Opportunities and challenges for microinsurance in Zambia

Stakeholder Workshop

Lusaka, 11 June 2009

Agenda

08:30-09:00	Arrival and tea/coffee
09:00 – 09:15	**Welcoming** – Mr Gerry Finnegan, Director ILO Lusaka Office **Opening remarks** – Mr Chris Mapipo, PIA Registrar
09:15-09:45	**Microinsurance and the ILO** – Mr Yoseph Aseffa, ILO
09:45 – 11:00	**Opportunities and challenges to microinsurance development in Zambia** ▪ Cenfri
11:00-11:15	Tea/coffee break
11:15-11:45	**Is Zambia ready for microinsurance?** ▪ Cenfri
11:45-13:30	**Discussion on potential strategies to develop microinsurance in Zambia**
13:30	Lunch

About Cenfri and FinMark Trust

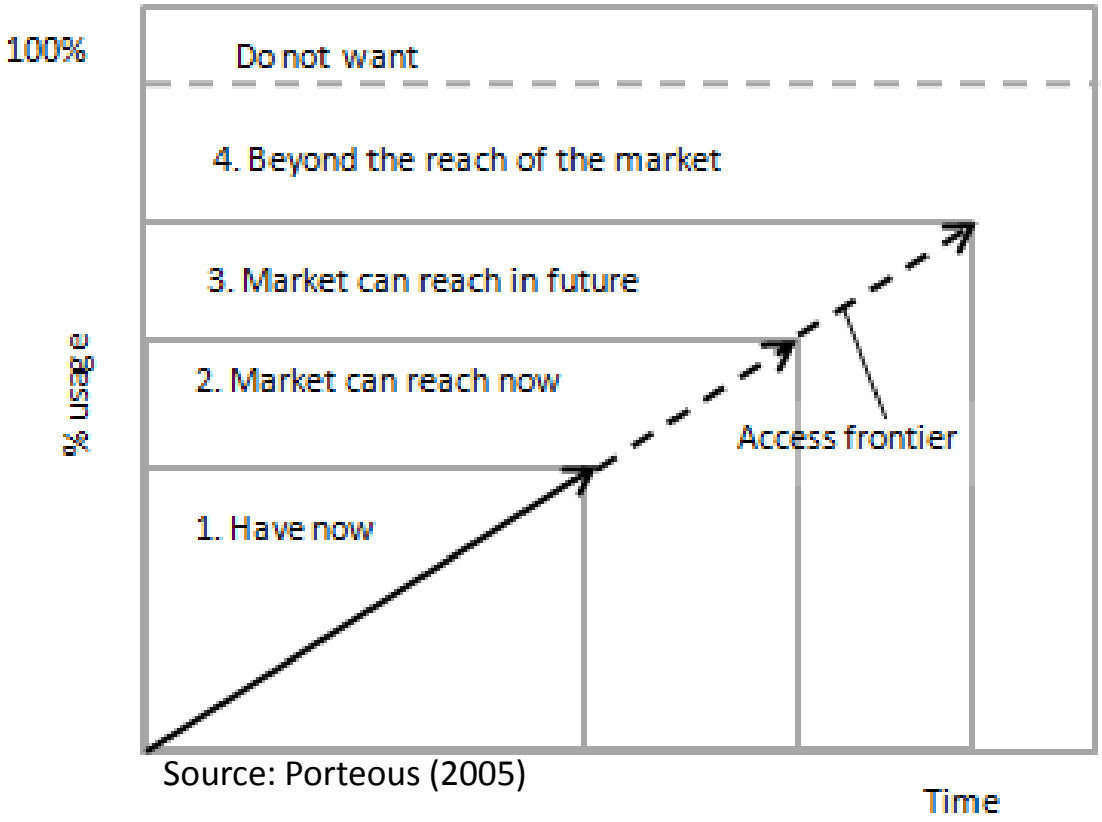
- FinMark
  - "Making financial markets work for the poor"
  - South African trust set up in 2002 with funding from DFID
  - Africa mandate, all financial sectors
  - FMT Zambia and FinScope Zambia
- Cenfri
  - Non-profit research centre based in Cape Town and established with support of FMT
  - Support financial sector development and financial inclusion
  - Manages FMT research on microinsurance, health financing, retail payment systems and AML/CFT across Africa
  - Global experience with MI
  - Involved in developing new MI regulatory framework in SA (since 2003)
- More information at: www.cenfri.org or www.finmark.org.za

Background to Zambia MI review

- Increasing interest in MI over last decade
  - 2003: SA regulatory investigation started
  - 2005: India passed first MI regulation
  - 2006-2008: Country studies under MiN-IAIS develop guidelines for regulators (Colombia, India, Philippines, South Africa and Uganda)
  - 2008: MIF, Weather index, private equity and several other initiatives commence
  - 2009: A2II to extend and implement guidelines in 18-20 countries
- Some international agencies take lead in bilateral engagements in Africa: ILO, UNCDF, GTZ and FinMark
- ILO/UNCDF supporting MI development in series of African countries: Ethiopia, Zambia and more to follow
- FMTZ joined this initiative because of its particular interest in Zambia

What do we mean by market development?

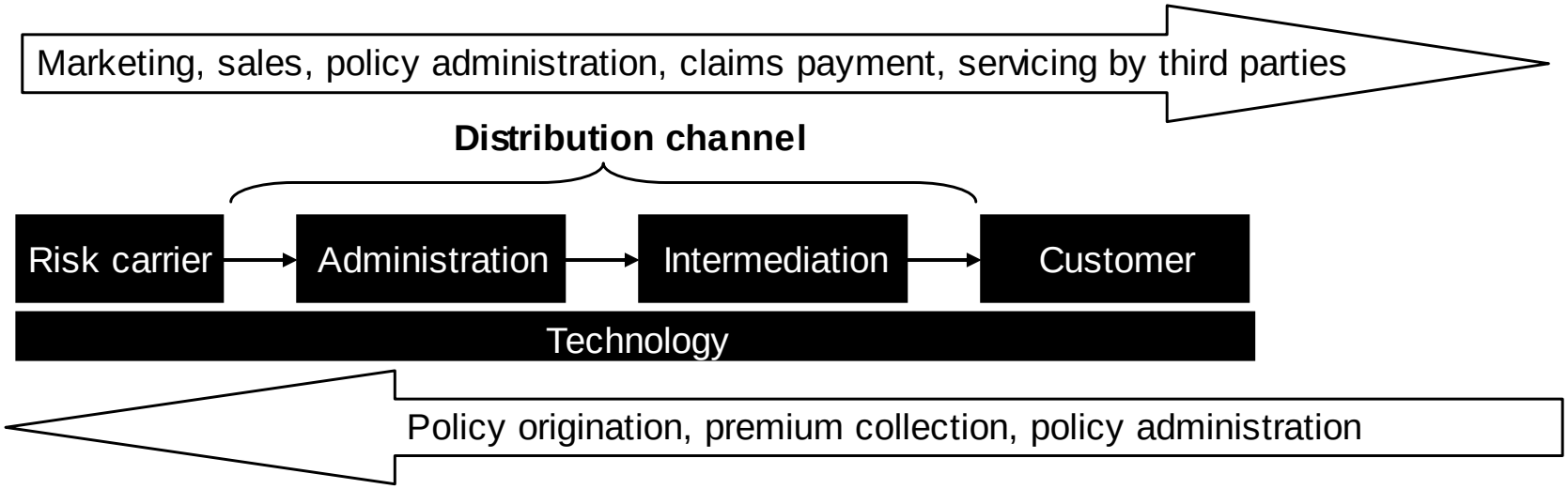
Access frontier:



Source: Porteous (2005)

- Financial inclusion not only about number covered but also value offered

Insurance across the value chain involves many stakeholder groups



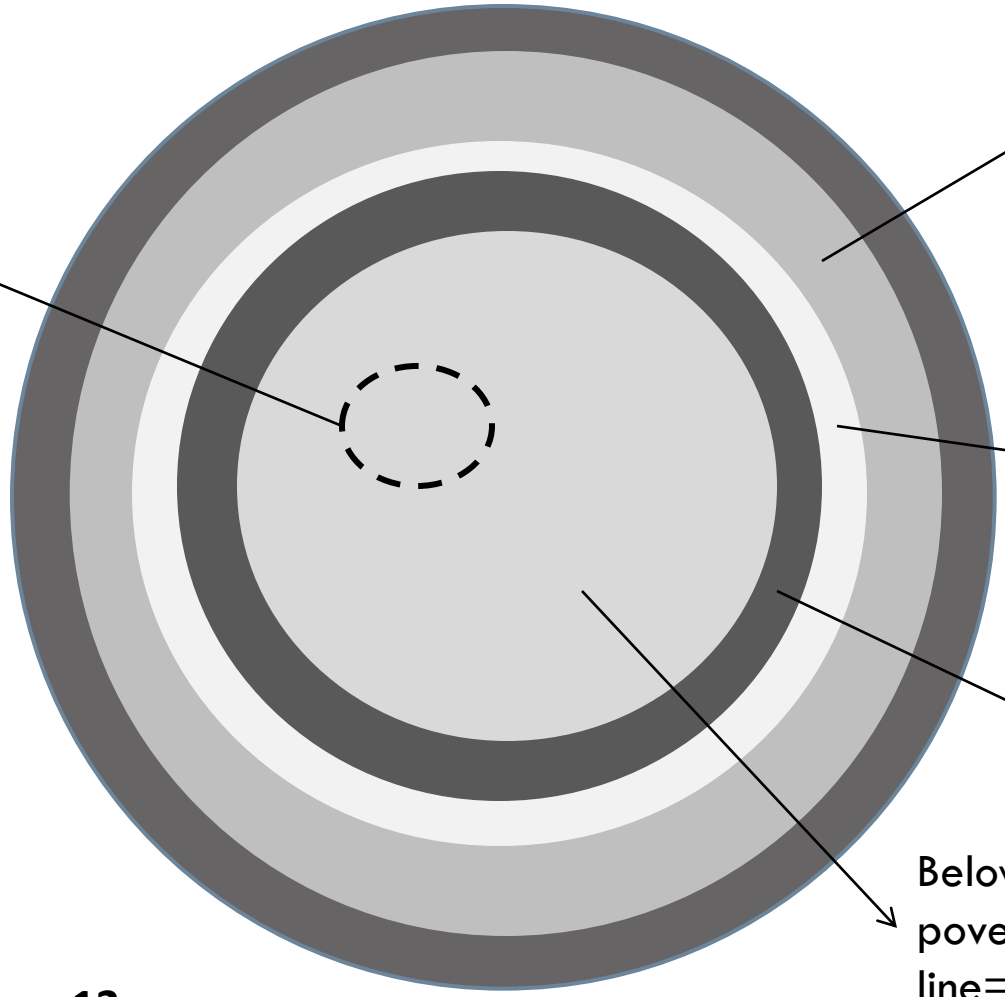
Source: Genesis (2007) adapted from Leach (2005)

The Zambian picture: Overview

1. Context
2. Financial sector trends
3. Insurance regulatory context
4. Demand-side insights
5. Insurance sector overview
6. Scope for microinsurance development

1. Context

Income profile



SCT target population: 200,000 poorest hh's, 8%

<US$2.5 per day=87%

Below national poverty line=68%

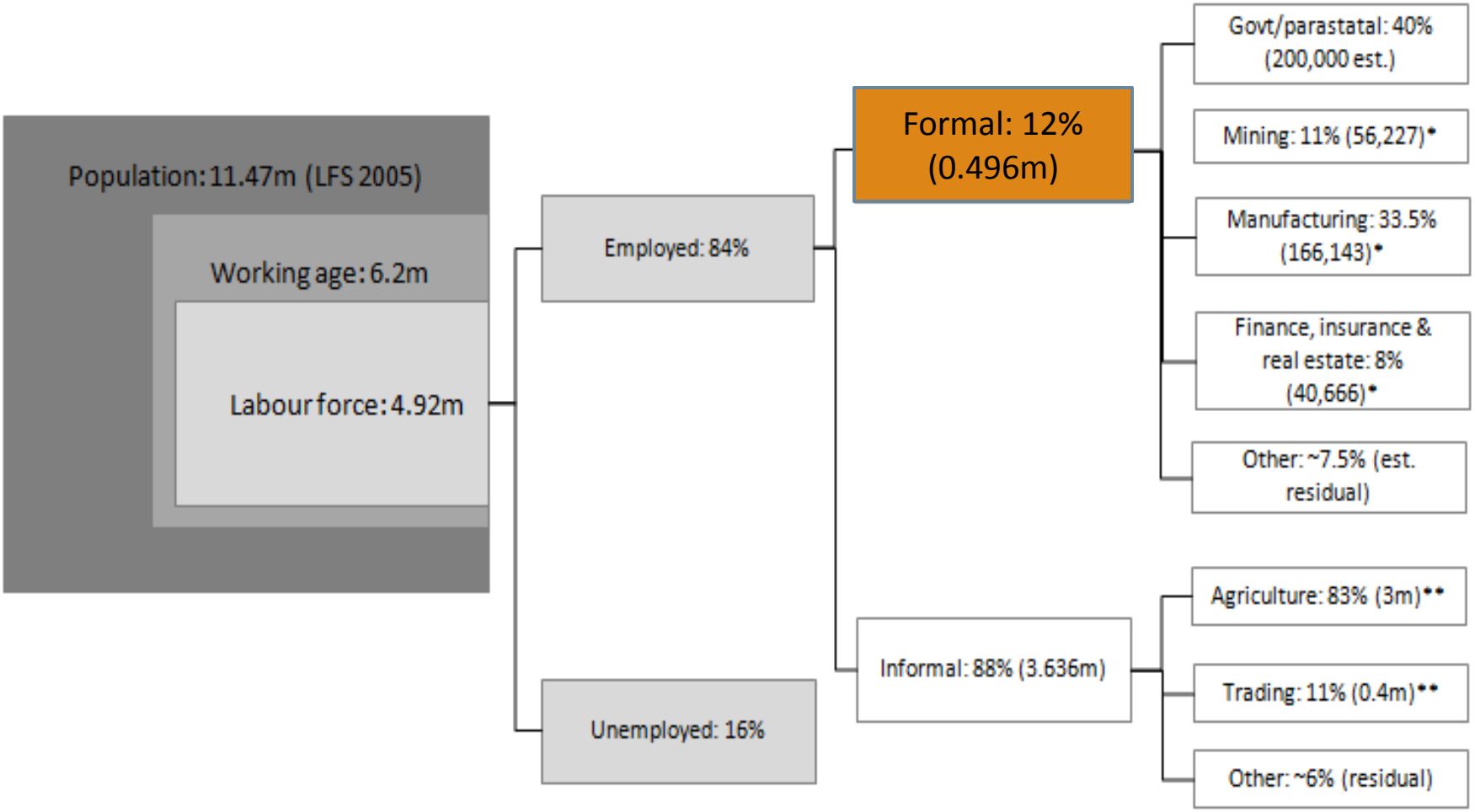
<US$1.25 per day=64%

Below food poverty line=53%

Total population = 12m

Source: authors' representation; poverty data as obtained from World Bank WDI database (2008), CSO LCMS (2004)

Low formal employment



* May include informal, though most likely to be formal - these are the figures for all employed persons

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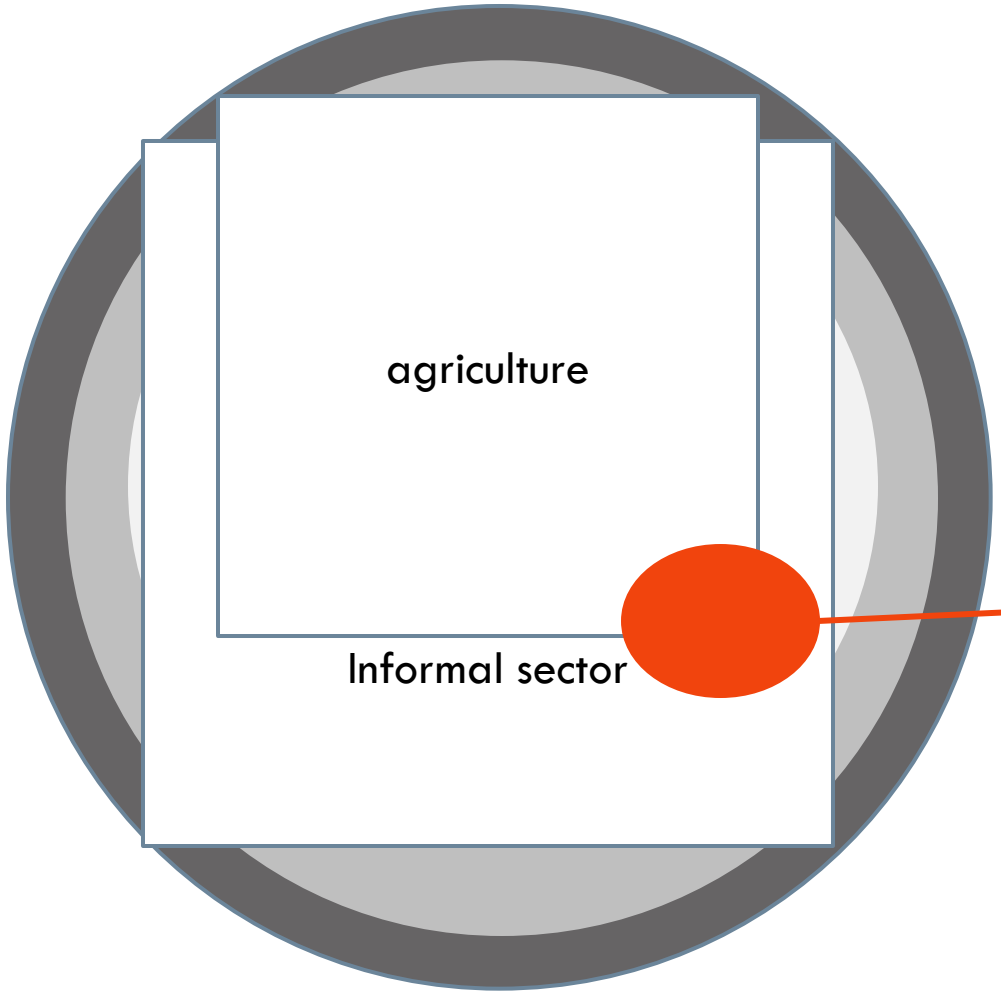
Source: CSO Labour Force Survey 2005

Large informal sector



Networked groups:
- 150,000 agric
- 10% of rest: ~60,000

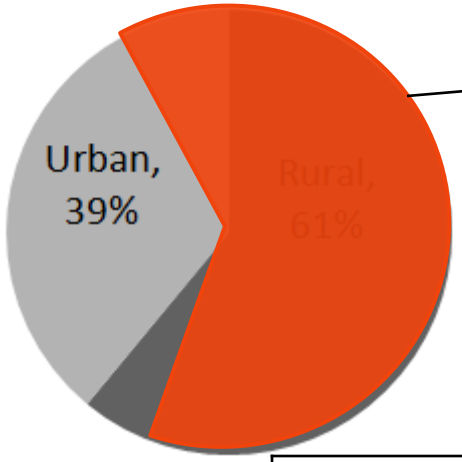
=210,000 +

Source: authors' representation, based on CSO Labour Force Survey 2005 and various network estimates

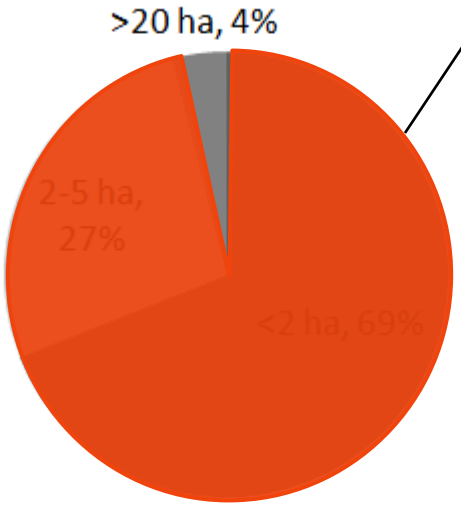
Structure of agriculture

Why agriculture?

- income source
- scale & network
- value chain
- insurable risks for agriculture



Engaged in agriculture: 90% rural, 26% urban



Smallholders:

- Less than 5ha under cultivation
- 1.1m est. cash, of which only 2.5% do not grow crops
- Low input, low output production
- >150,000 in strong networks

Crop	Most NB type	Potential
Maize	Mixed	66% of agric, but just top 10%
Cassava	Smallholder	Staple only
Sorghum/Millet	Smallholder	
Rice	Smallholder	
Groundnuts	Smallholder	
Seed cotton	Smallholder	100,000 outgrowers
Tobacco	Mixed	35,000
Mixed beans	Smallholder	
Wheat, sugar, coffee, soya	Commercial	
Dairy	Mixed	Small but growing
Poultry	Smallholder	2 smaller schemes

Source: CSO post-harvest survey 2008/9, LCMS 2004; World Bank WDI database (2008), USAID/PROFIT (2008)

Structure of health sector

Distance to health facility	Rural	Urban	Total
0-5km	56.7%	96.9%	75.5%
6-15km	30.7%	1.4%	17.0%
16km+	12.6%	1.8%	7.6%

Fairly high access

Type of medical facility	Government		Mission	Private	Total
	Number	Share			
Hospitals	53	55%	27	17	**97**
Health Centres	1052	87%	62	97	**1210**
Health Posts	19	95%	0	1	**20**
Total	**1124**	**85%**	88	115	**1327**

Government dominant provider

- Staff limitations undermine delivery (1 doctor, 20 nurses & midwives: 10,000)
- Medication a key area of out of pocket expenditure, some private facilities utilisation, ancillary costs
- Need for health financing to close the gap: FinScope, focus groups
- Feasible?
  - Role for private health financing will be impacted by policy direction on SHI

Source: CSO LCMS 2004, Ministry of Health, 2005 (quoting 2002 data)

2. Financial sector trends

Financial inclusion

- **Limited but growing banking infrastructure:**

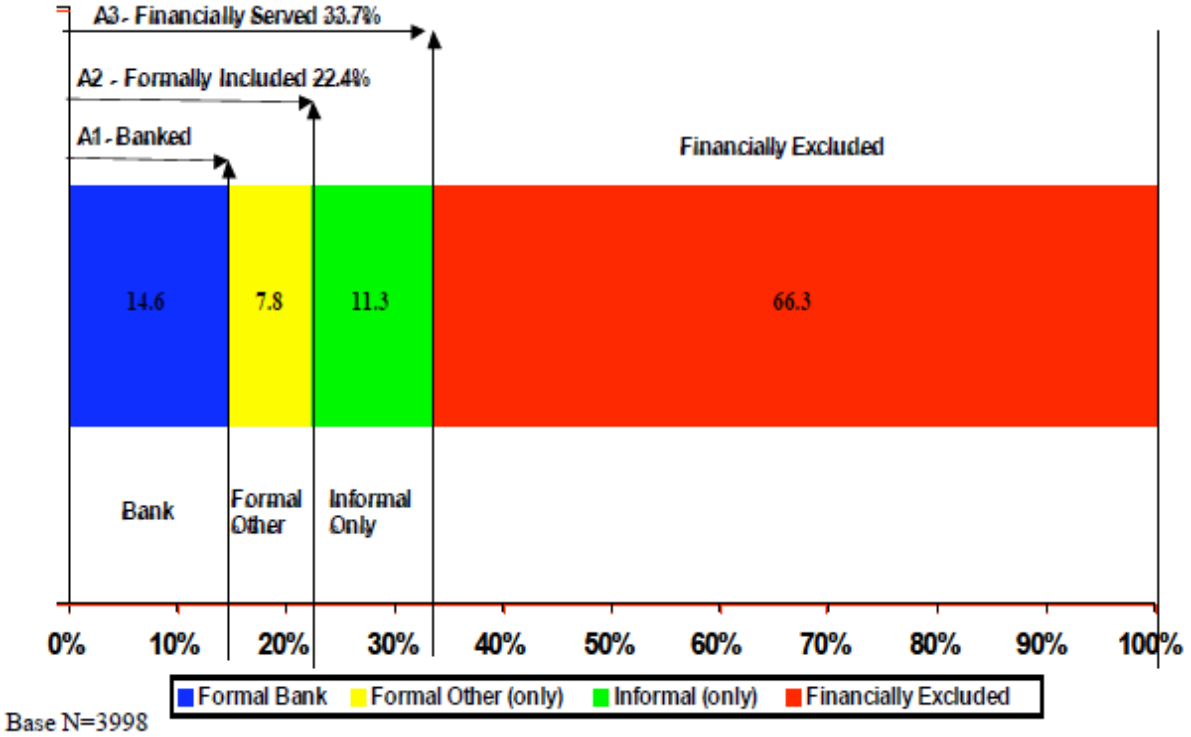
Country	Per 100,000 of the population (2005): Branches	ATMs
Zambia	1.5	0.7
Kenya	1.4	1
Tanzania	0.6	0.2
South Africa	6	17.5
Zimbabwe	3.3	3.4

16 registered banks, expansion drive

Combined footprint: 233 branches, 295 ATMs and 726 POS devices

National payment system being implemented

- **Low but growing financial penetration:**



FSDP goal: 50% access strand by end of 2009

Source: OPM & PMTC (2008); FinScope™ (2005 data)

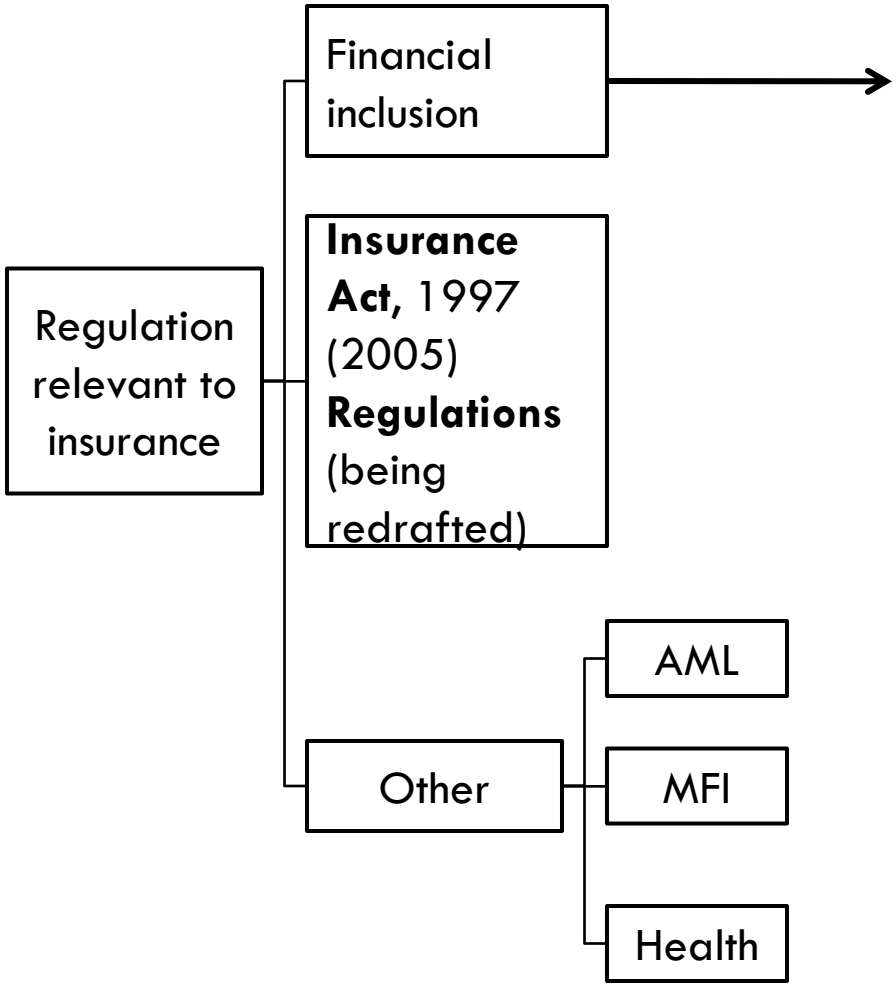
The rise in the low-income credit market

- Total size:
  - Banks: 150,000 min
  - Microlenders: ~ 250,000
  - Social MFIs: ~50,000
- Total clients (after duplication) hypothesis: 350,000
- Recent change in MFI market:
  - Decline of social MFIs – fraud, poor performance → commercialisation
  - Rise of microlending – foreign entrants
  - Entry of banks into low-income credit market
- Regulatory reform and life beyond payroll lending?

Source: authors' estimates, based on consultations

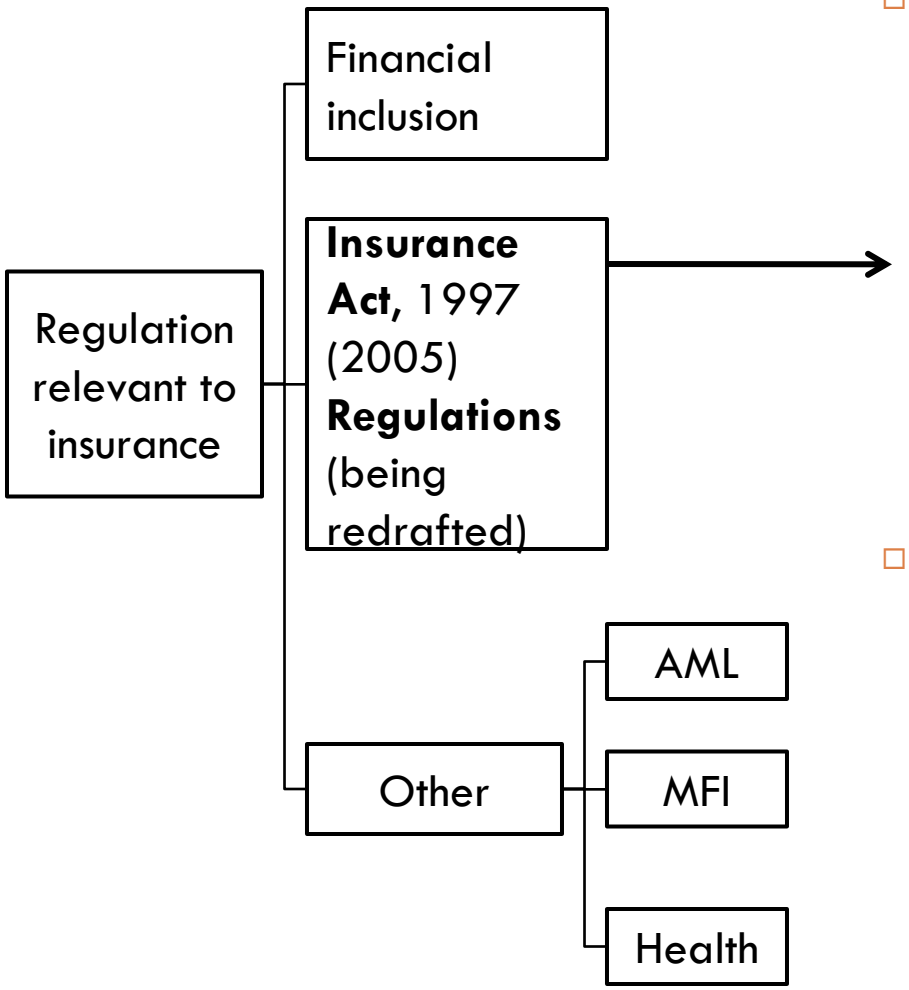
3. Insurance regulatory context

Regulatory framework



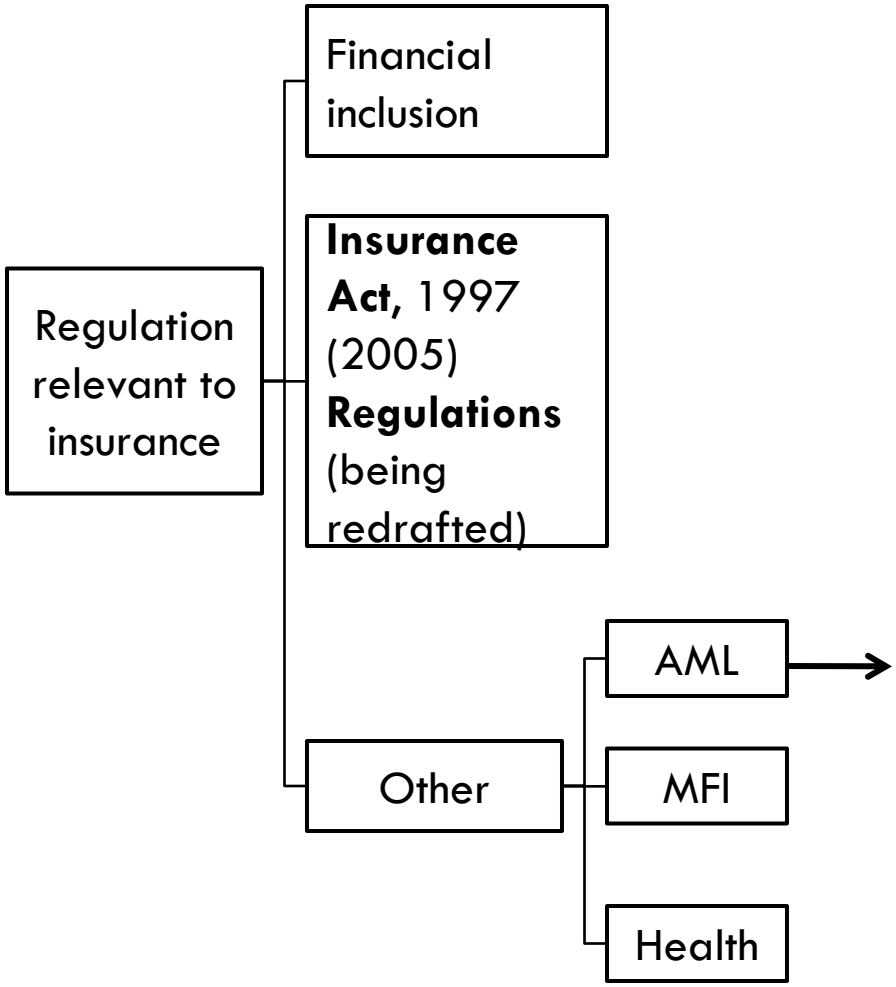
- Well-developed financial inclusion policy: FSDP
- Facilitative approach raising awareness of market opportunity
- No specific focus on microinsurance
- Insurance regulator supports microinsurance development

Regulatory framework



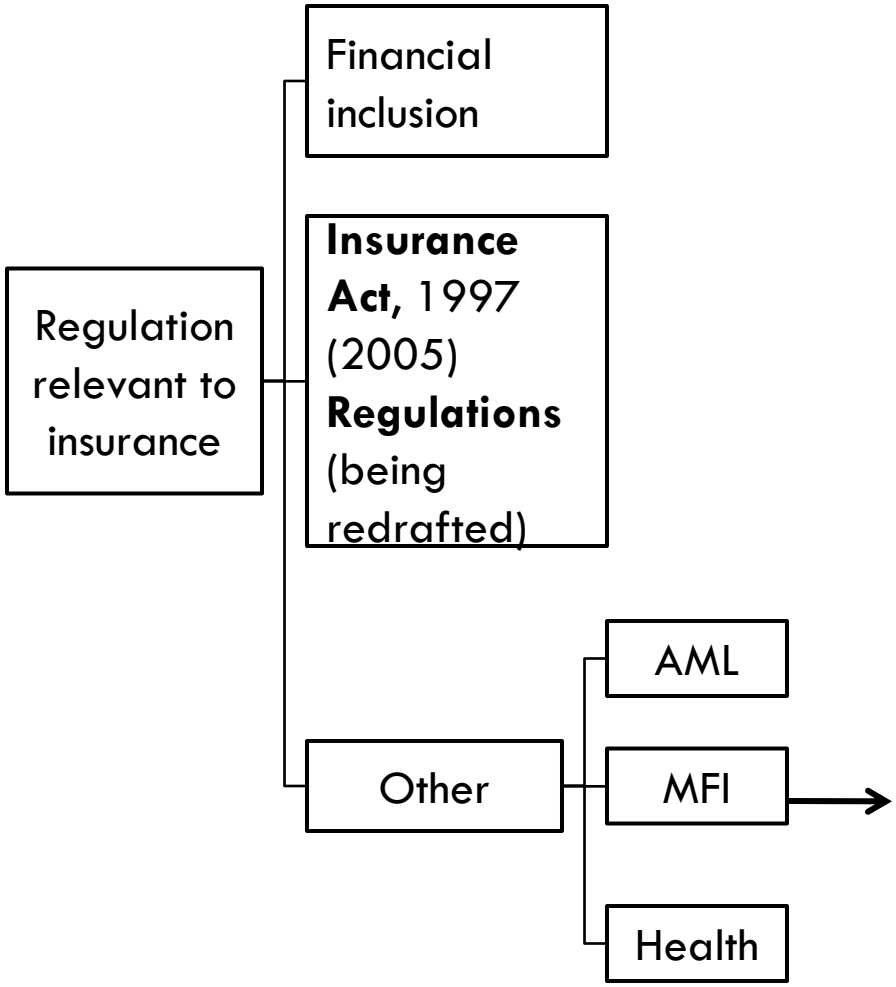
- Generally facilitative regulatory regime
  - Min upfront capital (K1bn) not prohibitive
  - Institutional limitations not barrier in practice
  - No commission caps
  - File and use system
  - Demarcation, but precedents of crossing for short-term life
- A few uncertainties and challenges
  - Clarity on definitions: life versus long-term
  - No mention of health/medical
  - CEO requirements
  - Agency requirements & bancassurance
  - No ombudsman
- Consistent application by PIA

Regulatory framework



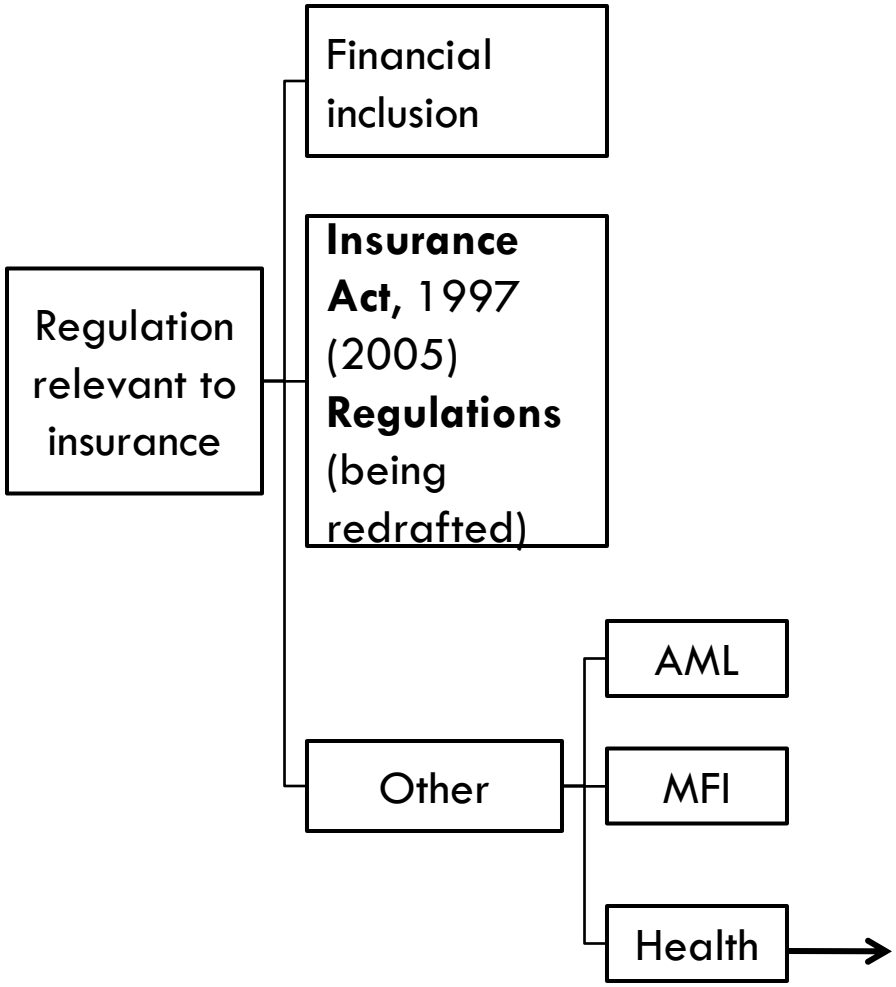
- AML directives still in draft form
- Currently no KYC requirements
- But foreign headquarter-imposed AML/CFT regulation may impact on domestic market, especially bancassurance

Regulatory framework



- Recent regulation
- Deposit-taking MFIs introduced, 10 x higher min. cap.
- No credit rationing or regulation of credit life
- No explicit disclosure requirements for credit life

Regulatory framework



- Health insurance deemed to be a long-term insurance product
- Regulatory arbitrage leaves medical schemes outside of the insurance regulatory net
- Ministry of Health does not actively regulate health financing, but plans for SHI
- Regulatory gaps create unlevel playing field

4. Demand-side insights

Profiles

- Zambians with insurance are more likely to be rich, urban, with a higher level of education and more access to amenities than the uninsured. They are also more likely to be male
- Low employment, earn living through informal trading or agriculture
- Even though low-income, manage finances proactively
  - Range: K60,000-K120,000 vs. K350,000-K1.5m
- Profit margins will depend on the type of activity
  - Range: <K50,000 per month (<$1/day PPP) to K700,000 (~$9/day PPP)
- Spending priorities:
  - Rent (urban); food; clothes; school; healthcare
- Low income constrains but does not prevent saving
  - Chilimba
  - Under the mattress

"If I make a profit of about K150,000 to K200,000 I use some of it on food and then some of it is used in the business to increase the capital. Then I put aside K2,000 in the house or in chilimba"

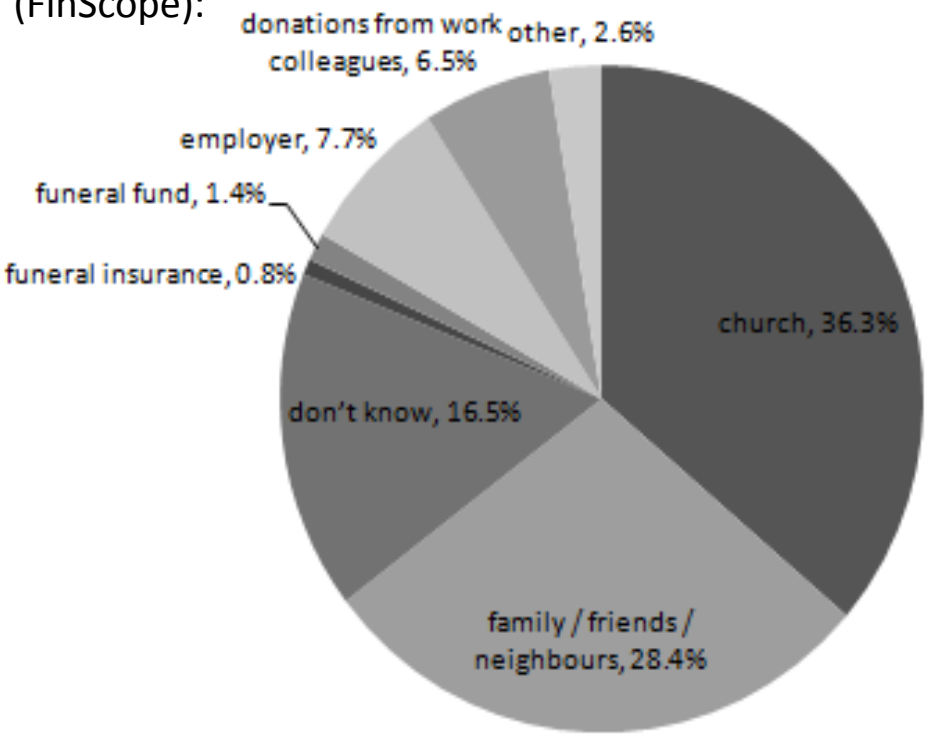
Source: Focus group discussions (RuralNet, 2009)

Risks faced and coping strategies

- Risk experience
  - Life (funeral), health
  - 2nd order: theft, fire, livestock/crop disease
- Coping strategies
  - Ex ante
    - Social networks
    - Prepayment scheme in public hospitals
    - Precautionary savings
    - Chilimba membership
  - Ex post
    - Community and family support - but not enough
    - Reducing product prices or selling assets
    - Borrowing
    - Risk pooling groups not common
    - Reducing food consumption
    - Taking children out of school

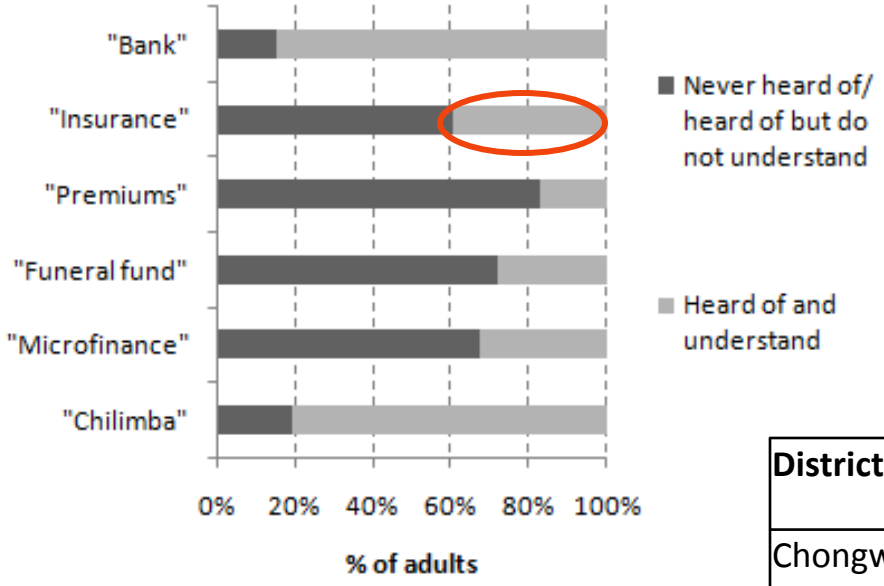
"In my case, not too long ago, my child was sick for 3 days and then died. I had to spend all the money I got from the sale of a bed on the funeral. These three things – sickness, funerals and relatives who come unexpectedly are the major problems. "

Coping with funeral expenses (FinScope):



Low awareness but some willingness to pay for insurance

Low awareness of insurance (FinScope):



- Focus groups confirm:
  - Credit life perceived as condition to loan rather than insurance product
  - Only limited awareness of insurance – relevant questions when prompted
  - The need for community-based distribution
  - Some willingness to pay:

District	Group	Location	Max premium/ month
Chongwe	Chongwe Main Market 1	Peri-urban	K10,000 ($1.85)
	Chongwe Main Market 2	Peri-urban	K20,000 ($3.7)
Lusaka	Chazanga	Peri-urban	K50,000 ($9.25)
	Chazanga FINCA group	Peri-urban	K50,000 ($9.25)
	Garden Compound men	Urban	K20,000 ($3.7)
	Garden Compound women	Urban	K10,000 ($1.85)

What cover can this willingness to pay buy?

- Indicative example cost of insurance, based on experience of insurers elsewhere in Africa:

Age	Life Sum Insured = Kwacha 5 million	Accident Sum Insured = Kwacha 5 million	Health Sum Insured = Kwacha 1 million	Health Sum Insured = Kwacha 1.5 million
	Monthly premium	Monthly premium	Monthly premium	Monthly premium
20	1700	2100	12500	18750
30	1800	2100	12500	18750
40	3000	2100	12500	18750
50	6200	2100	12500	18750
60	13500	2100	12500	18750

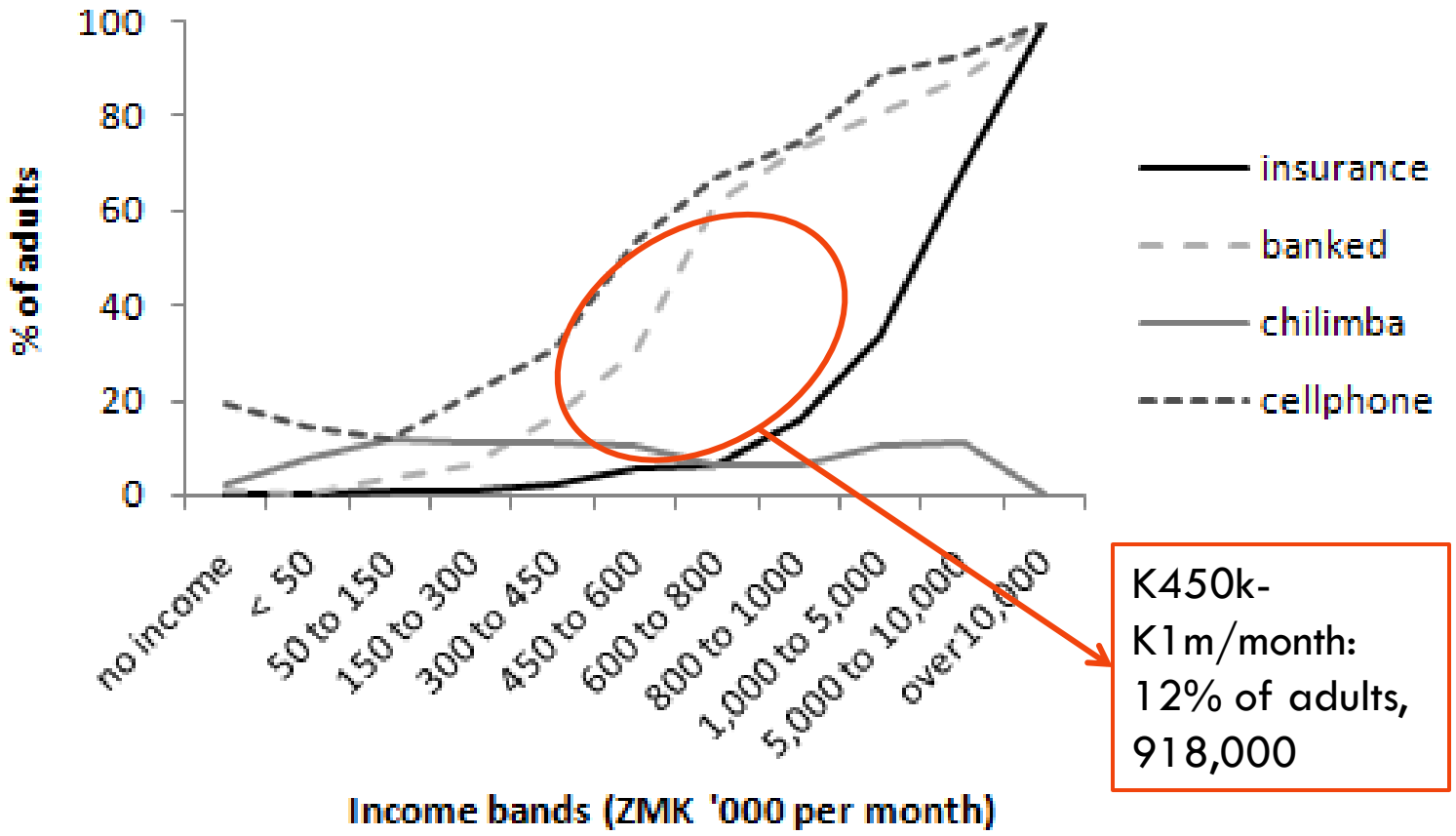
Assumptions:

- Premium is calculated for a min. group of 100 insured persons
- Life and accident cover:
  - An additional management charge of 15%. For 200 or more persons covered, there will not be an additional charge.
- Health:
  - An additional management charge of 15% (reduces to 10% for 200 or more persons covered)

Source: authors' calculations

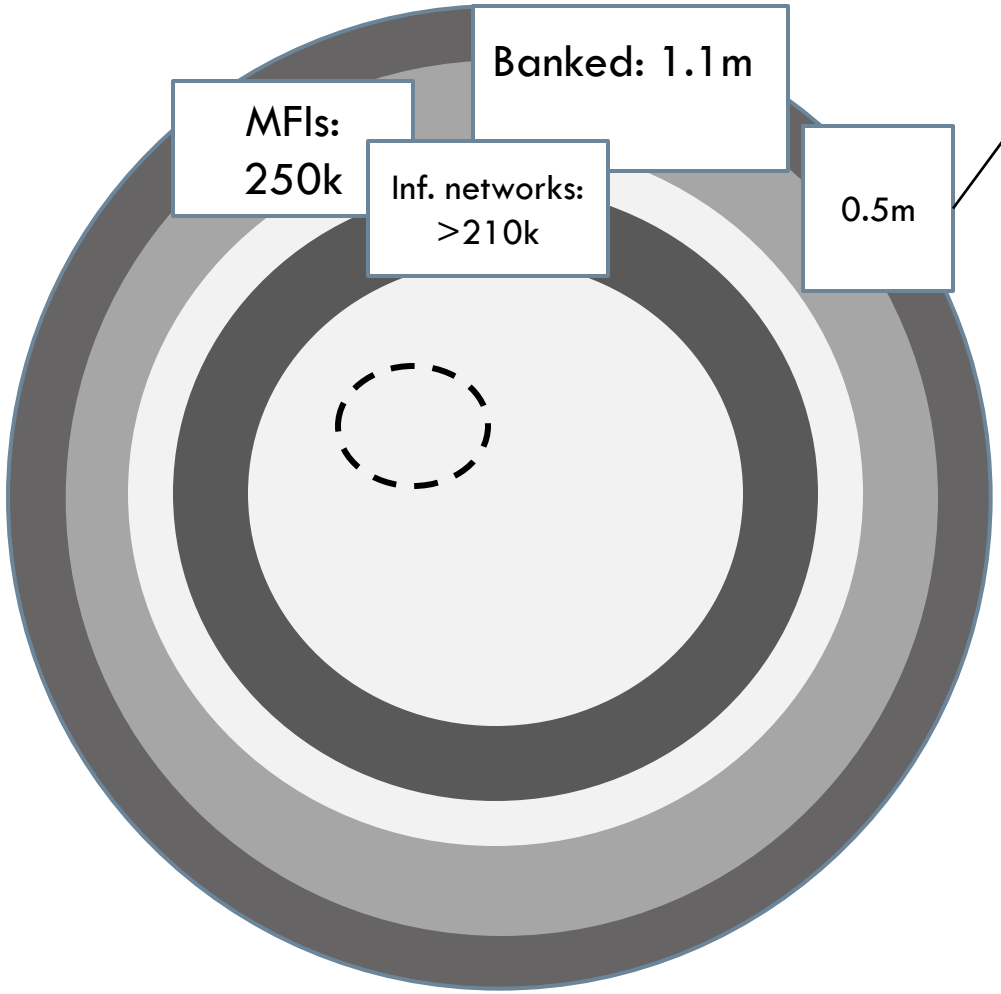
5. Insurance sector overview

Gap between insurance and other usage



Source: FinScope™ (2005 data)

Low total insurance usage



Insurance :

- 6.6% of adults
- When excluding NAPSA & 3rd party vehicle: 3.8%
- Undercounts credit life: our estimate ~3%

Source: authors' representation, based on FinScope™ (2005 data)

Usage by products even lower

Category	Products included	Usage
Life	funeral, life	1.7%
Health	medical insurance; health cover (doctor)	1.9%
Health & life	funeral, life, medical, health cover (doctor)	3.0%
Long-term	life, funeral, personal accident, medical, health cover, pensions/NAPSA	5.7%
General	motor vehicle, travel, household, all risks, agricultural, property, money	2.7%

- Only small proportion of this = "MI" as traditionally defined
  - Social MFI credit life, funeral
  - Total policy holders <15k?
- But now broader market interest in expanding
- Scope for broader MI def.

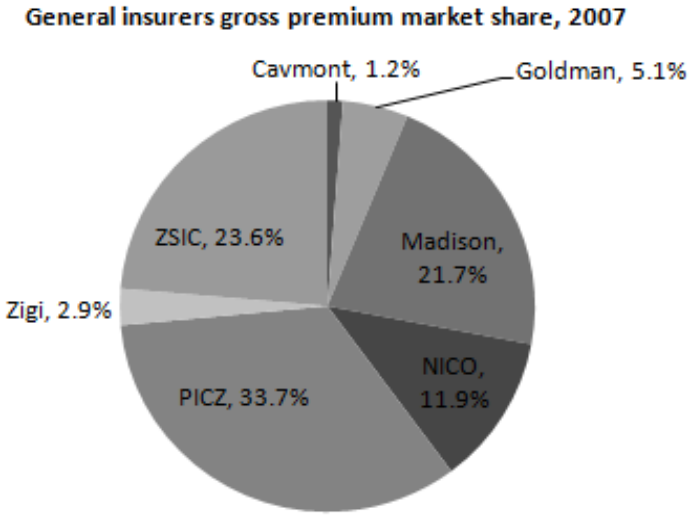
Source: FinScope™ (2005 data)

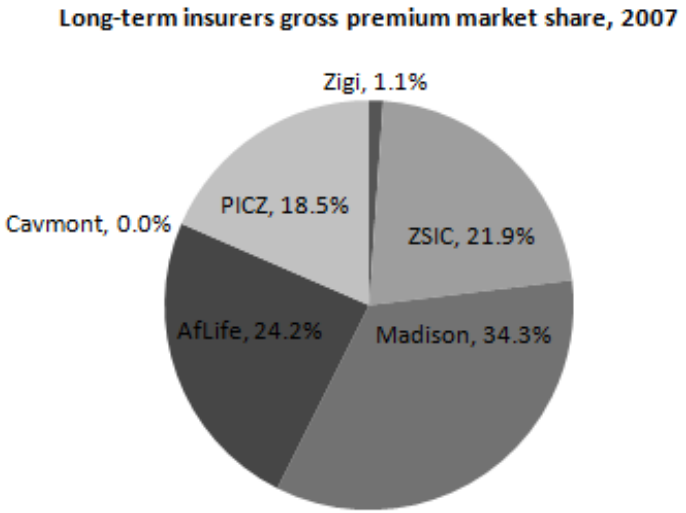
Products of relevance to MI

- Group rather than individual policies
- **Credit life**
  - Still significant room for growth
  - But generally low value to the consumer?
- **Life and funeral**
  - Growing in importance despite traditional apprehension to talk about death
  - Compulsory rider on credit life, but also interesting pilots or plans outside of credit life
- **General insurance** products mostly still tailored to the corporate and high-end private market
  - Yet some promising market developments, some of them testing the demarcation regime (funeral)
- **Health insurance**
  - Particular need despite low take-up and low availability of suitable products

Players, size & performance

- Registered insurers: 6 life, 6 general; 2 applications
- Relatively small turnover (2007):
  - $152m general
  - $43m life
- Strong premium growth in both
- New entry and developments especially in life
- Corporate focus, limited exposure retail
- Industry performance indicators: is industry ready to provide microinsurance?
  - Efficiency for small premium products?





Source: PIA 2007 Annual Report

Limited informal market

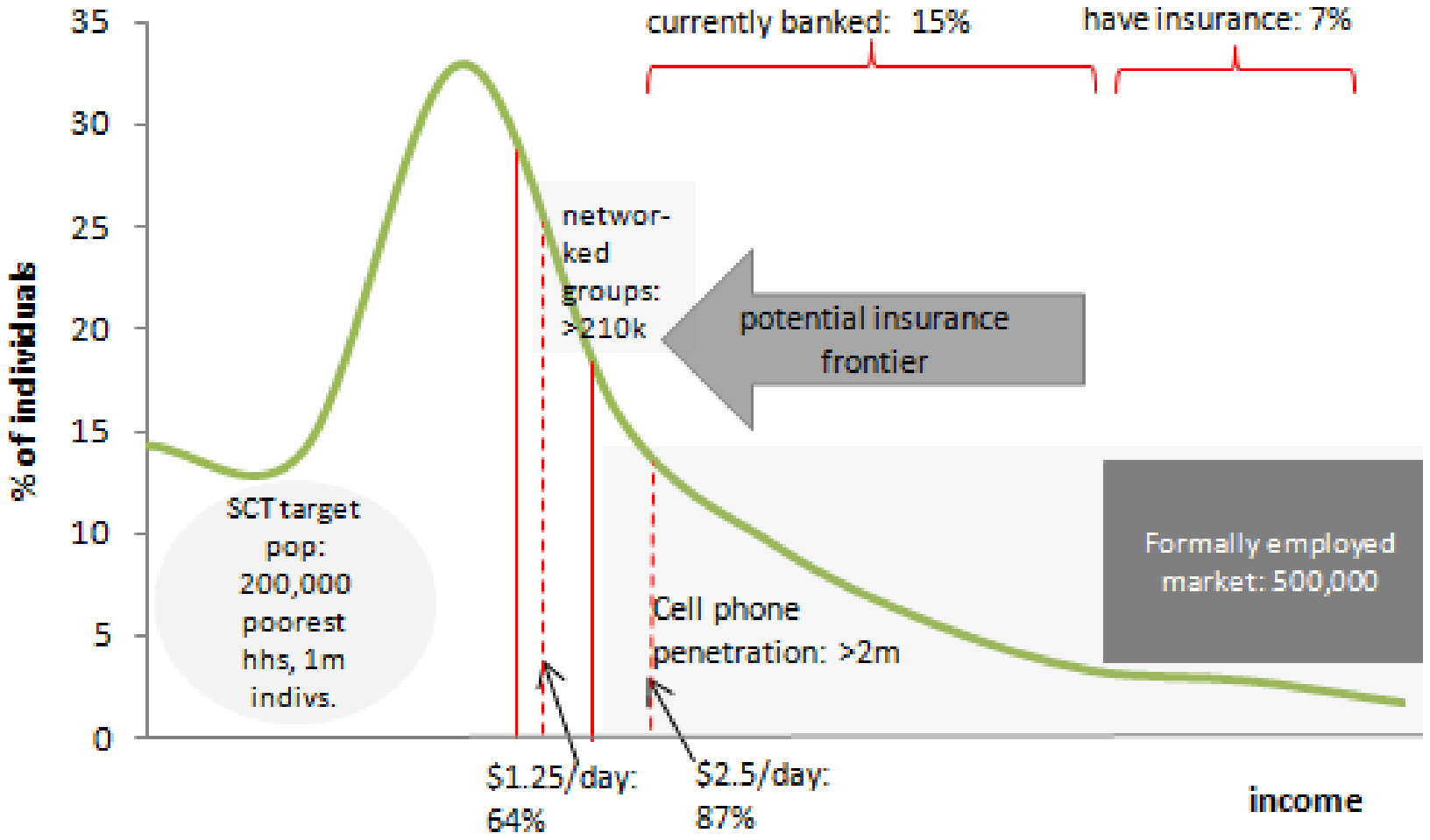
- Community-based risk pooling exists but is limited in outreach
- Limited evidence of self-insurance in the funeral service industry
  - Small funeral service provider industry
- Limited self-insurance in microcredit market
- Some “informal” provision of medical insurance due to regulatory uncertainty
  - Medical aid societies/schemes/plans
  - Hospital in-house schemes

Distribution

- Distribution key to microinsurance success
- Broker-driven group sales dominate
  - Role for the broker in product innovation and informal market distribution
- Agency sales on the rise
- Bancassurance underutilised, a source of product innovation
  - Regulatory challenge?
- Alternative distribution channels such as retail distribution not yet in use, but innovative pilots/plans
- Potential scope for aggregator/affinity group distribution emphasised
  - Links to networked groups in informal sector
  - Agriculture: value chain-driven
  - Other

6. Scope for MI market development

3x reach as first order priority



Source: authors' representation based on various data sources. Note: blocks and lines do not necessarily represent actual sizes

Coffee break

7. Opportunities and challenges

Is Zambia ready for MI?

Summary of themes from research

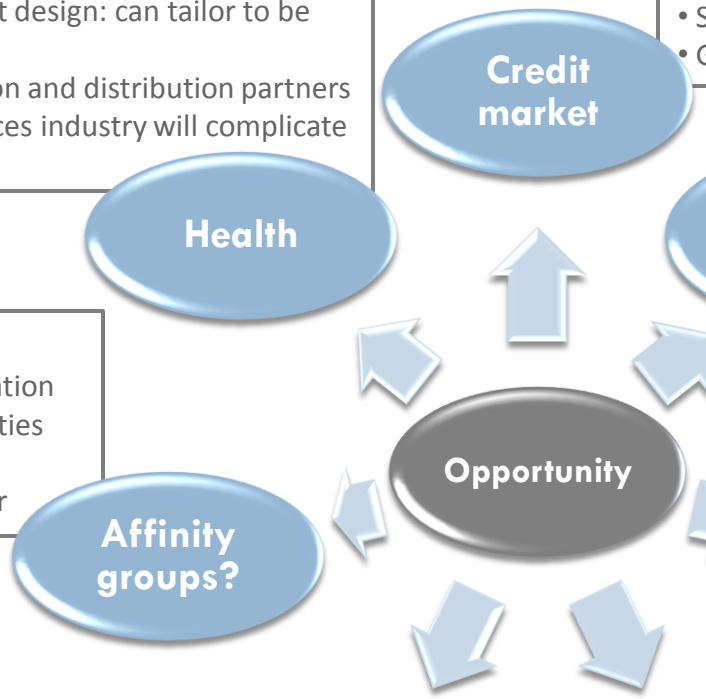
- Transformation of credit sector: Life beyond payroll
  - Increased regulatory pressure: growth likely to slow and margins will be pressured
  - Competition or opportunity: Credit providers look for new sources of revenue
  - Potential increased demand for credit life due to extension of term
- Banks and credit leading the way
  - Banks own the clients and are initiating the products
  - Spreads shrinking: looking for lending opportunities and other sources of revenue

Is Zambia ready for MI?

Summary of themes from research (continued):

- Insurance: the game is changing
  - Regulation will place increasing pressure on inefficiencies
  - African Life: First to focus on life only and distribute through agents. Now the fastest growing
  - Microcare: First entrant in health insurance space that also target lower-income market
  - Blue Assurance: First credit provider to enter insurance space
  - B3: Funeral parlour registered as broker
  - Experiments in retail and low-income sectors: who will crack informal market and retail business first?
- Can the insurance industry deliver value to the low-income market?
  - Low premiums will not accommodate inefficiencies
  - Low claims ratios suggest poor value to client
  - Limited retail and distribution experience
  - No evidence of reinvestment to build industry and portfolio (continued re-insurance, profit-taking despite solvency problems, etc.)

Pockets of opportunity



Max 70% covered by credit life, at least 100,000 to go
But:
- Credit market practices do not necessitate credit life
- Need for improved value and consumer protection?
- Scope for other ins. products distributed via MFIs
- Growth constrained by saturation of MFI market and regulation

- Growth: possible to cross cultural barriers
- Number of pilot projects
- Likely to be lead product in low-income market
- Opportunity to offer value beyond funeral and avoid abuses

- Limited opportunities for credit-based agricultural insurance through value chain
- Primary opportunity may be distribution of non-agriculture insurance products

- Growth will have to cover informal
- Vibrant MSME market with potential networks
- Importance of ensuring value proposition to partner network

- More than double insured market
- Insurance as diversification opportunity for banks
- Regulatory challenges not insurmountable

- Churches, NGOs, other
- Opportunity for aggregation beyond economic activities
- Trust
- To explore scope further

- Need for additional financing of medicine an healthcare
- No restrictions on benefit design: can tailor to be affordable
- Importance of aggregation and distribution partners
- Fragmented health services industry will complicate financing

Thank you!

Juliet Munro (Lusaka)
julietmunro@iconnect.zm

Yoseph Aseffa
aseffa@ilo.org

Doubell Chamberlain
doubell@cenfri.org

Christine Hougaard
christine.hougaard@gmail.com

Discussion

Group discussion

- Is this study a true reflection?
- Does it meet your expectations?
- 3 most important challenges
- 3 most important strategies to develop microinsurance in Zambia
- Potential roadmap to move forward