

# Emerging business models for inclusive insurance

African Inclusive Insurance

July 2022



# MSMEs are a hard market to reach for insurers using traditional business models

A new approach is needed



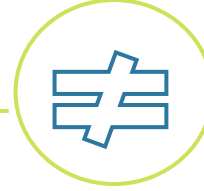
## Lack of value proposition to MSMEs

Insurance products do not offer sufficient value to MSME customers, resulting in a lack of insurance culture



## MSMEs are difficult to reach

High proportion of MSMEs are unbanked or inaccessible, which makes it difficult to reach this target market with products.



## Lack of a homogenous risk pool

MSMEs differ vastly based on size, age, sector and a multiplicity of other factors



## Lack of data

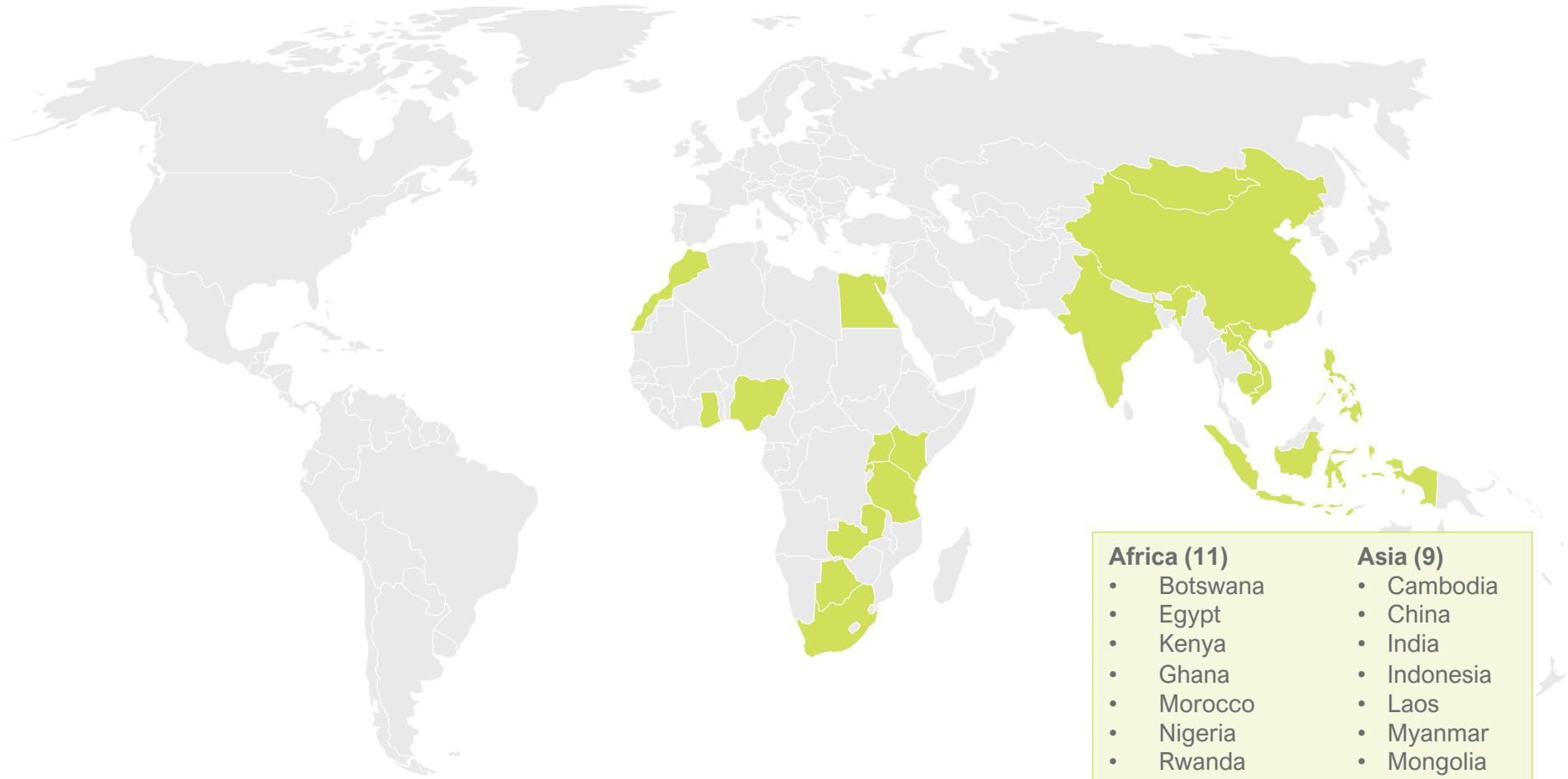
Limited data on MSMEs, which makes understanding the nature of risks faced and needs of MSMEs difficult

Value

Distribution

Heterogeneity of known and unknown risks

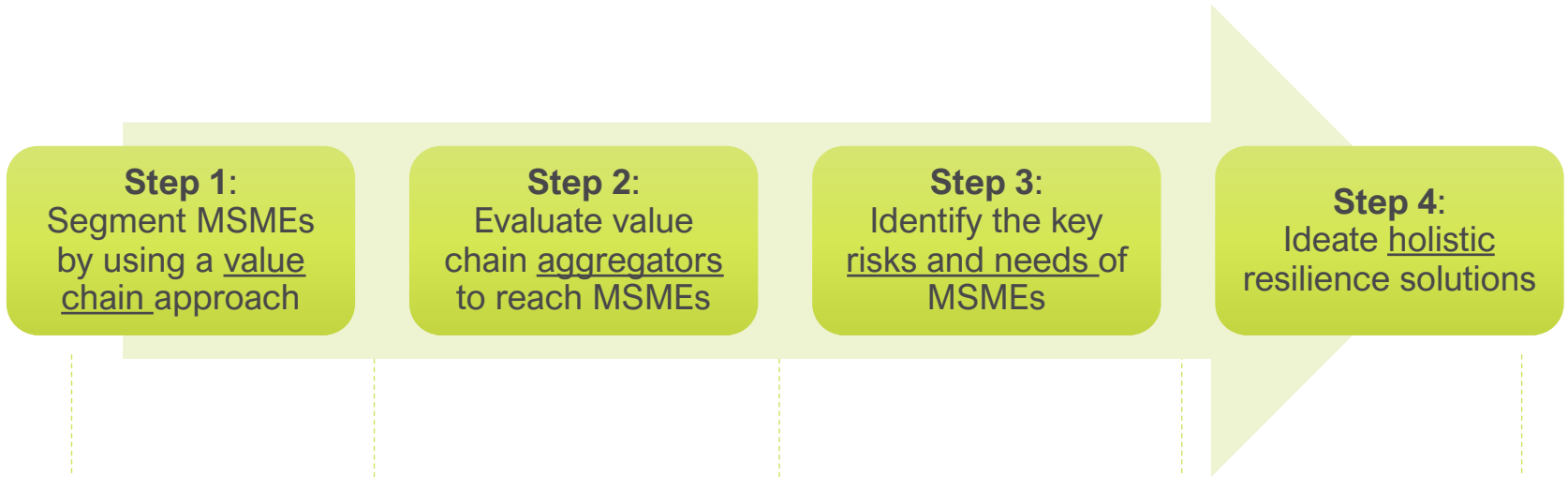
# Widespread research conducted to identify potential solutions



Africa (11)	Asia (9)
• Botswana	• Cambodia
• Egypt	• China
• Kenya	• India
• Ghana	• Indonesia
• Morocco	• Laos
• Nigeria	• Myanmar
• Rwanda	• Mongolia
• South Africa	• Philippines
• Tanzania	• Vietnam
• Uganda	
• Zambia	

# A value-driven approach to holistic and commercially viable insurance solutions

Delivering tangible value to MSMEs for both risk management & mitigation



## Challenges that can be overcome through leveraging this approach:



Lack of a homogenous risk pool



MSMEs are difficult to reach



Lack of data



Lack of data

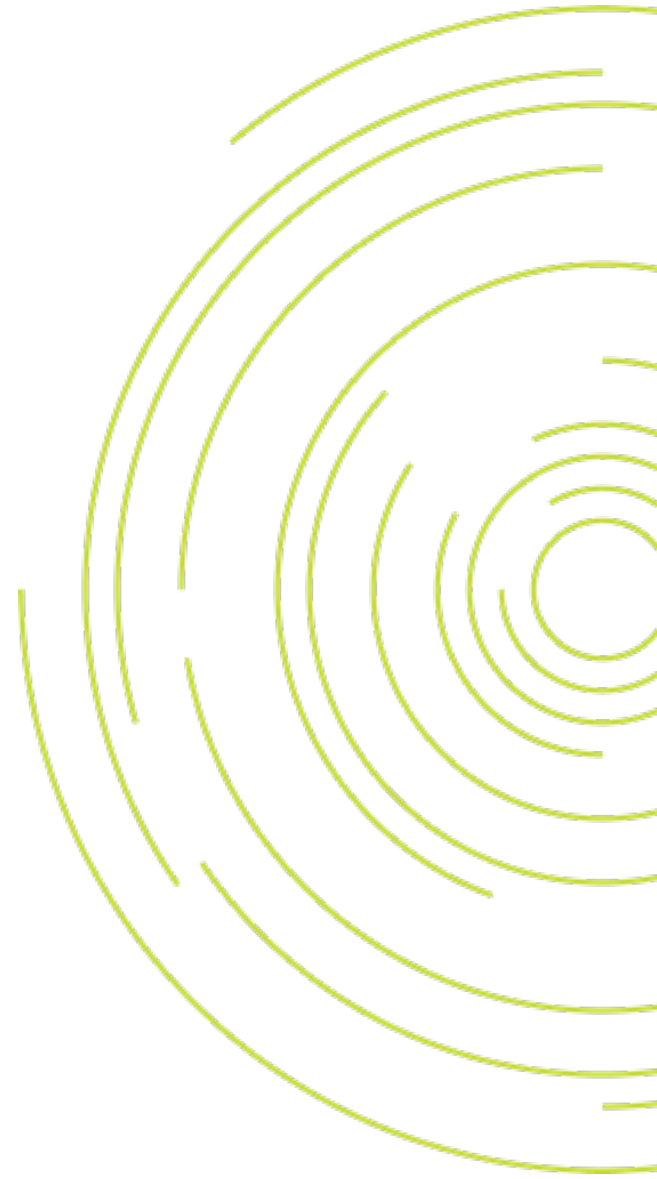


Lack of value proposition to MSMEs

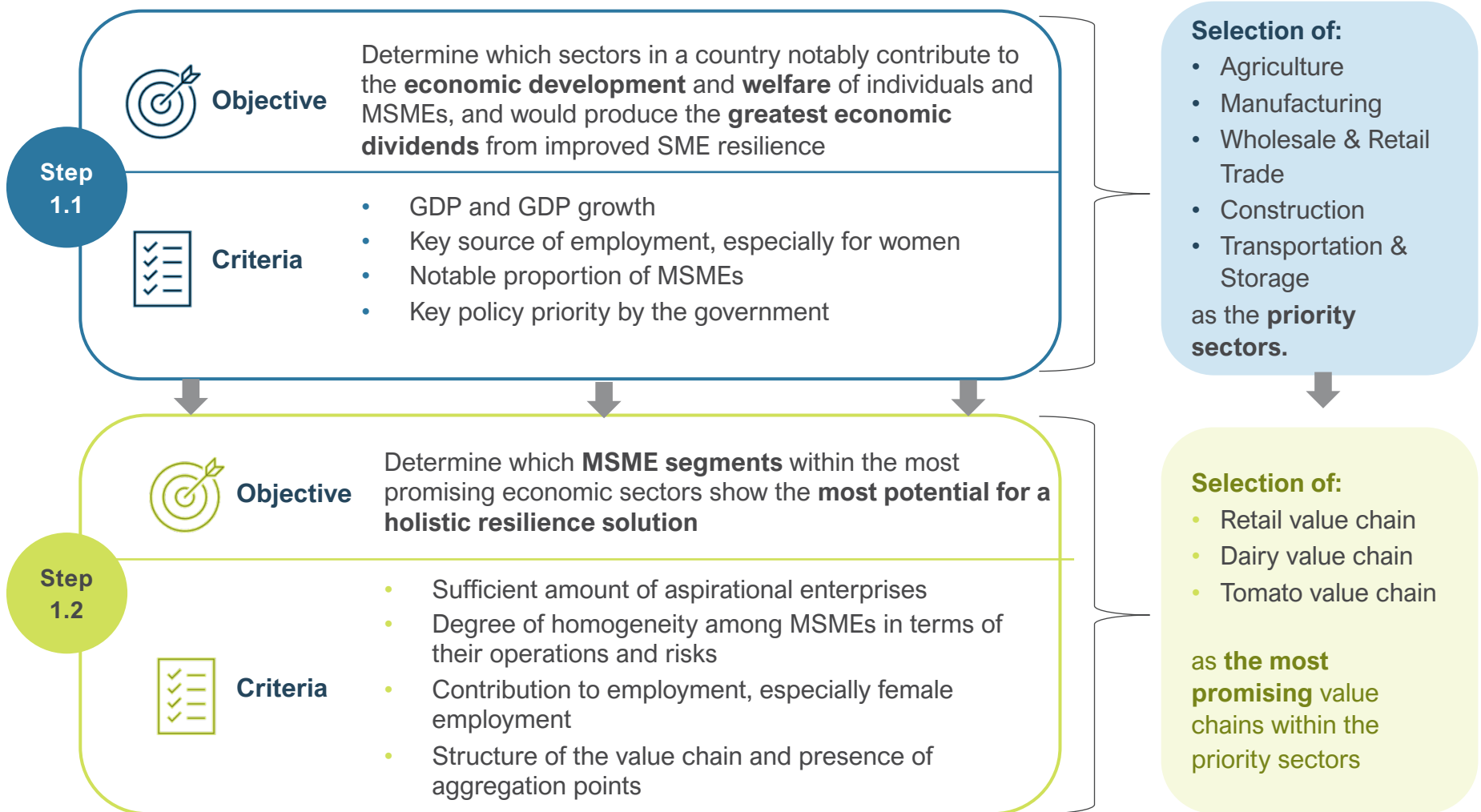


Lack of value proposition to MSMEs

# **Applying the approach and what we found**



# Step 1: VC identification (Egypt)



# Which value chains show the most promise?

Retail, agriculture and transport/ logistics are key MSME sectors

## Morocco

### Agriculture:

- Key priority – contributes to food security, growth & trade (exports rose by +38% (2014-2019))
- Created more than 83,000 jobs

### Transport/logistics:

- Cars made up 15% of exports in 2018
- In 2019, the industry comprised +250 companies, creating +222,000 jobs with 60% local integration rate

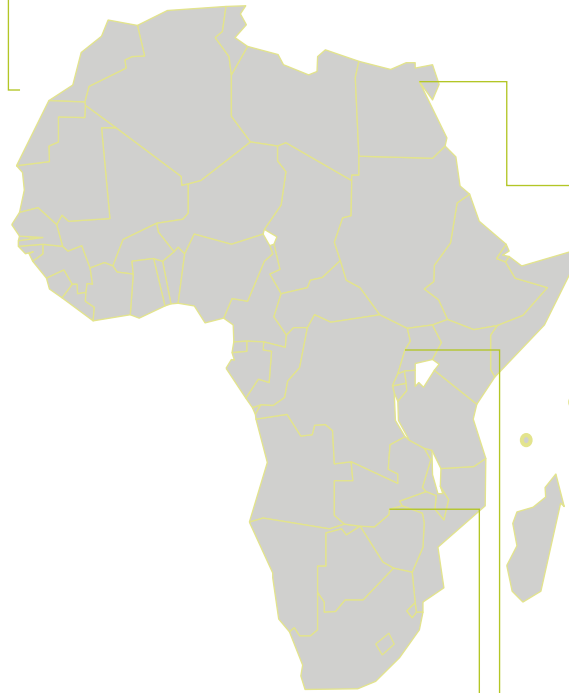
## Zambia

### Agriculture: 70% of MSMEs

- Contributes ~7% to GDP and +28% to total employment
- Maize, Sunflower and groundnuts contribute most to livelihoods (+ 1.1 million households growing)

### Retail: 21% of MSMEs

- Contributes 22% to GDP and 24% to employment
- Priority sector by government



## Egypt

### Retail: 57% of MSMEs (1.85 million)

- 30% to employment and 14% to GDP
- Homogenous in their activities
- Suitable aggregation points

**Agriculture: 21% to employment and 11.3% to GDP** –dominated by smallholder farmers (e.g., +600,000 smallholder dairy farmers)

## Uganda

### Agriculture: 7.4 million farmers (80% of MSMEs)

- Relatively homogenous
- Contributes ~25% to GDP and +70% to total employment

### Logistics: Sector small (5% of MSMEs)

- Employs 2.4% of all employed persons
- Enables operation of other value chains

## Step 2: Aggregator evaluation



### Lenders

Lenders offer access to existing loan customers and established platforms and payment channels can be leveraged. Credit and insurance products are also mutually supporting.



### Value chain aggregators

Value chains and their associated networks can offer insights into points of entry and aggregation for MSMEs.



### Digital platforms / apps

Digital platforms also offer access to customers and their infrastructure, systems and existing payment channels can be leveraged.



### Payment service providers

Linking solutions payments to an account will ease premium payments

Usually have existing relationships with FSPs to offer financial services such as microfinance and insurance





# Step 3: Identifying consumer risks and needs

Cash management and climate risks rank are top of mind for MSMEs in Egypt



Retail value chain



Dairy value chain



Tomato value chain



**Cash-flow challenges** [purchase goods within budget, sell assets, delay purchase]



**Shoplifting** [increased staff presence, surveillance cameras]



**High temperatures** [bath the cattle, take cattle out at night]



**Pest and diseases** [insecticides, crop rotation]



**Expired or Damaged Goods** [inspection, return of goods]



**Milk Storage** [boiling milk, sell or give to relatives]



**Price fluctuations** [contract farming, sell at lower price]



**Fire** [fire extinguishers, fire bells, insurance]



**Animal Diseases** [isolation, medication]



**Weather and temperature changes** [keep up-to-date with weather changes]



**Missing goods from packing for customers** [replace missing goods]



**Price fluctuations** [increased volume sales in winter]





**Fertilizer availability and prices** [limited use, animal manure]

Importance of the challenge

## Step 4: Linking solutions to risks

Sampled MSMEs have an appetite for bundled solutions (VAS + insurance)

	Challenge	Possible solution proposed	Effectiveness
	<b>Uganda</b> Pest and disease outbreaks	<b>Pest and disease identification app</b> allowing farmers to identify and manage crop pests/diseases	<b>49%</b> of farmers scored this solution 4/4
	<b>Egypt</b> Animal diseases	<b>Veterinary solution</b> and <b>cow sensor</b> as an add-on, bundled with <b>livestock death insurance</b> or <b>veterinary insurance</b> cover	<b>Top 1 product bundle</b> among dairy farmers
	<b>Uganda</b> Lack inventory and employee management tools	<b>Employee health</b> (hospital cash and telemedicine) insurance, bundled with access to tools that <b>digitalise inventory and/or employee tracking</b> systems	<b>43%</b> of retail MSMEs scored this solution 4/4
	<b>Egypt</b> Theft	Installation of basic <b>anti-shoplifting technology</b> bundled with <b>theft coverage</b>	<b>Top 1 product bundle</b> among retail MSMEs

# Partnerships with both aggregators and VAS providers required to unlock tangible value for MSMEs

Technology offers opportunities for proactive risk management and prevention, and can also facilitate distribution

202 insurtechs identified in Africa

## Telematics and IoT

 mX | TELEMATICS



## Tech enabled partnership



## Demand-based

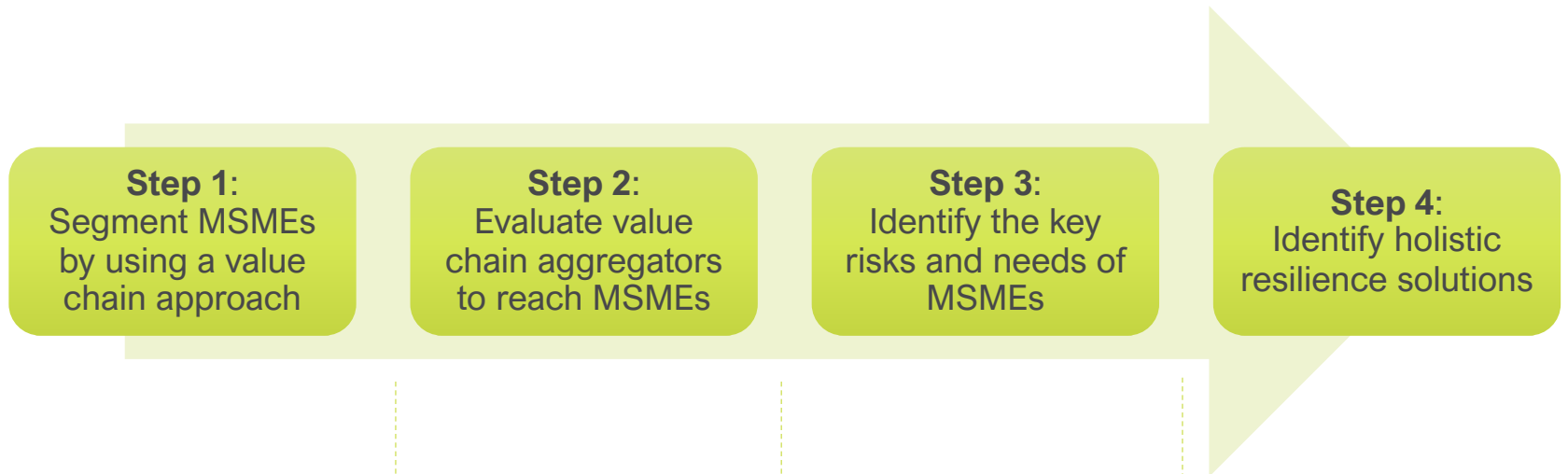


## Parametric



Opportunities for MSMEs

# Bringing it all together



The value chain lens offers a unique perspective to not only **group MSMEs with homogenous risks** but also allowed for **closer targeting**.

- Using a value chain approach enables the **identification of a range of MSME aggregators**
- Growing **importance of digital platforms** but **traditional aggregators** still play an important role

- **Cashflow challenges** are a key cross-sectoral risk and suggest key opportunity for linkages with credit providers
- **Climate events** notably challenging for agricultural sectors
- **Needs-based approach** is needed as **resilience needs vary** significantly between value chains

- MSMEs see value in **bundled solutions**, especially when the **design is simple**
- **Emerging technologies** (AI, IoT, etc.) and associated cost reductions make risk management solutions viable to bundle with insurance

# An effective collaboration between ecosystem players needed



**Insurance providers:** Become risk management partners to more effectively capture the MSME market



**Technology providers:** Seize opportunities to partner with insurance providers to improve engagement with their own customers base and to attract new customer segments



**Policy makers:** Set the tone for supporting innovation and through supporting the coordination of value chains



**Regulators:** Create an enabling environment for innovation by having a flexible and accommodative approach to promote responsible innovation and respond to innovative developments



**Development partners:** De-risk investment and promote a rethinking of insurance through consumer and market research and co-funding support

# Thank you

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## About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

