Micro Insurance Agency Holdings
OPPORTUNITY INTERNATIONAL NETWORK

Micro Insurance in Africa: Filling the Distribution Gap

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Micro Insurance Landscape in Africa

Africa has the potential to be a leading world region in relation to micro insurance; much of the infrastructure and regulation is already in place and the risks that the poor face should provide significant demand for suitable, affordable products. For example, the HIV/AIDS pandemic has been a significant catalyst to the MFI market to develop and implement basic credit life and funeral insurance products. These life products are now widely available in most sub-Saharan countries.

Insurance regulation is suitably flexible in most countries to allow a range of organizations to fill the gaps of risk carrier, distributor and administrator of these insurance products. A challenge remains to move beyond the straight-jacket of the "partner-agent" model where the MFI is tied to one insurance company.

Innovation has been evident in health insurance both through the HMO models as well as the mutuals and cooperatives of West Africa. The debate continues as to the pros and cons of these approaches, but the important thing is to learn the lessons and improve. Innovation in crop insurance is also significant in Africa as Shadreck Mapfumo of the Micro Insurance Agency has shared already.

The Demand for Micro Insurance

The MicroInsurance Centre's study on microinsurance activities among the 100 poorest countries found that Africa has the lowest number of lives covered with microinsurance – only 3.5 million, or 4% of the total. And the ratio of poor lives covered to total poor lives is only 0.3%.[1]

Intuitively, it makes sense for the poor to buy insurance considering the multitude of risks they face. The prospect of disease and illness as a result of poor nutrition or unsanitary environments, informal and substandard construction for housing and businesses, food insecurity and natural disasters are all strong reasons why the poor should demand and buy insurance. When a disaster occurs with no cover, it comes at a great expense to the poor, driving them deeper into poverty. However, on a large scale, the poor in Africa do not buy insurance. Table 1 illustrates this point by showing the low percentage of GDP spent on insurance in developing countries in Africa.

[1] Roth, Jim, Michael J. McCord, and Dominic Liber. "The Landscape of Microinsurance in the World's 100 Poorest Countries." The MicroInsurance Centre, LLC. April 2007.

Table 1: Percent of GDP Spent on Insurance among Selected African Nations

Country	HDI[2]	Life	Non-Life	Total
Congo, D.R.	0.391	0.01	0.24	0.25
Madagascar	0.509	0.04	0.25	0.29
Chad	0.368	0.07	0.28	0.35
Congo, Republic	0.520	0.00	0.41	0.41
Mali	0.338	0.10	0.38	0.48
Niger	0.311	0.11	0.48	0.59
Nigeria	0.448	0.10	0.49	0.59
Uganda	0.502	0.04	0.55	0.59
Burkina Faso	0.342	0.19	0.46	0.65
Tanzania	0.430	0.10	0.70	0.80
Benin	0.428	0.26	0.61	0.87
Mozambique	0.390	0.20	0.70	0.90
Cameroon	0.506	0.37	0.67	1.04
Ethiopia	0.371	0.10	1.00	1.10
Ghana	0.532	0.32	0.92	1.24
Gabon	0.633	0.35	0.92	1.27
Zambia	0.407	0.30	1.00	1.30
Senegal	0.460	0.41	1.00	1.41
Ivory Coast	0.421	0.86	0.70	1.56
Angola	0.439	0.20	1.70	1.90
Malawi	0.400	0.90	1.30	2.20
Kenya	0.491	0.80	1.50	2.30
Botswana	0.570	1.80	1.10	2.90
Mauritius	0.800	2.73	1.57	4.30
Zimbabwe	0.491	2.80	4.70	7.50
Namibia	0.626	5.60	2.00	7.60
South Africa	0.653	11.36	2.03	13.39

Source: AXCO Market Research

By comparison with the United States, which spends 9.4% of GDP on insurance and a further 16% on health insurance, most African countries show very low insurance expenditure. In addition, much of the insurance is purchased by industrial or commercial firms and the take up by individuals is less than 10% of these GDP figures.

In 2006, global premium income amounted to $3,723 billion. Looking at spending, the industrialized countries spent about 9% of GDP on insurance, while Africa spent 4.7%. Total premiums in Africa amounted to $49 billion (2.5% of world market share), with South Africa making up $33 billion of this total in

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[2] Human Development Index. A HDI below 0.5 is considered to represent *low development,* while a HDI above 0.8 is considered *high development.* Human Development Report 2006.

life insurance premiums alone.[3] As shown in the table above, insurance premiums in most sub-Saharan African countries are miniscule.

Why don't the poor buy insurance? Is their income too scarce to spend on premiums? Is there a lack of suppliers (i.e. insurers) to meet the need or an unwillingness to develop products suitable for the poor?

Contrary to what the GDP data may suggest, the poor do demand insurance. Multiple studies and market research illustrate this point. MicroSave-Africa's demand assessments in Kenya, Tanzania and Uganda revealed that the poor desire a range of insurance products, including health, death of a family member, theft and robbery, fire, droughts and floods, and accident/liability; and they are willing to pay premiums to cover the risks they face. Market research conducted by Opportunity International and the Micro Insurance Agency also illustrates the demand for micro insurance. Clients in Ghana for instance, where average loan balance is $300, preferred to pay a *higher* premium for life insurance if it meant a larger payout should they lose a loved one.

There is also interest from insurance companies to develop micro insurance products targeting the low-income, including global companies such as AIG, Zurich and SwissRe.

If there is desire to reach the market on the supply side and a willingness to pay on the demand side, what is preventing the market from working?

Traditionally, the two more frequently used models for providing micro insurance to the poor has been the mutual model, where a single organization is responsible for the design and distribution of a product; and the "partner-agent" model, where a licensed insurance company carries the risk and the MFI (or other distributor) provides access to the clients. However, I suggest that neither of these models is the best arrangement for addressing the core obstacles to effectively insuring the poor around the world.

Obstacles to Product Delivery and Uptake

Education. One of the primary obstacles to micro insurance uptake among the poor is the lack of education. A Kenyan farmer may know funeral costs prevent

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[3] SwissRe. SIGMA Newsletter. April 2007.

him from sending his children to school, but may not know insurance can help solve the problem.

The majority of micro insurance is sold as part of a loan package with little explanation on the part of the loan officer of the product's features and benefits. And the policyholder certainly does not understand all the terms and conditions. In addition, many times insurance sold to microcredit clients is seen as little more than a "tax" on the loan. Whilst the mutual model has been excellent at educating its members, it often lacks scale required to have impact.

Lack of Insurance Expertise. Lack of insurance expertise within the distributing organization is a concern whether the institution is self-designing and/or insuring the product or whether the institution is working directly with the insurer. The majority of the mutuals that provide health insurance today are unsustainable, reliant upon donors to survive and with no clear path to sustainability.

When this lack of expertise leads to poorly designed products and price structures it will be an unsustainable enterprise for the MFI. When this lack of expertise leads to slow claims payment speed, the insurance product and the organization loses credibility with the clients.

Administration of Insurance Products and Services. Administrating insurance in developing countries is an expensive business. Many insurers use manual processes and have low volumes of business, making the idea of extending service to low-income clients untenable.

Effective administration processes and a reliable management system are extremely important for scaling micro insurance products, particularly in regard to claim payment speed – the test of an insurance product for the micro entrepreneur. Oftentimes, MFIs don't take into account the costs of administering the products and inadvertently create an unsustainable business. The act of collecting premiums (even if they are part of a loan package), keeping track of the insured, and administering claims between the clients and insurance company each contribute to time and cost for the organization.

The Missing Link: A Third-Party Intermediary

In addition to the need to have players fill the roles of risk carrier (insurer, reinsurer, etc.) and distributor (MFI, humanitarian organization, co-op, etc.) to make the market work, a third-party intermediary can overcome the obstacles the micro insurance industry faces in successful micro insurance delivery to – and uptake by – the poor.

Administration. A single administrator with insurance know-how can drastically reduce the administrative costs incurred by the distributor and insurance company in reaching the poor. This intermediary can act on behalf of a number of MFIs or other organizations and reduce the cost of delivering insurance by centralizing processing costs rather than each organization setting up their own administrative procedures.

As health insurance for the poor emerges on the scene, the role of a third-party administrator becomes particularly important. Health insurance typically involves a relationship with a health service provider, which, among other factors, increases costs and adds new administrative burdens. .

Technical Assistance. An intermediary can also provide valuable technical expertise in the development of insurance products. Whereas a consultant gets paid regardless of whether the product designed works or is competitive; an intermediary only gets paid by commissions once the product is up and running and the intermediary has a motivation to keep the product competitive. In addition, an intermediary is free to shop around between insurers to constantly find the best products in terms of price, coverage and service (claims payment).

Better Products, Better Prices. An intermediary is well-positioned to work with multiple insurers to package a product that will fit the particular needs of the targeted clients and negotiate a price structure affordable for clients and profitable for the distributor and providers. An agent can also help the insurance company reach the scale necessary to make micro insurance products profitable by giving the company access to a number of distributing organizations and their clients.

Micro Insurance Agency Holdings

Micro Insurance Agency Holdings was established in 2005 by Opportunity International as the world's first and only stand-alone micro insurance agency. An insurance intermediary dedicated to serving extremely poor households with affordable insurance products, MIA works in partnership with microfinance organizations, rural banks and SACCOs, as well as humanitarian organizations to deliver micro insurance to their client base. It helps insurance companies develop micro insurance products for the poor and negotiates an affordable price structure for both the insurance company and distribution partner.

Product Development. Prior to the creation of the Micro Insurance Agency, Opportunity's insurance experts – now MIA staff – were engaged in creating and testing micro insurance products for Opportunity's microfinance institutions around the world. With experience developing micro insurance over the last six years and with over 100 years combined insurance experience, MIA staff has the insurance expertise to develop innovative and scaleable products with a financially sound price structure for all parties. MIA's extensive experience in the insurance sector and microfinance industry enables it to effectively negotiate affordable price structures for the insurance company, distributor and client, with premiums ranging from $1 to $2 a month.

MIA conducts product market research and analyzes the results to design a prototype product. After the product specification is finalized, MIA design effective workflows, creates a profitable price structure, and integrates the product with the MIS. To date, MIA staff has developed products for over 25 microfinance organizations including credit life, term life, livestock, property, crop derivative, health and package policies. The Micro Insurance Agency represents the World Bank as project manager on its crop insurance programs across Africa.

- **A Packaged Life/Non-Life Product in Ghana**

MIA's experience in Uganda demonstrated that clients wanted protection for their micro enterprise from fire and natural disaster. When MIA entered Ghana, it conducted focus groups with clients to determine whether they too wanted this cover. As a result, MIA developed a credit life product that covered death, disability and damage to the micro enterprise from fire and natural disaster. This packaged product required MIA to negotiate a product with both a life and non-life insurer, package the product and put the systems in place to split premiums between the two insurers.

This combined product – the first of its kind in Ghana – is not only cheaper, but also provides blanket cover for micro entrepreneurs who were previously excluded by insurers refusing to provide cover unless they purchased fire extinguishers – an expense far too costly for clients. Such a product would be next to impossible to develop without an intermediary.

- **Weather-Indexed Crop Insurance in Malawi**

In 2005, the Micro Insurance Agency began working with the World Bank to develop weather-indexed crop insurance for smallholder farmers in Malawi. Research findings revealed that most farmers could not get agricultural funding from local banks because of the high risk of crop failure due to flooding and drought and their subsequent default. However, some banks were willing to lend if the weather risk could be reduced. As part of the project, MIA developed a weather-indexed crop insurance product based on historical rainfall data. The product, whose cover is determined by the amount of rainfall in the area, pays out if there is a drought. This insures the farmers against loss of crop and protects the lending institution from default. To date, this product has been piloted with 1,710 groundnut farmers and 826 maize farmers. The World Bank has recently appointed MIA to manage its index linked crop insurance products across Africa.

Distribution Network. As an insurance intermediary, Micro Insurance Agency is well-positioned to reach a large client base through multiple distribution channels. Rather than individual microfinance institutions developing one-off relationships with local insurance providers, MIA acts as a single representative granting large-scale access to clients. In addition to microfinance institutions, MIA will work with humanitarian organizations to develop and distribute micro insurance products for their beneficiaries. By including non-microfinance institutions in the distribution network for micro insurance, a much larger population of poor people can be reached who do not have access to microcredit.

MIA serves as a bridge to the major local and global insurance companies that want to enter the micro insurance market but do not have a viable business model and culture for doing so. MIA currently has distribution partnerships with the networks of CARE International, Food for the Hungry, Opportunity International, World Vision and Habitat for Humanity; and partnerships with twelve local and international insurance providers including AIG, National Insurance Corporation of Uganda, State Insurance Company of Ghana, Hollard Insurance Company of South Africa and Swiss Re, .

As an intermediary, MIA is not tied to a single insurer and therefore can work on behalf of its clients to negotiate the best products and prices with a number of local, regional and global insurers. MIA has been able to save clients up to 50% of the price of a product through this approach and often is able to deliver a more feature-rich product at the same time. Working with best-in-class insurers, vis a vis working with a single insurer who may offer only one type of product, ensures that clients have access to the mix of insurance products they need.

Back-Office Support. MIA currently utilizes the Automated Insurance Management System (AIMS) and the eMerge Branch Utility System (eMbu), managed remotely from Opportunity's Denver-based MIS Service Center. These systems play a central role in MIA's low cost business model and enables distribution partners and insurance companies to participate in the value chain on a profitable basis.

Future Plans. To date, Micro Insurance Agency has established subsidiaries in Ghana, the Philippines and Uganda. Next year two new subsidiaries are planned in India and Africa with a total of 14 subsidiaries established by 2012 with an expected 25,000,000 active lives insured. In addition to a geographic expansion we see the need for increased innovation in health and crop insurance as well as the use of multiple distribution channels which will include MFI's, humanitarian aid organizations, local NGO's and a retail model for selling direct to the general public.

The Micro Insurance Agency is also planning to incorporate an insurance education curriculum, designed to educate potential and existing policyholders on the features and benefits of insurance products and the role of insurance in relationship to savings and loan products. The curriculum will include modules for a variety of insurance products as well as a training guide for the distribution partners.