Understanding the opportunity for MSME insurance:
Evidence on MSME’s risks and how they cope from 6 countries
4 November 2015

Jeremy Gray
International Microinsurance Conference 2015
Casablanca, Morocco
This presentation was delivered at the International Microinsurance Conference 2015 as part of a panel discussion entitled ‘Servicing SMEs’.

The presentation draws on data and insights collected through the Making Access Possible (MAP) financial inclusion diagnostics conducted in Lesotho, Malawi, Mozambique, Myanmar, Swaziland and Thailand.
MAP identifies 5 target markets

- Irregular earners: 73% rural, $80
- Dependents: 69% rural, $87
- Farmers: 91% rural, $135
- Self-employed: 59% rural, $175
- Salaried workers: 37% rural, $220

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
MSMEs have the second most favorable demographics after salaried workers for providers...

Salaried Workers = Red
Self-employed = Blue
Farmers = Purple
Dependents = Orange
Irregular earners = Grey

L = Lesotho
Ma = Malawi
Mo = Mozambique
My = Myanmar
S = Swaziland

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
MSMEs have the second most favorable demographics after salaried workers for providers...

Proportion of target market residing in urban area compared to total population

Average income of target market as proportion of population average income

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
...and are the second highest users of formal financial products

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
However, low, irregular incomes and low education levels make them challenging to serve...

“We work on daily cash; we can’t afford a monthly budget”

“We haven’t done a lot of school, but I realize that my children can do better; all I need to do is to try and give them education”

Average MSME income ranges from $46 pm in Malawi to $568 pm in Thailand

64% of MSMEs have no basic education or only primary education

59% women

82% of MSMEs own a mobile phone

21% of MSMEs in Malawi also earn income from farming and 17% earn income as farm labourers

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
..but they are not all the same:
An example from Malawi

<table>
<thead>
<tr>
<th>Entrepreneurs from necessity</th>
<th>Ability</th>
<th>Entrepreneurs from aspiration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary education or less</td>
<td>Secondary education or more</td>
</tr>
<tr>
<td><strong>Struggling go-getters</strong></td>
<td>Motivated to grow but most lack skills.</td>
<td>Have both skills and motivation.</td>
</tr>
<tr>
<td></td>
<td>0.25 employees on average</td>
<td>1.18</td>
</tr>
<tr>
<td></td>
<td>MK 157 457</td>
<td>MK 566 750</td>
</tr>
<tr>
<td></td>
<td>1% have insurance</td>
<td>7% have insurance</td>
</tr>
<tr>
<td><strong>Survivalist</strong></td>
<td>Unlikely to ever be a major growth area</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MK 133 433</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1% have insurance</td>
<td></td>
</tr>
<tr>
<td><strong>Driven achievers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>43%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Reluctant entrepreneur</strong></td>
<td>May have the ability to grow, but need to recognize potential</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.40</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MK 177 301</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3% have insurance</td>
<td></td>
</tr>
</tbody>
</table>

Source: MSME FinScope Malawi, 2012
Most MSMEs’ primary risks are personal

- **25%** of MSMEs identified illness in the household as a major risk.
- **15%** of MSMEs identified competition as a major risk.
- **15%** of MSMEs identified drought, **12%** harvest failure and **7%** flooding as major risks experienced.
- **10%** of MSMEs identified experienced the death of a main income earner in the household **11%** the death of another household member as major risks.
- **8%** of MSMEs identified theft or loss of property as a major risk.

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
And they don’t use insurance: Coping mechanisms used across countries

Without insurance MSMEs are less likely to pay back their loans because they need to use that capital to mitigate risks.

Source: FinScope Lesotho, 2011; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
The role of insurance to enable MSME growth initiatives: The example of Thailand

15% of Thai MSMEs borrow from Specialised Financial Institutions (SFIs) and 14% from Village Funds, both at subsidised interest rates between 6% and 15% p.a.
Why? A lack of awareness?

<table>
<thead>
<tr>
<th>Reason</th>
<th>% of MSMEs without insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is not good value for money</td>
<td></td>
</tr>
<tr>
<td>Does not trust it or the companies</td>
<td></td>
</tr>
<tr>
<td>Does not cover the risk I want covered</td>
<td></td>
</tr>
<tr>
<td>I protect myself in other ways</td>
<td></td>
</tr>
<tr>
<td>Uses own money if there is a problem</td>
<td></td>
</tr>
<tr>
<td>Insurance is for the rich people</td>
<td></td>
</tr>
<tr>
<td>Have nothing to insure</td>
<td></td>
</tr>
<tr>
<td>Does not know where to get it</td>
<td></td>
</tr>
<tr>
<td>Does not see the need for it</td>
<td></td>
</tr>
<tr>
<td>Cannot afford it</td>
<td></td>
</tr>
<tr>
<td>Has never thought about it</td>
<td></td>
</tr>
<tr>
<td>Does not know how it works</td>
<td></td>
</tr>
<tr>
<td>Has not heard about it</td>
<td>50%</td>
</tr>
</tbody>
</table>

“We contribute any amount to buy all things needed [in the event of an unforeseen death]. Everyone in the village contributes something towards the bill.”

Source: Mozambique, 2014
A lack of (perceived) value?

- It is not good value for money
- Does not trust it or the companies
- Does not cover the risk I want covered
- I protect myself in other ways
- Uses own money if there is a problem
- Insurance is for the rich people
- Have nothing to insure
- Does not know where to get it
- Does not see the need for it
- Cannot afford it
- Has never thought about it
- Does not know how it works
- Has not heard about it

“"I think my insurance is the village bank to which my wife belongs."”

Source: Mozambique, 2014
Thank You!

Please contact us at…

Tel: +27 (0) 21 913 5910
E-mail: jeremy@cenfri.org
Annexure: Risks faced by MSMEs across countries

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
Annexure: Average MSME income across countries

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
Annexure: Percentage of MSMEs that own a mobile phone

<table>
<thead>
<tr>
<th>Country</th>
<th>% of MSMEs that own a mobile phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>90%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>80%</td>
</tr>
<tr>
<td>Myanmar</td>
<td>80%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>80%</td>
</tr>
<tr>
<td>Malawi</td>
<td>80%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012
Annexure: Percentage of MSMEs with no basic education or only primary education

<table>
<thead>
<tr>
<th>Country</th>
<th>% of MSMEs with no basic education or primary education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique</td>
<td>80%</td>
</tr>
<tr>
<td>Myanmar</td>
<td>70%</td>
</tr>
<tr>
<td>Malawi</td>
<td>60%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>70%</td>
</tr>
<tr>
<td>Thailand</td>
<td>50%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: FinScope Lesotho, 2011; Malawi, 2014; Mozambique, 2014; Myanmar, 2013; Swaziland, 2011; Thailand, 2012