Opportunities and challenges for microinsurance in Kenya

Stakeholder Workshop

Nairobi, 20 May 2010
Structure of presentation

1. Introduction
2. Country context
3. Regulatory analysis
4. Financial sector context (Banks, SACCOs and MFIs)
5. Insurance industry overview
6. Demand-side insights
7. Conclusions and opportunities
About Cenfri

- **Cenfri**
  - Non-profit research centre based in Cape Town and established with support of Finmark Trust
  - Support financial sector development and financial inclusion
  - Manages FMT research on microinsurance and retail payment systems across Africa
  - Global experience with microinsurance (MI)
  - Involved in developing new MI regulatory framework in SA (since 2003)

- More information at: [www.cenfri.org](http://www.cenfri.org)
What do we mean by market development?

Access frontier:

- Financial inclusion not only about number covered but also value offered

Source: Porteous (2005)
Microinsurance is a global issue...but the story is different for each country.
Government involvement and regulatory approaches differ

- Governments becoming more pro-active and inclusion-orientated
- Different regulatory approaches followed:
  - Facilitate/incentivise/coerce/dictate
  - Regulation leads process vs regulation follows market development
- Examples:
  - India: Government-led process. Rural and social insurance quotas for insurers to meet. Specific MI regulation focusing on the intermediary for microinsurance and not the underwriter.
  - Brazil: Supervisor-initiated regulatory reform. Market players partnering and providing leadership. In process of passing MI Act.
- Regulatory approach need to be tailored to the domestic priorities, resources and circumstances
Microinsurance belongs to the distribution channel

Intermediation channel

- Marketing, sales, policy administration, claims payment, servicing by 3rd parties
- Risk carrier
- Administration
- Transaction platform
- Aggregator
- Clients

Technology

Policy origination, premium collection, policy administration

But channels will look different than before…

Source: adapted from Genesis (2007)
Your new agency force?
Many innovative experiments

- **Limited success**: Increasing number of experiments but few successes yet
- **Technology** is important efficiency factor but not the driver of take-up (and not always cheap – call centres, mobile payments, etc)
- **Products limited mostly to life (funeral) and PA** (some experiments on housing insurance)
- But what is actually driving sales?
  - **Simple products, tangible benefits and demand for service** – funeral SA, Colombia, Brazil (with high level of product awareness)
  - **Benefits in life**: food hampers/vouchers, discounts on medical costs, visits to doctor, cash back and lottery (Brazil)
  - **Active sales**: Channels that can facilitate active sales achieve most take-up
Key MI product trends

- Funeral insurance is dominant voluntary product
  - Often informal
- Consumer credit insurance is large but many challenges
- ST group/nature:
  - MI can be defined as low risk
  - Use of open group schemes
  - Contractual relationships
Regulatory challenges

- Changing regulatory mandates: Balancing stability and development
- Challenge of protecting and including the poor: Trigger take-up of appropriate products
- Improve value proposition: Large part of MI still offers limited value to the poor
- Facilitating outreach and formalisation: Allowing formalisation while ensuring a level playing field
- Creating a “flexible regulatory environment” to facilitate innovation
Emerging regulatory guidelines

**Guideline 1:** Take active steps to develop a microinsurance market

**Guideline 2:** Adopt a policy on microinsurance as part of the broader goal of financial inclusion

**Guideline 3:** Define a microinsurance product category

**Guideline 4:** Tailor regulation to the risk character of microinsurance

**Guideline 5:** Allow microinsurance underwriting by multiple entities

**Guideline 6:** Provide a path for formalisation

**Guideline 7:** Create a flexible regime for the distribution of microinsurance

**Guideline 8:** Facilitate the active selling of microinsurance

**Guideline 9:** Monitor market developments and respond

**Guideline 10:** Utilise market capacity to support supervision in low-risk areas
2. Country context
Kenya has the 11th largest GDP and the 27th largest GDP per capita in Africa.

Kenya is the 8th largest country by population in Africa and represents 4% of the total population of sub Saharan Africa.

Source: World Economic Outlook, 2009
Recent slow-down in economic growth due to political violence, global financial crisis and severe draught

Immediate and future growth prospects improved, but fragile

Kenyan economy by sector, 2008

Tertiary largest part of economy, however, agriculture largest employment

Financial sector growing share of the economy - 3.5% (2004) to 4.7% (2008) of GDP
Limited formal employment

Population: 39,423,264
Population > 15: 22,520,481
Labour force: 17,470,000

Employed: 9,946,100 (57%)
Formally employed: 2,011,100 (12%)
Informally employed: 7,935,000 (45%)
Unemployed: 7,523,900 (43%)

Wage employees: 1,943,500 (11%)
Formal self-employed: 67,600 (0.4%)
Government: 638,000 (4%)
Private: 1,305,500 (7%)

Income distribution overview

Potential: Microinsurance market

- Majority of population, typical microinsurance target market
- USD 2 – USD 5 (PPP): 17 million individuals, 9.6 million adults

Note: Dollar values are calculated using PPP exchange rates
Source: FinAccess, 2009, PovCalNet 2005
Agricultural context

- **Agriculture key contributor to the economy, but exposed to negative shocks**
  - Agriculture contributes 26.0% to GDP, and 45% of government revenue in 2009
  - Sector accounts for 60% of export earnings: (Ministry of Finance, 2010)
  - Horticulture (31%) and tea (31%) greatest GDP contributors in 2008 (Kenya Statistical Abstract, 2009)
  - Sector has suffered severe negative shocks (political violence, drought, increased input prices, recession)

- **Agriculture a major source of income for hhs.**
  - Over 36% of adults derive main income from food crops (sweet potatoes, maize, cassava, beans) (FinAccess 2009)
  - Almost 20% derive main income from livestock output, with 15% deriving main income from livestock sales (FinAccess 2009)

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**Source of income within agricultural sector in the last 12 months**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash crops</td>
<td>6.86%</td>
</tr>
<tr>
<td>Food crops</td>
<td>18.62%</td>
</tr>
<tr>
<td>Livestock output</td>
<td>6.94%</td>
</tr>
<tr>
<td>Livestock sales</td>
<td>3.5%</td>
</tr>
<tr>
<td>Fish farming/fishing</td>
<td>0.56%</td>
</tr>
<tr>
<td>Farm employment</td>
<td>7.75%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44.23%</strong></td>
</tr>
</tbody>
</table>

Source: FinAccess, 2009
Agricultural context

- **Smallholder farmers dominate sector**
  - Limited data on land and cattle distribution (no agricultural survey or census available)
  - But evidence that smallholder farmers play an important role within the sector
  - Smallholder farmers face the most exposure to risks due: limited access to resources, majority of farm on acre or less of land

- **Agriculture cooperatives provide potential distribution network:**
  - Large number of co-operatives with some organized according to specific industries.
  - However, not clear how well networked

### Crop Small holder population as a percentage of total group Smallholder contribution to total production

<table>
<thead>
<tr>
<th>Crop</th>
<th>Small holder population</th>
<th>Smallholder contribution to total production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tea</td>
<td>62%</td>
<td></td>
</tr>
<tr>
<td>Horticulture</td>
<td>80%</td>
<td>5-13%</td>
</tr>
<tr>
<td>Maize</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>Dairy</td>
<td>99%</td>
<td>70-80%</td>
</tr>
</tbody>
</table>

### Societies

<table>
<thead>
<tr>
<th>Societies</th>
<th>No of co-operative societies</th>
<th>No of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>549</td>
<td>672,000</td>
</tr>
<tr>
<td>Dairy</td>
<td>264</td>
<td>306,000</td>
</tr>
<tr>
<td>Multi purpose</td>
<td>1,923</td>
<td>130,000</td>
</tr>
<tr>
<td>Other agricultural</td>
<td>1243</td>
<td>121,000</td>
</tr>
<tr>
<td>Total</td>
<td>3,979</td>
<td>1,229,000</td>
</tr>
</tbody>
</table>

Source: Kenya Statistical Abstract, 2009

Source: (Mbithi, 2009), (Meridian, 2010), (East African Dairy Development, 2008), (Mitiambo, 2010)
Health sector context

- Majority of total health expenditure (THE) occurs on unpooled basis:
  - Households fund large proportion of THE on OOP basis (29.1%)
  - Only 5.4% of THE derives from private health insurance
  - NHIF contributes less than 4% to THE

Source: National Health Accounts 2005/06
Health sector context

- NHIF covers more than 2.5m lives for hospitalisation costs:
  - Experimentation with out-patient services cover
  - Country faces choice more comprehensive insurance mechanism (expanded SHI/NHI) or more comprehensive direct tax funded health system (NHS)
  - Health financing strategy principles in place, but final decision needs to be made

- 4 categories of health “insurance” providers:
  - 14 general insurance companies providing health insurance
  - Private hospitals offering insurance plans
  - Medical insurance providers (MIPs) carrying health risks illegally
  - Third-party managed funds being moved into insurance industry

- Insurance industry faces number of challenges in delivering health insurance:
  - Intermediation commission viewed as increasing health insurance costs unnecessarily
  - High administration costs resulting in low profits
  - Absence of efficient MIS
  - Financing mainly happening on fee-for service basis with capitation approached on experimental basis – industry has not yet dealt effectively with risk sharing (and regulation of this)
3. Regulatory analysis
Regulatory analysis

- **Regulatory scheme:**
  - Banks Act
  - MFI Act
  - SACCOs Act
  - Cooperatives Act
  - AML bill
  - SME bill
Regulatory analysis

**Implementation approaches**

**Deliberate exclusion:**
- Funeral benefits delivered in-kind

**Case-by-case exemptions:**
- Bancassurance
- Alternative distribution channels

**Incremental amendments:**
- Medical insurance providers (MIP) brought into Act in 2004

**Regulatory reform**

**Implications for market**

- Unlevel playing field
- Regulatory uncertainty
- Increasing costs of doing business
- Discouragement for large-scale investments
Emerging issues for MI:

Underwriting:
- High entry burden – increased capital requirements (KSh150m for long-term, KSh300m for general, KSh450m for composite) (consolidation vs entry)
- High compliance burden (especially for long-term insurers), with increasing emphasis on professionalisation
- Number of entities explicitly excluded from definition of insurance:
  - Funeral parlours providing benefits in-kind (and other incidental benefits)
  - Benefits provided by employee associations
  - Benefits provided by friendly societies or trade unions
  - Other benefits in kind
Emerging issues for MI (cont):

- **Intermediation:**
  - Bancassurance not allowed by Banking Act, but 7 bank insurance agencies have been licensed (with exemptions by Central Bank)
  - Favourable playing field for agents (relative to brokers)
  - Restriction on salaried agents
  - Relationship with innovative new models complicated by combination of (1) capped commissions, (2) capped management expenses, (3) capped premiums (or need to have premiums approved)
  - Barriers to some aggregators and alternative distributors (MFIs, cooperatives, others) registering as agents?
Emerging issues for MI (cont):

- **Consumer protection:**
  - Limited market conduct regulation focusing only on entry requirements for brokers and agents
    - Regulation biases in favour of agents, with lighter touch on entry requirements for agents
  - Policyholder protection fund to provide pay-outs of up to KSh100,000 if insurance company goes bankrupt
  - Internal complaints desk at IRA
  - Regulatory requirement for clear wording, but negligible fine if this is not adhered to (S. 180)
  - Misleading advertisements fined, but fine is negligible (S.164)
Emerging issues for MI (cont):

- Traces of MI (tiered) approach in Act:
  - Industrial life policies defined in Act:
    - Shorter term (premiums must be paid at least every two months), premiums paid in cash and collected by agents
    - Grace period for non-payment of industrial life
    - Special low cost/ faster dispute resolution process for claims on life policies with value < KSH 100,000 – disputes settled by Commissioner without reference to any court
    - Highest management expense caps for industrial life
4. Financial sector context
Access and banking sector

- **Low but growing financial penetration:**
  - 43 registered banks
  - Combined footprint: 930 branches, (+) 1400 ATMs
  - Bank usage increase from 14.2% in 2006 to 22.16% (4.6 million adults) in 2009
  - 17 500 M-PESA Agents

- **Rapidly growing financial infrastructure:**
  - 38.4% in 2006
  - 32.7% in 2009

Source: FinAccess, 2009
Banking sector

- Commercial banks graduating from MFIs and building societies:
  - Equity bank
  - K-Rep bank
  - Family bank

Source: FinAccess, 2009
MFI sector

- Second largest MFI market in Africa (by nr of borrowers)

<table>
<thead>
<tr>
<th>Top ten countries by Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>#</strong></td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
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<tr>
<td>3</td>
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<td>4</td>
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<td>5</td>
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<td>6</td>
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<td>7</td>
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<td>8</td>
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<tr>
<td>9</td>
</tr>
<tr>
<td>10</td>
</tr>
</tbody>
</table>

- 36 Retail MFIs registered with AMFI
- 2 deposit taking MFIs (K.W.F.T and Faulu Kenya)
- MFI usage doubled between 2006 and 2009 to 3.2%
Co-operative sector

- Co-ops contributing to increasing financial sector footprint

- Kenyan Co-operative movement largest in Africa and 7th largest in World (CAK, 2010)

- Co-operative sector operates in 4 tiers:
  1) Apex body (CAK)
  2) National Co-operative Organizations (CIC, Co-operative Bank etc.,),
  3)Secondary co-operative societies
  4) Primary co-operative societies, 12,000, of which SACCOS make up an estimated 48%.

- Of which: 300 SACCOS offer Front Office Services Activities (FASO) – services include cheque and salary deposits, bill payments, cheque cards and ATM services.
SACCO sector

- SACCO market relatively fragmented with no clear dominant players
- Decrease use of SACCOs between 2006 and 2009

<table>
<thead>
<tr>
<th>Largest SACCOs by number of users</th>
<th>2009</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Murata Farmers SACCO</td>
<td>5.7%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Taifa SACCO</td>
<td>3.5%</td>
<td>-</td>
</tr>
<tr>
<td>Mwalimu SACCO</td>
<td>3.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Mathira SACCO</td>
<td>2.5%</td>
<td>-</td>
</tr>
<tr>
<td>Co-operative Bank SACCO</td>
<td>2.2%</td>
<td>-</td>
</tr>
<tr>
<td>Aembu Farmers SACCO</td>
<td>2.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Meru Central Farmers SACCO</td>
<td>1.9%</td>
<td>-</td>
</tr>
</tbody>
</table>

SACCO usage between 2006 and 2009

Source: FinAccess, 2009
Client profile

Limited MFI additionality
- Banking channel largest aggregator
- MFIs provide unique access to 1.1% and SACCOs 4.4% of adults

Banks penetrate younger market
- Banks usage skewed to younger, 18 – 29 year old market
- MFI usage concentrated in the 35 – 44 year old brackets
- SACCO usage skewed towards middle and older age brackets

Source: FinAccess, 2009
Client profile

- **MFI** not catering to the lowest income bracket (< Ksh 1,000)
- **Banks** have made significant in-roads into the low-income market
- **SACCO** usage skewed towards lower income users

*Source: FinAccess, 2009*
5. Insurance sector overview
Market size

- Limited insurance penetration, but in line with peers
  - Total insurance: Ksh55 billion (2.63% of GDP)
  - General: Ksh 35 billion (1.7% of GDP)
  - Long term: Ksh 20 billion (0.9% of GDP)

- Growth in line with GDP growth
  - Slight increase in penetration driven by life (pension related categories)

Increase in agents, decrease in brokers: Correlates to changes in regulation

<table>
<thead>
<tr>
<th></th>
<th>Number Registered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td><strong>Insurance companies</strong></td>
<td></td>
</tr>
<tr>
<td>Long term</td>
<td>7</td>
</tr>
<tr>
<td>General</td>
<td>20</td>
</tr>
<tr>
<td>Composite</td>
<td>17</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>2</td>
</tr>
<tr>
<td><strong>Insurance intermediaries</strong></td>
<td></td>
</tr>
<tr>
<td>Insurance brokers</td>
<td>201</td>
</tr>
<tr>
<td>Medical insurance providers</td>
<td>21</td>
</tr>
<tr>
<td>Insurance Agents</td>
<td>2665</td>
</tr>
</tbody>
</table>

Market players

Largest general insurers by gross premiums, 2008

- APA: 8.3%
- Jubilee: 7.8%
- Kenindia: 7.6%
- UAP Provincial: 6.7%
- AIG (K): 5.7%
- Heritage All: 4.7%
- Lion of Kenya: 4.2%
- ICEA: 3.8%
- First Assurance: 3.6%
- Cooperative: 3.5%

Largest life insurers by gross premiums, 2008

- British American: 18%
- ICEA: 15%
- Pan Africa: 13%
- Jubilee: 12%
- Old Mutual: 9%
- Kenindia: 6%
- CFC Life: 5%
- Madison Insurance: 5%
- UAP: 3%
- Heritage: 2%

- No dominant market player in overall general/life
- Concentration at life product line
- Largest insurers showing interest in MI

Source: IRA, 2008
Product categories

Life gross premiums by category, 2008

- Ordinary Life 40%
- Group Life 26%
- Pension 27%
- Unit linked 7%

General gross premiums by category, 2008

- Motor Commercial 26%
- Motor Private 17%
- Fire Industrial 11%
- PA & Sickness 19%
- Liability 3%
- Marine & Transit 4%
- Fire Domestic 2%
- Engineering 3%
- Miscellaneous 3%
- Workman's Compensation 6%
- Theft 5%

- No separate reporting line for MI
- MI relevant categories: PA & Group Life
- Largest general category, Motor (Private & Commercial), pension and Ordinary Life

Source: IRA, 2008
<table>
<thead>
<tr>
<th>Product</th>
<th>Premium</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture: Kilimo Salama UAP/Syngenta</td>
<td>5% of benefit amount (once off)</td>
<td>Insures feed, fertilizer or herbicides against failed crops</td>
</tr>
<tr>
<td></td>
<td>Affordability: % of GDP per capita</td>
<td></td>
</tr>
<tr>
<td>Livestock: Bima Ya Mifugo UAP/Equity</td>
<td>Min Kshs 2,000 (yearly)</td>
<td>Insures livestock of economic value against diseases, accidents, theft, calving complications</td>
</tr>
<tr>
<td></td>
<td>Affordability: 3%</td>
<td></td>
</tr>
<tr>
<td>Medical (private): Fualuafya Poineer/Faulu</td>
<td>Min Ksh 7,000 (yearly)</td>
<td>Comprehensive family cover with unlimited outpatient and limited inpatient care</td>
</tr>
<tr>
<td></td>
<td>Affordability : 12%</td>
<td></td>
</tr>
<tr>
<td>Medical (private &amp; public): Bima ya Jamii CIC</td>
<td>Ksh 3,650 (yearly)</td>
<td>Unlimited Inpatient family cover (to max of 6 months). Ksh 50,000 cover for loss of income cover. Ksh 100,000 accidental death cover.</td>
</tr>
<tr>
<td></td>
<td>Affordability: 6%</td>
<td></td>
</tr>
<tr>
<td>Medical (public): NHIF</td>
<td>Ksh 1,920 (early) - voluntary category</td>
<td>Inpatient - and outpatient in selected areas - cover at network hospitals. Level of cover depended on hospital and ranges from comprehensive cover in government hospitals to selected cover in private hospitals</td>
</tr>
<tr>
<td></td>
<td>Affordability: 3%</td>
<td></td>
</tr>
<tr>
<td>PA &amp; Disability: Safari Bima Orient</td>
<td>Ksh 30 (per day)</td>
<td>Ksh 100,000 on death or permanent disability of policy holder</td>
</tr>
<tr>
<td></td>
<td>Affordability: 18%</td>
<td></td>
</tr>
<tr>
<td>Life: CFC Life Cover</td>
<td>Min Ksh 2,500 (pm)</td>
<td>Ksh 100,000 death cover and savings component</td>
</tr>
<tr>
<td></td>
<td>Affordability: 4%</td>
<td></td>
</tr>
<tr>
<td>Life/Funeral: Last Expense Pan Africa</td>
<td>Min Ksh 1,000 (pm)</td>
<td>Ksh 50,000 on death of policy holder or</td>
</tr>
<tr>
<td></td>
<td>Affordability: 2%</td>
<td></td>
</tr>
<tr>
<td>Credit Life: CIC/Jamii Bora</td>
<td>1% of loan</td>
<td>Covers outstanding loan and pays 200% of savings to next of kin</td>
</tr>
<tr>
<td></td>
<td>Affordability:</td>
<td></td>
</tr>
</tbody>
</table>
6. Demand-side insights
Insurance take-up and profiles

- Low voluntary insurance penetration
  - Life only 1.13%
- NHIF/NSSF shift usage to low-income
- Penetration into lower income category
- Some higher-income not yet covered by insurance

### Insurance usage

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Description</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>All insurance products</td>
<td>7.27</td>
</tr>
<tr>
<td>2</td>
<td>All insurance excluding NHIF and NSSF</td>
<td>3.59</td>
</tr>
<tr>
<td>3</td>
<td>All insurance excluding NHIF, NSSF and car</td>
<td>2.92</td>
</tr>
</tbody>
</table>

Source: FinAccess, 2009
Profile of the uninsured

- Uninsured less likely to be banked, urban, belong to a SACCO, MFI, own a mobile phone or have an M-PESA account
- 3 largest aggregators: Mobile phones, banks, M-PESA
**Risks faced and coping strategies**

<table>
<thead>
<tr>
<th>Biggest risk</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of income of main wage-earner</td>
<td>21.2</td>
</tr>
<tr>
<td>Drought/famine</td>
<td>18.71</td>
</tr>
<tr>
<td>Increase of cost of basic things you need</td>
<td>15.46</td>
</tr>
<tr>
<td>Loss of family land</td>
<td>12.43</td>
</tr>
<tr>
<td>Large medical costs due to family member's ill health</td>
<td>9.19</td>
</tr>
<tr>
<td>Theft, fire or loss of house, property or business</td>
<td>5.84</td>
</tr>
<tr>
<td>Bad or deteriorating political situation in country</td>
<td>3.43</td>
</tr>
<tr>
<td>Loss of livestock</td>
<td>3.37</td>
</tr>
</tbody>
</table>

*Coping strategies mostly ex post*

- **Ex ante**
  - Savings
  - Welfare groups

- **Ex post**
  - Loans
  - Support from family members
  - Sell assets
  - Depend on charity

*Coping strategies: how do people deal financially with an unexpected event? Source: FinAccess, 2009*
Low awareness but recognition of potential value

High levels of insurance value recognition, especially medical, disability, life and education

Low awareness of insurance, only 50% of adults know and understand what insurance is

Source: FinAccess, 2009
Insurance usage by product

- **Largest insurance classes, compulsory insurance:** NHIF, NSSF
  - Largest insurance classes mainly monthly payroll deducted (NHIF, NSSF)

- Insurance usage reflects the value individuals place on insurance and the most trusted channel for insurance advice (employers)

Source: FinAccess, 2009
Risk perceptions

- Focus group research helped to inform demand-side insights from 4 perspectives:
  - MFI clients: credit insurance
  - Civil servants: NHIF and insurance usage (steady income)
  - Artisans and traders: informal sector, small business risks
  - Farmers & small agri-business: agricultural livelihood risks
- 29 groups in total (about 8 people per group), Nairobi and peri-urban area

- Death of breadwinner, followed by sickness and accidents perceived as biggest risks
- Loss of property third
- Inability to pay school fees also a much cited risk/issue
Risk management strategies

- Various risk management and coping strategies used:
  - Before the risk:
    - Risk pooling groups such as welfare societies/associations
    - Insurance
    - Savings
  - After the risk:
    - Harambees
    - Loans from ACSAs, SaccoS, MFIs
    - Selling of livestock and produce
    - Liquidation of all savings
  - Funerals very expensive, more so than generally believed:
    - Funeral costs include coffin, body transportation, mortuary costs, clothes for deceased/immediate family members, for mourners.
    - Generally ranges from KSh150,000-KSh200,000
  - Welfare groups unable to fully cover costs of funeral:
    - Only provide payout ranging from KSh10,000-KSh50,000
    - Welfare groups of farmers, artisans and traders may provide less
  - Harambees as post-even risk coping strategy losing its power:
    - Being misused, over-used – lower willingness to contribute
Perceptions of insurers and insurance

- Perceptions of insurance and insurance companies very poor:
  - Uncertainty about ability to claim successfully, delays in honouring of claims:
    
    Insurance is not transparent, you are only deducted but do not get paid.
    
    It takes too long to pay claims...it takes a lot of time and money to follow up claims..you are told to wait...wait.
    
    Insurance people are not honest, they are complicated and the common man cannot understand them.
    
    - Insurance viewed as being for the rich, educated:
      
      I used to think it is for the educated with degrees, “si ya watu wa jua kali” (not for the informal sector people).

- Most insurance products were sold through brokers and agents, but perceptions of these intermediaries are very poor:
  
  Brokers are thieves and conmen. You give them money then the office has moved. I have already been conned. I had paid for medical, school fees and they disappeared. They (agents) come like angels but act like devils.
Perception of value

- NHIF thought to provide good value proposition:

  My wife was getting a baby at Huruma Nursing home, incurred a bill of Ksh5,000 and they paid all of it. You just present your card at the nursing home and they pay.

  I had an uncle who was sick and we were told if he had the NHIF card he would have been paid for it. I went and got myself a card after that and for our parents.

- Credit life insurance mostly understood, thought to offer value:

  - Property of deceased not taken away to pay for debts, family left in peace
  - Demonstration effect from pay-outs to family of friends
  - Loan officers mostly thought to explain product well
7. Conclusions and opportunities
Key themes

- **Banks and M-Pesa have led the entry into the low-income market:**
  - Largest single aggregator opportunity
  - But uncertainty on bancassurance not yet definitively clarified

- **Large informal insurance market**
  - Large % of individuals participate in groups that have “welfare” function (funeral, health)
  - Funeral parlours providing insurance products?
  - Informal risk carrying by MIPs and some service providers
  - Many MFIs managing client death risks on informal basis (1% of loan charge)

- **Households face large funeral expenses that cannot be fully covered by informal means**
  - Power of post-payment mechanism (harambee) being eroded
  - Funeral costs up to 4 times higher than pay-out of welfare groups
  - In recognition of this, funeral insurance products now emerging that cover members of welfare groups
Key themes

- Limited overall insurance penetration
  - Voluntary insurance penetration only 3% (life 1%) of adults
  - Cannibalistic competition for corporate clients
  - Limited retail experience

- Insurers small relative to aggregators
  - Largest insurance portfolio < 40k policyholders?

- Insurance industry characterised by high levels of MI innovation
  - Various new products launched during last 2 years
  - Innovative health product achieving voluntary take-up
  - Early movers gain preferential access to clients

- MI may already be equal or larger than traditional insurance market
Key themes

- Increasing compliance cost and entry barriers may create need for tiered regulation
  - Industrial life policies sets precedent for tiered approach
- Emerging MI space facilitated by case-by-case exemptions:
  - Bancassurance
  - Alternative distribution models typically not registered as agents
  - BUT creates uncertainty
- Regulation needs to accommodate alternative distribution and aggregators
- Consumer protection and awareness
  - Low reported usage may suggest limited awareness of cover (e.g. credit life)
- Absence of clear definition may undermine alignment efforts
Market development frontier

Source: authors’ representation based on various data sources. Note: blocks and lines do not necessarily represent actual sizes.
Pockets of opportunity
Low-hanging fruit could extend current voluntary market by 10x

MFI client base: 770,000
Intermediary: 700,000 (90%) of MFI clients are uninsured
Credit risk: Underwriting on consumer credit insurance?

Welfare market: 4.2 million
4 million (96%) of welfare group members are uninsured
Funeral parlour market?

Agricultural risks
Intermediary

M-PESA users: 5.4 million (FinAccess) (M-PESA >8m?)
4.9 million (90%) are uninsured
M-PESA agents: >17k

Formal employment market: 2m
Insurance estimate 30%

M estimates: Current market
150 – 200K
(Policyholders, Voluntary)
500k Credit life (policyholders)

SACCO members: 2m
1.7 m (81%) are uninsured
Other coops: >1m

Number of Banked: 4.5m
3.9 m (85%) of banked uninsured

Number of Jua kalis members: 680k
Other associations?

Scope for further expansion amongst informally employed?

Banked

Health?

Funeral

MFI market

Agriculture?

Formally employed

Traders associations

M-PESA

Intermediary:
700,000 (90%) of MFI clients are uninsured

Credit risk: Underwriting on consumer credit insurance?
Thank you!

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Discussion