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West Africa Trends

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Insuring the Poor: Trends and Prospects

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Contents

The purpose of this newsletter is to monitor trends across the West Africa region for policy makers, researchers and other decision makers in the international community.

Introduction

Risk mitigation is a priority for the poor as more than any other group they are most vulnerable and lack resources to make them resilient in the face of disaster. Their coping mechanism tends to be to sell assets or cut consumption, and the worst borrow from shylocks, due to a lack of formal risk mitigation tools. Traditional insurance products and modes of payment (a single lump sum) exclude the poor, as they are not tailored for the poor. Microinsurance products have been designed to fill this gap. In fact, close to 80% of those who use microinsurance products have never had insurance.

Though there is a long way to go before these new products cover a significant number of the poor, (less than 1% of the population is covered) there is progress. This issue looks at trends and prospects of microinsurance in the region. Article 1 surveys overall trends in microinsurance; article 2 explores the growing use of mobile platforms for microinsurance distribution, and article 3 profiles MicroEnsure, a leader in developing the microinsurance industry in the region.

Editorial

The poor need insurance more than anyone in society, yet less than one percent take up the product, despite its availability in most countries in the region. Why is this the case? Ignorance, lack of trust, and lack of appropriate products that can deliver value to both the insurer and the insured largely explain popular apathy.

Microinsurance by its nature is a high volume, low cost product, thus expertise in product development and innovative distribution channels are key to delivering value. Unfortunately, this expertise is in short supply, underscoring the need for strong investment in capacity building across the entire insurance value chain.

However, a good product does not guarantee a market. For insurance products, trust is key for market uptake. For most low-income people, the concept of insurance is ill understood. Many feel cheated when they do not make a claim after paying a premium. Therefore, it is important for people to understand the concept of insurance so that trust can be built.

Language also matters. As much as possible, industry stakeholders should avoid the word insurance. Terms like “group protection schemes” resonate better with the poor. They should also be constantly looking for opportunities to teach people about microinsurance (e.g. when they are borrowing). Indeed tragedies can be good opportunities to teach through example and to advertise. For instance, public payments of insurance claims for a number of fires that occurred in Ghana generated huge interest in microinsurance and increased the demand for insurance after people realized its benefit.

Experience has shown that the best way to get the poor to buy in is to design microinsurance policies as add-ons to products and brands that people already use and trust. Microinsurance sells only when it is an add-on rather than a stand-alone product. Identifying and collaborating with the right partners is key. They should be trusted and at the same time can deliver the product cost effectively. Mobile providers are ideal as they operate a trusted platform and are accessible and easy to use by most of the poor. In fact, the mobile platform is now becoming the channel of choice for microinsurance distribution, and has greatly increased the reach of microinsurance.

However, there is room for improvement in product development and in channel development. As new models are pioneered and implemented, we are likely to see more offerings of microinsurance. Of particular interest is the possibility of using the Point of Sale (POS) as a way to sale microinsurance, an idea being piloted by ShopRite and Old Mutual in South Africa. If it works, this initiative could be easily spread throughout the region where ShopRite is building a veritable network. However, supermarkets are still a mainstay of the middle class in the region, therefore benefit might be muted. A more effective model would allow spare change to buy insurance at POS locations, in which case, anyone could easily get coverage.

While the potential for product development is vast, the learning curve is steep. Successful product development will inevitably require many trials (and failures) before the right product is found. Innovation is the core ingredient, and the innovative intermediaries like MicroEnsure (see article 3) are on the right track to developing the industry.

Trends in Microinsurance

Insurance plays a key role in mobilizing savings for development and safety nets against vulnerabilities. However, the insurance landscape is characterized by only a small minority with access to formal risk mitigation tools. Providing insurance to the masses poses many challenges as conventional insurance systems for product development, premium collection, and claims processing are developed to handle a well-informed clientele that pays large premiums for a well-understood risk. These providers are not well prepared to service poor and poorly informed clients that can only afford to pay small intermittent premiums. The result is that the poor are financially excluded, even though they are the most vulnerable, and in the greatest need for risk mitigation facilities.

Microinsurance has been lauded as the solution to poor peoples' exclusion from formal insurance. Indeed about 90% of people who purchase microinsurance have never had insurance before. Developing a strong microinsurance sector to cater to the poor and the excluded is acknowledged as important to tackling poverty, and development partners have been at the forefront. All the same, the industry has some way to go, as only 1% of the people are covered by microinsurance.

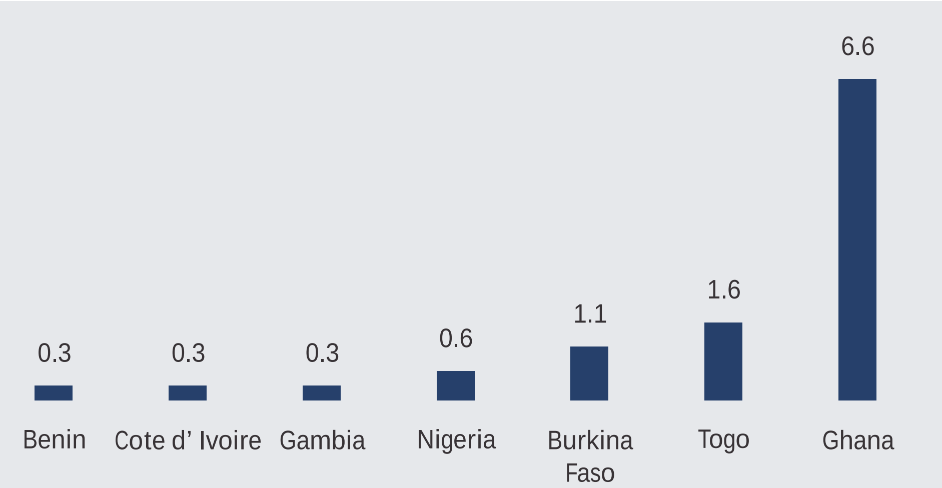
On the positive side, the industry has shown tremendous growth. West Africa has experienced 251% growth since 2008, with 4.4 million people now covered. Ghana has shown the most dynamism, with close to 1.4 million lives covered. Ghana has over 20 microinsurance products available, which are provided by fifteen different companies. Other countries in the region are also starting to show similar dynamism:

- ADA - Appui au développement autonome – a Luxembourg-based NGO active in microfinance projects across Africa in conjunction with the West African Confederation of Financial Institutions (CIF), has launched a microinsurance company to enhance the range and distribution of inclusive finance services in West Africa. The first was set up in Burkina Faso in 2012 with 400,000 clients. The project will be replicated in Benin, Mali, Senegal, and Togo. The range of products is also being expanded to include life insurance and a savings/pension product.
- Allianz is collaborating with CAURIE in Senegal to provide credit insurance. CAURIE provides credit to 21,000 women in 275 village banks. In Côte d'Ivoire, Allianz has partnered with UNACOOPEC, a local cooperative, to provide funeral insurance. Launched in November 2009, UNACOOPEC had sold 5,000 policies by early 2010, showing that clients value the offer.

Governments in the region are also starting to give the sector more attention. Insurance regulators are starting to prepare frameworks to guide sector growth .

- Ghana has made it very easy to register microinsurance firms in that once one applies, approval is assumed if the government does not respond within a month.
- The Nigerian insurance regulator requires that microinsurance products pass the “SUAVE” test to ensure that they are Simple, Understood, Accessible,

Life and Accident Microinsurance Coverage, Ecowas (% of Population)



Source: The Landscape of Microinsurance In Africa, 2012. www.microinsurancecentre.org

Valuable, and Efficient. To expedite the process of company registration, the regulator is expected to notify the applicant of approval or disapproval of the product within 30 days, after which the operator is free to proceed. The Nigerian regulator has also issued guidelines for takaful, or sharia compliant microinsurance products.

All the same, the microinsurance industry suffers from a number of challenges:

- The market lacks awareness, good products, and trust. Even for many who are covered, few are aware of their coverage, as products tend to be bundled with other products; loans in most cases. And while many uninsured persons may desire coverage, a significant number do not understand the product.
- The conventional insurance industry has not embraced microinsurance. For instance in Nigeria, which has the most sophisticated financial sector, only 5% of insurance companies are currently providing microinsurance.
- Donors largely drive microinsurance. At least US$ 26.2 million in donor funding has been provided or committed to the enhancement of microinsurance in 17 countries across Africa over the past five years, raising questions around the industry's sustainability.
- The lack of historical data and the small size of many businesses offering microinsurance mean that data generated from insurance pools may be insufficient for statistical analysis and premium calculation. As a result, there is a risk of overpricing microinsurance products.

To overcome these challenges microinsurance needs innovative products that offer real value to clients and a business case for insurers. Due to low premiums, scale and delivery channels are critical.

Beyond products, the key to success is in building trust, which requires careful thinking about claims processing. Unlike conventional insurance, microinsurance claims need to be paid immediately. Indeed a study of impact of insured and uninsured after a flood disaster in Accra found that when claims are paid slowly, the pattern of insured and uninsured in dealing with the 'shock' is less different. This call for innovations in claims processing. This is beginning to happen:

- The use of specialized and specific microinsurance agents has increased since 2008. An increasing number of insurers are turning to unconventional delivery channels which are familiar and trusted by the poor:
  - Using mobile service providers has shown tremendous power. Most mobile companies in the region are now offering insurance (see next article)
  - In Ghana, Star Microinsurance Services Ltd. is collaborating with the Ghana Post Office to deliver its microinsurance program. The policy can be bought at any post office in the country
  - Churches are also being used to deliver microinsurance in Ghana. The Kumasi Diocese of the Association of Methodist Men's Fellowships has a group insurance policy with the Donewell Insurance Company.
- In Nigeria, Mutual Benefits Assurance Plc is pioneering a model of providing microinsurance by putting people in homogenous groups, making them manageable so that they can create a common insurable risk and thus develop common insurance products that will meet their needs. It is targeting the more than 10 million people who belong to formal cooperative societies and millions of others who are informal cooperative members. The initiative has already grouped pepper sellers at Oyingbo market into Mutual Model Cooperative Society and offered them the Safe Guard Insurance product. Safe Guard Insurance is all-risk insurance that covers the tomato seller for death and permanent disability up to N100,000 (about US$600) resulting from accidents, and it covers the tomato they are selling on a reducing balance basis.
- An emerging trend is the use of insurance as an incentive to change behavior:
  - Dunavant is using microinsurance to give farmer clients incentive to adopt good agricultural practices. It is providing free insurance to farmers whose output exceeds a given minimum
  - Some banks are experimenting with microinsurance as a way to mobilize savings by offering free insurance if a given minimum savings target is reached

Impact

Access to microinsurance has good benefits. A study that examined 27 insured businesses and 30 uninsured entrepreneurs after a torrential flood in October 2011 in Accra found that:

- Though all businesses experienced severe financial stresses and both groups reduced household consumption of basic goods, cuts in household consumption were more severe for the uninsured.
- Although claim benefits were delayed, (average time to pay claims was 42 days) insured clients felt that the coverage offered "peace of mind" and nearly all would continue to purchase.
- The insured were more likely to utilize their own income to rebuild their businesses and needed to draw on fewer difficult financing mechanisms (such as using their savings, selling off assets, or borrowing from shylocks).
- The insured were able to take on additional formal debt sooner than the uninsured, suggesting that insured businesses had "bounced back" more quickly and recovered income losses.

This is a clear demonstration that microinsurance can reduce vulnerability for the poor. Indeed even with delayed payment, the insured still fared better, meaning that there is room to increase impact through faster claims processing.

Interventions

Building trust will continue to be the key challenge and this will come with simpler contracts and convincing people that insurance pays. An approach being implemented in Kenya and Ethiopia could be emulated. The industry has:

- Developed microinsurance contracts that fit on less than a page, cover the client and spouse, cover assets and business for which money is borrowed, and have few exclusions.
- Paid claims publicly on market days to demonstrate the benefits of insurance to a wider public. They find that paying claims promptly is a better educator than radio and television ads, or financial education.

Pricing microinsurance continues to be a major challenge. An actuarial toolkit for microinsurance pricing is being developed by the UK actuarial profession and the International Actuarial Association. It describes pricing as a process that includes much more than the technical mathematical procedures. Actuaries have to specify the problem, analyze the environment and the available data, and apply statistical techniques as well as judgment when pricing a product.

There are a number of noteworthy interventions worth replicating. For example:

Microinsurance Use and Awareness – The Case of Ghana

A survey of 870 microinsurance clients in Ghana is very revealing, showing that:

- The average client is self-employed and has a monthly personal income of between GHS 200 and 400 (about US$100 to US$200).
- The majority of clients were female (65.52%), lived in semi-urban areas (83.1%) and had an education up to the secondary level (69.5%).
- Many clients do not understand the basic principles of insurance nor the product terms and conditions.
- Many clients are not even aware that they have insurance due to the tendency to package insurance with other financial services.
- The attitude of respondents towards the concept of insurance was positive compared to the attitude towards insurance companies.
- Health, traffic/accident, and disability insurance rank highest with regard to the perceived risk exposure and insurance demand by clients.

These point to the reality that microinsurance serves mostly female informal sector entrepreneurs. And though they value insurance, the industry has yet to develop products that they understand and are tailored to their needs. This underscores how much product development is needed.

- The Nigeria Insurance Commission (NIC) is educating the general public on Microinsurance through various media including:
  - Educational Materials ("ABC of Microinsurance")
  - Television sitcoms
  - Radio (in the planning stage)
  - Public education events like the Financial Literacy Week
  - Additional support to the industry, including training courses for microinsurance providers and delivery channels
- In Ghana, Freedom from Hunger set out to develop a consumer education module targeted to poor families on how health microinsurance (HMI) works as part of a strategy to protect family assets from the financial impact of serious illness, and how to access and appropriately use HMI for quality healthcare services.

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Distribution Innovation – The Future of Microinsurance

Microinsurance is a low margin high volume business, and it demands that claims be paid promptly in order to maintain client trust. This puts special emphasis on distribution channels. They must be able to handle high volumes at low costs, and pay claims as well. So important are the distribution channels that they are in essence, the maker or breaker of the microinsurance industry.

For sustained success, insurers and distribution channels can engage in partnerships that leverage the respective strengths of each partner. To create successful partnerships the following should be considered:

- Insurance products should be tailored to the distribution channels, taking into account their clients, systems, incentives, and other products already offered by the channel.
- Insurance companies should leverage on the distributor's brand, especially those with strong brands that inspire trust in the customer.
- It can be cost efficient to let the distributor take on part of the policy administration. Distributors have a strong incentive to ensure that the insurance products they sell perform well since any negative publicity would directly affect their brand.

A platform that does a good job delivering this quality is the mobile platform. This is a mass-market low cost distribution channel that can collect low premiums that are cost effective and are simultaneously a trusted and easy to use option for many poor.

The mobile platform is increasingly becoming a popular way of distributing microinsurance in the region. This has been given further impetus by the very competitive mobile phone market that has caused mobile phone companies to look for new ways to differentiate themselves and capture market share. Offering free microinsurance has been one approach that mobile phone companies have adopted. Ghana has been at the forefront as documented below:

- Since February 2011, Tigo Mobile Network has been offering free insurance to its subscribers. It has attracted more than 1 million people, a larger number of customers than the whole Ghanaian insurance industry. Under its scheme, customers receive free life insurance for themselves and one family member, ranging from US$104 to US$520 depending on how much airtime they use in a month: the lowest level of coverage costs US$2.60 and the highest US$20.80. Furthermore, customers can stay on the free plan indefinitely provided that they meet the monthly airtime requirement, or they can choose to double it by paying US$0.68 per month, which gives them up to US$1,040 of insurance cover. Tigo teamed up with Bima, a Swedish company specializing in mobile insurance, Vanguard Life Assurance, a local insurer, and MicroEnsure, which helped come up with the original idea. TIGO is planning to launch a product "HospiCash" that will pay a number of days in the hospital depending on contribution.
- Mi-Life insurance provides money in the event of death of the subscriber or next of kin. The premium payment for insurance is deducted from the MTN Mobile Money wallet once per month. The customer receives an SMS to inform them when the monthly premium is deducted and insurance cover is renewed. Once the premium is deducted, the insurance cover lasts for one month until the next monthly premium is deducted. The policy is underwritten by UT Life, in partnership with MicroEnsure, MFS Africa, and Hollard International. Claims must be presented within 30 days of death in order to be paid. Claims will be paid via the claimant's MTN Mobile Money account within five working days of receipt of verification documents by the underwriter.
- UniBank Ghana Limited has collaborated with Airtel Money and Star Microinsurance to offer free life insurance coverage (no premiums paid) as an additional benefit to subscribers who use Airtel's mobile commerce product, Airtel Money. Users and their next of kin are covered by the insurance package when they keep an average minimum balance of GHC 5 at the end of every month.

The rest of the region is also catching up:

- In April 2012, Bima, Tigo Senegal, and Union des Assurances du Sénégal – Vie (UASen-Vie) launched the first mobile insurance service in Senegal, called Tigo Kiiray. Tigo customers who register for the life insurance service receive a free insurance policy for themselves and one family member as long as they

- spend a minimum amount of airtime credit with Tigo every month. And if they use more Tigo airtime, then they get more insurance coverage.
- Bharti Airtel has established of a strategic partnership with MicroEnsure, the world's leading provider of mass-market insurance products, to provide insurance services to Airtel customers in Africa. Airtel sees insurance as a strategic portfolio product.

Impact

Mobile based insurance schemes can have great impact. For instance, Bima cites the example of one of its customers, Nana Yaa Konadu, a young Ghanaian woman who benefited from free life insurance through Tigo. Yaa Konadu earned between 600 to 1,000 Ghana cedis (US$300 to US$500) in monthly insurance cover based on her network use, covering herself and her father, Eugene. When he died in 2010, she received a check for 800 cedis (US$400). The money allowed her to pay for her father's funeral in a country where funerals are expensive social events. Tigo Ghana has paid more than 500 claims under the Tigo Family Care Insurance for subscribers since its introduction

The easy to use mobile platform coupled with fast claim processing has helped to build trust in the system. According to a survey cited by GSMA, a mobile industry association, 70% of respondents would rather purchase insurance from a mobile provider than from an insurance company – presumably in part due to the fact that they are less likely to have had any previous interaction with insurers.

Supermarkets: The Next Frontier for Microinsurance Distribution

Old Mutual, a leading life insurer in South Africa, and ShopRite, a large national grocery chain, entered into a partnership in 2007 to sell funeral coverage to low-income clients through ShopRite's retail stores. Old Mutual's partnership with ShopRite came about because both partners were interested in exploring the possibility of using a retail platform as a microinsurance delivery channel. A retail approach to offering microinsurance is based on the premise that the retailer will benefit not only from the increased revenue, but also from the increased visibility and enhanced reputation from offering the product.

The initial product was unsuccessful, and the partnership experienced significant challenges. Old Mutual persevered by redesigning the product and rebuilding the partnership with ShopRite, and re-launching their Pay When You Can product in early 2011. The new product required considerable collaboration between the partners on the technology and procedural sides, and both partners now consider the relationship healthy. However, the product itself has not yet shown sufficient growth to be sustainable, and it is still open to question whether this collaboration can effectively leverage a retail distribution channel for the low-income market.

The outreach and potential market are quite large, and ShopRite's relationship with the client already encompasses financial transactions, including some of a complex nature through their Money Mart counters. However, these advantages have not yet translated into high insurance sales. Possible explanations put forward by Old Mutual's marketing division include the lack of a personal relationship between ShopRite and its clients, and the fact that using a retail channel dictates a passive sales approach that might not be enough to attract new insurance purchasers. And while ShopRite does collect considerable data on the purchasing habits of its customers, this type of data is not conducive to assessing the insurance needs of the market, or identifying the reasons for low sales.

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Mass Distribution – What Does it Mean for Micro-insurers?

When moving from traditional insurance distribution to mass-market distribution, insurers should take into account the following:

- The benefits of insurance are often unknown to staff of distribution channels, as well as clients. There is a need to educate people so that they understand how to sell the opportunities provided by insurance products
- Scale requires simplicity. It is necessary to develop products that can be easily explained by delivery channel sales staff who are not experts in insurance.
- Products with few exclusions allow for faster claims processing. Claims should be seen as a marketing tool, and therefore be paid quickly
- Risk: Instead of worrying about moral hazard, insurers should be concerned about the brand of the distributor

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MicroEnsure: Driving The Microinsurance Revolution in Africa

One of the key challenges of getting microinsurance to take root and scale up is the lack of in depth understanding of the topic and developing products that can meet market demand in terms of price, coverage, and distribution.

Conventional insurance expertise and systems are not well prepared to market to poorly informed clients that can only afford to pay small intermittent premiums. This calls for special intermediaries if this sector recognized.

MicroEnsure, a recognized leader in the provision of insurance for the mass market in Africa and Asia. As a microinsurance specialist, MicroEnsure designs, implements and manages products that address a range of risks faced by low-and-middle income consumers, including risks related to life, health, agriculture, assets, accidents, and political violence. The company serves as an intermediary in microinsurance programs in several different countries in Africa, typically specializing in brokering partnerships between insurers and distribution channels. It also provides third party administration services, such as assisting with policy and claims administration. In Ghana, MicroEnsure is currently is working with six insurers and nine distribution channels.

The success of MicroEnsure has been based on three principles:

- MiroEnsure believes that product development is key to unlocking the microinsurance market and the key test it uses in product development is whether one market woman can explain it to another market woman in five minutes.
- Developing scale and providing value to the distribution channel are also key. Product development should be developed around the needs and goals of the distribution partner, as well as the needs of its clients.
- Monitoring performance, especially at the beginning of a program, provides input for both product and process adjustments. Partners should ensure that program changes benefit everyone involved. Cost-effective and integrated systems that can handle high volumes are also a key factor, and should be outsourced if capacity does not exist in-house with either partner.

MicroEnsure has been instrumental in developing and rolling out a number of successful microinsurance products, such as TIGO Care. And they continue to innovate. Product innovations that are at various stages of development include:

- Credit-Health, a product that pays a client's loan incase of sickness.
- MicroEnsure is also exploring the potential of countercyclical products to improve the resilience of the poor.
- Exploring how to bring in other aggregators' platforms. In Ghana, they are exploring how to involve public transporter unions (GPRTUs) and security guard organizations.

Based on this track record Airtel, with a presence in most African countries, has entered into strategic relationship with MicroEnsure to roll out mobile based microinsurance products.

Innovations in Microinsurance: Zambia's FarmerShield product

FarmerShield, a unique new product developed by MicroEnsure is a combined life and weather index insurance designed to increase farmer loyalty and increase the amount of land and care farmers dedicate to cotton production. FarmerShield is conducted in conjunction with NWK Agri-Services, recently renamed from Dunavant, and remains the country's leading cotton company in both size and innovation.

NWK Agri-Services is looking to reward their farmers who delivered their cotton early last season (by June 30, 2013) and achieved 100% loan repayment - by providing them free life insurance through FarmerShield Life - if they take out a contract-farming package with NWK Agri-Services this coming season. The cover will be extended until November 30, 2014 if the farmers deliver at least 350kg cotton per hectare to NWK Agri-Services and achieve 100% loan repayment by 30th June 2014. FarmerShield Life is available in all NWK sheds across Zambia and is underwritten by African Life Assurance.

FarmerShield Weather is a weather insurance that protects farmers against drought or excess rain. The coverage will pay up to K125 (US$0.024) per hectare in the case of severe drought and up to K125(US$0.024) per hectare in the case of severe excess rain. Coverage costs just K20 (US$0.004) and can be added to the farmers' loan balance so that there is nothing to pay upfront. For NWK Gold Club Members, FarmerShield Weather is subsidized by the company and is available for just K5 (US$0.001) For this coming season, FarmerShield Weather is available in 10 NWK sheds and is underwritten by Focus General Insurance.

Having developed FarmerShield, MicroEnsure will manage the implementation of the product across all NWK sheds, monitor the weather using satellites, and manage claims in partnership with African Life Assurance and Focus General Insurance.

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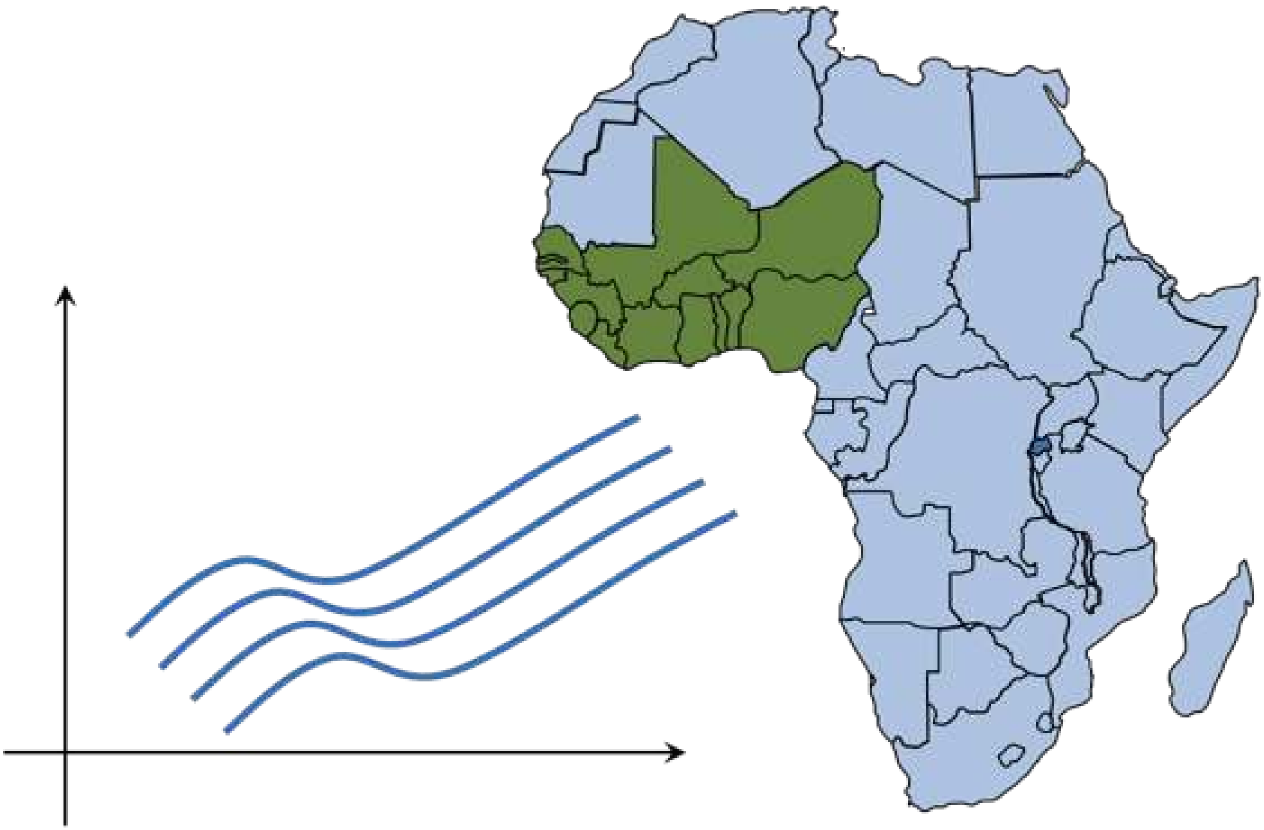

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