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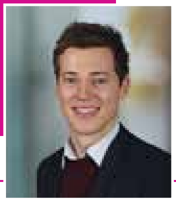

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Microinsurance IN AFRICA

Microinsurance refers to insurance products that offer coverage to low-income households. A microinsurance plan provides protection to individuals who have little savings and is tailored specifically for lower valued assets and compensation for illness, injury or death. This is insurance which is accessed by low-income earners, provided by a variety of different entities, but managed in accordance with generally accepted insurance practices.

It is prevalent in developing countries where the insurance market is non-existent or inefficient. This focus on the low-income market gives rise to distinct means of distributions and unique products.

The most common features of microinsurance include:

- As with conventional insurance, it applies the principles of risk pooling.
- Targets the low income, informal sector.
- Is independent of the class of risk.

There are three approaches to understanding the term micro in microinsurance: the first focuses on the target group, the second on the product and the third on the processes.

The target group approach: micro is defined by the target market, specifically the low income population. Poorer communities are typically excluded from the formal financial services market because they cannot afford the premiums or do not have access to these benefits through their employment. Therefore, microinsurance provides access to the formal insurance market by creating unique products and distribution systems to address their needs.

The product approach: micro is defined by the characteristics of the products offered, being smaller coverage and proportionally smaller benefits. Conventional insurance is unsuitable to the lower income groups because the premiums are unaffordable and the coverage is possibly excessive (generally own fewer assets).

The processes approach: micro relates to the process of designing, introducing, and administering the schemes, and the schemes are governed directly to some degree by the insured members .

"Microinsurance began as a form of charity in the 1990s, when the International Labour Organization began experimenting with super-cheap insurance policies. In 1995, McCord said he developed an entirely commercial microinsurance product backed by insurer AIG, with a view to selling it through a microfinance institute in Uganda.

Today, a $1,000 life insurance policy sells for just $1 a year in Uganda, McCord said, making it affordable to the poor. He estimates that about 135 million low-income people worldwide are now covered by cheap insurance, up from 78 million two years ago."

Formal insurance covers only the wealthiest top 10% of the population in East Africa, with the remainder having to face the risk of the death of an income earner, illness and property damage by themselves.

Microinsurance in Africa is experiencing drastic growth. However, the market is still in its infancy, with a market penetration of only 2.6% of the population living under $2 per day. Nevertheless, the number of people in Africa covered by a microinsurance policy increased more than 80% between 2005 and 2010, with annual growth rates at over 10% in some countries. Accessibility is key, with cell phone technology being an integral part of the delivery system of microinsurance to rural areas.

"In 2000, there were less than 25 million mobile phones in Africa. A few years later, in 2012, mobile phone use had grown tremendously and there were over 650 Million mobile phone users. Today it is estimated that over 67% of the population has a mobile phone and 27% have a device that can access the internet."

Examples of Microinsurance in Africa

EcoLife

Econet Wireless, based in Zimbabwe, offered a cell phone based insurance service, EcoLife. Anyone with access to a mobile phone could get free life cover in exchange for $3 of airtime per month, with the insurance cover being directly related to the amount of airtime used. EcoLife experienced incredible growth, with 20% of the adult population subscribing to its insurance services within 7 months. However after a dispute with its software provider, EcoLife was terminated. This had considerable financial implications for its 1.2 million policyholders, none which received any compensation. EcoLife's argument was that its policyholders were receiving free life cover, which was somewhat flawed because in order to qualify the insured had to purchase a fixed amount of airtime they may not have bought otherwise.

MicroEnsure

MicroEnsure was founded in 2005 in the UK as a wholly owned subsidiary of Opportunity International, a global nonprofit microfinance network created in 1974. It was known as the Micro Insurance Agency until 2008. As an insurance intermediary, it provides a range of products including health, life, property and weather index-based insurance to approximately 3.5 million poor clients in Ghana, India, Bangladesh, Mozambique, Malawi, the Philippines, Tanzania and Kenya as of 2011. Microinsurance is often packaged with other financial services to employ the same distribution channels and thereby reduce operational costs. However, the advent of mobile technology now enables microinsurance to be sold as a stand-alone service.

MicroEnsure Kenya employs the services of M-Pesa, a mobile money digital wallet that was developed in Kenya, and FrontlineSMS:Credit, a free, open source software program that specializes in mobile financial services, to make microinsurance accessible and affordable to the poorer African communities. This business model entails M-Pesa collecting premium payments (policyholders pay premiums via the app) and FrontlineSMS:Credit monitoring individual policies in real time. Policyholders can increase or decrease their coverage as needed.

Microinsurance in South Africa

Currently there are three critical concerns in the South African insurance market that need to be addressed:

1. South Africans must buy the insurance they actually need to address the risk they face
2. Currently South Africans cannot afford to purchase the insurance they need; and
3. Consumer protection must be strengthened

In South Africa, the importance of insurance is understood, but is not translated into behaviour. According to National Treasury, 74% of residents recognise the need for insurance but 34% haven't made plans to address the risks. Furthermore, a mismatch exists between what is perceived the biggest risk (loss of income or job loss) and the dominant insurance product (funeral cover).

Microinsurance doesn't yet have a significant presence in South Africa (it is often bundled together with other insurance products, not normally sold as a stand-alone product), but perhaps convenience (in the form of cell phone applications) and affordability will encourage more South Africans to purchase microinsurance and help alleviate the mismatch mentioned above.

Examples of Microinsurance in South Africa

Go Cover by Sanlam

"Go Cover is great for mountain bikers, trail runners, climbers, rugby players – and even bungee jumpers. In fact, any activity or sport. Use it when setting off on that road trip, taking a taxi ride, or for workplace protection. Whatever your adventure, pursuit, or everyday activity – instantly buy and activate, and we'll have you covered."

Go Cover is a cell phone app developed by Sanlam that facilitates the purchase and management of microinsurance products - the first of its kind in South Africa. It provides world-wide cover for South African residents and for foreign visitors while in South Africa.

It was launched in February 2017 and has been well received thus far, with between 5 000 to 10 000 installs and a rating of 4.5 (51 reviews) on the Google Play app store.

Key features

- Cover ranges from 24 hours to 30 days
- For 24 hour cover there are 3 options: a premium of R10 provides up to R100 000 cover, R20 for up to R500 000 and R30 for up to R1 000 000
- Cover can be bought for up to 30 days at a time, with the premium decreasing as the period increases
- Policies can be activated immediately or within 30 days of purchasing
- After purchasing cover, it can only be cancelled within 5 minutes
- Other:
  - No long-term contractual obligation
  - No recurring payments
  - No waiting periods
  - No onerous underwriting
  - No age limit

As with conventional insurance, microinsurance protects individuals from specific risks in exchange for premiums linked to the type and likelihood of the risk insured. However, microinsurance contract lengths are generally shorter and more flexible, payments are more irregular, premiums are lower and coverage is smaller.

Delivery of Microinsurance to clients is one of the biggest challenges that micro insurers face. Typically, there are 4 business models to deliver microinsurance:

Partner-agent model, in this case, the partner is the insurer and the agent is an intermediary. The partner takes responsibility for the design, pricing, and underwriting of products (as well as the schemes long term solvency), whilst distribution, marketing and collection of premiums is delegated to the agent. In rural settings, the agent will typically be an NGO or microfinancer based in the community, and as such they will have a good understanding of the community's needs.

Provider-driven model, the policyholders will pay their premiums directly to the service provider (e.g. a hospital) who in exchange will provide its services for free or with a co-payment.

Charitable insurance model, a charitable organisation will take over virtually all of the responsibilities of the insurer as well as subsidise the scheme.

Mutual/cooperative insurance model, the responsibilities of the scheme are taken over by the community, thereby making the insured and the insurer the same persons. The major benefit of this business model is that the package can better match the needs of the insured.

Profitability of Microinsurers

The key to profitability in microinsurance lies in the business model. In order to be profitable, a "low-margin/high-volume" philosophy must be adopted. Microinsurers need to price their products accurately with low margins, and then sell large volumes thereof. However, the problem is that voluntary insurance products sold on an individual basis are much more expensive to distribute and service than the mandatory group policies linked to loans. Nevertheless, if they manage to maintain a growth in revenue that is greater than the growth in incremental costs, they will achieve profitability through scalability.

"Looking at different products, credit life microinsurance programs are generally able to generate a profit anywhere in the world. Having said this, breaking even for a new product may take a few years, as is to be expected. For example, the endowment microinsurance policies sold by Tata-AIG were expected to break even in three to four years, assuming that the initial high growth rates and high levels of persistency continued."

Challenges in assessing profitability:

- Microinsurers generally don't allocate costs specifically to products purchased by low-income groups
- A proper allocation of the associated costs and investment returns is not usually available
- Insurers generally aren't willing to provide the detailed information required to properly assess profitability

Regulation of Microinsurance

National Treasury released their "Microinsurance Policy Framework" document in 2011 which summarises the proposed regulatory framework for microinsurance in South Africa.

Existing insurers will be able to register a separate microinsurance licence or convert to a microinsurance licence, either by setting up a separate legal entity or by converting an existing legal entity to a microinsurer - the regulatory framework will be set up to allow seamless integration.

Microinsurance licence applications will be similar to that of current long and short term insurers, but with the capital and reserving regime and operational requirements differing. Applicants must submit the following in order to obtain a microinsurance licence:

- WA standard application form
- A memorandum and articles of association (company) or constitution (co-operative)
- A business plan and 5 year financial projections
- A personal questionnaire to be completed by board members and management to ensure that they are fit and proper
- An application for approval of the auditor(s)

Ongoing Operational Requirements

- **Levies** – each microinsurer will pay an annual levy comprising a fixed and variable component, expressed as a percentage of gross premiums
- **Statutory returns** – a standard, simplified template will be developed for audited annual and unaudited quarterly statutory returns, taking into account the current returns for long-term and short-term insurers.
- **Statutory auditing** – microinsurers must have one or more qualified external auditors to sign off on financial statements
- **Actuarial skills** – microinsurers must have access to actuarial skills

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