An allen grauen Stellen liegen keine Linien mehr übereinander.
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National Financial Inclusion Framework of Tanzania

… the working definition of Financial Inclusion for Tanzania entails the “regular use of financial services, through payment infrastructures to manage cash flows and mitigate shocks, which are delivered by formal providers through a range of appropriate services with dignity and fairness”.

Application to microinsurance: … the definition entails that “people in Tanzania have access to a wide range of appropriate insurance products addressing their risk management needs while protected by coherent consumer protection provisions and mechanisms”.

Introduction and acknowledgements

In 2012, microinsurance covered 7.31% of Tanzania’s population. Only three countries in Africa registered a higher percentage. Tanzania ranks fourth, but it probably has the highest potential for growth. Led by the Tanzania Insurance Regulatory Authority (TIRA), the spread of microinsurance among low-income segments is a major priority of the Financial Sector Deepening Trust (FSDT) and the Association of Tanzania Insurers (ATI). The three are among a number of key stakeholders represented on a steering committee overseeing implementation of a three-year strategy by the Microinsurance Technical Working Group. And TIRA has just put in place a set of new microinsurance regulations which include comprehensive qualifications for distributing agents and rapid claim settlement guidelines for providers.

The drive for microinsurance picked up speed after the 2012 International Microinsurance Conference was held in Dar es Salaam. In its wake the Microinsurance Learning Sessions now brought some 120 practitioners and stakeholders together in Dar es Salaam for an update on country initiatives and a detailed look at international practices that are producing results. The Learning Sessions on Tanzania was jointly hosted by TIRA, FSDT, ILO’s Microinsurance Innovation Facility and the Munich Re Foundation.

Participants included insurance and reinsurance companies, distribution channels such as microfinance institutions (MFIs) and mobile network operators (MNOs), representatives of the civil society, policymakers and insurance research and training institutions, as well as multi-lateral development agencies.

We would like to thank the Commissioner of Insurance, Mr. Israel Kamuzora, for hosting this event as well as his entire team for the outstanding support. We also must thank FSDT and especially Jonathan Kasembe as well as Caroline Phily from ILO’s Microinsurance Innovation Facility for putting such a great line-up of speakers and sessions together.

Last but not least, we would like to thank the speakers and facilitators for their time and input in developing the content of each session, Zahid Qureshi for providing the summaries of the sessions for this report, as well as Analisa Gradim-Pedro, Jayyoung Eckl-Lee and Diana Urbani for their support in the review and production process of this publication.

On behalf of the organisers

Dirk Reinhard, Vice Chairman, Munich Re Foundation

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1 Over 120 insurance and development experts participated in the Learning Sessions – Tanzania.

1 The International Microinsurance Conference – Learning Sessions complement the annual International Microinsurance Conference. They provide a platform to discuss key developments in a region or a country.
## Agenda

### Day 1

**24 March 2014**

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<td>FinMark Trust, Zambia</td>
<td>FinMark Trust, Zambia</td>
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### Session 3

How can market development be supported?

Part 1: The role of regulation

- Taiwo Adeoye
  - NAICOM, Nigeria
- Israel Kamuzora
  - TIRA, Tanzania

Facilitator: Christine Hougaard

Cenfri on behalf of Finmark Trust, South Africa

### Session 4

Combining client value and business case in microinsurance

- Afua Donkor
  - Star Microinsurance, Ghana
- Nelson Kuria
  - CIC, Kenya
- Michael McCord
  - Microinsurance Centre, USA
- Rick Koven
  - Microinsurance Centre, USA

Facilitator: Dirk Reinhard

Munich Re Foundation, Germany
Opening remarks

Israel Kamuzora, Commissioner of Insurance, TIRA

It is a pleasure to welcome the 120 insurance experts participating in this event. They include some 20 presenters from other countries. All those that matter in the world of microinsurance are here. This conference is a great opportunity for participants to gain a better understanding of the microinsurance scene in other markets as well as here in Tanzania.

Microinsurance is gaining importance in Tanzania. The International Microinsurance Conference held in Dar es Salaam in November 2012 ignited the interest one can see demonstrated today. Slowly but surely the country's insurance sector is getting better prepared to deal with the challenge of how to include all the people living close to the poverty line in microinsurance, along with its brother microfinance.

Much has been done – but a lot more remains to be accomplished. Stakeholders in Tanzania are keen to absorb the knowledge from these Microinsurance Learning Sessions, and be better equipped to put it to work.

Peter Ilomo, Permanent Secretary of the President's Office – State House and Chairman of TIRA

In greeting you on behalf of the government, let me assure you that the government is fully engaged in putting a policy in place that will allow all low-income earners to take part in microinsurance without any hindrance – including the 22.8% of the population who are below the poverty line.

Low-income households are largely unaware of or indifferent to the potential of microinsurance in assisting them. Practitioners and experts acknowledge that microinsurance alone is not enough to alleviate poverty, but it is an essential part of the financial services those households need. It should be presented to them as such, so it has a better chance of being received and understood and, above all, accepted.

Advocates of microinsurance in Tanzania have been learning how microinsurance is pursued in other countries. Of interest in particular are the role and experience of MFIs. They began by meeting the need for microcredit among people neglected or not served by banks – but the essential piece of protection for micro entrepreneurs was initially missing. It was after microinsurance came into the picture that MFIs' microcredit services became sustainable.

Now MFIs together with microinsurers can be counted on as creators of wealth in the low-income segments of the population – in other countries as well as Tanzania.

2 — Peter Ilomo, Permanent Secretary of the President’s Office – State House and Chairman of the TIRA, opened conference.

3 — Israel Kamuzora, Commissioner of Insurance, TIRA, Tanzania.
Session 1

Trends and emerging practices on microinsurance development in Africa

This session reviewed why insurance is important to improving people’s lives, how it benefits them, and what practices and trends are apparent in the growth of microinsurance in Africa.

Insurance companies traditionally target only the richest 5% of the adult population. In Africa, life insurance remains particularly underdeveloped outside of South Africa. Only 6% of people in Africa and the Middle East have agricultural insurance. At the same time only 3% of people in Sub-Saharan Africa, the Middle East and North Africa have health insurance.

Microinsurance needs to cover the rural and low-income sectors. It is not just about business – but about people’s lives. Insurance matters because it provides:

— financial protection, by reducing expenses, smoothing income/consumption, and enabling asset accumulation;
— access to services, by increasing the use of financial services and, in health insurance, the quality of care;
— opportunities to develop markets and the economy, by deepening financial inclusion and increasing productivity and growth; and
— psychological benefits, by facilitating savings and investment for greater peace of mind.

These benefits of microinsurance have been demonstrated around the world:

Financial protection. Randomised controlled trial studies in Kenya found that health insurance reduces a family’s net health expenditure and informal borrowing for medical costs and increases its non-food and overall consumption, and that insured households are on average a third less likely to reduce meals than their uninsured counterparts.

Access to services. In India, insurance encouraged more frequent visits to community health workers, leading to earlier identification of illnesses and more timely referrals to a doctor or hospital. In Guinea, after the health product was launched, 2 deaths in 1,271 deliveries were recorded, resulting in a maternal mortality rate of 0.26% compared to a rate of 4.52% before.

Market development. In Ghana, bundling savings with a MicroEnsure product increased savings balances. A minimum balance of US$ 60 each month allowed for free life insurance with benefits of up to US$ 180. Five months after the launch, deposits in the bank increased by 19%, and deposits from clients with balances below US$ 60 increased by 207%.

Psychological benefits. Also in Ghana, rainfall insurance led to significantly larger agricultural investment and higher-risk, higher-return production choices by farmers – with expenditure on fertilisers increasing 24% and cultivated land area 17%.

For practitioners, too, microinsurance has proven to be a beneficial business opportunity. It involves low premiums, but large numbers. Low-income earners, when insured, have the potential to be future middle-class clients: “Your customers today, your customers tomorrow.” The study “Landscape of Microinsurance in Africa 2012” recorded a 200% growth from 2008 to 2011, compared with a 60% growth from 2005 to 2008.

This growth reveals four key trends:

More products, reflecting diversity, innovation and client value. Life/accident continues to be the biggest line, followed by credit life, health, property and agriculture. Mobile insurance and bundled offers are driving the growth of life products, while added-value services, supplementary offers and links with universal health coverage mark health insurance initiatives. Index-based projects and livestock covers are gaining acceptance in agricultural insurance – but property microinsurance has yet to take hold.

More distribution channels, using approaches in addition to MFIs, banks, affinity groups and direct sales. Alternative approaches now involve pawnshops, MNOs, retailers, government schemes and funeral parlours.
More stakeholders, including governments, regulators and private-sector enablers. Risk-carriers and distribution channels are the main stakeholders at the micro level. Others getting engaged now include research firms, actuaries and training institutions at the meso level and governments, regulators and donors at the macro level, linking microinsurance with financial inclusion measures.

More technology, employing mobile phones and biometric devices. Increasing use of mobile phones, hand-held devices and smart cards is leading to a multi-pronged service model to enhance access and efficiencies, through paperless processes, data analysis for marketing, and automated premium collection and claims payment systems.

The landscape of microinsurance in Africa shows countries at various stages of the evolution of insurance markets: emerging, diversifying and competitive (see Figure 1). Tanzania, with 7.31% of its population now covered by microinsurance, is taking significant strides along the evolutionary path.

Lessons learnt
— Low-income clients of today are middle-class customers of tomorrow.
— Deepening financial inclusion increases productivity, develops markets and promotes economic growth.
— In microinsurance the greatest need is for agriculture and health products.
— In Africa microinsurance is growing rapidly, with more products on offer, more distribution channels in use, more stakeholders engaged at the meso and macro levels linking financial inclusion measures, and more technology enhancing access and efficiencies.
— African countries are at various points in the evolution of insurance markets, marked by three phases: emerging, diversifying and competitive.

Session 2
The landscape of microinsurance in Tanzania

This session surveyed the insurance scene in Tanzania, examining the access and usage barriers to market development, demand-supply mismatch, and the five strategic imperatives singled out by the diagnostic study.

Tanzania has one of the fastest-growing insurance markets, with premiums increasing about 20% a year since 2009 and the number of insurers almost doubling since 2006. Yet, 92% of the adult population remains uninsured and the potential microinsurance target market for insurance providers is huge (see Figure 2).

A key challenge is how to cover people living close to the poverty line. Their highest household expenditures are for food and health. Health insurance is frequently requested but most people do not have access to products. Furthermore, agricultural insurance is the least developed, though this sub-sector provides a livelihood to more than 80% of Tanzanians. The main barriers are:

- access: affordability (no funds), availability (no physical proximity) and eligibility (no documents)
- usage: knowledge and awareness (negative perceptions) as well as product appropriateness (un-served needs).

For providers the question is: Does the product landscape speak to target-market needs? The demand-side needs in Tanzania are: health, life and flexible family cover, but no funeral insurance. That is because of a cultural difference. Unlike countries such as South Africa, where funeral insurance is a prime microinsurance line, here people say, “Don’t talk about death before the person dies” – though the cover is quite viable as a part of life insurance.

The supply response appears off-base: the microinsurance on offer is mostly credit life, funeral and personal accident, with bundling of property and funeral riders on credit life. These bulky client add-ons are largely driven by brokers, banks and MNOs. So far, microinsurance growth in Tanzania seems to have been on the back of bundled schemes. The aim now should be to facilitate the next stage for low-income earners: graduating to consumption as a result of benefits and then to the purchase of voluntary, stand-alone products. The prime need for health microinsurance remains unmet by ineffective public and private options and the limited reach of community-based schemes. Demand research cautions against pushing products not naturally needed; it is likely to increase the trust deficit. Low-income sectors may appear ready and willing to use technology, but they must trust you first.

Aside from the demand-supply mismatch, there is room for innovations in distribution channels – in particular to cover large rural areas. The National Financial Inclusion Framework (available on the Bank of Tanzania website) points out sectors and players that could help drive microinsurance forward through mutually advantageous linkages – such as MFIs, cooperatives, and mobile phone service providers.

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**Figure 2**
Size of the opportunity to insurance providers

<table>
<thead>
<tr>
<th>Total adult population</th>
<th>100% (24.8 m)</th>
</tr>
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<tbody>
<tr>
<td>Some insurance cover</td>
<td>19% (4.6 m)</td>
</tr>
<tr>
<td>Above affordability threshold and not yet insured</td>
<td>51% (12.7 m)</td>
</tr>
<tr>
<td>Below affordability threshold</td>
<td>30% (7.4 m)</td>
</tr>
<tr>
<td>Already some cover, but still unserved needs</td>
<td>15% (3.7 m)</td>
</tr>
<tr>
<td>Potential microinsurance target market</td>
<td>66% (16.4 m)</td>
</tr>
<tr>
<td>Below basic needs poverty line</td>
<td>34% (8.4 m)</td>
</tr>
</tbody>
</table>

Civil society institutions as well as the public and private sectors need to be engaged to stimulate the entire microinsurance market. A priority is to understand what lies beneath the landscape: undercurrents and the underlying context. The way ahead for microinsurance in Tanzania needs to be paved by divergent driving forces: strong economic growth, a rapidly growing mobile money payment system, stable political economy and expanding financial sector reach. But high inflation, high levels of poverty, strong population growth, a largely rural/agrarian population, underdeveloped rural infrastructure and the informal economy are challenges for market development.

At the same time, industry dynamics have to be considered too. The insurance sector has been growing fast, but increased competition is reflected in lower claims ratios, higher expenses for a large number of new small players, and higher commissions. Most insurers still need to be convinced of the microinsurance business case, and they are not yet geared for its volumes, lacking efficient systems and skilled staff. The diagnostic study points to five strategic imperatives:

- Create a compelling retail business case.
- Build skills and capacity to trigger product innovation.
- Ensure positive market discovery.
- Educate customers through the sales process.
- Pursue strategic distribution partnerships.

For an evaluation of distribution partnerships, aggregators being studied include cooperatives, farmers’ networks, agribusinesses, MFIs, retail shops, utility companies and MNOs. Their contribution to the value chain is marked by affordability, appropriateness and accessibility (the three As).

A number of key stakeholders are represented in a Microinsurance Technical Working Group, set up after a strategy was resolved in December 2013 to pursue, over a three-year period, interventions aimed at strengthening supply, stimulating demand and creating an enabling environment for microinsurance business. At the moment, out of 27 insurance companies, only 3 or 4 are active in microinsurance. The group’s specific tasks are product development, distribution and capacity building, and consumer awareness and education, plus related enabling-environment issues.

The strategy, which also provides for a steering committee and a micro-insurance coordinator, includes a road map, milestones, timelines and recommendations on a monitoring and evaluation framework.

Lessons learnt

- The insurance market in Tanzania is growing fast in the middle and at the top end, but 92% of adults remain uninsured, indicating a huge potential for microinsurance.
- There is a significant demand-supply mismatch – most of all in the agricultural sector.
- Demand for funeral insurance in Tanzania is not as high as in other countries, though the product is viable as a part of life insurance. People balk at the thought of talking about “death before the person dies.”
- Microinsurance growth requires five essentials: a retail business case, skills and capacity building, making market discovery positive for low-income earners, an educative sales process and strategic distribution partners.
- Most insurers still need to be convinced of microinsurance; they lack efficient systems and skilled staff.
Session 3

How can market development be supported?
Part 1: The role of regulation

This session addressed how regulation can be leveraged to enable microinsurance market development, with a review of two cases: Nigeria and Tanzania.

A synthesis of the two countries conducted by the Access to Insurance Initiative (A2ii) concludes that microinsurance business models targeting low-end segments unfamiliar with formal risk management create various consumer protection risks that require a regulatory response. The response chosen is largely determined by the overall regulatory approach followed, which is then given effect through a number of fiscal, supervisory, surveillance and enforcement tools. Regulatory approaches can be grouped into five main categories, reflecting degrees of state intervention and market orientation: public provision (e.g., China), directive (e.g., India), concessionary (e.g., the Philippines, Brazil, various African countries), nudge (e.g., Colombia, Thailand) and long-term market development (e.g., Uganda, Mongolia).

Importantly, more than one approach can be applied in different markets in one country. For example, India follows a directive approach to insurance for the rural and social sectors, a concessionary approach to microinsurance intermediation, and a public provision approach to aspects of health insurance. See Figure 3.

A number of conditioning factors determine which approach is appropriate in which market. Such conditioning factors relate to context (macroeconomic stage, infrastructure), demand (latent), supply (market breadth and depth, financial soundness, informality), and the public sector (funding and infrastructure, supervision, compliance). There is evidence that more and more countries are considering a concessionary approach, having concluded that regulation and supervision should be proportionate to the nature, scale and complexity of the risk. Proportionality in practice is also important as a pathway to formalisation for the informal players.

To begin with, the main element to consider is whether a dedicated microinsurance framework is necessary. Nigeria and Tanzania are two cases where the decision was made to implement a concessionary approach. What can be learnt about the rationale behind the policy choice, what are the elements, and how is the framework being implemented?

Nigeria

In Nigeria, the National Insurance Commission (NAICOM) has issued Guidelines for Microinsurance Operations, which took effect on 1 January 2014. A uniform set of rules, regulations and “minimum” standards for the conduct of microinsurance business now ensures consumer protection and establishes duties and responsibilities of operators and service providers, including conditions for entry and exit.

The minimum capital required of microinsurers is NGN 150 million (US$ 922.5 thousand) for life and NGN 200 million (US$ 1.2 million) for general insurance, with 10% of it in the Central Bank of Nigeria as a statutory deposit. “Adequate and valid reinsurance arrangements” are also required. To keep microinsurers from “straying into conventional business,” the sum insured under a microinsurance policy is limited to NGN 1 million (US$ 6,150), as is the third-party liability cover. In addition, “microinsurance policies shall exclude special risks, motor insurance (except tricycles and motorcycles), professional indemnity and other pecuniary risks with sum insured higher than NGN 1 million.”

A conventional insurer intending to transact microinsurance must “establish a distinct department” to handle microinsurance operations, which must be headed by “an experienced insurance officer of a managerial level.” A satisfactory business plan for five years is also a must. NAICOM has separated the performance on microinsurance “so it can advise the company accordingly.”

7 — Taiwo Adeoye, NAICOM, Nigeria.
8 — Israel Kamuzora, Commissioner of Insurance, TIRA, Tanzania.
The guidelines set “the receipt of insurance premium” as “a condition precedent to a valid microinsurance contract,” and limit rates of commission to 10% (single-premium life), 20% (non-single-premium life) and 15% (non-life). Only specialised micro-insurers and conventional insurers are qualified to be licensed while distribution and ancillary services may be drawn from cooperative societies, MFIs, non-governmental organisations (NGOs), postal agencies, mobile payment systems, telecommunication companies, and faith-based organisations, among others.

**Tanzania**

Tanzania has also issued new microinsurance regulations. TIRA considers microinsurance to be a particularly specialised business, helping low-income households manage risks so they can have a sense of security despite significant vulnerability to numerous perils: natural disasters, agricultural losses, property losses from theft or fire, illness and accidental death. Agents play an essential intermediary role in making microinsurance accessible to the poor and helping them cope with these risks.

A central objective of the new regulations is to ensure that agents are well-qualified and can do microinsurance business without any hindrances.

A microinsurance agent is defined as an individual person or company or an NGO, a self-help group (SHG), an MFI, or an MNO. Among educational requirements for an agent (an individual who is an agent or one representing an eligible group) is the ability to speak English and a certificate of proficiency in insurance. This certificate is awarded after a six-week training course and costs about TZS 450,000 (US$ 270). After registration, an agent is required to maintain a minimum amount of TZS 500,000 (US$ 300).

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**Figure 3**

5 regulatory approaches

<table>
<thead>
<tr>
<th>Public provision</th>
<th>Directive</th>
<th>Concessionary</th>
<th>Nudge</th>
<th>Long-term market development</th>
</tr>
</thead>
<tbody>
<tr>
<td>State identifies risk and manner in which to be covered and subsidises provision</td>
<td>State requires (with sanctions for non-compliance) insurers to serve a specific market segment</td>
<td>Regulatory requirements reduced for lower risk products to reduce cost of provision</td>
<td>Rely on market forces to move insurers downmarket with enabling environment</td>
<td>Focus on developing insurance industry with no specific focus yet on low income market</td>
</tr>
</tbody>
</table>

| Agricultural and rural insurance in China | India rural and social sector quotas | Philippines, Brazil, various African countries | Colombia, Thailand | Uganda, Mongolia |

Increasing state intervention → Increasing market orientation

Source: Hougaard, Christine. Presentation “How can market development be supported? The role of policy and regulation”. Microinsurance Learning Sessions Tanzania 2014.
Session 3
How can market development be supported?
Part 1: The role of regulation

The regulations provide that micro-insurance products shall be distributed through microinsurance agents, who enter into an agreement with an insurer. The insurer is required to design a general or life microinsurance policy which is in the Kiswahili language and easy to understand. No brokers are listed in the regulations, as TIRA believes one is a broker for traditional insurance, not microinsurance. (Unlike an agent who represents a particular insurer, a broker acts as an intermediary for several insurers and chooses a cover for the customer.)

Helping to settle claims is among the specific responsibilities of an agent. Insurers are required to settle microinsurance claims within three working days from the date of receipt of the claim. If more time is needed to settle a claim, the microinsurer will have to obtain an extension from the Commissioner of Insurance. Such an extension can be granted, but it can only be for a maximum of five days. For conventional insurance the law in Tanzania is that claims must be paid within 30 days.

TIRA believes that the scale needed for market development requires not only a viable business model but also the right regulatory framework. To develop the appropriate framework, it is important that the regulator has total government support – support which should mobilise donor assistance.

Lessons learnt

— The first question to consider is whether a dedicated regulatory framework for microinsurance is necessary.

— A regulatory approach can be in one of five categories reflecting degrees of state intervention and market orientation (see Figure 5) – but more than one approach may be applied in the same country for different markets (such as the rural/social sector and health insurance).

— To determine which approach is appropriate for which market, consider conditioning factors such as the macroeconomic context, latent demand, informal supply and the need for supervision and compliance.

— More countries are choosing a concessionary approach, reducing regulatory requirements for lower-risk products to keep down the cost of provision.

— Tanzania’s new microinsurance regulations, seeing agents in an essential intermediary role, require that they be well-qualified. An agent can be an individual, a group, an organisation or a company.

— Providing assistance in the settlement of claims should be among the specific duties of a microinsurance agent.
This session reviewed cases of microinsurers in Kenya and Ghana providing value to clients while meeting business objectives, with an in-depth look at the elements of client value and drivers of business case.

**Kenya**

In 2012, CIC Kenya started a micro health insurance scheme that serves as a good example of how to balance client value and business case. The insurance group, whose flagship is credit life (“A cup of tea – so profitable that sometimes it is embarrassing.”), believes that the best way to educate poor people about the value of insurance is claims: Pay the claim properly and you have them convinced.

To enter microinsurance, mainstream insurers should introduce a product where the probability of claims is high, exclusions are minimised and policies are bundled to keep transaction costs down (“The poor cannot afford individual policies.”). CIC’s Afya Bora (Good Health) is such a product. It provides comprehensive cover, not to individuals, but to family units – typically a household of 4–5 people with two children under 18. It is group-based, goes through an aggregator and is available to members of all savings and credit co-operatives (SACCOs), MFIs and small and medium enterprises (SMEs).

The issue of providers is crucial in healthcare – and even more so in micro health insurance. Generally, providers go for expensive tests, thinking that the insurance company pays (“In the case of microinsurance it is in fact the poor farmer that pays.”). For Afya Bora, CIC partners with “religious-type hospitals that provide good value.” In Kenya, hospitals like to have patients who have insurance as it guarantees payment and gives them an opportunity, in most cases, to even increase charges: The first thing a hospital asks a new patient is, “Do you have insurance?” So it is surprising that in Tanzania hospitals prefer patients with cash.

Claims are settled within seven days. Barely two years old, the product is still in its infancy and the loss ratio is very high. In the first year, incurred claims exceeded premiums, but since October the ratio has reduced significantly. Expenses have now plateaued below 34% against premium. The goal is to keep the trend by increasing the written premium – so Afya Bora makes business sense as well as providing client value (see Figure 4). CIC believes microinsurance is a business of the mind and a business of the heart. The two are not mutually exclusive, but one has to go before the other, in order to build goodwill.

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**Session 4**

**Combining client value and business case in microinsurance**

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**Figure 4**

*CIC’s client value for micro health*

CIC is constantly measuring client value vis-à-vis business viability

- A comprehensive (IP & OP) family cover
- Includes maternity, chronic and pre-existing conditions
- IP-Ksh. 250,000 (US$3000) / OP-Ksh. 50,000 (US$625) pa
- Family life cover for Ksh. 50,000 (US$625)
- Ksh. 16,000 (US$200) per annum
- Easy payment mechanisms through premium financing

Product

- No deposit on admission
- Use of smart cards
- Available to all SACCO, MFI and SME members
- Easy enrolment
- No prior medical examinations
- Regular customer education

Access

- Affordable premiums
- Quality health care
- Reliable service providers
- Fast claims settlement
- Product research:
  - 40% satisfied/
  - 40% very satisfied/
  - 20% unsatisfied
- CIC is working hard to capture higher satisfaction levels

Cost

Experience

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Client value

The Microinsurance Centre’s Microinsurance Learning & Knowledge (MILK) Project team has researched microinsurance practices around the world over the past few years and compiled factors affecting value for clients, business case for providers, and the interplay between the two, which can lead to a so-called magical balance. Value in microinsurance can be: expected (protection, peace of mind), service (access to help in need), and financial (cost savings, easing of financial burden). For the low-income client, insurance is only a part of the answer to risk mitigation. To measure financial value, the project team used its “Client Math” methodology, which consists of in-depth interviews with both insured and uninsured people who recently suffered the same insurable shock. It quantifies the full cost of a shock and financial responses, exploring the added value of insurance vis-à-vis other common coping strategies. Samples comprised about 30 insured and 30 uninsured persons in each of the 16 studies, which dealt with micro health, property and life insurance.

For a relative comparison across the board, costs of different shocks were first evaluated in months of average income. Then specific shocks were analysed for the insured and uninsured to see how insurance fared in relation to other coping mechanisms such as asset sales, formal credit, family loans, etc. To finance hospitalisation, for example, the insured raised funds from many of the same sources as the uninsured, but in lower amounts.

The key for microinsurers is to understand the consumer’s financial behaviour: what low-income people do to manage risks and how they perceive the comparative value of other financing options. This understanding has implications for microinsurance product design and distribution. In Colombia, SURA (Seguros de Vida Suramericana SA) has found that the business case for high-touch (door-to-door through utility partners) and low-touch (in-store cross-selling to card users) distribution depends on prior demand factors such as income stability and financial experience.

An understanding of the customer’s use of existing financing tools can also help design marketable products: how much value, when the benefits might be needed most, and what expectations might be realistic.

Striking the magical balance between client value and business case takes time. Looking back, one realises that what is now mainstream insurance started decades ago as microinsurance. And microinsurance itself is now taking time to evolve; in the Philippines, for example, it has taken 15 years to reach a 21% penetration and a stage where it is driven by competition. Microinsurance practitioners can speed up the evolution by providing good service, which creates more trust and in turn leads to greater demand.

Business case

There are eight drivers of the microinsurance business case (see Figure 5). The first five – business model, product type, subsidy, distribution and enrolment mode – are usually included in the business plan. Two others – competition and programme age – come into play after the business is operational. Yet the number one driver of business case is scale.

A MILK study of micro health schemes conducted over four years showed an average expense ratio of 61% and claims ratio of 57%, resulting in an underwriting loss of 18%. The main reason was a lack of scale: to be profitable they should have maximised scale and minimised administrative costs. Microinsurance profitability relies on massive scale at minimal cost. The formula to remember is:

\[
\text{Profitability} \approx \frac{\text{Covered lives} \times \text{Unit premium}}{\text{Claims} + \text{Fixed costs} + \text{Variable distribution and administrative costs}}
\]

The higher the number of lives covered, the greater the chance for profitability. This is the first of seven conclusions the MILK project reached when reviewing the essentials of a business case (see Figure 6).

10 — Michael McCord, Microinsurance Centre, USA.
11 — Left to right: Nelson Kuria, CIC, Kenya, and Dirk Reinhard, Munich Re Foundation, Germany.
Figure 5
Eight drivers of microinsurance business case


Figure 6
Thinking about business case

1. Microinsurance requires maximum scale and minimum cost
2. Life is profitable, health is difficult
3. Subsidies may be necessary for health and agriculture
4. Admin and distribution costs, and not loss ratio are drivers of health micro business case
5. All products benefit from group enrollment and of large groups
6. Stand alone microinsurance business models are more challenging than a mixed model
7. Competition in a maturing microinsurance market rationalizes pricing, motivates innovation and client focus

Ghana

In Ghana, a microinsurance operation has demonstrated the importance of scale in achieving results since it was set up in 2008 as an independent agency by the country’s fourth-largest general and life insurers, Star Assurance and Star Life Assurance. Bundling group life and health covers with loans and savings insurance, Star Microinsurance Services Ltd. uses a number of distribution channels, including MNOs and MFIs.

For the first three years, Star Micro’s combined ratio (operating expenses plus claims) well exceeded written premium. Then, taking on additional partners, it increased the number of lives covered by more than 500% in 2011 and 200% in 2012. This scale proved essential in reversing a margin of −127% to +3%.

While scale made the business case, Star Micro enhanced client value by its ability to bundle products and by paying claims promptly. In March, a fire gutted the Tudu Station Market in Accra. Traders among the victims were loan beneficiaries of Advans Ghana Savings Ltd, whose insurance policy from Star Micro covered death, permanent disability and hospitalisation as well as fire and allied perils. Prompt settlement of their claims brought significant promotional value to Star Micro.

Cost efficiencies have also been important, which Star Micro achieves through electronic data linkages with its distribution partners. Two other notable examples of bundled products are Star Micro’s investment funeral policy, which provides an opportunity to invest alongside funeral insurance, and a family cover plus health care benefits designed in collaboration with Ghana Post.

Lessons learnt

— For the poor, the value of insurance is in claims. The best way to convince them of it is to pay claims promptly and properly.
— Providers are crucial to sustaining micro health insurance. Choose hospitals that provide good value – avoiding those that go for expensive tests to be reimbursed by insurance.
— Private unsubsidised micro health insurance has not been viable without government support – but complementing public health schemes can sustain it.
— Understand how poor people manage risk, then help them see the comparative value of insurance among financing mechanisms they use.
— Scale is what microinsurers need to be successful. And it accompanies growth along a continuum of evolution. Credit life may be a bread-and-butter line – but what next?
— Combine efforts to achieve scale with administrative cost control, efficiencies in distribution and bundling in product design – steps that will maximise client value for a good balance with the business case.
## Agenda

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25 March 2014

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Session 5

How can market development be supported?
Part 2: The need for a multi-stakeholder approach

Stakeholders play a key role in developing microinsurance markets. This session dealt with how best to engage persons, groups or organisations that have an interest in microinsurance and that can affect or be affected by it. Steps taken in Zambia, Ghana and Ethiopia served as examples.

Insurance market development generally goes through three stages of evolution marked by scale and quality: emerging, diversifying and competitive (as depicted in Figure 1). At each stage, multiple stakeholders address changing needs and carry out tasks in their own specific fields: risk carriers and distribution channels at the micro level; training institutions, actuaries and research organisations at the meso level; and government, regulators and donors at the macro level. At the micro level, providers and distributors serving clients seek efficiencies by exploring partnerships and institutional models. At the meso level, specialists such as actuaries, trainers and researchers help keep data and systems infrastructure and support functions up to date. And at the macro level, regulators and government ministries ensure appropriate policy, supervision and consumer protection.

Zambia

In Zambia, where a review of the microinsurance market was conducted in 2009, a steering committee and technical advisory group were set up the following year to implement its recommendations and oversee development of a strategy and process of implementation. An important step was ensuring multi-stakeholder representation in the advisory group, which included nominees of government ministries (finance, labour and social security) and the Pensions and Insurance Authority, and volunteers from the associations of banks and rural finance bodies as well as insurers and MFIs.

For a concerted execution of projects, a coordinator was recruited. Key interventions also included a supplier assessment, the launch of a Microinsurance Acceleration Facility, annual capacity-building training programmes for product design and delivery, and innovations seminars. The result was an increase in the number of lives covered, from 200,000 in 2009 to nearly 1 million in 2013. The breakdown by product, which used to be 95% credit life to 5% funeral life, is now 64% credit life, 35% funeral life and 1% agricultural. There is an index-insurance pilot involving cotton farmers and using satellite images rather than weather stations. For a wider spread of agricultural insurance, however, more weather stations and mobile phone access are needed in Zambia’s rural areas. The advisory group regards market development in Zambia as being well on its way to the competitive stage of evolution.

Ghana

In Ghana, the National Insurance Commission (NIC) and the Deutsche Gesellschaft für International Zusammenarbeit (GIZ) have been cooperating since 2009 to drive a country-wide process for insurance market development in close dialogue with the industry (see Figure 7). The project to promote microinsurance in Ghana (ProMiGH) aims to enhance access to and usage of insurance services by SMEs and low-income households. A new draft legal and regulatory framework for the insurance sector was developed in 2012. A special regulatory window for microinsurance was put in place through the Microinsurance Market Conduct Rules in February 2013. Since then the number of companies offering microinsurance has increased from 7 to 11 and products from 8 to 16. This also included agricultural insurance, for which insurers have formed a national risk pool (Ghana Agricultural Insurance Pool, GAIP).

Some main barriers to market development have included: on the supply side, low actuarial capacity and a lack of industry-wide research and risk data, resulting in too-high premium prices and loss of client benefit; and on the demand side a lack of financial inclusion, with little understanding, prejudices and low awareness of insurance services among the poor. Thus, the multi-stakeholder cooperation approach within ProMiGH focuses, among other things, on three objectives: developing actuarial capacity, designing a Ghana Insurance Industry Database (GIID), and piloting a consumer insurance awareness campaign in selected communities.

To encounter the prevailing lack of actuarial capacities in the country, an actuarial capacity development strategy has been developed by a steering committee representing the regulator NIC, the Ghana Insurers Association (GIA), the Actuarial Society of Ghana (ASG), the Ghana Insurance College (GIC), and four universities with actuarial science programmes. The committee found that most actuarial graduates start their careers outside the insurance industry, and that the universities’ academic qualification standards do not comply with international standards. A market survey revealed that Ghana’s life insurers have only one Fellow, one Associate and 14 Affiliates, while non-life insurers have only one Affiliate – actuaries certified according to the standards of the International Actuarial Association (IAA). Demand is huge: the new regulatory framework specifies 14 core assignments for the actuarial function within an insurance company, and as from 2017 makes in-house actuarial functions mandatory for insurers in the context of a transitional period. (In Tanzania, too, the commission is thinking of making it mandatory for insurance companies to have an actuarial unit.) The strategy includes the ASG becoming a full member of the IAA to provide Ghana’s actuaries with examination and international accreditation, imposing the acquisition of international actuarial certificates on most of its members – a process of life-long learning and the development of special professional attitudes.
The assessment of actuarial capacities available in Ghana also clearly revealed a lack of sector-wide data on insurance categories. A three-year roadmap is being followed to develop the GIID. It will provide market-wide life, property and motor policy data to insurers for analysis, for example mortality rates, traffic accident numbers and frequency. The objective is to improve the understanding of markets being insured, support risk-based premium pricing, reserving and policy/claims verification, and to provide historical policyholder information to prevent fraud.

A key to microinsurance market development is prevalent demand. A GIZ feasibility study confirmed that the target market lacks appreciation of insurance, knowledge of the insurance concept and trust of insurance companies. It also found that low-income people confused and mixed insurance concepts with other financial services.

To support the development of instruments and policies enhancing the knowledge of and attitude toward insurance, the NIC-GIZ task group used pilot approaches aimed at:

- developing an insurance awareness index for campaign impact monitoring;
- conducting a baseline survey in 4 pilot districts (20 communities based on the panel survey methodology);
- implementing a microinsurance awareness campaign in those districts; and
- measuring changes on insurance awareness though an end-line survey.

The insurance awareness index was developed by the Institute of Statistical, Social and Economic Research (ISSER) at the University of Ghana. The questionnaire in the survey dealt with knowledge (11 items on insurance products, companies and the concept of insurance), attitude (9 items on subjective perception of the insurance concept and 5 items on insurance companies), and risk management behaviour (3 items on coping mechanisms).

For the campaign itself, partnering with insurers and distributors at both national and local levels and through multiple channels was crucial, including radio, TV, road shows and community advocates. The results of the end-line survey and awareness instrument evaluation will be available by the end of 2014. It is envisaged to up-scale best practice and lessons learnt into the national financial inclusion strategy currently in development and to involve the industry in the implementation of specific measures (e.g. via the GIA).

Figure 7
NIC-GIZ cooperation project

Session 5
How can market development be supported?
Part 2: The need for a multi-stakeholder approach

Ethiopia

In Ethiopia, a multi-stakeholder approach to support microinsurance development was started in 2009. A diagnostic study found a closed financial market and underdeveloped telecom services for financial transactions. It also detected little motivation among insurance companies to serve low-income sectors, limited donor support for financial inclusion and microinsurance, and a legal framework that favoured MFIs to underwrite microinsurance (MFIs paid no taxes, and insurance companies, which were not tax-exempt, could not compete with them).

The ILO Regional Office for Africa (ILO ROAF), based in Addis Ababa, has worked with policymakers in government to co-draft a framework that redefines a single microinsurance policy and regulation, supports client-focused products beyond credit life, requires MFIs and co-ops to partner with licensed insurers, and creates a specialist microinsurance company. This company has shareholders including cooperatives, farmers’ associations and other civil society organisations. Its lines include life, accident and a small component of health. Regulation does not permit it to write huge sums – just small commercial assets of cooperatives and other businesses.

ILO ROAF also convinced the government to include microinsurance as an essential element of the Rural Finance Intermediation Programme II (funded by IFAD) – which has supported various index and multi-risk pilots on rural insurance, including an agricultural transformation agency trying to set up an agricultural reinsurance facility.

ILO ROAF has drawn interest and stake from other development partners as well, mobilising some US$ 2 million in resources with another 10 million in the pipeline. The partners include, for example, UNICEF for a women-focused financial inclusion drive including microinsurance. The multi-stakeholder involvement has helped generate significant growth in the number of microinsurance clients since 2010, with a three-fold increase projected over the next three years.

In Ethiopia’s experience, microinsurance is not scalable as a stand-alone product and it is best linked with the government’s financial inclusion strategy and projects. In addition, transparent client value and protection should be paramount in market development; without them, numbers are not so relevant.

Lessons learnt

— Identify stakeholders and their roles – at the micro, meso and macro levels – and make sure they are represented in the task group set up to implement the microinsurance development strategy.

— Set objectives and priorities that are of mutual interest, complementing any existing projects and courses of action – such as the government’s financial inclusion, rural finance or agricultural development initiatives, or an industry-wide actuarial capacity improvement programme.

— A joint effort is also an option where stand-alone microinsurance may not be scalable. In Ghana, insurers have formed a national pool for agricultural insurance.

— A market essential is prevalent demand, which depends on customer awareness. Low-income people often confuse and mix the insurance concept with other financial services. An initial goal of any joint literacy campaign should be to dispel such confusion.

— Another market development essential is an industry-wide database that insurers can use to improve the understanding of segments being insured, and support risk-based premium pricing, reserving and policy/claims verification based on historical records. As microinsurance takes hold, it should be adequately represented in such a database – a project requiring joint action which may spark conventional insurers’ interest in serving low-income communities.
Session 6

Distribution channels – the missing link

The session examined the role of distribution channels and how they have been engaged in microinsurance initiatives in Tanzania, Kenya and South Africa.

Tanzania

In 2012 the FSDT conducted a census of cash outlets in the country to look into the potential distribution ecosystem for microinsurance in Tanzania. In market research, a starting point is sources of data that are a good foundation for information. Information for its own sake is good to have, but knowledge derived from it is needed to make informed decisions. To elaborate and expand the findings, FSDT collected a second set of data during November 2013–February 2014. Survey results of the second, more comprehensive census are being compiled and will update, among other findings, a set of financial access maps posted on www.financialaccessmaptz.com.

The spread of mobile money and places where one can exchange cash for transferable or storable electronic value is greatly increasing financial access in many developing countries. For its census in Tanzania, FSDT carried out a GIS\(^2\) (Geographic Information Systems)-based analysis of about 20,000 cash-in-cash-out (CICO) outlets. (That number jumped to more than 55,000 in the second census.) It included M-Pesa\(^3\) and other mobile money agents, retail outlets with a POS (point-of-sale) terminal, ATMs of banks, MFIs, SACCOs, post offices and major bus stations. One can imagine how things might change if these 20,000 cash points delivered at least one microinsurance product.

Among the key findings are:

— Mobile money agents outnumber all other cash outlets by almost 10 to 1. But agents largely follow the paved-road network, leaving numerous outer communities unserved.
— More than half of all banking retail infrastructure is provided by three banks.
— A significant portion of the population is left out (only about 40% of all wards in Tanzania had a cash outlet).
— Population density is an imperfect predictor for distribution of cash outlets.

Mobile microinsurance (MMI)

One of the fastest growing mass-market insurance service providers is MicroEnsure (UK), which now serves more than 10 million enrolled clients through partnerships with MNOs, microfinance providers and banks in Africa and Asia. Its key mobile network partners include Telenor in Asia and Airtel in Africa.

MicroEnsure believes access is not just physical but also technological. Its key to achieving scale is using the mobile channel to distribute simple and reliable products that appeal to “the regular guys on the street” and offer more value than other risk-coping mechanisms they may use. The stronger value proposition includes features they appreciate, at prices they can afford, with limited restrictions, and having terms and conditions that are easy to understand.

To create awareness and gain acceptance, the product can be launched as a “freemium” one, offered free for a limited time (3 to 6 months) with an option to buy at the end of the period. Across the board the value proposition is driven by simple communication: limiting an SMS (Short Message Service) text to 160 characters, for example, and using representatives people can relate to at outlets to help them understand the product.

As an MMI service provider, MicroEnsure takes the lead in a partnership that typically includes a local network operator and an underwriting insurer. It neither sells the product nor bears the in-country risk, but is responsible for delivering nearly every other element of the project: product and process design, operational execution, and monitoring and evaluation. Marketing is now built into the deal between the underwriter, the operator and MicroEnsure. Efficiencies are obtained by leveraging the mobile infrastructure for various functions ranging from product development and enrolment to claims processing and data management.

\(^2\) Geographic Information Systems (GIS), a computer system capable of holding and using data describing places on the earth’s surface, is a resource for mapping or performing land-based analysis. It assists in decision-making by providing an additional tool to study and compare numerous geographic data layers along with traditional databases.

\(^3\) M-Pesa (m for mobile and pesa for money in Swahili) is a mobile-phone-based money transfer and micro financing service.
The product may be simple, but it requires a technological interface with an MNO’s numerous systems. The product must make business sense — and the value proposition should be monitored. In MicroEnsure’s experience, the MNO involved usually has a 7 to 15% increase in usage plus a 60% reduction in loss of customers after the launch of insurance. For a practitioner exploring MMI, MicroEnsure’s experience has yielded a number of lessons and factors to consider (see Figure 8).

Leveraging partnerships

Hollard (South Africa) serves “every financially active consumer group, from low-income earners to high net-worth.” It uses a multi-channel distribution approach, integrated channel management and a partnership philosophy “getting into partners’ heads”: “recognising like-minded partners, understanding respective strengths and then driving long-term value through optimised structures to ensure mutual success.” Working with more than 100 partners, Hollard has developed insurance offerings in four other countries in Africa (Botswana, Mozambique, Namibia and Zambia), the United Kingdom, three in Asia (China, India and Pakistan) and Australia.

For the low-income group Hollard mainly has three distribution channels: direct response (for simple life products), low-cost agency (for products requiring face-to-face interaction), and retail affinity (for offerings on the back of partners’ brands, infrastructure and capabilities).

In direct response, funeral insurance has the greatest penetration. To limit consumer confusion, only four products are mass-marketed. Pricing requires a balance between profitability and consumer retention/interest. And anti-selection (fraud) is a major concern in this channel, requiring waiting periods and exclusions.

The low-cost agency model (LCAM) is deployed across a number of channels: retail, credit-linked, church, funeral home, remote and full-field fulfilment, branch and sport affinity. Low-cost agents are expected to sell simple, affordable products face-to-face in a non-advice mode, and earn a variable salary. They are typically unemployed before taking on this first job and have minimum educational qualifications. They allow access to customers unreachable by phone. Building trust, they have made a significant contribution to Hollard’s volume of business. The company has more than 2,500 low-cost agents and has recorded about 3 sales per agent per day.

Figure 8
Lessons for insures

<table>
<thead>
<tr>
<th>Opt-in or opt-out?</th>
<th>Agent based vs self enrolment</th>
</tr>
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<tbody>
<tr>
<td>Telecommunication regulators in certain markets require customers to opt-in. Opt-out models deliver significantly larger enrolments compared to opt-in.</td>
<td>Self enrolment is faced by literacy challenges, network timeout constraints. On the other hand agent based enrolment introduces costs to a lean distribution model.</td>
</tr>
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<tr>
<th>Airtime vs mobile money</th>
<th>Automatic premium deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium collections can be done through both airtime and mobile money. Airtime delivers higher traction than mobile money.</td>
<td>This is a no-brainer. Go for automatic renewals. Incorporate flexible payment frequencies.</td>
</tr>
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</table>

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<tr>
<th>Client data</th>
<th>Flexi payments</th>
</tr>
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<tbody>
<tr>
<td>Does the MNO have KYC (know your customer) data? This is either SIM or mobile money registration data. Availability of data will eliminate need for collection at enrolment. Usage data will inform engagement strategies.</td>
<td>Incorporate flexible payment frequencies such as monthly, weekly and daily.</td>
</tr>
</tbody>
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<tr>
<th>Freemium vs paid for</th>
<th>Brand recognition</th>
</tr>
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<tbody>
<tr>
<td>To create awareness in underdeveloped markets, run the freemium model for 6–12 months.</td>
<td>Customers will associate the insurance cover with the MNO brand as opposed to the underwriter. This mitigates trust issues around insurance for mass markets.</td>
</tr>
</tbody>
</table>

For retail affinity, Hollard looks for partners with a customer reach large enough to enable a critical mass required for a profitable book, brand attributes that will stretch to insurance, a sales method that will permit embedding, and potential of alignment with infrastructure and capabilities. With a well-diversified retail affinities portfolio across distribution methods, Hollard believes its expertise lies in selling on the back of transactions with a growing focus on in-store agents.

Hollard has found churches to be natural partners as they are interested in making sure their members are able to provide for their families in the event of death. In exploring partnership with a church, a starting point is its membership base and information on members for profiling, plus estimates of monthly tithe collected and assets. It is then expected to provide a pool of members who can be recruited as agents and can enable Hollard to tap into the church culture and develop an appropriate sales pitch. The church should also be willing to commit resources to support premium collection and claims service.

Mobilising healthcare

Healthcare in Africa seems to be stuck in a vicious circle of low access, low demand and low supply. One organisation dedicated to stimulating this demand and improving supply is PharmAccess, a Dutch NGO founded in 2000. It has set up a health insurance fund to offer affordable health insurance to low-income groups and upgrade health facilities, and a medical credit fund to offer affordable credit to healthcare providers that cannot access the capital markets. Each facility is expected to participate in an internationally recognised quality improvement programme called SafeCare (See Figure 9).

---

**Figure 9**

**Breaking the vicious circle and building trust**

- Premium subsidies
- Education and marketing

---

**Donors/Governments (tax)**

**Demand**

- Solidarity
- Out-of-pocket expenses
- Access to health care
- Ownership

---

**Prepayment (contribution) by users**

**Financing**

- Higher

---

**SafeCare**

- Set quality standards

---

**Patient**

- Increased willingness to pre-pay
- Decreased financial risk

---

**Health insurance fund**

- Introducing health insurance

---

**Supply**

- Quality
- Efficiency
- Availability of data
- Risk
- Investment opportunities

---

**Medical credit fund**

- Access to loan

---

**Government (public)**

- Upgrading and capacity building
- Quality assurance
- Quality certification

---

PharmAccess operates in five African countries including Tanzania, where in 2007 it started HIV/AIDS support to the Armed Forces and in 2011 introduced a health plan for small-scale coffee farmers in Kilimanjaro.

The health plan, funded by the Dutch government, was for 150,000 members of the Kilimanjaro Native Cooperative Union (KNCU), the country’s oldest and largest cooperative with over 68 primary societies across 4 districts in the region. The scheme started in mid-2012 after an 8-month pilot program. It covers basic primary care, chronic diseases and maternal care.

PharmAccess provided technical support for product development, administration and marketing, and service quality assurance. The premium is TZS 14,500 (US$ 8.75) per person per year (60% subsidised), and the co-payment averages about TZS 5,000 (US$ 3). As of December 2013 the scheme had over 12,000 enrollees in 31 of the primary societies, which serve as the main delivery channel. It uses both private and public clinics, and involves a third-party administrator (TPA). ID cards are issued for access to a clinic.

Lessons learnt
— The spread of mobile money is enhancing financial access. In Tanzania, only 40% of all wards have a cash outlet, but mobile money agents outnumber outlets by 10 to 1. Yet, many isolated communities off paved roads remain unserved.
— Access that is technological and not just physical is key to the scale achieved by a mass-market microinsurance provider. But equally important is a strong value proposition including features regular cell-phone users can appreciate, at prices they can afford, with limited restrictions, and having terms and conditions that are easy to understand.
— The mobile infrastructure should be leveraged for functions such as product development, enrolment, claims processing and data management.
— A multi-channel distribution approach should integrate channel management and each channel’s strengths. And it should use low-cost agents where face-to-face interaction is needed.
— Choose retail partners that permit embedding and have the potential of alignment with their infrastructure and capabilities.
— Rural communities require intense marketing and sensitisation for micro health insurance. This is best accomplished through the use of community mobilisers whom people can trust, in addition to agents experienced in sales.
Session 7  How to protect farmers

This session started with a review of results of the agricultural sessions at the microinsurance conference held in Dar es Salaam in November 2012, and then looked into elements of index-based insurance for farmers demonstrated in projects ongoing in several countries.

Agriculture is the main source of poor people’s income and employment in most developing countries. To protect them from risks, many pilot projects for formal insurance have been performed, but produced mixed results. Most pilots offered index-based weather insurance, promising small-holder farmers low-cost protection against key perils while reducing the risk of moral hazard. Index insurance pays out benefits on the basis of a predetermined index (e.g. rainfall level) for loss of assets and investments, without requiring the traditional services of insurance claims assessors. Before the start of the insurance period a statistical index is developed, which measures deviations from the norm for parameters such as rainfall, wind speed, crop yield or livestock mortality rates that correlate with agriculture losses.

Weather index insurance does face challenges, from basis risk to offering reliable protection to farmers. Basis risk is posed by the difference between the value of loss measured by the index and the actual loss experienced on the farm. It may be caused by weather variables inherent in micro-climates, or by a farm’s soil quality, seeds and crop varieties, and growing practices. In index insurance, an individual farm’s specific loss is not assessed, so the farmer always has the basis risk. While designing the product, this inherent basis risk can be estimated and reduced, but not eliminated. This and other characteristics of protection plans for farmers were examined in the 2012 conference’s academic track on agricultural insurance, which made a number of recommendations for addressing farmers’ concerns (see Box 1).

Providers, too, have learnt from pilot projects that insurance is not a complete solution to agricultural risk and that public-sector roles are critical for a sustainable scale-up of protection plans. They point out the need for better claim payment rules, which suggests the institutional option of mutuality may be a missing link. And they see potential in meso-insurance for lenders to reduce the burden of risk on borrowing farmers.

Box 1

Recommendations from the academic track on agricultural insurance

— Farmers prefer an insurance product with more frequent pay-outs, even if it is more expensive.
— Low-income farmers, given a choice, want to pay at least a part of the insurance premium with labour instead of cash.
— Insured farm households are more likely to use formal loans from banks to cope with climatic shocks, without having to dispose of their productive assets.
— Subsidised weather insurance helps the government by reducing the farmers’ need for emergency aid after an extreme event.
— Index insurance should be viewed as part of a holistic risk management programme including risk reduction, risk mitigation, and cautious risk-taking.
Keeping it simple
Kilimo Salama\(^1\) (Safe Agriculture in Kiswahili) is an insurance intermediary and third-party service provider launched by Syngenta Foundation in Kenya in 2009. The initiative partners with UAP Insurance and Safaricom, and develops and implements agricultural insurance products for small-holder farmers. Working with a local insurer and an international reinsurer, Kilimo Salama started with an index-based plan for drought and excess rain for 185 maize farmers, some of whom planted on as little as one acre. The products it developed are used by over 150,000 smallholder farmers in Kenya and Rwanda, and it will soon launch a crop yield product in Tanzania. As of 1 July 2014, Kilimo Salama has evolved into Agriculture and Climate Risk Enterprise Ltd (ACRE), an independent for-profit company with headquarters in Kenya.

The organisation’s main product is drought insurance linked to agricultural credit by MFIs used for fertiliser and improved seed and includes a hybrid plan with indices for weather and area yield drawn from 20-year historical data and monitored by satellite and automated stations (see Figure 10). New products also are linked to quality inputs, with registration/payouts via MNOs.

In Kilimo Salama’s view, the key to microinsurance acceptance and growth is simplicity: a simple-to-understand product, followed by client-specific communication and interface to refresh the value proposition and build trust. In 2012 its insured farmers in Kenya invested nearly 20% more in their farms and earned 16% more income than neighbouring uninsured farmers.

Collaborating with the public sector
In 2009, the International Finance Corporation (IFC) together with the International Bank for Reconstruction and Development (IBRD), the original institution of the World Bank Group, set up the Global Index Insurance Facility (GIIF) to support development and growth of markets for indexed insurance in developing countries, starting with pilot activities in Sub-Saharan Africa. Now a multi-donor trust fund, GIIF has been working with a number of implementing partners in Latin America, the Caribbean, Asia Pacific and Africa to expand the use of index insurance as a risk management tool in agriculture, food security and disaster risk reduction.

Rwanda
GIIF’s grantee/partners include MicroEnsure and, among others, Kilimo Salama, whose sponsor Syngenta Foundation was GIIF’s very first implementing partner in Africa. Both service providers\(^2\) had been active in Rwanda, where index insurance was invited to pilot by the Ministry of Agriculture in 2008. The project involved Rwandan insurer SORAS and received only non-financial support from the Ministry. It now insures some 100,000 farmers in the country.

Unlike countries more exposed to covariate shocks, such as the Sahel region, the principal benefit expected from agricultural insurance in Rwanda is not a reduction of vulnerability but an increase in productivity. Although these are two sides of the agricultural insurance coin, the focus on vulnerability or on productivity leads to different approaches. For example, if vulnerability is posed by infrequent but severe shocks such as major droughts, the insurance is best designed to address these rare catastrophic events. This results in lower premium and better-contained basis risk, but also in farmers’ dissatisfaction as they don’t see the insurance working for them very often. If, on the other hand, productivity improvements are the focus, even a 20% drop in yield leads to loan repayments that threaten the access to finance needed to grow productivity. In such circumstances, insurance will be designed to pay more often, will be more expensive – premiums of around 10% of the sum insured are not infrequent – and will need to pay more attention to basis risk.

In addition to the actuarial risk premium reflecting the anticipated frequency and severity of claims payments and the various loadings necessary for data, administration and distribution, taxes can increase the challenge of affordability. In Rwanda, for example, where index insurance or microinsurance is not yet regulated, a 14% withholding tax on foreign reinsurance adds to an 18% VAT on premium. In the absence of donor funding, the taxes would have to be shouldered by the insured farmers, who would not be able to pass that cost on to their buyers while there are plenty of uninsured farmers who needn’t add that cost to their produce.

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\(^1\) Kilimo Salama was renamed Agriculture and Climate Risk Enterprise Ltd. (ACRE) in June 2014.
\(^2\) MicroEnsure pulled out of Rwanda in early 2014.
Figure 10
Mixed weather and yield insurance

Weather index
- Satellite
- Automated weather stations

Germination cover
Planting stage

Drought cover
Vegetative and flowering

Flowering
Flowering stage

Prolonged rainfall
Flowering, maturity and harvesting

Storm cover
Flowering, maturity and harvesting

Area yield index
County level yield data

Crop production shortfall cover
Full season

Report Microinsurance Learning Sessions Tanzania 2014

Session 7
How to protect farmers

Senegal

Another country in Africa with a GIIF-supported initiative is Senegal. There the government has provided considerable support to kick-start agricultural insurance, through:

— the creation of a national insurer, Compagnie Nationale d’Assurance Agricole du Sénégal (CNAAS);
— regulation of index insurance in the new microinsurance regulation (developed with GIIF support);
— tax exemption; and
— ~50% premium subsidy.

It was primarily farmers’ vulnerability, rather than productivity concerns, that motivated the government to strongly promote agricultural insurance. In 2013, CNAAS insured 1,500 herders with 57,500 head of cattle, and about 5,000 crop producers, including various index insurance pilot projects supported by GIIF, USAID and the World Food Program focusing on low-income small-scale farmers – that is, the typical microinsurance market.

Uruguay

In Latin America, Uruguay exemplifies a macro-level insurance initiative. In 2011 the government requested a suitable index-based product to protect cattle farmers against severe drought and other climatic losses in their pasture and natural grazing. Indemnity-based insurance does not provide practical solutions for insuring extensive natural pasture and grazing lands, but there are new parametric or index-based approaches to insure against production losses in pasture, using satellite imagery to determine a pasture’s condition within a Normalised Difference Vegetative Index (NDVI). An NDVI can be used for the insured interest of individual herders in a microinsurance plan or the insured interest of a regional or national government in a macroinsurance plan, which may be a part of its natural-disaster risk-management programme.

The macro-level NDVI-based product developed by GIIF for Uruguay was designed to enable the Ministry of Agriculture to make timely payouts to some 38,000 livestock producers in the event of drought-induced damage to pasture, so they could buy supplementary fodder for herds. The plan aims to cover 50% of the fodder need for reproductive cows during a seven-month period from September to March, taking in the country’s spring and summer growth cycle in natural pasture and grazing, with a total sum insured of US$ 315 million for the whole country (less for piloting in selected districts).

Figure 11
Potential roles for the public sector

A conclusion of the review is that scale will only be achieved if public and private sectors work on it together. A good starting point for practitioners is to have a good idea of the public sector’s potential roles (see Figure 11).

Kenya

The World Bank, in partnership with the government of the Netherlands, has put in place an Agricultural Insurance Development Program (AIDP) to help countries implement sustainable, cost-effective PPPs in agricultural insurance. In tandem with GIIF, which focuses on private-sector innovation and action at the micro level, AIDP is aimed at macro-level public sector initiatives. How specifically this two-pronged approach makes a difference in a developing market is illustrated by work done in Kenya (see Box 2).

Insights from 70 countries

Rwanda, Senegal and Uruguay provide examples of different models of public-private partnerships (PPPs) in agricultural insurance, which are of paramount importance. A World Bank review of agricultural insurance programmes and pilots in 70 countries provides insights into challenges and options. The main impediments to the development of sustainable and scalable agricultural insurance markets are similar in many developing countries:

- Lack of clarity over the respective roles of the public and private sectors in promoting agricultural insurance;
- Lack of coordinated investments in public goods;
- Lack of technical capacity of insurance providers and governments;
- Limited client value and/or affordability of many products offered; and
- Inadequacy of tools and indicators for monitoring and evaluation, in particular for index insurance programmes.

Box 2

- GIIF supported the International Livestock Research Institute’s index-based livestock insurance, which sold 3,600 policies to Maasai pastoralist herders using an individual retail approach.
- GIIF is also contributing to microinsurance and index insurance regulation.
- The Ministry of Agriculture, Livestock and Fisheries/Department of Livestock asked the AIDP team to provide technical support in designing and implementing livestock insurance with a focus on reducing vulnerability for pastoralist livelihoods in the ASAL (arid and semi-arid lands) regions.
- AIDP is analysing social protection options, in which the government purchases limited insurance on behalf of selected pastoralists, and pastoralists have the option to “top up” coverage if they wish.
- Building on the potential complementarities between a livestock insurance programme and a scalable cash transfer programme, AIDP is working to provide technical input into the triggering mechanisms and risk-financing methodology for the scalability mechanism of the National Safety Net for Results project.

20 — Left to right: Dirk Reinhard, Munich Re Foundation, Germany; Peter Wrede, World Bank, USA, and Laura Johnson, Kilimo Salama, Kenya.
Sustainable PPPs

The AIDP suggests six pillars on which a successful PPP can be based and built:

— Begin with a comprehensive agricultural risk assessment.
— Produce a comprehensive agricultural insurance development strategy that clearly articulates the role of the public vs. private sector and the contribution of various types of insurance products, both indemnity and index-based.
— Develop and implement a strategy for coordinated investments in a data market infrastructure.
— Increase the capacity of the public sector to support the design, pricing, risk financing (catastrophe layers), monitoring and evaluation of the agricultural insurance programme, considering the creation of a technical support unit where appropriate.
— Develop the legal and regulatory framework for PPPs between government and private market participants, with the objective of mobilising private participants throughout the value chain in support of the agricultural insurance strategy, and of aligning the incentives of private sector players with client value.
— Build the capacity of government to develop and implement a comprehensive agricultural insurance monitoring and evaluation system.

Mexico provides a widely known example of a well-defined PPP for agricultural insurance: the National System for Insurance of the Rural Sector, which involves three key insurance bodies: Agroasemex – the national agricultural reinsurer – private commercial insurance companies and mutual insurance companies, including the fondos (presented in more detail in the World Bank study, see Figure 12).

Up to six private insurance companies are authorised to offer agricultural insurance in Mexico. In addition, there is one mutual insurance society and about 270 fondos. The agricultural reinsurance market in Mexico is also well developed. A group of seven international reinsurers provides a combination of proportional and non-proportional reinsurance support to private commercial reinsurers.

Figure 12
Example for PPP architecture: Mexico

*Producers with < 10–00 hectares or 45 animal units

In Latin America, Brazil and Mexico have the highest levels of government support for agricultural insurance. This support includes premium subsidies, by which there are two points to keep in mind: one, subsidies can distort the risk quantification – and hence economic incentives – provided by actuarially fair premiums; and two, things can be done other than subsidies to reduce the cost of premiums for small-holder farmers. Governments, for example, can also help by reducing the cost of (insurance-quality) weather and yield data, by supporting insurance awareness among the target market and by facilitating administration (e.g., with national livestock registries).

Many of these measures aim at creating public goods that will benefit others beyond insurance, and there is great potential for exploring these synergies more vigorously.

**Lessons learnt**

— Insurance is not a complete solution to agricultural risk, and public-sector roles are critical for a sustainable scale-up of protection plans.

— In partnerships with the government, microinsurers should keep in mind its motivation: is it the agricultural sector’s productivity, or the farmers’ vulnerability?

— Weather index insurance has potential but its main disadvantage is basis risk, which should be reduced in the product design. The key to its acceptance is simplicity – of the product and its explanation.

— Subsidies may be needed to make agricultural insurance affordable and acceptable for farmers, but from the provider’s perspective these may distort the actuarial calculation of risk and prevent other ways of keeping premiums low, such as loss-prevention measures.

— A macro-level index-based programme, such as the one insuring pasture against drought in Uruguay, may create opportunities to supplement it with microinsurance for individual herders, keeping in mind that the meso-level and macro-level approaches will also strengthen the micro-level ones.
Session 8

The way forward

In 1967 the government of Tanzania nationalized banks and insurers. Ordinary people had no idea of any plans – just that everything belonged to the government. They lost life policies, and trust in financial institutions. Financial services, and insurance in particular, were regarded as being there for the well-to-do, and banks and insurance companies met their business objectives serving the upper echelons of the market. Nationalisation was discontinued in 1984. In subsequent years competition in the open market slowly but surely shifted the financial service providers’ target from the rich to lower-income segments and, after the turn of the century, to the poor, as microinsurance came into focus. The rise of microinsurance in Tanzania has since helped practitioners and stakeholders become aware and knowledgeable of a number of factors and developments that are important to keep in mind for the way forward (see Box 3).

Box 3

Microinsurance in Tanzania: What practitioners and stakeholders have learnt

— Microinsurance is an ever-evolving field, with innovations in product design, distribution, technology applications, etc.
— The microinsurance landscape in Africa has been growing rapidly, 200% between 2008 and 2011. The microinsurance landscape in Tanzania is changing and likely to experience further growth, especially with the microinsurance development strategy in place.
— The microinsurance strategy for Tanzania sets out the roadmap for increasing access to insurance in Tanzania. The process is fully functional, with leadership from a multi-stakeholder technical working group reporting to a steering committee. It covers interventions to stimulate demand, accelerate supply and create an enabling environment.
— Getting started is about understanding the client needs, desired products, business models and appropriate distribution channels. Distribution is one of the distinguishing features of microinsurance from conventional insurance. The basket of distribution channels is wide and deep. Take your pick strategically.
— Getting the magical balance is about balancing profitability and client value.
— Scale is important for microinsurance success.
— Regulation is key and must support innovations in product design and delivery.
— Pay “valid” claims promptly.
— Multi-stakeholder involvement at national and global levels is essential for developing microinsurance markets. Market development interventions must be aligned to the local context and priorities.
— Agricultural insurance holds the promise of poverty alleviation in many developing countries. While there are challenges in delivering agriculture microinsurance, there is emerging evidence that it is doable.

21 — During the “way forward” session, participants were asked to analyse market opportunities, describe challenges and constraints that should be addressed to accelerate market development and summarise main takeaways from the Learning Sessions Tanzania.
In this closing session, participants divided into a number of subgroups to discuss three main questions (below) and reported back (their conclusions are in Box 4).

— What are the market development opportunities that the insurance stakeholders in Tanzania should consider?
— What are the main challenges and constraints that the regulator, steering committee and technical working group should prioritise and address to accelerate microinsurance in Tanzania?
— What is your main take-away from this microinsurance learning seminar?

Box 4
What next? What conference participants suggested

Market development opportunities
— Set appropriate regulation, identify distribution channels (such as MFIs, SACCOs and SHGs), and develop right products.
— Go out of urban areas into rural areas, capitalise on the existing infrastructure, and work with agro-businesses already there to leverage mutual interest in agricultural insurance.
— Collaborate with other microinsurance stakeholders, particularly telecom companies and aggregators, which have developed “small” products and could show insurers how.
— Develop skills for microinsurance at universities to increase the talent pool, and then create jobs they can fill.

Challenges and constraints
— Lack of skills and job opportunities in the industry, particularly the actuarial area.
— No dialogue between the private and public sectors to address shortcomings in healthcare delivery.
— Little customer awareness of the insurance concept and products. Awareness and education should be tied to product availability.
— Lack of resources to send people out to rural areas to educate consumers.
— Inaccessibility of clients in remote areas (no telephone, for example) who may need microinsurance most.

The main take-away
— One cannot do microinsurance business alone. It requires teamwork. And it takes body and soul.
— A business model is a prerequisite for microinsurance. Reduce profit from microinsurance for the poor.
— A lot more time and effort will be needed for involvement and commitment of the government.
— Microinsurance is not just a product, but a distribution channel.
— Microinsurance can supplement the financial structure and improve the economy.
# Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>A2ii</td>
<td>Access to Insurance Initiative</td>
</tr>
<tr>
<td>AAAs</td>
<td>Affordability, appropriateness and accessibility</td>
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<tr>
<td>ACRE</td>
<td>Agriculture and Climate Risk Enterprise Ltd</td>
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<tr>
<td>AIDP</td>
<td>Agricultural Insurance Development Program</td>
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<tr>
<td>ASAL</td>
<td>Arid and semi-arid lands</td>
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<td>ASG</td>
<td>Actuarial Society of Ghana</td>
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<tr>
<td>ATI</td>
<td>Association of Tanzania Insurers</td>
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<tr>
<td>CICO</td>
<td>Cash-in-cash-out</td>
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<tr>
<td>CNAAS</td>
<td>Compagnie Nationale d'Assurance Agricole du Sénégal</td>
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<tr>
<td>FSDT</td>
<td>Financial Sector Deepening Trust</td>
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<td>GAIP</td>
<td>Ghana Agricultural Insurance Pool</td>
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<tr>
<td>Cenfri</td>
<td>Centre for Financial Regulation and Inclusion</td>
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<td>GIA</td>
<td>Ghana Insurers Association</td>
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<td>Ghana Insurance College</td>
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<td>GIID</td>
<td>Ghana Insurance Industry Database</td>
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<td>GIIIF</td>
<td>Global Index Insurance Facility</td>
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<tr>
<td>GIS</td>
<td>Geographic Information Systems</td>
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<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH</td>
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<tr>
<td>IAA</td>
<td>International Actuarial Association</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>ILO ROAF</td>
<td>ILO Regional Office for Africa</td>
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<tr>
<td>ISSER</td>
<td>Institute of Statistical, Social and Economic Research</td>
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<tr>
<td>KNCU</td>
<td>Kilimanjaro Native Cooperative Union</td>
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<tr>
<td>LCAM</td>
<td>Low-cost agency model</td>
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<td>MFI</td>
<td>Microfinance institution</td>
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<td>MILK</td>
<td>Microinsurance Learning &amp; Knowledge</td>
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<td>MMI</td>
<td>Mobile microinsurance</td>
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<td>MNO</td>
<td>Mobile network operator</td>
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<tr>
<td>NAICOM</td>
<td>National Insurance Commission of Nigeria</td>
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<tr>
<td>NDVI</td>
<td>Normalised difference vegetative index</td>
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<td>NGN</td>
<td>Nigerian naira</td>
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<tr>
<td>NGO</td>
<td>Non-government organisation</td>
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<td>NIC</td>
<td>National Insurance Commission of Ghana</td>
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<td>POS</td>
<td>Point of sale</td>
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<tr>
<td>PPP</td>
<td>Public-private partnership</td>
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<td>SACCO</td>
<td>Savings and credit co-operative</td>
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<td>SHG</td>
<td>Self-help group</td>
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<td>SME</td>
<td>Small and medium enterprise</td>
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<td>SMS</td>
<td>Short message service</td>
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<td>SORAS</td>
<td>Société Rwandaise d'Assurance</td>
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<tr>
<td>SURA</td>
<td>Seguros de Vida Suramericana SA</td>
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<tr>
<td>TIRA</td>
<td>Tanzania Insurance Regulatory Authority</td>
</tr>
<tr>
<td>TPA</td>
<td>Third-party administrator</td>
</tr>
<tr>
<td>TZS</td>
<td>Tanzanian shilling</td>
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Munich Re Foundation
Königinstrasse 107
80902 München, Germany
Letters: 80791 München, Germany
Telephone: +49 (0)89 38 91-88 88
Fax: +49 (0)89 38 91-7 88 88
info@munichre-foundation.org
www.munichre-foundation.org

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Contact
Dirk Reinhard
dreinhard@munichre-foundation.org

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“I encourage MFIs and other stakeholders to team up with insurance players in the market to help Tanzanians get access to financial services through micro lending and microinsurance.”

Israel Kamuzora, Comissioner of Insurance, TIRA, Tanzania