# Tanzania Access to Insurance Diagnostic

## Document 2: Context

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*Diagnostic series authored by Cenfri on behalf of FinMark Trust:*

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## About the Tanzania Access to Insurance Diagnostic series

This is *Document 2* in a series of 8 documents that together comprise the findings of the Tanzanian Access to Insurance Diagnostic. The series consists of one headline findings summary and seven input documents, each focusing on a specific thematic area, that build up the evidence base to the headline findings:

1. **Headline findings.** This document summarises the main findings of the diagnostic study across the other documents, then concludes on market potential and opportunities, the challenges to be overcome and the strategic imperatives to unlock such potential.
2. **Context.** Document 2 outlines the macroeconomic, socio-economic, political economy and financial sector context within which the Tanzanian insurance market develops.
3. **Insurance uptake.** Document 3 estimates the current penetration of the microinsurance market as percentage of adults in Tanzania and how insurance uptake has evolved in recent years.
4. **Insurance industry trends.** Document 4 analyses recent trends in the insurance industry in terms of premium volumes, players and performance, asking what the catalyst for the next wave of growth required towards an inclusive insurance market will be.
5. **Product and distribution landscape.** Document 5 considers the current suite of products in the Tanzanian microinsurance landscape. In addition, it unpacks trends in insurance distribution.
6. **Health insurance dynamics.** Document 6 takes a closer look at the health insurance dynamics in Tanzania, given the unique features of the health insurance landscape.
7. **Regulatory framework.** Document 7 considers the role of policy, regulation and supervision in building an inclusive insurance market by unpacking the key features of the insurance regulatory framework, as well as ancillary areas of regulation.
8. **Understanding client needs.** Document 8 draws on focus group and demand-side survey research to better understand the economic realities, risk experience, coping strategies and knowledge and perceptions of insurance of the Tanzanian adult population. On this basis, it conducts a segmentation exercise whereby the target market is grouped into distinct segments and the profile of each is explored.

The series was designed so that readers can focus on the Headline Findings document, drawing on specific input documents for the evidence base and as per their area of interest.

The full series is available at: www.fsdt.or.tz and www.finmark.org.za

The series has been submitted for review by the global Access to Insurance Initiative (www.access-to-insurance.org) and, upon acceptance and subject to further refinements, will also be published under the banner of the Access to Insurance Initiative.

**CONTEXT: DOCUMENT 2 SYNOPSIS**

Microinsurance market development is intricately linked to the macro, socio-economic, political economy and financial sector context within which it develops. This document considers various elements of the Tanzanian context and how they may impact on insurance market development.

**Key findings:**

*Various context factors can serve as enablers of inclusive insurance market growth*:

- In recent years, the Tanzanian economy has shown a positive growth record and generally stable macroeconomic environment. GDP growth has averaged close to 7% annually over the last twelve years
- Though the financial sector footprint remains limited in rural areas, it is estimated that the banked population almost doubled since the 8.8% recorded in FinScope 2009.
- 26% of the adult population uses mobile money, meaning that there are already about 6.4m mobile money users; a 6-fold growth in the span of less than two years. The rise of mobile money is creating an ubiquitous payment system platform that can also be used for insurance distribution.

*Despite overall conducive conditions, a number of context factors are likely to challenge microinsurance market development*:

- Poverty remains pervasive and high informality and population growth, coupled with a largely agrarian rural economy and underdeveloped rural infrastructure imply that economic growth is unlikely to be sufficient to significantly change the situation:
    - Nearly three quarters of the Tanzanian population live in rural areas
    - Roads, electricity, piped water and agricultural infrastructure remains limited in Tanzania, particularly in rural areas
    - One in every three Tanzanians lives below the nationally-defined basic needs poverty line. Poverty is even more pronounced in rural areas.
    - Tanzania's total population is nearly 45 million and is estimated to reach 70 million by 2025, with half the population below 16 years of age.
    - 80% of Tanzanians are dependent on agricultural for their livelihoods, most of them subsistence and smallholder farmers.
    - The rural population lacks credit facilities and as a result has inadequate funds to purchase the necessary inputs to increase their agricultural production.

**Conclusion**

- In seeking to grow the market, insurers can draw on the expanding financial sector footprint and the rapid growth of mobile network and mobile money subscribers.
- Poverty and the inability to cope with the financial consequences of risks create an imperative for microinsurance as a tool for mitigating the financial risks associated with the nature of farming and households.
- Yet persistent poverty also limits the proportion of Tanzanians that can feasibly be premium-paying insurance customers.

# 1. Introduction

The microinsurance market is intricately linked to the macro, socio-economic, political economy and financial sector context within which it develops. In recent years, the Tanzanian economy has shown a positive growth record and generally stable macroeconomic environment. These are conducive conditions for microinsurance market development. Yet many challenges remain: the population is still largely poor and rural, most of them dependent on subsistence farming. At a macro level, electricity and road infrastructure remains sub-optimal, there is a professional skills deficit and the relatively recent liberalisation of the economy continues to shape trends and dynamics.

Below, we consider the various factors that may impact on insurance market development across the macroeconomic, socioeconomic, political economy and financial sector context.

# 2. Macro and socio-economic context

*Steady economic growth rate.* The Tanzanian economy has shown remarkable growth over the last decade. Gross Domestic Product (GDP) growth has averaged close to 7% annually over the last twelve years[1], driven mainly by mining, construction, communications and the financial sector. Manufacturing, transport and tourism have also contributed to the growth in GDP[2]. In the industry consultations, some insurers attributed their steady growth rate to general economic growth rather than insurance sector-specific trends. When asked where future potential lies, many also emphasised economic growth areas such as mining, construction and infrastructure.

*Inflation undermines certainty*. The one thorn in the flesh of the positive macroeconomic picture is the fact that inflation, driven by exchange rate depreciation in light of an import-dependent economy, remains high at close to 20%. High and volatile inflation induces interest rate volatility. In recent months the Bank of Tanzania has increased interest rates in an attempt to curb high inflation rates. Despite these restrictive measures, inflation rates declined only slightly, from 19.8% in 2011 to 19.4% in 2012 (World Bank, 2012). According to some consultations, interest rate fluctuations in the money market, combined with an illiquid capital market and local investment requirements, challenge insurers acting as institutional investors. High inflation rates furthermore reduce the real value of insurance benefits where such benefits are not index-linked and can discourage potential clients.

*Economic growth is unlikely to be enough to absorb expected population boom.* According to the World Bank (2011), Tanzania's total population is nearly 45 million and is estimated to reach 70 million by 2025. With half the population below 16 years of age, the economy has to grow rapidly to absorb the productive capacity implied by high population growth.

*Agriculture as cornerstone of the Tanzanian economy.* Despite an urbanisation rate of 4.7% per annum[3], nearly three quarters of the population still remained rural in 2009[4]. Agriculture

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[1] The World Bank. 2012. *Tanzania Economic Update: Stairways to Heaven.* Report prepared by The World Bank Poverty Reduction and Economic Management Unit Africa Region.
[2] The World Bank. 2011. *Tanzania: Country Brief.* Available: http://go.worldbank.org/7SUHE823V0 [7 March 2011].
[3] Central Intelligence Agency (CIA). 2012. *The World Fact Book.* [Online]. Available: https://www.cia.gov/library/publications/the-world-factbook/geos/tz.html [17 April 2012]
[4] Source: FSDT, 2009. FinScope Tanzania survey.

is the largest livelihood activity in rural areas and it supports about 80% of Tanzanians (World Bank, 2011). Agriculture and fishing are estimated to have contributed 23.6%[5] to the Tanzanian GDP in 2011. Yet there are very few large-scale commercial farmers in Tanzania. Rather, agriculture is dominated by subsistence and smallholder farmers cultivating an average farm size of between 0.9 hectares and 3.0 hectares. The 2011 AgFiMS Tanzania survey[6] finds that, in total, there are about 500,000 farmers, processors and agri-service providers that have *potential* commercial viability.

*Agrarian economy, underdeveloped rural infrastructure creates urban-rural divide*. The dominance of agriculture as livelihood generator, coupled with the underdevelopment of the commercial agriculture sector implies that rural systems in general are still quite underdeveloped. Credit extension to the agricultural sector is extremely low. The Tanzanian government states that the majority of the rural population lacks credit facilities and as a result has inadequate funds to purchase the necessary inputs to increase their agricultural production[7]. The AgFiMS Tanzania 2011 survey found that access to financial services (including credit) is not favourable for agribusiness owners. More than half of agribusiness owners (54.3%) are financially excluded, meaning that they do not use financial services from either formal or informal institutions.

Furthermore, infrastructure is underdeveloped, especially in the rural areas:

**Box 1. Rural infrastructure indicators**

According to the World Bank[8]:

- Tanzania has on average 63 days/year of power outages, versus an average of 41 among all low-income countries and just 5.6 in middle-income countries.
- Only 10.6% of the population has access to electricity: 39% in urban areas and 1.8% in rural areas. The corresponding averages for low-income countries are 71% (urban) and 12% (rural).
- Tanzania has a road density of 47km per 100km of land, versus an average of 86km in low-income countries and 507km in middle-income countries.
- Only 7% of the population has access to piped water

A study conducted by the University of Moshi in Tanzania in 2010[9] demonstrated that agricultural infrastructure such as transport, communication, storage, marketing facilities, risk management, quality standards as well as marketing research and information are underdeveloped in Tanzania. According to the AgFiMS survey results, lack of infrastructure, electricity, transport and markets all limit the growth of agricultural businesses. Poor infrastructure and distance to the markets hinder agribusinesses' integration into

[5] The World Bank. 2012. *Tanzania Economic Update: Stairways to Heaven.* Report prepared by The World Bank Poverty Reduction and Economic Management Unit Africa Region.
[6] The AgFiMS (Agricultural Finance Market Scoping) survey is a comprehensive, nationally representative survey tool focussing on potentially commercially viable agricultural enterprises, including producers, processors and service providers. AgFiMS collects data on the demand for, and supply of, financial services in the agricultural sector. See: http://www.agfims.org/agfims-tanzania-2011
[7] As quoted on the Government of Tanzania website: http://www.tanzania.go.tz/regions/dodoma/agriculture.htm
[8] Source: World Bank, 2010. Tanzania's Infrastructure: A Continental Perspective, Available at http://www.infrastructureafrica.org/system/files/Tanzania%20Country%20Report.pdf
[9] As quoted in: Temba, P. (7 May 2012). *AllAfrica* [Online]. Available: http://allafrica.com/stories/201005171654.html

commercial supply chains. Consequently, agribusinesses are often forced to sell their produce during harvest time, when prices are depressed due to oversupply.

Poor infrastructure therefore creates a rural-urban divide that will be very difficult to cross for insurers wishing to penetrate the unserved market. This implies that insurers will have to be particularly innovative in the design of distribution and premium collection strategies.

*Informal economy drives market dynamics*. In line with the dependence on subsistence agriculture, the informal economy remains the biggest income generator in Tanzania. The latest available employment statistics in Tanzania stem from the 2006 Integrated Labour Force Survey. It classifies the employment profile of Tanzanians as follows:

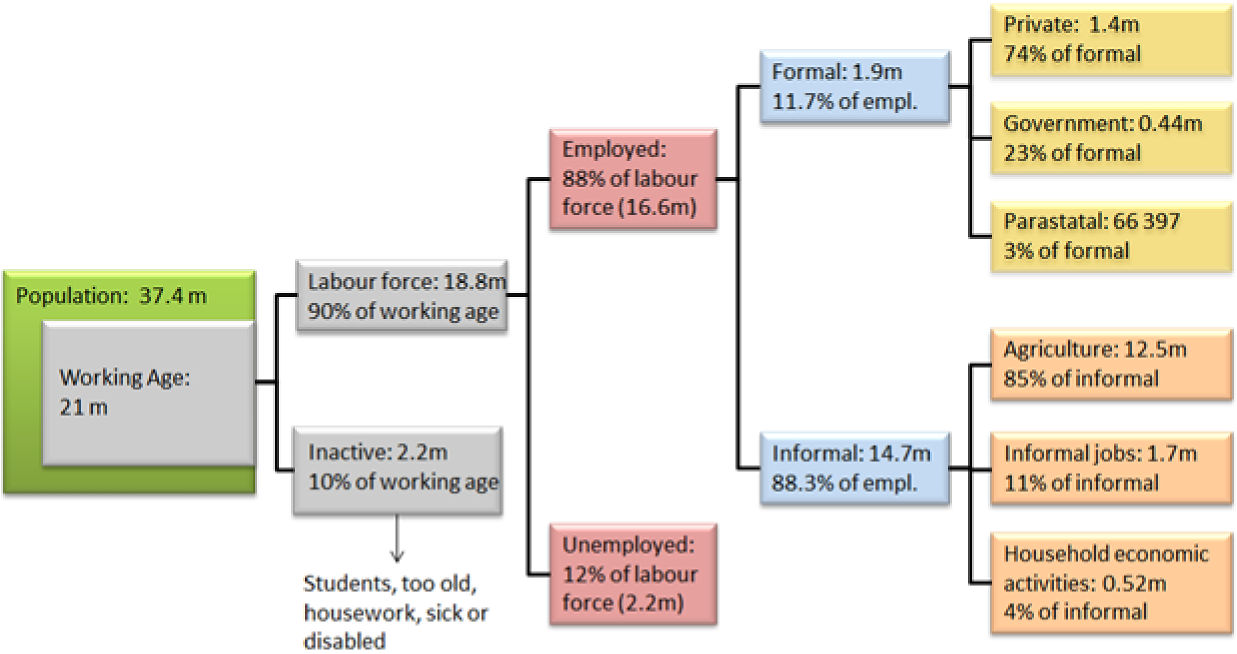


**Figure 1: Labour force breakdown**

*Source: Tanzania Integrated Labour Force Survey 2006*[10]

Figure 1 indicates that informal activities account for no less than 88% of total employment in the Tanzanian economy. Agriculture contributes 85% to informal employment (the equivalent of 75% of the employed population and 66% of the labour force). In contrast, only 1.9m people (less than 12% of the employed) work in the formal sector. 26% of those that are formally employed work in the public sector and 1.4m (74% of formally employed) work in the private sector.

These orders of magnitude are confirmed by the FinScope (2009) findings, though FinScope has a different survey year, used different definitions and indicators and focused on percentage of adults rather than of the labour force. FinScope (2009) renders the following insights into the composition of the labour force:

[10] Note: **working age** is defined in the survey as all people 15 years or older. The labour force is defined as those of working age which during a specified reference period prior to the interview were either productively engaged (employed) or available to be engaged (unemployed) in economic activities. Unemployment is defined as all in the labour force who in the week prior to the interview were without work, available for work and seeking work.

- In addition to those who are self-employed in the agriculture sector (55% of adults indicated that they work on their own farm), FinScope indicates that 15.2% of the adult population is self-employed in the informal sector, while 2.3% indicated that they are casual workers. Many others indicated that they rely on support from family and friends as their main source of income, or otherwise engage in informal income-generating activities.
- Only 5.7% of adults indicated employment in the formal sector as their main source of income.

Focus group and FinScope findings furthermore indicate that people often combine more than one source of income-generating activities.

*Persistent poverty*. Despite the relatively high levels of economic growth, poverty still remains a challenge and the above factors, notably the dependence on subsistence farming in rural areas, would suggest that it is unlikely to change. The World Bank World Development Indicators Database for 2012 indicate that 68% of the Tanzanian population survives on less than the international absolute poverty line of $1.25 per day, adjusted for purchasing power parity (PPP) and 88% live on less than $2 per day, PPP adjusted[11]. The 2007 Household Budget Survey shows that one in every three (33.6%) Tanzanians live below the nationally defined basic needs poverty line[12]. Poverty remains especially high in rural areas, where 38% of the population live below the basic needs poverty line compared to 16% in Dar es Salaam and 25% in other urban areas.

# 3. Political economy

*Stable political environment, but some structural issues.* Tanzania has a stable political environment in comparison to many other sub-Saharan countries. This has supported the high levels of foreign entry into the insurance market discussed in *Document 4*. Consultations with government agencies would, however, suggest that, where key ministries relevant to the insurance context and particular distribution channels are concerned (notably agriculture and cooperatives, as well as health), there are challenges at national level in rolling out policies at local levels. This is due to the three-tiered government structure where much power is delegated to the local and regional levels. Furthermore, there is apparent fragmentation between different government departments and agencies in the health insurance and social security spheres, calling for greater coordination.

*The past continues to shape the present*. As discussed in *Document 4*, another political economy aspect, namely the history of nationalisation and state-mandated monopolies, also to some extent continues to shape market dynamics. Focus group discussions furthermore indicated that there is a strong sense of social equality and an aversion to segregation. This social solidarity strengthens community ties for risk coping mechanisms. At the same time, it may shape people's perception of insurance policies that offer different benefit packages to different tiers of customers.

[11] World Bank, 2012. World Development Indicators database. Available at: http://databank.worldbank.org/ddp/home.do. Note that the latest available figures for Tanzania are based on 2007 survey data.
[12] This percentage is lower than the dollar a day measure, as it

*Fiscal concerns may impact on policy priorities*. Though the Tanzanian economy survived the 2008/2009 global financial crisis relatively unscathed, subsequent stimulus packages contributed to a deteriorating fiscal situation. By mid-2011, the budget deficit, after grants, had reached 6.9% of GDP and total government debt exceeded 40% of GDP. In response, various measures are being implemented, including spending cuts and tax increases. The Bank of Tanzania has also tightened its monetary policy to curb inflation[13].

*Donor dependence creates culture of entitlement.* The Tanzanian economy, though becoming less donor dependent, continues to benefit from large-scale support from abroad. Nearly 30% of the government budget is directly funded by donor funds rather than domestic revenues[14]. Industry consultations suggested that high levels of donor activity create an entitlement culture that may impact negatively on willingness to pay for insurance, especially in health insurance. Another danger of donor dependence is that the fiscal challenges currently experienced in Europe may cause some donors to reduce aid flows.

# 4. Financial sector context

*Banking sector reach growing off low base*. At the time of the FinScope (2009) survey only 8.8% of the adult population was banked. This spoke of a financial sector not yet tailored to the retail mass market, as well as significant rural distribution challenges due to still very limited financial sector infrastructure. According to the IMF's global Financial Access Survey of 2009, there were only 3.3 ATMs and 1.8 bank branches per 100,000 adults in Tanzania, and just 0.49 bank branches and 0.9 ATMs per 1000 km$^2$. [15] As shown in Table 1, Tanzania generally lags behind its regional peers in terms of physical access to bank infrastructure:

| | Uganda | **Tanzania** | Kenya |
|---|---|---|---|
| Number of commercial bank branches per 1,000 km$^2$ | 2.0 | **0.5** | 1.8 |
| Number of commercial bank branches per 100,000 adults | 2.3 | **1.8** | 4.4 |
| Number of ATMs per 1,000km$^2$ | 2.7 | **0.9** | 2.9 |
| Number of ATMs per 100,000 adults | 3.2 | **3.3** | 7.3 |

**Table 1: Access to banks' physical outlets**

*Source: International Monetary Fund. Financial Access Survey, 2009*

Indications from the consultations and recent press reports are that this picture is starting to change, with new entrants, an expanding footprint and a growing client base in the banking sector:

- Competition in the local banking sector intensified with the entry of new players such as FNB of South Africa and Equity Bank of Kenya[16]

[13] World Bank, 2012. *Tanzania Economic Update: Stairways to Heaven.* Report prepared by The World Bank Poverty Reduction and Economic Management Unit Africa Region.
[14] The World Bank. 2012. *Ibid*.
[15] Note, however, that as Tanzania has a much lower population density than the other countries, the per square kilometre ranking may be misleading.
[16] Elinanza, A. 2012. *Daily News Online Edition*. Available: http://dailynews.co.tz/index.php/biz/6119-tight-liquidity-bites-as-banks-struggle [7 September 2012]

- According to press reports[17] around 15% of the Tanzanian population had bank accounts by August 2012. If this is indeed the case, it implies that the banked percentage has almost doubled since the 8.8% recorded in FinScope 2009. This figure would seem to be supported by available statistics. For example, National Microfinance Bank (NMB), which is the largest bank in Tanzania by customer base and branch network, reported having grown its customer base to 1.4 million by June 2011[18].

*MFI sector diversifying, reaching scale.* As in a number of other African countries, the history of microfinance in Tanzania is closely linked to NGO microfinance institutions with a social mandate following the group lending methodology. In recent years, however, there has been a boom in private MFIs with a profit motive. Such microlenders typically provide payroll loans/consumer credit. In addition, the commercial banks have started to set up microfinance divisions focusing on microcredit. Although it is difficult to estimate the total number of microfinance clients in the country, the Tanzania Association for Microfinance Institutions (TAMFI) alone has 50 members, including commercial banks, community banks, private MFIs and NGO MFIs. In 2011, the client base of TAMFI's members stood at around 500,000. There is also a vibrant SACCO market in Tanzania. During our consultations, the *Ministry of Agriculture, Food Security and Cooperatives* estimated there to be more than 5,000 SACCOs and membership of SCCULT (the Savings and Credit Cooperative Union League of Tanzania) alone is estimated at 500,000 individuals across some 1,200 SACCOs[19].

*Growing payment system reach through mobile money*. The communications industry is thriving in Tanzania, with several mobile telecommunications companies competing for market share. The latest available statistics from the Tanzanian Communications Regulatory Authority (TCRA) show that mobile subscriptions had risen to more than 26 million by March 2012 – more than the adult population[20]. A recent survey indicates 63% of the adult population own a mobile phone[21] amounting to 16.2 million individuals based on the latest available estimate of the size of the adult population[22]. The same survey indicated that 26% of the adult population uses mobile money, meaning that there are already about 6.4m mobile money users. As recently as October 2010, it was estimated that only around 1m Tanzanians used mobile money[23]. This would suggest that mobile money penetration has risen more than 6-fold in the span of less than two years. The survey showed that urban, male residents are most likely to utilise mobile money and that penetration is higher among banked than unbanked individuals. Furthermore, mobile money usage is positively correlated to literacy and education levels.

Mobile penetration among farmers and agribusinesses is also important. 74.8% of agribusinesses in the AgFiMS survey own a mobile phone. Thus mobile connectivity could

[17] *Unbanked Tanzanians 'need access to financial services' (15 August 2012).* Available:http://www.mfw4a.org/news/news-details/2/unbanked-tanzanians-need-access-to-financial-services [7 September 2012]

[18] *Tanzania's banks expanding and seeking to recruit (10 June 2011).* Available: http://www.careersinafrica.com/news/446-tanzanias-banks-expanding-and-seeking-to-recruit. [7 September 2011].

[19] According to SCCULT the number of SCCULT beneficiaries on loans issued for 2011 were 11, 651 which is a decrease from 2010's 22 968 loan beneficiaries. The amount of loans issued were TZS 365 million. The savings from the SCCULT members in 2011 were TZS 4.12 billion an increase from 2010's TZS 4.02 billion.

[20] TCRA, 2012. Quarterly Telecom Statistics. Quarter 3 (March 2012) report. Available at: http://www.tcra.go.tz/. Note that these statistics may include inactive subscriptions, that one person may have more than one mobile phone subscription and children may also have mobile subscriptions. Thus number of mobile subscriptions is not a reliable indicator for percentage of adults that own a cell phone.

[21] InterMedia. Tanzania Mobile Money Tracker Survey: Quarter 2 Report. July 2012. The survey indicates data for January 2012.

[23] http://technology.cgap.org/2010/10/04/count-them%E2%80%A64-mobile-money-services-now-live-in-tanzania/

support information sharing in the agricultural sector. Furthermore, with the rise of mobile money, agribusiness could potentially be integrated into the financial services market.

## 5. Conclusion: what does the context mean for microinsurance?

The Tanzanian context presents a paradox on two fronts:

- *Performance vs. pitfalls*. On the one hand, strong economic growth, a stable political economy, a growing financial sector[24] and a mobile money payment system that is rapidly becoming ubiquitous[25] serve as enablers of inclusive insurance market development. On the other hand, infrastructure gaps, especially in rural areas, underdeveloped rural financing systems, a very small formal employment base, a growing population and donor dependence all challenge insurance market development in general and distribution in particular.
- *Need vs. affordability*. On the one hand, poverty and the resultant inability to cope with the financial consequences of risks create an imperative for microinsurance as tool for mitigating the financial risks associated with the nature of farming, as well as for households more broadly. It is exactly because of the high poverty levels that microinsurance can play a key role in protecting the most vulnerable population, thereby contributing to social welfare. On the other hand, however, persistent poverty limits the proportion of Tanzanians that can feasibly be premium-paying insurance customers.

The relevance of these context-related themes emerges time and again in the rest of diagnostic document series.

[24] As the discussion in *Document 5* shows, much of the current microinsurance growth is on the back of embedded products distributed through the banking sector and there is scope to also cross-sell other, voluntary types of insurance to bank customers. Thus banks will continue to be a first order opportunity for microinsurance distribution and some insurers are already starting to position themselves in partnerships or agency agreements with banks. The microfinance sector likewise provides an important microinsurance distribution opportunity. Most of the social MFIs already offer credit life insurance and some are starting to add additional elements cover. Likewise, credit life cover among private microlenders is likely to be substantial. Both these parts of the industry can serve as channel for distribution also of products with enhanced features.

[25] *Document 5* discusses the fact that reach of distribution channels and premium collection are the key retail distribution challenges. The growth of mobile usage in Tanzania offers a platform that could be used as a distribution channel. Furthermore, the rise of mobile money provides insurance companies with an alternative premium collection option that would be convenient and low-cost for consumers and will allow insurers to process large numbers of transactions in a cost-effective way.