



## Tanzania Access to Insurance Diagnostic

### Document 3: Insurance uptake

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## About the Tanzania Access to Insurance Diagnostic series

This is *Document 3* 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.fsd.or.tz](http://www.fsd.or.tz) and [www.finmark.org.za](http://www.finmark.org.za)

The series has been submitted for review by the global Access to Insurance Initiative ([www.access-to-insurance.org](http://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.

### INSURANCE UPTAKE: DOCUMENT 3 SYNOPSIS

This document identifies trends in microinsurance uptake to estimate the percentage of Tanzanians that currently have insurance. The resulting estimate suggests that insurance usage has grown remarkably in Tanzania in recent years and provides the basis for analysis and conclusions in the other diagnostic documents.

#### Key findings

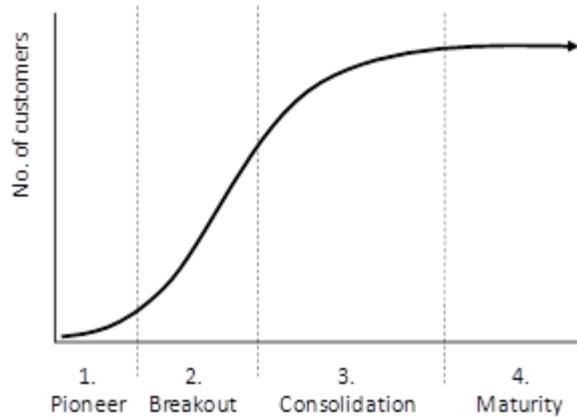
- *Starting off a low base.* The latest available usage statistics stem from the FinScope 2009 survey. At the time, 6.3% of adults had some kind of formal insurance (up from 2.8% in 2006, the previous survey year) and a further 1.9% had informal cover.
- *Health insurance by far the biggest usage contributor.* 6.1% of adults had some form of general insurance, of which the majority (5.6% of adults) had health insurance. A mere 0.2% of the adult population only had a long-term policy, indicating that the retail life insurance market was still underdeveloped.
- *Rapid growth since 2009.* In the three years since the last FinScope survey, indicators are that retail life market, in particular, has grown its client base substantially. Triangulating various pieces of information gathered during industry consultations with available desktop research in a scenario exercise renders an estimated 4.6 million adults that currently have any type of insurance. This amounts to 19% of the current adult population – signifying a three-fold rise in penetration over the past three years.
- *Mostly embedded life clients.* In contrast to many other countries, the bulk of insurance users are likely to be microinsurance clients, mostly of life, funeral or personal accident insurance embedded in another financial service (loan or deposit account) or provided to mobile network customers as a loyalty benefit.
- *Health remains important.* Health insurance also remains an important contributor to total usage and is estimated to have almost doubled its reach since 2009, mostly through public and community-based schemes.

#### Conclusion

- The dramatic recent rise in usage numbers suggests that microinsurance is already a mainstream, rather than a marginal topic in Tanzania.
- The rest of the diagnostic document series unpacks the drivers of growth to conclude on the likely future growth path, the opportunities for further growth and the challenges to be overcome to unlock these opportunities.

# 1. Introduction: a market ready to take off?

Markets generally develop across four stages:



**Figure 1: Stages of market development**

Source: Bankable Frontier Associates

As Figure 1 illustrates:

1. Some markets will be at the **pioneer stage**, i.e. just setting off, with limited microinsurance activity. At this stage, the environment may not necessarily be favourable for development. Generally, relative macroeconomic stability, a basic level of industry development and the existence of a basic insurance regulatory framework will be conditions for a market development strategy taking off.
2. Some markets will be at the **breakout stage**, where a few models have demonstrated success and others are following suit. The breakout stage may also be the stage during which microinsurance regulation is put in place or the regulatory framework is adapted to accommodate microinsurance.
3. During the **consolidation phase** there will already be a critical mass of activity. Further growth takes place as the industry consolidates and outstanding issues in the regulatory framework are resolved based on the learning from the initial experience.
4. Finally, some markets will have reached **maturity**, where there is limited scope for further growth.

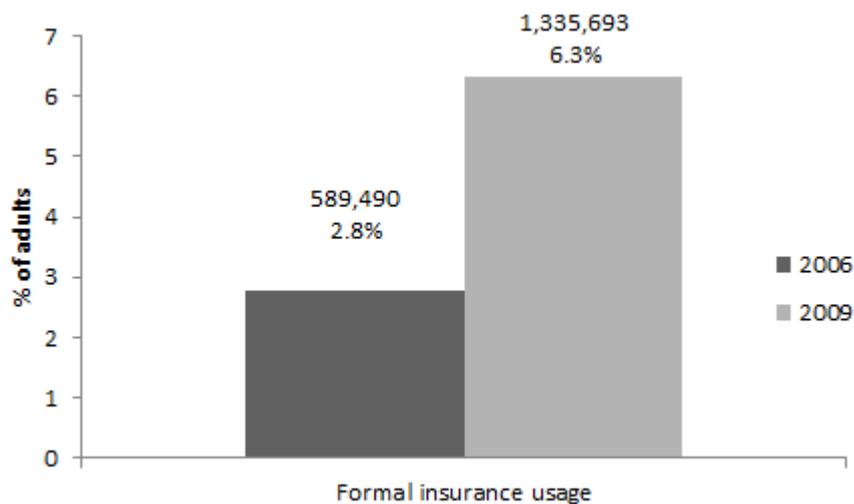
As the rest of the document will show, available data and consultations suggest that Tanzania is moving from the pioneer stage to the breakout stage and has witnessed remarkable growth in recent years. This is one of the key findings of the diagnostic. The other diagnostic documents unpack the various trends and drivers of this growth across country context, supply, distribution, demand-side and regulatory landscape. By indicating how usage has increased in recent years, this document forms the basis for the analysis and conclusions in all the other input documents.

*Structure.* We start by looking at the baseline usage scenario sketched by the FinScope 2009 findings. In Section 3 we then consider various available updated data points to derive an estimate of the current reach of the market.

## 2. Low initial uptake

*Starting off a low base.* The Tanzanian insurance market, like many others in Sub-Saharan Africa has a history of nationalisation and a state-owned monopoly. In line with these circumstances, the reach of the market has traditionally been limited. Though the market has now been liberalised for over a decade, qualitative market research in *Document 8* shows that some members of the public still mistrust the insurance industry at large due to poor claims experiences in the past. There is also not yet a culture of insurance among the population and awareness and understanding of insurance remain low. The result, historically, has been very low uptake of insurance among the population at large.

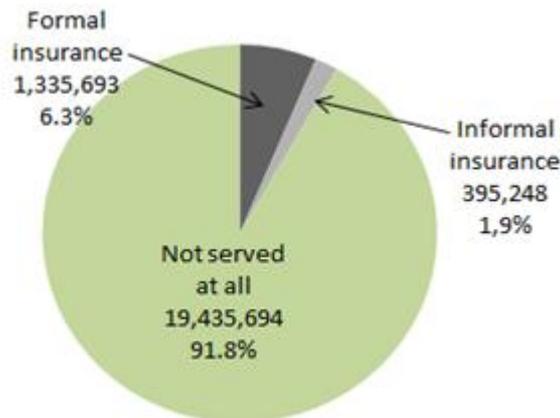
*2009 usage figures in line with pioneer stage.* After liberalisation, a number of new insurers entered the market increasing competition and expanding the client base. Formal insurance usage grew from a very low base of 2.8% of adults in 2006 to 6.3% in 2009 – an average growth rate of 42.2% per annum:



**Figure 2: Growth in insurance usage, 2006 – 2009**

*Source: FinScope 2006 & 2009*

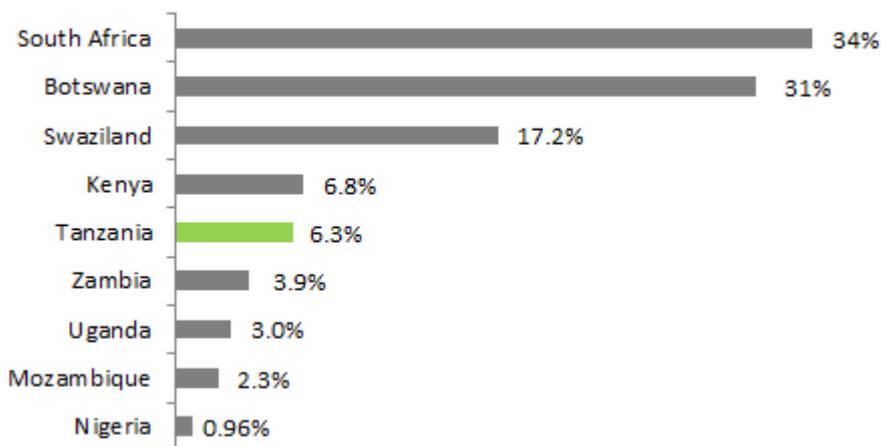
This growth would suggest that the market was in the pioneer stage: some new entrants, especially those introducing product innovations from elsewhere in the region, were starting to experience an increase in clients. However, at 6.3% of adults, insurance usage in 2009 was still low. Even after accounting for informal insurance, which the survey estimated to reach an additional 2% of adults, about 92% of adults (19.4 million individuals) remained without any type of cover:



**Figure 3: Insurance usage, 2009**

Source: FinScope 2009

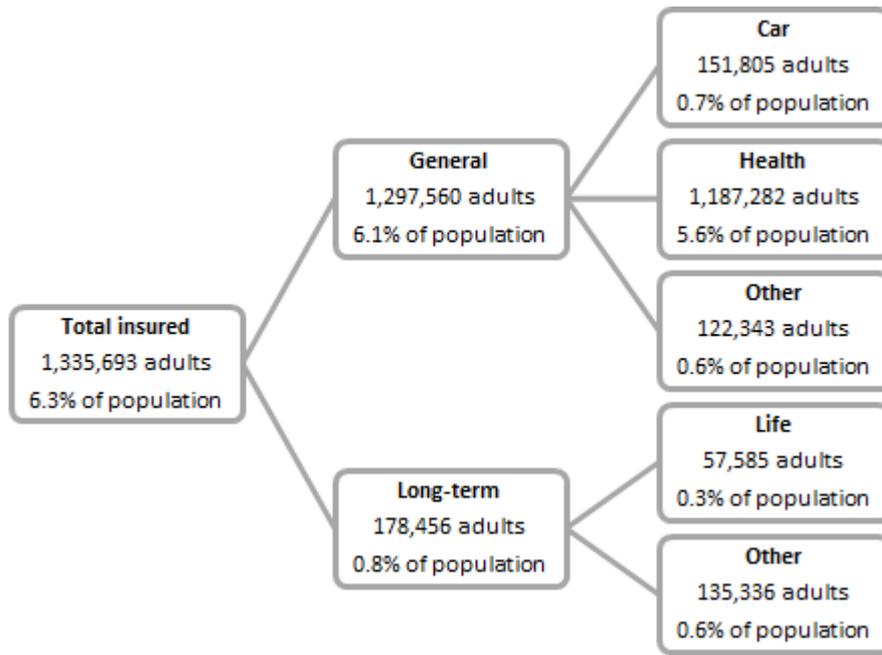
These usage figures, though low in absolute terms, compare relatively favourably to the latest available data for regional peers:



**Figure 4: Percentage of adults with formal cover in Tanzania in regional perspective**

Source: FinScope Tanzania (2009); FinScope South Africa (2011) press release; FinAccess (2009) as contained in Smith, Smit et al (2010); FinScope Zambia (2009); FinScope Mozambique (2009); FinScope Botswana Headline Statistics (2009); EFINA Nigeria Access to Finance Survey (2010) as contained in De Vos & Hougaard (2011); FinScope Swaziland (2011); FinScope Uganda (2009) launch presentation.

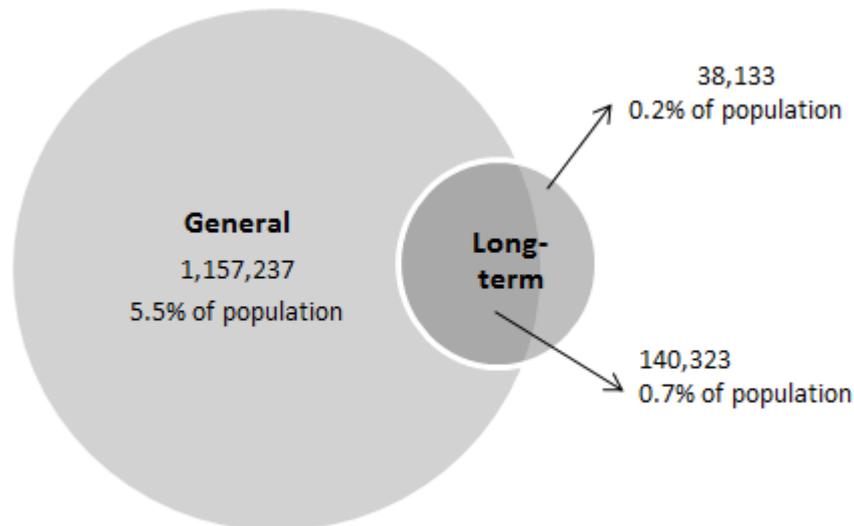
Health insurance by far the biggest usage contributor. Figure 5 provides a breakdown of total usage in 2009 by product class. As is explained in the regulatory analysis in Document 7, insurance in Tanzania is classified into two categories: long-term and general. 6.1% of the adult population had some form of general insurance, of which the majority (5.6% of adults) had health insurance. Apart from health, general insurance reached only 1.3% of adults. Long-term insurance penetration was virtually negligible at 0.8% of adults:



**Figure 5. Breakdown by product category of total insurance usage as % of adult population, 2009**

Source: FinScope 2009

*Long term-only usage virtually negligible.* As shown in Figure 6, the bulk of those with long-term insurance (0.7% of adults) also had general insurance. 5.5% of the adult population had general insurance only, but a mere 0.2% of the adult population only had a long-term policy. This suggests that, in 2009, the retail life insurance market in Tanzania was still extremely underdeveloped:



**Figure 6: Overlaps between general and long-term insurance usage**

Source: FinScope 2009

### 3. Sharp growth in uptake

*What has happened since?* Industry consultations suggest that the uptake picture sketched in Section 2 is likely to be an underestimation of the current reality. Since 2009, a number of new developments in the market are likely to have added a substantial number of new insurance clients. But how big is the current microinsurance market?

*No hard data on current usage.* It is difficult to give an exact estimate of current insurance usage, seeing that the latest available data on insurance usage stems from the FinScope 2009 survey and there are no official estimates of growth in recent years. Below we supplement information gathered during our industry consultations with desktop research in order to sketch an updated picture of insurance usage in Tanzania. Please note that these estimates should be regarded as a scenario exercise of which the purpose is to trigger debate on actual levels of usage, rather than as definitive estimates.

*Three shots in the dark.* We start by considering three potential indicators of growth drawn from different sources:

- past premium growth as an indication of growth in number of policies;
- growth in insurance usage as shown by two consecutive FinScope surveys (2006 & 2009) as a proxy for growth in insurance usage.
- a ballpark figure mentioned during industry consultations.

*Significant premium growth would suggest additional clients – but how many?* An analysis of premium growth from 2006 to 2010 shows the following trends:

	2006 – 2007	2007 – 2008	2008 - 2009	2009 - 2010	CAGR <sup>1</sup>
General insurance	29%	21%	27%	22%	25%
Long-term	81%	45%	-18%	44%	33%

**Table 1: Growth in Insurance premiums, 2006 - 2010**

*Source: TIRA statistics*

Table 1 indicates that:

- General insurance premiums experienced a growth rate of 25% per year between 2006 and 2010. However, the analysis in *Document 4* shows that, with the exception of health insurance, growth in general insurance has mainly been driven by corporate business. Premium growth would thus not be a good indication of growth in the number of policies.
- Total long-term insurance premiums grew at an average rate of 33% per year between 2006 and 2010. If we use as our basis long-term insurance usage as estimated by FinScope 2009 , and we assume usage has grown at a rate of 33% per year since 2009, approximately 419,842 adults (2.0% of the adult population) would currently have a long term policy. Given the recent boom in embedded credit life and funeral products (as discussed in *Document 4*), this is likely to be a substantial underestimation. It is

<sup>1</sup> Compound annual growth rate

furthermore not necessarily logical to draw a direct line between premium growth and growth in the number of policyholders, as it does not account for the average size of premiums for different types of products (e.g. the premium size of embedded products is typically extremely low). Hence growth in the number of policyholders may significantly outstrip premium growth.

It is therefore not feasible to use premium growth as a proxy for usage growth.

*Extrapolating past growth.* A second possibility is to assume that the growth trend from 2006 to 2009 has continued at the same rate. If this growth rate is applied to FinScope 2009 data, current insurance usage should be just over 3 million adults (14.3% of the adult population). This seems like a realistic estimation. However, indications from industry consultations are that growth has picked up significantly post-2009. Hence even this number would be an underestimation of the current reach of the insurance market. At most, it can be regarded as an absolute lower-bound estimate.

*Insider-opinion.* A third possibility is to go by the intuitive estimates of industry players, given their knowledge of the industry. One industry executive involved in microinsurance suggested that currently there are approximately 4 million Tanzanians with an insurance policy. As the analysis below will show, we see this as a more or less realistic ballpark figure.

In the following section we will conduct our own exercise using data points from industry consultations and desktop research to see where we come out vis-à-vis the abovementioned estimates.

### 3.1. Updated usage estimates by product category

*Methodology.* Below, we add together all the data points provided during the industry consultations with what we could source from desktop research, noting where the potential gaps are and how we take account of that in the estimation. We then add some assumptions on likely overlaps between sources and types of products. Where necessary, we indicate more than one scenario as upper and lower bound and calculate the mid-range average. Please note the following:

- *Not a hard and fast estimate.* We did not meet with all the insurance providers in Tanzania and we only gathered usage figures for microinsurance products (with the exception of health, where we have a comprehensive overview of the health financing landscape). These estimates are therefore by no means representative of all the market players and only give us an idea of orders of magnitude.
- *Total adults.* The FinScope 2009 survey only covered adults. To ensure consistency, all the calculations below consider only the total number of adults covered by a policy, including the spouse, but excluding any children covered.
- *Informal excluded.* It will be extremely difficult to sketch a comprehensive picture of the usage of informal insurance. It was therefore decided to not include informal usage in the uptake picture, but where we were able to gather data with regards to informal insurance usage it will be stated.

*Estimating embedded product coverage.* As discussed in *Document 4*, growth in the long-term market has mainly been driven by the rise of embedded credit life in the loans

provided by banks, MFIs and SACCOS. More recently, some commercial banks have started to embed funeral cover in deposit accounts as a loyalty benefit. From our industry consultations we were able to identify **548,440**<sup>2</sup> adults covered by embedded **credit life** insurance, and just over **2.8 million**<sup>3</sup> adults covered by embedded **funeral** products, rendering a total of about **3.3 million embedded product** clients. Please note once again that, although we met with those believed to be the largest players in the market, we may be missing out on a substantial number of clients. Some of this underestimation will be cancelled out by the fact that there may be overlaps between credit life and embedded funeral clients which we have not accounted for in simply adding the two estimates together.

*Estimating health coverage.* According to USAID<sup>4</sup>, the number of people covered by health insurance is estimated at 10% of the Tanzanian population. As we want to estimate the total percentage of Tanzanian *adults* with insurance to make the 2012 estimate compatible with 2009 FinScope findings, we need to piece together a health insurance estimate from other available sources:

- According to the most recent National Health Insurance Fund (NHIF) fact sheet<sup>5</sup> the NHIF currently has 468,611 policy holders and CHF membership stands at 531,154 policy holders. A World Bank report<sup>6</sup> shows that the National Social Security Fund's (NSSF) Social Health Insurance Benefit (SHIB) only has 31,000 policy holders. This brings total membership of government administered health schemes to just over 1 million principal members (see Table 2).
- Industry consultations estimate the total private health insurance client base to be around 200,000 principal members<sup>7</sup>. We assume that all of these policies also cover the spouse.

If we add the public and private estimates, it renders the following total uptake estimate:

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<sup>2</sup> This figure is derived from meetings with two long-term insurance companies, one who insures 200,000 borrowers from a large bank and one who indicated that they insure approximately 1,500 new loans from an MFI and 250 new loans from SACCOS every month. We worked on the assumption that the loans have a term of three months, therefore, at any stage 4,500 MFI borrowers and 750 SACCO borrowers would be covered. We furthermore met with one composite insurer who writes credit life insurance with funeral and catastrophe riders. They currently have 31,595 policy holders, and both borrower and spouse are covered for funeral, rendering a total of 63,190 adults covered. Finally we met with one general insurer who, in partnership with a broker, insures 140,000 MFI borrowers. Credit life is bundled with property and funeral cover as riders and, both the borrower and spouse are covered for funeral. This renders a total of 280,000 adults covered. Adding all the figures together renders 548,440 adults with cover, on the assumption that there is no overlap between policy holders from one institution and another.

<sup>3</sup> We met with two large commercial banks with respectively 1.2 million and 378,000 active deposit accounts in which funeral cover is embedded. The bank with 1.2 million active members also covers the spouse in the event of death, implying that 2.4 million adults are covered. Add to that the 378,000 lives covered by the other institution and a figure of almost 2.7 million adults covered is rendered, once again on the assumption of no overlap in client base between the two institutions.

<sup>4</sup> USAID, 2011. *Tanzania health system assessment: 2010 report.*

<sup>5</sup> National Health Insurance Fund (NHIF). Fact Sheet Inside NHIF: 2001-02 to 2010-11.

<sup>6</sup> World Bank, 2011. *Making Health Financing Work for Poor People in Tanzania: A Health Financing Policy Note*

<sup>7</sup> A large player indicated that they have 82,000 principal members. Another indicated that until recently they had 75,000 members, but that this figure has reduced to 25,000 due to problems experienced by the insurer. On the assumption that those who left the one insurer would still be health insurance clients of another insurer, and then accounting for some additional coverage by other health insurers, we believe that 200,000 would be a realistic ballpark figure.

	Voluntary/ compulsory	Number of policy holders	Number of adults covered	% of population
<b>Public health schemes</b>				
NHIF	Compulsory	468,611	890,361	4.2
CHF	Voluntary	531,154	1,062,308	5.0
SHIB	Voluntary	31,000	62,000	0.3
<b>Total: Public</b>		1,030,765	2,014,669	9.5
Private health insurance	Voluntary	200,000	400,000	1.9
<b>Total</b>		1,230,765	2,414,669	11.4

**Table 2: Total uptake: public & private health insurance**

*Source: authors' calculations, based on World Bank and NHIF statistics as well as industry consultations*

The NHIF is compulsory for public sector workers. The focus group discussions (as discussed in *Document 6*) pointed out that sometimes both spouses contribute towards the NHIF. In order to avoid double counting, it was decided to work on the assumption that 10% of NHIF members have a spouse who is also covered by the NHIF. Hence the number of NHIF policy holders was only multiplied by 1.9 to derive number of adults covered by the NHIF. For the other public schemes, we assumed that only one of the spouses will be a member, hence multiplied the number of policyholders by two to arrive at the estimate of number of adults covered.

If we assume that there are no overlaps between private health insurance and state administered schemes, formal health insurance currently covers just over 2.4 million adults (11.4% of the adult population) (see Table 2). This would imply that health insurance usage has more than doubled since 2009. However, focus group discussions and industry consultations indicated that some public employees see the need to top up their NHIF cover with private insurance. If we assume that 15% of those with NHIF also have private insurance, the total uptake figure for health reduces to 2,281,115 adults (10.8% of the population). If 30% were to have both NHIF and private insurance, then 2,147,561 adults (10.1% of the population) would currently be covered with health insurance.

In order to be conservative, but not unduly so, we use the mid-range estimate of **2,281,115** adults covered by some form of **health insurance** in the rest of our calculations. This implies that health insurance usage is 1,093,833 more than what it was in 2009.

This figure does not yet include private community-based health insurance funds. According to the World Bank<sup>8</sup>, NGO or private community based health schemes cover substantially less than 1% of the population. FinScope 2009 suggested that almost 400,000 adults had informal cover of any sort, including health (see Figure 3 **Error! Reference source not found.**, page 3). If we assume that half of the World Bank estimate overlaps with the FinScope estimate, current informal insurance usage would be just over 520,000 adults. However, we exclude these services from our total market estimate because, as explained earlier, it will be extremely difficult to account for all the informal schemes in Tanzania.

<sup>8</sup> World Bank, 2011. *Making Health Financing Work for Poor People in Tanzania: A Health Financing Policy Note*

*Estimating general coverage outside of health.* Under **general** insurance we were able to identify around **340,400** adults<sup>9</sup> who have personal accident insurance. As we did not meet with all the general insurers, this is likely to be an underestimation of total general insurance coverage and can therefore be regarded as an absolute lower bound estimate.

### 3.2. Updated total usage picture

If we work on the assumption that the FinScope 2009 survey was rolled out before the innovative microinsurance products discussed above were on the market, we can use FinScope 2009 figures as our basis (as representing the “traditional” insurance client base, assuming that all subsequent growth in number of clients has been only in the microinsurance sphere – by itself a conservative assumption). To the 2009 baseline we then add the following to arrive at a rough estimation of the current market size:

- (i) the figures from our industry consultations for life and general microinsurance other than health; and
- (ii) the calculated change in health insurance<sup>10</sup>,

When all our data points are pieced together, it renders the following estimates:

	Long-term	General
FinScope 2009	178,456	1,297,560
Subsequent microinsurance uptake (excluding health)	3,326,440	340,400
Growth in health uptake		1,093,833
<b>Total</b>	<b>3,504,896</b>	<b>2,731,793</b>

**Table 3: Breakdown of uptake figures: long-term & general insurance uptake**

*Source: authors’ calculations, based on various sources*

The total long-term insurance market is estimated to cover 3.5 million clients, of which the bulk is covered by embedded funeral insurance and credit life. In addition, it is estimated that the total general insurance market, including health, currently covers 2.7 million adults.

*Accounting for overlaps.* Due to the fact that there are likely to be overlaps between general and long-term insurance usage (as shown in Figure 6, page 4), these figures cannot simply be added together:

- **Lower bound – 3.5 million:** According to FinScope 2009, 78.6% of those with long-term also had general insurance. If we assume that the level of overlap has remained constant since 2009, it is estimated that the current insurance market covers 3.5 million adults (16.5% of the adult population). This appears like an underestimation, as this figure would be roughly the same as the estimate for only life that we derived above. Given the

<sup>9</sup> This figure consists of the following: one composite insurer who covers 400 bus drivers for personal accident and one general insurer, who in partnership with a broker and a mobile phone operator covers 170,000 mobile subscribers and one family member for personal accident.

<sup>10</sup> Seeing that no new health schemes were rolled out since the FinScope 2009 survey (in contrast to long-term and general other) and on the assumption that penetration in the private health insurance market has stayed relatively constant, we only add the change in current health uptake over health insurance usage in 2009 to the 2009 figures. For the rest of the products, we assume that all the product-specific estimates set out above are over and above the 2009 baseline figures.

rapid client growth in the life market, it is likely that there has been a substantial decline in the level of overlap. Thus we consider this scenario as a lower bound estimate.

- **Upper bound – 5.8 million:** The second scenario hypothesises the overlap to be just between the NHIF and other types of cover. Industry consultations revealed that a large proportion of government employees have a bank account with one of the big players in the market. This specific player also embeds a funeral product in their deposit accounts. It is therefore realistic to assume that there will be a large proportion of government employees who are covered for both health (through the NHIF) and funeral or credit life (through their bank). If we assume that 60% of those who are covered by the NHIF also have another policy, it is estimated that 5.8 million adults (27.5% of the population) are covered in some way by insurance. There are most likely more overlaps that we did not account for, for example between general and life, or between credit life and funeral clients, respectively, as well as between clients from either of these classes and those with health insurance cover. Thus we regard this scenario as an upper bound.
- **Mid-range – 4.6 million:** If we calculate a simple average between what we consider to be the lower and upper bound estimates, it renders a total figure of **4.6 million adults covered, or 19% of the adult population**<sup>11</sup>.

## 4. Conclusion

Though it is difficult to pin down an exact estimate of the size of the microinsurance market, the analysis above indicates that the growth in total uptake has to a large extent been driven by microinsurance usage and, hence, that the bulk of the estimated 4.6 million insurance clients in Tanzania are *microinsurance clients*. This sets Tanzania apart from many other markets and indicates that microinsurance is already a mainstream, rather than a marginal topic in Tanzania.

But why the dramatic rise in recent years? And will this growth trend continue? The rest of the diagnostic document series will unpack the trends in the market across the country context, players, products and distribution channels, as well as relating to the regulatory framework and client characteristics, in order to identify what the drivers of growth have been. This, in turn, allows us to conclude on the likely future growth path, the opportunities for further growth, the challenges to be overcome to realise these opportunities and, hence, the market and regulatory imperatives to ensure the development of an inclusive insurance market in Tanzania.

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<sup>11</sup> Note that, to calculate this percentage, we use the latest available estimate of the Tanzanian adult population, which amounts to 24.8million adults in 2011 (CIA World Factbook, 2011)