

Opportunities for microinsurance in Swaziland

Stakeholder Workshop



Manzini, 22 June 2011

Why this study?

- Commissioned by RIRF to:
 - ▣ Map landscape, understand opportunities and challenges, make regulatory recommendations
 - ▣ Ultimate goal: financial inclusion
 - ▣ Feeding into international learning and best practice through Access to Insurance Initiative (IAIS link)
- About Cenfri
 - ▣ Non-profit research centre based in Cape Town, supports financial sector development and financial inclusion
 - ▣ Manages FMT research on microinsurance and retail payment systems across SADC
 - ▣ Global experience with microinsurance, SA regulatory framework inputs



What is microinsurance?

Would you insure these lives, assets & businesses?



What is microinsurance?



Insurance

accessible to

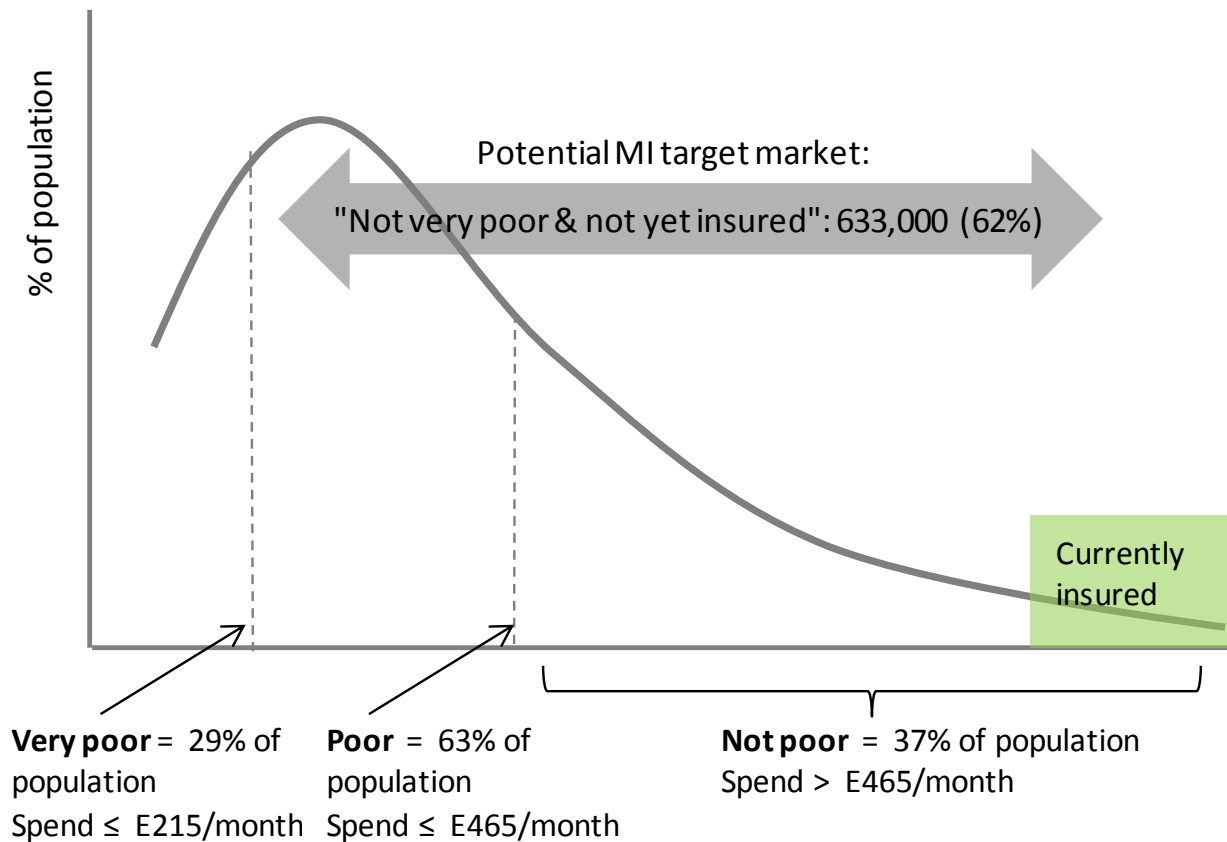
the low-income market

Microinsurance is a global issue



...but the story is different for each country

What is microinsurance in Swaziland?



Agenda

Session 1: Understanding the landscape

- ▣ Context
- ▣ Supply-side snapshot
- ▣ Understanding the potential microinsurance customer

Coffee/tea break

Session 2: What does this imply for microinsurance?

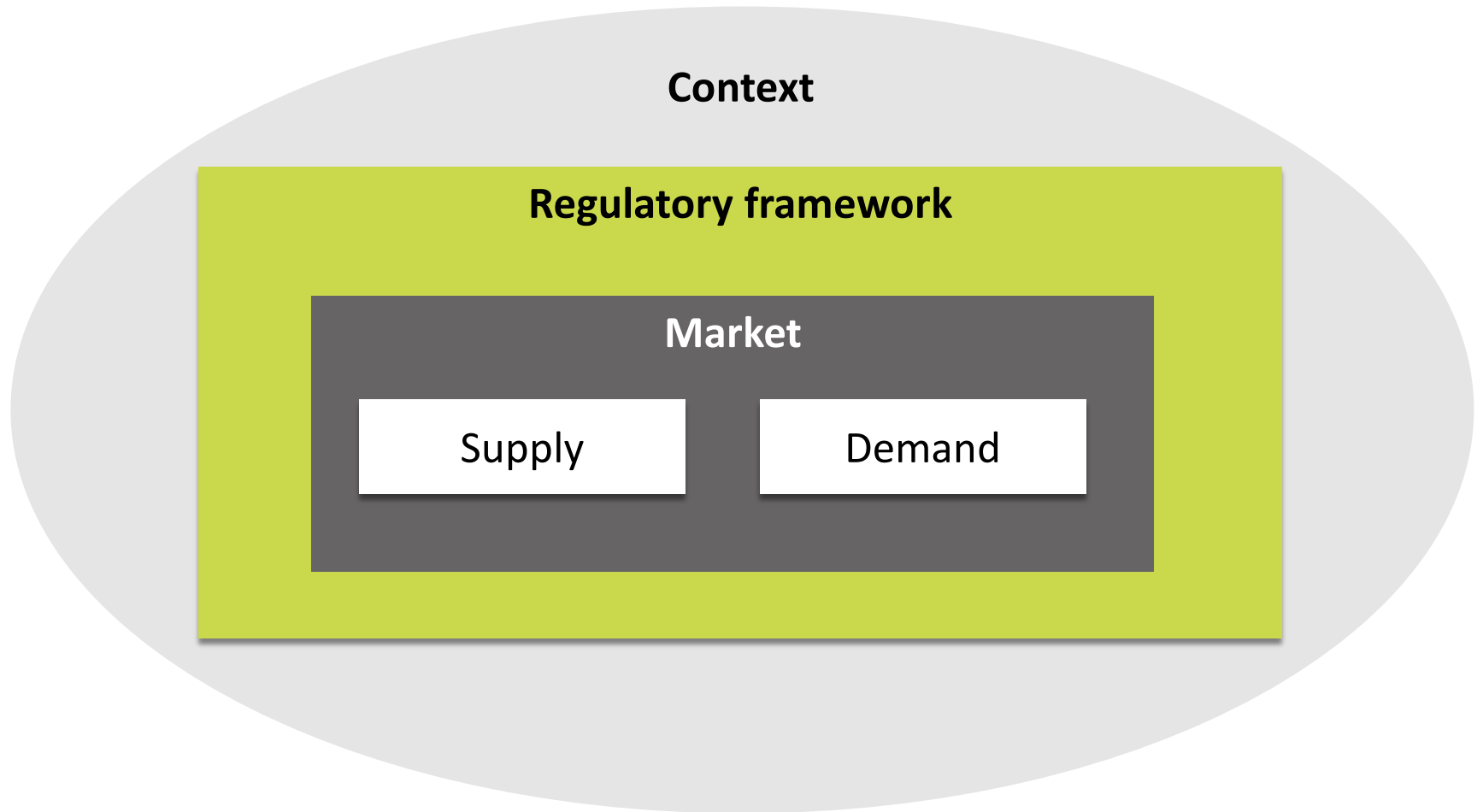
- ▣ Key market features
- ▣ Drivers of market development
- ▣ MI opportunities
- ▣ Regulatory imperatives

Discussion



Session 1: Understanding the landscape

How it all fits together



Context

Socio- and macroeconomic

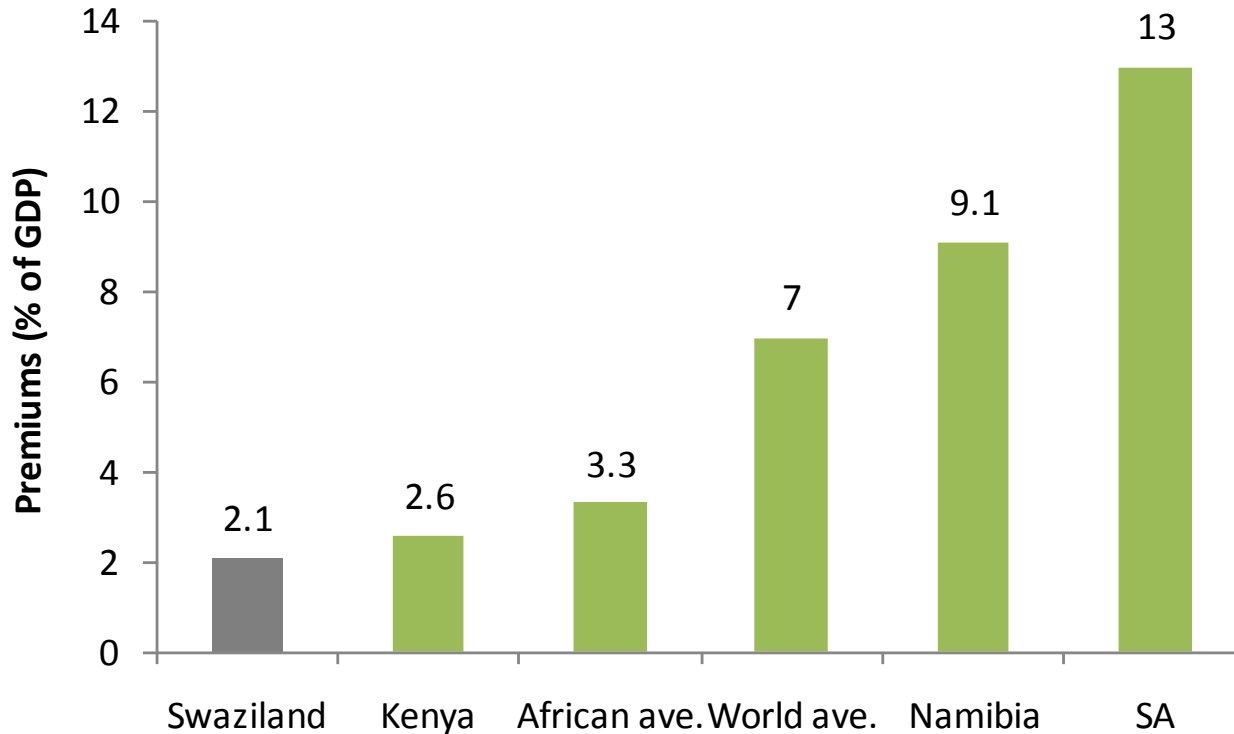
- Small country, relatively high poverty (81% <\$2/day), relatively high population density
- Large, vibrant informal market
- Government single largest employer, engine of the economy in many respects – fiscal crisis bites

Financial sector

- Broad-reaching financial sector infrastructure, high banking penetration
- Very high growth in credit extension – payroll market getting saturated?
- Credit providers interest in income diversification
- M-payment platform just launched (ahead of the pack in cell phone penetration)

Market analysis

- Don't be fooled by the small size of the market...



- Penetration up from 1.7% in 2008, 26% premium growth 2008-9

Players

- One to ten insurers in the span of five years

Long-term insurers	Short-term insurers
Liberty Life Swaziland	Swaziland Royal Insurance Corporation
Metropolitan Swaziland	Orchard Insurance
Momentum Life Swaziland	Lidwala Insurance
Old Mutual Swaziland	Getmed Insurance
PFM Swaziland	
Safrican	
Swaziland Royal Insurance Corporation	

- Only one composite, all at least part foreign-owned
- Different core focus
- SRIC still accounts for bulk of ST market, but LT share now 48%
- All-round premium growth, but especially life “taking off” (33%-42% share, 2008-9)
- Stable, healthy industry

Diverse product landscape

Long-term product lines	% of total premiums	2008-9 premium growth
Whole life	45%	113%
Group life	27%	83%
Term assurance	16%	5328%
Pension and annuity schemes	8%	-61%
Group funeral	4%	-21%
Health insurance	1%	100%
Capital disability	0%	-100%
Income disability	0%	-100%
Total	100%	60%

Quite a number of “MI-relevant products”

□ Funeral insurance (1):

Underwriter	Product Name	Waiting period	Monthly premium range	Cover range
Liberty	Dups funeral product	12 months	<ul style="list-style-type: none"> Principal member only: E25 to E110 Member plus spouse: E33-E151 No option for children or other family members 	<ul style="list-style-type: none"> Member: E3k to R50k Spouse: E3k to E20k Children: R3k to R20k
Swazi Royal	B3 funeral product	6 months	<ul style="list-style-type: none"> Principal member only: E129 to E350 Member plus spouse: E159-E166 Member plus children: E149-E166 Parents: E89 	<ul style="list-style-type: none"> Member: E13k to E30k Spouse: E16k to E23k Children: E8 to E12k Parents: E10k
Swazi Royal	Litsemba funeral scheme	3 months	<ul style="list-style-type: none"> Principal member only: E16 to E80 Member plus spouse: E18 to E90 Member plus children: E17 to E85 Parents: E25 	<ul style="list-style-type: none"> Member: E5k to E25k Spouse: E5k to E25k Children: E5k to E25k Parents: E3k
Swazi Royal	Wonkhe Wonkhe	6 months	<ul style="list-style-type: none"> E24 to E120 (includes cover for immediate family up to 6 children) Parents: E50 	<ul style="list-style-type: none"> Member: E5k to E30k Spouse: E5k to E30k Children: E5k to E30k Parents: E5k

Quite a number of “MI-relevant products”

□ Funeral insurance (2):

Underwriter	Product Name	Waiting period	Monthly premium range	Cover range
Old Mutual	Value plus	6 months	<ul style="list-style-type: none"> Principal member only: E70 to E474 Member plus spouse: E167 to E1,200 Member plus children: E167 to E1,200 Parents: E109 to E1,200 Extended family: E97 to E1,671 	<ul style="list-style-type: none"> Member: E6k to E30k Spouse: E6k to E30k Children: E6k to E30k Parents: E6k to E30k Ext. family: E6k to E30k
PFM Swaziland	Family benefit plan	6 months	<ul style="list-style-type: none"> Principal member E69 to E145 (includes cover for immediate family up to 7 children) 	<ul style="list-style-type: none"> Member: E6k to E12k Spouse: E6k to E12k Children: E6k to E12k Ext. family: E6k to E10k
Liberty Insurance	Group funeral	6 months	n/a	<ul style="list-style-type: none"> E2k to E15k
Metropolitan	Sitanani funeral plan	n/a	n/a	<ul style="list-style-type: none"> E1k to E30k
Momentum	Funeral benefit	n/a	n/a	<ul style="list-style-type: none"> E20k

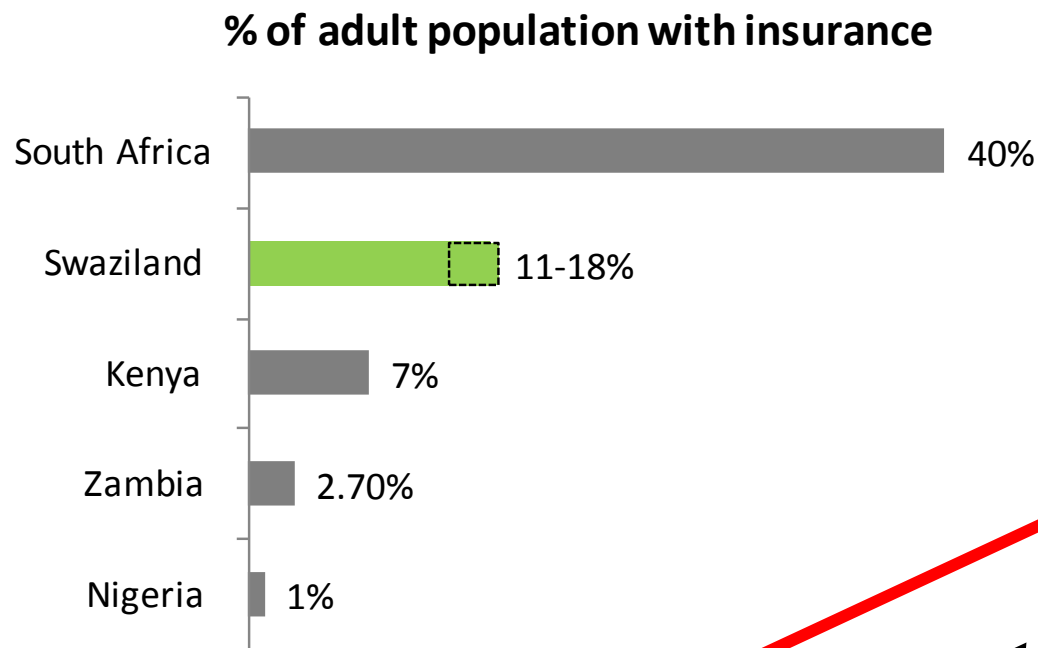
Quite a number of “MI-relevant products”

- Credit life
- Short-term: e.g. Ludvondlovo, Alex Forbes/SRIC

Benefits	Option A	Option B	Option C	Option D	Option E	Dependent Children
Death cover	E50k	E75k	E50k	E150k	E200k	E50k
Permanent disability cover	E250k	E250k	E1 m	E2 m	E3 m	E250k
Hospitalization cover per day (up to 180 days)	E500	E1k	E1,5k	E1,5k	E1,5k	E500
Monthly premium	E29	E54	E94	E165	E236	E20

- Health as emerging?
 - E.g. Getmed Blue Plan: in-hospital, day to day and other benefits from E141/member per month, extra for spouse, children
 - Momentum

Relatively high usage, but large unserved needs



Piecing together the puzzle:

- 70,000 to 110,000 (est.) people with insurance
 - 50,000 to 90,000 long-term
 - 30,000 short-term
- 11-18% of adults (vs. 14% FinScope 2003 Pilot)
- Implication: 35% to 55% of those formally employed have insurance

**WARNING: HAZARDOUS,
USE WITH CARE**

Distribution largely broker-based

- Brokers NB role in insurance market, also in signing up group schemes
 - Upward innovation
- Credit provider/bancassurance channel – interest, scope
 - Over-extension of payroll market may be sting in the tail
- Direct sales limited, but insurers increasingly looking towards tied agent space
- Relevance of “aggregators”/alternative distribution in MI:
 - Scale through concentration; infrastructure footprint; transaction platform; trusted brand
- Some existing aggregators: SACCOs, group funeral schemes, credit retailers, funeral parlours
- Much further to go, e.g: SACCOS, churches, MFIs, SME network, FECC, trade unions, Tinkundla centres, SWADE, agricultural coops, retailers?
 - Interest, capacity, regulatory space for aggregators?
- Role of technology – communication; premium collection



Understanding the potential customer

Understanding the potential MI customer

- Focus groups and ethnographic interviews sponsored by FinMark Trust
- Participants “not the poorest of the poor, not middle or high income”
- Some interesting findings...

Risks are a reality – and have financial implications

“Death is the most concerning as it comes at any time. Even when a person is healthy he could still die of some incident.” (Male)

“A funeral could cost between E15,000 and E20,000” (Female)

“Death is the most expensive because you have to hire the mortuary, pay the transport to take the deceased there, buy a coffin etc. It will cost you no less than E5000 to E6000. The mortuary hire is too expensive and so are the coffins, called caskets. You cannot bury for less than E6000.” (Male)

“With sickness you have to take the person to doctors and buy expensive medication.” (Male)

“(Being sick)..... could be a big problem as I have to go and buy stock, come back count the stock and also sell in the shop. Another problem that comes up is that the money that I was supposed to use for stock will go to medical expenses.” (Male)

“Regarding housebreaking you can lose stock of about E10 000 and you have to start all over again.” (Male)

Cultural importance of funeral overshadowed by economic realities

- Practices in coping with funerals differ between rural and urban areas
- Funerals are not important at all costs

“The family will come up with an alternative plan for instance buying wood to make their own coffin to bury.” (Male)

- Mixed feelings about insurance as coping strategy
 - ▣ It's nice to have, but only for those who can afford it
 - ▣ Real or perceived affordability?

Community support breaking down in hard times

- Immediate family as first port of call
- Financial contributions from community cannot be taken for granted
- A change in attitude towards individual rather than social coping

“Things have changed drastically because the economy has changed and as such people don't want to help one another like before. Even the family is no longer agreeable as before.” (Male)

“The community only helps when you are very poor or old, then they can contribute.” (Male)

- Implicit risk pooling through *Inhlangano*

What do the people have to say?



Video excerpts:

1. The realities of the microinsurance target market
2. Experiences with insurance
3. Understanding and perceptions

What do they want out of insurance?

What undermines their trust?


- ❑ Policy lapses when premiums skipped
- ❑ Perceptions of insurers – just there to make money
- ❑ Repudiation of claims
- ❑ “Money in the water” if no risk event
- ❑ Aversion to commissions

Overcoming the trust barrier:

- ❑ More information
- ❑ Reasonable premiums
- ❑ Grace periods
- ❑ Comprehensive benefits covering all costs
- ❑ No medical examination
- ❑ Some cash-back reward
- ❑ Provision for extended family needs
- ❑ Waiting periods
- ❑ Products tailored to their needs
- ❑ Transparency/credibility of the co.



A well-deserved break!



Session 2: What does this mean for microinsurance?

Recapping the salient market features

- Stable, healthy industry
- Recent new entry, foreign ownership
- Quite diverse product range, but scope for innovation
- R
- R
- P
- F
- H
- Broker power, increasing use of agents
- A number of existing potential aggregators

Swaziland “defies gravity”

Small market, recent liberalisation, high poverty

YET

Broad product suite, outstrips peers in usage,
broad-reaching financial sector infrastructure

end

Salient features: regulatory framework

- New regulator and legislation
- Prudential requirements thus far not a barrier to entry
- International distribution
 - Regulator moving house, FSRA to incorporate SACCOs, medical schemes
- Local industry
 - Legislation under review – opportunity for reform
- No other industry
 - The existence of assistance business space provides a “hook” for incorporation of broader MI space
- Scope for lower risk treatment of insurance in AML/CTF framework



Drivers of market development

Drivers of market development

1. The size of the market defines the opportunity

- ▣ Small, poor population sets a limit to growth
- ▣ Relatively dense population softens distribution challenges
- ▣ Broad-reaching financial sector as potential distribution channel and premium collection mechanism



Capitalising on alternative distribution opportunities

Drivers of market development

2. The close link to South Africa

- ▣ Historical context drives current picture
 - Set up shop or go!
- ▣ Head-office policies
- ▣ Positive externalities: diverse product suite, innovation
- ▣ Primary loyalty to own rather than social objectives
- ▣ Fiscal crisis puts other priorities on hold – for now?



There must be a market rationale
Microinsurance as battlefield of the future
Smaller bottom-up insurers: MI as primary focus

Drivers of market development

3. An increasingly individual society

- ▣ Culture overshadowed by economic realities as driver of uptake
- ▣ The community is not a primary safety net any more



Funeral insurance not the be all and end all of MI – can be positioned as anchor risk, but focus on provision for family rather than fancy funeral

Micro-life, health insurance and other risks will have appeal – a comprehensive microinsurance space needed



Opportunities - how to tap into the up to 600,000-strong target market?

[diagram](#)

Opportunities

banked: 283,000, majority uninsured
 - Good infrastructure
 - Interest in bancassurance diversification

Microlender clients: 50,000?
 # SACCO members: ~50,000
 # Social MFI members: ~28,000
 - Credit life, but scope for riders, diversification

Civil servants: 58,000 (LFS) vs. 33,000 other sources
 # Total incl. parastatals: ~70,000 (LFS)
 - "Ready market", but overextension of payroll?
 - Some group life/credit life penetration, but not yet health

outside of state/parastatals: ~130,000
 - Some insurance penetration, but many employee groups still untapped
 - Overextension of payroll?

current policyholders: ~15,000
 - Civil service and most employee groups untapped
 - Scope for tied agent sales?



- FECC 300 employers; SME network:
 300 members
 - 55 Tinkundla centres
 - Trade unions (e.g. SNAT)

- Up to 700,000 church members?
 - Tap into network interest, e.g. CSC
 100,000 members
 - Capacity?

Untapped opportunity
 Infrastructure:
 - 18 Pep
 - 7 Spar
 - 7 Pick n Pay
 - 6 Shoprite
 - Ellerines, etc (credit life, riders)
 - Petrol stations?
 - SwaziPost agencies: 10
 - MTN: 5,000+ vendors, 90% of adults have cell phones

- Largest funeral parlour chains already underwritten
 - Size of remaining market?
 - Funeral as "anchor risk" - scope for bundling of additional components

- Virtually no agricultural insurance
 - Scope for other cover through agric channels:
 - Agric coops (150+)
 - SWADE/sugar - 36,000 farmers
 - etc?



Regulatory imperatives

Regulatory imperatives

1. Create a second tier for microinsurance

- ▣ Current regulatory framework does not pose high barriers to entry, institutional limitation does not seem problematic, demarcation flexibility
- ▣ *Why, then, create a regulatory space for MI?*
 - Regulatory reforms: entry barriers will increase
 - Potentially NB role for smaller, local insurers to grow from the bottom up
 - Allow larger insurers to reach down into same space
 - Assistance business space as platform

Regulatory imperatives

2. Define MI across the demarcation divide

- ▣ In order to create second tier, must define low-risk product parameters
- ▣ Demand-side driver implies need for a broader product bouquet than just assistance business
- ▣ Shared product parameters mean that demarcation divide can be crossed

Regulatory imperatives

3. Open up the intermediation space

- ▣ Clear space that caters for:
 - Variety of existing and new (alternative) distribution channels
 - More functions by intermediaries: administration, underwriting management, premium collection, more than one insurer per entity
 - With appropriate consumer protection mechanisms

Regulatory imperatives

4. Seek synergies with emerging international best-practice

- ▣ Existing country experience, IAIS-MIN JWG emerging best-practice
- ▣ Close link of industry to SA: benefits from similarly defined MI space
 - Head office strategies can be aligned across countries if similar space for MI, may trigger innovation spill-over
 - But Swaziland context & market ultimate determinant, cannot just copy and paste

Regulatory imperatives

4. Other regulatory imperatives

- ▣ MI as low-risk AML/CFT exemption
- ▣ Create consistent space for health insurance
- ▣ Importance of reporting, monitoring market trends

Let's discuss



- Questions and comments
 - ▣ Does this ring true, or miss the boat?
 - ▣ Main market trends and opportunities?
 - ▣ Main challenges?
 - ▣ Regulatory imperatives?



Thank you

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