

Micro Insurance Survey

**Dissemination Workshop at Serena Hotel, Nairobi
17th September 2015**



Background

- People generating livelihoods on a small and generally vulnerable scale constitute the base of the untapped micro insurance market in Kenya
 - *It is estimated that today, Kenya's informal sector constitutes 98 percent of all businesses in the country, absorbs annually up to 50 per cent of new non-farm employment seekers, has an employment growth rate of 12-14 percent, contributes 30 percent of total employment and 3 percent of GDP*
(source: <http://www.entrepreneurstoolkit.org/>)



- Micro insurance remains a form of financial inclusion and access, both of which aspects are necessary preconditions for increasing insurance penetration
- AKI identified the need to undertake a comprehensive assessment of Micro insurance in Kenya in order to identify and address challenges that have inhibited growth of micro-insurance in Kenya
- SBO Research was commissioned to carry out a survey which took place in Jul/Aug 2015



Research objectives

IDENTIFYING KEY PLAYERS & THEIR OFFERING

- Identify the main players in the Micro Insurance sector
- Establish the micro insurance products available in the market
- Establish if the current offers have the right combination of choice, value and convenience
- Assess if current offers meet needs of low income earners with regard to risk coverage
- Assess how can micro insurance players create a compelling customer interest

IDENTIFYING BUSINESS OPPORTUNITIES

- Identify the existing brand architecture and portfolio for micro insurance products
- Establish how can the existing brand architecture & portfolio be improved for optimal gains
- Identify unmet needs pertaining micro insurance

BENCHMARKING WITH OTHER MARKETS

- Establish micro insurance products offered in other economies
- Establish what insurers in Kenya can borrow from other economies

Approach

- **The research targeted the following stakeholders**
 - a) Current users of micro insurance products
 - b) Potential users of micro insurance products
 - c) Insurance industry players
 - d) MFIs
 - e) Industry Regulator

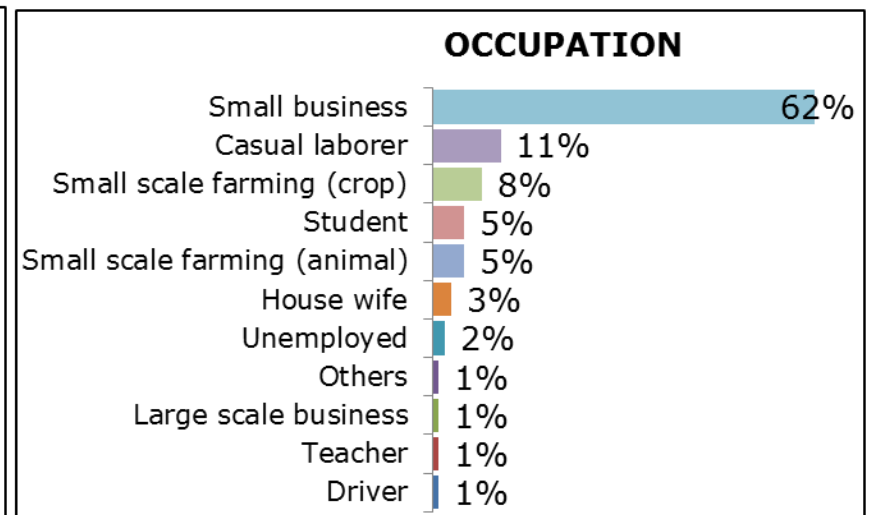
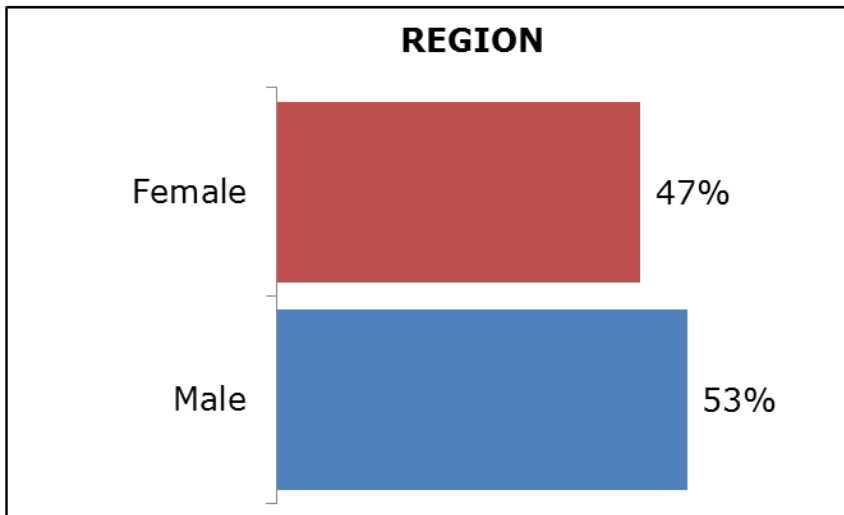
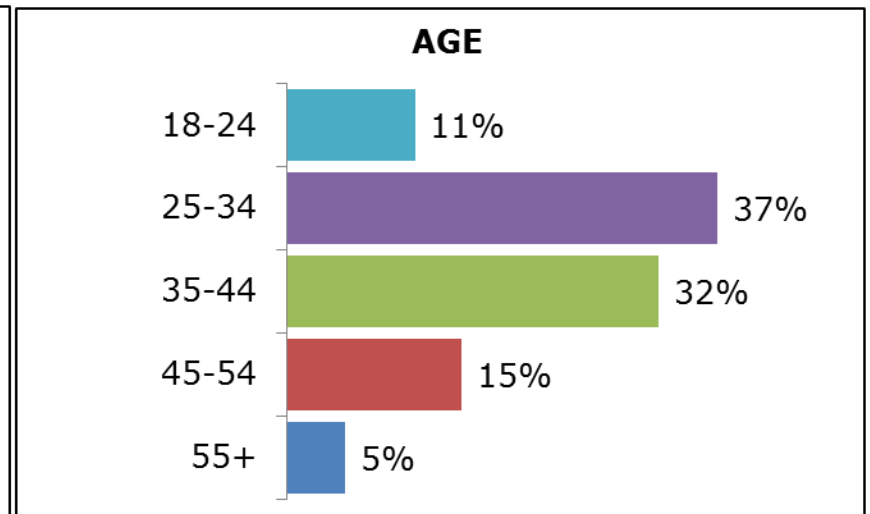
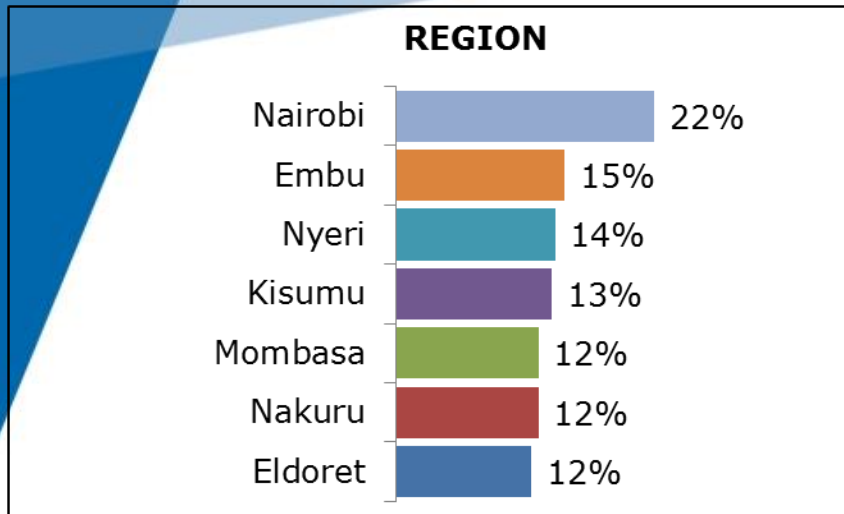
- **The methodology used in data collection entailed a 3 pronged approach**

Quantitative	Qualitative	Desk Research
<ul style="list-style-type: none"> • 351 F2F interviews 	<ul style="list-style-type: none"> • 3 FGDs + 13 IDIs 	<ul style="list-style-type: none"> • Secondary Data
<ul style="list-style-type: none"> • 70% current users of micro insurance products • 30% potential customers of micro insurance products 	<ul style="list-style-type: none"> • 2 FGDs among current users of Micro Insurance products • 1 FGD among potential users of Micro Insurance products • 13 In-depth interviews with: <ul style="list-style-type: none"> • 10 Underwriters of companies that offer micro insurance • 2 MFIs • 1 IRA 	<ul style="list-style-type: none"> • A review of existing secondary data from various sources was undertaken



Approach

Profile of consumers (N=351) interviewed





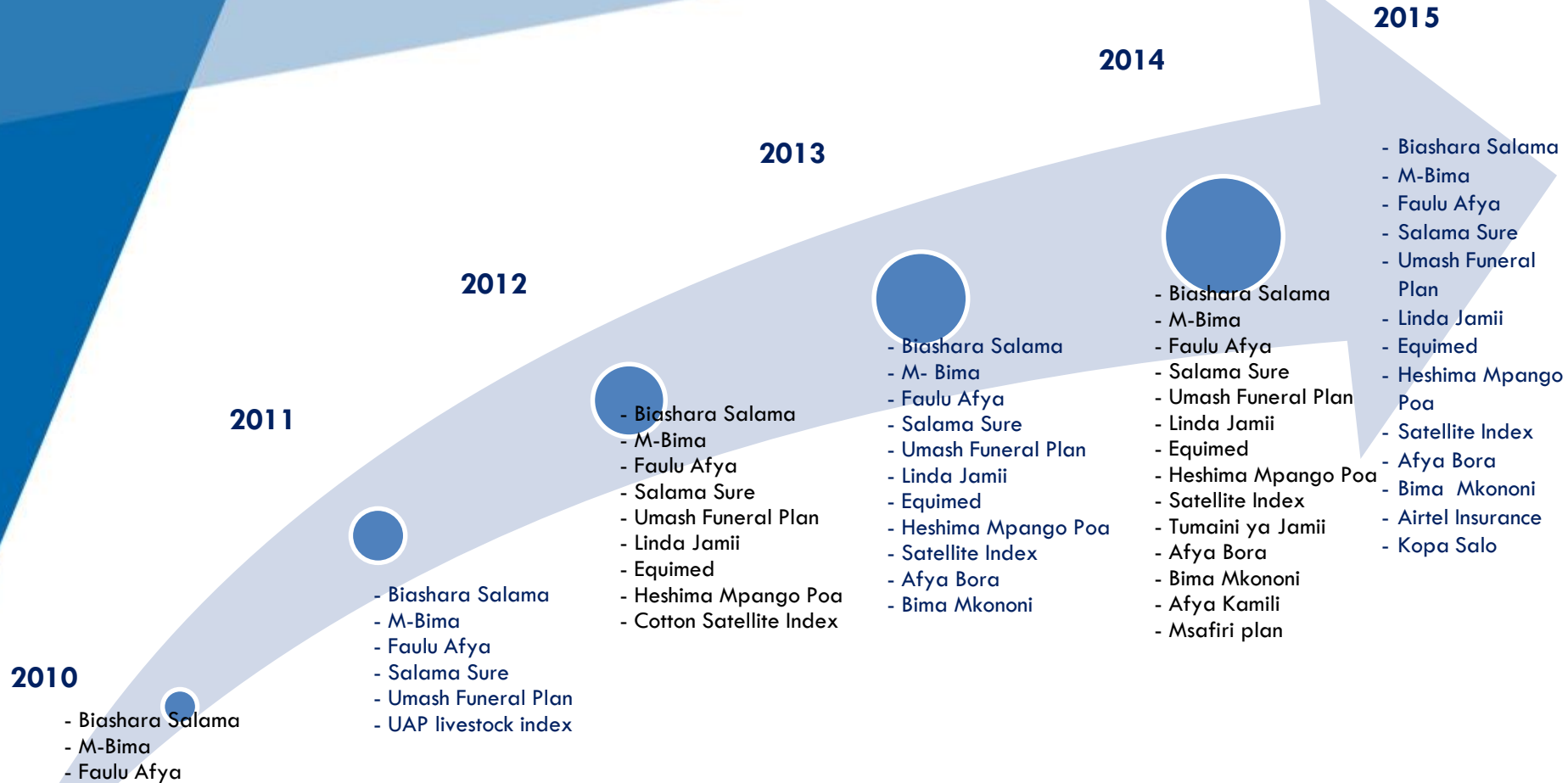
Key players and existing brand architecture

Brand Architecture

	Health / Medical	Personal Accident	Funeral/ Last Expense	Personal Life	Business	Savings	Crop	Credit	Livestock
Britam	Kinga ya Mkulima								
	Afyatele								
	Linda Jamii								
	Equimed								
CIC	Afya Bora	Jilinde	Last Expense Plan		Biashara Salama	M-Bima Jijenge Plan			
	Equihealth					Jipange Pension Plan			
						Jijenge Five/ Orange Bima			
Kenya Orient		Safari Bima							
Old Mutual/ Faulu	Faulu Afya		Faulu Last Expense						
Pioneer	Med Life Policy		Heshima Mpango Poa						
UAP	Afya Kamili	Salama Sure					Kilimo Salama		Livestock Index
Jubilee		Msafiri Plan	Tumaini ya Jamii		M-Pesa Agents Cover		Cotton Satellite Index		
ICEA Lion							Kilimo Bora		
Pan Africa		Flexi Shield	Funeral Cash Plan	Bima Mkononi					
			Umash Funeral Plan	Airtel Insurance					
APA		Kopa Bima				Linda Salo		Group Credit Life Cover	

- We presently have 10 key players in the micro-insurance landscape in Kenya

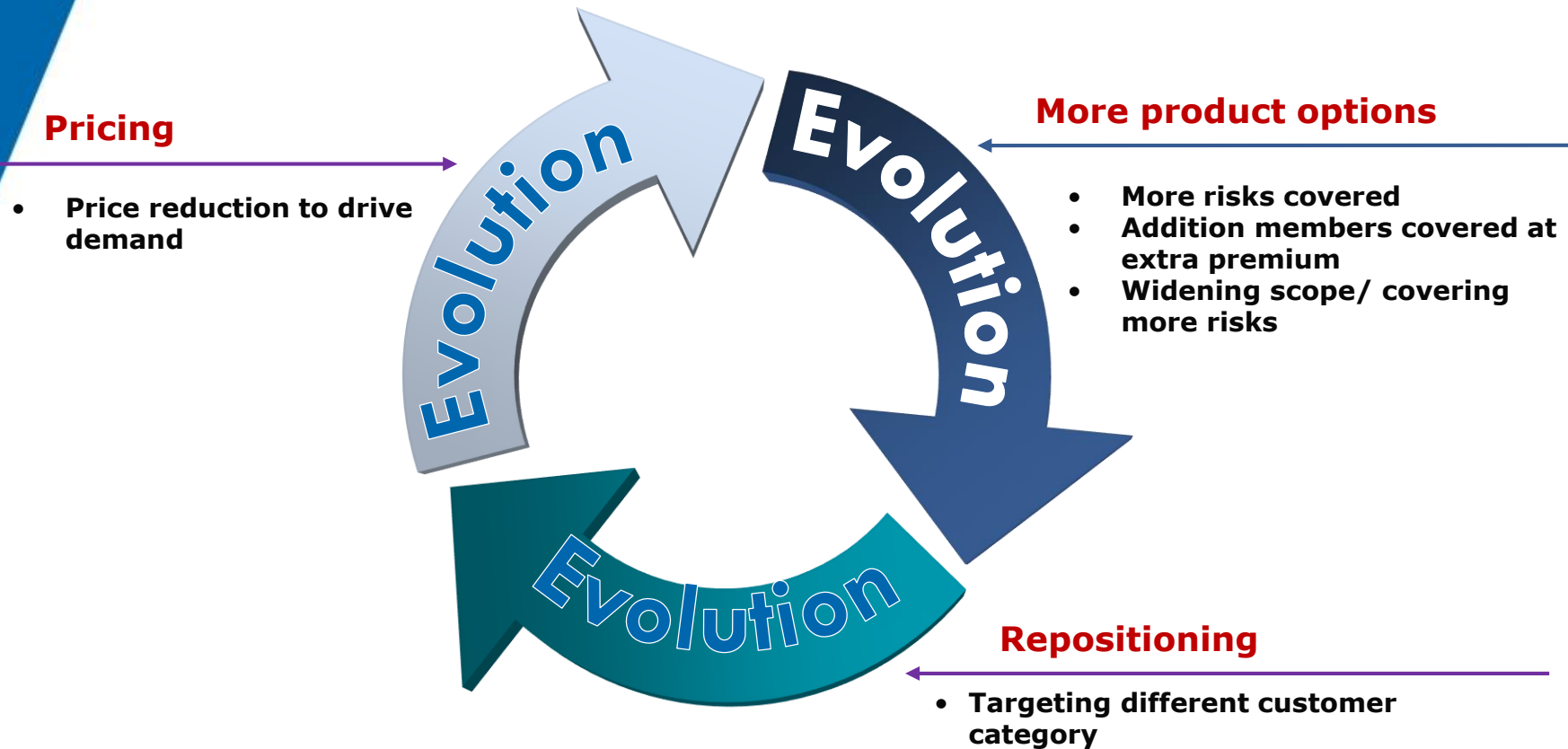
Evolution of micro insurance products



• The market offering has expanded over the last 5 years, from a portfolio of 3 products to 13 presently

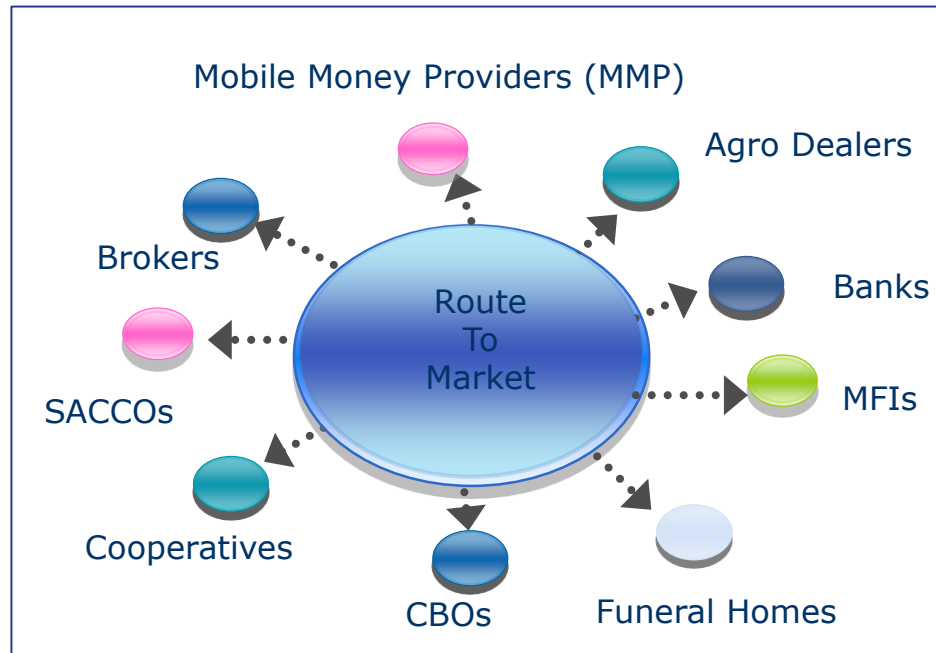
Evolution of micro insurance products

- There hasn't been cases of total rejection of any micro insurance products
- Few changes do take place to accommodate change in demand and customer needs



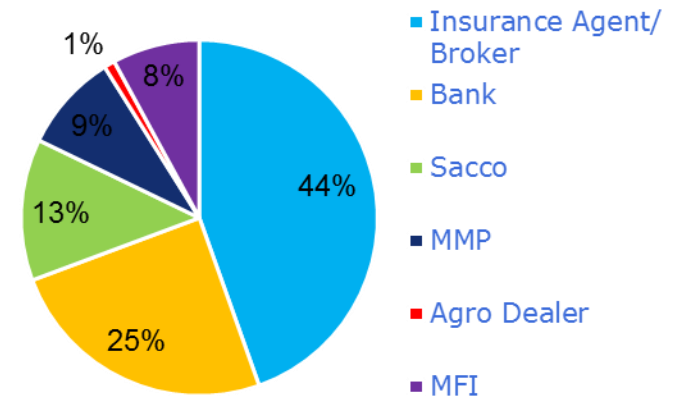
The route-to-market for micro insurance

Micro insurance products are sold through direct sales or partnerships



Channel through which bought micro insurance

(N=246, Active Customers)



Advantages of partnerships

1 GROWING PENETRATION

- Insurers get a larger clientele base due to leveraging on existing structures
- They also save time and costs

2 PREMIUM FINANCING BY BANKS & MFIs

- This makes micro insurance affordable promoting the level of uptake

3 INCREASED CONVENIENCE

- Mobile Money Providers (MMPs) have increased the convenience of paying premiums

4 LEVERAGING ON OPINION SHAPERS

- SACCO leaders are regarded as key opinion shapers

5 TRAINING OPPORTUNITIES

- Creating appropriate avenues for collective target consumer training and sensitization



Key challenges faced in partnerships

- 1** High claim ratios experienced due to non-adherence by MFIs to the policy conditions
- 2** Gross anti-selection (high number of people with existing illnesses)
- 3** Selling of a micro insurance product may present a challenge to partnering institutions



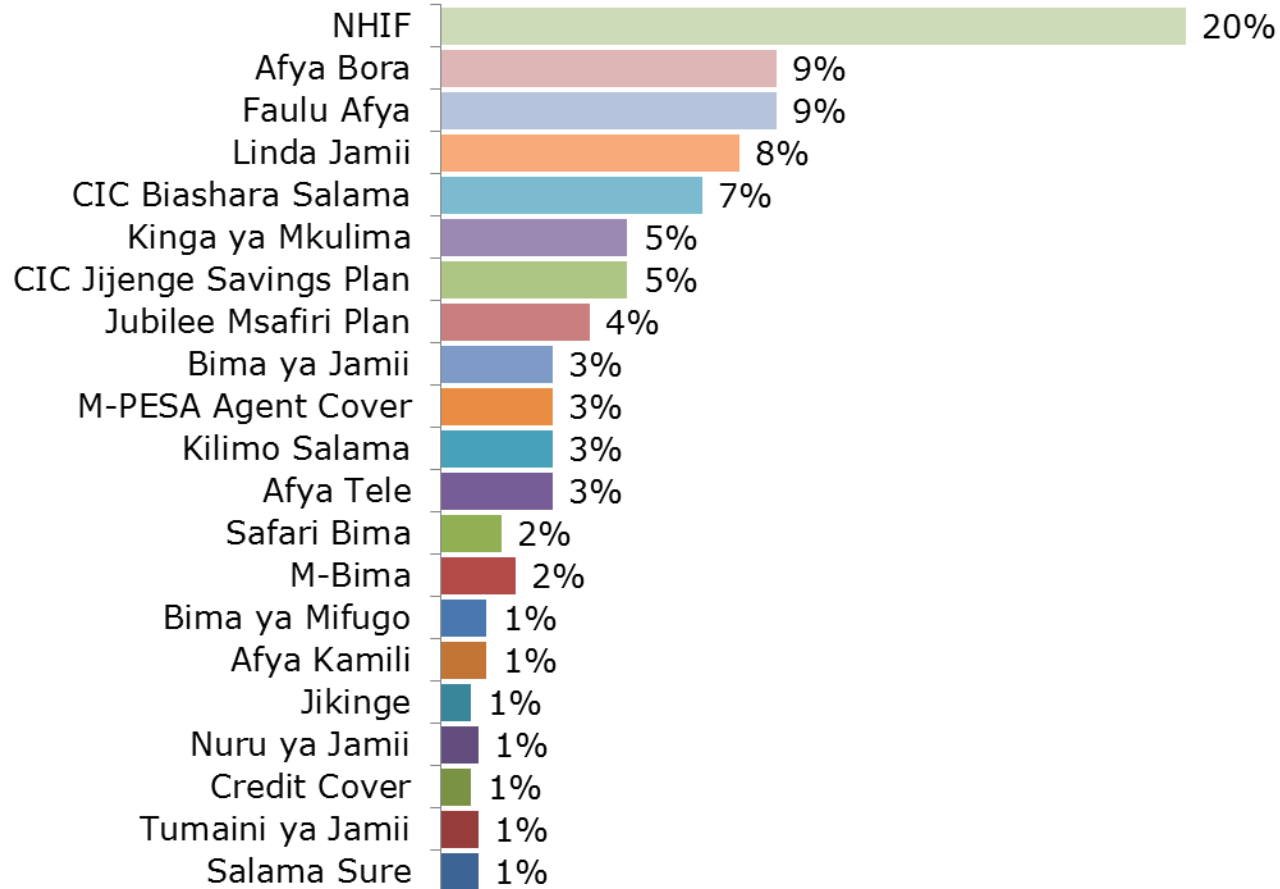


Assessing whether existing offers provide the right mix of choice, value and convenience

Awareness of micro insurance products

Micro insurance policies known to consumers

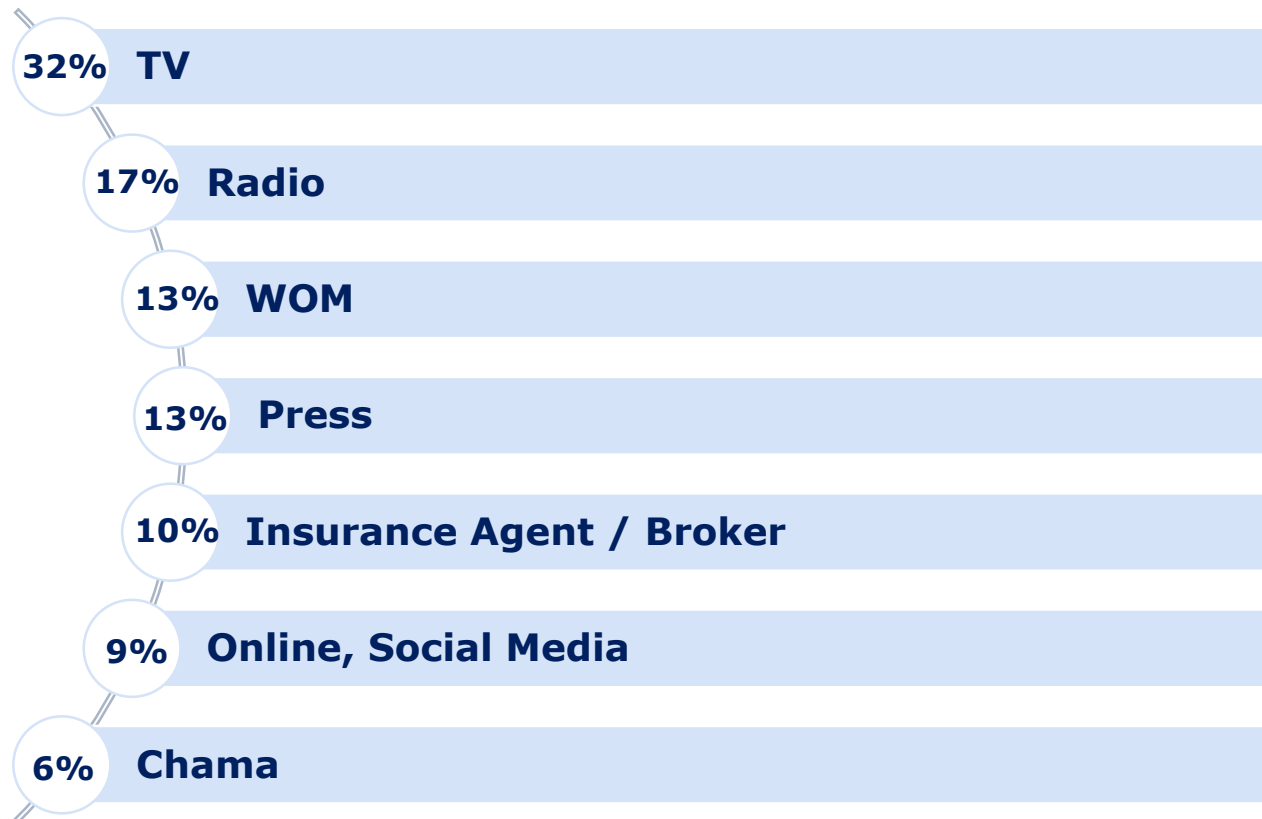
Base: N=351 (All consumers interviewed)



- There is low awareness of micro insurance products in the market

Sources of awareness of micro insurance products

Base: N=351 (All consumers interviewed)

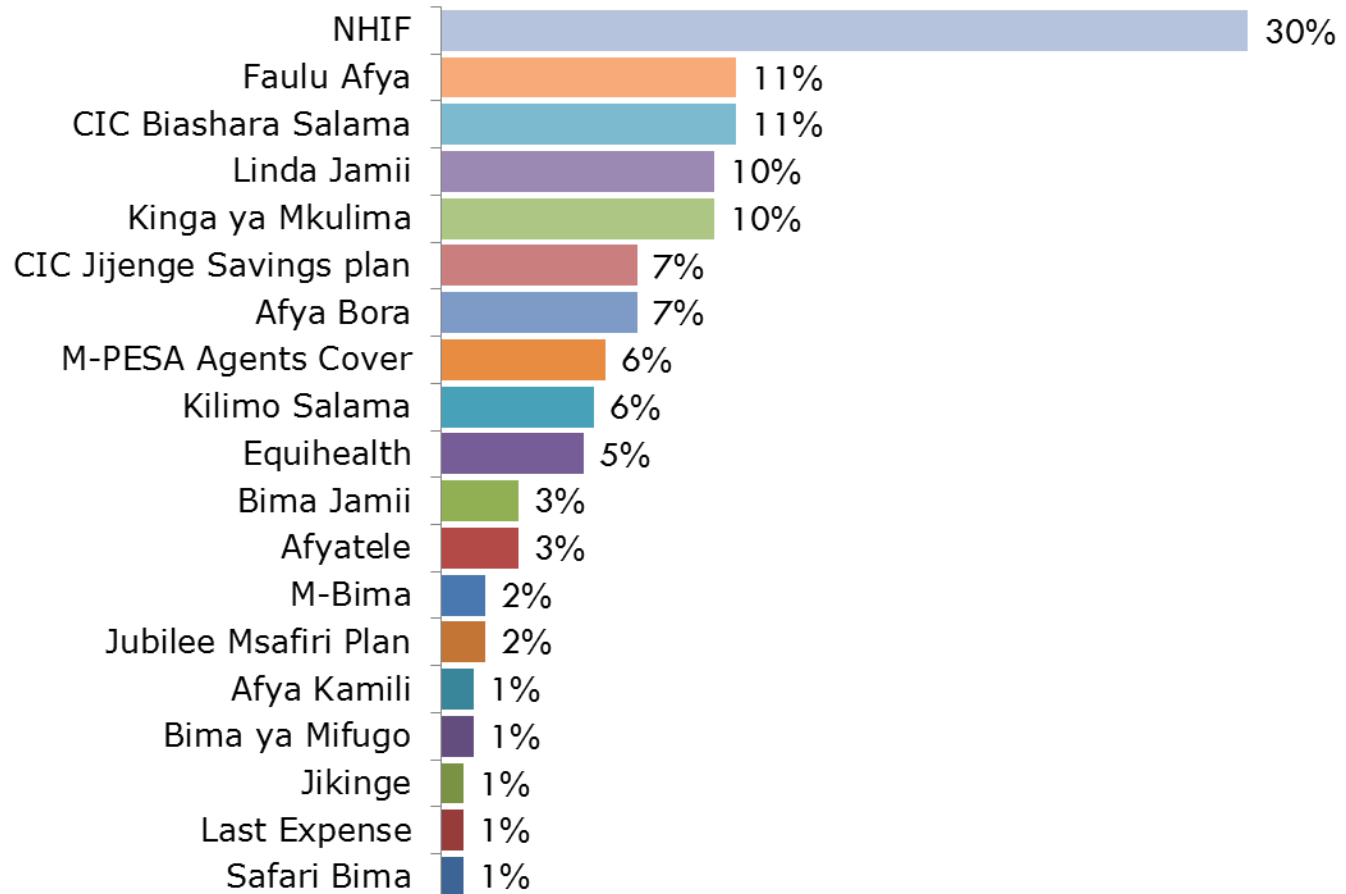


- TV is the main drivers of awareness and other touch points have low impact

Uptake of micro insurance products

Micro insurance policies currently in use

Base: N=246 (consumers holding micro insurance policies)

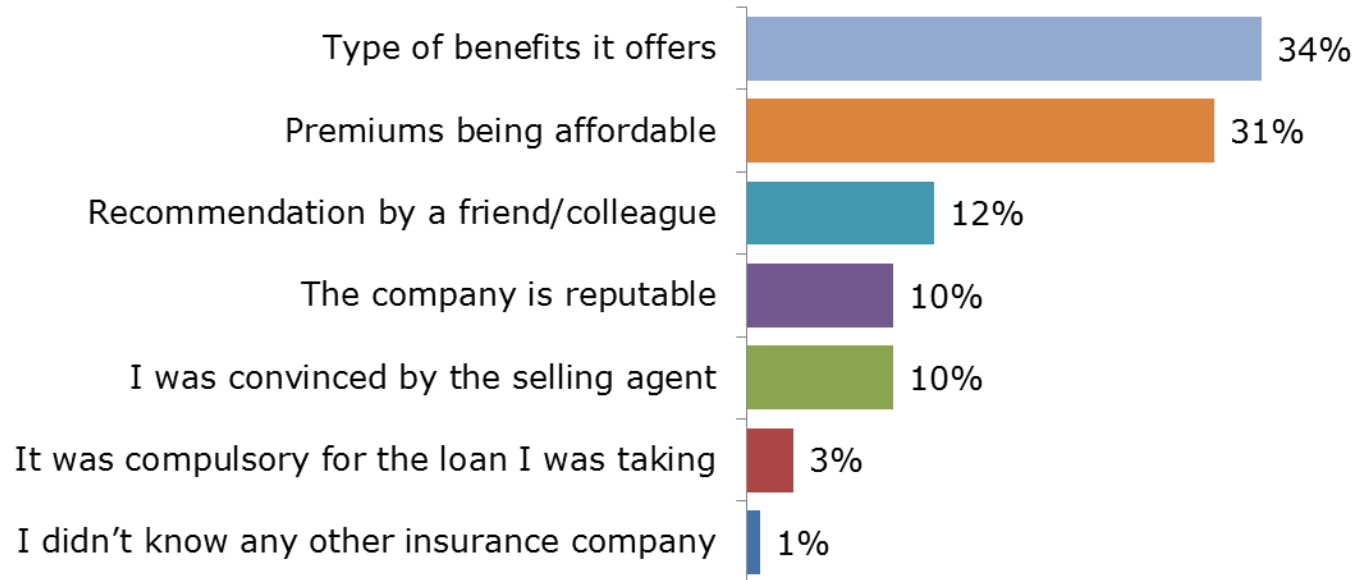


- Old Mutual/Faulu, CIC and Britam are ahead of the pack when it comes penetration of micro insurance

Brand usage drivers for micro insurance

Main reasons why chose to buy policy from the particular insurance company

Base: N=246 (consumers holding micro insurance policies)



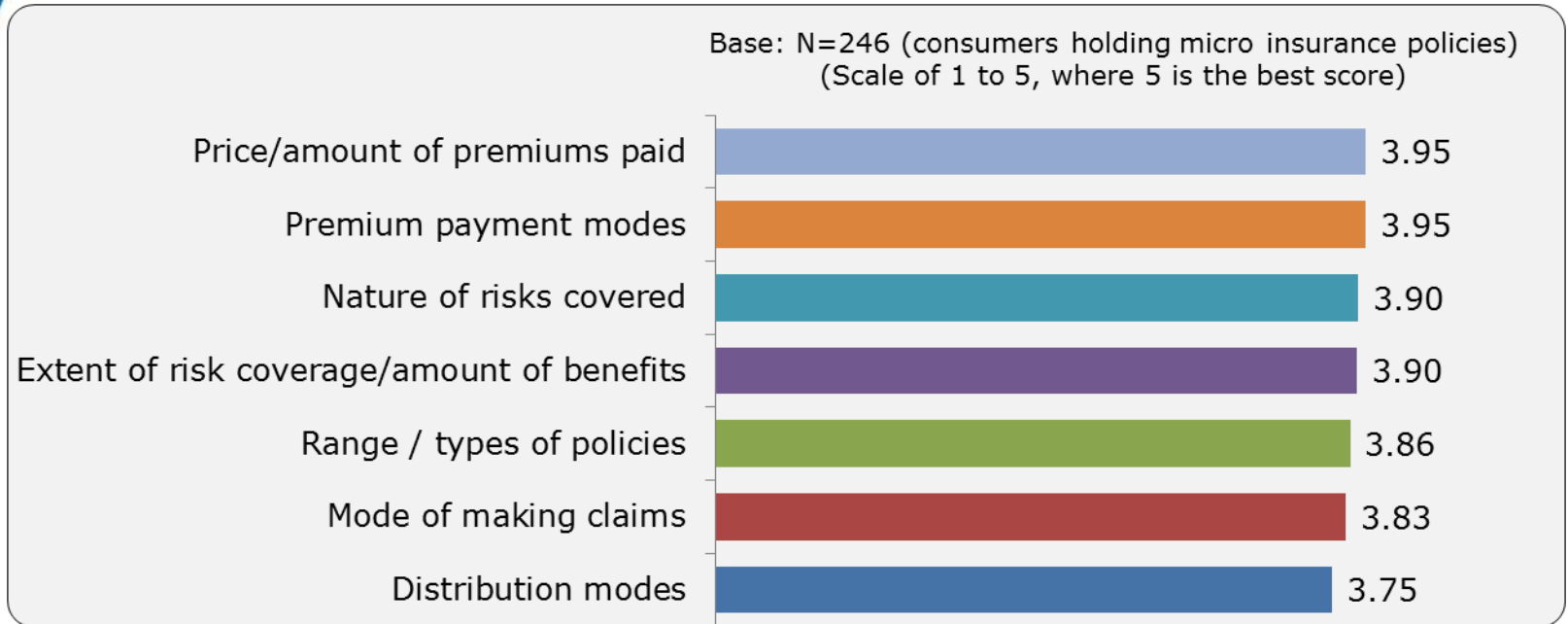
- **Product benefits and pricing are key purchase considerations in the uptake of micro insurance products**

Establishing whether existing micro insurance offers provide choice, value and convenience

	YES	NO
Choice		<ul style="list-style-type: none"> ○ No products with short term benefits e.g. against unemployment ○ No education covers
Value	<ul style="list-style-type: none"> ○ Micro-insurance products are affordable ○ They provide peace of mind/ lessen burden when disaster strikes 	<ul style="list-style-type: none"> ○ Existing micro insurance products perceived as inferior/not offering full benefits
Convenience	<ul style="list-style-type: none"> ○ Partnerships have increased access and made it easy to pay premiums 	<ul style="list-style-type: none"> ○ Complicated claim processing process ○ Lack of assistance from agents when claims fall due /poor service ○ Lack of information

- *'We never see the agents after filling the policy document. Hata mtu akiwa mgonjwa na hospitali ikatae hiyo card, hatuna wa kutusaidia'* (Holder of a micro insurance health cover)
- *'Huwa tunakatwa tu pesa ya insurance lakini hatujui ni insurance ya nini'* (Holder of credit life policy)

Level of satisfaction with current micro insurance products



- Satisfaction is high in regards to premium payments and pricing however there is less satisfaction with distribution modes
- Lack of knowledge and after-sales support during claim processing requires a remedy



Challenges experienced using existing micro insurance products

Limited information

Failure to give updates/ statements

Not available on weekends and public holidays

Delay in paying premiums attracts high penalties

Hidden costs/ extra charges

Lack of flexible premium payment methods

Covers not accepted in private hospitals

Long duration in processing of claims

- **Communication, inflexibility and turn-around time are the key pain points**



Assessing whether the needs of low income persons have been met in terms of risk coverage

Risks facing the low income population

What major threats/shocks/problems relating to you and your family welfare have you encountered during last 5 years

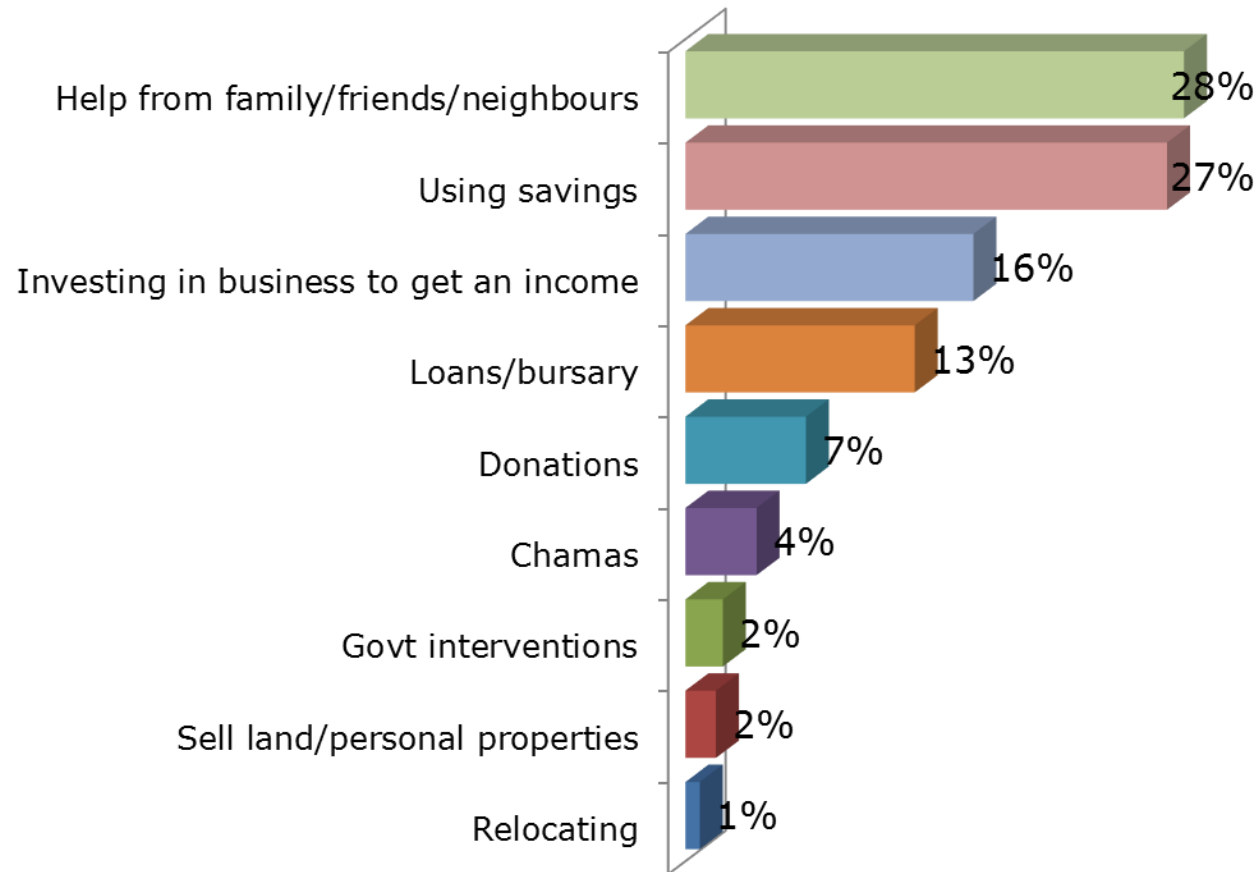
Base: N=351 (All consumers interviewed)

Unemployment	28%
Lack of school fees	27%
Health/high medical bills	25%
Accidents	14%
Funeral expenses	13%
Crop failure	9%
Loss of property through theft	9%
Credit	7%
Lack of market for your goods/produce	6%
High cost of agricultural inputs	6%
Loss of bread winner	4%
Loss of Income of breadwinner	4%
Flooding	3%
Loss of income after retirement	3%
Draught	2%
Loss of property through fire	2%

- Existing micro insurance products have a skewed focus on life, medical and funeral covers
- There is an existing gap (opportunity) in addressing aspects such as education and loss of income

How deals with risks in absence of micro insurance

Base: N=105 (potential consumers /non policy holders)



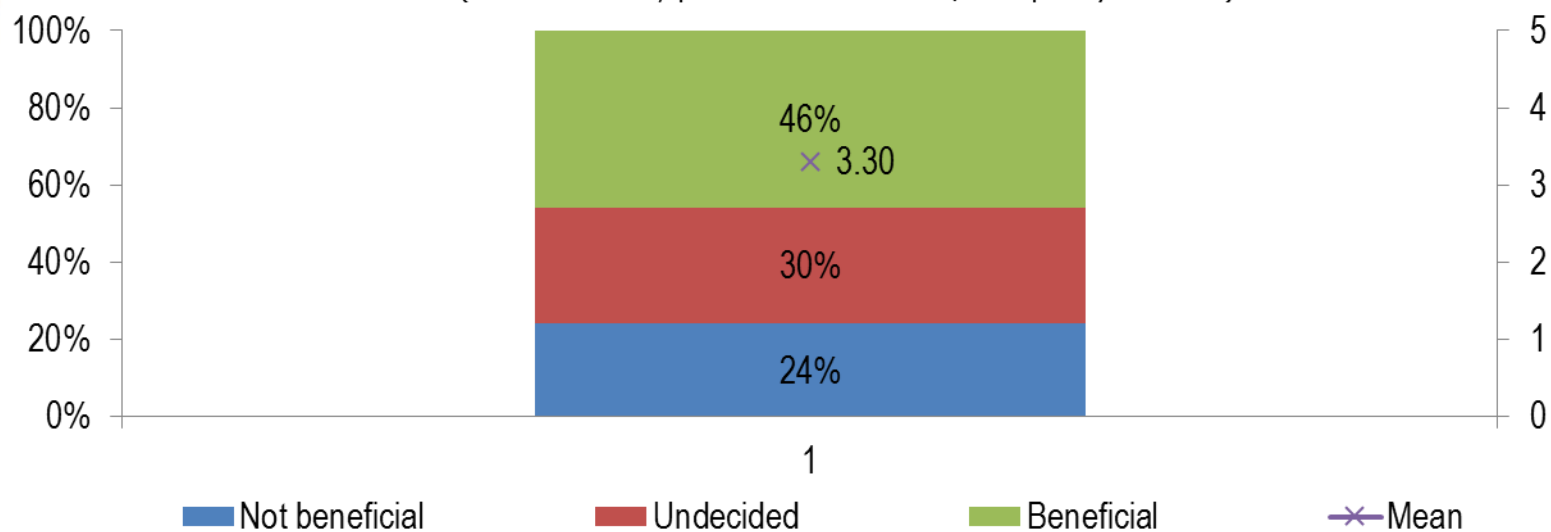
- Potential consumers are exposed to heavy reliance on 'community' support and possible depletion of life savings when risks confront them

Whether micro insurance is considered beneficial

To what extent do you think micro insurance would be of benefit to you?

Use a 5 point scale where 1 means not beneficial at all and 5 means very beneficial

(Base: N=105, potential customers/non policy holders)

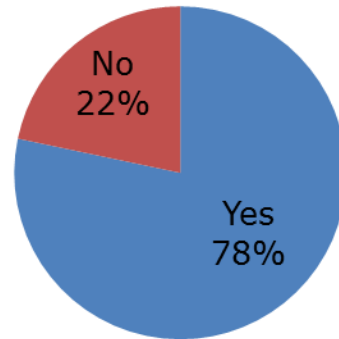


- Potential for uptake exists but consumers seemingly lack information on the micro-insurance concept and existing products, coupled with misconceptions regarding the insurance industry

Potential for uptake of micro insurance

Whether would consider micro insurance

(Base: N=105, potential customers)



Potential for uptake appears promising, especially for Health and Education related covers

Types of micro insurance cover would consider

(Base: 82, All saying would consider)

Medical	69%
Education	40%
Life	23%
Funeral Cover	12%
Retirement/ Pension	10%
House (Building or Contents)	7%
Loan protection	7%
Disability /Personal Accident	6%
Crop	4%
Livestock	2%



**Challenges inhibiting the development,
penetration of micro insurance in Kenya**

Factors affecting uptake of micro insurance

Low literacy, lack of info

- Low literacy makes it hard to conceptualize micro-insurance

Economic factors

- Low income earners struggling to meet basic needs hence insurance not regarded a priority

Range of product offering

- There's a lack of suitable micro insurance products or information on the same

MFIs providing easy financial access

- Provide an avenue for unsecured loans at low interest rates
"Loans are guaranteed by chama members"

Cultural factors

- Belief that funerals are the responsibility of the society, reliance on Harambees
"Unajizika ukiwa hai", "Buying insurance is buying bad luck for yourself"

Legal framework

- There is a perceived lack of framework of how micro insurance should operate

Inclination to informal saving methods

- Chamas are preferred as they are deemed flexible, can advance loan in an easier manner
"They consider emerging issues like sickness. If one is unable to contribute, they bear with that"

Poor perception towards insurance industry

- Skepticism around integrity and professionalism (e.g. disclosure of correct information, honoring claims etc.)

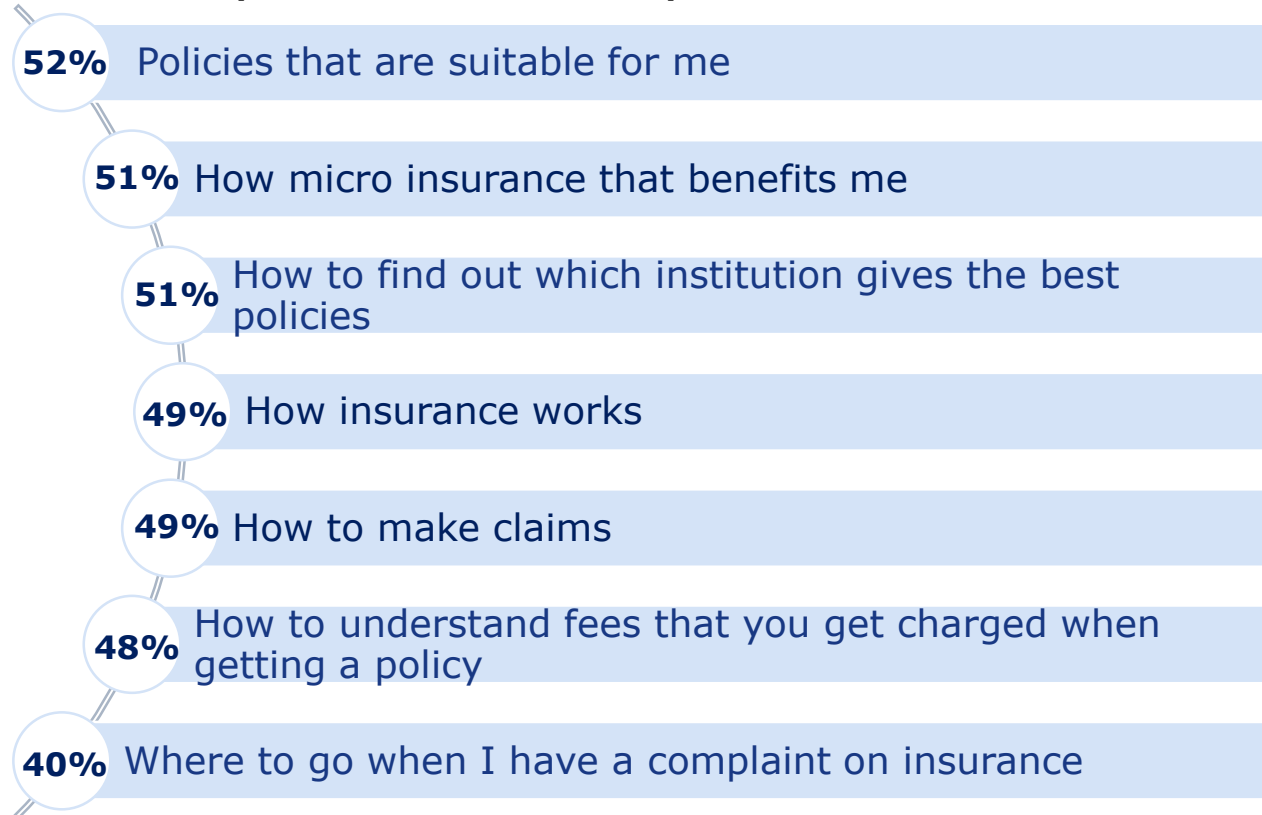


**Creating a compelling consumer proposition for
micro insurance**

Ways in which industry players can create a compelling consumer interest in micro finance

What are consumers looking for?

Base: N=351 (All consumers interviewed)



- Customer are seeking for more sensitization on micro insurance and availability of policies that are customized to suit their needs

Ways in which industry players can create a compelling consumer interest in micro finance

Other factors to consider...

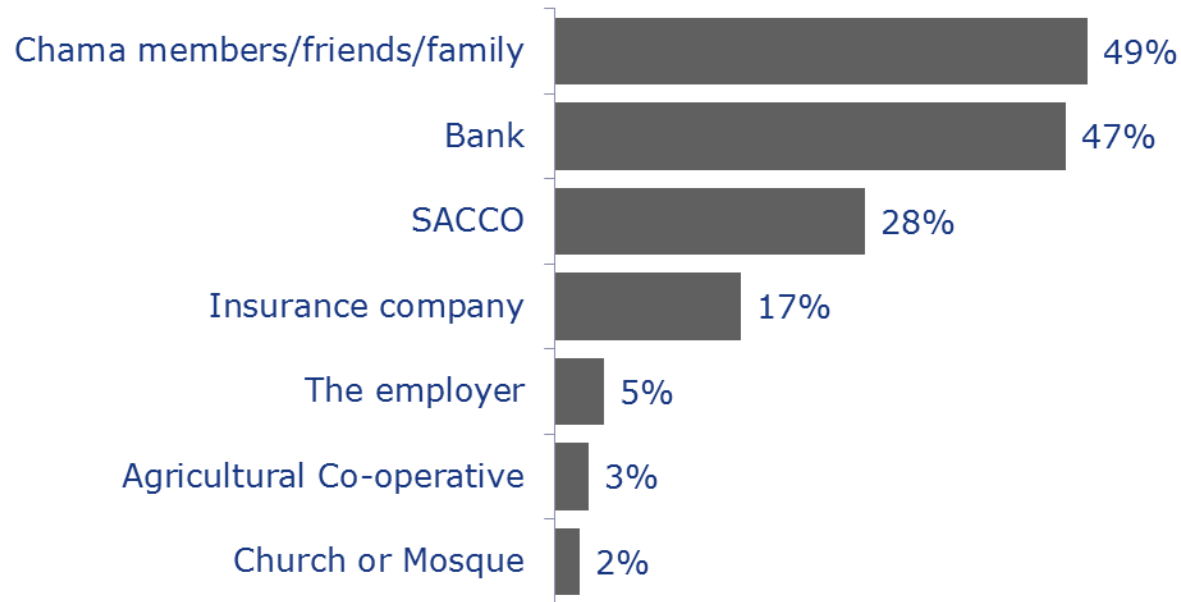
- Provide full disclosure/info about the policy the customer is interested in
- Enhance customers service (turn-around-time and communication)
- Develop more products with short term benefits
 - *'I can only go for a policy that guarantees me my money back whereby I will go for my money after one year'*
- Improve on accessibility by reaching out more to the low income earners
 - *'They should come to us so that we know them, right now we only see billboard about insurance starting from Muthaiga. What does that tell you- that insurance is for the rich'*
- Conduct more research on product fit with consumer needs before roll out into market



Ways in which industry players can create a compelling consumer interest in micro finance

Who would go to when in need of financial advice

(Base: N=351, All consumers interviewed)



- There's need to position insurance players as a go-to financial adviser as well as partner with institutions/groupings that consumers look up to for financial advise



Learnings from other economies

Case Study: India



- Has **very specific micro insurance regulations**
- Insurance **regulator has developed rural and social sector obligation norms**
 - Every insurance company to achieve a certain percentage of policies to be sold in rural areas and number of lives to be covered in the social sector
- Has **supportive regulation in allied sectors** such as Banking and IT
- A **lot of Public-Private-Partnerships**

WEATHER INSURANCE succeeded in the Indian market due to:

- ***Transparent Index that is clearly understood by all parties***
- ***Commitment of local insurer to understand index, interest for commercialization and willingness to assume part of the risk***
- ***Use of effective distribution channels e.g., insurers, governmental institutions, input suppliers, banks, post office***
- ***Legal framework that recognizes index products***
- ***End-customer awareness of the benefits of the product***
- ***Support from government of India via premium subsidies and standardization of products (transparency and affordability)***
- ***Support from international reinsurers (technical inputs and risk capacity)***



CREDIT LINKED LIVESTOCK INSURANCE

- *IFFCO-Tokio introduced a credit-linked livestock insurance product for farmers, **distributed by cooperative banks or cooperative credit societies offering protection against the death of cattle by disease or accident***
- ***IFFCO used door-to-door service for clients:** IFFCO-Tokio used its own staff to enroll farmers*
- ***Faster claims processing:** IFFCO-Tokio required its staff to visit the farmer within 6 hours of notification. Claim was settled within 8- 30 days*
- ***Free veterinary services:** these were provided by IFFCO-Tokio. This was a major benefit because the cost of the health*
- ***Value-added services:***
 - *Knowledge about mortality rates of breeds, for example, was passed to farmers certificate or post-mortem could equal 50 to 60 per cent of the annual premium*
 - *IFFCO-Tokio provided deworming tablets. Providing value-added services makes business sense for the insurer if it leads to healthier cattle and fewer claims*

Case Study: South Africa



- Relative to its peers, South Africa **has a well-developed micro insurance industry**
- Key success factors for micro insurance in South Africa are:
 - *Micro insurance **products are simplified***
 - *In most cases **underwriting is on a group basis***
 - *Pricing is then done on a group basis (with no medical checks) **and this significantly reduces the cost** of micro insurance*
 - ***Adverse selection is usually done to limit risk** due to the absence of individual underwriting*
 - ***Policies generally rely on a waiting period,** typically of 6 months*
- The micro insurance in South Africa is **dominated by Funeral Covers**
- In addition to the commercial insurers, there are a number of **burial societies providing funeral insurance** formally as registered friendly societies



Case Study: Ghana



- Micro insurance policies range from **conventional insurance** policies **downsized** to be made **more affordable to simplified arrangements** for which a **contract can fit on half a page of paper** and **premiums paid amount to \$0.59 per month**
- Key success factors for micro insurance in Ghana are:
 - ***Keeping exclusions to a minimum***
 - ***Making process straightforward enough to be understandable to someone with minimal formal education***
 - ***Recognition that speeding up growth starts with the regulator*** - the insurance law was updated to provide a fully articulated legal environment in which micro insurers can operate. Micro insurance is treated as another form of insurance, instead of a unique product that requires a separate license
- Around 20 categories of risks were covered by micro insurance plans and offered by 15 companies as of early 2012



Case Study: Other consolidated research



THE IMPACT OF MICROINSURANCE



A review of 38 studies on the impact of microinsurance provides the following insights (Source: De Bock and Ontiveros, 2013, Facility Research Paper 35)

Lower out-of-pocket spending

15 studies linked microinsurance to a reduction of expenditures

Reduction in expenditures was also found in **Cambodia, Ghana, India, Rwanda, Senegal** and **Vietnam**

44%

average decrease found in treatment costs for a community health scheme in Cambodia (Levine and Polimeni, 2012)

In China, however, no impact on expenditure was found (Lei and Lin, 2012)

Increase in the utilization of health care services

20

studies found an increase in the use of health services

15%

average increase for a community-based health scheme in Nigeria (Gustafsson-Wright, 2013)

In China, self-medication was reduced

In Rwanda, children covered by the Mutuelles de Santé were about

22%

more likely to receive treatment when sick than non-insured (Binagwaho et al., 2012)

2
3

(Yip et al., 2009)

Lower reliance on coping burdensome strategies

7 studies linked the adoption of microinsurance to the reduction of costly risk-coping strategies such as

assets sales
indebtedness
child labour
dissaving

Livestock insurance in Kenya

29%

less asset selling

Health insurance in India

33%

less borrowing

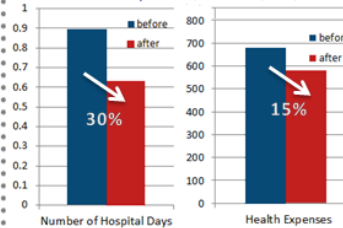
Health insurance in Pakistan

7%

less child labour

Janzen and Carter (2013), Aggarwal (2010), Landmann and Frolich (2013)

In India, an OP community scheme was found to reduce days of hospitalization and health expenses (Mahal et al., 2013)



In Kenya, however, no significant improvement in utilization of health facilities was found (Dercon et al., 2012)

Better health outcomes

Improvements in health conditions found in **5** studies include:

increase in the body mass index of adults and height and weight of young children

(Pradhan and Wagstaff, 2005)

reduction of infant mortality

(Binagwaho et al., 2012)

and in the risk of infection

(Quimbo et al., 2011)

In Cambodia, however, no impact on children's health was found (Levine and Polimeni, 2012)

Better financial choices in the absence of a shock

8 studies found an improvement in agricultural production due to microinsurance

Higher investments and outputs were found in **China, Ethiopia, India** and **Ghana**

In China, insurance was responsible for

27%

higher investment in cross-bred pigs among policyholders (Chen et al., 2013)

In Ghana, insured farmers increased expenditure on fertilizer

by **24%** and the area of

land cultivated by **17%**

(Kariian et al., 2012)

TO SUM IT UP:

Outcomes & impacts

- Lower out-of-pocket spending
- Lower reliance on burdensome strategies
- Better financial choices in the absence of a shock
- Increase in the utilization of health care services
- Better health outcomes

Evidence available

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The Way Forward

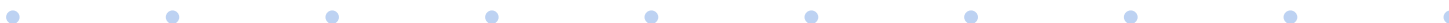
Way Forward

	Issues	Recommendations
1	Access to information and consumer education	a) IRA and other insurance industry players should develop initiatives to sensitize people on micro insurance; its need and benefits
2	Projecting a positive image of the industry	a) There is need to enhance industry image through full disclosure, transparency and honesty when paying claims b) Need to offer more service support to micro insurance policyholders c) The insurance industry should look at the service delivery strategies geared towards enhancing communication and efficiency d) The industry should ensure that insurance agents conform to industry code of conduct and professionalism



Way Forward

	Issues	Recommendations
3	Create more partnerships	<p>Mass uptake of micro insurance will require improved penetration through MFIs and other untested channels. Key success factors of these partnerships are:</p> <ul style="list-style-type: none">a) Added value to partners core products from the sale of micro insurance. This will make them more interested in offering a variety of productsb) Effective systems and technologies to make processes efficient. Efficiency is important for all partiesc) Flexibility in terms of products and processes from the insurers side. Successful micro insurance requires not only reduced premiums and lower coverage, but significantly redesigned products and processesd) A strong and clear agreement between the MFI and the insurer. It is important that the roles and responsibilities are clear in the relationship
4	Improve the suitability of micro insurance products to the needs on the ground	<p>The product portfolio should be diversified to cover the actual needs e.g. education, loss of employment etc.</p>



Way Forward

	Issues	Recommendations
5	Need for a legal framework on how micro-insurance should operate	<ul style="list-style-type: none">• The current regulatory scheme for micro insurance in Kenya includes all legislation impacting on the delivery of insurance and a number of Acts and their Regulations beyond the Insurance Act. Micro insurance needs to be clearly integrated into the Insurance Act
6	Government support	<ul style="list-style-type: none">• There is need for the government to put in place deliberate measures that will promote the development of micro insurance products and deepen its penetration as well<ul style="list-style-type: none">• This has worked in India where micro insurance has received support from government of India via premium subsidies and standardization of products in terms of transparency and affordability
7	Physical access to insurance services	<ul style="list-style-type: none">• Insurance companies should reach out to the low income earners by opening branch offices in areas where the target customers as well as possibly use third party agency network that can promote its outreach



Thank You