as the ability to reach scale.

■ Strong competition between a large number of relatively small insurers necessitates insurers to find a competitive edge. This creates an imperative for unlocking new market segments. However, due to the many challenges in penetrating the mass retail market, most insurers prefer to find their niche rather in economic growth areas in the commercial sector.

■ Uptake growth in Tanzania has largely been on the back of embedded, rather than voluntary products. This creates the danger that clients may not know that they have insurance or may not receive value from it.

■ Distribution and cost challenges mean that agricultural insurance remains a large untapped opportunity.

■ Cost challenges and the still large untapped opportunity in the formally employed market means that private health insurance is unlikely to branch into the microinsurance sphere anytime soon.

Context drivers:

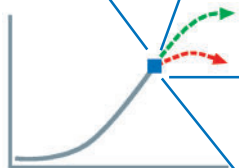
■ The rural, agriculture-based society, coupled with high poverty, underdeveloped infrastructure, inconsistent incomes and high population growth, create an imperative for microinsurance as risk management tool, but simultaneously constrains the opportunity by imposing affordability and distribution constraints.

Demand-side drivers:

■ Main reasons for low uptake of voluntary insurance products among focus group respondents were negative client perceptions and a lack of trust. Yet these usage factors are most often still trumped by absolute affordability and physical accessibility or availability barriers.

Regulatory drivers:

■ The regulatory framework has facilitated the first wave of growth. The regulator is preparing to step up prudential requirements and create an intermediation space for microinsurance. If done in a proportionate way, these could be significant levers for the next wave of growth.



■ Figure 3. Key drivers of insurance market growth.

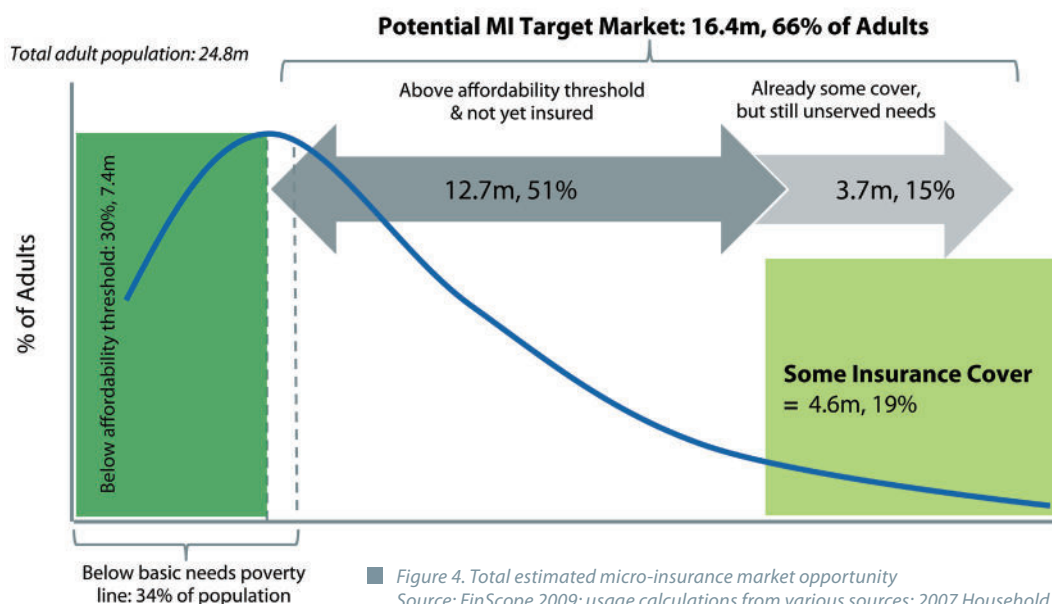


Photo courtesy of Development Pioneer Consultants

WHERE DO WE WANT TO BE?

Size of the opportunity: 81% of adults or just more than 20 million individuals do not have any type of insurance cover at present. But how big is the actual microinsurance opportunity?

If those not likely to be viable insurance clients are deducted from the unserved market and those who already have some type of cover but still have unserved needs are added, the total microinsurance market opportunity is estimated at 16.4m individuals (66% of adults):



Segmenting the population into distribution opportunities:

If, from the FinScope 2009 survey data, we consider consistency of income², banked status and whether or not people have a mobile phone as proxies for gauging how readily accessible they would be from an insurance distribution perspective, the Tanzanian adult population can be broken down into four market segments³:

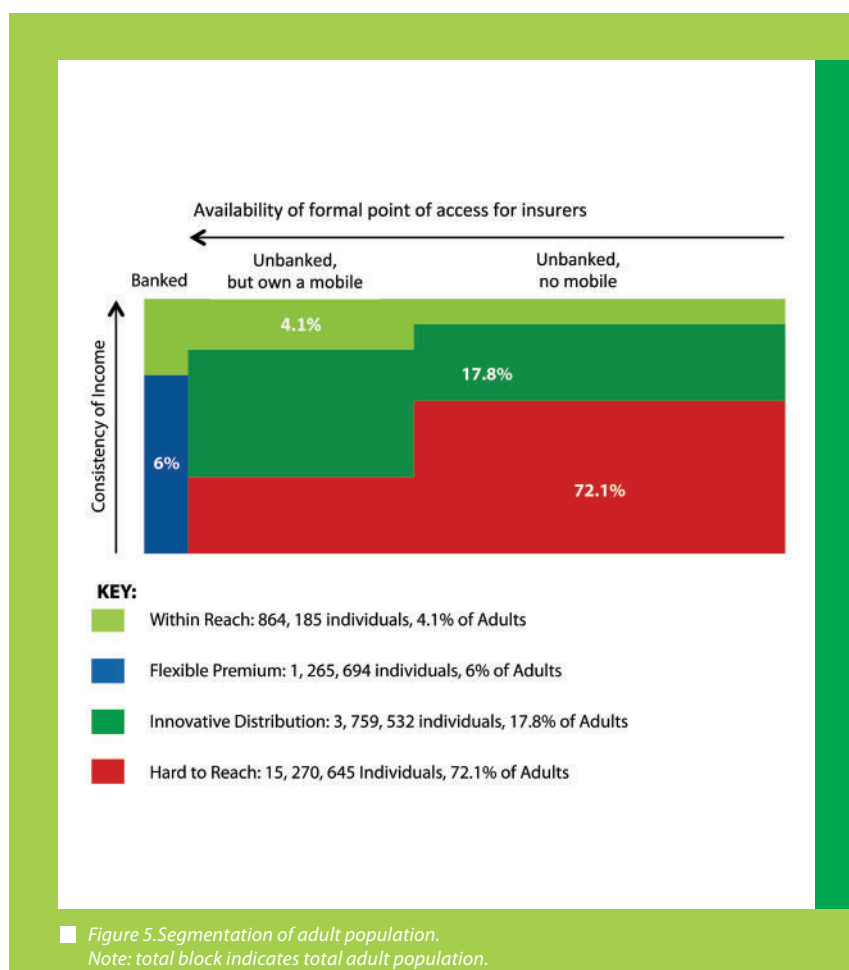
- **The “within reach”:** This is the “low-hanging fruit” opportunity. Individuals in this segment earn a relatively consistent level of income and provide insurers with a formal point of access, either through their bank account or through their employer. Nearly two thirds of the group is male and 60% reside in urban areas. Unsurprisingly, they are the most well educated group.
- **The “flexible premium” group:** These individuals have a less consistent income source than those in the “within reach” group. Nevertheless, insurers have a formal point of access to them as they are all banked and most own a mobile phone. Thus they can be a feasible target market if products are designed with features suiting their income realities. 56% of the group is male, 58% live in urban areas and nearly a third have credit with a formal institution.
- **The “innovative distribution” segment:** Those in this group earn relatively inconsistent incomes and are unbanked. 61% live in rural areas and 70% only have a primary education. Insurers will therefore have to be particularly innovative in the design of distribution strategies, should they want to tap into this market. As 94% have a mobile phone, the mobile is likely to be the most viable channel to reach and collect premiums from this group. Another likely touch point would be informal groups: 47% of the group have an informal loan.

- **The “hard to reach”:** This group represents the bulk of the Tanzanian population. The majority is female, 79% are rural and most only have a primary education. Those in this group have inconsistent incomes, are 100% unbanked and many of them did not own a mobile phone in 2009 (note, however, that as will be discussed below, mobile phone penetration has increased substantially since then). Tapping into this group will therefore require out of the box thinking in terms of product design and distribution channels. It is unlikely that the large aggregator opportunities (namely banks, employers and mobile network operators) will help insurers make inroads into the hard to reach market. Rather, insurers will have to find specific well-capacitated smaller aggregators.

Shifts in the segments since 2009:

The segmentation exercise above, which is based on 2009 data, estimated 72% of adults to be “hard to reach” from an insurance distribution point of view, leaving 28% of the market in either of the other three categories. At that stage, only an estimated 6% of adults had some kind of formal insurance, implying that there were still significant untapped opportunities in the within reach, flexible premium and innovative distribution segments. Three years down the line, however, market reach is estimated to have increased to 19% of adults.

This could mean that the insurance market has now grown into the bulk of the within reach, flexible premium and innovative distribution groups, with most of the remainder of the unserved market being hard to reach. A more likely alternative is that the segments themselves have evolved since 2009, shifting a significant number of people out of the hard to reach and into the innovative distribution category. This move would be ascribed largely to the significant rise in mobile phone usage since 2009, as well as a likely increase in banked status.



What is market discovery?

Market discovery is the process that introduces a person to insurance. Discovery will be positive if consumers are introduced to a product in a way that allows them to understand the value that insurance holds for them, in which case they will tend to use insurance again in future. Discovery can also be negative (e.g. claim rejected due to conditions not understood by the client), in which case the client may be discouraged from using insurance again or for other purposes. In the case of compulsory insurance, there is a danger that clients will not know that they have insurance, which would mean that there is no market discovery.

What does this mean in terms of opportunities and challenges going forward?

- **Work with what you have:** the rapid recent rise in the number of insurance clients implies that many of those in the within reach, flexible premium and innovative distribution groups are likely to already have some kind of compulsory (public health insurance) or embedded (credit life, personal accident or funeral) cover. This creates a strong imperative for ensuring positive market discovery. These clients are already “in the net”, but if their confidence is lost now, it will be very hard to convert them to voluntary customers in future. Furthermore, insurers have an established link to these clients through the distribution channel (financial institution, mobile network operator or other channel). Insurers and intermediaries have to leverage this existing link to cross-sell other insurance product to these clients and to use them as “ambassadors” for insurance in their communities – there is still a large opportunity.
- **Piggy-back on existing client groupings:** as the bulk of those not yet served are likely to be hard to reach, it becomes even more important to think out of the box in how to reach and service them. Insurers have no choice but to tap into alternative distribution channels, should they want to reach the mass market. That is, they must piggy-back on existing client groupings and the distribution footprint of third parties. There are many such opportunities in Tanzania, including banks, employers, mobile network operators and their airtime vendor networks, MFIs, SACCOs, other cooperatives, healthcare service providers, faith-based organisations and market/trade-based associations.

HOW TO GET WHERE WE WANT TO BE?

A number of challenges stand between the current and the potential market, including: the traditional mindsets of most insurers, the economic realities, misperceptions and lack of trust in insurers among the target market, the dangers of negative market discovery associated with embedded cover and low client value, a product suite that for the largest part does not yet speak to client preferences and needs, as well as substantial distribution challenges relating to the fact that most Tanzanians live in rural areas and do not have a consistent income source.





Overcoming the challenges to unlock the untapped market opportunities (the green rather than the red market growth scenario depicted in Figure 2) gives rise to a number of strategic imperatives:

Top 5 Market Imperatives

1. Creating a compelling retail business case.

Most insurers still follow a wait and see approach with regard to retail insurance and, by implication, microinsurance, or they only respond to retail underwriting opportunities brought to them by brokers, banks, mobile network operators or other distribution partners. To trigger pursuit of microinsurance as a strategic growth area, insurers would need to buy into the business case for retail business.

2. Building skills and capacity to trigger micro-insurance product innovation.

Another salient industry finding is the need for more skilled human resources, the need for product and distribution innovation, as well as the inefficiencies associated with the currently still pervasive tendency for paper-based systems. This finding creates an imperative to build capacity and technical skills and to progress towards scalable administrative processes. This imperative is not microinsurance-specific, but relates to the entire insurance industry. In the process, microinsurance product and distribution innovation will also be enabled.

3. Ensure positive market discovery.

The rise of embedded products creates the opportunity for positive market discovery – but also the risk that negative discovery will undermine consumer trust in insurance. Client views on lack of value for money indicated in focus group research are confirmed by current industry trends in expense and claims ratios. There is thus a strong imperative to: (i) ensure client awareness and value in the case of embedded products so as to facilitate positive market discovery; and (ii) improve efficiencies, reach economies of scale and pay more attention to appropriateness of product features and disclosure procedures to improve client value more broadly.

4. Educate customers through the sales process.

The market research findings indicate a need for active sales, involving explanation of product features as a prerequisite for positive market discovery. Equally important is post-sale service and active engagement with clients on premiums due, level of cover and claims procedures. Indications are that the target market is very receptive for post-sale mobile communication (through SMS or phone call) and are ready to adopt mobile technology to make premium payments and receive claims.

5. Pursue strategic distribution partnerships.

Much of the current impetus for micro-insurance development, including product innovation and scale, already stems from distribution channels (brokers, banks, mobile network operators) rather than insurers. The size of the untapped market opportunity and the nature of the “innovative distribution” and “hard to reach” market segments suggest that distribution will continue to be key, alongside product innovation, in extending market reach. This creates the imperative for distribution partnerships between insurers and a broad range of potential aggregators.



Top 5 Regulatory Imperatives

As insurance regulatory authority, TIRA is committed to facilitating an inclusive insurance market and has already started to plan for regulatory reforms in this regard. Following on from the diagnostic process, TIRA is looking to take the lead in a stakeholder process to develop and implement a roadmap for microinsurance market development. The diagnostic identifies a number of regulatory imperatives to take into account in this process:

1. A general review of prudential requirements.

Current market conditions do not suggest any imperative for creating a special prudential tier for microinsurance provision. Rather, the recommendation is for a general review of the prudential framework aimed at strengthening the insurance sector at large. The risks regarding consumer protection in especially embedded products also suggest the need for attention to regulatory monitoring of market trends through reported data relating to microinsurance. Revisions to the framework are best devised in consultation with industry and should seek to meet international standards cognisant of domestic realities. The scope for proportionality as elaborated on in the IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets should be the key guide for doing so.

2. Consider regulatory treatment of community-based health insurance schemes.

Given the important role of health insurance emerging from the demand-side findings, there is need for explicit protection of consumers in this sphere. As community-based health insurance schemes grow, they will tend to evolve more and more into the insurance sphere, with guaranteed products, instead of just providing prepaid services. This will increase the need for regulatory oversight, asking for consideration of how the model works and whether it amounts to insurance. More broadly, the role of private insurance relative to other health financing mechanisms and, hence, the role of TIRA vis-à-vis other regulatory entities, needs to be considered.

3. Make micro-insurance distribution options as flexible as possible.

The regulatory proposals for a microinsurance intermediation space are encouraging, but care needs to be taken to be as flexible as possible in designing the regime. In addition to allowing various organisations with existing client or membership groups to act as micro-insurance agents, the microinsurance distribution space needs to include traditional brokers and agents and specifically allow for bank-based distribution. A flexible microinsurance distribution regime will also strengthen the role of cooperatives as distribution channels. The risk of negative market discovery in the embedded product sphere suggests a particular imperative for ensuring appropriate market conduct as part of the microinsurance regulatory space.

4. Consider a product definition of micro-insurance.

As long as there is no prudential tier for microinsurance, there is no need for a specific income or other cut-off in terms of who may qualify as a microinsurance client. However, some way will be needed to delineate microinsurance from other products for intermediation regulation and reporting purposes. This creates an imperative to use a stakeholder process to arrive at a commonly accepted working definition of microinsurance in line with market realities, based on a number of qualitative and potentially quantitative definition parameters.

5. Consider more explicitly accommodating low-risk as part of a risk-based AML/CFT regime.

There is a strong rationale, supported by emerging international guidance by both the Financial Action Task Force (FATF) and International Association of Insurance Supervisors (IAIS) as international standard-setting bodies, for a risk-based approach to anti-money laundering and combating the financing of terrorism (AML/CFT) regulatory frameworks. The imperative in Tanzania is to develop a risk-based framework that defines micro-insurance as low-risk and applies simplified customer due diligence to it. It should also provide clearer guidance on the scope for electronic record keeping and non-face-to-face origination of policies.

Next steps

The diagnostic findings create a common understanding and information base that can form a platform for engagement by stakeholders. As such, the study is a tool or input rather than an outcome in itself. It forms the first phase of a broader process whereby stakeholders, under the leadership of the regulator, engage to remove barriers and develop the market towards the desired end-state.

ABOUT THE PARTNERS

The Tanzania Access to Insurance Diagnostic series is authored by the Centre for Financial Regulation and Inclusion (Cenfri) on behalf of FinMark Trust and is funded as a partnership between FinMark Trust and Financial Sector Deepening Trust Tanzania (FSDT), with the support of the Tanzania Insurance Regulatory Authority (TIRA). It applies the methodology of the Access to Insurance Initiative (A2ii):



Tanzania Insurance Regulatory Authority (TIRA). TIRA is the supervisory authority for the insurance sector in Tanzania. It was set up as an autonomous agency under the Insurance Act 2009 and is governed by a National Insurance Board. Its mission is to develop, promote and maintain an efficient, fair, safe and stable insurance market for the benefit and protection of policyholders.



Financial Sector Deepening Trust (FSDT). FSDT was established by five government donors: Canada, the UK, Sweden, the Netherlands and Denmark, in close collaboration with the Bank of Tanzania and the Government of Tanzania. Its overall objective is greater access to the financial system throughout Tanzania. This objective ties in closely with the Government's Second Generation Financial Sector Reform Programme. The Trust takes a market-making approach to its work. This means dedication to making markets work, especially for the poor.



FinMark Trust. Created with initial funding from the UK's Department for International Development, FinMark Trust is an independent trust whose purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration' in the Southern Africa Development Community (SADC) region. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings.



Cenfri. Cenfri is a non-profit research centre based in South Africa with a mission to support financial sector development and financial inclusion. Cenfri manages FinMark Trust's work on retail payment systems and insurance and its involvement in this project is in the latter capacity. Cenfri has authored or been involved in an oversight capacity in 13 microinsurance diagnostic studies.



Access to Insurance Initiative. The Initiative aims to strengthen the capacity of policymakers, regulators and supervisors seeking to advance inclusive insurance markets, particularly for low-income clients, by promoting sound, effective and proportionate regulation and supervision. It was created as a partnership between: the International Association of Insurance Supervisors (IAIS); the German Federal Ministry for Economic Cooperation and Development (BMZ); CGAP; FinMark Trust; the International Labour Office (ILO); and the United Nations Capital Development Fund (UNCDF). Other major partners include: the Asian Development Bank (ADB), FIRST Initiative, the Making Finance Work for Africa Partnership (MFW4A), the Inter-American Development Bank Multilateral Investment Fund and the Netherlands' Ministry of Foreign Affairs Directorate-General for International Cooperation. The Secretariat is hosted by GIZ on behalf of BMZ



ABOUT THE TANZANIA ACCESS TO INSURANCE DIAGNOSTIC SERIES

This focus note summarises the findings from a series of 8 documents that together comprise the findings of the Tanzanian Access to Insurance Diagnostic. The series consists of one headline findings summary and seven input documents, each focusing on a specific thematic area, that build up the evidence base to the headline findings:

1. Headline findings. This document summarises the main findings of the diagnostic study across the other documents, then concludes on market potential and opportunities, the challenges to be overcome and the strategic imperatives to unlock such potential.

2. Context. Document 2 outlines the macroeconomic, socio-economic, political economy and financial sector context within which the Tanzanian insurance market develops.

3. Insurance uptake. Document 3 uses a variety of sources to estimate the current penetration of insurance as percentage of adults in Tanzania and how insurance uptake has evolved in recent years.

4. Insurance industry trends. Document 4 analyses recent trends in the insurance industry in terms of premium volumes, players and performance, asking what the catalyst for the next wave of growth required towards an inclusive insurance market will be.

5. Product and distribution landscape. Document 5 considers the current suite of products in the Tanzanian microinsurance landscape. In addition, it unpacks trends in insurance distribution, concluding that distribution is the single biggest factor driving product evolution and market development.

6. Health insurance dynamics. Document 6 takes a closer look at the health insurance dynamics in Tanzania, given the unique features of the health insurance landscape.

7. Regulatory framework. Document 7 considers the role of policy, regulation and supervision in building an inclusive insurance market by unpacking the key features of the insurance regulatory framework, as well as ancillary areas of regulation.

8. Understanding client needs. Document 8 draws on focus group and demand-side survey research to better understand the economic realities, risk experience, coping strategies and knowledge and perceptions of insurance of the Tanzanian adult population. On this basis, it conducts a segmentation exercise whereby the target market is grouped into distinct segments and the profile of each is explored.

The series was designed so that readers can focus on the Headline Findings document, drawing on specific input documents for the evidence base and as per their area of interest.

The full series is available at: www.fsdt.or.tz and www.finmark.org.za

The series has been submitted for review by the Access to Insurance Initiative and, upon acceptance and subject to further refinements, will also be published under the banner of the Access to Insurance Initiative.



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